

UNIVERSITY OF HAWAII

EXECUTIVE POLICY – ADMINISTRATION

August 2005

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E2.212 Management of University Bond System (UBS)

I. INTRODUCTION

Act 141, enacted on May 16, 1947, established the University Project Fund and authorized the University (with the approval of the governor) to issue revenue bonds to finance the construction and maintenance of University housing units, athletic units and other projects. The measure was intended to enable the University to enlarge its facilities sufficiently to meet the needs of its extended educational program and increased student enrollment and to maintain its standing as one of the major institutions of learning in the Pacific area. Act 141 was established for the purpose of creating a system (UBS) that would make it possible for several projects to be funded by a single issue of bonds and give the Board of Regents the means to establish a financial base for subsequent University projects. The University Projects listed below comprise that portion of the Network designated as the University Bond System as established by Board of Regents' Resolution in November 2001:

- Bookstores
- Wa'ahila Faculty Housing
- Kau' iokahaloa Nui Faculty Housing
- Manoa Campus Center (including Hemenway Hall)
- Manoa Food Service
- Manoa Parking
- Student Housing System
 - Hilo Campus
 - Manoa Campus
 - Maui Community College
- Telecommunication System

This policy is intended to: (a) address management issues that arise as the result of requirements relating to the planning and coordination of financial management, compliance, and reporting within the UBS and, (b) facilitate the management of the UBS as a "System" and not as independent or "stand alone" projects.

II. OBJECTIVES

The objectives of this policy are to:

- a. Clarify the roles and responsibilities of the System, Campus, and Project in the management and operational oversight of the University Bond System.
- b. Establish operational and financial reporting requirements.
- c. Provide guidelines for financial and fiscal management.

III. POLICY

Responsibilities:

- a. System – The University System through the University President has overall responsibility for the Management of the UBS. This includes all matters relating to fiscal condition, compliance with bond covenants and applicable laws, reporting requirements, and strategic initiatives. The University Vice President for Budget & Finance / Chief Financial Officer may designate an individual in the Financial Management Office to serve as Bond System Controller (BSC). The BSC will be responsible for carrying out System responsibilities of providing managerial oversight to UBS Projects, as it pertains to the major repairs/replacement and upkeep of capital assets, to insure the financial health of the entire University Bond System. The BSC is responsible for managing the activities of the UBS as a whole and empowered to implement strategic initiatives through the reallocation of available resources between UBS Projects or other University requirements as approved by the University President or his/her designee. It will be the responsibility of the BSC to develop a comprehensive business strategy to maximize the use of the total assets of the University Bond System to assist program directors/managers to complete major renovations, repairs and capital improvements, to manage capital assets on a timely basis and to prescreen and provide guidance to university projects which would like to be included or excluded from the bond system. In addition, the BSC will coordinate the involvement of the affected campuses and projects in the implementation of any reallocation of funds. Furthermore, the BSC will also be responsible for the scheduling of regular meetings throughout the fiscal year with program directors/managers and fiscal officers to discuss operational issues of each UBS Project in order to assist them with financial strategies in meeting their program objectives.

- b. Campus – Except for Bookstores, UBS Projects provide services to a specific campus. Accordingly, UBS Projects are expected to provide long-range planning goals and objectives for their respective campuses. UBS Projects. Campus Chancellors or their designee will be responsible for oversight of the operations and fiscal affairs of subordinate UBS Projects as it pertains to the ability of UBS Project managers to meet the objectives of the campus. This includes ensuring that the UBS Project is properly managed, facilities are in good repair, and rates, rents, fees, and charges are sufficient to meet the Project’s operating and long-term capital replacement requirements. Additionally, each campus should be involved in any strategic decision-making affecting Project finances and Project services.
- c. Project - Project directors/managers shall have responsibility over the administration and operations of the UBS Project to insure the program is financially self-sustaining and meeting the long-range objectives of their respective campus, in compliance with applicable laws and university policies. Project directors/managers shall report to the campus Chancellor or their designee and will be responsible for articulating, in writing, the long-range objectives and plans for the continued success of their program and strategies for the timely repair and replacement of capital assets to the BSC.

Financial & Operational Management:

- a. Operational Finance - To insure financial oversight of UBS assets the Financial Management Office’s BSC will insure that best practices in financial operations are being utilized. Project managers shall submit an annual business plan approved by the campus Chancellor or their designee to the Vice President for Budget & Finance / Chief Financial Officer by August 1st annually. The Business Plan shall follow the format established by the BSC. The BSC will assist each UBS program in conducting quarterly financial reports of their operations, as well as yearly updates to a schedule of major repairs and replacement of assets and related reserve fund balances. As part of the quarterly and annual review process, a plan of expenditures shall also be included to review overall fund balances. This shall be in addition to all current biennium budgeting practices for purposes of reporting to the Hawai’i State Legislature.
- b. Capital Financing - Capital financing to include capital leases, loans, and tax- exempt debt issuances shall be coordinated through the BSC. The BSC shall hold periodic meetings to discuss and coordinate capital requirements of the UBS. A five-year Capital

Replacement Plan including recommended sources of funding shall be developed and updated annually. The capital replacement plan should identify funding to support repair and replacement of deteriorating infrastructure and avoidance of a significant unfunded liability.

- c. Rates, Rents, Fees and Charges – UBS Project revenues must be sufficient to make the UBS Project self-sustaining. Rates, rents, fees, and charges shall be revised from time to time in compliance with applicable University policies so that the UBS shall be and always remain self-sustaining.
- d. Funding of Administrative Overhead Costs – To the extent possible, management costs of the UBS shall be funded from interest earnings from monies on deposit in the System Debt Service Reserve account. Management costs shall include but not be limited to those items necessary and reasonable to assure overall healthy financial condition, compliance with bond covenants and applicable laws, fulfilling of reporting requirements, and contribution to strategic initiatives. If interest earnings are insufficient to cover management costs, the BSC may impose an assessment on each project for System management costs. An annual bond system operating budget will be prepared by the Financial Management Office by the second quarter of the fiscal year. The budget will cover UBS operations for the succeeding fiscal year and should be used by Project directors/managers for planning purposes. The assessment shall be subject to the approval of the University President or his/her designee.
- e. Reserve Guidelines
 - 1) Debt Service - The University is legally obligated to pay debt service on all bonds issued for the UBS when due. Although a debt service reserve is not required for University issued revenue bonds, a debt service reserve sufficient to pay the maximum annual debt service due in the succeeding 3-year period is recommended for all outstanding bonds that do not require a debt service reserve.
 - 2) Renewal and Replacement - In addition to the \$1 million, Mandatory Major Repair and Reserve mandated by the resolution adopted by the Board of Regents' on November 16, 2001, UBS Projects shall incorporate a annual contribution to the voluntary Repair and Replacement account equal to 50% of its depreciation expense for the preceding fiscal year.

At least once every three years, the BSC shall conduct an in-depth review to assess the adequacy of the reserves and the UBS reserve policies applicable to the UBS Projects, and shall make necessary adjustments and changes to reserve accounts for changing conditions in consultation with Project Managers, and subject to approval of the University_President or his/her designee. For Renewal and Replacement Reserves, the reviews should include studies of facility systems and necessary funding levels to cover all aspects of cost of replacement through the Capital Replacement Plan.

- f. Annual Financial Audit - To ensure that assets are protected and that transactions are properly recorded, an independent auditor selected by the BOR audits the UBS annual financial statements. The BSC will serve as Audit coordinator and assist UBS Projects in preparing for the audit. UBS Project directors/managers are responsible for ensuring that UBS Project books and accounts are maintained in conformance with all state and federal laws, generally accepted account principles (GAAP) and Governmental Accounting Standards Board (GASB).

- g. Other Reporting - Each UBS Project shall maintain on a current basis, financial reports deemed necessary to monitor revenues, expenditures, and Project performance on an ongoing basis. The Financial Management Office shall maintain such reports for the UBS as a whole.