Financial Management Office

Fiscal Administrator's Meeting

Tuesday, September 19, 2017
Topics

- Welcome
  - Susan Lin, Director of Financial Management and Controller

- Fiscal Years Budget Review, Status, and Planning: FY17 to FY19
  - Kalbert Young, VP for Budget and Finance / CFO

- KFS Upgrade Project
  - Tammy-Lu Vandevender, Director of Fiscal Services

- Tax Effects on Various Payments to UH or non-UH Employees
  - Ken Lum, Manager of Tax Services
Fiscal Years Budget Review, Status, and Planning: FY17 to FY19

Kalbert K. Young
Vice President for Budget & Finance / CFO
University of Hawai‘i System
FY17: How we finished
FY17 Overview (unaudited)

• FY17 Q4/EOY variance report presented to Regents in September
• Revenues were $21.1 million (2.0%) lower than projections.
• Expenditures were $66.9 million (6.3%) lower than projections.
• Projections made at the start of FY17 estimated a Net Operating Income loss of $11.7 million. However, actual Net Operating Income posted a $34.0 million gain.
  • Largely driven by expenditure controls in FY17
  • Net positive NOI contributed from multi-campus / multi-unit / multi-fund. Individual campus or unit may results may be nominal.
• TFSF Revenue was lower than projected for all campuses with exception of West O‘ahu.
Revenues (Historic Trend)
Expenditures (Historic Trend)
### FY17: Actual Revenues, Expenditures, and NOI

<table>
<thead>
<tr>
<th></th>
<th>TFSF</th>
<th>RTRF</th>
<th>Other SF</th>
<th>Other RF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$340,000,000</td>
<td>$90,000,000</td>
<td>$240,000,000</td>
<td>$10,000,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$10,000,000</td>
<td>$40,000,000</td>
<td>$140,000,000</td>
<td>$290,000,000</td>
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<tr>
<td>NOI</td>
<td>$(10,000,000)</td>
<td>$90,000,000</td>
<td>$190,000,000</td>
<td>$240,000,000</td>
</tr>
</tbody>
</table>

- **TFSF**: Total Funded Savings Facility
- **RTRF**: Remaining Tax Revenue Fund
- **Other SF**: Other Savings Facility
- **Other RF**: Other Revenue Facility
Mānoa — General Fund and TFSF

**Highlights** (as reported to Regents)

**Revenues**
- TFSF Revenues were $1.1 million (0.7%) lower than projections, reflecting the enrollment decrease.

**Expenditures**
- General Fund Non-Personnel Expenditures were $2.0 million (36%) lower than projected due to conservative budgeting.
- TFSF Personnel Expenditures were $7.4 million (8%) lower than projections due to conservative budgeting.
- Utility expenditures were $3.3 million (10%) lower than projections as a result of a transfer of $2.3 million to other funds at year-end and slightly lower usage.
Hilo

**Highlights** (as reported to Regents)

- **TFSF Expenditures were lower than projections**
  - Personnel expenditures were $1.2 million (9%) lower due to delays in filling vacant positions in response to declining enrollment.
  - Non-personnel expenditures were $4.6 million (31%) less than projections due to cautious spending in response to declining enrollment.
  - Utility expenditures were $1.4 million (29%) lower due to decreased usage and lower than anticipated rate increase.
- **Had projected a net operating loss of $3.1 million, but actual net operating income was a gain of $3.8 million.**
West O‘ahu

**Highlights** (as reported to Regents)

- **TFSF Non-Personnel Expenditures** were $2.1 million (51%) lower than projected due to a number of one-time equipment and software purchases that were planned for FY17 but deferred to FY18.

- **Other Revolving Fund Revenues** were lower than projected largely due to a delay in the signing of an agreement for use of UHWO land.

- Had projected a gain of $588,750, but actual operating gain was $3.3 million.
Community Colleges

**Highlights** (as reported to Regents)

- **Utilities Expenditures** projected from TFSF were instead spent from General Funds, producing the variances for that expenditure category for those two funds.

- **TFSF Non-Personnel Expenditures** were $6.7 million (20%) lower than projections due to adjustments in spending as a result of declining enrollment.

- Had projected net loss of $5.7 million but posted an actual net operating gain of $8.3 million
FY17 Conclusions

• Although Revenues were lower than projections, Expenditures were also lower than projections by a larger amount. This resulted in a $34 million gain rather than the projected $11.7 million loss.

• Must continue to be mindful of revenue trends heading into FY18 & FY19.

• FY17 expenditures deferred to FY18 may impact current fiscal trends.
FY18 Budget & Spending Plan
FY18 Budget and Spending Plan

1. Board of Regents approved FY18 Spending Plan in September.

2. Revenue highlights:
   • Revenues are projected to increase 0.3% over FY17 actual collections
   • There is 10% restriction on “discretionary” General Fund appropriation from Governor (FY17 restriction was 5%)
   • No tuition rate increase for FY18
   • Forecasted declining enrollment

3. Expenditure highlights
   • Expenditures projected to increase 0.06% over FY17 budgets (NOT including collective bargaining increases)
   • Overall Net Operating Loss of $15.6 million (investment of reserves)
### Operating Budget Request & Spending Plan

#### Revenues

<table>
<thead>
<tr>
<th></th>
<th>Mānoa</th>
<th>Hilo</th>
<th>West O’ahu</th>
<th>CCs</th>
<th>Sys Support</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$ 229,455,474</td>
<td>$ 34,575,075</td>
<td>$ 15,018,408</td>
<td>$ 136,966,609</td>
<td>$ 55,825,664</td>
<td>$ 471,841,230</td>
</tr>
<tr>
<td>TFSF</td>
<td>$ 220,800,567</td>
<td>$ 36,632,748</td>
<td>$ 17,835,564</td>
<td>$ 65,612,600</td>
<td>$ 1,517,940</td>
<td>$ 342,399,419</td>
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<tr>
<td>RTRF</td>
<td>$ 29,454,427</td>
<td>$ 3,438,896</td>
<td>$ 165,500</td>
<td>$ 1,778,102</td>
<td>$ 15,087,920</td>
<td>$ 49,924,845</td>
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<tr>
<td>Other Special Funds</td>
<td>$ 101,709,925</td>
<td>$ 7,688,554</td>
<td>$ 300,000</td>
<td>$ 19,581,500</td>
<td>$ 3,830,261</td>
<td>$ 133,110,240</td>
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<tr>
<td>Other Revolving Funds</td>
<td>$ 29,632,103</td>
<td>$ 2,459,022</td>
<td>$ 1,168,000</td>
<td>$ 3,764,600</td>
<td>$ 726,737</td>
<td>$ 37,750,462</td>
</tr>
<tr>
<td>Appropriated Federal</td>
<td>$ 5,401,761</td>
<td>$ 291,557</td>
<td>$ 66,000</td>
<td>$ 3,530,000</td>
<td>$ 358,873</td>
<td>$ 9,648,191</td>
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<tr>
<td><strong>Total</strong></td>
<td>$ 616,454,257</td>
<td>$ 85,085,852</td>
<td>$ 34,553,472</td>
<td>$ 231,233,411</td>
<td>$ 77,347,395</td>
<td>$ 1,044,674,387</td>
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</table>

#### Expenditures + Xfers

<table>
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<tr>
<td>TFSF</td>
<td>$ 219,346,022</td>
<td>$ 38,768,228</td>
<td>$ 17,822,647</td>
<td>$ 69,377,600</td>
<td>$ 284,186</td>
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<td>RTRF</td>
<td>$ 35,272,392</td>
<td>$ 3,621,550</td>
<td>$ 195,516</td>
<td>$ 1,778,102</td>
<td>$ 16,165,100</td>
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<td>$ 7,464,942</td>
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<td>$ 2,458,661</td>
<td>$ 710,500</td>
<td>$ 3,764,600</td>
<td>$ 548,818</td>
<td>$ 34,437,081</td>
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<td>Appropriated Federal</td>
<td>$ 5,245,639</td>
<td>$ 291,557</td>
<td>$ 66,000</td>
<td>$ 3,530,000</td>
<td>$ 358,873</td>
<td>$ 9,492,069</td>
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<td><strong>Total</strong></td>
<td>$ 625,662,244</td>
<td>$ 87,180,013</td>
<td>$ 34,113,071</td>
<td>$ 234,998,411</td>
<td>$ 78,341,486</td>
<td>$ 1,060,295,225</td>
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</tbody>
</table>
TFSF Reserve Levels (FY14-FY18)

- Mānoa
- Hilo
- UH West O‘ahu
- Community Colleges
- Systemwide

- 5% Reserve
- FY 2014
- FY 2015
- FY 2016
- FY 2017
- FY 2018
FY18 Spending Plan: Mānoa

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
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<td>$29,632,103</td>
<td>$5,401,761</td>
<td>$616,454,257</td>
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<tr>
<td>Net Transfers</td>
<td>$(4,882,346)</td>
<td>$48,094,979</td>
<td>$(600,501)</td>
<td>$(38,967,076)</td>
<td>$(349,000)</td>
<td>-</td>
<td>$3,296,056</td>
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<tr>
<td>Rev less Exp/Trf</td>
<td>- $1,454,545</td>
<td>$5,817,965</td>
<td>$7,678,290</td>
<td>$2,677,601</td>
<td>$156,122</td>
<td>$9,207,987</td>
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- 2% decline in enrollment
- Increased focus on branding and marketing, transfer student recruitment, and targeted recruitment of non-resident students
- Centralized position control and implementation of new budget model
- Other Special Funds operating loss attributable to:
  - Planned Renovations at Hale Noelani ($5 million), Frear Hall ($1 million), and Atherton ($1 million) for a total of $7 million
  - Telecomm upgrades ($1.6 million)
  - Cancer Center ($2.1 million ongoing)
  - Athletics ($3 million ongoing)
### FY18 Spending Plan: Hilo

<table>
<thead>
<tr>
<th></th>
<th>General Fund</th>
<th>TFSF</th>
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<tr>
<td>Revenues</td>
<td>$34,575,075</td>
<td>$36,632,748</td>
<td>$3,438,896</td>
<td>$7,688,554</td>
<td>$2,459,022</td>
<td>$291,557</td>
<td>$85,085,852</td>
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<tr>
<td>Expenditures</td>
<td>$34,951,072</td>
<td>$30,313,953</td>
<td>$3,338,550</td>
<td>$13,296,978</td>
<td>$2,458,661</td>
<td>$291,557</td>
<td>$84,650,771</td>
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<td>Net Transfers</td>
<td>$(375,997)</td>
<td>$8,454,275</td>
<td>$283,000</td>
<td>$(5,832,036)</td>
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<td>-</td>
<td>$2,529,242</td>
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<tr>
<td>Rev less Exp/Trf</td>
<td>$-</td>
<td>$(2,135,480)</td>
<td>$(182,654)</td>
<td>$223,612</td>
<td>$361</td>
<td>-</td>
<td>$(2,094,161)</td>
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- 1.2% decline in enrollment
- TFSF commitments total $2,135,480:
  - $405,480 for energy efficiency (one-time)
  - $1,330,000 for DKICP building learning spaces (one-time)
  - $200,000 for partial debt service payments for Student Housing (one-time)
  - $200,000 for financial aid retention through employment (recurring – 3 years)
- Performance funding to be used for peer mentors, student employee support, communication to new and prospective students, and lecturers for foundational courses.
FY18 Spending Plan: West O‘ahu

- 2% enrollment growth
- No significant fiscal imbalances
- UHWO continuing to fill vacancies and lecturers to accommodate continuing enrollment growth
FY18 Spending Plan: Community Colleges

<table>
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<td>Revenues</td>
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<td>$231,233,411</td>
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<tr>
<td>Expenditures</td>
<td>$136,255,000</td>
<td>$63,657,828</td>
<td>$1,778,102</td>
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<td>$579,127</td>
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<td>-</td>
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<tr>
<td>Rev less Exp/Trf</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$(3,765,000)</td>
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</table>

- Flat enrollment projection
- TFSF investments total $3,765,000
  - $1,500,000 for R&M and equipment
  - $800,000 for co-requisite remediation and development
  - $375,000 for Student Success initiatives
  - $300,000 for Early College dual credit program
  - $790,000 for distance learning, GPS, adult students, and open educational resources
- Implementing Hawai‘i Promise Program ($1.8 M in general funds)
**FY18 Spending Plan: Systemwide Support**

<table>
<thead>
<tr>
<th></th>
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<tr>
<td><strong>Revenues</strong></td>
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<td>$ 1,517,940</td>
<td>$ 15,087,920</td>
<td>$ 3,830,261</td>
<td>$ 726,737</td>
<td>$ 358,873</td>
<td>$ 77,347,395</td>
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<td><strong>Expenditures</strong></td>
<td>$ 45,102,834</td>
<td>$ 12,132,666</td>
<td>$ 17,416,243</td>
<td>$ 10,275,777</td>
<td>$ 503,129</td>
<td>$ 358,873</td>
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<td><strong>Net Transfers</strong></td>
<td>$ 10,722,830</td>
<td>(11,848,480)</td>
<td>(1,251,143)</td>
<td>(5,116,932)</td>
<td>$ 45,689</td>
<td>-</td>
<td>(7,448,036)</td>
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<tr>
<td>Rev less Exp/Trf</td>
<td>$ -</td>
<td>$ 1,233,754</td>
<td>$ (1,077,180)</td>
<td>$ (1,328,584)</td>
<td>$ 177,919</td>
<td>-</td>
<td>(994,091)</td>
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</table>

- $2.45 million in Performance Funding was not earned by campuses and will be invested by Systemwide to support Strategic Directions at the campuses: enrollment and academic planning, economic development and commercialization, improving business efficiency, and advancing UH as a model indigenous-serving institution.

- Increased expenditures from RTRF and Risk Management Special Fund as a result of additional legal fees.
FY19 Supplemental Budget Request: The process starts again
FY19 Supplemental Budget Request

Components

- **Budget Policy Paper**
  - Administration proposed
  - Regent approved

- **State B&F Budget Instructions**

- **UH-Bud Instructions**

- **Campus construction process (Op + CIP)**

- **Prioritization process**

- **Regent approved supplemental request**
  - Gov/B&F
  - Legislature
Where are we now: Sept. 19, 2017

• Regent Policy (RP) 8.204 directs that an annual budget policy paper outline the University’s policy and governing principles for its budget proposals to the Legislature.

• This paper provides environmental context for building budget proposals and articulates UH’s objectives and priorities that will guide the upcoming supplemental budget request.

• Budget policy paper proposed to Regents Committee on Budget & Finance, September 7.

• Board of Regents to approve, September 21.
Environmental Context

• State General Fund collections for FY17 grew 2.0% from FY16
  • Council on Revenues had predicted 2.5% growth for FY17

• No Tuition Rate increase for School Year 2017-2018
  • TFSF Revenues have plateaued in recent years

• Strategic Directions and Integrated Academic and Facilities Plan provide guidance and framework for budget decisions
Legislative Strategy and Priorities

• UH will seek to put forward priorities that we have assessed will have higher likelihood of Legislative support in the Supplemental budget.

• UH will build upon certain items that have been previously funded by Legislature in past years.

• This represents a significant and intentional departure from the usual “wish list” of items.
  • UH will need to support its own priorities that do not align with legislative interests within existing resources

• May include other items as suggested from the major units that are consistent with this approach and the Strategic Directions and Integrated Academic and Facilities Plan.
Operating Budget: Anticipated Items

• Full funding for *Hawai‘i’s Promise Program*
• Resources for “insourcing” of services due to Konno decision
• General Fund position counts (not dollars) for Mānoa Athletics
• Additional State investment for UHWO
• Support for specific student populations that use specialized services
• Graduate and undergraduate student employment
• Continuing investment in facilities maintenance and upkeep
• Small office at System level to support Public-Private Partnerships and monetization of UH real estate assets
CIP Budget: Anticipated Items

• Full support for six-year CIP plan to restore and modernize facilities to meet the needs of 21st century learning, teaching, and research
• Build out Cancer Center Annex
• Relocation of Dental Hygiene program from Mānoa to UHWO
• Revenue Bond authority
Next Steps for FY19 Supplemental Budget

Sept. 21 – Regents approve Budget Policy Paper
Sept. 22 – UH-Bud distributes UH budget instructions
End of Sept. – State B&F budget instructions

Mid October (9) – Campus submittals
End of Oct. – Admin review and prioritization process

November – BOR approval process
End of November – UH Submittal to State B&F

November/December – State B&F and Gov construction process
Mid December – Gov submittal to Legislature
Questions
KFS Upgrade Project

Tammy-Lu Vandevender, Director of Fiscal Services
KFS Upgrade

- Implemented KFS4.1 in July, 2012
- Upgrading to KFS6.0.1
- Target Date 1st quarter 2018
- Starting Regression Testing in October
- Looking for volunteers to assist with testing
Upgrade Highlights

- Ad hoc Route for Completion
- Recall Action
- Intra Account Adjustment
- Line Description on all FP eDocs
- Changes to Capital Asset tab on FP eDocs
- Fixed issue with attachments on Vendor eDoc
- Changes to Balance Inquiries
Tax Effects on Various Payments to UH or non-UH Employees

Ken Lum, Manager of Tax Services
Recap on tax topics from 2017 FMO monthly newsletters

1. Tax Effects on Various Payments to UH & non-UH Employees (Sept. Issue)
2. Is reimbursement of M & IE to students taxable (March Issue)
3. Relocation Allowance: Taxable of Not (Feb. Issue)
4. Scholarship/Fellowship Payment Inquiry Procedure (Ethority databook) (January issue)
Key Points in Sept 2017 Issue

To understand the tax effects on payments, must identify the differences between a UH employee and non-employee:

- Whether employer actually defines what is being done and how it will be accomplished
- Method of compensation (payroll versus payment upon invoice or other methods)
- Worker controlling the hours of employment
- Worker supplying his or her own equipment, materials and tools, etc.
# Examples of Employee Types

<table>
<thead>
<tr>
<th>Who is UH Employee</th>
<th>Who is Non-UH Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>UH employee working at the booth in a science conference</td>
<td>Contractor or volunteer working at the booth in a science conference</td>
</tr>
<tr>
<td>Full-time physical therapist employed at UH</td>
<td>External physical therapist procured for certain events</td>
</tr>
<tr>
<td>Attorney from University General Counsel Office</td>
<td>Attorney hired by UH to work on various legal issues</td>
</tr>
<tr>
<td>Internal auditor</td>
<td>External auditor</td>
</tr>
<tr>
<td>Part-time professor or adjunct faculty</td>
<td>Visiting professor for special projects/collaborative research</td>
</tr>
<tr>
<td>Postdoctoral fellow paid through payroll</td>
<td>Postdoctoral fellow paid by stipend</td>
</tr>
<tr>
<td>Graduate assistant paid through payroll</td>
<td>Graduate assistant paid by stipend</td>
</tr>
<tr>
<td>Student employed part-time at UH and working at a conference</td>
<td>Student presenting an academic paper at a conference and paid by stipend</td>
</tr>
</tbody>
</table>
**Tax Applications**

- **Employees**
  - ✓ Since the payments are for *services rendered*, it will be reported on IRS Form W-2 as wages.

- **Non-UH Employees**
  - ✓ If the person is a U.S. citizen or resident, all payments will be reported on IRS Form 1099-Misc, except for non-qualified scholarship payments.
    - ✓ For tax purposes, a non-qualified scholarship is taxable and should be reported by the recipient. UH is not required to report on Form 1099-Misc (see AP 8.561 for details)
  - ✓ If the person is a non-resident alien for tax purposes, all payments will be reported on IRS Form 1042-S.
Key Points in March Issue

M & IE (meals and incidental expenses) reimbursed to students are usually taxable, because their M &IE are not qualified for the IRS Accountable Plan.

- Accountable Plan per IRS Reg. 1.62
  - Used to exclude reimbursement for business related expense(s) from gross income for an individual.
    - To be qualified, the individual must be employed by University of Hawaii or elsewhere (e.g. other universities or other business entities), or
    - Hired as independent contractor. The primary purpose of the activity must benefit UH or the employer, not the individual.

- Examples of payment types to students for M&IE
  - Non-qualified scholarship
  - Award or prizes
Key Points in January Issue:

UH is no longer issuing Form 1099-Misc for fellowship/scholarship payments made to U.S. citizens and resident aliens

- Go to AP 8.561 for further details
- To generate year end summary report of payments made to recipients, click onto weblink provided in January 2017 issue.
Questions?

Please forward your questions/inquiries to your Business office or FA.
Financial Management Office

Thank You for attending the Fiscal Administrator Meeting

Susan Lin’s Contact Information:
Email: slin@hawaii.edu
Phone: 808-956-5445