I. CALL TO ORDER

Committee Chair Jan Sullivan called the meeting to order at 2:01 p.m. on Wednesday, September 24, 2014 at University of Hawai’i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A, 2420 Correa Road, Honolulu, Hawai’i 96822.

Committee members in attendance: Committee Chair Jan Sullivan; Committee Vice Chair Barry Mizuno; Regents Coralie Matayoshi and Lee Putnam.

Others in attendance: Chair Randy Moore, Regent Kudo and Regent Yuen (Ex-Officio committee members); President David Lassner; Interim Executive Vice President for Academic Affairs, Joanne K. Itano; Vice President for Administration, Jan Gouveia; Vice President for Community Colleges, John Morton; Vice President for Legal Affairs and University General Counsel, Darolyn H. Lendio; Vice President for Budget & Finance/Chief Financial Officer, Howard Todo; Interim Vice President for Information Technology and Chief Information Officer, Steven Smith; UH Mānoa Interim Chancellor Robert Bley-Vroman; UH Hilo Chancellor, Donald Straney; UH-West O’ahu Chancellor, Rockne Freitas; Executive Administrator and Secretary of the Board of Regents, Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OF JULY 9, 2014 MEETING

Regent Matayoshi amended page 3, end of the first paragraph, to add remarks that “unspent tuition should not be considered as carryover to spend in the following year’s budget. Instead, it should go to reserves.”

Chair Moore moved to approve the minutes of July 9, 2014, as amended, Regent Matayoshi seconded the motion, and the motion carried by unanimous approval.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board of Regents, Cynthia Quinn announced that written testimony was received and distributed to the board from Dr. Jim Shon, HEPC, regarding preliminary responses from graduate students to a voluntary online student survey on the impact of tuition and living costs. No one signed up to provide oral testimony.

IV. AGENDA ITEMS

1. Update on the Status of Cancer Center Bonds Proceeds

VP Todo explained the two sources of funds for the Cancer Center construction were revenue bonds and the special fund where the university’s share of the cigarette taxes is deposited. The special fund can be used either for operations or capital expenditures.
The special fund was used to fund $20M of pre-construction costs until the revenue bonds could be issued. The Cancer Center is now completed and there is currently a $24M balance of revenue bond proceeds. Initially the balance was earmarked for a parking structure, which is no longer needed as the current parking arrangement adequately addresses the lease requirements. The UH Mānoa Administration and the Cancer Center will use $20M of the balance to reimburse the special fund for the money used for construction, which will infuse $20M back into operations. The remaining $4M of the balance needs to be used on capital expenditures and one of the priority items being reviewed is photovoltaic energy for the building. The deadline to obtain President Lassner’s approval and to shift the funds is October 18. The funds are in the current biennium budget proposal and Regent Matayoshi expressed concern over shifting $20M of the $24 balance of revenue proceeds into the special fund to be used for operations, until finances at the Cancer Center are sorted out. The committee supported the upcoming audit of the financials and management of the Cancer Center.

2. **UBS Quarterly Endowment Fund Report as of June 30, 2014**

VP Morton introduced Paul Yamashita, Ron Kikawa, and Karen Yasukawa of UBS, the new manager of the legacy endowment fund who provided a summary of the quarterly funding report as of June 30, 2014. The managers reported the fund was performing above set benchmarks and meets the compliance measures. They explained that the fund is comprised of 30 to 40 endowments that are managed as a pool and is primarily used for scholarships.

The committee commented that the fund should be accounted for in the budget to provide a holistic report on all sources of funding, whether restricted or not, and consider whether such scholarships should be counted towards the financial aid allocation percentage or can be shifted to relieve other budget pressures.

The administration agreed to come back to the committee with a list of the individual endowments and how they are used.

3. **Biennium Budget 2015-2017**

President Lassner said the Biennium Budget proposal is a work in progress and anticipates more amendments following feedback from the committee on the new approach. The goal is to seek approval by the Board in October for submittal to the current administration, which would then be packaged up by the next administration for submittal to the Legislature. He highlighted the approach and process that was the culmination of multiple meetings with leadership systemwide. The budget to actual operations format is a new, holistic approach that tracks all sources of funds beyond general and special funds, and honors the recent reserves policy of 5% minimum and 16% (or 2 months) maximum of operating costs. This new format is different from what the state requires and will be provided on a quarterly basis. It also assumes no increase for undergraduate tuition; the professional schools have deemed the 7% tuition increase necessary, and also based on prior commitments that had been made in reliance upon a 7% tuition increase.

President Lassner noted the biennium budget is not a plan, but rather a request to the
Legislature because administration will not know what actually will be funded in the budget until the Legislature acts in May. The proposal is to provide an operating budget in May, when there is a definite amount of funds to budget.

President Lassner said that cost cutting measures are difficult to show in a Biennium Budget proposal, but a report could be provided on the measures that have been taken. He indicated that outcomes show it will be a difficult fiscal year; the university is expending more than it is generating due mostly to one-time costs; is committed to honoring the moratorium; and will be proposing tuition increases only where the justification has been agreed upon. The proposal also asks for general funds for items not within the university’s control, such a rising electricity rates unrelated to consumption; unfunded mandates such as compliance costs for athletics and campuses regarding Title IX and VAWA federal laws; certification compliance requirements for Cancer Center certification; and community driven expectations, such as athletics, health, innovation and economic development. Alongside the proposals are legislative proposals regarding education, engaging in innovation, and housekeeping measures. The administration will seek board approval of the biennium budget proposal in October, and provide quarterly reports of the operational budget beginning next year.

President Lassner said the proposal has been vetted by the vice presidents and chancellors.

Vice Chancellor Kathy Cutshaw presented the draft operational budget for Mānoa and explained that it shows only a current budget allocation and does not include spending reserves. She said there was no longer a hiring freeze for staff positions (APT, civil service and students) in place for those units with balances, but all faculty hires still require approval by the campus VC. The decentralized system that had been in place has been changed to provide greater oversight, with quarterly and monthly meetings and reports and an official approval process for all requests. She said in prior years, the president instructed campuses to spend down the reserves because of the large balance. Interim Chancellor Bley-Vroman said that now there is a better planning and reserve policy in place, however the reserve expenditures were a sound investment in capital improvements. VC Cutshaw indicated the proposal is an aggressive goal to reduce the deficit from $28M to $4M in one year.

The committee stated that conservative assumptions should be used because of the unknown impacts from outside forces. The committee also commented that management be held accountable with consequences. The committee recognized the demanding shift, and hard but necessary work is nevertheless required because of the financial health of the university.

VC Cutshaw presented the Biennium Budget proposal for Mānoa and explained that it focuses on three items: funding for utility rate increases not due to consumption, athletics mandates to comply with the Title IX federal law and NCAA travel subsidies requirements, and compliance costs required by legislation. Interim Chancellor Bley-Vroman said the reserves plan includes a new budget committee for oversight in rebuilding reserves and undertaking cost cutting measures that are to be determined on a case by case basis given the unique issues of each unit and regular meetings of the deans with the vice chancellor. VC Cutshaw indicated they had been holding an
“education road show” at campus units, the faculty senate, and town halls for the campus community to help everyone understand the new budget system. The system’s general charge to the units is to stay within the allocation, and the System will provide a spending plan approval process, and offer resources to help units “fly level”.

The committee acknowledged the efforts of each unit to cut expenses, but expressed concern that this would only get us so far. There needs to be a strategic plan organizationally to get beyond the status quo and determine which programs should be downsized or cut and which should be expanded based on Hawai‘i’s needs and what we can afford.”

At 4:01 p.m., the committee took a break and reconvened at 4:08 p.m.

Chancellor Straney presented the draft UH Hilo operational budget and biennium proposal and explained that the deficit is due to low enrollment. Utility costs are high due to a photovoltaic system that remains unconnected from the public utility, and there are higher costs for security personnel who had to be transitioned from contract to union workers, and Title IX compliance required under federal law.

The committee was concerned how debt service for the Daniel K. Inouye College of Pharmacy will be paid and requested that those costs be included.

Vice Chancellor Kiyosaki presented the UHWO operating budget that showed restrictions on travel and other costs to remain in the positive and said the projection of an 8% enrollment growth that means an additional 200 students per year.

VP Morton presented the Community Colleges operating budget and reported it is in a deficit due to a one-time expense that will tap into the reserves. He said there were three projects under construction, and operational funds being spent on rent will go to pay the debt service when completed. He estimated the repairs and maintenance will be completed in 2 years.

VP Todo presented the system operating budget and explained that the reallocation of a $4.7M loan due to a $4.7M cut that will get paid off in 10 years and will dip into the reserves. He noted that the TFSF column reflects interest earned on late registration fees.

VP Gouveia presented the CIP proposal. The committee was concerned about the amount of debt service being paid by tuition increases and suggested conducting a needs assessment for proposed projects to determine value. IAVC Meder confirmed that the projects are assessed based on useful life, type of state of the art facility, and academic need. Regent Kudo noted that industry stakeholders have recognized the significant improvement in the contracting processes, which is encouraging others to submit bids for work at the university.

UH Hilo reported no major CIPs are proposed.

UH-West O’ahu reported no deferred maintenance, and proposed development to support growth.
The UH Community Colleges reported that deferred maintenance will be brought down in 3 years, for a total of $250M, which could be financed with 2% tuition with revenue bonds or general funds.

The committee noted that the CIP proposal is still open for discussion as it is a 10 year plan, but it is a reasonable base from which further discussion can take place. Options include either holding off on any construction, shifting to only general obligation bonds, or issuing some revenue bonds using 2% of the tuition increase, all dependent on the level of legislative funding.

Chair Sullivan said that this was the first presentation to discuss direction and there will be another meeting prior to the October Board meeting to address all questions. She then summarized the information requests made at the meeting:

- A summary of prior general fund/capital improvement projects legislative requests and resulting appropriations
- A summary and evaluation of the biennium budget proposal, in total, with a holistic approach, with prioritization of capital improvement projects proposed
- A clarification of assumptions utilized
- A list of all other special funds and balances

She concluded that the plan is to adopt a biennium budget and CIP proposals; adopt a 6 Year CIP Plan; and adopt revisions to the BORP regarding increasing tuition and financial aid allocations.

Regent Putnam requested more information on the Daniel K. Inouye Institute project.

V. ADJOURNMENT

There being no further business, upon motion by Regent Kudo, seconded by Regent Matayoshi, and with unanimous approval, the meeting was adjourned at 5:08 p.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents