STATE OF HAWAII BUDGET 101

Adapted for Relevance to University of Hawaii

Updated 2015

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University of Hawaii System

Method of Funding (MOF) in the State Budget

"A" = General Funds
"B" = Special Funds
"C" = General Obligation (GO) Bonds
"D" = Reimbursable GO Bonds
"E" = Revenue Bonds
"J" = Federal Interstate Funds
"K" = Federal Aid Primary Funds
"L" = Federal Aid Secondary Funds
"M" = Federal Aid Urban Funds
"N" = Federal Funds
"P" = Other Federal Funds
"R" = Private Contributions
"S" = County Funds
"T" = Trust Funds
"U" = Interdepartmental Transfers
"V" = Federal Stimulus Funds
"W" = Revolving Funds
"X" = Other Funds

Green Highlight = Most common MOF for UH

Common terms of importance to UH in the budget

- **"Position Ceiling"** – The maximum number of permanent positions that a department or agency is authorized during a specified period(s).
- **"Program ID"** – The unique identifier for a program for which is appropriated funds in the budget.
- **"Appropriation"** – An amount or sum of funds that is authorized by the Legislature via the budget for expenditure (subject to availability of funds).
- **"Capital Improvement Project"** (CIP) – Major construction-related project typically resulting in a new facility, building, or major repair for which the expenditure is depreciable (in accounting terms).
- **"Revenue Bonds"** – Debt instrument to finance a project where the source of revenue to pay debt service is typically from the enterprise responsible for the project.

More common terms of importance to UH in the budget

- **"General Obligation Bonds"** - Debt instrument to finance a project where the source of revenue to pay debt service is supported by the full faith and credit of the State of Hawaii.
- **"General Fund"** – The primary broad source of funds of state government where aggregated revenues (not of special, revolving, or trust funds) pay for common broad expenditures of a department or agency (not provided for by special, revolving, or trust funds).
- **"Special Fund"** – MOF where the revenues are dedicated to, and for, a specific purpose and/or limited types of expenditures.
- **"Revolving Fund"** – MOF where the revenues, via direct charges, replenish the fund from which expenditures can be made. Plus, expenditures directly support the purpose of the revenues.
- **"Lapsing"** – Refers to the when an appropriation expires from legislative authority – typically, at the conclusion of a fiscal year.

University of Hawaii (UH) Program ID's

- UOH100 – University of Hawaii, Manoa
- UOH110 – University of Hawaii, John A. Burns School of Medicine
- UOH210 – University of Hawaii , Hilo
- UOH220 – Small Business Development
- UOH700 – University of Hawaii, West Oahu
- UOH800 – University of Hawaii, Community Colleges
- UOH900 – University of Hawaii, Systemwide Support
- UOH881 – University of Hawaii, Aquaria

Budget Appropriation

Biennium Budget

- Fiscal Year (FY) = July 1 through June 30
- Departments and agencies annually submit budget requests for the upcoming fiscal year for inclusion in the executive budget proposal.
- Executive proposal compiled and submitted to Legislature 30 days prior to convening of Legislature.
- Appropriated annually by Legislature, during odd number years following general elections (i.e. 2015 Legislature constructs biennium budget for FY16 and FY17).
- Supplemental budget deliberated during second year of Legislature (i.e. 2016 Legislature revises biennium budget for FY17).

Budget Appropriation (cont.)

Operating Budget

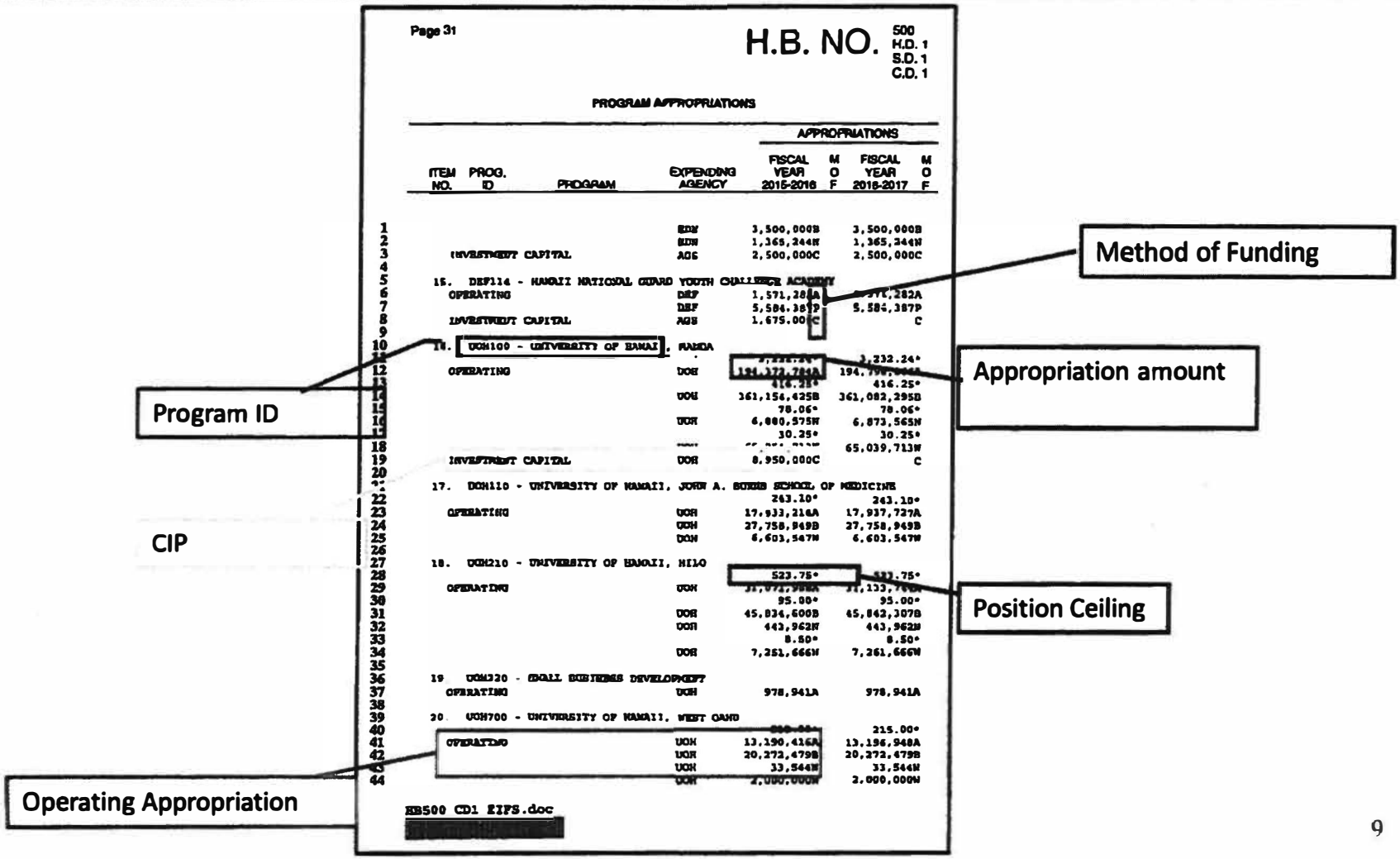
- Appropriated as part of biennium budget, but revised during supplemental year
- General fund (MOF = A) appropriation of general fund revenues
- Special funds (MOF = B) appropriation of special fund ceiling
- Revolving funds (MOF = W) appropriation of ceiling
- Other funds appropriation of ceiling
- Appropriation of operating budgets lapse June 30th

Budget Appropriation (cont.)

Capital Budget

- Appropriation of general obligation bonds or revenue bonds of an enterprise
- Projects identified in the budget along with authorized description.
- Can be lump sum funding.
- Capital appropriations are valid for the biennium in which they are appropriated plus one additional fiscal year.
- Capital projects with federal funds components do not lapse non-federal funds (by budget proviso).

Sample – Act 119 (2015), HB 500 HD1 SD1 CD1



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H.B. NO. 500 H.D. 1 S.D. 1 C.D. 1

PROGRAM APPROPRIATIONS

ITEM NO.	PROG. ID	PROGRAM	EXPENDING AGENCY	APPROPRIATIONS FISCAL YEAR 2015-2016	M O F	APPROPRIATIONS FISCAL YEAR 2016-2017	M O F
			EDN	3,500,000B		3,500,000B	
			EDN	1,365,244N		1,365,244N	
		INVESTMENT CAPITAL	AGS	2,500,000C		2,500,000C	
15.	DEF114	- HAWAII NATIONAL GUARD YOUTH CHALLENGE ACADEMY					
		OPERATING	DEF	1,571,282A		1,571,282A	
			DEF	5,584,387P		5,584,387P	
		INVESTMENT CAPITAL	AGS	1,675,000C		C	
16.	UOH100	- UNIVERSITY OF HAWAII, MANOA					
						3,232.24*	
		OPERATING	UOH	191,372,781A		194,705,013A	
				416.25*		416.25*	
			UOH	361,156,425B		361,082,295B	
				78.06*		78.06*	
			UOH	6,880,575N		6,873,565N	
				30.25*		30.25*	
						65,039,713N	
		INVESTMENT CAPITAL	UOH	8,950,000C		C	
17.	UOH110	- UNIVERSITY OF HAWAII, JOHN A. BURNS SCHOOL OF MEDICINE					
				243.10*		243.10*	
		OPERATING	UOH	17,933,216A		17,937,727A	
			UOH	27,758,949B		27,758,949B	
			UOH	6,603,547N		6,603,547N	
18.	UOH210	- UNIVERSITY OF HAWAII, HILO					
				523.75*		523.75*	
		OPERATING	UOH	31,072,988A		31,133,744A	
				95.00*		95.00*	
			UOH	45,836,600B		45,842,307B	
			UOH	443,962N		443,962N	
				8.50*		8.50*	
			UOH	7,261,666N		7,261,666N	
19	UOH320	- SMALL BUSINESS DEVELOPMENT					
		OPERATING	UOH	978,941A		978,941A	
20.	UOH700	- UNIVERSITY OF HAWAII, WEST OAHU					
				200.00*		215.00*	
		OPERATING	UOH	13,190,416A		13,196,948A	
			UOH	20,272,479B		20,272,479B	
			UOH	33,544N		33,544N	
			UOH	2,000,000N		2,000,000N	

HB500 CD1 EIFS.doc

Method of Funding

Appropriation amount

Program ID

CIP

Position Ceiling

Operating Appropriation

Operating Appropriation

General Fund Appropriation

Special Fund Ceilings

Revolving Fund Ceilings

Additional appropriations: non-UH Program IDs

BUF748 – Retirement Benefits Payments – UH

- Pension contributions for general funded employees
- Includes pension contributions of S397 employees

BUF768 – Health Premium Payments – UH

- Health fund contributions for active general fund employees
- Includes contributions for S397 employees

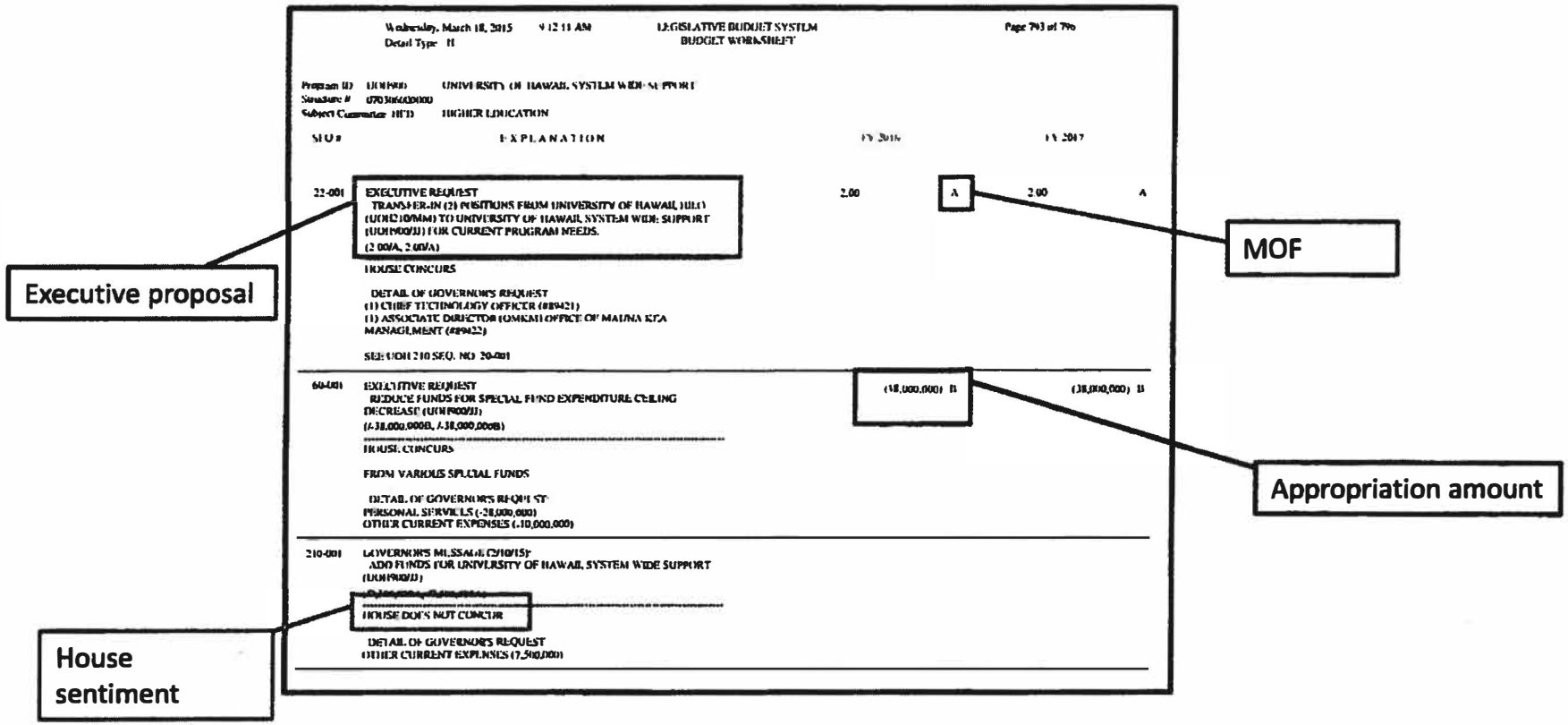
BUF728 – Debt Service Payments – UH

- General fund payment of debt service for GO bonds appropriated to UH

Budget Worksheets

- Maps executive budget submittal to House recommendation as compared to Senate recommendation.
- Includes only operating portion of budget.
- Worksheets are not considered part of the official budget bill.
- Expectation is that to the extent legislative intent is laid out in the worksheets, that the departments will effectuate to that intention.
- Deliberated in conference committee between House Finance and Senate Ways & Means committees.

Sample – HB500 HD1 budget worksheet



Budget Execution Process

- Legislative appropriations are approved in the biennial budget
- Appropriations are subject to "release" by the executive branch (Governor) via department of budget & finance
- Release of funds apply to both general funds and GO bonds
- B&F budget execution policies also require executive approval to expend components of special fund expenditures (i.e. over a certain $ amount for certain operational expenses).
- B&F also must approve issuance of revenue bonds

Budget Execution Process (cont.)

- B&F release of funds can be for less than the entire year, periodic throughout the year, and/or restricted for portions of the appropriation.
- UH Program ID appropriations are released to campuses. Campus-level management determines allocations of appropriation to operational units.
- Each campus may have different methodologies for allocation of operating and/or capital appropriations.

Bonds

General Obligation Bonds
Reimbursable General Obligation Bonds
University Bonds
University Revenue Bonds

The use of bond proceeds are for cip

- State constitution limits the use of bond proceeds to capital expenditures.
- UH has typically been appropriated general obligation bonds to meet capital its requirements.
- After 2002, UH has been appropriated more revenue bond authority as a means to finance certain university projects (i.e. JABSOM, Cancer Center, student housing, etc.).
- Legislature can appropriate bonds of any means to fund specific projects or on a lump sum (non-project specific).

Bond Provisions

Taxability

- Tax-Exempt – Coupon payments to bond holders are not subject to federal and Hawaii state individual income taxation.
- Taxable – Coupon payments to bond holders are taxable.

Call Provisions

- Make whole – Bonds can be called, but issuers pay bond holders for the present value of future bond payments at time of call
- Par Call – Typically 10-year par call, the bonds can be called away from bond holders anytime after 10 years from date of delivery

Duration

- General obligation bonds can be issued up to 25 years in duration (per HRS).
- Revenue bonds can be issued up to 30 years in duration.

Structure

- Debt service (P&I) must be issued level debt service across duration of bonds issued in series.
- Bond principle can be delayed up to 5 years.

Bond Price Components

Coupons

- Coupon Rates – Annual interest payment as percentage of face value (par), typically paid in semi-annual payments.
- Yield – The actual rate of interest earned to the bond holder calculating amount paid to purchase bond.
- Yield to Maturity (YTM) – The annual rate of interest considering the time remaining to maturity.

Premium (Discount)

- Bonds sold to investors for more than par value (premium) or for less than par value (discount).

Cost of Issuance

- The administrative and operational expenses of doing a bond transaction irrespective of the bonds themselves.
  - Bond counsel
  - Underwriters counsel
  - Underwriter fees
  - Takedown
  - Escrow fees
  - Travel expense
  - Printing fees
  - Etc.

True Interest Cost (TIC)

- Expressed as the annual interest rate of the issuer, includes the cost of issuance, the coupon rate of interest to be paid, and the premium or discount on the bonds.
- Considers the average and weighted interest rates of all bonds in the series for maturity and duration.

Debt Overview and 2015 Bonds

Overview of Outstanding University Debt

Debt Service on the Cancer Center and Medical Center Related Bonds is Paid Fully From Cigarette Tax Revenues and Tobacco Securitization Revenues, Respectively

Project	Various University Projects	Cancer Center (Debt Service Paid by Non-University Revenues)	Medical Center (Debt Service Paid by Non-University Revenues)
Type	University Revenue Bonds	University Revenue Bonds	University Bonds
Security	Network Revenues (Senior) & Legislative Appropriations (Subordinate)	Network Revenues, Cigarette Tax Revenues (Senior) & Legislative Appropriations (Subordinate)	Tobacco Securitization Revenues, Legislative Appropriations (Senior) & Network Revenues (Subordinate)
Related Debt	Series 2006A, 2009A, 2010B & 2012 (R)	Series 2010A	Series 2006A
Outstanding Principal (1/15/2015)	$327,845,000	$127,600,000	$123,140,000
Outstanding Maturity Dates	2015–2040	2015–2040	2015–2032

Overtime, the University intends to economically refund the 2006A University Bonds with University Revenue Bonds in order to eventually extinguish the separate financing resolution

Debt Overview and 2015 Bonds

Debt Service Coverage for Cancer Center and Medical Center

Revenue Source	Fiscal Year	Amount ($ in thousand)	Debt Service ($ in thousand)	Debt Service Coverage Ratio
Cigarette Tax [1]	2011	16,283	2,473	6.58
	2012	18,674	7,724	2.42
	2013	14,382	7,721	1.86
	2014	15,792	7,899	2.00
Tobacco Settlement [2]	2011	12,422	9,925	1.25
	2012	12,665	9,922	1.28
	2013	12,662	9,926	1.28
	2014	12,570	9,926	1.27

(1) *Cigarette Tax – 2 cents per cigarette is deposited to the Hawaii Cancer Research special fund (HRS 245-15).*

(2) *Tobacco Settlement – 28 percent of the State's tobacco settlement moneys is appropriated to the university revenue-undertakings fund for the payment of principal and interest on revenue bonds issued by the Board of Regents for the new medical school facility (HRS 328L-2). Act 2, SLH 2012 reduced the University's appropriation to 27 percent for fiscal year 2014 and to 26 percent for fiscal year 2015 and reverts back to 28 percent for fiscal year 2016 and thereafter.*

University Bonds

Medical School Bonds

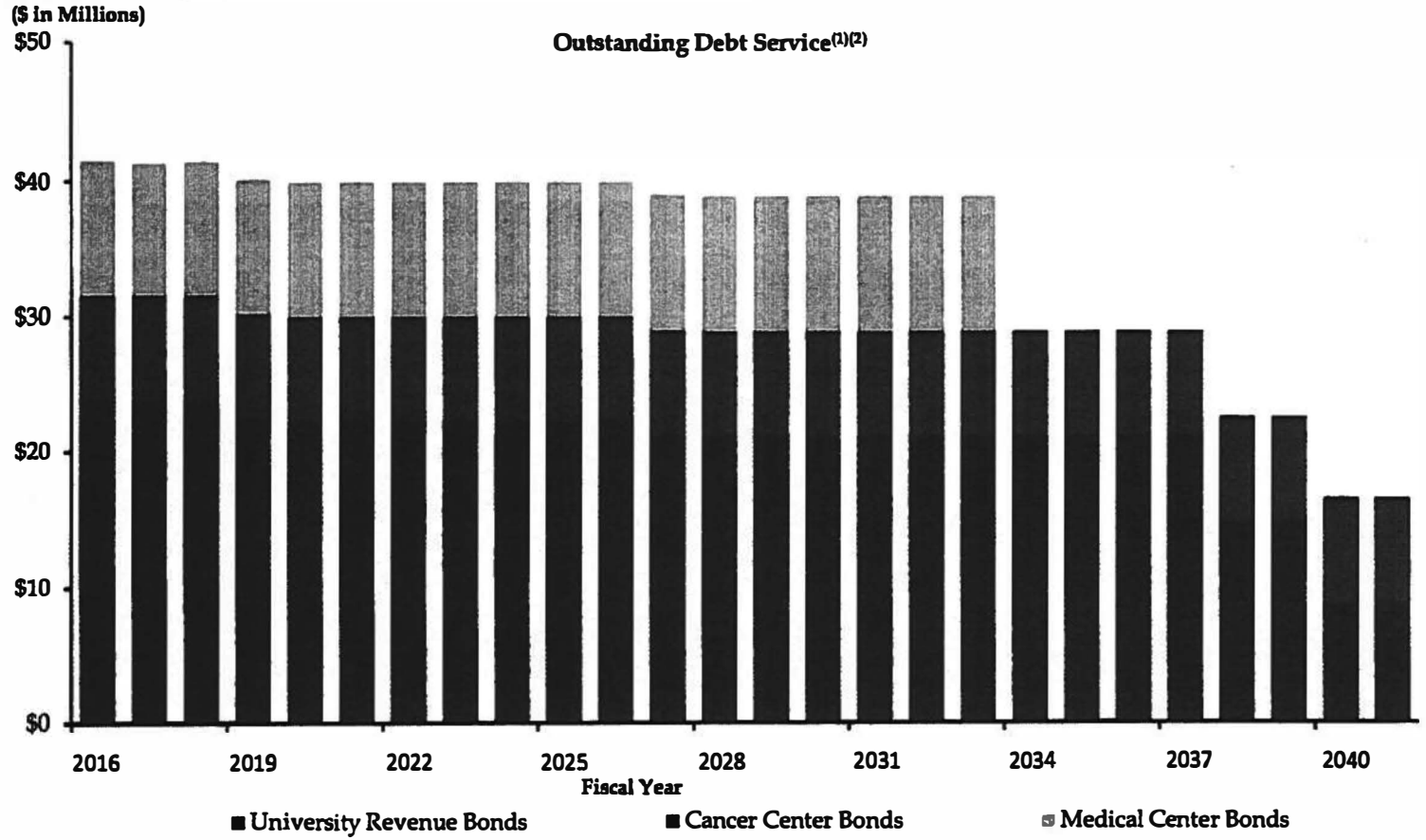
- Issued as Series 2006A Refunding
- Refunded Series 2002A
- $123.14 million outstanding (as of Jan 2015)
- Pledged revenues from state tobacco settlement proceeds
- Network revenues pledged as subordinate (legislative appropriations pledged as senior)
- Estimated annual debt service = $ 9.93 million (2014)
- Tobacco settlement proceeds to the university can only be used for debt service (starting in FY16).
- Annual tobacco settlement proceeds = $ 12.57 million (2014)

University Revenue Bonds

Health and Wellness Center Bonds (Cancer Center)

- Series 2010A
- $127.6 M outstanding (as of Jan. 2015)
- Maturity dates 2015-2040
- Pledged revenues from state cigarette tax revenues
- Legislative appropriations pledged as subordinate
- Up to 26% of cigarette tax revenues to the university
- Cigarette tax revenues above debt service can be used towards operations
- Estimated annual debt service = $ 7.90 million (2014)
- Annual cigarette tax revenues to the university = $ 15.79 million (2014)

Debt Profile



Note: Debt service on 2010 BABs is net of Federal subsidy. Issue by issue detail is included in Appendix B.
(1) 2010A University Revenue Bonds for UH Cancer Center are supported by state cigarette tax revenues.
(2) University Bonds for 2006A JABSOM Medical School are supported by tobacco securitization revenues.

Outstanding Indebtedness (cont.)

	$100,000,000 University Revenue Bonds Series 2006A				$100,000,000 University Revenue Bonds Series 2009A				$111,265,000 University Revenue Bonds Series 2010A-1 (Taxable BABs)	
Par Amount										
Series										
Dated Date	December 13, 2006				April 15, 2009				October 7, 2010	
Outstanding Par	87,540,000				89,820,000				111,265,000	
Due Date	October 1				October 1				October 1	
Orig. Use of Proceeds	New Money				New Money/Current Refunding				New Money	
Maturity	Par Amount	Coupon	Par Amount	Coupon	Par Amount	Coupon	Par Amount	Coupon	Par Amount	Coupon
2015	2,380,000	4.000%			2,480,000	4.000%				
2016	2,480,000	4.000%			2,575,000	3.500%				
2017	2,575,000	4.000%			2,675,000	4.000%				
2018	2,695,000	5.000%			750,000	5.000%	2,035,000	4.000%		
2019	2,830,000	5.000%			2,275,000	4.000%	630,000	5.250%		
2020	2,980,000	5.000%			360,000	4.125%	2,680,000	5.250%	3,655,000	4.161%
2021	3,130,000	5.000%			475,000	4.250%	2,730,000	5.250%	3,755,000	4.361%
2022	3,295,000				150,000	4.500%	3,225,000	5.500%	3,870,000	4.561%
2023	3,460,000	5.000%			1,100,000	5.000%	2,460,000	5.500%	3,985,000	4.711%
2024	3,640,000				510,000	4.750%	3,245,000	5.500%	4,110,000	4.861%
2025	3,825,000	5.000%			965,000	4.750%	2,995,000	5.500%	4,245,000	5.011%
2026	2,450,000	4.250%	1,670,000	4.125%	1,080,000	5.000%	1,965,000	5.500%	4,400,000	5.834%
2027	4,165,000				985,000	5.125%	2,220,000	5.000%	4,570,000	5.834%
2028	4,300,000				3,375,000	5.125%			4,745,000	5.834%
2029	4,440,000				3,555,000	5.250%			4,930,000	5.834%
2030	4,585,000	3.250%			600,000	5.375%	3,145,000	5.250%	5,120,000	5.834%
2031	4,780,000				630,000	5.375%	3,320,000	5.250%	5,320,000	6.034%
2032	5,030,000				665,000	5.375%	3,495,000	5.250%	5,535,000	6.034%
2033	5,285,000				705,000	5.375%	3,685,000	5.250%	5,755,000	6.034%
2034	5,555,000				745,000	5.375%	3,880,000	5.250%	5,985,000	6.034%
2035	5,845,000				360,000	5.500%	4,535,000	6.000%	6,225,000	6.034%
2036	6,145,000	5.000%			380,000	5.500%	4,815,000	6.000%	6,475,000	6.034%
2037					400,000	5.500%	5,115,000	6.000%	6,730,000	6.034%
2038					420,000	5.500%	5,430,000	6.000%	7,000,000	6.034%
2039									7,280,000	6.034%
2040									7,575,000	6.034%
Next Call	Callable 10/1/2016 @ 100%				Callable 10/1/2019 @ 100%				Callable 10/1/2020 @ 100%	
Special Features	MBIA Insured								Subject to Make Whole Call	
Refunding Information					Current Refunded HFDC Revenue Bonds, Series 1995					

Non-Callable
Refunded
Term Bonds

Outstanding Indebtedness (cont.)

Par Amount	$27,375,000		$127,535,000		$26,555,000		$8,575,000	
Series	University Revenue Bonds Series 2010A-2		University Revenue Bonds Series 2010B-1 (Taxable BABs)		University Revenue Bonds Series 2010B-2		University Revenue Bonds Series 2012 (R)	
Dated Date	October 7, 2010		October 7, 2010		October 7, 2010		February 22, 2012	
Outstanding Par	16,335,000		127,535,000		18,295,000		4,655,000	
Due Date	October 1		October 1		October 1		October 1	
Orig. Use of Proceeds	NewMoney		NewMoney		NewMoney		Current Refunding	
Maturity	**Par Amount**	**Coupon**	**Par Amount**	**Coupon**	**Par Amount**	**Coupon**	**Par Amount**	**Coupon**
2015	3,010,000	4.000%			3,340,000	5.000%	1,410,000	5.000%
2016	3,135,000	4.000%			3,495,000	4.000%	1,470,000	4.000%
2017	3,260,000	4.000%			3,640,000	4.000%	1,535,000	5.000%
2018	3,395,000	4.000%			3,810,000	5.000%	240,000	2.000%
2019	3,535,000	4.000%			4,010,000	5.000%		
2020			4,190,000	4.161%				
2021			4,305,000	4.361%				
2022			4,430,000	4.561%				
2023			4,570,000	4.711%				
2024			4,710,000	4.861%				
2025			4,865,000	5.011%				
2026			5,040,000	5.834%				
2027			5,240,000	5.834%				
2028			5,440,000	5.834%				
2029			5,650,000	5.834%				
2030			5,870,000	5.834%				
2031			6,100,000	6.034%				
2032			6,345,000	6.034%				
2033			6,595,000	6.034%				
2034			6,860,000	6.034%				
2035			7,130,000	6.034%				
2036			7,420,000	6.034%				
2037			7,715,000	6.034%				
2038			8,030,000	6.034%				
2039			8,350,000	6.034%				
2040			8,680,000	6.034%				
Next Call	Callable 10/1/2020 @ 100%		Callable 10/1/2020 @ 100%		Callable 10/1/2020 @ 100%		Non-callable	
Special Features			Subject to Make Whole Call					
Refunding Information							Current refunded 2001B Bonds	

Non-Callable
Refunded
Term Bonds

Outstanding Indebtedness (cont.)

Par Amount	$133,810,000
Series	University Bonds Refunding Series 2006A
Dated Date	October 25, 2006
Outstanding Par	123,140,000
Due Date	July 15
Orig. Use of Proceeds	Refunding

Maturity	Par amount	Coupon	Par Amount	Coupon
2015	550,000	4.000%	3,945,000	5.000%
2016	4,545,000	4.000%		
2017	1,535,000	3.750%	3,365,000	5.000%
2018	5,140,000	5.000%		
2019	5,410,000	5.000%		
2020	5,685,000	5.000%		
2021	5,975,000	5.000%		
2022	6,280,000	5.000%		
2023	6,585,000	4.500%		
2024	6,905,000	5.000%		
2025	7,240,000	4.500%		
2026	7,575,000	4.500%		
2027	7,880,000	3.500%		
2028	8,165,000	3.500%		
2029	2,500,000	5.000%		
2030	14,875,000	4.250%		
2031	5,000,000	4.625%		
2032	13,985,000	4.500%		
2033				
2034				
2035				
2036				
2037				
2038				
2039				
2040				

Next Call	Callable 7/15/2016 @ 100%
Special Features	MBIA Insured
Refunding Information	Refunded Series 2002A Bonds

Non-Callable
Refunded
Term Bonds