MINUTES OF THE REGENTS’ COMMITTEE ON
BUDGET & LONG-RANGE PLANNING

Date: Thursday, September 9, 2004
Place & Time: Kaua‘i Community College Performing Arts Center 3:01 p.m.

Committee Members Present: Regents Tanaka (presiding) Albano Bender Haynes Kai Kakuda Kawakami Lagareta Tatibouet Yamasato Lee (ex-officio)

Others Present: David McClain, Acting President, University of Hawai‘i Walter S. Kirimitsu, Vice President and University General Counsel James R. Gaines, Interim Vice President for Research Sam Callejo, Chief of Staff Neal J. Smatresk, Vice Chancellor for Academic Affairs Edwin C. Cadman, Dean, School of Medicine Jan Yokota, Director, Office of Capital Improvements David Iha, Executive Administrator and Secretary of the Board Carl Makino, Executive Assistant to the Board

Approval of Committee Meeting Minutes

Regent Kakuda moved to approve the minutes of the meeting of the Regents’ Committee on Budget and Long-Range Planning held on June 3, 2004 and July 15, 2004. The motion was seconded by Regent Yamasato and unanimously carried.
Interim Vice President Gaines requested that the Committee approve the adoption of amendments to the Board’s policy on the Research Corporation of the University of Hawai’i (RCUH).

RCUH was established by State law to assist in the University’s research mission. Oftentimes, conditions stipulated in research and training grants require the hiring and purchasing of goods within the life span of the grant. Terms of the grant may also have requirements such as the use of specialized equipment and material which could not be acquired fast enough when working through the State’s purchasing systems. To take full advantage of such grants, RCUH was created as an agency that could operate outside of State personnel and procurement policies and statutes in order to facilitate the University’s research and training efforts.

Service-ordering of personnel hiring and specialized procurement through RCUH was delegated to the Administration. Over the years, however, abuses were cited during external audits of the University’s use of RCUH. In addition, public employee unions expressed concerns that the hiring of personnel through RCUH was not being monitored nor administered as originally intended by the Legislature. The Board also expressed serious concerns when the Medical School project at Kaka’ako, without its knowledge nor consent, was service-ordered to RCUH. A recent report showed that RCUH had over 1,000 grant-funded employees on its payroll, many of whom inappropriately were left on the RCUH payroll for several years or service-ordered inappropriately in the first place such as fiscal officers, secretaries, and a marketing specialist. Consequently, in October of 2002, the Board affirmed its responsibility to comport with State law, restoring, by policy, the service ordering to RCUH to the intended purpose.

Section 5-19 of Board policy, “Research Corporation of the University of Hawai’i (RCUH),” in part, reads as follows:

- The University may service order certain aspects of research contracts and grants to RCUH. However, RCUH shall not be used to circumvent statutes, Board policies, contracts, settlements, or regulations. Consequently, in order for the University to
approve a service order to RCUH, it must be clearly substantiated that despite capabilities under its constitutionally granted autonomy, terms of the research or training grant or contract precludes the University from maximum utilization of the funds.

b. Service-ordering to RCUH shall be for the direct support of a research or training project and shall not include major construction (CIP) and repair and maintenance (R&M) projects, employment of any person in excess of one year, purchases in excess of $100,000 (total value), as a means to supplement existing University contracts or salaries, and contracting of services exceeding $100,000 in total value unless prior Board approval is obtained.

c. No University funds, regardless of source, shall be directed to RCUH or any external agency without being received by the University office responsible for the administration of research and training grants and contracts. Upon receipt, a determination by the University shall be made as to service-ordering to RCUH based on this policy.

d. A monthly report of all service ordered actions to RCUH shall be submitted to the Board in a format determined by the Board.

e. The Board of Regents shall execute a document of relationship between the University and RCUH delineating the parameters of service to be rendered. This document shall be executed annually to allow for periodic amendments as necessary.

The Hawai‘i Government Employees’ Association (HGEA) complimented the Board for having restored the use of RCUH to its intended purpose through the adoption of the above-stated policy. The Administration, however, expressed concerns that the Board’s policy would be prohibitive to researchers and the operation of specialized equipment such as ocean-going research vessels. The Administration, therefore, requested that the Board approve amendments to its policy on service-ordering of personnel and procurement to RCUH.

The purpose of the requested amendments is to permit researchers to expeditiously hire through RCUH for more than one year research related personnel meeting certain criteria. Because RCUH is exempt for civil service and other public employment laws, RCUH possess the authority to hire personnel in accordance with its procedures that do not require compliance with public employment laws. As research contracts and grants are time-sensitive, it is imperative that researchers be supported in their efforts to hire the personnel necessary to fulfill the requirements of their grants in the most timely and efficient manner.
At the September 2003 meeting of the Board, researchers expressed their concern that the restriction of one-year employment via RCUH will have very significant adverse impact on their ability to conduct their research, and as a consequence, may jeopardize the University’s research enterprise. In regard to researchers’ concerns, the Task Force received the results of a survey conducted by the Social Sciences Research Institute, UH Association of Research Investigators (UHARI) Survey of Research Infrastructure Problems and Priorities.

In the analysis of the responses to the UHARI survey, it was noted under “Problems: UH personnel issues clustered as fourth most important. The inadequacy of UH salaries and benefits to attract and retain qualified staff and the inflexibility and cumbersoness of the UH personnel system. These were ranked as high by about sixty percent of respondents.”

With respect to existing Board language restricting employment at RCUH to one year, the researchers noted that research personnel will need to be hired through the University’s human resource management system and be subject to collective bargaining agreements. Researchers expressed the concern that existing University and collective bargaining requirements are cumbersome and delay the hiring of essential research-related personnel.

Researchers also noted that RCUH is better able to address retirement benefits for research support personnel who may only be employed from three to five years. RCUH is able to offer vested retirement benefits after only one year of service, whereas, the State’s retirement plan offered by the University requires ten years of service in order to vest. Hence, valuable research personnel may not be eligible for retirement benefits for their service should they be employed through the University if their projects’ funding, and in turn the basis for their employment, ends in less than ten years.

Representatives of HGEA as the exclusive representative for administrative, professional and technical personnel of the University continue to express concerns relating to the abuse of the service-ordering of hires through RCUH, particularly those who are clearly not scientists or doing highly specialized work. HGEA’s willingness to engage in a problem-solving dialogue with the University with regard to employment of these personnel has led to the formulation of the recommendation being submitted to the Board.

RCUH currently employs a number of employees who have supported University research projects for a number of years, such that it would be detrimental to these employees and possibly negatively impact on-going research projects should the RUCH positions be abolished, as a consequence of the one year limitation. It is essential to the University’s research enterprise that there be staff to support the continuous and efficient operations of research.
To address the researchers’ concerns, retirement benefits, exclusive representative concerns, and current RCUH employees, it is being proposed that Section 5-19c of the Board Policies be amended to permit the service-ordering of personnel to RCUH for more than one year on an exception basis for employees meeting specific requirements. The University’s administration, researchers, and the HGEA participated in the development of the exemptions, which will be administered in accordance with an Interim Executive Policy for Research Personnel a draft copy of which is being provided to the Board for information purposes only.

The proposed amendments to Section 5-19 of the BORP would read as follows:

c. Service ordering to RCUH shall be for the direct support of a research or training project and shall not include major construction (CIP) and repair and maintenance (R&M) projects, employment of any person in excess of one year except for (1) shipboard personnel, personnel hired for work out-of-state, personnel who work in a classified environment, or part-time intermittent personnel, (2) extramurally funded personnel whose work directly supports the research and training mission of the university; (3) current employees of RCUH hired on behalf of the University, or (4) other personnel who because of the unique nature of their services, the urgency of need, the limited duration of employment, or other exceptional circumstances make it impractical to follow the normal UH and State recruitment procedures provided that such exceptions shall be in accordance with procedures established by the President. Purchases in excess of $100,000 $300,000 (total value), as a means to supplement existing University contracts or salaries, or the contracting of services exceeding $100,000 $300,000 in total value unless prior Board approval is obtained.

Interim Vice President Gaines added that in the past, the gatekeeper to determine service-ordering of personnel was done by the Office of Human Resources but they always encountered difficulties in dealing with the principle investigators. Regent Kakuda expressed reservations over the proposed amendments and suggested that a report on the service-ordering be submitted to the Board on a monthly basis. Depending on the integrity of the gatekeeper and the elimination of the abuse as documented by HGEA, the amendments may be allowed to continue.

The following testimonies were received:

1. Michael Hamnett representing RCUH, expressed that hiring through RCUH is crucial to research. Chairperson Lee asked about the vesting schedule for the retirement plan under RCUH. Mr. Hamnett said that their employees vest after one year of employment.
2. Leiomalama Desha representing HGEA, stated that HGEA did not concur with the amendments and felt that the consultation process was not concluded. She stated that the interpretation of the amendments would in essence nullify the Board’s policy. She informed the Committee that HGEA had documented the instances of abuse of RCUH payroll to circumvent normal hiring and purchasing procedures.

3. Tom Schroeder representing UHARI, expressed that research would be affected if they could not hire through RCUH.

4. JN Musto representing UHPA, expressed that the University needs to continue using RCUH for the research enterprise. The problem also involves the University’s autonomy over its personnel system.

Written testimony was also received by Roger Lucas, Professor of Oceanography supporting the amendments.

Chairperson Lee recognized that there had been abuses by principle investigators as well as the administration in the past when service-ordering personnel hires for inappropriate positions such as fiscal officers and marketing specialists. However, if there is to be a monthly report she was willing to support the amendments for the present.

Ms. Desha expressed that it would work provided it is a legitimate appeal process. She added that she wished to make it clear that HGEA was not anti-RCUH but it was more to stop the abuse of RCUH by the University research enterprise. JN Musto supported the idea, stating that an appeal process would allow a means to curtail the abuse by researchers and the administrators.

Regent Lagareta moved to approve the requested amendments to the Board’s policy on RCUH. Regent Tatibouet seconded the motion.

Regent Kakuda reiterated his concerns about the potential abuse by principle investigators which will only be alleviated when he is assured that the University’s research enterprise and the gatekeeper demonstrates a high degree of integrity when service-ordering appropriate hiring and purchasing to RCUH. Ms. Desha added that the Regents need to seriously examine the flexibilities that are already available to the University and be willing to support the Office of Human Resources, stating that HGEA has observed the gradual demise of that office due to the lack of support from the System level administration. This led to the diluting of OHR’s gatekeeper’s role when the President and Vice President for Administration arbitrarily override OHR’s adherence to policy.

Upon call the motion was unanimously carried.
Chief of Staff Callejo requested that the Committee approve the University’s operating and capital improvements budget recommendations for the 2005-2007 fiscal biennium. Upon Board approval, the budget will be finalized in the format prescribed by the Department of Budget and Finance, and transmitted to the Governor and the 2005 Legislature for review and incorporation in the State’s biennium budget.

The purpose of this request is to submit a recommended budget for the 2005-2007 fiscal biennium to the Board for review and approval as required by Section 8-3 of the Board of Regents' Policy.

In accordance with Section 8-3 of the BOR policy, the President shall review and approve for submittal to the Board the recommended budget requests for UH at M–noa, UH at Hilo, the Community Colleges, UH West O‘ahu and universitywide support programs. The Chancellors of the respective campuses presented their budget proposals at public meetings through the stocktaking process. The proposals were reviewed by the Biennium Budget Committee, a systemwide committee with representatives from senior administration, faculty, and students. The President and his Budget Team have had an initial meeting with the State Department of Budget and Finance based on Finance Memorandum 04-10 regarding the Fiscal Biennium 2005-07 Budget Preparation.

University of Hawai‘i System Strategic Plan

The “general program, policy and management objectives” that will guide the preparation of the 2005-2007 biennium budget are included in the document: University of Hawai‘i Strategic Plan: Entering The University’s Second Century, 2002-2010. The Strategic Plan, approved by the Board of Regents on June 21, 2002, resulted from months of work by more than 2,000 faculty, staff and students. (This plan is the basis for the biennium budget.)

Benchmarks

Section 304-4.5, Hawai‘i Revised Statutes, requires the Board of Regents to adopt the following benchmarks and apply them to the development of the University’s annual budget request to the Legislature:

1. Expanding access to educational opportunity throughout the State;
2. Striving for excellence in undergraduate education;
3. Requiring the university to continue to gain prominence in research and distance learning;
4. Revitalizing services to the State;
5. Enhancing the international role of the university; and
6. Maintaining diversity by clarifying campus missions and coordinating campus plans.

These benchmarks are included in the planning assumptions for the strategic plan (*Environmental Context for Strategic Planning, Spring 2002*).

Environmental Context

The environmental context for the budget is included in the planning assumptions for the System Strategic Plan (*Environmental Context for Strategic Planning, Spring 2002*). Specific assumptions are as follows:

**ECONOMY AND FINANCE**

**State Support.** State funding for public higher education is closely tied to the health of a state’s economy. The better the economy, the more funding made available to higher education.

**Economic Impact.** The interrelationship between state economic development and quality University programs, services, and access is a fundamental assumption that must drive UH planning efforts. The University of Hawai‘i is a major economic force in Hawai‘i generating business sales, jobs, household income, and state and local taxes. The integration of Hawai‘i into the global academic, business and technology communities is not possible without the human capital formation and knowledge infrastructure created by UH.

**Finances.** The University of Hawai‘i system must continue to seek additional state funds, but it is not likely that UH funding needs can be met through reliance on increased state appropriations. UH must do all of the following at the same time: seek increased state and federal support; reallocate and increase operating efficiencies; continue to increase revenues from tuition; and aggressively ramp up private fund raising.

**System Configuration.** The University of Hawai‘i system operates in an environment that sets it apart from most other states and challenges it to achieve an efficient system configuration. The state’s higher cost of living is beyond the University’s control. Geographic isolation and the need and commitment to provide Hawai‘i residents (spread across and island state) with access to higher education diminish efficiencies.

**Shared Priorities**

Over the past few years, the University has gained a significant measure of control over the disposition of its revenues and the management of its internal affairs. With
increased control comes the need to demonstrate the University’s commitment to meeting the needs and priorities of the State for education and training. Thus, the University Biennium Budget Proposal focuses on four key priorities:

C Serving Native Hawaiians through expanded recruitment and support services to increase retention and graduation rates, and honoring the host culture through expanded curricular offerings and staffing in Hawaiian Language and Cultural Studies.

C Meeting Enrollment Demands by clarifying institutional missions in order to ensure student access to affordable and appropriate education and training opportunities.

C Expanding Workforce Development and Economic Diversification Initiatives to meet the needs of the State in areas of occupational growth as well as personnel shortages, and leveraging the resources of the University for economic expansion and job creation.

C Addressing Infrastructure, Repair, and Maintenance Needs in order to protect the State’s investment in the physical plant and sustain the facilities for future generations, and challenged underfunded areas like compliance with Title IX requirements.

Each of these priorities represents a compelling State interest and evidences the University’s commitment to use its resources in service to the citizens of the State. The budget proposals submitted by each of the ten Chancellors reflect these priorities within the mission and context of each campus.

The Biennium Budget Proposal seeks a level of appropriation from the State commensurate with the significant benefits to be derived by the State. At the same time, the University will establish a tuition schedule that moves a greater portion of the cost to the students who will directly benefit from their education and training credentials. A portion of the increased revenues from tuition will be set aside for financial aid to ensure that low-income families are not deprived of educational opportunities. Finally, the University pledges to work aggressively to increase revenues from external sources and to increase operating efficiencies to maximize productivity.

The University seeks to work with the State of Hawai’i to realize a public agenda of increased access to higher education that will in turn enhance the quality of life of the State’s citizens.
Acting President McClain prefaced the presentation by stating that enrollments have gone up and the University needs additional resources to be able to assure for sufficient classes and support.


Regent Tatibouet inquired about the lack of funding for the Medical School commitments. Vice Chancellor Smatresk explained that there may be a difference in the way the fulfilling of the commitment was computed. However, the magnitude of the Medical School’s request is so large that it affects the entire campus and at this time the Mānoa administration is committed to the needs of undergraduate students. Acting President McClain assured that this does not mean the commitments would not be funded since resources could be made available from other sources such as research overhead and private sources. Dean Cadman, in response, explained that he needed the eighteen faculty positions. The faculty that were already hired as part of the commitment had already generated over $26 million for the State. He envisioned that the Medical School would be able to generate enough money to pay for its own operating expenses.

Regent Haynes stated that a figure should be added plus the additional 35% to cover the fringe benefits. Chief of Staff Callejo stated that the new figures would be $363.865 million in 2005-2006 and $351.148 million in 2006-2007 with the addition of the Medical School recruitment and funds to expand the Internal Auditor’s staff.

Director Yokota presented the CIP budget for FB 2005-2007. She explained that there was an addition of $2 million for the Performing Arts Center at UH-Mānoa for a budget of $231.778 million in 2005-2006 and $187.725 million in 2006-2007. A total of $305.694 million would be derived from G.O. bonds. Acting President McClain added that there would be a request for funds to restore Lyon Arboretum to safe standards. Interim Vice President Gaines informed that the Arboretum had been closed due to unsafe conditions. The entire Arboretum is not in compliance with ADA and there was no money in the current budget due to other higher priority considerations such as student housing needs.

Regent Lagareta stated that she fully concurred with the closing and that it was a responsible decision on the part of the administration; however, the public appears unaware of the reasons and suggested that they be informed through the media.

Vice President Gaines informed the Committee that the Arboretum staff was against the closure despite the array of unsafe conditions. Regent Lagareta stated that she found that difficult to understand since the staff were the very ones who had testified at the Regents’ meeting about all the unsafe conditions.
Regent Tatibouet moved to approve the biennium budgets as presented with the addition of the $2.1 million in 2005-2006 and $2.9 million in 2006-2007 for faculty recruitment at the Medical School, the additional funds for the Internal Auditor, and the additional $2 million in the CIP budget as recommended. The motion was seconded by Regent Haynes and unanimously carried.

There being no further business before the Committee, the meeting was adjourned at 5:18 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: October 11, 2004

c: Chairperson Patricia Y. Lee
Members, Board of Regents
Acting President David McClain