

MINUTES OF THE REGENTS' COMMITTEE
ON COMMUNITY COLLEGES

Date: Thursday, April 20, 2006

Place & Time: Hale 'Akoakoa 105
Windward Community College
2:10 p.m.

Committee Members Present: Regents Haynes (presiding)
Migita
Tanaka
Yamasato
Lagareta (ex-officio)

Member Excused: Regent de la Peña

Others Present: David McClain, Interim President, University of Hawai'i
Walter S. Kirimitsu, Vice President and University General
Counsel
John Morton, Vice President for Community Colleges
Michael Unebasami, Associate Vice President for
Community Colleges
David Iha, Executive Administrator and Secretary of the
Board
Carl Makino, Executive Assistant to the Board

Financial Status Briefing

Vice President Morton informed that this was the second of four meetings of the Committee held throughout the year. The focus of this particular meeting would be on the financial status of the Community Colleges.

Associate Vice President Unebasami explained that the report would cover the various revenue streams over a five year basis and the operating budget as of June 30th. He clarified that the Community Colleges' special funds included revenues from activities such as transcripts, library, non-credit courses, theater activities, and summer session. He informed that when reviewing the various sources of funds for 2005 the financial picture reveals that approximately 52% of the budget for the Community Colleges comes from the State. General funds and tuition and fee basically comprise the operational funds used by each of the campuses of which approximately 85% goes towards personnel, 13.5% to other current expenses and 1% for equipment.

Major CIP projects from 2000-2007 were broken down by the different campuses. He then provided figures on the amount of funds spent for repairs and maintenance (R&M). Honolulu CC being an older campus received the most for R&M. Hawai'i CC's Manono campus also received R&M monies to convert some of their shops to classrooms. Vice President Morton added that they were trying to determine what should be the target figure for R&M. If the R&M figure is too low it

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would build up the backlog of deferred maintenance. Furthermore, replacement costs would be prohibitive at current prices. As an example, Kapi'olani CC cost \$75 million to build but at today's prices that amount would provide only a few buildings. Repair and maintenance costs for older campuses like Honolulu CC are also higher so his office is trying to determine what are the right numbers for repair and maintenance in order to sustain the buildings and not build up on deferred maintenance.

Associate Vice President Unebasami explained that dating back to 1994 the State kept tuition revenues and all funds were appropriated through the Legislature. In 1996 through Act 161 the University now keeps its tuition revenues. He then provided a breakdown of general funds by campus along with head counts which showed that in 2005 the Community Colleges had 51.2% of the University's head count and 24.5% of the general fund allocations. Given the open door philosophy of the Community Colleges, low tuition means the State needs to subsidize the Community Colleges more than the other units.

President McClain clarified that when referencing cost of instruction that it is not simply expenditures out of operating funds. Vice President Morton concurred, adding that one could change the number if one added the pro rata share of system costs across the board. But in terms of the money that a campus gets to expend on instruction what was given is slightly more than the cost of instruction.

Touching on tuition and fee revenues, Associate Vice President Unebasami informed that tuition revenues for the Community Colleges increased to \$23 million over a nine year period. At Kapi'olani CC 12.2% of their student population is non-residents, who generate 45.1% of their tuition revenues. However, Vice President Morton noted that not all non-resident students pay non-resident tuition. For example, all military dependents pay resident tuition. Therefore, a campus like Leeward CC shows a relatively high percentage of non-residents but not a significant increase in non-resident tuition revenue. The Board approved per credit increases through 2012, a part of which was already set aside for collective bargaining commitments. In addition a commitment was also made for financial aid funds. President McClain asked why it was assumed that collective bargaining costs would come from tuition funds. Vice President Morton responded that it was because general funds currently do not cover for all of faculty salaries so tuition and fee revenues are already being used. Obviously if one increased salaries one must also increase the revenue source currently helping to pay for salaries which is tuition and fees. Regent Tanaka expressed that if one covers faculty increases with tuition and enrollment drops the percentage for collective bargaining will take a greater portion of the tuition increases. He emphasized that when negotiating with the faculty union and during the Board's meeting on tuition increases, a question was raised concerning whether tuition would be used to pay for faculty salary increases. President McClain said that no definitive commitment was ever made about how collective bargaining increases would be paid. However, since then, Budget and Finance had assured that fringes for permanent positions will be paid from state funds. So now it does make financial sense to consider using tuition.

Associate Vice President Unebasami then provided information on special and revolving fund balances for each of the campuses as of June 30, 2005. He pointed out that Maui CC was in the negative when it came to its revolving and special funds. Vice President Morton explained that included in Māui CC's deficit was a large receivable so the actual deficit would be less. However since the special and revolving funds are pooled across community colleges, the total was still acceptable. He briefly touched on the other funding sources followed by a description of recent CIP projects, summarizing that as of June 30th there were projects for R&M totaling about \$17 million with a deferred list of \$57 million. The Legislature wants the University to spend more of its R&M monies on conservation type projects. The Community Colleges took that approach several years ago, changing all of its lighting to cut electricity costs. In addition, changes were made to the air conditioning systems to more efficient running chillers. President McClain commented that in the supplemental budget the Regents had requested for \$88 million in R&M. He asked how much of that was for the Community Colleges. Associate Vice President Unebasami said that approximately 33% would be typically set aside for the Community Colleges or about \$25 million.

Associate Vice President Unebasami then provided an overview on the financial management of funds at the Community Colleges which uses the Budget Level Summary system. He noted that Māui CC had improved from a deficit of \$700,000 down to \$192,000. Based on accreditation requirements the Community Colleges came up with a reserve policy to maintain financial stability. The Community Colleges set a 3% of current year's unrestricted fund E and E because general funds cannot be carried over. In addition, there is a repair and maintenance fund in the Vice President's office for emergencies at any of the campuses. At the end of 2004 - 2005 and projected to 2006, the financial status in total is relatively firm with 3 campuses having challenges in meeting their 3% reserve. Vice President Morton added that more students need to be enrolled in the Community College or the State's workforce needs will not be met. In order to do that additional resources are needed since tuition dollars alone do not fund even a marginal cost of a class.

President McClain asked Vice President Morton to comment on his sense of funds being shared across the system. He noted that the Legislature funds the Community Colleges as a single unit as they do Mānoa, Hilo and West O'ahu. Vice President Morton stated that he does not believe it is necessary to transfer funds between the community colleges and the baccalaureate campuses. To be able to grow, however, the community colleges will need State subsidies to continue.

President McClain commented that out of a discussion at the Business Roundtable came the notion that the Legislature should fund a core University budget, with additional funding based on performance, for example, on work force development initiatives. Vice President Morton said there are many places around the country where the role of the Legislature is not necessarily to deliver individual line items because they are in one form or another formula funded based on FTE. What that allows is a way to have a conversation in a timely way with the Legislature about their initiatives. The University was able to present a comprehensive package, for example, regarding nursing that cut across baccalaureate, community college and graduate programs and discuss this with the

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Governor. Similarly, Travel Industry Management (TIM) is interested in doing that, so more and more, those workforce needs are not just the Community Colleges' but the total State's.

Associate Vice President Unebasami explained that the Community Colleges has worked to get a single special fund. It is not broken down any more into many different special funds and is therefore easier to manage. President McClain added that special funds subsidized general and tuition funded activities when he was dean of the business school. This is a widely used practice at Mānoa since their biggest special fund is the pool of RTRF reserves they get from research.

Regent Tanaka inquired about program reviews. Vice President Morton explained that at the next meeting of the Regents' Committee on Community Colleges the subject would be program reviews.

Regent Haynes recalled that one of the issues on accreditation was on separate financial statements for each of the campuses. Vice President Morton stated that in the current audit contract there was an amendment for financial statements for the Community College as a whole and that would suffice. The cost would be \$50,000 the first year, \$50,000 the second and third, with a three year commitment with PWC.

President McClain commented that this meeting had reinforced the Board's general impression that the Community Colleges are being managed properly. Chairperson Lagareta concurred. Regent Haynes expressed the Committee's appreciation for the presentation.

There being no further business before the Committee, the meeting was adjourned at 3:10 p.m.

Respectfully submitted,

David Iha, Secretary

Dated: May 3, 2006

c: Chairperson Kitty Lagareta
Members, Committee on Community Colleges
President David McClain
Vice President John Morton