

Act 188 Task Force – University Funding Formula  
Meeting Summary

Date: November 20, 2008

Time: Meeting called to order by Co-Chair Morton at 10:35 a.m.

Place: Bachman Hall Conference Room 113

Attending:

Task Force Members: Gene Awakuni, Chancellor, University of Hawai'i,  
West O'ahu, designated by Act 188  
Virginia Hinshaw, Chancellor, University of Hawai'i,  
M\_noa designated by Act 188  
John Morton, Vice President for Community Colleges,  
designated by Act 188  
Norman Sakamoto, Senator, appointed by the Senate  
President  
Rose Tseng, Chancellor, University of Hawai'i, Hilo,  
designated by Act 188  
Carol Ann Van Camp, appointed by the Speaker of  
the House

Other Attendees: Mary P. McKeown-Moak, Senior Partner, MGT of  
America, Inc.  
Howard Todo, Vice President for Budget and  
Finance/Chief Financial Officer  
Linda Johnsrud, Vice President for Academic  
Planning and Policy  
Debra Fitzsimmons, Vice Chancellor for  
Administration  
James Nishimoto, Executive Assistant  
Joanne Taira, Special Assistant for Planning and  
Policy

Introduction of Consultant

Co-Chair Morton explained that after today's meeting of the Task Force Dr. McKeown-Moak would be completing her whirlwind visits to all 10 campuses of the University's. Dr. McKeown-Moak said that her campus visits are helping to become familiar with the uniqueness of each campus.

### Approval of October 30, 2008 Task Force Meeting Summary

Co-Chair Morton asked if any Task Force member had comments regarding the draft October 30, 2008 meeting summary previously distributed. No comments were expressed. Task Force member Van Camp moved that the meeting summary be approved and Co-Chair Sakamoto seconded the motion. Co-Chair Morton asked that Task Force members submit to him any edits to the summary. The Task Force unanimously approved the summary with the understanding that Co-Chair Morton would incorporate submitted edits.

### Consultant Comments

Dr. McKeown-Moak explained that she had Co-Chair Morton distribute in advance of the meeting 4 draft documents: Guiding Principles in Formula/Guideline Usage, Principles for Accountability Measures, Accountability/Performance Measures, and Funding Formula Use in Higher Education. The documents described the state of formula funding, how formula funding was being used and how it was accomplishing its various uses. She noted that formula funding has evolved from its development in Texas in the 1950s. Controversy surrounds formulae which are described as good and bad, politically determined, created through compromise, and having many uses.

Some state coordinating agencies use a formula as a framework. Legislatures may use a formula to evaluate budgets, reward productivity and distribute resources. Dr. McKeown-Moak report that a study reported that that Hawaii uses formula funding, Vice President Johnsrud corrected the report by saying that Hawai'i does not use a formula and instead use relationships with benchmark or peer institutions.

Dr. McKeown-Moak explained that developing an optimal or best formula is complex and difficult, because of the differences between institutional missions, geographic locations and resources have to be taken into account. Because many factors are taken into consideration, those developing the formula will need lots of guidance. She explained that even after development of the formula, the formula will tend to be criticized when enrollment decreases or students enroll in other areas, as enrollment changes occur too quickly and the formula suffer from a response lag.

She explained that typical purposes of formulae include an equitable distribution of resource dollars, human resources, capital and technology. Georgia even created a CIP cap formula for its 37 institutions statewide. Formulae tend to cover education in general for such expenses as administration, student services, institutional and operations, while typical expenses not covered by a formula include hospitals, auxiliary services and mandatory transfers. Most

states' formulae don't cover the all expenses. A formula is usually additive based on identified state and constituent needs. During the last 50 years, formulae have become more complex as institutions have become more complex. Formulae tend to vary state by state. Some approaches include complex regression analyses while others may use another state and its formula as a model. Dr. McKeown-Moak cautioned against using another state's formula as Hawaii is unique and another state's formula may not work the same in Hawai'i. She explained that all formulae evolve over time as they are built on compromises. To develop an appropriate formula, Dr. McKeown-Moak said she needed guidance on what is important to Hawaii.

Each formula has advantages and disadvantages. Some are based on rate per base factor unit, others are based on percentage of base factor, and others still are based on base factor/position ratio with salary rate. The rate per base factor method starts with an estimate of a given base, e.g., credit hours, and then multiplies the base by a specific unit rate. Percentage of base factor assumes there is a specific relationship between a certain base factor like faculty salaries and other areas like department support services. The base factor/position ratio with salary rates is based on a predetermined "optimal" ratio between a base factor and the number of personnel. Base factor is based on ideals and typically based on the past, which is a problem when, for example, the past indicates that past students want books, yet present students no longer want books. Advising is another key area for which a formula is difficult to determine given the differences in approaches to providing advising services in centers versus non-center based counseling.

Base factors may include headcount, square footage, number of students or type of full-time equivalency and credit hours. The cost of education is typically calculated by the budget office based on total expenditure minus research dollars plus a prorata share of debt service. Other factors to be considered include proration of undergraduate and graduate student costs to determine full-time equivalency, variations of mission, differentiation between varying course costs, e.g., engineering course costs versus English course costs, economics of scale and scope, and diseconomies of scope. In 1972, Carnegie described the ideal minimum enrollment of 5,000 for a research university; whereas enrollments of less than 10,000 as being associated with diseconomies.

Dr. McKeown-Moak stated that developing a formula needs guiding principles. 14 guiding principles were recommended in the distributed handout. Act 188 had some of the same guiding principles. Guiding principles include: recognize unique missions and roles of campuses, recognize higher education needs of the state, equity, consistency, responsive to change, recognize special needs, recognize workforce needs, incentives, simple and transparent. Dr. McKeown-Moak cautioned that conflict occurs when a priority is given to recognizing the

role of campuses uniqueness resulting in a more complex funding formula. To address campus differences, Vice Chancellor Fitzsimmons suggested that there could be weighting to compensate for differences. Chancellor Hinshaw said that excellence should be one of the keys the University's mission and role of campus. She explained that the problem is that universities cannot change on a dime. A university takes time to change, they are not unwilling, but require time to change.

Dr. McKeown-Moak said that some states use rolling averages over 2, 3, or 5 years to help flatten variations. Formulas need to be able to address fluctuations while giving time to adjust. Co-Chair Morton asked if there were formula based on percentage of personnel. Dr. McKeown-Moak said that some formulas are based on a percentage of personnel with variation between institutions because of fluctuation in costs of energy. Vice Chancellor Fitzsimmons asked if there are best practices citing, for example, specific percentage, e.g, some experts suggest that from 3-5% of an organization's budget should be set aside as a reserve.

Dr. McKeown-Moak said that 20 years ago Florida had a fixed human resources formula but has since moved away from fixed human resources formula. Co-Chair Morton asked if Dr. McKeown-Moak envisioned a fixed percentage of personnel at the department? Chancellor Hinshaw suggested that faculty salary plus other support costs be considered with more funding for research costs. Dr. McKeown-Moak said that cost formula would vary between different cost-per-staff or cost-per-discipline.

Ms. Van Camp suggested that separate campus mission be recognized and asked how other states funded system offices. Dr. McKeown-Moak said that Illinois provided separate funding for the state office. Chancellor Tseng said that in Hawaii, system costs were taken off-the-top. Ms. Van Camp said it important to determine what services the system provides.

Co-Chair Sakamoto said that he would like to see the consultant finish the homework on best practices and existing formulae. He asked if the consultants planned to recommend a formula or if the consultant would have time and planned to develop concepts underlying a formula and then make a recommendation of formula options? Dr. McKeown-Moak said that there was time to develop concepts and then make recommendations.

Dr. McKeown-Moak asked Task Force members what they believed should be the primary guiding principles? She said that principles identified in Act 188 will be considered in the selection of a formula. Co-Chair Sakamoto said that the formula be mission sensitive, as each institution has different degree offerings. He cited UHH's Pharmacy degree as an example of being mission sensitive. Dr.

McKeown-Moak asked if each campus mission was approved by the Board of Regents. Co-Chair Morton responded yes and then asked if 10 different formulas would be needed to be sensitive to different campuses. Dr. McKeown-Moak answered no, 10 formulae would not be necessary.

Chancellor Tseng said that there are differences between rural and urban institutions and cited the example of environmental education. UHH has jumped in to provide programs in response expressed needs and because of geographic isolation. She asked that since UHH is only comprehensive on Hawai'i does it need to be more broadly defined as it responds to the broader needs of state? Vice Chancellor Fitzsimons said that mission should not be the sole basis for distribution of resources. There needs to be supplementation because of campus uniqueness. Dr. McKeown-Moak suggested that base costs equal fixed cost of faculty plus other costs. A response was offered that in Hawaii, the base equals last year's funding.

Co-Chair Sakamoto said that he was concerned with stability. He would like to see a formula that recognized quick response. He would like to see if the formula could expedite and facilitate change. Chancellor Awakuni said he cared about innovation and creativity. He cited the example of his efforts at Stanford to help create the Clark Center for Interdisciplinary Studies, which went from start to finish in only 18 months. He said that he thought there should be incentive for being nimble in being responsive to state needs and seizing opportunities. Chancellor Hinshaw said that she thought great research institutions were nimble and responsive. Co-Chair Sakamoto said he would like to press for recognition of nimbleness and flexibility.

Chancellor Hinshaw said that she was accustomed to making changes by reallocating funding but first created fund savings for reallocation purposes. However, she has learned that once such fund savings are created, they become targets for sweeping compromising and as a consequence such sweeping thwarts planning efforts. Co-Chair Sakamoto said that in these economic times "the vacuum cleaner is on." Chancellor Hinshaw said that may be there is a need for a process that creates data to allow retention of funds being earmarked for reallocation. Vice President Johnsrud said that it is an issue to be able to hold on to reallocated funds and wondered if the ability to retain funds should be part of the formula? Vice Chancellor Fitzsimons agreed that the ability to create funds for reallocation is a concern and retention of reallocated funds should be part of a formula. Vice President Johnsrud said that while preparing for cuts she would like to see the University have the ability to reallocate funds for change.

Co-Chair Morton said that a structural issue is the lapsing of G-funds. However, the lapsing of funds may be beyond the scope of the Task Force. Vice President Johnsrud asked if the DOE lapsed all G-funds? Co-Chair Sakamoto responded

that the DOE is allowed by statute to carryover 5% of its G-funds. He said that a proposal to allow the University to carryover funds is separate from formula but such a proposal to authorize for funds carry-over could be sought through legislation, if the group agrees. Dr. McKeown-Moak said that she heard that incentives were needed for the effective and efficient use of funds to meet state goals. Ms. Van Camp said that she thought incentives should be included in the formula.

Dr. McKeown-Moak says that her site visits were informative and she was overloaded with data. Co-Chair Morton stated he thought that once guiding principles were identified then the consultant could plug data into those formulae meeting the guiding principles to see what outcome may be produced by the different formulae. Dr. McKeown-Moak said that MGT will look at other states to satisfy adequacy. Co-Chair Morton said that he would like the developed formula to show the gap between current funding and what is needed and then how the formula would help satisfy the gap as well as the distribution of resources.

Chancellor Awakuni asked Dr. McKeown-Moak what she wanted when conducting her site visit to UHWO. Dr. McKeown-Moak said that she would like to hear from campus about the campus' uniqueness. Chancellor Awakuni said that UHWO uniqueness is that it is an emerging institution. He said that he thought a base plus formula may be appropriate in light of the WASC's focus on creating a culture of evidence. He favors base plus and would like to discuss triggers for incentives.

In response to Co-Chair Morton, Dr. McKeown-Moak said that she thought she could have a draft status report by December 20<sup>th</sup>. Co-Chair Morton suggested that the Task Force may need to meet prior to December 20<sup>th</sup>. The Task Force agreed to have a tele-conference from 11:00 a.m. to 1:00 pm on December 11<sup>th</sup>. The tele-conference would then be followed by a face-to-face meeting of the Task Force and Dr. McKeown-Moak to review the draft status report on December 18<sup>th</sup> at 10:30 a.m.

Chancellor Hinshaw said that she would like to see a reduction in lobbying by individuals for their individual programs and interests. Co-Chair Sakamoto said that he expected that communication with legislators and advocacy would likely continue. Co-Chair Morton said that if a formula is agreed to, then he did not expect lobbying for more than that provided by the agreed upon formula. Chancellor Awakuni explained that during the past legislative session, funding for a project had been proposed for a project not included in the campus' budget. Even though the project would have benefited the campus, he did not lobby for it because it was not included in the campus' budget request. Co-Chair Morton said that he saw the base funding as an expression of legislative intent. Chancellor Awakuni said that he sees tension being created in the reallocation

process to meet state needs citing for example the President's distress when the legislature becomes involved in University decisions and matters. If legislative changes can be made as part of larger university priorities that allow the university to make the changes, then there is less tension. Co-Chair Sakamoto said that he thought it misguided to take from one to give to another. He said that there are times that if the funds are not used they will be unspent and suggested that he did not think advocacy would go away.

#### Next Meeting

The next Task Force agreed to schedule its next meeting for December 11, 2008 at 11:00 to 1:00 p.m. in Bachman Hall 113 with a tele-conference connection with Dr. McKeown-Moak from Texas.

A face-to-face meeting of the Task Force with Dr. McKeown-Moak was scheduled for December 18, 2008 at 10:30 a.m. in Bachman Hall 113

#### Adjourn

The Meeting was adjourned at 12:20 p.m.