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SYSTEM

M.R.C. Greenwood, Ph.D.
President

UNIVERSITY OF HAWAII
BOARD OF REGENTS

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May 11, 2010

MEMORANDUM

TO: Howard Karr
Chairperson, Board of Regents

FROM: M.R.C. Greenwood *MRC Greenwood*
President

SUBJECT: 2011-2013 Biennium Budget Policy Paper

Section 8-3 of Board of Regents policies sets forth guidance for the preparation of the biennial budget policy paper. The document is to include the environmental context for budget building, the general program, policy, and management objectives, and institutional priorities to guide the preparation of the biennium budget.

Environmental Context

State General Fund Appropriations

The University of Hawai'i's state appropriation was reduced by \$98 million in the current fiscal year, and in the recently adopted budget for the supplemental budget year beginning July 1, 2010 that reduction is further increased to \$107.3 million. This reduction represents nearly a 23% decrease to our general funds. At the same time we are at an all-time high in enrollment with 58,000 students last fall, with 8,000 additional students in the last two years alone

These reductions have impacted the University's ability to deliver academic programs by restricting the filling of positions, reducing class offerings, and increasing class sizes. A significant number of lecturers have not been renewed even as we serve more students than ever before in our history. Other critical program areas, such as financial aid and student services have also been adversely impacted. All our state-funded employees are taking pay cuts and we have reduced our workforce in a number of areas. We have also improved efficiency with added electronic services. Campuses have been closed for the winter holidays and spring break, reducing the need and expense of utility costs for those periods of time.

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American Recovery and Reinvestment Act (ARRA) Funds

The State Legislature did appropriate \$22 million of ARRA state fiscal stabilization funds to the University of Hawai'i in each year of the current biennium which have helped to mitigate some of the effects of the general fund reduction. While the federal legislation for these funds ends at September 30, 2011, the State Legislature provided, through a budget proviso, that \$14,740,000 of general funds would be reinstated to the base budget of the UH Mānoa when the ARRA funds ceased. This is as a result of the Legislature having reduced Mānoa's general fund appropriation by that amount at the same time that it appropriated that same amount of ARRA funds to Mānoa. With regard to the Community Colleges, the budget proviso provides that \$660,000 of their general fund budget will be reinstated. However, in the case of the Community Colleges, the ARRA funds the Legislature appropriated to them was \$6,960,000. Accordingly, when the ARRA funds cease, the Community Colleges budget will be negatively impacted by \$6.3 million. UH Hilo's budget will also be negatively affected by \$300,000.

Salary Reinstatements

The collective bargaining settlements reached with the unions call for reductions in both years of the current biennium. At the end of those years, the salaries of UHPA members are reinstated to their levels prior to the reductions.

Tuition

The University is currently in the fourth year of a six-year schedule of tuition increases. The last increase under this schedule is in the fall of 2011, the first year of the 2011-2013 fiscal biennium. Current estimates, based on projected enrollments, are that the additional tuition, net of scholarships, in FY 2011-12 will be in the \$24 million range. Analyses for the next tuition schedule will begin this summer, and a draft proposal will be presented to the BOR in the fall followed by public meetings for consultation.

Council on Revenues Projections

In March 2010, the Council on Revenues maintained its revenue projections for the current fiscal year at -2.5%. However, it reduced its projection for FY 2010-12, the second year of the current biennium, from a 7.6% to a 6.0% increase. Their projection for the next biennium was for additional 6.0% increases in each year.

Program, Policy, and Management Objectives, and Institutional Priorities

In June 2002, the Board of Regents adopted the *University of Hawai'i System Strategic Plan: Entering the University's Second Century, 2002-2010*. The vision set forth in this

plan was predicated on the Native Hawaiian practice of sharing diverse, but finite, resources for the benefit of all and grounded in a unifying mission and an overarching commitment to a culture of excellence and performance. During the 2007–08 academic year, the University community and its public revisited the strategic plan. Participants broadly affirmed the strategic goals and the values underlying those goals. Participants agreed that articulating our plan in terms of the higher education needs of the state reaffirms the University's commitment to serving the state and its residents. They recommended we establish clear and measurable outcomes to assess performance and progress.

Based on these recommendations, the administration developed and the BOR approved the University of Hawai'i System Strategic Outcomes and Performance Measures, 2008-2015. The five strategic outcomes include:

- Positioning the University of Hawai'i as one of the world's foremost indigenous-serving universities by supporting the access and success of Native Hawaiians.
- Increasing the educational capital of the state by increasing the participation and completion of students, particularly Native Hawaiians, low-income students, and those from underserved regions.
- Contributing to the state's economy and providing a solid return on its investment in higher education through research and training.
- Addressing critical workforce shortages and preparing students (undergraduate, graduate, and professional) for effective engagement and leadership in a global environment.
- Acquiring, allocating, and managing public and private revenue streams and exercising exemplary stewardship over all of the University's resources for a sustainable future.

Performance measures assigned to each strategic outcome demonstrate the University's willingness to be held accountable and enable us to effectively assess our progress. Baseline data were established in 2008, and the first update was provided to the Board of Regents in January 2010 based on 2009 outcomes.

In February 2010, President Greenwood addressed a joint session of the Hawai'i State Legislature. At that time, she underscored her commitment to the BOR approved strategic outcomes and announced three initiatives designed to strategically position the university to meet the needs of the state.

- The *Hawai'i Graduation Initiative*, with a goal of increasing the number of UH graduates (undergraduate, graduate, and professional) by 25% by 2015, will increase the educational capital in the state.

- The *President's initiative on workforce development and technology advancement* is intended to ensure that the University identifies areas of excellence for growth, develops innovative technologies to advance the state's economy, and builds programs that address workforce shortages that are evident today and critical for the future.
- *Project Renovate to Innovate* underscores the importance of driving the university's reputation for excellence forward by improving the University's infrastructure, particularly the \$360 million in deferred maintenance, and maximizing the external funding available to sustain the research and training agenda.

The University of Hawai'i is committed to improving the social, economic, and environmental well-being of current and future Hawai'i generations. These three initiatives will guide our priorities and inform our budget planning process for the next three biennia.

Biennium Budget Development Strategy

Given the expected modest growth in state revenues and the competing statewide needs for additional resources, it is incumbent on the University to develop a realistic budget request that recognizes the financial condition of the State. At the same time, it is imperative that the University provide concrete plans for strategic growth in which the state can invest. To this end, the strategy for development of the biennium budget will be consistent with the following three principles:

- Budget priorities will be grounded in the University's strategic outcomes, most particularly the three initiatives recently launched by President Greenwood;
- Opportunities will be sought for reallocation and reinvestment in strategic priorities;
- A substantial portion of appropriated new monies will be allocated to units based on performance.

Operating Funds

Given the projections of the Council on Revenues, the administration will determine a reasonable and appropriate request for new operating funds to the Governor and the Hawai'i State Legislature over the biennium. The following process will be used for making budget decisions:

- 1) A portion of the new monies will be designated as funding for campuses to support their progress on the Hawai'i Graduation Initiative. Allocations will be based upon performance on three outcome measures: increased enrollment,

increased transfer from 2-year to 4-year campuses, and increased number of graduates. Baseline data for enrollment will be census date Fall 2010 compared to Fall 2011, and for transfer and graduation will be the FY2010 projections as identified in the Strategic Plan. The Council of Chancellors will be involved in the details of the allocation.

- 2) A portion of the new monies will be designated for performance-based program change requests (PCRs) from the campuses and other system units to advance workforce development; to identify and develop innovations and technologies to advance the state's economy; to build the state's capacity for growth and development; to assist in diversifying the economy.

Each performance based budget request will be evaluated based on the following criteria:

- Alignment with the strategic outcomes
- Likelihood for realizing significant progress on the relevant performance measure
- Grounding in program review/improvement
- Measurability of results
- Creative, collaborative, and entrepreneurial thinking
- Leveraging system wide sharing of program, projects and/or personnel

CIP Funds

Project Renovate to Innovate funds will be requested from the Legislature in two ways: first, in General Obligation bond funds to finance major renovation projects, with an emphasis and priority to research facilities; second, in authorization to issue revenue bonds to finance innovative, modernization projects. Funds will also be sought, either through general obligation bonds or revenue bonds, to continue the reduction in the University's deferred maintenance. Finally, construction funds will be requested for high priority buildings already in design.

The University's Office of Capital improvements will work with the campuses to prioritize needs and develop a proposal for the President and the Board to consider regarding projects and relative amounts.