

Act 188 Task Force – University Funding Formula  
Meeting Summary

Date: January 14, 2009

Time: Meeting called to order by Co-Chair Sakamoto at 3:45 p.m.

Place: Bachman Hall Conference Room 113

Attending:

Task Force Members: Ann Nishimoto, Vice Chancellor for Administration,  
University of Hawai'i West O'ahu for 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 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  
Howard Todo, Vice President for Budget and  
Finance/Chief Financial Officer  
Debra Fitzsimmons, Vice Chancellor for  
Administration, University of Hawai'i, Hilo  
James Nishimoto, Executive Assistant  
Joanne Taira, Special Assistant for Planning and  
Policy

Consultant Comments:

Dr. McKeown-Moak presented an initial version of a funding formula for the University of Hawai'i. She explained the components of the draft formula:

- 1) a factor related to the base cost of higher education, that is, what fixed administrative costs are necessary once a decision is made to have a college whether it is a Community College or a four year campus.
- 2) a factor related to the credit hours generated by the students. This factor is a measure of full-time equivalent student enrollment and includes not just the cost of instruction, but also of the related costs associated with student services, library services, and other support costs that are driven by higher enrollments. The factor would take into account different levels of students have different costs – graduate and professional programs cost more than undergraduate, science classes cost more than history classes, technical classes cost more than liberal arts. The factor would take into account for the mix of levels, programs, and students at the various campuses. By design the factor would take into account enrollment trends but not react too quickly to sudden shifts in enrollment.
- 3) a factor related to contact hours generated by students who do not earn credit (e.g., apprenticeship students, Employment Training Center students, and construction academy students).
- 4) a factor related to the number of native Hawaiian students enrolled.
- 5) a factor related to the number of Pell Grant recipients, as a proxy indicator of how well the University is serving low-income students.
- 6) a factor related to the headcount of students to take into account the fact that certain costs are the same whether a student is taking one class or four classes.
- 7) a factor related to the Gross Square Footage of the campus. This factor is related to the operations and maintenance of the space, including utility costs. The costs associated with construction or repair and maintenance would not be part of the formula.
- 8) a factor related to the level of extramurally funded research.
- 9) a factor related to the amount of general funded public service activity, such as agriculture extension agents or the Imiloa Science Center.
- 10) a factor related to performance in reaching the identified strategic outcomes – student graduation and transfer rates, meeting State workforce needs, more STEM graduates, etc.

Dr. McKeown-Moak emphasized that base cost are fixed administrative cost irrespective of the size of the campus or its mission. The weighted credit hour approach is used by NC and Texas and takes into account the different types of

students (e.g., undergraduate versus graduate, differentiation by discipline and costs associated with student and library services). The native Hawaiian students' enrolled factor is intended to provide recognition of this underserved group. A utilities factor is included although current data was not available at the time the draft formula was prepared and such data is needed. Extramurally funded research is based on a percentage of sponsored research funding. Factors for nursing and health are based on a dollar amount multiplied by the number of full-time-equivalent students. A factor is under consideration relating to the performance in reaching the identified strategic outcomes – student graduation and transfer rates, meeting State workforce needs, more STEM graduates, etc. Dr. McKeown-Moak explained that much more discussion is needed to refine the factors' definitions and the determination of appropriate coefficients for each of the factors.

Chancellor Tseng noted that for nursing the draft formula for the University of Hawai'i at Hilo (UHH) seems to count the actual number of students enrolled in nursing, whereas, the student count for Hawai'i Community College count seems to be counting students enrolled in pre-nursing. She suggested that more discussion was needed on the definition and a process adopted to ensure more consistency in the reporting of data. Vice Chancellor Fitzsimons echoed Chancellor Tseng's comment that more attention is needed to ensure the correct and consistent reporting of data. Chancellor Tseng asked if the Imiloa program would be included in UHH public service efforts or in some other budget area. Dr. McKeown-Moak responded that the University would need to discuss and refine the definition of what is to be included in public service as well as in all other factors. Ms. Van Camp asked if each of the campuses could be asked to verify reported numbers (e.g., costs of athletics) to ensure that such costs are correctly reported and consistently reported for the agreed upon factors.

Co-Chair Sakamoto said that he saw Dr. McKeown-Moak's efforts as having two parts, part 1 being the development of a draft formula in concept and part 2 being the efforts of the University to reach agreement on the definition of the elements of the formula and having data report according to the agreed upon definitions. In other words, Dr. McKeown-Moak would provide the "recipe of ingredients and cook book" and the University would have to apply the recipe.

Chancellor asked if the base factor would change with respect to the size of the campus. Dr. McKeown-Moak said that the base factor was fixed and the size of the campus would be reflected in other factors. Dr. McKeown-Moak cited the research factor, which varied between campuses depending upon their involvement in the conduct of research.

Chancellor Tseng asked if provisions were being made to take into account the additional costs associated with neighbor island travel expenses (e.g., athletic team travel). She cited Kamehameha Schools as an example, which provides a specific amount for neighbor island travel expenses. Dr. McKeown-Moak said that providing

funding for travel is a topic that requires further discussions as some states that require extensive travel (e.g., Alaska) do not provide specific funds for travel.

Dr. McKeown-Moak said that she did not have data regarding utility costs and information relating to gross square footage. Vice Chancellor Fitzsimons noted that the gross square footage information was available centrally given recent efforts to develop campus facilities information. Dr. McKeown-Moak said that she would follow-up with Co-Chair Morton to access needed information.

Dr. McKeown-Moak explained that some states (e.g., Texas) have adopted a “hold harmless” provision as part of their approach to formula funding. According to the “hold harmless” provisions, as long as an institution stays within a specified range (e.g., range of enrollment) funding is maintained for stabilization purposes. Dr. McKeown-Moak said that many states have very complex formula that may vary between 4- and 2-year institutions. Chancellor Tseng noted that while California has a complex formula, there appears to be a trend towards moving to a formula that focuses on enrollment (e.g., dollars/student FTE), and when enrollment goals are not met, the campuses are expected to return funding that had been provided based on enrollment projections. Dr. McKeown-Moak said that many state’s funding approaches (e.g., Illinois, Virginia) may not involve a specific funding formula, but require extensive and complex data collection efforts and analyses.

Co-Chair Morton asked that Dr. McKeown-Moak provide him copies of the data she used in developing the draft formula so that he could distribute such to other Task Force members. Task Force members were asked to review the preliminary data that Dr. McKeown-Moak used once it had been forwarded.

Ms. Van Camp moved and Chancellor Tseng seconded the motion that the summary of the December 18, 2008 Task Force meeting summary that had been previously circulated to Task Force members be approved. The motion was unanimously approved.

Co-Chair Sakamoto moved and Chancellor Tseng seconded a motion that the draft Progress Report (see Attachment A) to the 2009 Hawai’i State Legislature dated January 16, 2009 that had been circulated to Task Force members be approved. The motion was unanimously approved.

Co-Chair Morton announced that on January 16, 2009 a hearing had been scheduled by the Senate and House committees on higher education to receive a status report of Act 188 Task Force efforts. [Note: The January 16, 2009 hearing was subsequently rescheduled to January 27, 2009.] He invited Task Force members to attend. He further noted that while the efforts to develop a funding formula may not be in “sync” with the legislature’s efforts to identify potential areas for budget cuts, he would present the approved Task Force’s status report.

Co-Chair Morton said that he may offer for consideration a proposal that a mechanism be created to provide additional funding when new programs are undertaken (e.g., Pharmacy at UHH). Dr. McKeown-Moak said that some states make provisions for start-up funding. Co-Chair Morton said that he did not want to see start-ups become the new program change requests (PCRs), which is the old way of developing budget.

Co-Chair Morton noted that the University's funding formula was different from the Department of Education's (DOE) weighted student funding formula. He noted that the institutions' missions were different and the institutions' complexities different. Co-Chair Sakamoto said that the DOE's formula was based on student characteristics and that the DOE's formula made no provisions for a research mission or consideration of gross-square-footage as a funding factor. Dr. McKeown-Moak suggested that it may be possible to weight consideration given disadvantaged students using a weighting of the number of Pell grants received.

Co-Chair Morton added that some states (e.g., Kentucky) try to provide increased funding based on the increase in graduates and their associated characteristics. Co-Chair Sakamoto said that he would like to see if the formula could provide full funding for graduation on-time and reduced funding if graduation is delayed. Dr. McKeown-Moak said that the Texas funding formula has such an association between funding and graduation on-time. She further noted that Florida increases tuition for those students who take more credits than required to graduate.

Co-Chair Morton noted that position control and fringe benefit funding may not work with a funding formula. It may be necessary that the pass-through of fringe benefit costs may have to be accommodated outside any formula developed. Co-Chair Sakamoto said that he looked to Dr. McKeown-Moak to provide information on how other states use formula funding and to explain how the proposed formula could be used as a tool.

Co-Chair Morton asked what the next steps were. Dr. McKeown-Moak said that she would send the numbers to Co-Chair Morton for distribution to Task Force members for checking. Co-Chair Morton noted more discussion is needed regarding the definition of factors and some missing data needed to be collected for Dr. McKeown-Moak.

Co-Chair Morton suggested and Task Force members confirm that the next Task Force meeting be scheduled for early March. Between January and March, Dr. McKeown-Moak would email revised formula as feedback was received. Co-Chair Morton noted that the formula needed to address both inputs as well as outputs. Co-Chair Sakamoto added that the formula would need to seek a balance between the University's statutory autonomy and the legislature's constitutional responsibility for matters of "statewide concern." Co-Chair Sakamoto saw that formula as a tool to help build confidence in its creation of a methodology to identify funding needs. Co-Chair Morton said that if the formula could be created, it could be used to engage the Board of Regents and faculty in a dialogue on funding during the March-April timeframe. Co-

Chair Sakamoto suggested that if a formula could be developed that it may be possible to seek legislation to have the University's funding needs submitted in accordance with the developed formula.

Chancellor Tseng said that any developed formula must ensure that needed resources to produce desired outcomes are provided. Co-Chair Morton said that between January and March data would be collected and sent to Dr. McKeown-Moak.

Next Meeting:

The next Task Force Meeting has been scheduled for early March, specific date and time to be determined. Between January and March Dr. McKeown-Moak would exchange emails regarding the developing formula and data for review.

Adjourn:

The Meeting was adjourned at 5:10 p.m.

## REPORT TO THE 2009 LEGISLATURE

Progress Report  
Submitted by the Act 188 Task Force  
to  
The Hawai'i State Legislature

January 16, 2009

Act 188 of the Session Laws of Hawai'i 2008 established a task force to assist the University of Hawai'i in developing a

*... budgetary system that includes an equitable, consistent, and responsive funding formula for the distribution of fiscal resources to the various University of Hawaii campuses. The funding formula shall:*  
*(1) Be linked to the enrollment of full-time equivalent (FTE) students at each campus;*  
*(2) Assign different weights in recognition of the varying costs and revenues relating to educating different categories of students...*

In accordance with the statute, the task force was convened with the following members:

Gene Awakuni, Chancellor, UH-West Oahu  
Virginia Hinshaw, Chancellor, UH-Manoa  
John Morton, Vice-President, UH Community Colleges  
Senator Norman Sakamoto, appointed by the President of the State Senate  
Rose Tseng, Chancellor, UH-Hilo  
Carol Ann Van Camp, appointed by the Speaker of the House of Representatives

Senator Sakamoto and Vice-President Morton were selected to serve as co-chairs of the task force.

As provided by the law, the task force solicited proposals for a consultant to assist with the development of the funding formula. Proposals were solicited from four national firms with experience in developing state funding formulas and, by unanimous consent;

the task force selected Mary McKeown-Moak of MGT of America, Inc. as the consultant.

Working with data provided by UH and from national data sources, the consultant and the task force have been considering various approaches and methods of formula funding. A discussion of some of the principles of formula funding and of accountability or performance funding as presented by the consultant are included as Attachment B and Attachment C.

The Task Force continues its work and is now focusing on those factors that should be included in any formula to provide the type of equitable funding and performance incentives as described by the law. There is recognition that the formula must reflect the different missions and associated costs of the different components of the University, the differences in cost associated with size, scale, and geographic location, and costs associated with providing incentives in achieving the identified strategic outcomes of the University. The Task Force anticipates that the recommendation for a funding formula can be completed in Spring 2009.

The work of the task force, including all minutes of meetings and related documents may be viewed at <http://www.hawaii.edu/act188/>.

Attachment B

## Guiding Principles in Formula/Guideline Usage

Over time, a number of researchers in the area of higher education finance have offered their concepts regarding desired characteristics in state higher education funding formulas. Frequently, what is offered as the “desired characteristic” is in direct response to a perceived shortcoming of a particular state’s funding formula or guideline.

Fourteen characteristics, listed and summarized below in no particular order of importance from A to N, often tend to be in opposition to one another. For instance, the desire to have a simple-to-understand funding formula may preclude features that might contribute to a greater degree of equity (e.g., more detailed sub-categories to reflect institutional differences). Similarly, a formula that is responsive to changes in enrollment levels may not be able at the same time to provide the desired level of stability. Use of the characteristics provides an objective framework for evaluating funding policy alternatives – both during the phase of review of the current formula and in subsequent years. There will be many alternatives and options for funding formulas – an accepted, pre-established set of guiding principles provides a rationale for narrowing down this list of options.

Act 188 includes some guiding principles for the University of Hawai`i System:

- ***Recognize the unique missions and roles of the campuses;***
- ***Recognize the higher education needs of the State;***
- ***Be equitable;***
- ***Be consistent;***
- ***Be responsive to changes;***
- ***Recognize needs of students with special needs;***
- ***Recognize students enrolled in programs that address the major workforce needs of the State;***
- ***Include an incentive and performance component;***
- ***Be used as a basis for planning;***
- ***Provide for accountability; and***
- ***Be as simple and transparent as possible.***

### Desired Characteristics of a Funding Formula or Guideline

Characteristic	Summary Description
A. Equitable	The funding formula should provide both <b>horizontal equity</b> (equal treatment of equals) and <b>vertical equity</b> (unequal treatment of unequals) based on size, mission and growth characteristics of the institutions.
B. Adequacy-Driven	The funding formula should determine <b>the funding level needed</b> by each institution to fulfill its approved mission.
C. Goal-Based	The funding formula should incorporate and <b>reinforce the broad goals of the state</b> for its system of colleges and universities as expressed through approved missions, quality expectations and performance standards.
D. Mission-Sensitive	The funding formula should be based on the recognition that <b>different institutional missions</b> (including differences in degree levels, program offerings, student readiness for college success and geographic location) require different rates of funding.
E. Size-Sensitive	The funding formula should reflect the impact that relative levels of student enrollment have on funding requirements, including <b>economies of scale</b> .
F. Responsive	The funding formula should <b>reflect changes in institutional workloads and missions</b> as well as <b>changing external conditions</b> in measuring the need for resources.
G. Adaptable to Economic Conditions	The funding formula should have the <b>capacity to apply under a variety of economic situations</b> , such as when the state appropriations for higher education are increasing, stable or decreasing.
H. Concerned with Stability	The funding formula <b>should not permit shifts in funding levels to occur more quickly</b> than institutional managers can reasonably be expected to respond.
I. Simple to Understand	The funding formula should <b>effectively communicate</b> to key participants in the state budget process how changes in institutional characteristics and performance and modifications in budget policies will affect funding levels.
J. Adaptable to Special Situations	The funding formula should include provisions for supplemental state <b>funding for unique activities</b> that represent significant financial commitments and <b>that are not common</b> across the institutions.
K. Reliant on Valid &	The funding formula should rely on <b>data that are appropriate</b> for measuring differences in funding requirements and <b>that can be</b>

<b>Reliable Data</b>	<b>verified</b> by third parties when necessary.
<b>L. Flexible</b>	The funding formula should be used to <b>estimate funding requirements</b> in broad categories; it is not intended for use in creating budget control categories.
<b>M. Incentive-Based</b>	The funding formula should provide <b>incentives for institutional effectiveness and efficiency</b> and should not provide any inappropriate incentives for institutional behavior.
<b>N. Balanced</b>	The funding formula should achieve a <b>reasonable balance among the sometimes competing requirements</b> of each of the criteria listed above.

Attachment C

## PRINCIPLES FOR ACCOUNTABILITY MEASURES

***The driving force behind any performance-based funding model is the desire to establish a formal link between institutional performance and funding received. These are ultimately translated into a system of performance indicators on which the allocation is based.***

***The concept of what is a “best practice” in measuring the performance of higher education institutions continues to evolve. However, there are a number of guiding principles that are generally accepted as “good practice” in the development of institutional performance measurement mechanisms. Exhibit 1 outlines 11 guiding principles that are presented in no particular order of importance. The process for developing and establishing a system of performance indicators is unique to every enterprise; however, we believe that all 11 of these principles need to be considered during this process to ensure a successful and effective outcome.***

***These 11 guiding principles have a number of corollaries that should be considered as well:***

- ***The expectations for institutional performance should be clearly understood and stated at the outset. Organizations can only “improve” if there is an understanding of the priorities for organizational performance. Clearly, the priorities should grow out of organizational mission and goals, however it is important that these be understood and agreed to by key participants at the beginning of the process.***
- ***The starting place for institutional performance measurement and benchmarks for success varies among institutions. Because each institution operates within its own context, the beginning point for institutional performance measurement will also vary depending on the specific performance indicator. Using “graduation rate” as an example, one institution may be at 45 percent for a six-year graduation rate while another may be at 85 percent. Because these types of variances can be due to a variety of potentially valid reasons, no value judgment should automatically be attached.***

*EXHIBIT 1*  
**Guiding Principles For Developing And Establishing  
 Institutional Performance Indicators**

<b>Guiding Principle</b>	<b>Definition</b>
<b>Credibility</b>	The performance indicators should have internal and external credibility among all institutional stakeholders.
<b>Linkage to Mission, Strategic Plan, and Policy Goals</b>	The performance indicators should incorporate and reinforce institutional missions and strategic plans, as well as broad policy goals.
<b>Stakeholder Involvement and Consensus</b>	The performance indicators should be developed through negotiation and consensus among key stakeholders.
<b>Simplicity</b>	The performance indicators should be simple to convey and broadly understood.
<b>Reliant on Valid, Consistent, and Existing Information</b>	The performance indicators should be based on data that are valid and consistent and that can be verified by third parties when necessary. The indicators should also be based on established data sources <u>where possible</u> in order to maximize credibility and minimize additional workload.
<b>Recognizes Range of Error in Measurement</b>	The performance indicators should be established with wide recognition that there are certain unavoidable ranges of error in any performance measurement activity.
<b>Adaptable to Special Situations</b>	The system of performance indicators should accommodate special institutional circumstances where possible.
<b>Minimizes Number of Indicators</b>	The performance indicators chosen should be kept to the smallest number possible in order to minimize conflicting interactions among the indicators and to maximize the importance of each indicator.
<b>Reflects Industry “Standards” and “Best Practices”</b>	The performance indicators chosen should reflect “industry” norms and standards where possible in order to allow for benchmarking and peer comparisons.
<b>Incorporates Input, Process, Output, and Outcomes Measures</b>	The performance indicator system developed should have a balance of measures related to institutional inputs, processes, outputs, and outcomes.
<b>Incorporates Quantitative and</b>	The performance indicator system developed should incorporate both quantitative and qualitative measures in

<b>Qualitative Measures</b>	order to present the most complete picture of institutional performance possible.
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- Performance measures should not be developed only with available data systems in mind. ***Implementing a system of institutional performance measurement requires data to be available. In fact, most institutions develop performance measures with this in mind. This practice has both positive and negative consequences. The ability to work with existing data systems reduces the start-up time and cost to implement a performance indicator system. It also improves the comfort level of those involved, and thus the credibility of the process. On the other hand, limiting an institution's performance measures according to data availability may not result in the most appropriate or meaningful set of measures in the long run. Thus, notwithstanding the benefits of using existing data systems, the development of performance measures should recognize the current availability of data where appropriate, but should be primarily driven by the questions "what are we trying to measure?" and "why?"***
- "Continuous improvement" is not infinite. ***A related issue that must be dealt with in establishing performance measurement mechanisms is the fact that the rate of "improvement" in any given area is non-linear. Institutions may be able to make great strides toward improving certain operational or programmatic areas initially, but then come to a standstill. Or, an institution may move forward in another area and then falter for a period of time. In short, it is important to realize that the process of enhancing institutional performance is imprecise at best and that to expect institutions to "continuously improve" is unrealistic.***

***Perhaps the greatest challenge in designing a performance indicator system is to achieve some level of balance among all of these competing, and sometimes contradictory, principles. Again, no one of these principles is more important than the others. Rather, it is important that all be considered during the design and implementation of the system.***

***Act 188 set out a set of principles that are among those listed above:***

- ***Recognize the unique missions and roles of the campuses;***
- ***Recognize the higher education needs of the State; and***
- ***Be as simple and transparent as possible.***