MINUTES

BOARD OF REGENTS COMMITTEE ON BUDGET AND FINANCE MEETING

SEPTEMBER 2, 2021

Note: On August 5, 2021, Governor David Y. Ige issued a proclamation related to the COVID-19 emergency that temporarily suspended Chapter 92, Hawaiʻi Revised Statutes, relating to public meetings and records, "only to the extent necessary to minimize the potential spread of COVID-19 and its variants".

I. CALL TO ORDER

Chair Robert Westerman called the meeting to order at 8:33 a.m. on Thursday, September 2, 2021. The meeting was conducted virtually with regents participating from various locations.

Committee members in attendance: Chair Robert Westerman; Regent Benjamin Kudo; Regent Alapaki Nahale-a; and Regent Diane Paloma.

Committee members excused: Vice-Chair Wayne Higaki.

Others in attendance: Board Chair Randy Moore; Regent Simeon Acoba; Regent Eugene Bal; Regent William Haning; 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 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

Regent Nahale-a moved to approve the minutes of the June 3, 2021, committee meeting, seconded by Board Chair Moore, and noting the excused absence of Vice-Chair Higaki and Regent Kudo, 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 that no individuals signed up to provide oral testimony.

IV. AGENDA ITEMS

A. Committee Work Plan

Chair Westerman referenced the Committee Work Plan noting that that it was an outline of the work to be performed by the committee during the coming year and inquired if regents had any comments. No comments or questions were raised.

B. Fiscal Year (FY) 2020-2021 Fourth Quarter Financial Report

VP Young provided the financial report for the fourth quarter of FY 2020-2021, which ended on June 30, 2021, and noted that it also reflected the university's overall financial position for the fiscal year after encountering a full year of economic impacts related to the COVID-19 pandemic.

Revenue and expenditure reports were presented for each of the major units of the university. Total revenues through the fourth quarter were $32.1 million, or 3.3 percent higher than projected at the start of the fiscal year, which was largely due to increases in general fund (GF) appropriations for previously scheduled collective bargaining increases. Due to factors such as the decline of an on-campus presence, the institution of a hiring freeze, travel restrictions, and other cash preservation strategies, overall expenditures were $67.5 million lower than projected which equates to a decrease of 6.8 percent. Overall the university experienced a net operating income gain of $85.5 million compared to an originally projected shortfall of $14.2 million across all funds. However, VP Young reiterated that the significant ending balance was attributable to aggressive cost-containment strategies, triaged operational reductions, and the availability of federal relief funds to address direct costs related to the COVID-19 pandemic and such savings are not sustainable in the long-term. Revenues for the other special and revolving funds also realized significant decreases due to a variety of factors such as the temporary closure of facilities, reduced on-campus presence, and the cancellation of events. It was also noted that the university will be facing annual reductions in GF revenues in excess of $40 million for FY 2022 and FY 2023 which will necessitate the use of reserve fund balances.

Regent Kudo arrived at 8:42 a.m.

Board Chair Moore praised the administration's efforts in addressing the challenges faced over the past fiscal year and asked if the figures presented included any federal relief funds received by the university. VP Young replied that the data presented did not include federal relief funds. Vice-Chair Moore opined that there will be continued financial uncertainty for both the State and the university until there is clarification on the full impact of federal relief funds received and expended by each entity. VP Young concurred with this assessment.

Following-up on Board Chair Moore's question, Regent Acoba asked if his understanding that the $85.5 million surplus for this fiscal year did not include federal relief funds was correct. VP Young responded in the affirmative. Regent Acoba continued by asking how the university accounted for these federal relief funds if they were not included in this report. VP Young replied that this report details the financial progress of the university for the fiscal year and encompasses data regarding the general operations of the university. Although federal relief funds can be used to cover university expenses incurred that are directly related to the COVID-19 pandemic, these monies cannot be used to fund general operations. The university is also required to distribute a portion of the federal relief funds it receives directly to students which would not be reflected in this report. He noted that the administration does periodically publish and provide a separate report detailing the amount of federal funds expended by the university in accordance with federal compliance requirements.

Regent Acoba inquired about the amount of federal relief funds received by the university, excluding the amount earmarked for distribution directly to students. VP Young replied that the university has received approximately $175 million from the three federal relief fund measures passed by the United States Congress, with over $30 million of that amount having already been distributed to students or earmarked to be provided directly to students.

Citing the projected $40 million shortfall in GF for FY 2022 and FY 2023, Regent Acoba questioned how the administration had determined this figure. VP Young stated that the annual reduction of approximately $40 million in the university's GF revenue appropriations for FY 2022 and FY 2023 as compared to FY 2021 is based on funds appropriated by the Legislature. Regent Acoba asked how the administration planned on addressing this shortfall. VP Young replied that the administration intends to cover this shortfall primarily through the use of fund reserves although this will not be sustainable for the long-term.

Regent Wilson arrived at 8:57 a.m.

C. <u>Multi-Year Financial Forecasts</u>

VP Young explained that, in accordance with Regents Policy (RP) 8.204, the administration was providing a rolling six-year financial plan (Financial Plan) for the university in conjunction with the university's expenditure plan. While multi-year financial plans are valuable tools, he cautioned that they should be treated as point-in-time forecasts and dynamic documents that must be fluid and adaptive to changes in economic conditions. Accordingly, the purpose of the Financial Plan is to review and identify areas of fiscal concern that the university may face over the next several years.

Although FY 2022 is serving as the base year for the Financial Plan, it was stressed that two major factors, including the university's fiscal performance for FY 2021 which was skewed by economic impacts related to COVID-19 and legislative reductions in GF revenues for FY 2022 and FY 2023, will result in future impacts to the long-term fiscal condition of the university. Projected deficits in FY 2023 and FY 2024 resulting from reduced legislative funding will necessitate the use of reserve fund balances from the Tuition and Fees Special Fund (TFSF) to provide bridge funding for the next several fiscal years as operating expenses are strategically and structurally reduced. However, it was emphasized that reserve fund levels are projected to remain in compliance with requirements established under board policy and that the significant ending fund balances realized in FY 2021 will be sufficient to meet the near-term fiscal needs of the university while strategic plans are being developed to address and eliminate fiscal shortfalls beyond FY 2024. The Financial Plan will continue to be refined over the course of the next six-years as economic conditions change.

VP Young reviewed several of the assumptions and factors considered in developing the Financial Plan including known GF reductions; forecasts for TFSF and Research and Training Revolving Fund (RTRF) revenues; expected increases in both revenues and expenses for other special and revolving funds; enrollment fluctuations; static tuition rates; increases in collective bargaining and fringe benefit costs for GF-appropriated positions being funded by new legislative appropriations; the use of federal relief funds to address various pandemic related operational expenses; and modest inflationary increases in utility, operation, and maintenance costs.

VP Young outlined the administration's strategy for addressing fiscal shortfalls anticipated in the Financial Plan through an integrated approach that focuses on reimagining and reshaping the university through structural rebalancing and programmatic changes. Possible means to address future fiscal deficits include: achieving a budget equilibrium through a six percent reduction in GF and TFSF personnel costs by FY 2025; establishing new revenue-generating opportunities to augment GF and TFSF monies; a one-time infusion of approximately $70 million of currently available TFSF reserves to reduce recurring operational expenses and address the anticipated aggregate GF reduction of $125 million for FY2022 through FY 2024; utilization of federal relief funds to address COVID-19-related GF reductions; and exercising the statutory authority provided to the President that allows for the reallocation of disproportionate levels of GF reductions across the campuses of the university system.

Regent Bal requested clarification on the issue of funding reserve levels citing comments made regarding a five percent target and 16 percent target. VP Young explained that RP 8.203 established a target level for operating reserves of 16 percent, which equates to approximately two months of operating costs. A minimum reserve balance amount of five percent of the RP's 16 percent reserve target amount has been established by Executive Policy and is maintained by the university system for the benefit of each individual campus. Thus, all campuses presently have reserve balances that are at least five percent, with some campuses being closer to the 16 percent target. Regent Bal asked if these percentages were applicable to the budgets of each fund containing operating revenues. VP Young replied that the percentages are applied to the operating budgets for each fund.

Regent Paloma inquired as to which of the various strategies put forth by the administration to address potential fiscal shortfalls would have the greatest impact on the long-term economic viability of the university. VP Young stated that the two areas having the largest fiscal impacts on the university are GF appropriations and personnel expenses. He noted that GF appropriations constitute more than half of the university's total operating budget and personnel cost is the single largest expense faced by the university accounting for more than 75 percent of the entire operating budget. Strategies that affect changes that result in increased GF appropriations or reduced personnel costs would have the most significant impacts on the economic condition of the university.

Regent Nahale-a lauded the efforts undertaken by the administration to proactively address the fiscal and operational challenges faced by the university over the past year which has resulted in the university being well-positioned to meet its near-term financial needs. However, he stressed that this work must continue and emphasized that the broader university community needs to understand that long-term plans that differ from past practices must be implemented so as to ensure the future viability and success of the university despite what appears to be improving economic conditions.

Citing the university's dependence on GF revenues, Regent Nahale-a asked if there were any programs currently offered by the university that could be completely self-sufficient without GF appropriations. VP Young replied that he was unaware of any program at the university that did not receive some form of GF support. Regent Nahale-a stated that, while all programs at the university received some form of GF support, it was his understanding that this was due to the way in which the university utilizes general funds and not based upon an analysis of revenues versus costs of a program. VP Young agreed with this assessment. Given this information, Regent Nahale-a opined that conversations need to occur on the fiscal viability of programs from the perspective of the university as a business with the understanding that strategic changes may need to be made in order for the university to continue to advance its mission.

Regent Acoba stated that numerous factors and interests appear to have an impact on the finances of the university. Referencing the projected deficit of $51 million between FY 2024 and FY 2027, he questioned how the administration arrived at this figure. VP Young replied that the $51 million deficit being anticipated by the university is based upon scheduled GF reductions contained within budget worksheets published by the Legislature which sets forth the predicted long-term financial plan for the State beginning in FY 2024.

Noting that one of the strategies to address budget shortfalls mentioned the attainment of budget equilibrium through a six percent reduction in personnel costs by FY 2025, Regent Acoba asked if this meant the administration would be attempting to reduce personnel at the university by six percent by FY 2025. VP Young responded that fiscal balance could possibly be achieved through a six percent reduction in personnel costs over the course of the next three years with respect to the two largest sources of operating funds, the GF and TFSF. However, this does not necessarily translate to an overall reduction in university personnel as there are numerous ways to achieve reductions in personnel costs including attrition and the strategic consolidation and filling of positions.

D. <u>Recommend Board Approval of FY 2021-2022 Operating Budget</u>

VP Young presented the university's proposed operating budget for FY 2021-2022 and reviewed the various assumptions considered in developing the expenditure plan. He reviewed budgeted, actual, and projected revenues and expenditures for each of the major units of the university across all fund categories highlighting that, as compared to FY 2021, total GF revenues are projected to decrease by $42.5 million, or 7.9 percent, and TFSF revenues are projected to decrease by $4.3 million, or 1.3 percent. While revenues for other special and revolving funds are expected to increase due to greater on-campus activity, the administration also anticipates a concomitant increase in expenditures across all fund categories. Overall the administration is expecting the university to realize a net operating loss of $1.7 million. It was further noted that campuses began taking actions at the end of FY 2020 which were carried through FY 2021 to help mitigate projected revenue loss which has resulted in strong reserve fund balances. However, the use of a portion of these fund balances will be necessary to alleviate the effects of significant and planned GF reductions over the next several fiscal years. Nevertheless, the administration is confident that its prudent approach to the use of reserve fund balances will allow for the maintenance of these funds above the 16 percent target for operating reserves established under RP 8.203.

Regent Nahale-a moved to recommend board approval of the FY 2021-2022 operating budget, seconded by Regent Kudo, and noting the excused absence of Vice-Chair Higaki, the motion carried with all members voting in the affirmative.

E. Recommend Board Approval of the Operating Budget for the Office of the Board of Regents (Board Office) and Office of Internal Audit (OIA) for FY 2021-2022

Board Secretary Oishi and Glenn Shizumura, Director of OIA, presented the proposed operating budget plans for the Board Office and OIA for FY 2021–2022 which represents anticipated operational expenses for the current fiscal year. It was noted that, due in part to the unusual economic situation facing the university and State over the last fiscal year, neither the Board Office nor OIA had received official budget allocations but were provided with estimated targets which were utilized in developing the proposed operating budgets.

Both Board Secretary Oishi and Director Shizumura provided summaries of their respective office personnel, as well as the activities of, and services provided by, each office. Additionally, information was presented on budgeted-to-actual expenditures over the past three fiscal years and cost-savings experienced during the past fiscal year. Although both of the proposed operating budgets were very similar to the budget for the previous fiscal year, minor changes, such as a slight increase in personnel costs due to scheduled salary increases contained in collective bargaining agreements, were highlighted and reviewed.

Chair Westerman asked whether the recent relocation of the Board Office from Bachman Hall to Hawai‘i Hall due to building renovations, as well as the anticipated return to Bachman Hall, has impacted the Board Office’s budget. Board Secretary Oishi stated that, with the exception of digitization costs for a large number of historical files discovered during the moving process which was included in the proposed budget, all other moving expenses were remunerated by the university.

Citing OIA’s $25,000 request for student salaries and benefits and a footnote indicating the intention to employ two additional students for the fall 2021 semester, Regent Acoba asked how many students OIA typically hires during a given year. Director Shizumura replied that, although the hiring of students was scaled back over the past academic year as a means of reducing personnel costs in its budget, OIA has historically hired between three and five students in any given academic year. He noted that OIA has received a few applications and resumes for these positions and expects to hire individuals this semester.

Chair Westerman expressed his belief that the proposed budgets for both the Board Office and OIA appeared reasonable and necessary to allow for their efficient operation and the provision of services to both the board and the university.

Regent Kudo moved to recommend board approval of the proposed FY 2021-2022 operating budget for the Board Office and OIA, seconded by Regent Paloma, and noting the excused absence of Vice-Chair Higaki, the motion carried with all members present voting in the affirmative.

F. <u>Report on the Distribution of Legacy Endowment Funds for FY 2021-2022</u>

VP Young provided a brief overview and history of the Legacy Endowment Fund (Fund) noting that its corpus was received and invested on behalf of the university prior to the creation of the University of Hawaiʻi Foundation (UHF) and is, therefore, separate and apart from the UHF endowment fund. The Fund is currently managed by UBS Financial Services, who provides quarterly investment performance and asset allocation reports to the board throughout the fiscal year.

Distributions from the Fund are controlled by RP 8.207 which currently provides the president with the authority to annually distribute up to 4.25 percent of the Fund's valuation, which is based upon a 20-quarter rolling average of its market value. While the current value of the Fund's overall portfolio is slightly more than $96 million, VP Young explained that, under the parameters for the allocation of funds established by RP 8.207, the value of the Fund to which the distribution percentage is applicable stands at $75.3 million as of June 30, 2021. In FY 2021-2022, the president has authorized a distribution of 4.05 percent from the Fund which equates to $2.77 million.

A comparative analysis of restricted versus unrestricted fund allocations, as well as authorized versus actual Fund distributions, was reviewed by VP Young. He also provided a breakdown of the various purposes for which allocations from the Fund were made, including scholarships, faculty and staff awards, research, athletics, and faculty support, as well as actual disbursement amounts for each purpose. It was noted that, for a variety of reasons including the lack of applications or an awardee's failure to fulfill the requirements of an award, not all of the funds allocated for distribution in the past have been drawn down.

Regent Acoba requested clarification as to whether there were student scholarships provided by the Fund besides the Regents and Presidential Scholarships (RAPS). VP Young replied in the affirmative stating that there are a number of student scholarships financed with monies from the Fund, including the Maui College scholarships noted in the information provided.

Noting that the actual amount paid out for RAPS in FY 2021 was approximately $100,000 less than what was authorized, Regent Acoba expressed his belief that the administration should attempt to expend all scholarship monies authorized for allocation. President Lassner stated that it was his understanding that the university did pay out the full amount of scholarships to student awardees in FY 2021 but that other factors may have resulted in less monies being drawn down. However, he concurred with Regent Acoba's statement that the actual amount of money drawn down in comparison to the authorized allocation amount in FY 2021 was disproportionate to previous years and stated that the administration will look into this matter further.

Chair Westerman opined that the lack of a draw down on scholarship funds may also be due to a lack of students applying for these funds and suggested that efforts be increased to promote awareness among students on the availability of the various scholarships provided by the Fund.

VP Young noted that discussions have taken place regarding the purposes for, as well as use of, unrestricted monies contained within the Fund and that the administration presented several concepts aimed at addressing this issue at the last committee meeting. It was noted that the ultimate goal of these concepts was to develop sources of funding that could consistently build the Fund and provide for more discretionary expenditures. The administration welcomed feedback from the Regents on these concepts, as well as any other ideas or suggestions on changing legacy endowment programs that are actually funded, and anticipates that it will return to the committee with recommendations for future revisions to the Fund.

V. ADJOURNMENT

There being no further business, Regent Kudo moved to adjourn, seconded by Regent Paloma, and noting the excused absence of Vice-Chair Higaki, and with all members present voting in the affirmative, the meeting was adjourned at 10:16 a.m.

Respectfully Submitted,

/S/

Kendra Oishi
Executive Administrator and Secretary
of the Board of Regents