University of Hawaiʻi, Board of Regents, 2444 Dole Street, Bachman 209, Honolulu, HI 96822
Telephone No. (808) 956-8213; Fax No. (808) 956-5156

Notice of Meeting
UNIVERSITY OF HAWAIʻI
BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE

Members: Regents Sullivan (Chair), Moore (Vice-Chair), Nahale-a, Tagorda, and Westerman

Date: Thursday, October 1, 2020

Time: 8:30 a.m.

Place: **Virtual Meeting**

In light of the evolving COVID-19 situation, protecting the health and welfare of the community is of utmost concern. As such, this will be a virtual meeting and written testimony and oral testimony will be accepted in lieu of in-person testimony. Meetings may be monitored remotely via the livestream pilot project. See the Board of Regents website for information on accessing the livestream: www.hawaii.edu/bor. Mahalo for your consideration.

AGENDA

I. Call Meeting to Order

II. Approval of Minutes of the September 3, 2020 Meeting

III. Public Comment Period for Agenda Items:

All written testimony on agenda items received after posting of this agenda and up to 24 hours in advance of the meeting will be distributed to the board. Late testimony on agenda items will be distributed to the board within 24 hours of receipt. Written testimony may be submitted via the board's website through the testimony link provided on the Meeting Agendas, Minutes and Materials page. Testimony may also be submitted via email at bor.testimony@hawaii.edu, U.S. mail, or facsimile at (808) 956-5156. All written testimony submitted are public documents. Therefore, any testimony that is submitted for use in the public meeting process is public information and will be posted on the board's website.

Those wishing to provide oral testimony for the virtual meeting may register here. Given constraints with the online format of our meetings, individuals wishing to orally testify must register no later than 7:00 a.m. on the day of the meeting in order to be accommodated. It is highly recommended that written testimony be submitted in addition to registering to provide oral testimony. Oral testimony will be limited to three (3) minutes per testifier.

IV. Agenda Items

A. Committee Work Plan *(deferred from September 3, 2020)*

B. Presentation on the State Economic Forecast by Chief State Economist Eugene Tian

C. Fiscal Year 2020-2021 Financial Update

For disability accommodations, contact the Board Office at 956-8213 or bor@hawaii.edu. Advance notice requested five (5) days in advance of the meeting.

D. Budget Policy Paper *(deferred from September 3, 2020)*

E. Regents Policy 8.203, Operating Reserves; Non-General Funds

V. Adjournment

DISCLAIMER – THE FOLLOWING ARE DRAFT MINUTES AND ARE SUBJECT TO FURTHER REVIEW AND CHANGE UPON APPROVAL BY THE COMMITTEE

MINUTES

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

SEPTEMBER 3, 2020

Note: On January 30, 2020, the World Health Organization declared the outbreak of COVID-19 a public health emergency of international concern, subsequently declaring it a pandemic on March 11, 2020. On March 16, 2020, Governor David Y. Ige issued a supplementary proclamation that temporarily suspended Chapter 92, Hawai'i Revised Statutes, relating to public meetings and records, "to the extent necessary to enable boards to conduct business in person or through remote technology without holding meetings open to the public."

I. CALL TO ORDER

Chair Jan Sullivan called the meeting to order at 10:33 a.m. on Thursday, September 3, 2020. The meeting was conducted virtually with regents participating from various locations.

Committee members in attendance: Chair Jan Sullivan; Vice-Chair Randy Moore; Regent Alapaki Nahale-a; Regent Michelle Tagorda; and Regent Robert Westerman.

Others in attendance: Board Chair Benjamin Kudo; Regent Simeon Acoba; Regent Kelli Acopan; Regent Eugene Bal; Regent Wayne Higaki; Regent Ernest Wilson (ex officio committee members); President David Lassner; Vice President (VP) for Administration Jan Gouveia; VP for Community Colleges Erika Lacro; VP for Legal Affairs/University General Counsel Carrie Okinaga; VP for Academic Planning and Policy Donald Straney; VP for Research and Innovation Vassilis Syrmos; VP for Information Technology/Chief Information Officer Garret Yoshimi; VP for Budget and Finance/Chief Financial Officer Kalbert Young; UH Mānoa Provost Michael Bruno; UH Hilo Chancellor Bonnie Irwin; UH West Oʻahu Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents (Board Secretary) Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES

Vice-Chair Moore moved to approve the minutes of the August 6, 2020, meeting, seconded by Regent Nahale-a, and the motion carried, with all members present voting in the affirmative.

III. PUBLIC COMMENT PERIOD

Board Secretary Oishi announced that the Board Office did not receive any written testimony, and no individuals signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Presentation on the State Economic Forecast by University of Hawai'i Economic Research Organization (UHERO) Executive Director Carl Bonham

Dr. Carl Bonham, Executive Director of UHERO, provided a report on long-term budget trends and the macroeconomic outlook for the state in light of the COVID-19 pandemic but indicated that this report is based upon current economic conditions and that UHERO will be releasing a report using more recent economic data in the next few weeks. He indicated that national and local data shows a causal relationship between increases and decreases in economic activity and positive COVID-19 case counts and that fear and uncertainty about the impacts of COVID-19 have affected individual economic choices. As a result, preliminary indications are that the economy is continuing to weaken, particularly with the recent surges in positive case counts. Consequently, the key to long-term, sustained economic recovery is effective control of COVID-19.

UHERO used the most recently available local and national data, as well as information collected through businesses via surveys it conducted with the Chamber of Commerce of Hawaiʻi, to develop a number of scenarios and economic forecasts based upon certain assumptions. Assuming the resumption of tourism in November 2020, the moderate scenario envisions visitor spending returning to 2016-2017 levels near the end of the fourth quarter of 2021 leading to continued economic recovery through 2024, while optimistic scenarios envision this timeline occurring more rapidly. However, he cautioned that restoring long-term fiscal balance to the state will take years and indications are that the State will continue to face budget deficits through 2026, although it is anticipated that 2021 will be the most difficult.

Noting that Dr. Bonham mentioned a $400 - $500 million underestimation in fiscal year tax revenue collections made by the Council on Revenues (COR), Regent Acoba questioned the cause of such a large miscalculation. Dr. Bonham stated that challenging and uncertain economic conditions are being realized globally and given these factors the forecast error is minimal. He noted that issues such as tax rule changes and extended deadlines for the submission of tax returns undoubtedly had an impact on forecast calculations, highlighting that there has been a surge in tax revenues realized during the first two months of fiscal year 2021.

Regent Acoba asked if military spending added stability to Hawaiʻi's economy and whether its impacts were included in UHERO's scenarios and forecasts. Dr. Bonham responded in the affirmative and added that economic forecasts would be much more dire without federal defense spending.

Regent Acoba inquired as to what the University of Hawaiʻi's economic contributions were to the State. Dr. Bonham replied that UHERO has conducted several economic analyses in the past which determined that the university was an economic asset to the state and highlighted its contributions to the economy at both the system and individual campus levels. However, he believed these past analyses undervalued the university's economic impacts to the state because they only took into account direct revenues generated by the university such as research dollars and tuition. They did not factor in the broader economic impacts of the university such as the increase in individual spending and tax revenue collections due to the escalation of lifetime earnings experienced by residents receiving a post-secondary education from the university.

Stating that the economic conditions caused by COVID-19 are having significant fiscal impacts to the small business sector, Regent Westerman asked whether the size of small businesses and their ability to quickly adapt to changing situations or reinvent themselves would impact their survivability and allow them to recover more quickly. Dr. Bonham stressed that due to the dynamic, complex, and ever-evolving nature of the COVID-19 pandemic and the numerous factors involved in attempting to address this public health crisis, economic recovery and sustainability is extremely uncertain for any business. He stated that the most entrepreneurial businesses capable of reinventing or redeveloping themselves will increase their chances of survivability and that some businesses have already begun to adapt and make adjustments. At present, those businesses that are barely surviving will either end up shuttering their doors or recover at a very slow pace. However, it does appear that current economic conditions have increased opportunities for individual entrepreneurship among those experiencing the greatest financial impacts of the pandemic which may result in an increase in the establishment of new small businesses.

Chair Sullivan asked for clarification about the amount of time it took for Hawaiʻi to restore fiscal balance during the last recession and UHERO's forecast for the return of fiscal stability for this economic crisis. Dr. Bonham responded that it took approximately three years to restore fiscal stability during the last recession and that UHERO forecasted fiscal stability to occur sometime around 2026 for this crisis. However, he cautioned that UHERO's forecast did not take into account measures such as budget cuts, furloughs, or the borrowing of funds since it is uncertain what actions would be taken by the State to lessen the economic impacts of COVID-19.

Chair Sullivan asked Dr. Bonham if he agreed with her assessment that COR will lower its economic forecast when it meets later this month which will impact the amount of general fund (GF) revenues the university will receive. Dr. Bonham agreed that a downward economic adjustment would impact university revenues but stated that it is very difficult to forecast what actions COR will take. He stated that with the data UHERO currently has, he would argue that economic conditions are not as severe as previously projected or COR may be anticipating. While the recent surge in cases and the secondary shutdown of Oʻahu may affect how COR will react, he did not have a strong sense that COR would lower its economic forecast.

Regent Wilson left at 11:00 a.m.

Chair Sullivan thanked Dr. Bonham and stated that the committee may request a subsequent update from UHERO after COR meets.

B. Recommend Board Approval of Fiscal Year (FY) 2020-2021 Operating Budget

VP Young presented the university's operating budget for FY 2020-2021 stating that the economic downturn caused by the COVID-19 pandemic is fiscally impacting the university. Revenues for all university funding sources are projected to decrease by $138.3 million, or 13.1 percent as compared to FY 2020 actual revenues. Expenditures are predicted to decrease by $17.7 million, or 1.7 percent, as compared to FY 2020 actual expenditures. Overall the university is anticipating a net operating loss of $66.9 million. However, he noted that campuses began taking actions in FY 2020, particularly in the 4th quarter, which will help mitigate the effects of this revenue loss for FY 2021.

The assumptions and factors considered in developing the proposed operating budget were reviewed with VP Young highlighting that the administration was anticipating the imposition of a 16 percent restriction on the use of GF revenues, a minimum decrease of five percent in Tuition and Fees Special Fund (TFSF) revenues, and revenues for the Research and Training Revolving Fund (RTRF) to remain flat. However, he noted several caveats to these assumptions. Though the reduction in GF revenues is large, it equates to an approximately 13 percent decrease when compared to the level of actual GF revenues received in FY 2020. Additionally, smaller decreases in TFSF revenues may be experienced as some early indications are that headcount enrollment at some campuses have exceeded expectations, although this data continues to be analyzed. He also added that the university's fiscal situation remains challenging and the use of some portion of the budget reserves may be required for FY 2021 but that this use must be prudent. As such, the administration has directed campuses to limit the use of reserve balances to 50 percent of currently available balances that are above the five percent minimum reserve fund amount established by Executive Policy (EP).

VP Young reviewed budgeted, actual, and projected GF and TFSF revenues and expenditures, as well as revenues and expenditures for various special funds, for each of the four-year campuses, the community colleges, and the UH system-wide administration. He also provided an overview of beginning reserve fund balances and the projected balances of these funds at the end of FY2021. While this is unsustainable for the long term, he noted that TFSF reserve balances to end FY 2021 are forecasted to be near the 16 percent reserve fund balance target set forth in board policy.

VP Young provided a brief historical perspective of the university's GF and TFSF revenue, noting that GF revenue support provided to the university peaked in 2009, just prior to the beginning of the last recession. He emphasized that, while the federal reserve determined that the recession ended in 2012, the university did not recover the level of GF revenue support it received in 2009 until 2017 and 2018 – an almost 10 year period. Assuming that UHERO's assessment of a slower economic recovery from this fiscal crisis as compared to the last recession is correct, the university could be facing a much more prolonged recovery period than what was experienced during the last recession if its forecasted 16 percent reduction in GF revenues holds true.

VP Young added that was still awaiting budget execution instructions and its GF budget allocation for FY 2021 from the State Department of Budget and Finance. Once this information is received, it will allow the administration to refine and imbed more certainty into the operating budget.

Regent Westerman asked what was considered "other special funds". VP Young explained that the university receives its revenues from four main funding classes: GF, TFSF, RTRF, and other special funds. He elaborated that "other special funds" included dozens of non-general special and revolving funds. The majority of these funds are used for specific programs, auxiliary services, or business activities, including areas such as parking, housing, and athletics.

Noting that certain fiscal parameters such as the allocation of GF revenues are still unknown, Regent Westerman inquired as to whether the university has already begun accounting for or identifying areas of expenditure reductions. VP Young responded that the administration had already begun implementing fiscal mitigation measures such as hiring freezes and travel restrictions and that each campus expenditure plan is accommodating reductions, although how each campus achieves these cost-savings may differ based upon their unique needs.

Regent Acoba asked whether the administration conducted an in-depth review of the UHM Athletic Department's (UHM Athletics) budget that accounted for any reductions in, or adjustments that needed to be made to, its revenues and expenditures. VP Young reiterated that each campus determines its own expenditure plan. UHM Athletics has accommodated for a 16 percent decrease in GF revenues in its expenditure plan but its implementation of mitigation measures to achieve cost-savings and may differ based upon a unique set of needs. In answer to Regent Acoba's specific question, VP Young indicated that there had not been an item-by-item review of the athletics budget.

Regent Acoba requested clarification on whether the anticipated reduction in GF revenues was 13 percent or 16 percent. VP Young replied that the administration was anticipating a 16 percent reduction (restriction) in GF appropriation for FY 2021 which equates to a 13 percent reduction of GF revenues that were allocated to the university in FY 2020. Regent Acoba also asked if it was correct that the administration believed the decrease in TFSF revenues it was anticipating may be smaller since overall headcount enrollment appeared to be improving. VP Young responded in the affirmative.

Noting that in previous presentations it was stated that RTRF revenues were increasing and had reached $450 million, Regent Acoba questioned the statement made by the administration that RTRF revenues were anticipated to remain flat and asked if there was any specific data to support this assertion. VP Young replied that this assumption was a conservative estimate based upon progress made in securing RTRF funds for this fiscal year. VP Syrmos responded that while RTRF revenues have remained relatively stable, it was anticipated that growth would slow in FY 2021, although he did not have specific evidence to indicate that this would occur.

Referencing statements made by the administration that TFSF revenues may be used to cover GF revenue shortfalls, Regent Acoba asked what specific GF revenue funded items would be funded by TFSF revenues. VP Young replied that the majority of TFSF funds would be used to address salary costs. Regent Acoba continued stating that in previous presentations it was asserted that the Legislature funded approximately 80 percent of GF revenue funded positions and asked whether the administration believed that this amount would be reduced. VP Young replied in the affirmative.

Board Chair Kudo questioned why there existed such a large range in budget reserve requirements established by EP and Regent Policy (RP). VP Young explained that the EP set a minimum reserve balance amount of five percent but that the RP established a target for operating reserves equivalent to approximately two months of operating costs, which amounts to approximately 16 percent. In view of this, Chair Kudo asked how the five percent requirement contained in the EP would achieve the intent of the board to maintain reserves in amounts that would allow campuses to remain operational for two months. VP Young stated that campuses began with differing amounts of reserve balances, with some having reserve balances well below the five percent amount, but that campuses have been building up their reserves over the years. As a result, all campuses presently have reserve balances that are at least five percent, with some campuses being closer to the 16 percent target. He noted that campuses with higher reserve balance amounts are in a better position to withstand fiscal challenges it may experience.

Board Chair Kudo inquired as to the university's average monthly operating costs in FY 2020. VP Young replied that approximately $70-$80 million per month was used to fund operating costs in FY 2020. Chair Kudo asked what the monthly amount of revenues being used for operating expenses were at present given that the administration had begun taking actions to mitigate expenses. VP Young responded that he did not have that information readily available but that a decrease in expenditures was realized for certain areas.

Discussions ensued on the parameters, limitations, and speed of the depletion of campus reserves with Regents expressing concerns with regard to the reasoning behind the established limitations on the use of these reserves; the apparent disconnect between the EP and RP with regard to reserve balance amount requirements and the restrictions on the use of reserve funds imposed by the administration; the course of action for the use of the reserves; and the effectiveness of reserve balances at the lower end of the spectrum in assisting campuses in maintaining operations given the limitations established. VP Young stated that, in developing its operational budget, the administration was attempting to triage the fiscal situation and develop restrictions on the use of reserve fund balances that would maintain the availability of a portion of these funds for fiscal years beyond 2021 as this is anticipated to be a prolonged fiscal crisis.

Noting the aforementioned discussion on budget reserves, Chair Sullivan reviewed the history of, and reasoning behind, the creation of the budget reserve policy and its established targets. She then went over information on total revenues, total expenses, net deficits, and minimum and maximum budget reserve amounts based on the respective EP and RP for each of the four-year campuses, the community colleges, and some of the larger university programs such as athletics and housing. Most alarming was that both UHM and UHH which would deplete there reserves within one to one-and-a-half years respectively under the current operating budget. She also expressed her concerns regarding the anticipated deficits for the larger programs noting that the operating budget, as currently presented, was unclear as to how these deficits would be addressed.

Chair Sullivan stated that she would be recommending deferral of action on the approval of the FY 2020-2021 operating budget. She explained the reasons for recommending deferral which included concerns regarding the anticipated amount of the budget reserves allocated for possible use to ensure continued university operations for FY 2021; the lack of clarity with, and a necessity to better understand, the administration's strategy and multi-year plan for the use of revenues and reserves for fiscal years beyond 2021; the lack of discussion or direction on making difficult cost-reduction decisions such as salary reductions, reductions-in-force, and furloughs, and the apparent shifting of funds to cover these operational expenses; the assumption that the State will continue to fund the costs of fringe benefits for university personnel in the same way it has in the past and the lack of planning to address this issue should the university be required to cover these additional costs; and the lack of certainty on the allocation in GF revenues the university will receive as well as the State's overall plan to address its own fiscal situation.

Regent Westerman expressed his concerns regarding the lack of clarity with the operating budget stating that, while budgets are often formulated with some assumptions, there are numerous unanswered questions and uncertainties within the proposed operating budget that require additional information and further discussion. He also noted that there were apparent conflicts with some of the data provided which would make it difficult to approve this budget as presented to the committee.

Vice-Chair Moore asked if funds received from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) were accounted for in the operating budget under the category of "other special fund" revenues and if not, could a breakdown of the expenditure of these funds be provided to the committee. President Lassner stated that there were 30 individual grants awarded by the CARES Act to the university, with three grants being given to each of the 10 campuses, but reiterated that these funds would not provide extensive budget relief for the university as specific requirements have been established by the federal government for the use of these funds. Since CARES Act funds are still being used to address the university's COVID-19 related costs, the expenditure of these funds, as well as any new costs to the university associated with COVID-19, were not accounted for in the proposed operating budget. Vice-Chair Moore expressed his concern that CARES Act funds will eventually be depleted but expenses associated with COVID-19 will continue and this information needs to be reflected in the operating budget. President Lassner agreed with this assessment and stated that this information will eventually be included in reports to the committee and the board and that the administration will work on improving its functional reporting on this issue.

Vice-Chair Moore remarked that the historical figures presented regarding the timeframes for economic recovery were not adjusted for inflation and opined that the university probably never fully recovered from the last recession. Taking this into account, along with the fact that there are still numerous uncertainties with the current economic condition of the state and concomitantly the fiscal situation of the university, he conveyed his concerns regarding the use of reserve fund balances as contained in the proposed operating budget.

Regent Nahale-a stated that he supported deferral of the operating budget as currently proposed. While he commended the administration for its work on the budget given the information available to them and the amount of economic uncertainty facing the state, he also agreed with other Regents that more information needed to be obtained before moving ahead and that discussions and collaboration on the operating budget should continue so as to achieve a long-term fiscal sustainability plan for the university that is balanced against its immediate economic needs.

Vice-Chair Moore made a motion, seconded by Regent Nahale-a, to conditionally recommend approval of the FY 2020-2021 operating budget subject to the administration incorporating provisions that address the concerns raised by Regents and presenting these provisions to the full board.

Chair Sullivan explained that she could not support the motion due to the amount of uncertainty and lack of detail in the currently proposed operating budget noting that once the committee votes to recommend approval of a budget, even if the approval is conditional, it implies endorsement of the committee and by extension the board.

President Lassner stated that the administration was agreeable to deferral of the proposed operating budget until a more detailed spending plan could be crafted using additional fiscal data and information which it was expecting to receive over the next several weeks.

Board Chair Kudo remarked that he agreed with Chair Sullivan's recommendation to defer action on the proposed operating budget as there were too many unanswered questions that needed to be properly vetted, reiterating that this was not the fault of the administration but simply the result of a lack of credible information and economic data.

There having been a motion, and a second, Chair Sullivan requested that a roll-call vote be taken and the motion failed to carry with Vice-Chair Moore voting aye, and all other members present voting nay.

Regent Westerman moved to defer action on recommending approval of the FY 2020-2021 operating budget, seconded by Regent Nahale-a, and the motion carried with all members present voting in the affirmative.

C. Recommend Board Approval of a Supplemental Resolution Authorizing the Issuance of Revenue Bonds for Refunding and University Projects

VP Young reported that the university will be restructuring a bond transaction over the next 60 days to refund or refinance approximately $231 million in currently existing revenue bond debt of the university associated with bonds that were issued in 2010 for construction of the University of Hawaiʻi Cancer Center (Cancer Center) and other construction projects at the John A. Burns School of Medicine at the University of Hawaiʻi (JABSOM). He stated that under current bond financing provisions, the university has an opportunity to refinance the bonds after 10 years if interest rates are favorable, which they are at present. This transaction will generate net present value savings compared to the current debt service level. Additionally, the university will be issuing approximately $10 million in new bonds to finance the design costs and completion of renovations and repairs to existing parking facilities. Board approval of the supplemental resolution authorizing the issuance of revenue bonds in a principal amount not to exceed $250 million to fund the restructuring of bond financing for the Cancer Center and JABSOM projects, as well as the parking facilities repair and renovation project, is necessary to allow the administration to execute these transactions.

Board Chair Kudo recalled that the original bonds issued for the Cancer Center contained restrictions on the use of the facilities and asked if these restrictions would still be applicable after the execution of this action. VP Young replied that, due to the partial tax-exempt status of the original bonds, they contained restrictions on the use of facilities constructed with these bonds. The administration intends to restructure the bond financing in such a way that 50 percent of bonds issued will be conventional, taxable bonds and 50 percent will be tax-exempt bonds. While interest rates may be slightly higher on the conventional bonds, issuance of these types of bonds will afford the university greater economic opportunities due to the increased flexibility in the use of unoccupied Cancer Center facilities. Chair Kudo asked if that meant that the Cancer Center would be allowed to lease empty space in its facilities to private entities. VP

Young responded that using the proposed bond restructuring model, up to 50 percent of available space at the Cancer Center could be leased for private activities.

Vice-Chair Moore moved to recommend board adoption of the supplemental resolution authorizing the issuance of revenue bonds for refunding and university projects, seconded by Regent Nahale-a, and the motion carried, with all members present voting in the affirmative.

Regent Wilson returned at 12:26 p.m.

D. FY 2019-2020 Fourth Quarter Financial Report

VP Young provided the financial report for the fourth quarter of FY 2019-2020, reviewing both budgeted and actual general fund revenues and expenditures, as well as revenues and expenditures for various special funds, for each of the four-year campuses, the community colleges, and the UH systemwide administration. Actual revenues through the fourth quarter were $14.7 million, or 1.4 percent lower than projected, largely due to the impacts of the COVID-19 pandemic, with all fund categories performing below expectations. It was noted that expenditures were significantly lower due to GF revenue restrictions, the decline of on-campus presence, the institution of a hiring freeze, travel restrictions, and other cash preservation strategies implemented by the administration. Actual expenditures were $94.7 million or 8.6 percent lower than expected with the exception of the RTRF which had expenditures that were $3.8 million, or 7.6 percent, higher than anticipated. As a result of the dramatic decrease in expenditures, net operating income experienced a $38.5 million gain as opposed to an originally projected shortfall of $41.5 million. VP Young stated that these additional resources will be critical given the current economic downturn and the administration's anticipation that the broader impacts of COVID-19 will be occurring on a long-term basis.

Chair Sullivan requested committee members to review the budget presentation materials and suggest ways to improve data presentations as she believed that, given the fiscal crisis the university will be facing, improved formatting for the reporting of budget-to-actual information will allow the committee to more effectively carry-out its fiduciary responsibilities.

E. Budget Policy Paper

Chair Sullivan suggested that the Budget Policy Paper be deferred to a later date.

V. EXECUTIVE SESSON

No Executive Session was held.

VI. AGENDA ITEMS (Coninued)

A. Committee Work Plan

Due to time constraints, Chair Sullivan deferred discussion on the Committee Work Plan to the next committee meeting.

VII. ADJOURNMENT

There being no further business, Vice-Chair Moore moved to adjourn, seconded by Regent Nahale-a, and with all members present voting in the affirmative, the meeting was adjourned at 12:43 p.m.

Respectfully Submitted,

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents

Committee on Budget and Finance
Work Plan for the 2020-2021 Academic Year

	Committee duties per bylaws	2020-2021 Committee Goals and Objectives	Projected Timeline			
			1st Q Jul-Sept	2nd Q Oct-Dec	3rd Q Jan-Mar	4th Q Apr-Jun
1	Work in concert with the University administration relating to the operating budget.	Recommend Board Approval of FY 2020-2021 Operating Budget (~11/5/20)		X		
		Recommend Board Approval of FB 2022-2024 Operating Budget (~11/5/20)		X		
		Recommend Board Approval of Supplemental Resolution Authorizing Issuance of Revenue Bonds for Refunding and University Projects (9/3/20)	X			
2	Examine the budgetary process, budget proposals, expenditure plans, and development plans.	Quarterly Financial Report	X	X	X	X
		Financial Outlook for FY 2020-2021 (8/6/20); Update (10/1/20)	X	X		
		State Economic Forecast by UHERO Executive Director Carl Bonham (9/3/20)	X			
		State Economic Forecast by Chief State Economist Eugene Tian (10/1/20)		X		
3	Discuss the implementation of the budgetary decisions with the University administration, especially amendments thereto or when circumstances require deviations from expenditure plans.	Periodic Financial Updates and Projections of Year-End Results	X	X	X	X
		Financial and Program Update - Joint Meeting w/ ASA (~12/3/20)		X		
4	Review matters related to business affairs, and exercise fiduciary oversight of endowment funds and other financial assets of the University.	Quarterly UBS Endowment Legacy Fund Investment Performance Report (8/6/20)	X	X	X	X

5	Exercise general oversight and policy direction over the University's financial systems and programs.	Recommend Board Approval of FY 2020-2021 Operating Budget for Board Office and Office of Internal Audit (~11/2020)		**X**		
		Budget Planning Schedule (8/6/20)	**X**			
		Budget Policy Paper (10/1/20)		**X**		
		Evaluate B&F RPs in light of current fiscal challenges and recommend updated policies, if appropriate		**X**		
		RP 8.203, Operating Reserves; Non-General Funds		**X**		
		RP 8.204, University Budget		**X**		
	Integration of extramural funding and Research Training and Revolving Fund (RTRF) into operating budgets				**X**	
	Committee Governance	Review committee work plan (10/1/20)		**X**		
		Review committee's work for the year				**X**

Hawaii Current Economic Conditions and Outlook

Eugene Tian

Department of Business, Economic Development & Tourism

To the Budget and Finance Committee

University of Hawaii Board of Regent

October 1, 2020

research economic analysis division

Current Economic Conditions

Visitor arrivals by air: April- August 2019 and 2020

State/County	Apr-Aug 2019	Apr-Aug 2020	Change
State	4,528,668	75,654	-98.5%
Honolulu County	2,732,260	53,824	-98.0%
Hawaii County	764,927	12,008	-98.4%
Maui County	1,398,873	9,014	-99.0%
Kauai County	612,264	4,690	-99.2%

Source: Hawaii Tourism Authority

Business closure status as of September 30, 2020

County	Business never closed	Business closed but now partially reopened	Business closed but now fully reopened	Business currently closed
Honolulu	40.1%	19.6%	13.8%	26.4%
Hawaii	39.5%	18.4%	24.6%	17.5%
Maui	31.0%	19.6%	23.4%	25.9%
Kauai	35.1%	35.1%	16.2%	13.5%
Statewide	38.5%	20.5%	16.2%	24.8%

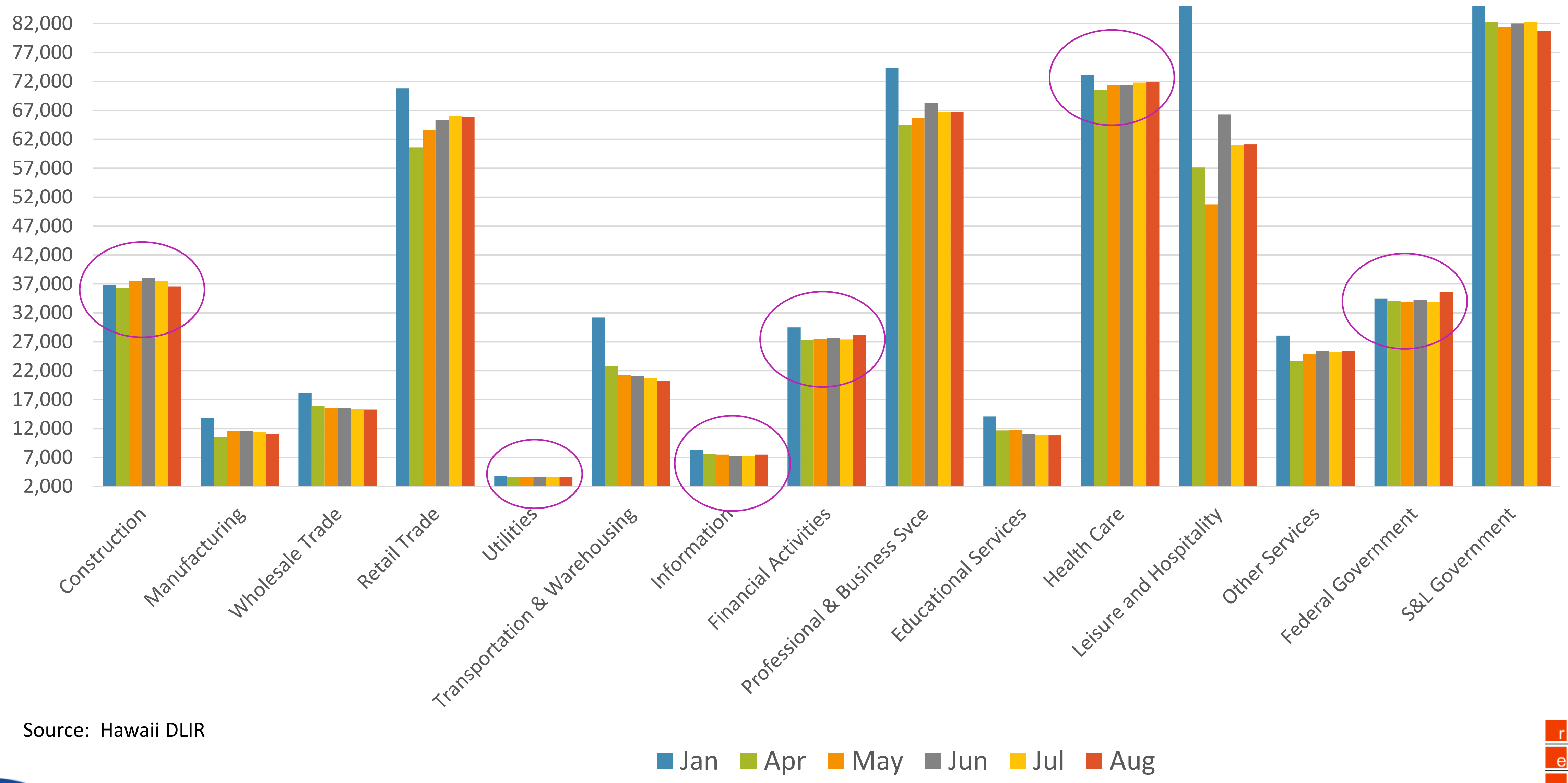
Source: Hawaii Commercial Rent Survey

Job count growth: April – August 2019 and 2020 (% change)

Industry	State	Honolulu	Hawaii	Maui	Kauai
Federal Gov't	0.9	1.0	-6.2	-4.4	-10.3
Construction	0.3	2.2	-4.8	-5.1	-3.8
Health Care	-1.4	-0.9	-2.6	-3.0	-4.2
Local Gov't	-2.7	-3.8	2.9	-4.4	0.0
Financial Activities	-7.6	-6.9	-13.0	-4.6	-18.3
Professional Services	-9.7	-9.6	-7.4	-12.9	-14.6
Trade	-10.2	-9.5	-12.8	-8.2	-16.3
State Gov't	-10.8	-11.7	-9.0	-8.5	-6.3
Information	-11.4	-10.8	-16.7	-33.3	0.0
Other Services	-12.0	-12.0	-1.9	-20.7	-1.8
Educational Services	-18.6	-19.9	-7.8	-18.3	0.0
Manufacturing	-19.6	-20.4	-16.9	-10.0	-37.0
Transp., Whsng, Util.	-26.7	-25.2	-36.6	-27.6	-33.3
Hospitality	-53.2	-52.3	-38.4	-64.3	-51.8
Total Non-Ag W&S	-17.4	-15.5	-15.6	-27.7	-24.5

Source: Hawaii State Department of Labor & Industrial Relations.

Non-ag. payroll job count during the last 5 months as compared with January 2020



Source: Hawaii DLIR

Unemployment rate April – August average 2019 and 2020 (%)

State/County	Apr.-Aug. 2019	Apr.-Aug. 2020	Change
State	2.8	17.4	14.6
Honolulu County	2.7	15.1	12.4
Hawaii County	3.6	16.7	13.2
Maui County	2.6	26.5	23.9
Kauai County	2.7	24.2	21.5

Source: Hawaii State Department of Labor & Industrial Relations

Growth of private building permits by county: First 8 months 2020

(% change from same period last year)

Type of permits	State	Honolulu County	Hawaii County	Maui County	Kauai County
Residential	-5.1	-21.3	19.7	-25.9	57.6
Commercial & industrial	123.9	77.1	154.6	193.3	**NA**
Additions & alterations	-10.3	-10.3	-1.6	-18.0	**NA**
Total	2.4	-7.9	31.6	2.9	**NA**

Source: County building departments.

Hawaii retail sales have recovered in June but not evenly distributed (% change from same month last year)

Stores	Jan. 2020	Feb. 2020	Mar. 2020	Apr. 2020	May 2020	Jun. 2020
Total	2.1	5.4	-11.3	-31.8	-5.4	0.0
Motor Vehicle and Parts Dealers	-3.3	3.1	-29.5	-35.4	-7.6	5.1
Furniture and Home Furnishings Stores	9.4	20.7	-14.1	(1/)	(1/)	11.9
Electronics and Appliance Stores	-1.8	-2.9	3.2	-16.1	-46.2	-3.8
Building Material and Garden Equipment and Supplies	0.2	7.4	7.7	7.9	17.7	28.7
Food and Beverage Stores	-1.6	9.1	20.0	-11.9	19.1	8.2
Health and Personal Care Stores	(1/)	2	3.8	-9.8	-2.7	1.3
Gasoline Stations	-7.4	-7.1	-27.9	-35.6	-23.7	-14.9
Clothing and Clothing Accessories Stores	-1.3	4.1	-41.5	(1/)	(1/)	-30.4
Sporting Goods, Hobby, Musical Instrument, and Book	6.6	2.9	-10.3	(1/)	(1/)	(1/)
General Merchandise Stores	10.1	7.3	16.4	-79.8	3.4	17.8
Miscellaneous Store Retailers	20.1	10.8	-17.1	-53.1	(1/)	-39.8

1/. Suppressed due to data quality concerns
Source: U.S. Census Bureau

Real estate market statistics are mixed

(% change btw. 2019 YTD and 2020 YTD through August)

Island	Single Family Homes		Condo Homes	
	Closed sales	Median price	Closed sales	Median price
Oahu	-3.4%	1.8%	-21.0%	1.2%
Maui	-11.4%	2.3%	-23.9%	9.6%
Hawaii	-3.8%	2.8%	-28.8%	3.2%
Kauai	-27.8%	17.6%	-24.3%	6.1%

Source: Hawaii Information Service on behalf of Hawaii Island Realtors and the Kauai Board of Realtors, the Honolulu Board of Realtors, and Realtors Association of Maui.

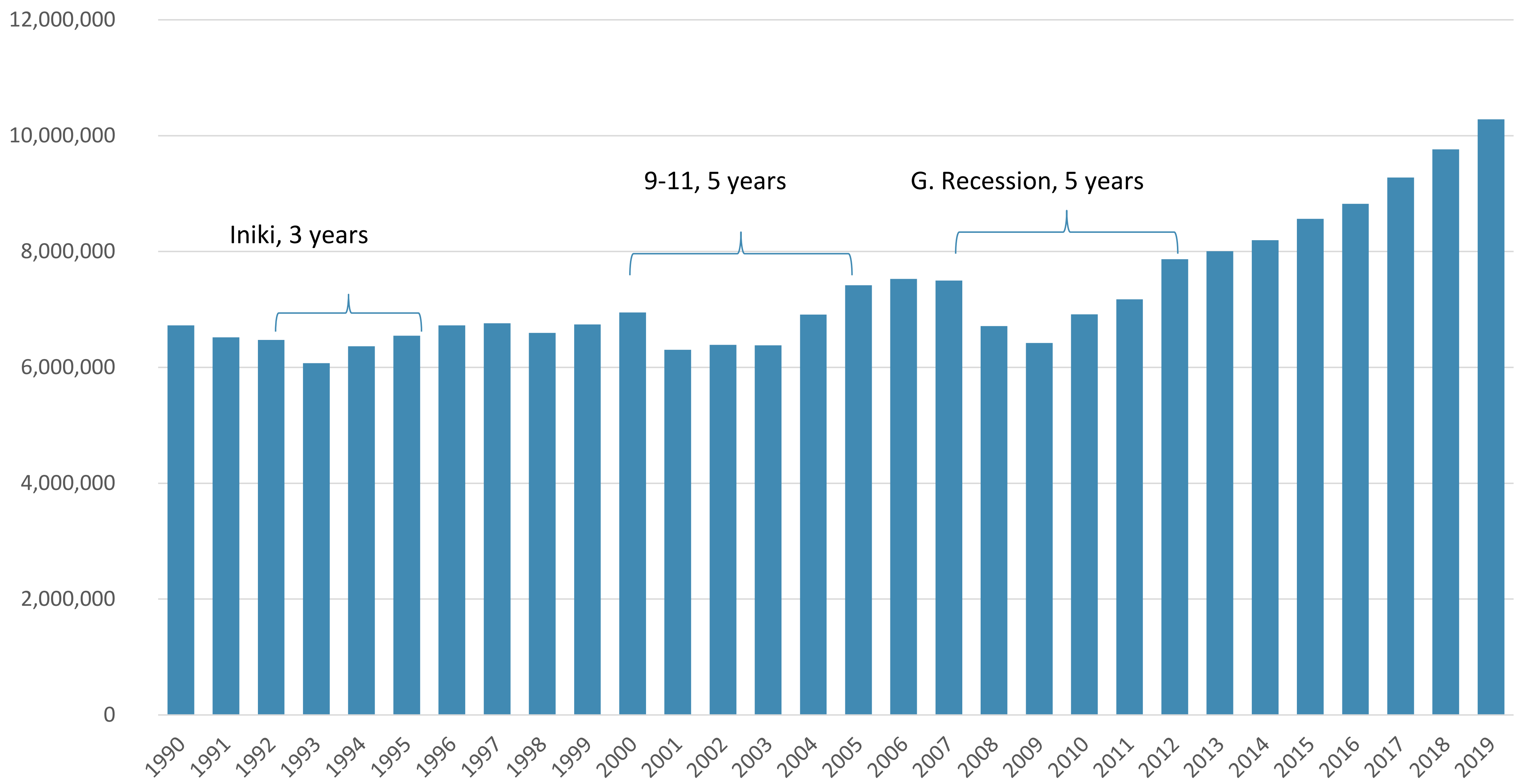
A Little History

Estimate of Tourism Contribution to Gross Domestic Product: 2012

County	GDP ($M)	Visitor expenditures ($M)	Imports for visitors use ($M)	Tourism GDP ($M)	Tourism contribution to GDP (%)
Hawaii	6,248	1,998	412	1,586	25.4
Honolulu	55,764	8,484	1,757	6,727	12.1
Kauai	2,933	1,480	310	1,170	39.9
Maui	7,362	4,147	850	3,297	44.8
State total	72,307	16,109	1,065	12,780	17.7

Source: DBEDT 2012 Hawaii Inter-County Input-Output Model

It took 5 years for visitor arrivals to recover in the past two cycles



Source: Hawaii Tourism Authority

Real GDP for tourism intensive sector

(26% of the state total real GDP)

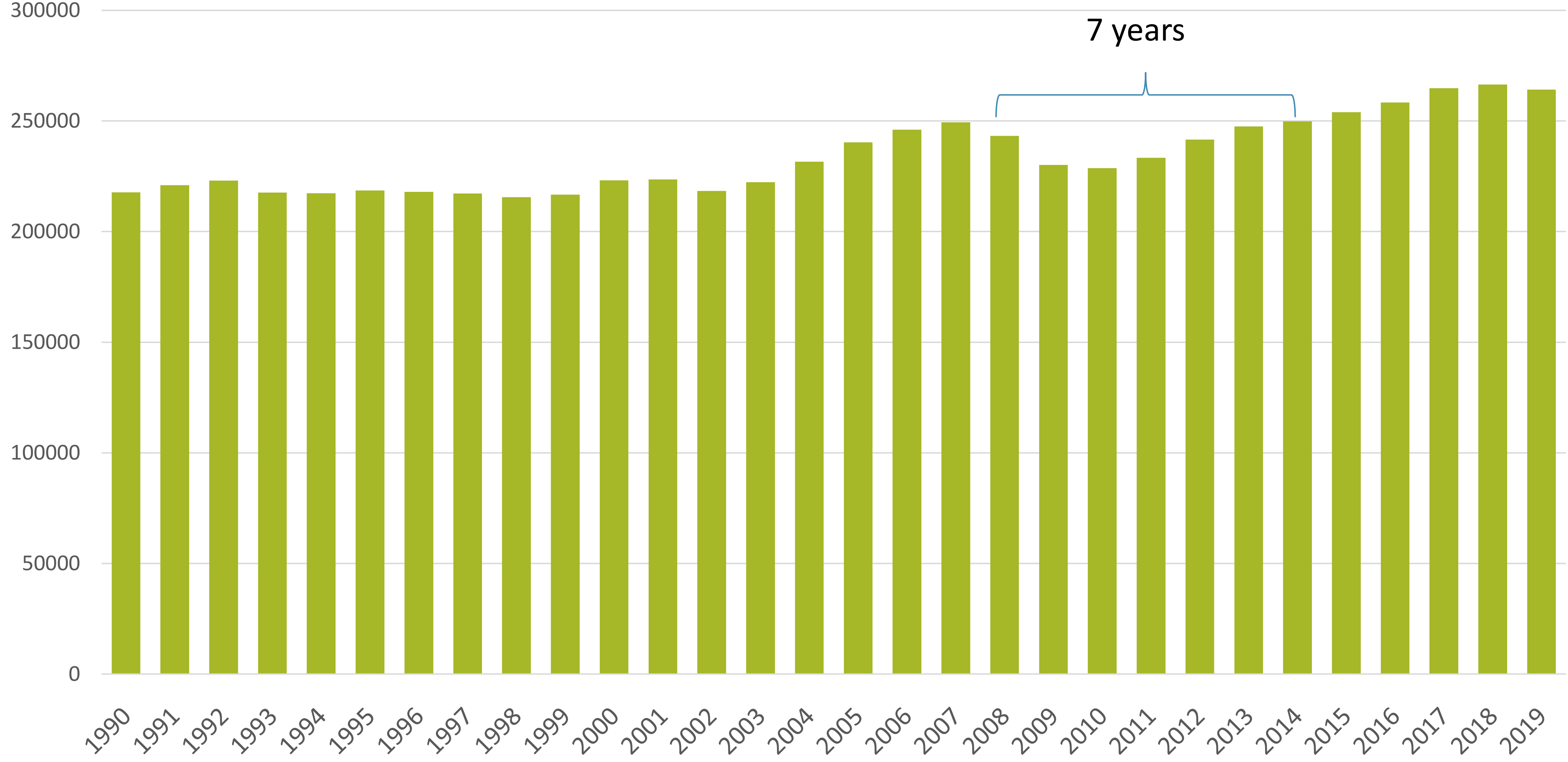
Source: U.S. Bureau of Economic Analysis

Real GDP for non-tourism intensive sector

(74% of state total real GDP)

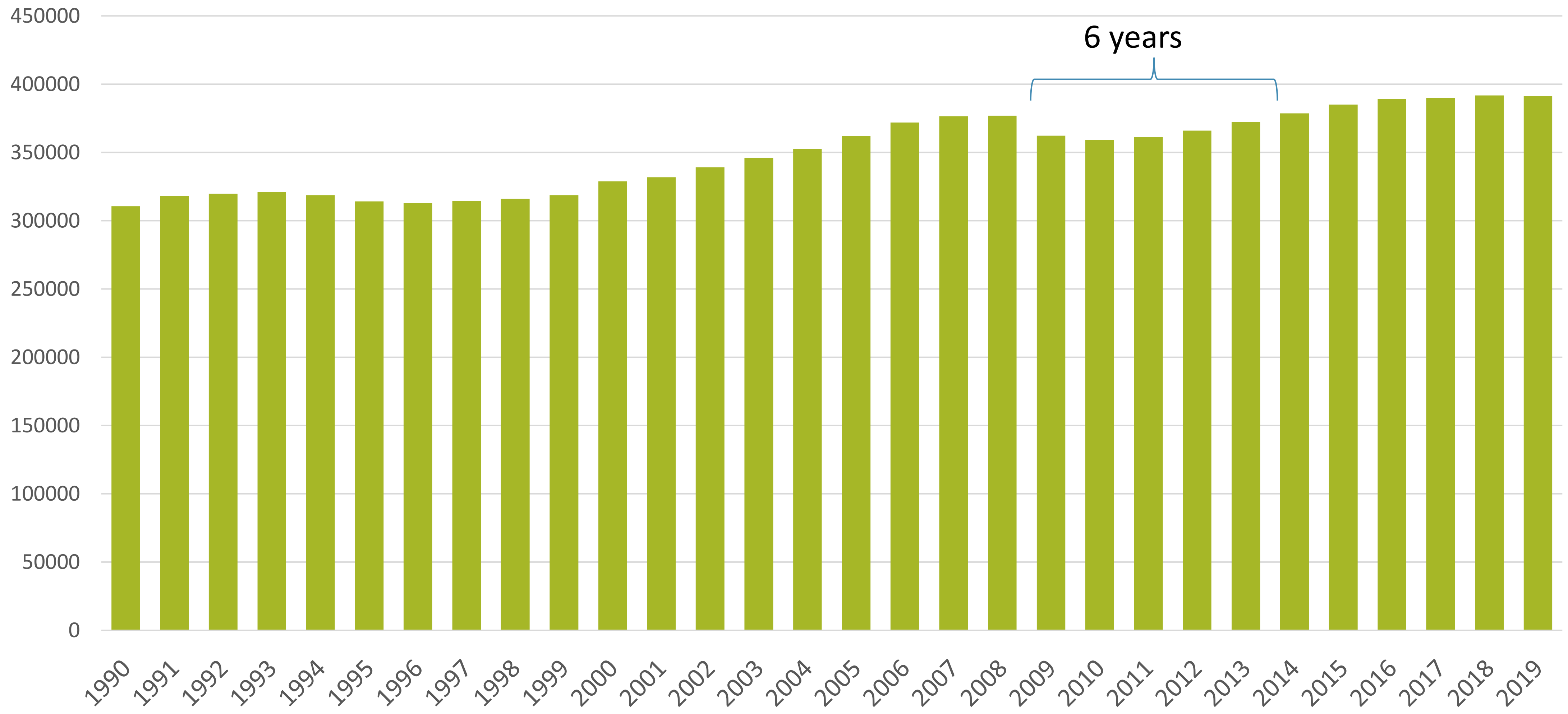
Source: U.S. Bureau of Economic Analysis

Employment in tourism intensive sector



Source: Hawaii State Department of Labor & Industrial Relations

Employment in non-tourism intensive sector



Source: Hawaii State Department of Labor & Industrial Relations

Projections

Most of the world economies are experiencing recession this year

Economy	2017	2018	2019	2020	2021
USA	2.3	3.0	2.2	**-4.6**	3.8
Canada	3.2	2.0	1.7	**-6.3**	4.9
Japan	2.2	0.3	0.7	**-5.2**	2.3
S. Korea	3.2	2.9	2.0	**-1.0**	3.2
Hong Kong	3.8	2.8	-1.2	**-5.6**	4.2
Taiwan	3.3	2.7	2.7	**-0.2**	2.8
China	6.8	6.7	6.1	**1.9**	8.1
United Kingdom	1.9	1.3	1.5	**-9.9**	6.7
Germany	2.8	1.5	0.6	**-5.6**	4.6
France	2.4	1.8	1.5	**-10.0**	6.9
Euro area	2.7	1.9	1.2	**-7.7**	5.4
Australia	2.5	2.8	1.8	**-3.9**	3.2
Brazil	1.3	1.3	1.1	**-6.4**	3.5

Source: Blue Chip Economic Indicators, September 10th, 2020

Hotel room bookings as of September 20, 2020

(% recovery from the same month last year)

County	Sep. 20	Oct. 20	Nov. 20	Dec. 20	Jan. 21	Feb. 21
Honolulu	10.1	16.7	25	24.3	28.6	36.5
Hawaii	17.1	17.7	45.4	52	32.1	34.6
Maui	6.1	20.4	40	52.3	61.3	62.3
Kauai	7.3	13.8	38.6	52.5	30.9	40.7
State total	10.6	14.2	28.6	38.7	39.2	44.8

Source: TravelClick and Hawaii Visitor and Convention Bureau

DBEDT tourism and economic forecast released on August 28, 2020

Year	Visitor arrivals		Visitor expenditures		Unemployment rate	Econ. Growth rate
	Thousand	% growth	$ millions	% growth	%	%
2018	9,889	5.2	17,643	5.1	2.4	2.4
2019	10,387	5.0	17,844	1.1	2.7	1.0
2020	2,922	-71.9	5,742	-67.8	10.9	-12.3
2021	7,242	147.9	12,005	109.1	7.2	2.1
2022	8,309	14.7	14,267	18.8	6.6	2.0
2023	9,362	12.7	16,372	14.7	6.3	1.2

Source: DBEDT, Quarterly Statistical and Economic Report, 3Q 2020, released on August 28, 2020

Fiscal Year 2020-2021 Financial Update

Board of Regents

Committee on Budget & Finance

October 1, 2020

Overview

- Fiscal Year 2020-2021 (FY21) began July 1, 2020, concludes June 30, 2021.
- B&F Committee deferred FY21 expenditure plan approval, September 3.
- Refined expenditure plan dependent upon many continuing uncertainties
  - Acceptable level of use of reserves in FY21 in light of degrading situation for FY22-24
  - Actual general fund release and possible additional FY21 restrictions due to lack of state revenue
  - Above-average uncertainty of tuition revenue
  - Possible furloughs of state employees
- FY21 Expenditure Plan still pending firming up assumptions around some of these dependencies

Expenditure Plan Update

Expenditure Plan not ready for resubmittal

General Funds – Release & Restrictions

- General Funds release quarterly, Q1 & Q2
- Appropriation by quarter, less 10% on "discretionary"
- $257.6 million communicated for release, -$6.0 million restricted thus far

Tuition & Enrollment Revenues

- Headcount enrollment down -0.8%, systemwide
- Substantial increase in tuition billed but not paid
- Actual tuition revenue received down

Expenditure Plan Update

Expenditure Plan not ready for resubmittal

Collective Bargaining (CB)

- No funding released for collective bargaining FY20 retro or FY21+ increases, yet.
- CB increases set
  - November payroll – bonuses (units 2, 3, 4, 8, 9): $4.2 million
  - December payroll – FY21 augmentation: $15.6 million

Pay Cuts for EM's

- -9.23% up to $200,000, -11% amounts above $200,000
- President salary reduced by -20%
- FY21 reduction
  - Starting November 1st
  - Salary reduction savings, approximately -$2.2 million
  - -$3.4 million, annually

Furloughs?

Conclusion

- Many key fundamentals still uncertain
- Improvements (increase) to general fund allocations from previous assumption would reduce need to use reserves
- Enrollment increases have potential, but have not yet resulted in actual tuition revenue increases that would also reduce need to use reserves
- New allocation of State CARES funds (CRF) has potential to enable improvement in UH capital preservation
- Based on State financial plan, general fund revenue shortfall expected to grow substantially from FY21 to FY22, and continue into FY23 and FY24.
- Goal will be to forestall use of reserves in FY21 to preserve them for the gloomier FY22-24 that lie ahead

Budget Policy Paper Framework for
Fiscal Biennium 2021-23
(Sept 25, 2020)

I. Background

The University of Hawaiʻi (UH) traditionally prepares a budget policy paper each biennium to guide the preparation of its requests to the Legislature for additional funding. These are based on the strategic priorities for the institution.

This year is like no other. Not only are the university and the state in the midst of a pandemic crisis, but we are also facing the greatest financial crisis since statehood.

Operational funding for UH derives primarily from two sources. As of 2019-20 this represents approximately 60% from state General Fund revenues (Gfunds) and approximately 40% from student tuition revenue deposited into and expended from the Tuition & Fees Special Fund (TFSF). Auxiliaries and other programs (Parking, Housing, Athletics) represent additional revenue and expenditure streams that are mostly dedicated to their statutory purposes. Extramural research funding is substantial, but only indirectly supports campus operations as direct extramural funds must be spent for the specific purposes for which they are awarded.

General Funds

UH leadership has been briefed on the last two State Dept of Budget & Finance (B&F) plans for FY21 and beyond. Key elements include:

1. There is a projected operating budget deficit in the range of $2.3B for the current biennium. As a comparison, the projected deficit in 2009 at the start of the Great Recesion was about $750M. The latest version of the B&F financial plan implements a number of mitigations for FY21 including a substantial 3-yr loan from the federal government, the use of carryover funds and reserves, and the deferral of contributions to fund committed post-retirement health care benefits of state employees.
2. The B&F plan for calls for restrictions of the legislative (SB126/Act9) appropriation and payroll savings beginning in FY21 and continuing for the following three years through a furlough program involving nearly all state employees, including UH employees. Nobody believes the economy will return to FY19 levels in less than 4 years, and most project longer. In addition to the depression of state tax revenues caused by the economic downturn, general fund appropriations for fiscal years FY22-24 will be severely impacted by the requirement to pay back the substantial federal loan as well as the depletion of reserves and carryover funds used to balance the FY 21 budget.
3. So in addition to the general fund budget reductions in FY21 including payroll savings, we should expect even greater reductions in the subsequent three (at least) years.

4. There is no certainty of any federal budget relief for the state or UH, although both political parties have proposed support for higher education that could be helpful to UH in FY21 and potentially FY22.

Tuition Revenue

Enrollment and the resulting tuition revenue for FY21 remains uncertain, even at this writing upon the close of the Fall 2020 census date. Three campuses show increased headcount enrollment and increased tuition billed, but so far we are seeing a higher percentage of unpaid tuition bills than at the same time last year. So even on the campuses with increased tuition billed we have a reduced level of actual tuition revenue in hand. The other seven campuses show headcount enrollment declines in the single digit percentage.

At this time the administration is not contemplating proposing to the Board of Regents an increase in tuition rates to generate additional revenue as was done during prior recessions. UH tuition is no longer among the lowest in the country as was historically the case, so any increase in rates is likely to impact affordability for those who most need higher education during this crisis and may even result in a reduction of revenue if fewer students enroll due to higher tuition rates.

If history is a guide, we can expect increasing enrollment in community colleges during periods of high unemployment. During the last recession this increase was substantial. however the enrollment growth of some 20% was not immediate and ramped up each year of the recession until the economic recovery created enough jobs to draw students back into the workforce. As of Fall 2021 community college enrollment remains depressed in both Hawaiʻi and nationally.

II. Context for Institutional Strategy

After decades of growth and expansion through most of its first century, this is the 4th financial crisis UH has faced in the last 30 years. In spite of multiple initiatives to identify priorities and propose consolidations and reductions, UH had an extraordinarily difficult time making changes in the face of opposition by internal and external stakeholders. UH has therefore survived prior recessions and state budget reductions primarily through non-strategic tactics such as: (1) reducing non-personnel costs that are easier to cut such as facilities repair & maintenance and equipment replacement; (2) temporary freezes on travel, equipment purchases and hiring; (3) temporary furloughs/pay reductions; (4) across the board reductions in allocations that impacted all units equally regardless of factors such as productivity and centrality to the core needs of Hawaiʻi; and (5) increasing tuition until it reached and exceeded peer levels. As just one example, the sad condition of the UH Mānoa campus facilities is a result of repair and maintenance budget reductions made during recessions.

UH has also not put itself in a position since the last recession to focus on and invest in a significant way in the priorities needed for the State of Hawaiʻi to thrive. This is especially important today as UH must help Hawaiʻi recover from the economic destruction wrought by this pandemic. Even in the face of devastating budget reductions, there are some critical needs for the state that UH must not only support but invest in to advance economic and social recovery.

III. Plan for Addressing the Challenge

Multiyear Framework for Path Forward

It is clear that general belt-tightening and across-the-board reductions are not tools that can take us to our desired future. UH must act expeditiously to address the immediate budget crisis in the current fiscal year and also address at least the next 4 years and probably more of fiscal challenge. At the same time, UH must be able to make new investments to focus in areas most critical to the recovery and future of Hawaiʻi. This policy paper therefore lays out the path forward in two parts. First, it provides a short description of the austerity measures taken during FY21 to live within current means. Then it describes priorities for the future and lays out a path forward to focus on them.

Managing the FY21 Budget

Recognizing the direction of the economy early in the pandemic crisis, UH was the first state organization to implement a freeze on significant expenditures. The current freeze applies to non-extramural funding and includes:

- freeze on hiring in regular positions (Exceptions only by Pres)
- freeze of significant non-personnel spending: out-of-state travel, major equipment, service contracts (Exceptions only by Pres)
- freeze on interisland travel (Exceptions only by an Officer)
- work to develop a retirement incentive program for faculty

All units have operating reserves in the form of TFSF that exceed the 5% minimum called for in current Executive Policy but in the aggregate are less than the 16% called for in current Regents Policy. UH Mānoa, which has historically maintained operating reserves at the level of schools and colleges, will be centralizing reserves at the campus level similar to the other four major UH units (CCs, UHWO, UHH and System). As we have greater clarity about the expected release of general funds to the University we will try to develop an FY21 operating budget that does not touch reserves during FY21, and builds on them, to help UH through the even more difficult years expected ahead as well as for the possibility of additional unanticipated future emergencies.

Priorities for FY22 and Beyond

Hawaiʻi has a small population but given our distance from the continental U.S., it was natural for UH to add programs to meet the needs of local residents. And until the economic challenges of the 1990s, UH was able to add programs and grow units with legislative support over many years.

The context today is very different. A major statutory change in the mid-1990s provided for UH to retain its tuition in the newly created TFSF. Subsequent Gfund reductions by the state have shifted responsibility for funding about 40% of general UH operations to university-generated tuition revenue. As is often stated, UH has tried to be all things to all people. With that substantial shift of funding responsibility from the state to tuition, and now facing the deepest Gfund reductions in our history, Hawaiʻi and UH can no longer afford that.

As the public uuniversity for the State of Hawaiʻi, UH is uniquely positioned to help the state recover from the pandemic and develop a stronger, more diversified, and more sustainable society and economy with a focus on creating more high-value jobs in the eventual recovery. UH cannot shy away from these obligations for lack of funds – the state needs its university to step up, pivot and help.

The four priorities identified to address Hawaiʻi's greatest needs for recovery and a sustainable society and economy are:

1. Engage more Hawaiʻi residents in post-secondary education & training

   We know that people with a college education earn more over their lifetimes, pay more taxes, are less likely to become unemployed in a recession, return to the workforce faster after a recession, live longer, are more healthy, draw on fewer publicly-fund social services, vote more, volunteer more and are less likely to become incarcerated. Their children are less likely to be raised in poverty and more likely to receive a quality education that will prepare them to follow their own paths through higher education to better lives. Engaging in higher education is one of the best ways we know of to improve quality-of-life across generations. It not only benefits individuals but their families and the entire state.

   There are a number of keys to turning this around for Hawaiʻi. UH community colleges must remain open, affordable and supportive to provide opportunity on every island, particularly to those who have not considered college part of their future. It will be critical to find more ways to help the Hawaiʻi Department of Education prepare more public school students to enroll and succeed in higher education. UH also needs to offer more of the programs employers and students need in more flexible formats (online, hybrid, evening/weekend) across the state so that those who have become unemployed, underemployed or unfulfilled can seize the opportunity to obtain the education and training they need for career advancement and change. This flexibility must become a permanent aspect of how UH supports all the people of Hawaiʻi as lifelong learners.

   Regardless of the disciplines in which our students are educated and the modes of instruction, UH must continue to provide a strong educational foundation that ensures our graduates are prepared to fully contribute in their careers and communities. Graduates, and citizens, need to be able to communicate effectively orally and in writing; they need quantitative reasoning skills; they need to understand science and evidence; they need the critical thinking skills to be able to assess facts and reason; they need to be able to work together in teams; they need to be empathetic citizens with cultural competence; and they need knowledge and understanding of Hawaiʻi's unique land and people so they can contribute to the Hawaiʻi we aspire to for all. To thrive in the future before us, and to help Hawaiʻi thrive, UH graduates must be creative thinkers, problem solvers, innovators and lifelong learners who are prepared to advance community sustainability and resilience in the broadest senses of those terms. These are the foundations of a strong education regardless of major or discipline.

2. Prepare more Hawaiʻi residents to fill the jobs Hawaiʻi needs

   In addition to increasing the general education level of our state, we need to prepare more Hawaiʻi resident for jobs that exist in Hawaiʻi, now and moving forward. When Hawaiʻi residents are qualified for Hawaiʻi jobs we create wins for both employees and employers. Several specific employment sectors experience systemic shortages in which there is opportunity now. UH needs to focus on appropriate education and training programs to prepare traditional and non-traditional students for careers in these professions.

   Education

   Hawaiʻi needs more teachers and early educators, and we need to develop them locally within Hawaiʻi. Ideally we will develop them on the islands where they are needed so that teachers in schools are from and of the communities they serve. Hawaiʻi has particular shortages in special education teachers, secondary level STEM teachers, Hawaiian language immersion teachers and school counselors. UH needs to step up with a set of innovative statewide programs to prepare diverse students, both recent high-school graduates and returning adults, to succeed in these shortage areas and others. We also know that as a state we need to do better at early childhood education. This will require a major workforce initiative that has yet to be conceived. More broadly, UH can become an extraordinary positive influence on the quality of public P-12 education in the state by educating the next generation of teachers and leaders of the Hawaiʻi Department of Education. Getting this right will advance the state and help UH by preparing more of Hawaiʻi's children to enroll and succeed in higher education.

   Health Care and Social Welfare

   Hawaiʻi needs to address the critical shortage of health care and social service workers, particularly on the neighbor islands. These are important and wide-ranging jobs that require education and training from post-secondary certification to advanced/graduate degrees. And improving our health care infrastructure improves quality-of-life for all. We need to attract new students into these careers, for which there is now and will continue to be demand. We need to consider programs that can be affordably developed to create greater opportunity for local residents to obtain living-wage jobs, including those for which they currently need to leave to be educated (e.g. Physical Therapy). Mental health and counseling must be part of our holistic community health and wellness ecosystem. Some of this will require expanded partnerships with health care providers, particularly to support more clinical training. Students must be educated to participate in and lead more integrated team approaches to health care delivery and to fully embrace telehealth, which has rapidly expanded during the pandemic.

Construction, Design and the Built Environment

If Hawaiʻi decides to lead out of the current recession with construction, as we have traditionally done in in times of economic challenge, then UH needs to ensure that Hawaiʻi residents are prepared to fill the jobs that will be created. This must include a fast-track to move the currently unemployed into skilled labor jobs, a clear role for the UH community colleges. Additionally, UH must educate thoughtful designers of sustainable built environments appropriate for Hawaiʻi and our post-pandemic future, for example, to design the necessary long-term retreat from rising shorelines. Hawaiʻi will also need more high-performing construction engineers and managers.

Many of these jobs may be filled by “traditional” students -- 18-22 year-old recent high school graduates. Hawaiʻi also needs immediate, agile and welcoming programs for working-age and working adults to fill these jobs and careers that our communities need. Retraining and upskilling programs for “non-traditional” students will need to embrace non-traditional education modalities including online, distance, hybrid and evening/weekend approaches. We can leverage the many lessons from the pandemic forcing an immediate pivot to fully online education as we more thoughtfully create new online opportunities for learning. Our strategies must also include the development of educational pipelines that seamlessly integrate our K12 system, community colleges and universities to prepare students for success at every level of education and career. These must include a stronger emphasis on work-based learning approaches including internships, apprenticeships and employer-supported programs.

3. Seed new economic sectors and develop new approaches to old ones

We all realize, now more than ever, that Hawaiʻi needs a more resllient and diversified economy with more living-wage jobs. Our complete reliance on tourism has proven time and time again to be fragile in the face of external stressors (COVID-19, 9/11), even as unfettered growth has stressed our environment, infrastructure and communities.

For decades Hawaiʻi has talked about the need to develop a stronger innovation and technology sector to supplant tourism, sugar and pineapple. Sugar and pineapple are gone and we have made some progress, but nowhere near enough. One lesson is that there is no single “silver bullet” that can replace a singular dominant economic sector. Rather, we must seize every opportunity to create sustainable economic activity that is a fit for Hawaiʻi. In so doing it is essential that we consider both our internal needs – the goods and services required within Hawaiʻi – as well as the absolute necessity to develop additional robust “traded sectors” that bring external revenue in to the state.

UH has two vital roles in the economic development and diversification of Hawaiʻi. We must bring our expertise to bear on the challenges associated with the necessary shifts in our economy, while at the same time developing and providing the suite of educational offerings that prepare learners of all ages and backgrounds to lead and participate in each sector.

The following clusters frame a relatively tight set of economic and workforce sectors for priority and investment. By looking simultaneously inward and outward, these clusters can balance internal needs, environmental sensitivity and opportunities for strengthening our traded economy to lessen our dependence on tourism.

- Computer Science & Engineering including
    - Data science and artificial intelligence / machine learning
    - Cybersecurity
    - Creative Media Industries
- Food, Agriculture and Aquaculture
- Climate Change, Resilience, Energy and Conservation (“green jobs”)
- Sustainable Tourism

4. Strengthen the UH research enterprise as a major economic and intellectual driver

We need to embrace and strengthen the importance and role of UH scholarship in Hawaiʻi’s recovery, both intellectual and economic. UH faculty comprise a hugely significant source of expertise and a resource to both public and private sectors. Year in and year out we see governmental officials and legislative bodies turn to UH experts to study problems and recommend/provide solutions from the economy and health care to agriculture and social services. Making the shifts we need as a state will require the continuing engagement of UH faculty and their expertise in helping craft a new future for Hawaiʻi.

In addition to identifying and advancing specific solutions for Hawaiʻi, the extramural funding UH brings in to the state comprises a $450m/year and growing economic sector. This enterprise represents a significant contribution to the economy of Hawaiʻi and is directly responsible for creating thousands of high-quality jobs with indirect economic impacts of many many millions more that support businesses on every island.

While high performing in some areas, we know there are opportunities for growth in extramural funding based on comparing federal research investments to our current performance. UH must focus on increasing our extramural funding in specific areas where there are unrealized opportunities and where Hawaiʻi enjoys globally competitive advantages and/or needs:

- Health sciences – particularly areas of health disparities
- Agri/Aquaculture – leveraging our diverse environments and our growing season
- Computer science and engineering – beginning with promising strengths in cybersecurity, data science and AI/ML and building up in engineering
- Pacific engagement – leveraging our location and natural affinities to support national priorities in health, education, and economic development

Even as we identify these new sectors for priority and investment, we must also continue to ensure leadership in the significant areas in which UH and Hawaiʻi enjoy notable successes in extramural funding. These include:

- Ocean, atmospheric and earth sciences, including water
- Astronomy and space sciences
- Environmental microbiology and sciences
- Climate change and resilience
- Energy
- Disaster management
- Study of Asia and the Pacific (all disciplines)
- Hawaiʻi and its people

UH also needs to continue to improve at creating value for UH and the community from the intellectual outcomes of its research programs through both local job creation and revenue generated (royalties, license fees) from intellectual property.

Rightsizing and Repositioning UH Programs and Operationsns for FY22 and Beyond

UH has undertaken several reorganizations over the past three years that have reduced administrative requirements with others are underway and under consideration. Program eliminations, consolidation and sharing across the state must also be considered, with a particular focus on supporting and advancing those programs that will help Hawaiʻi and UH recover from the pandemic crisis. Some of these changes will also have significant positive academic impacts for students and the state, e.g., sharing of programs among islands can create opportunities for more students.

UH must also diversify its funding base beyond state general funds and tuition revenue. Most colleges and universities across the country have identified and developed additional revenue streams. UH and its campuses must do the same. This will take investment at the very time resources are most limited. But we cannot reshape UH finances without developing stronger additional revenue sources.

Major change is required, but UH has been challenged in its ability to make really difficult decisions over the last three recessions. when confronted with the inevitable stakeholder opposition. This created significant organizational inertia and a belief that we can't change or that any leader can just be "waited out." Legacy policies and operating practices must be reviewed and reconsidered to ensure full community engagement and consultation takes place, but over months rather than years, in order to position UH for a future not just for a raft of changes for FY22 but with the expectation of continuing need for rapid change in the face of ongoing uncertainty.

Examples of the measures UH must consider during FY21 to reduce costs and generate revenue beginning in FY22 include:

<u>Measures for Cost Reductions and Efficiencies</u>

- Administrative and support reorganizations on and among campuses/system
- Increase efficiency and effectiveness of support services
- Identify space that can be abandoned to reduce lease and/or maintenance costs
- Program actions: realignment, consolidation, sharing, termination. Criteria:
    - o What does Hawaiʻi need to recover from this pandemic
    - o What is non-essential to Hawaiʻi today
    - o Size/impact, efficiency, excellence
- Implement and enforce measures on small course sections
- Strengthen adherence to collective bargaining agreement workload provisions
- Encourage retirements
    - o retirement incentive program
    - o modernize periodic review process

<u>Revenue opportunities</u>:

- Monetization UH real-estate
- Increase philanthropy
- Protect current and strengthen promising sources of extramural funding
- Reach new learners
    - non-credit / professional education
    - military education
    - more robust online and adult-oriented program offerings
    - attractive new programs leading to living wage jobs in Hawaiʻi
- Increase general enrollment
    - increase going rate from Hawaiʻi high schools / offer guaranteed admission
    - increase transfers from UH CCs to UH universities
    - increase numbers of non-resident/international students
    - continue to improve retention
- Monetize graduate assistant tuition waivers
- Identify opportunities with auxiliaries
- Increase community utilization of available university facilities and resources

IV. Navigating from FY21 to FY22-24 and Beyond

The tactical measures adopted in FY21 are expected to contribute substantially to reducing expenditures. Some of the changes associated with the rightsizing activities will take time to work through consultation, collective bargaining, and accredition requirements so will not achieve immediate savings. As expenditures are reduced through structural changes, some of the tactical measures can be relieved.

So the path from FY21 to FY24 will involve maintaing the tight controls of FY21 until the strategic and structural savings begin to accrue and additional revenue sources can contribute to operations.

The goal will be a stable but smaller university by FY24 that does not operate under austerity measures like furloughs and freezes. And more importantly, a university that is efficient and effective in focusing on the needs of the people of Hawaiʻi. From that point it is expected that growth may resume in areas of greatest need and opportunity.

V. Legislative Approach

While there are no new resources on the near-term horizon, the priorities for FY22 and beyond outlined above need to shape the reduction of the UH operating budget with a clear focus on what Hawaiʻi needs most.

Although final budget preparation instructions have not been issued by State Department of Budget and Finance (B&F), Executive Memorandum No. 20-07 does provide insight into their overall direction with reduction targets of 10%, 15%, and 20% from current general fund appropriation levels. We expect that any requests for additional funding will be discouraged if not forbidden, as it appears reductions to the overall state general fund operating budget will be well over half a billion dollars per year.

The schedule set forth by State B&F for administrative departments will be difficult or impossible for UH to follow. They have already expected a full inventory of programs with a priority listing of proposed reductions to meet their 10%, 15%, and 20% targets. This deadline could not be met given the University's requirement to engage in consultation with students, faculty, and staff before seeking approval by the Board of Regents.

The UH Administration will strive to work with State B&F and the Governor to adhere to their requirements for submitting a biennium budget request to the Legislature while at the same time maintaining the appropriate and necessary communications and consultations with all parties within UH.

Finally, a note about the biennium CIP budget. The University has developed one of the most effective construction programs in the state. Given the general disposition of

Hawaiʻi to utilize public construction as a tool to help recover from economic downturns, UH will plan to submit a request to accelerate its program of Renovation, Improvement Modernization (RIM) which hs been limited only by the lack of adequate investment by the State. The only new buildings that will be considered for funding requests will be those in the BOR-approved 6-year rolling CIP plan.

Regents Policy Chapter 8, Business and Finance
Regents Policy RP 8.203, Operating Reserves; Non-General Funds
Effective Date:
Prior Dates Amended: Oct. 31, 2014 (recodified)
Review Date: August 2018

I. Purpose

To set forth policy on operating reserves and non-general funds.

II. Definitions:

No policy specific or unique definitions apply.

III. Policy:

A. The university shall maintain adequate levels of operating reserves from non-general fund revenues. The amount of operating reserves shall take into consideration such factors as adequate financial ratios to preserve positive bond ratings, compliance with accreditation requirements, if any, and other financial management considerations as deemed prudent by the president and the chief financial officer, in consultation with the board.

B. The board finds that, as a guidelines, operating reserves should be sufficient to provide for continued operations of the university for a minimum of two months. Understanding that each campus and unit of the university system operates under different circumstances and conditions, which may change over time, the board assigns the responsibility for the execution and implementation of this policy to the president, in consultation with the chief financial officer. Operating reserves in unrestricted non-general funds shall be monitored and reported quarterly to the Board of Regents.

C. The university shall also maintain adequate levels of operating reserves for restricted non-general funds within the statutory authority of the respective funds. Such operating reserves shall be monitored on a quarterly basis by the respective campus responsible for such funds and reported annually to the Board of Regents.

IV. Delegation of Authority:

There is no policy specific delegation of authority.

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

- http://www.hawaii.edu/offices/bor/

Approved as to Form:

______________________________ ____________

Cynthia Quinn Date
Executive Administrator and
Secretary of the Board of Regents

UNIVERSITY of HAWAIʻI
BOARD OF REGENTS

Regents Policy Chapter 8, Business and Finance
Regents Policy RP 8.203, ~~Operating Reserves; Non-General Funds~~Reserve Policy
Effective Date: __________, 2020
Prior Dates Amended: Oct. 31, 2014 (recodified)
Review Date: August 20~~18~~23

I. Purpose

To set forth policy on ~~operating~~ reserves~~ and non-general funds~~.

II. Definitions:

~~No policy specific or unique definitions apply.~~

A. “Emergency Reserves” are defined as funds set aside to ensure the university is prepared to address financial emergencies.

B. “Financial Emergency” exists whenever the board declares a state of fiscal emergency that has arisen due to a financial crisis which threatens the ongoing operations or survival of some or all of the institution. This may be due to a natural disaster, a man-made disaster, a state or institutional financial crisis, or other causes.

C. “General Operating Expenditures” are defined as the funds expended to support the general operations of the university from both general funds and the Tuition and Fees Special Fund (TFSF).

D. “Major Units” are defined as UH Mānoa, UH Hilo, UH West Oʻahu, UH Community Colleges, and the UH System.

E. “Mandatory Reserves” are defined as funds set aside to meet statutory or legally required covenants.

F. “Operating Reserves” are defined as the balance of funds beyond regular annual operational funds that can be utilized to address requirements associated with program operations, as well as repair and maintenance requirements associated with facilities or one-time investments in either infrastructure, equipment, or programs.

III. Policy:

A. Types of Reserves

1. The university shall maintain adequate levels of ~~operating~~ emergency reserves from non-general fund revenues. ~~The amount of operating reserves shall take into consideration such factors as adequate financial ratios to preserve positive bond ratings, compliance with accreditation requirements, if any, and other financial management considerations as deemed prudent by the president and the chief financial officer, in consultation with the board.~~ Emergency reserves should be sufficient to provide for continued operations of the university for a minimum of two months, calculated as 16% of the average general operating expenditures over the last three fiscal years. Emergency reserve funds should be deposited into uniquely specified accounts specifically identified for use in emergencies.

2. The university shall also maintain adequate levels of mandatory reserves from non-general fund revenues to meet all statutory requirements, as well as contractual obligations such as covenants required by the respective funds. Adequate levels of reserves shall be determined by the president or designee, in consultation with the chief financial officer.

~~B.~~3. The university shall also establish and maintain operating reserves from the unencumbered balances in non-general fund accounts, the purpose and objective of which shall be to meet needs associated with planned and unplanned non-recurring expenses such as repairs and maintenance, as well as those that may be necessary to assist with operational fluctuations in revenues or expenses that may occur on a year-to-year basis.

B. Use of Reserves

1. Emergency reserves may only be expended in a manner approved by the board when the board has declared a financial emergency. Regardless of the specific balance of any individual emergency reserve fund, all university emergency reserves shall be available to meet the financial emergency.

2. Requests for approval to use emergency reserves must justify use of these funds by providing, at a minimum:

   a. The specific amount and use of the funds within the context of existing budget plans;

   b. Alternative actions that are available if the funds are not utilized; and

   c. A multi-year budget plan that ensures the restoration of emergency reserves over a reasonable period of time.

~~C.~~3. Mandatory reserves and operating reserves shall be maintained and managed by the responsible program manager. Use of these reserves to cover expenses other than their intended purpose must be reviewed and approved by the board.

4. The board shall approve an annual multi-year operating budget that shall explicitly show the current and projected balances of emergency, mandatory, and operating reserves for each of the major units.

C. In the event a financial emergency is declared by the board, the chief financial officer, in consultation with the president, may sweep reserves from all major operating units to be applied on a systemwide basis, as is determined to be necessary under the circumstances.

D. ~~The board finds that, as a guidelines, operating reserves should be sufficient to provide for continued operations of the university for a minimum of two months. Understanding that each campus and unit of the university system operates under different circumstances and conditions, which may change over time, t~~The board ~~assigns~~ delegates the responsibility for the ~~execution and~~ implementation of this policy to the president, in consultation with the chief financial officer. ~~Operating reserves in unrestricted non-general funds shall be monitored and reported quarterly to the Board of Regents.~~

~~E. The university shall also maintain adequate levels of operating reserves for restricted non-general funds within the statutory authority of the respective funds. Such operating reserves shall be monitored on a quarterly basis by the respective campus responsible for such funds and reported annually to the Board of Regents.~~

IV. Delegation of Authority:

There is no policy specific delegation of authority, other than as set forth above.

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

- http://www.hawaii.edu/offices/bor/

Approved as to Form:

~~Cynthia Quinn~~Kendra Oishi   Date
Executive Administrator and
Secretary of the Board of Regents

Regents Policy Chapter 8, Business and Finance
Regents Policy RP 8.203, Reserve Policy
Effective Date: ________, 2020
Prior Dates Amended: Oct. 31, 2014 (recodified)
Review Date: August 2023

I. Purpose

To set forth policy on reserves.

II. Definitions:

A. "Emergency Reserves" are defined as funds set aside to ensure the university is prepared to address financial emergencies.

B. "Financial Emergency" exists whenever the board declares a state of fiscal emergency that has arisen due to a financial crisis which threatens the ongoing operations or survival of some or all of the institution. This may be due to a natural disaster, a man-made disaster, a state or institutional financial crisis, or other causes.

C. "General Operating Expenditures" are defined as the funds expended to support the general operations of the university from both general funds and the Tuition and Fees Special Fund (TFSF).

D. "Major Units" are defined as UH Mānoa, UH Hilo, UH West Oʻahu, UH Community Colleges, and the UH System.

E. "Mandatory Reserves" are defined as funds set aside to meet statutory or legally required covenants.

F. "Operating Reserves" are defined as the balance of funds beyond regular annual operational funds that can be utilized to address requirements associated with program operations, as well as repair and maintenance requirements associated with facilities or one-time investments in either infrastructure, equipment, or programs.

III. Policy:

A. Types of Reserves

1. The university shall maintain adequate levels of emergency reserves from non-general fund revenues. Emergency reserves should be sufficient to provide for continued operations of the university for a minimum of two months, calculated as 16% of the average general operating expenditures over the last three fiscal years. Emergency reserve funds should be deposited into uniquely specified accounts specifically identified for use in emergencies.

2. The university shall also maintain adequate levels of mandatory reserves from non-general fund revenues to meet all statutory requirements, as well as contractual obligations such as covenants required by the respective funds. Adequate levels of reserves shall be determined by the president or designee, in consultation with the chief financial officer.

3. The university shall also establish and maintain operating reserves from the unencumbered balances in non-general fund accounts, the purpose and objective of which shall be to meet needs associated with planned and unplanned non-recurring expenses such as repairs and maintenance, as well as those that may be necessary to assist with operational fluctuations in revenues or expenses that may occur on a year-to-year basis.

B. Use of Reserves

1. Emergency reserves may only be expended in a manner approved by the board when the board has declared a financial emergency. Regardless of the specific balance of any individual emergency reserve fund, all university emergency reserves shall be available to meet the financial emergency.

2. Requests for approval to use emergency reserves must justify use of these funds by providing, at a minimum:

   a. The specific amount and use of the funds within the context of existing budget plans;

   b. Alternative actions that are available if the funds are not utilized; and

c. A multi-year budget plan that ensures the restoration of emergency reserves over a reasonable period of time.

3. Mandatory reserves and operating reserves shall be maintained and managed by the responsible program manager. Use of these reserves to cover expenses other than their intended purpose must be reviewed and approved by the board.

4. The board shall approve an annual multi-year operating budget that shall explicitly show the current and projected balances of emergency, mandatory, and operating reserves for each of the major units.

C. In the event a financial emergency is declared by the board, the chief financial officer, in consultation with the president, may sweep reserves from all major operating units to be applied on a systemwide basis, as is determined to be necessary under the circumstances.

D. The board delegates the responsibility for the implementation of this policy to the president, in consultation with the chief financial officer.

IV. Delegation of Authority:

There is no policy specific delegation of authority, other than as set forth above.

V. Contact Information:

Office of the Vice President for Budget & Finance/Chief Financial Officer, 956-8903, kalbert@hawaii.edu

VI. References:

- http://www.hawaii.edu/offices/bor/

Approved as to Form:

_______________________________ ____________

Kendra Oishi Date
Executive Administrator and
Secretary of the Board of Regents

Regents Policy 8.203, Reserve Policy

Board of Regents
Committee on Budget and Finance
October 1, 2020

Reserve Types

- ***Emergency Reserves*** – financial emergencies
- ***Mandatory Reserves*** – meet statutory or legal requirements
- ***Operating Reserves*** – fluctuating balances used for program operations, repair and maintenance

Emergency Reserves

- *Funds set aside to ensure the university is prepared to address financial emergencies*
    - *from non-general fund revenues*
    - *provide for continued operations of the university for a minimum of two months*
    - *16% of the average general operating expenditures over the last three fiscal years.*

Use of Emergency Reserves

- *Financial Emergency* – *may only be expended in a manner approved by the board when the board has declared a financial emergency*

- *Requests for approval*
  - *Amount and use of the funds*
  - *Alternatives to use of emergency reserves*
  - *Multi-year budget plan that ensures restoration of emergency reserves over a reasonable period of time*

Mandatory Reserves

- *Funds set aside to meet statutory or legally required covenants*
  - *from non-general fund revenues*
  - *meet statutory requirements or contractual obligations such as bond covenants*
  - *Adequate levels of reserves shall be determined by the president or designee, in consultation with the chief financial officer.*

Operating Reserves

- *Funds set aside to meet needs associated with planned or unplanned non-recurring expenses*
  - *from unencumbered balances in non-general fund accounts*
  - *repairs and maintenance*
  - *operational fluctuations in revenues or expenses that may occur on a year-to-year basis*

Use of Mandatory and Operating Reserves

- *Use of <u>Mandatory reserves</u> or <u>Operating reserves</u> other than for their intended purpose must be reviewed and approved by the Board.*

Annual Reports

- *The board shall approve an annual multi-year operating budget that shall explicitly show the current and projected balances of Emergency, Mandatory, and Operating reserves for each of the major units.*