MINUTES

BOARD OF REGENTS’ COMMITTEE ON BUDGET AND FINANCE MEETING

NOVEMBER 4, 2015

I. CALL TO ORDER

Committee Chair Jan Sullivan called the meeting to order at 9:01 a.m. on November 4, 2015, at the University of Hawai‘i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2420 Correa Road, Honolulu, Hawai‘i 96822.

Committee members in attendance: Committee Chair Jan Sullivan; Committee Vice Chair Barry Mizuno; Regent Wayne Hīgaki; Regent Coralie Matayoshi; Regent Michael McEnerney; Regent Lee Putnam.

Committee members excused: Regent Simeon Acoba

Others in attendance: Regents’ Chair Randy Moore; Regent Ben Kudo; Regent Jeff Portnoy; Regent Michelle Tagorda; Regent Stanford Yuen; Regent Ernest Wilson, Jr. (ex officio committee members); President David Lassner; Vice President for Academic Affairs Risa Dickson; Vice President for Administration Jan Gouveia; Vice President for Community Colleges John Morton; Vice President for Legal Affairs and University General Counsel Carrie Okinaga; Vice President for Research Vassilis Syrmos; Vice President for Information Technology and Chief Information Officer Garret Yoshimi; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Interim UH Mānoa (UHM) Chancellor Robert Bley-Vroman; UH Hilo (UHH) Chancellor Don Straney; Executive Administrator and Secretary of the Board of Regents Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OF THE OCTOBER 1, 2015 JOINT COMMITTEE ON BUDGET & FINANCE AND PLANNING & FACILITIES MEETING

Committee Vice Chair Mizuno moved for approval of the minutes of the October 1, 2015 Joint Committee on Budget & Finance and Planning & Facilities meeting, Regent Matayoshi seconded the motion, and the minutes were unanimously approved.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the Board Office received no written testimony, and no individuals had signed up to give oral testimony.

IV. AGENDA ITEMS

A. For Action:

1. Recommendation for Approval of Board Policy Amendments Regarding Summer Tuition Rates
VP Dickson and Pearl Iboshi, Director of Institutional Research and Analysis, summarized the proposed revisions to Board Policy RP 6.202 to delegate authority to set tuition to the president and achieve parity with other semesters.

The committee raised questions and concerns about the extent to which lowering the tuition rates in summer would increase graduation rates or attendance in summer school. Administration explained how campuses that reduced summer school rates experienced an increase in enrollment. Regarding graduation rates, they have found that students who attend summer school tend to graduate faster. The breakdown of resident and non-resident attendance appears to be a mix of both, but specific data is not tracked.

Regent Matayoshi moved to recommend approval of board policy amendments regarding summer tuition rates. Committee Vice Chair Mizuno seconded the motion, and the motion carried by unanimous vote.

2. Recommendation for Approval of Naming Opportunities for Palamanui Campus

Donna Vuchinich, President of the University of Hawai‘i Foundation (UHF), provided background to the committee on naming opportunities for facilities and programs brought to the board from previous administrations. Facilities naming opportunities require a portion of the donation to be assigned to an endowment for long-term repair and maintenance (R&M) of that space. The current proposal for the naming opportunity for the Palamanui campus includes market figures and donor interest. Generally, 50% of the total naming value funds go towards creating a long-term endowment for R&M, and the remaining 50% are restricted to equipping the space, as a best practice subject to occasional negotiation with the chancellor or dean.

Questions and concerns were raised regarding whether the increased naming opportunities would create a management problem for university administration in terms of tracking utilization of allocated funds; comparative naming levels at other facilities; adjustments for inflation/demand; the total amount of current endowment for all spaces; option to endow entire donation to generate revenue in perpetuity for maintenance of the facility.

Administration explained how naming opportunities are at levels manageable through one endowment that preserves principle, and is protected from inflation. Amounts are adjusted based on market conditions, and peer benchmarks. The total amount of current endowment for all spaces ranges near $10 million systemwide and $3 million at the Cancer Research Center. Generally, the facility needs the supplemental cash from the endowment to equip the new space, which may not have been in original budget or provided by the state construction budget. The money is restricted to a facility and space.

Regent Matayoshi moved to recommendation approval of naming opportunities for Palamanui Campus. Committee Vice Chair Mizuno seconded the motion, and the motion carried by unanimous vote.
B. For Information:

1. Update on Performance Based Funding Methodology Model for the University of Hawai‘i System

President Lassner provided an update on the Performance Based Funding Methodology Model for the University of Hawai‘i System. His powerpoint presentation covered the performance funding appropriation in H.B. No. 500, H.D. 1, S.D. 1, C.D. 1 from the Legislature in 2015; the methodology; preliminary maximum performance awards (based on 2014 enrollments); performance measures summary of goals; proposed weighting of measures by unit; and additional considerations.

He explained the model was derived based on peer comparison, and the current methodology used by the UH Community Colleges. In accordance with the budget directive, the model is based on Hawai‘i Graduation Initiatives (HGI) metrics for student outcomes. There is a proposed weighting for each metric, and the maximum allocation per campus is established based on student semester hours (SSH) costs that have been derived from the Integrated Postsecondary Education Data System (IPEDS) data. Funding may be shifted among the campus allocations if a unit fails to achieve performance goals. The available allocation may be impacted by budget restrictions set by the Governor. Administration will report back to the committee on outcomes after the first year.

2. FY16 First Quarter Financial Report
   a) Quarterly Financial Report as of September 30, 2015

   VP Young gave a powerpoint presentation that included a general summary, and overview and analysis (revenues, expenditures, conclusion), showing that all financial indicators are on track, with most units showing improved performance compared to percentage of revenue collections and expenditure trends/rates compared to last fiscal year. Administration will continue to monitor revenues and expenditure rates throughout this next fiscal year, and provide an update of the proposed revised Fiscal Year 2016 Quarterly Financial format, which will be further refined.

   Questions and concerns were raised regarding whether the $8 million decline in personnel was due to funding; clarification on whether or not summer tuition is deposited into the Tuition & Fee Special Fund (TFSF); the effect on reserves; addressing declining enrollment; treatment of tuition and scholarship monies; why the Legislature swept $5.5 million from the Research Training & Revolving Fund (RTRF) and why the Office of the VP for Research was repaying it; the sufficient of historical board reserve policy limitation to TFSF. The committee requested administration keep the board apprised on how the debt service at UHWO will be addressed.

   VP Young explained that the $8 million decline was only in the TFSF payments. By and large the actual expenditure rates for personnel are static, with a movement during the course of the fiscal year towards different methods of funding. Better analysis and indication of whether there is real decline can be determined as quarters progress. Summer school tuition goes into the TFSF but is not a significant portion of the overall
revenues for the university. Community colleges summer session tuition goes into the community colleges special fund. Regarding reserves, increased spending rates are expected to occur, but early indications show the university is on pace to mirror last year’s performance of slight growth in overall reserves. President Lassner added that the last deep dive on enrollment addressed what had to be done together as a system and individually by campus. Administration will report on progress. Regarding scholarships, external scholarships are pure revenue. Internal scholarships are reflected in the scholarship special fund and transferred to the TFSF. Across the entire system there is not a net positive for additional revenues. Regarding the RTRF sweep, President Lassner explained that the $5.5 million sweep of RTRF occurred because there was a perception that UH was sitting on substantial reserves. The board’s reserve policy is important to show what the university believes a healthy reserve balance is. The System absorbed the $5.5 million reduction, and the float is being used to internally pay down the amount over time across all RTRF accounts. VP Young indicated the rationale for reserves only TFSF was based on the fact that the general fund and TFSF are the most fluid sources of funds compared to other special and revolving funds, which are restricted. TFSF does not lapse, and is the only source of funds that can carryover from one fiscal year to the next. For other financial purposes (e.g., credit ratings), all available balances on all university funds are the true, official reserve.

Regarding UHWO debt service, VP Young explained that from 2010 through 2013, UHWO sought funding sources for an administration building, and obtained an $18 million EB-5 loan, which is loan bridged through a federal program that utilizes non-U.S. nationals as investors and invests money into public projects at a certain rate of return in exchange for certain considerations for those investors relative to citizenship. These EB-5 loans are good for a fixed number of years at very preferable interest rates, but the terms are very short (e.g., 5 to 6 years). The loan is interest only until the balloon payment, which is due in Fiscal Year 2019. When UHWO accepted the loan it anticipated a series of potential solutions to pay back the loan, some of which have slipped away and others remain viable. One option is to have the loan taken out with state-appropriated funds through capital general obligation (GO) bonds, which would be at no cost to university but would require a legislative appropriation. Other options relating to land transactions may no longer be viable. The Legislature did appropriate $18 million to pay the EB-5 loan using GO bonds, but with a proviso that the university must provide a long-term lease at the Mānoa Innovation Center to the Hawai‘i Technology Development Corporation. These organizations are not related to UHWO, and Administration is not willing to pursue that option. There is still time before the balloon payment is due, and Administration will continue working with the Legislature to get direct state appropriation, otherwise Administration will need to consider other viable options to execute and take out this loan.

b) Proposed FY16 Quarterly Financial Revised Format

VP Young provided an update of the proposed FY16 Quarterly Financial Revised format that will be further refined with additional budget categories for FY17. Much discussion centered on the improvements made, consideration of the university’s preference to budget by semesters instead of by quarters, the purpose of the reports (transparency, accountability, and fiscal responsibility), and the eventual goal to have the
financial reports roll up to dashboards that will summarize bigger trends and areas of concern. The committee emphasized that budgeting and financial reports should be management tools that are utilized by Administration. A question was raised regarding position count control and VP Young explained that position control is largely the authority and responsibility of individual campuses because they are very unique from each other. Depending on the campus, position control can be done at the highest level of authority below that of the chancellor and at the dean level. Personnel costs are the largest single cost driver across campuses. UHM is very large, decentralized structure with the largest personnel costs, unlike other campuses where position control can be centralized at the chancellor level with much more impact. Evaluation is underway.

3. UBS FY16 First Quarter Investment Report on the Legacy Endowment Fund as of September 30, 2015

UBS provided a quarterly endowment fund report for the ending September 30, 2015 showing negative returns largely due to the recent China market downturn, resulting in all equity markets in the third quarter being down. The fund underperformed by about 17 basis points compared to benchmarks. Year to date the fund is down about 3.33%, but overall the fund is still up 26 basis points from inception. The markets have been rebounding significantly with the S&P dropping and returning to June 2015 levels. As of yesterday, the ending balance is now $65.4 million, which is closer to June 2015 levels; and the fund is up 5.1% for the one month period. The forecast for the S&P is up from this date on. The investment of funds is in compliance with investment policy statement guidelines and policies. Fossil free divestment was added in September 2015, and is down at 3% and trending closer to the 1% level goal.

As a result of meetings with Chair Moore and Regent McEnemey, UBS created a spreadsheet on asset allocation and how the funds fit into fixed income and equity funds. Currently, 60% of the funds are in equities, and 40% are in fixed income. The spreadsheet also included an explanation of how the 3% energy number was calculated, along with the expense ratios for each of the funds.

At an earlier committee meeting, there was a question about how each fund performs against benchmarks, and the types of asset classes the funds are in. Included in this report is the Morningstar Investment Detail Report for every single fund, which provides the requested information.

The committee inquired about the rate of recovery for benchmark 2 for October and the amount of the quarterly fee paid to UBS. UBS indicated that it was up 5.2% in October, and the investment fund was up 5.15%, a difference of 4 basis points. Per the contract, UBS charges 20 basis points to manage the fund, and they will amend the report to include that information on the performance review page.

The committee considered forming a smaller task group to receive and review such detailed reports going forward and report back to the committee. One of the charges of the task group would be to consider whether there should be a standing subcommittee that looked into this. If there was any collective interest in pursuing the formation task group, then a recommendation would be made to the board to put in on the agenda. It
was noted that any two interested regents could easily meet with UBS on details, which might be simpler than a task group. Regents were instructed to let Board Chair Moore know if they are interested in being part of a task group.

4. Update on UH Mānoa Budget Allocation Model

Chancellor Bley-Vroman gave a powerpoint presentation that updating the committee on the UHM Budget Process; budget allocation spectrum; UHM budgeting principles; financing units; revised budget model; revised phase II budget model (unit chart); annual budget review; recommendations; necessary actions; and areas of recommendations. He explained that following a year to stabilize, this year the campus will develop an internal allocation informed by a revenue-based and activity-based budgeting, with a phased implementation approach discussed by a budget task force with broad campus representation, and the first stage of implementation will be presented sometime this year. William Chismar, Dean of Outreach College, will take the lead in working with him and the vice chancellors on the implementation of the reform model and the information systems needed to implement. Focus meetings were held with stakeholder groups (e.g., UHM Faculty Senate, ASUH, GSO, and representatives of Kuali‘i Council) on the work group’s draft report this past month. In addition, deans and directors of organized research units held a series of working meetings to present and refine the model. After reaching substantial agreement on the revenue-based component, work shifted to the activity-based component earlier this week.

Meetings on the model were held with the UHM Faculty Senate, Associated Students of the University of Hawai‘i, the UH Mānoa Graduate Student Organization, and ASUH, GSO, the Kuali‘i Council, deans and directors. More will be reported at the next meeting.

The committed inquired as to how the model, that appears to be based on headcount, accounts for more costly programs such as science labs, and whether the funding would be a different source of revenue or allocation of expenses. Chancellor Bley-Vroman explained that the revenue would be the same while cost differences related to the missions of the units would be acknowledged.

The committee agreed that this item should be further discussed at the next committee meeting.


VP Young gave a powerpoint presentation that covered the recent $166.285 million transaction including Series 2015-A, Series 2015-B, Series 2015-C, Series 2015-D, and Series 2015-E; demographics; savings result; debt service profile; and appendix on comparables (tax-exempt and taxable).

The transaction was complex and diverse, with one taxable series providing $8.6 million of new money for a portion of the law and pharmacy schools’ construction, two refunding of tax-exempt bonds with taxable bonds to provide flexibility in the use of the proceeds, and two tax exempt refunding bonds. The refinancing resulted in more than
$15 million in savings over the life of the bonds. The net increase in debt service over the life of all five series, including the new money, was only $270,000. The committee commended VP Young for the successful result, noting the especially complex and complicated transaction.

V. ADJOURNMENT

There being no further business, on the motion of Regent Matayoshi, second by Board Chair Moore, and with unanimous approval, the meeting was adjourned at 11:16 a.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents