

**Revisions to the Fiscal Biennium 2013–15 Budget Development Process section
(pages 14-17) of the WASC Progress Report dated July 2012**

➤ Fiscal Biennium 2013–15 Budget Development Process

Board of Regents policy requires the President to present a biennium budget policy paper for discussion and approval by the Board of Regents and for subsequent transmittal to the Governor and the state legislature. The policy paper is the end product of the Fiscal Biennium Budget development process and is based upon the University’s strategic plan and related strategic outcomes. Program targets are further refined by the priorities of the three strategic initiatives described previously.

For the Fiscal Biennium 2013–2015 Budget Request, the University is proposing development of a performance-based model using the following two criteria:

- Maintaining significant progress on performance measures through 2015;
- Leveraging tuition revenues with general funds.

The rationale for this strategy is two-fold. Despite reductions in general fund support, the University has shown success in meeting many of our performance goals. The loss of general funds has required cost-shifting to non-general funds, which has been possible because of the emergence of tuition and fees revenues as a core source of funding. This cost-shifting, however, is not sustainable without a more proactive approach to leveraging general and non-general funds within the context of our performance goals.

The following areas highlight where the University sees its future challenges and opportunities with regard to funding streams:

- **(Revised)** General Fund Revenue — Ongoing Reductions since FY2009
The University of Hawai‘i has faced general fund reductions of \$90 million; from \$466 million in FY2009 to \$376 million in FY2012, reflecting an average of 22 percent erosion in state general funds. In FY2012, the University’s state-appropriated funding mix is 39 percent general funds and 61 percent non-general funds. Act 106, Session Laws of Hawaii, 2012, provides general fund support for FY2013 at current levels with concurrent increases in expenditure ceilings for non-general funds.
- **(Revised)** General Fund Forecast — Cautiously Optimistic
The Council on Revenues, at its September 6 meeting, revised the forecast for state General Fund tax revenue growth in FY2013 from 5.3 to 4.9 percent. The Council further revised its growth forecast for FY2014 from 4.0 to 3.9 percent. While the Council acknowledged improved state tax receipts from various sources, outstanding state liabilities such as an increasing residential and commercial energy tax credits, state pension fund liabilities, and recapitalization of the state rainy day fund are all claims against future general revenues of the State.

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- **(Revised) Extramural Funds — Continual Growth**
In FY2012, the University of Hawai‘i secured \$435 million in extramural funds. The Community College System received notification in January 2012 of a three-year federal grant of \$25 million from the U.S. Department of Labor, the largest award of its kind in the country, while the University’s Gear Up program received a seven-year federal award of \$22 million as part of the P-20 collaborative. Despite the current fiscal constraints of the federal budget, the University has experienced growth in extramural funding due to increased competitiveness and sustained systemwide commitment to our research initiatives.
- **(Revised) Tuition Revenues — Emerging Source of Core Funding**
A six-year tuition schedule that included step increases beginning in 2007 expired in AY2012. Tuition and enrollment increases during this period resulted in additional systemwide net revenues of \$64 million; from \$163.6 million in FY2009 to \$227.3 million in FY2012. The Board of Regents, at their October 2011 meeting, approved the University administration’s request for a new five-year tuition schedule of step increases, beginning with the 2013 academic year (Fall 2012). These increases have been critical to maintain the long-term financial health of the University System and have balanced out our stagnant general fund appropriations.
- **Scholarships — Increasing from Tuition Revenues**
Along with our increasing enrollment figures, we have awarded \$37.4 million in undergraduate and graduate scholarships for academic year 2012, an increase of nine percent from 2011 and a cumulative 27 percent increase from 2009. We have substantially increased the amount of institution-based financial assistance awarded over the previous six-year tuition schedule and will continue to do so over the next five-year schedule to ensure Hawai‘i residents continue to have access to public postsecondary education and training.
- **Faculty and Staff Salaries — Restoration and Repayments**
Beginning in FY12, the salaries of University of Hawai‘i Professional Assembly (UHPA) faculty members were reinstated to their levels prior to the reductions. Beginning in FY13, in accordance with the collective bargaining agreement, the University must repay deferred compensation in lump sum payments to UHPA members as follows: 25 percent (FY13 and FY14) and remaining 50 percent (FY15). Estimated payback amounts are: \$5.6 million in FY13 and FY14, and 11.3 million in FY15, for a total of \$22.5 million over these three fiscal years. Depending upon the progress of negotiations with other collective bargaining units, additional funding for salary adjustments may also be required.
- **Enrollment Increases — Several Campuses**
Enrollment figures at all campuses are at an all-time high, with a cumulative 12 percent system-wide increase since 2009. Enrollments at community college campuses increased by 17 percent over the past four years, and enrollments in first professional degree

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programs increased by 60 percent in three years, largely due to the launch of the new pharmacy program at the Hilo campus. The opening of the West O‘ahu campus in the Ewa Plain will offer expanded access for underserved populations and increase the going rates of Hawai‘i high school graduates to University of Hawai‘i programs.

- **Bond Financing — Favorable Ratings**
As of February 2012, the University closed a refunding bond issue of \$8.5 million, resulting in total savings of \$919,503 and annual savings of \$117,907 in interest and an additional \$70,000 in annual audit fees. Further, recent presentations by the University leadership team to several national bond rating agencies resulted in the University of Hawai‘i System maintaining our bond ratings as follows:
 - Fitch: AA
 - Moody's: Aa2
 - Standard & Poor's: A+

- **Performance Funding — Proposed Budget Model**
The University administration is proposing that we work with the Council of Chancellors to develop campus-wide performance-based budget requests that will award general funds with appropriate commitment of tuition and fees revenues generated and held by the campuses. Each campus administration shall be responsible for the allocation to specific programs of general funds received for performance-based funding in combination with a commitment of tuition revenues based upon the following:
 - alignment with our three strategic initiatives;
 - success toward achieving our 2015 performance outcomes; and
 - incorporation of one or more of the performance targets for 2013–15.