




October 28, 2020

TO: Benjamin Kudo
Chairperson, Board of Regents

Jan Sullivan
Chairperson, Committee on Budget and Finance
Board of Regents

VIA: David Lassner
President

FROM: Kalbert K. Young 
Vice President for B&F/CFO

SUBJECT: FISCAL BIENNIUM 2021-2023 OPERATING BUDGET REQUEST FOR
THE UNIVERSITY OF HAWAII

SPECIFIC ACTION REQUESTED:

In conformance with Regent Policy 8.204, it is recommended that the Board of Regents approve the submission of the Fiscal Biennium 2021-2023 (FB21-23) Operating Budget Request of the University of Hawai'i ("University" or "UH") to the Governor and the Legislature. This request is to include major budget additions (or reductions) to the University's appropriated budget. With approval, this proposed FB21-23 Operating Budget Request will represent the official request for all operating programs of the UH System. The University will submit the proposal to the State Department of Budget and Finance ("State B&F") for consideration to be included as part of the Governor's budget proposal to the Legislature. The University will also send this budget request directly to the Legislature, in accordance with Chapter 37-68, Hawai'i Revised Statutes (HRS).

The FB21-23 budget request for capital improvement projects (CIP) is to be deliberated by the Board of Regents Committee on Planning and Facilities. Both the operating budget request and the capital budget request are anticipated to be approved by the Board of Regents at its November 19, 2020 meeting.

RECOMMENDED EFFECTIVE DATE:

Upon approval of the Board of Regents.

BACKGROUND:

Annually, State departments submit budget requests to the Executive Branch via State B&F for consideration of inclusion into the proposed Executive Budget of the Governor to the upcoming 2021 Legislature. The University also submits its Board approved budget request directly to the Legislature. Every two years, the Executive Branch proposes a biennium budget and in the subsequent year proposes a supplemental budget.

The ongoing global COVID-19 pandemic has substantially impacted the public health and economy worldwide. All aspects of the State of Hawai'i economy have been detrimentally impacted due to COVID-19 resulting in reduced tax revenues for State government. General fund collections for the fiscal year ending June 30, 2020 (FY20) were 6.3% lower than collections for the prior fiscal year. The Council on Revenues is projecting that revenues for FY21 will be 11.0% lower than FY20 collections. Although revenues are projected to increase in FY22 and the subsequent fiscal years, general fund tax revenue is not projected to meet FY19 levels until at least FY25. The following table lists the most recent COR's projections (as of September 9, 2020) for general fund revenue:

<u>Fiscal Year</u>	<u>General Fund Revenue*</u>	<u>Growth Rate</u>
2019	7,141,790	5.1%
2020	6,694,808	-6.3%
2021	5,958,379	-11.0%
2022	6,464,841	8.5%
2023	6,852,731	6.0%
2024	7,126,840	4.0%
2025	7,340,645	3.0%
2026	7,560,864	3.0%
2027	7,787,690	3.0%

*thousands of dollars

This year, budget instructions were provided to State departments in Finance Memorandum No. 20-15. The Director of B&F notes that “**Given the substantial general fund revenue decreases that are currently anticipated, we will be unable to consider general fund increases for the FB 2021-23 Executive Budget.** Very limited exceptions will be allowed for fixed costs and critical needs that must be addressed immediately, such as those related to COVID-19.”

Recognizing the dire economic condition and in accordance with the instructions issued by State B&F, UH Administration is not proposing any general fund increase over

current appropriations. There will be a continuation of current service levels and some transfers between campuses as housekeeping measures. Of the specific appropriations provided to UH over the past biennium, the Administration is proposing to continue only the \$4 million general fund appropriation to the Athletics departments of UH-Mānoa and UH-Hilo. There are also a couple of ceiling increases for non-general funds to account for increased utilization.

BUDGET PROPOSAL:

This FB21-23 Operating Budget request is to request major budget additions (or reductions) to the University's appropriated budget. Considering the instructions of State B&F, the financial condition of the State, and the economic forecast of the State, the proposed request is very modest, consisting primarily of a few transfers between campuses to more accurately reflect the University's organizational structure. These organizational changes are already in place and transfers of these positions and funds occur annually. The budget request is merely to incorporate these changes into the budget which will eliminate the need for these transfers.

The first transfer reflects the distribution of positions associated with Nā Pua No'eau. In 2012, the Legislature provided six FTE counts and the associated salaries to UOH900 (Systemwide Support). However, these positions work at the campus level, and UOH900 has consistently transferred the associated positions and funds to the appropriate campus.

The second transfer request is to move seven positions and associated payroll from UOH100 (Mānoa) to UOH900 to effectuate the transfer of positions associated with Human Resources from Mānoa to Systemwide Support, which occurred in October 2018.

Act 264, Session Laws of Hawai'i (SLH) 2019, appropriated \$4 million to the University to support the Athletics programs at UH-Mānoa and UH-Hilo. Because this appropriation was not in the budget bill, it does not continue into the upcoming biennium. As such, the University is requesting that these funds be incorporated into the ongoing operating budget.

Finally, there are a couple of non-general fund requests. One transfers special fund ceiling from UOH100 to UOH900 to reflect the reorganization of the Office of Research Compliance that was approved by the Board of Regents in 2016. Additionally, UOH900 is requesting an additional \$1.6 million in revolving fund ceiling for the Research and Training Revolving Fund (RTRF). This ceiling increase will accommodate the projected increase in RTRF spending resulting from an increase in research awards. These non-general fund requests are expenditure ceiling increases. If no additional revenue is generated, expenditures will not increase.

The University is acknowledging that there likely will be a need for actual reductions to the appropriated budget and to the University's portion of the budget. Clearly, State B&F's instructions to departments desired identifiable program reductions. While UH has implemented expenditure controls due to the current economic situation, we expect most of these to be short term in nature and would not include them as reductions to the base budget. However, a full program review is being undertaken now that may identify some reductions that can be permanent in nature. The University began campuses-engaged stakeholder discussions about possible areas of budget and program impacts. For many campuses, the process began in late-July and is anticipated to continue into November.

The University has informed State B&F that we will not be able to complete our campus stakeholder engagements and identify specific program reductions in time for State B&F's deadline for departmental budget requests. As such, this request does not propose any specific reductions, although such program revisions may be identified and presented later – and, may eventually be included in subsequent budget deliberations.

ACTION RECOMMENDED:

University Administration recommends the Board of Regents approve the Administration's proposal for a FB21-23 Operating Budget Proposal for the University. Upon approval, the proposal will be transmitted to the State B&F as the approved Board of Regents' budget request. The proposal is to be considered for inclusion as part of the Governor's Executive Budget Proposal to the 2021 State Legislature. In accordance with Chapter 37-68, HRS, the University will also submit the approved budget request directly to the Legislature.



University of Hawai'i Operating Budget for Fiscal Biennium 2021-2023

November 4, 2020

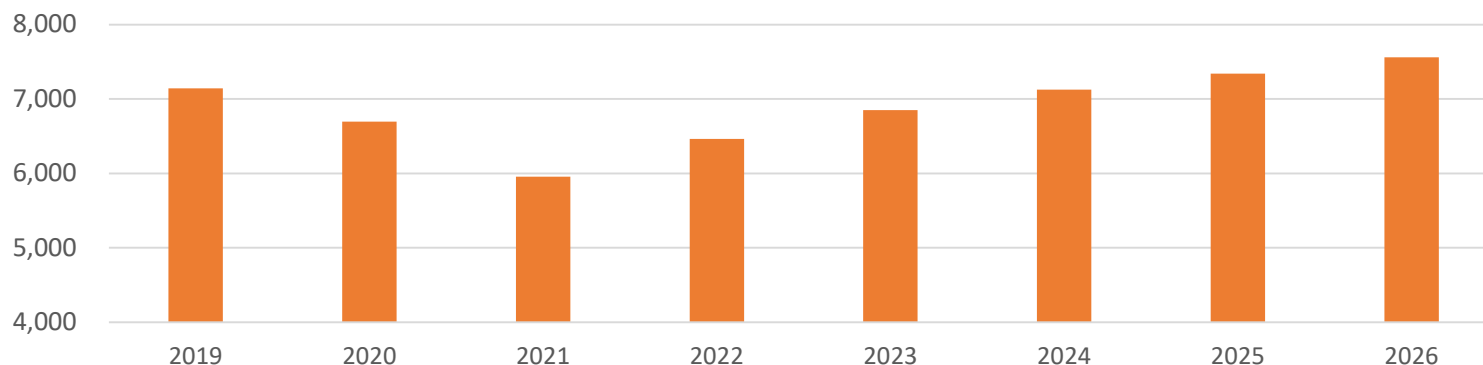
Committee on Budget and Finance



General Fund Situation

- General Fund collections for FY20 were **-6.3%** lower than FY19.
- Council on Revenues is projecting FY21 revenues to be **-11.0%** lower than FY20 revenues.
- General Fund revenue is projected to not return to FY19 levels until at least FY25.
- State Budget and Finance instructions to departments were to identify program reductions for **-10%**, **-15%**, and **-20%**.

State of Hawaii
General Fund Revenue (in \$MM)
Forecasted, FY21 thru FY26





Budget Request

UH FYB21-23 operating budget proposal will be primarily housekeeping in nature.

- Transfer 6.0 positions associated with Nā Pua Noeau from UOH900 (Systemwide Support) to the various campuses.
- Transfer 7.0 positions associated with Human Resources from UOH100 (Mānoa) to UOH900.
- Request continuation of \$4 million in General Funds for Athletics programs at Mānoa and Hilo. These funds were appropriated in Act 264, SLH 2019.
- Non-general fund ceiling increase for RTRF in UOH900 and a transfer of ceiling from UOH100 to UOH900 to reflect reorganization of Office of Research Compliance.



General Fund Reductions

State general fund appropriations to departments are anticipated to be reduced, long-term.

- While there will likely be a need for general fund reductions, none are included in this proposal.
- UH is implementing short-term expenditure controls, but a full program review with stakeholders is currently underway to identify permanent reductions.
- This process began in late-July and will continue into November.
- Governor Executive Branch budget proposal required to Legislature in mid-December.
- UH program revisions targets and ideas anticipated to be deliberated in December-January.



Next Steps

- Recommendation for Committee on Budget and Finance to approve this operating budget request for subsequent approval by the full Board at its November 19, 2020 meeting.
- Following approval by the full Board of Regents, the budget request and associated forms will be transmitted to the Governor and the Legislature, in accordance with Chapter 37-68, HRS.