

Act 188 Task Force – University Funding Formula
Meeting Summary

Date: December 18, 2008

Time: Meeting called to order by Co-Chair Morton at 10:42 a.m.

Place: Bachman Hall Conference Room 113; and University of Hawai'i at Hilo,
Chancellor's Conference Room via Polycom

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
Rose Tseng, Chancellor, University of Hawai'i, Hilo,
designated by Act 188 via Polycom
Carol Ann Van Camp, appointed by the Speaker of
the House

Other Attendees: Mary P. McKeown-Moak, Senior Partner, MGT of
America, Inc.
Linda Johnsrud, Vice President for Academic
Planning and Policy
Kathleen Cutshaw, Vice Chancellor for
Administration, University of Hawai'i, Manoa
Debra Fitzsimons, Vice Chancellor for Administration,
University of Hawai'i, Hilo
Philip Castille, Vice Chancellor for Academic Affairs,
University of Hawai'i, Hilo via Polycom
Luoluo Hong, Vice Chancellor for Student Affairs,
University of Hawai'i, Hilo via Polycom
James Nishimoto, Executive Assistant
Joanne Taira, Special Assistant for Planning and
Policy

Consultant Comments:

Dr. McKeown-Moak completed her visits to all 10 campuses. She stated members of the staff and faculty at each campus were very proud of their respective campuses, were mindful of students and their needs, and were able to articulate each

campus' uniqueness. From what she learned from her visits, she said that it would be hard of find matches between UH campuses and peer institutions, because of UH campus' uniqueness.

With respect to funding formula, Dr. McKeown-Moak explained that she looked at various methodologies for example: base plus formula, comparisons with peer institutions, performance based formula, and cost sharing. She cited Virginia as an example of funding based on tuition and fees plus a legislative appropriation with students paying 10-35% of the cost of education. In North Dakota, the students' share of the cost of education is 25% at two-year institutions, 30% at baccalaureate institutions, 35% at master's degree, and 40% at doctoral institutions.

Dr. McKeown-Moak said she had eliminated various funding approaches. She eliminated the use of comparison with peer institutions because of Hawai'i's uniqueness, high cost of listing, high percentage of Pell grant recipients relative to peers, and that fact that Hawai'i would always be chasing data, as peers institutions tend to be reluctant to provide data in a timely fashion. She eliminated the full performance funding approach as she did not believe that UH should be at the mercy of factors beyond its control. Additionally, she noted that with a full performance approach, planning is difficult – the distribution of resources based on 150 different indicators is difficult, and the facts that some indicators may not be related to the performance of the institution and other factors are not quantifiable. For example, South Carolina includes (as an indicator based on the increase in the number of voters) an indicator that has nothing to do with the university's performance. With respect to performance, Dr. McKeown-Moak noted that Act 188 specifies 2% of funding is to be associated with performance; however, Act 188 does not specify what the 2% is to be applied against. She eliminated the base plus approach, which becomes a "base minus" approach in weak economies. While the base plus approach has elements of stability, could be linked to FTE, is relatively easy to use and may be used to compare with peer institutions it is not equitable, that is the approach does not address past inequities, and does not promote efficiencies.

Vice President Johnsrud asked how the base plus approach "gets to equity." Dr. McKeown-Moak said that the approach calculates the financial needs and provides a comparison to where the campuses are. Ms. Van Camp said that she does not want to see a formula that perpetuates the past.

Dr. McKeown-Moak stated that all formulae have advantages and disadvantages. She leans towards the use of a hybrid model. UH already has elements of base plus. A base would include certain given costs (e.g., a campus chief executive, an academic affairs officer, a registrar, advisers/counselors, financial aid personnel, a human resource director, various support staff, a physical plant, a library, a computer system and so forth), and could be determined through regression analysis. However, in Hawai'i where numbers are limited, regression analysis is not feasible.

She recommends the construction of a cost base that takes into consideration the costs of core support. Vice President Johnsrud asked if the base was based on expenditures. Dr. McKeown-Moak said that the base would not be what you're spending but would take into consideration economies of scale and consideration of all the factors identified by Act 188. Chancellor Hinshaw said that a funding formula that is tied to positions becomes problematic, as changes are made more difficult. Dr. McKeown-Moak stated that other states provide flexibility to facilitate making change; she could include a recommendation for more flexibility, as she noted that UH currently enjoys too little flexibility.

Vice President Johnsrud said that she thought she has seen a movement away from line item budgeting and asked if line item budgeting were eliminated, what would be its replacement. She further noted that the use of the program-change-request approach in budgeting tended to reinforce bad behavior and only resulted in add-ons. Chancellor Awakuni asked that if Georgia uses a "base plus plus" formula and if UH is not moving away from program-change-request approach, if the budget process changes. Dr. McKeown-Moak said that it looks like there is a need to move away from program-change-request approach in building the UH budget. Co-Chair Morton said that with a new funding formula the argument changes to one of how much of the formula is to be funded. He also asked what the legislative initiatives were.

Chancellor Hinshaw said that more flexibility was needed with respect to re-allocations. Co-Chair Morton said that some states have given up on the management of their universities through the control of positions. Vice President Johnsrud said she thought that legislature wants to move away from program-change-request approach. Co-Chair Morton said that the legislature uses position control to control the costs of fringe benefits. Therefore, if UH move from position control, it must then decide how to manage fringe benefits costs. Dr. McKeown-Moak said that Maryland's budget was based on position control and funding source. This approach was very complex and difficult to administer. What is being proposed is that a single base be created and then used for Kaua'i and UHM, with UHM's research mission being addressed through add-ons. Chancellor Hinshaw noted that compensation varies campus by campus (e.g., directors of financial aid at Kaua'i CC is paid differently than at UHM). Dr. McKeown-Moak said the formula would address these differences through use of weighted credit hours.

Ms. Van Camp asked if utilities would be based on cost per kilowatt hour to differentiate neighbor island costs from O'ahu costs. Dr. McKeown-Moak said that utility costs would be based on actual costs. Vice Chancellor Cutshaw noted that research institutions are more expensive to operate. Dr. McKeown-Moak said that the formula would take into consideration and provide accommodation for different missions.

Dr. McKeown-Moak asked if athletics were covered as part of an instructional program, noting that student housing is not included, as they are self supporting.

Chancellor Tseng said that athletics is a requirement that is not self-sustaining. Athletics (being a community priority), for which the additional costs associated with travel, have to be addressed. Dr. McKeown-Moak said that some cost already included in the dollar amounts are student headcounts, and that athletics does not have to be pulled out if they are part of the instructional program. Chancellor Awakuni said that if athletics are broken out they become a target. While at Cal Poly he had experienced no raises for athletics over 7 years because they were a separate item. Dr. McKeown-Moak said that it would be better to include athletics in the base and then manage money to achieve the goal. Vice Chancellor Cutshaw said that she did not want to stop the legislature from supporting level 1 athletics. Co-Chair Morton said that he foresaw that dollars could be moved around and that he did not think that athletics should be singled out

Dr. McKeown-Moak said that what she wanted from Task Force members is to reach agreement on the principles of the funding formula.

Co-Chair Morton said that with respect to utilities that a relationship needed to be included between usage and conservation efforts; for example utilities should somehow be related to gross-square-footage. Chancellor Awakuni added that HECO was moving towards incentive model. Vice Chancellor Fitzsimons suggested that consideration be given to the impact of new building coming on line as their impact relates to utilities and gross-square-footage.

Dr. McKeown-Moak said that to apply formula would require lots of data manipulation. Vice Chancellor Fitzsimons asked how the head count calculation would be made when Hawai'i Community College students use UHH's library. Co-Chair Morton said that some factor of Hawai'i Community College head count would have to be used when calculating UHH's library cost. Co-Chair Morton noted that the Employment Training Center does not earn credits; therefore, it is important to use contact hours as a factor in the funding formula. While credit hours earn credits, apprenticeship programs do not earn credit hours, yet non-credit programs are an important source of funding for which the State provisions millions in support for non-credit courses. Dr. McKeown-Moak said that performance funding component may be on top funding, provided citing the example of the production of a certain number of nurses, which when not produced, would lead to a reduction in funding after the fact. Vice Chancellor Cutshaw asked if the numbers being used were "rolling numbers." Dr. McKeown-Moak said yes; the numbers were based on a rolling 3 years.

Co-Chair Morton asked about the mix between resident and non-resident in determining funding. Dr. McKeown-Moak said that the formula did not include a non-resident weight. She said that once the level of funded were determined, then the University would have to decide through policy the mix of the sources of funds (e.g., resident versus non-resident tuition), to generate funds. Co-Chair Morton stated that what is being calculated is the total needs of UH, which would then decide what

percentage of the needed funding is to come from the state; in turn, each campus could then decide the mix of students (resident or non-resident) to generate the university share of funding. Dr. McKeown-Moak confirmed that the campuses would have to manage their own mix of students that would be necessary to generate needed tuition and fees.

Co-Chair Morton said that the level of funding for UHM was related to UHM's mission, as UHM would likely enjoy greater weighted credit hours than community colleges resulting on the State paying more for UHM than community colleges. He noted that UHM has a lower teaching load and smaller classes than the community colleges based on their respective missions, and that these differences accounts for the cost differentials. He asked rhetorically, if anything else in differentiated missions needed to be included in the formula. Vice Chancellor Fitzsimons asked how incentives were going to be measured. Dr. McKeown-Moak said that incentive had not yet been defined. Co-Chair Morton said among the components of base were native Hawaiian, all student graduations, STEM, incentives, and repair and maintenance. He said that the rolling 3 years would provide stability through the weighted credit hours which provides (.25 times the credit hours for last year + .5 times the budgeted number of credit hours for the current year + .25 times the projected number of credit hours next year). He noted that IRO calculates the credit hour projections algorithmically created, and only when campuses apprise IRO of any significant changes are there adjustments to the projected credit hours.

Co-Chair Morton said that he would draft a report of where the Task Force was at and how the Task Force got to where it was at. Vice Chancellor Fitzsimons asked how the transition from the current approach to funding to the new approach to funding would deal with existing reserve funds, as she was fearful that some reserves might get swept. Dr. McKeown-Moak said that there is a GASB standard that requires the maintenance of unrestricted fund balances. Co-Chair Morton said that there are no balances at the system but that such may exist at the campuses. Vice Chancellor Fitzsimons said that one rule of thumb she had heard was to have a reserve equivalent to 90-120 days of payroll. Co-Chair Morton said that the community colleges have an accreditation requirement for a 3-4% reserve. This requirement is made difficult because of the prohibition against the rolling-over of State funds. Vice Chancellor Cutshaw asked if a mechanism could be created to allow for the roll-over of funds for long-term commitments.

Co-Chair Morton asked Task Force members to go back and talk about funding formula principles in particular to identify other possible coefficients that may need to be incorporated into the base. He said that he may take formula principles presented to the Task Force to the Vice Presidents.

Co-Chair Morton said that the legislative hearing for the University was scheduled for January 15th. Therefore, he thought it best to plan the next Task Force meeting for January 14th.

**Draft Funding Formula Presented to the Act 188 Task Force
on December 18, 2008
By Dr. McKeown-Moak**

Funding need = base + a times weighted credit hours + b times weighted contact hours + c times number of Native Hawaiian students + d times number of Pell grant recipients + e times headcount students + f times gsf + utilities allowance + g times outside research funding + h times public service funding + incentive or performance funding +

- Where base is equal to the amount needed to have a campus, including the ceo, cfo, cao, accountant, registrar, financial aid officer, counselor, hr officer, custodian, physical plant director, support staff, (i.e. secretary or receptionist), cio.
- Weighted credit hours are equal to the sum of the hours by level and discipline, weighted by the varying costs of providing these hours; further where the sum is equal to (.25 times the credit hours for last year + .5 times the budgeted number of credit hours current year + .25 times the projected number of credit hours next year);. And with special weights for those credit hours in programs that meet the workforce needs of the state, such as nursing, teaching, etc.
- Weighted contact hours are equal to the sum of the apprenticeship and non=credit hours, (.25 times the number of contact hours last year + .5 times the budgeted number of contact hours current year + .25 times the projected number of contact hours next year); where provision of these classes is part of mission;
- Number of native Hawaiian students is as reported to the System;
- Number of Pell grant recipients is as reported by System;
- Headcount students are equal to the sum of (.25 times the number of students registered last year + .5 times the budgeted number of students current year + .25 times the projected number of students next year);.
- GSF is equal to the number of education and general gross square feet maintained;
- Outside research funding is the amount of externally funded research, where research is a part of mission;

- Public service funding is the amount of special public service, as required by mission; and
- Incentive or performance funding is equal to a maximum of two percent of the sum of all the above

Next Meeting

The next Task Force has been scheduled for January 14, 2009 at 10:30 a.m. in Bachman Hall 113. Dr. McKeown-Moak to attend in-person.

Adjourn

The Meeting was adjourned at 12:10 p.m.