MINUTES

BOARD OF REGENTS' COMMITTEE ON BUDGET AND FINANCE MEETING

APRIL 6, 2016

I. CALL TO ORDER

Committee Chair Jan Sullivan called the meeting to order at 10:30 a.m. on Wednesday, April 6, 2016, 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 Simeon Acoba; Regent Wayne Higaki; Regent Michael McEnerney; Regent Lee Putnam.

Committee members excused: Regent Coralie Matayoshi.

Others in attendance: Board Chair Randy Moore; Board Vice Chair Eugene Bal; Regent David Iha; Regent Jeffrey Portnoy; Regent Michelle Tagorda; Regent Stanford Yuen; Regent Ernie Wilson, Jr. (ex officio committee members); President David Lassner; Vice President for Academic Affairs Risa Dickson; Vice President for Legal Affairs and University General Counsel Carrie Okinaga; Vice President for Research Vassilis Syrmos; Vice President for Budget & Finance and Chief Financial Officer Kalbert Young; Interim UH-Mānoa (UHM) Chancellor Robert Bley-Vroman; UH-Hilo (UHH) Chancellor Donald Straney; Interim UH-West O‘ahu (UHWO) Chancellor Doris Ching; Executive Administrator and Secretary to the Board Cynthia Quinn; and others as noted.

II. APPROVAL OF MINUTES OF THE FEBRUARY 11, 2016 MEETING

Regent Mizuno moved to approve the minutes of the February 11, 2016 meeting, seconded by Board Chair Moore, and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board Cynthia Quinn announced that the Board Office received no written testimony and no one signed up to testify.

IV. AGENDA ITEMS

A. For Information

1. Update on University of Hawai‘i FY 2017 Budget Planning

VP Young provided a slide presentation on updates to the university's FY 2017 budget planning process. He explained how campus-level budgets are projected spending plans for the current fiscal year, and the basis of quarterly variance reporting are selected high-

level expenditures (e.g., salaries, utilities, scholarships, tuition, stipends, allowances, and other expenses) and revenues by type (e.g., general funds and tuition & fees), because the four major expenditure components provide a good indication of the larger expense components for campuses. It was explained how the quarterly financial reports are better organized, and will include research training & revolving fund (RTRF) and other non-general fund and non-tuition & fees special funds, consistent to current, and expenditure categories including equipment. It was also predicted how it is expected that the financial reports and budget planning process will evolve, increased levels of transparency and accountability for management to execute budgets and financial performance will develop, and the operating budget will be brought the committee for consideration in May for board approval in June, and implementation July 1.

However, it was noted how the budget worksheets will include significant assumptions, since the general fund appropriation will not be known until the close of the legislative session. Secondly, it was explained how Act 236 implementation (tuition & fee special fund balance sweep) will begin July 1, 2016, triggering on June 30, 2016, when campuses must transfer TFSF balances to UH900 for allocation in the subsequent fiscal year, making it more difficult to predict ending balances for the future fiscal years. Administration has a process to redistribute those funds to the campuses, and is conducting further analysis on the best way to approach and manage this policy going forward to maintain status quo and avoid frivolous spending.

He also reported how F17 is the first year of the $6.5 million in performance based funding to be distributed based on the prior year's performance and campus achievement that will not be specifically known in time for the budget plan in May. Performance measures are identified and being utilized, and for FY17, campus budgets can be augmented or improved based on how successful they have been with performance objectives. In addition, the outcome of collective bargaining funding, other legislative appropriations and governor restrictions may not be known before the budget plan is submitted to the board in May.

Comments and questions were raised regarding providing a separate repair & maintenance (R&M) expenditure line for the system so R&M progress can be tracked according to priorities; clarifying whether Act 236 was ongoing from July 1, 2016; including position counts in forecasted salaries to help in terms of budget planning; and extent of administration support for campuses to understand the benefits of performance based funding.

It was explained how the budget is based on expenditure categories, and R&M is a mixture of internal costs, small purchase orders, contracts, etc., which does not fit well in the budget process; a separate report on R&M, position counts, and metrics tied to performance, and trends could be provided as informational reports rather than included in the operating budget process which is not the best suited tool to manage personnel distribution and position counts.

The history of allocation to campuses with the charge to decide how to achieve outcomes in order to receive funding the following year was recounted. It was explained that distribution plans for performance based funding were shared with all the campuses

and being discussed monthly at the officers meeting; specific targets have been set to elevate underperforming areas, and are carefully monitored to ensure performance meets targeted outcomes, using with the community colleges' successful model that used a performance based funding approach for approximately 5 years, focusing on understanding student success and the uniqueness of each campus' circumstances.

Committee Chair Sullivan distributed a handout (Attachment 1) regarding the operating budget for next year and discussion ensued about further input and discussion at the board level on strategic issues, and what the board should do with budget planning, noting the progress in reaching the board's goal to increase transparency and accountability, and moving toward a budget as a management tool that is a more proactive tool, recognizing the difficulty as it requires a lot of discussions on assumptions, strategic targets and goals, and resources necessary to reach those goals. Examples of targets that have financial implications and tied to stated Strategic Initiatives were outlined, and recognized that time is of the essence as doing so will impact the following year's budget. Board Chair Moore concurred and added how the board's role is to set overall strategic goals for the budget, and it is a campus-driven exercise to determine how to get there and resources needed, with regular goal-focused reports to the board.

Comments and questions were raised regarding the budget process following typical management curriculum; the need for a budget process that balances both the system and campuses, and a strategic programmatic plan for programs/facilities/budget; having administration report on the board policy related to enrollment policy; and the significant impact legislative funding has on the budget plan, and the need to incorporate input and support from the Legislature into the plan.

Administration concurred and discussed the good progress on the second year of budgeting on a macro level to manage reserve targets that avoided prior history of undetected, precipitously declining reserves, and how it is part of a larger strategy, noting that there are many other initiatives underway that align with the comments made and intentionally tie that back to the strategic directions and initiatives. Administration further acknowledged how regarding enrollment management, a follow-up report and plan is in progress that will have budget implications on revenues and expenses, similar to how 21st Century Facilities and energy reduction plans drive the budget as to costs, and how, given the timing, a future budget can become the proactive tool to achieve outcomes (e.g., eliminating DM backlog and creating 21st century facilities) by aligning investments to those areas.

The committee stated how it looked forward to receiving the second operating budget and will continue to work on how to approach bigger issues over the course of this year.

2. Review of FY 2016 Legacy Endowment Distributions

VP Young provided a slide presentation on a review of the history and context of FY 2016 legacy endowment distributions, and how the market value of the endowment fund was being used for calculation of distributions in FY 2016 $61,222,395 million, based on the 5 year rolling average, and the maximum distribution for 2015 set by the President was 4.5%, equaled $2.45 million across the various types of awards, which is slightly

more than the prior fiscal year, with approximately $300,000 remaining available for potential payout , as of February 29, 2016.

Comments and questions were raised regarding the management, budget impact, and initiatives to increase payouts for the various awards, including Regents & Presidential Scholarships (RAPS) amount and stipends.

It was explained how no additional inflows are permitted, other than investment performance and underspending; how any new inflows would go directly into the UH Foundation (UHF) to manage; and how the budget planning process does not report to the granularity level that would reflect the impact on tuition revenue originated from scholarships.

Discussion ensued about the differences in management and restrictions of the legacy and UHF endowments, in that the legacy endowment fund is administered and managed by the administration with distribution delegated by board policy to the president up to 5% annually and in accordance with donor or board restrictions, whereas the UHF endowment is managed by a separate board and has a larger endowment corpus. Administration explained how it focuses management on ensuring longevity and growth of the fund by distributing less than actually earned on investment performance, and the largest portion of the distribution is based on donor-designated specific purposes (e.g., RAPS and JABSOM), along with smaller categories that are unrestricted. Administration will provide a full write-up on RAPS program to the board and report on the amount of tuition and travel stipends.

V. ADJOURNMENT

There being no further business, Committee Vice Chair Mizuno moved to adjourn, and Regent Higaki seconded, and with unanimous approval, the meeting was adjourned at 11:31 a.m.

Respectfully Submitted,

/S/

Cynthia Quinn
Executive Administrator and
Secretary of the Board of Regents