

MINUTES

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

AUGUST 2, 2018

I. CALL TO ORDER

Committee Chair Moore called the meeting to order at 10:54 a.m. on Thursday, August 2, 2018, at the University of Hawai'i at Mānoa, Information Technology Building, 1st Floor Conference Room 105A/B, 2520 Correa Road, Honolulu, Hawai'i 96822.

Committee members in attendance: Committee Chair Randy Moore; Committee Vice Chair Wayne Higaki; Regent Simeon Acoba; Regent Michael McEnerney; Regent Michelle Tagorda.

Others in attendance: Board Chair Lee Putnam; Regent Eugene Bal III; Regent Brandon Marc Higa; Regent Jeff Portnoy; Regent Doug Shinsato; Regent Jan Sullivan; Regent Ernest Wilson Jr.; Regent Stanford Yuen (ex officio committee members); President/Interim UH-Mānoa (UHM) Chancellor David Lassner; Vice President for Community Colleges John Morton; Associate Vice President for Legal Affairs Gary Takeuchi; Vice President for Research & Innovation Vassilis Syrmos; Vice President for Information Technology/Chief Information Officer Garret Yoshimi; Vice President for Budget & Finance/Chief Financial Officer Kalbert Young; Interim UH-Hilo (UHH) Chancellor Marcia Sakai; UH-West O'ahu (UHWO) Chancellor Maenette Benham; Executive Administrator and Secretary of the Board of Regents Kendra Oishi; and others as noted.

II. APPROVAL OF MINUTES OF THE MAY 24, 2018 MEETING

Committee Vice Chair Higaki moved to approve the minutes of the May 24, 2018, meeting, seconded by Regent Tagorda, and the motion carried unanimously.

III. PUBLIC COMMENT PERIOD

Executive Administrator and Secretary of the Board, Kendra Oishi announced that the Board Office received no written testimony, and no individuals had signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Recommend Board Approval of University of Hawai'i Fiscal Year 2019 Operating Budget Proposal (Forecast)

VP Young presented the operating budget proposal for the 2019 fiscal year for the UH System, the 4-year campuses, and community colleges. Revenues and expenditures are both anticipated to increase, with an anticipated \$28.1 million net operating loss mostly attributable to one-time expenses. The university has adequate reserves and each campus/unit is still anticipated to have positive ending balances.

VP Young requested the committee recommend board approval of the UH fiscal year 2019 operating budget proposal. He indicated that quarterly budget-to-actual reports will

be provided to the committee, with a report covering the 4th quarter and the recently completed fiscal year being provided at the next committee meeting. The 1st quarter report for the current fiscal year will be provided to the committee at the November committee meeting.

Questions and comments were raised regarding reserve levels, the fundamental reason reserves have been accumulated, and non-recurring expenditures. VP Young explained that Executive Policy 8.210 requires a minimum of 5% in operating reserves and Regents Policy 8.203 recommends a minimum of 16% in operating reserves, which creates a target range of 5% to 16% in reserves for campuses. All campuses/units currently have sufficient reserves to cover excess expenditures and are within the target range.

VP Young opined that it is a good business practice to maintain reserves. The previous recession necessitated the creation of the reserve policy because general fund appropriations were continually reduced, which put pressure on operating balances for every campus. The 5% minimum is a common benchmark and the 16% recommended reserve is equivalent to two months of operating expenses. Reserves have grown over the past four years due largely to proactive savings on expenditures as revenues have not kept pace.

VP Young added that given the lack of growth in tuition revenues, the university could not sustain utilizing reserves to cover operating expenditures, which is why most reserve spending has been on non-recurring, one-time investments into capital maintenance programs. Growing enrollment and tuition revenues is critically important to long-term sustainability. A question was asked as to how long reserves could last under the current spending trend, of which VP Young qualified that if revenues and expenditures were maintained at the current status quo, reserves would be depleted in less than 7 years. The only way to build reserves is to have net positive revenue in non-general funds.

Questions were raised as to how much revenue is anticipated from UHF and philanthropy. President Lassner clarified that revenues from UHF have not historically been accounted for in these types of budget presentations. The nature of the philanthropy and UHF funding is not necessarily direct funding into programs. Committee Chair Moore added that the money received from UHF is expended, but not accounted for in the operating budget.

Regent Shinsato left at 11:21 a.m.

A question was raised regarding the decrease in the allocation for lecturers. VP Young noted that decreasing the allocation for lecturers is a campus-specific decision. Insufficient revenues from tuition and fees is the main driver for determining the amount of revenues that are allocated for expenditure, and reducing lecturer costs is one of the most nimble areas. President Lassner added that as enrollment has declined, lecturer costs have been disproportionately impacted relative to regular faculty costs.

Questions were raised as to whether there are potential revenue-generating opportunities. VP Young indicated that other potential revenue-generating areas include growing the revenue share through the enrollment management initiative and non-academic revenues (i.e., monetizing real property assets, commercial retail). The latter

would require the university to be more entrepreneurial and make up-front investments. VP Young cited the example of reclaiming the Mānoa Innovation Center into the university's real property inventory, which allows UH to potentially draw commercial real estate revenue.

Managing expenditure growth and costs will also help alleviate revenue pressures UH is currently facing with flattening tuition revenues and give room for the enrollment management initiative to take hold. President Lassner added that there are elements of enrollment outside of the university's control, but campuses are taking responsibility as best they can for the factors that can be controlled. There is a far more sophisticated understanding today of what the campuses need to do together and individually to maximize enrollment. Philanthropy is a growth area for UH that provides an untapped opportunity. There is more UH can do with commercializing intellectual property and ideas that come from faculty and students. These ideas will not likely reach the level of general funds the university receives, but may be able to replace some planned expenditures.

A question was raised as to whether performance funding will be repurposed. President Lassner explained that this is the third year for performance funding, but the first year that funds were awarded directly to campuses. Some campuses have struggled to earn all the available performance funding due mainly to enrollment challenges. Any funds not earned by campuses are retained by the System and dedicated to initiatives designed to impact and help campuses succeed in future years.

A question was raised regarding fund transfers and what they are allocated for. VP Young explained that net transfers occur for every campus and may include things such as debt service and expenditures to other programs and to the System.

Committee Vice Chair Higaki moved to recommend board approval of the UH Fiscal Year 2019 Operating Budget Proposal, seconded by Regent Acoba, and the motion carried unanimously.

B. Recommend Board Approval of the Operating Budget for the Office of the Board of Regents and Office of Internal Audit for Fiscal Year 2018-2019

Board Secretary Oishi presented the proposed operating budget for the Office of the Board of Regents (Board Office) for Fiscal Year 2018-2019. This is the second year of the fiscal biennium, so the budget allocation is similar to the 2018 fiscal year except that the allocation for salaries was adjusted to more accurately reflect current salaries, and included any negotiated collective bargaining adjustments and a 5% contingency restriction. She noted that the board office currently consists of 4 full time equivalent positions and a part-time student hire, and funds have been appropriated for a casual hire position in the event temporary assistance is needed. Depending on the budget-to-actual this coming fiscal year, adjustments can be made to allocations for the next fiscal biennium.

Comments were made regarding travel being an educational expense and a worthwhile expenditure, and the board would benefit if more regents could attend seminars and conferences that relate to the governance of the board. The committee

requested a breakdown of internal (i.e., travel related to board and committee meetings) and external travel (i.e., seminars and conferences).

Regent Acoba moved to recommend board approval of the Operating Budget of the Board Office for Fiscal Year 2018-2019, Committee Vice Chair Higaki seconded, and the motion carried unanimously.

Internal Auditor Glenn Shizumura presented the Office of Internal Audit (IA) operating budget proposal for Fiscal Year 2018-2019 that included an overview of the work and services IA provides and the office structure.

Questions were raised regarding personnel and Internal Auditor Shizumura clarified that there were six full time positions allocated to IA of which two there were vacant.

Regent McEnerney moved to recommend board approval of the Operating Budget for the Office of Internal Audit for Fiscal Year 2018-2019, Committee Vice Chair Higaki seconded, and the motion carried unanimously.

C. Discussion on Investment Oversight of Legacy Endowment Portfolio

As a follow-up to a previous discussion relating to the Board's fiduciary responsibilities over the Legacy Endowment Portfolio, VP Young provided an overview of the background context, objectives, and options the committee could consider including creating a specific and dedicated committee on investments, creating a sub-committee within an existing committee related to investments, or leaving investment under the purview of the Committee on Budget & Finance but elevating or increasing the amount of oversight.

Discussions ensued regarding the three options. Some regents did not think a sub-committee was a good idea and it would be better to have either a separate Committee on Investments or keep investments under the purview of the Committee on Budget & Finance.

Regent Sullivan arrived at 11:43 a.m.

The general sentiment of the committee was that investments should remain under the purview of the Committee on Budget & Finance and that the amount of oversight could be increased by scheduling meetings dedicated specifically to investment-related items.

D. Discussion on Committee Annual Review

Due to time constraints, this item was deferred to the next committee meeting. There were no objections.

E. Review and Approval of Committee Goals & Objectives

The committee considered goals and objectives based on the committee's functions as indicated in the bylaws, and reviewed and discussed proposed goals and a workplan for the 2019 fiscal year that was prepared by Committee Chair Moore. Committee Vice Chair Higaki suggested the committee review the goals and objectives again in a few months.

Comments were made regarding moving in the direction of a multi-year operating budget similar to the 6-year CIP budget to help with programmatic planning and considering the potential for entrepreneurial and other revenue-generating activities.

President Lassner noted that administration is also working on a 6-year enrollment plan that would fit in with other 6-year rolling plans. These efforts are being done in conjunction with the Board Policy updates for Chapters 1 to 4, which include the planning policies. The current official planning framework for the university was last updated in 1997 and is not as relevant to today's environment, so administration is considering a new model. Any 6-year plan would need to be a highly dynamic and rolling plan so that UH could respond to problems and opportunities that occurred during the year.

Committee Chair Moore indicated he would add in the 6-year operating budget into the workplan for review at the next committee meeting.

V. ADJOURNMENT

There being no further business, Regent McEnerney moved to adjourn, Committee Vice Chair Higaki seconded, and with unanimous approval, the meeting was adjourned at 12:03 p.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents