UNIVERSITY OF HAWAI‘I SYSTEM

TESTIMONY

PRESIDENT’S OVERVIEW

Testimony Presented Before the House Committee on Finance

by

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Testimony of David McClain  
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Hearing of the House Finance Committee

Chair Oshiro and members of the House Finance Committee: Mahalo for this opportunity to present to you the Biennium Budget request approved by our Board of Regents earlier this fall. I will also be providing testimony on the Executive Budget brought forward by the Governor.

Joining me are the chancellors from each of our 10 campuses, along with several other members of my leadership team. Chancellor Denise Konan will present the operating budget request for UH Ma‘noa; Chancellor Rose Tseng will present the operating budget request for UH Hilo; and Chancellor Gene Awakuni will present the operating budget request for UH West O‘ahu. Vice President for Community Colleges John Morton will present the overall community college operating request, assisted by each of the chancellors of our seven campuses, and by Associate Vice President for Academic Affairs Mike Rota and Associate Vice President for Administration Mike Unebasami. Vice President for Budget and Finance and Chief Financial Officer Howard Todo will present the UH System operating budget request, and Vice President for Administration Sam Callejo will present our systemwide capital improvement budget request. Also joining me today from the UH System are Linda Johnsrud, Vice President for Academic Policy and Planning; Jim Gaines, Vice President for Research; and Darolyn Lendio, Vice President and University General Counsel. Aquarium Director Andrew Rossiter and Small Business Development Center Director Darryl Mleynek are available to answer any questions you may have about their particular budget requests.

Appreciation for Supplemental Budget Support, and the University’s Institutional Priorities

Permit me to take this opportunity to thank the Legislature for your support of our Supplemental Budget request. We requested $42 million in new operating funds for the 2006-2007 fiscal year and $187 million for capital improvements. The Legislature approved $29 million and $67 million, respectively.

We are indeed grateful for your support and recognition of the University and its mission. The following is a quote from the University System Strategic Plan: “As the only public higher education institution in Hawai‘i, the UH system bears a special responsibility to prepare a highly educated citizenry. In addition, the system supports the creation of quality jobs and the preparation of an educated workforce to fill them. Building on a strong liberal arts foundation, the UH system prepares the full array of workers from technicians, physicians, and scientists to artists, teachers, and marketing specialists—who are needed in a technologically advanced and culturally diverse island state.”
As the University enters its centennial year in 2007, I am very conscious of this responsibility. Indeed, in the last 100 years, I believe no other institution has meant more to the state of Hawai‘i than UH—transforming students’ lives, and providing our state with an educated citizenry and a well trained workforce, contributing to the diversification of our economy and, most importantly, being a driving force for social justice, both for those who have immigrated to these shores and for the descendants of the first people of these islands, Native Hawaiians.

Today we serve 80,000 students, some 50,000 pursuing credit work and another 30,000 involved in noncredit instruction; all told, one in every dozen adults in this state are on one of our 10 campuses every week.

I’ll venture that no other public university has as large an impact on its home state.

However, in order to do our work on behalf of our students over the decades, we’ve had to steadily improve, and more than once to reinvent and transform ourselves. As we celebrate our 100th year, we recognize the need to continue this process and once again step up our educational efforts. We need to expand our capacity to serve the State’s and our students’ needs.

Second Decade Project

To help us understand the State’s needs for higher education, last year I launched a “Second Decade” project to analyze those needs during the decade after 2010. This study identified the following State needs:

**Increase the educational capital of the state**

The University addresses Hawai‘i’s educational pipeline issues by partnering with early childhood and K-12 education providers in order to improve student preparation, participation, and performance from preschool through a lifetime of learning.

To meet this state need, the University must:
- Work with K-12 to reduce remediation
- Increase college going rates
- Increase retention
- Increase transfer from 2 year to 4 year campuses
- Increase production of certificates, associate, and bachelor’s degrees

**Expand workforce development initiatives**

Building on a strong liberal arts foundation, the University prepares the full array of workers who are needed in a technologically advanced and globally competitive island state with special attention to areas of critical need.

To meet this state need, the University must:
- Increase outreach to those not in the workforce
- Increase outreach to those who are under-employed
- Increase access and services for non-traditional students
- Expand program capacity in critical shortage areas
Assist in expanding and diversifying the economy

The University expands knowledge and skills through research and training, and contributes to the expansion of the economy and the creation of quality, living wage jobs. To meet this state need, the University must:

- Increase education to encourage entrepreneurship
- Increase technology transfer
- Increase responsiveness to training needs

Address underserved regions and populations of the state, particularly Native Hawaiians

The University ensures that the economy and quality of life are enhanced in all parts of the state and that all Hawai‘i’s citizens have access to the benefits of post-secondary education. To meet this state need, the University must:

- Increase educational services to western O‘ahu (Wai‘anae, North Shore, ‘Ewa) and West Hawai‘i
- Increase student participation and success in all regions of the state, particularly East Hawai‘i

Simply stated, we must do more not only to promote access to higher education for the citizens of Hawaii, which has always been a primary goal of the University of Hawaii, but also we must do more to ensure the success of students in completing their educational programs. This includes continuing to reach out to partner with K-12 and early childhood education providers to better prepare students matriculating to our campuses. This “access with success” is critical to the economic, social and intellectual outlook of the State.

Funding and Deferred Maintenance

During the past decade, funding has been a challenge. In fiscal 1995, UH received $352 million (11.5% of the state’s budget). The next year, fiscal 1996, our general funds appropriation was reduced to $283 million, 9.3% of the state’s budget, and we were permitted to keep our tuition (then $40 million) for the first time; the net effect was a 1996 total of $323 million, an 8.2% decrease in resources available to UH. This general funds allocation dipped to $260 million in fiscal 1999 then rose to $374 million in fiscal 2006, 8.5% of the state’s budget.

Likewise, CIP funds were limited, resulting in a $165 million deferred maintenance backlog. Coupled with a 15% increase in enrollments in the first half of this decade and major increases in research, the university has a severe shortage of facilities for education and research. The University Lab School fire this past June has further exacerbated the need.

In response, our campuses are operating more efficiently, and we’re using public private partnerships to expand our facilities. Also, we have recently used the bonding authority
provided by the Legislature to issue $100 million in revenue bonds to finance housing
renovations and repairs and to supplement the $25 million of General Obligation bond
funds provided by the Legislature for the reconstruction of the Frear Hall dormitory.
While this will help us work on our backlog of repairs and maintenance in the housing
area, and we have committed to paying for these bonds from our revenues, we need the
Legislature’s support in providing general obligation bond funding for other critical CIP
needs of the University of Hawaii.

The Biennium Budget Development Process

The Second Decade project described previously in my testimony was used to inform and
provide the environmental context for the Biennium Budget proposal development. Each
Chancellor was asked to institute a campus process for development of their budget
request addressing the state needs identified in the Second Decade Project as well as the
priorities detailed in the campus current Strategic Plan and the System Strategic Plan.

The process, which was initiated in January 2006, was inclusive and transparent and
required a rigorous and thorough effort by the Chancellors to review their operations and
plans with respect to better meeting State needs. They were asked to involve their
campus faculty governance body as well as students and system-wide groups in the
development process. The process built upon the “stocktaking” I instituted to develop the
previous Biennium Budget. Each of the Chancellors and each system-wide group made a
presentation of their budget proposal to an audience which included me, the Chancellors,
the Biennium Budget Advisory Committee (a 25 member committee with system-wide
representation from the faculty, students, and staff) and invited representatives from
various campus constituencies.

Subsequent to the Stocktaking presentations, the Biennium Budget Advisory Committee
held numerous meetings, once or twice a week, over several months, after which an
Executive Budget Committee reviewed the proposed budget requests and made
recommendations. The Board of Regents then held a special Board workshop on the
budget in August. After input from the Regents and me, the Biennium Budget request
was approved by the Board of Regents at its September meeting.

Attachment 1 to this testimony is the Biennium Budget Proposal Development
memorandum which describes the process in further detail.

The Biennium Budget Request Approved by the Board of Regents

The Board of Regents approved a general fund operating budget increase request of
$38,726,634 for FY 2007-08 and $58,116,277 for FY 2008-09. Of these amounts, the
Governor approved $25,421,393 and $33,999,745 (not including pass through
adjustments). It should be noted however, that the University’s general fund budget has
been reduced by $3,700,000 in each year to comply with Section 53 of Act 178, SLH
2005 relating to the John A, Burns School of Medicine in Kakaako.
The operating budget request approved by the Board of Regents includes the following items. We’ve prioritized requests across the System to facilitate your decision making; a spreadsheet outlining our priorities in three tiers is attached with this testimony (Attachment 2.) Also attached (Attachment 3) is a listing of requests by category of State Need as identified above in the Second Decade project, with the addition of a category for infrastructure support services to support the accomplishment of state needs, and a category for technical adjustments.

• Over $6.1 million at UH Hilo, including $1.6 million to support its new College of Pharmacy, $400 thousand for Native Hawaiian initiatives, $502 thousand for the Imiloa astronomy center, $450,000 for workforce development and $1 million in student support funding.

• $5.4 million for UH West O‘ahu, to support projected increased enrollment relating to the new campus at Kapolei.

• Nearly $24.7 million at our community colleges, including nearly $6 million for workforce development initiatives, $3.5 million to provide for planned enrollment growth, $2.5 million for programs for Native Hawaiians, $1 million for expansion of services to the Waianae Education Center and $2.4 million in student support funding.

• $44.7 million at UH Mānoa including $8.5 million for the Kakaako Health and Wellness Center, nearly $5.6 million for increased student support, $3.4 million to improve campus facilities operations, maintenance, planning and asset management and $2.2 million for Native Hawaiian programs.

• The systemwide budget includes $2.7 million for initiatives to support student success such as the American Diploma Project and funds to promote Science Technology Engineering and Mathematics (STEM) and international education, $600 thousand to promote University Center in regions of the state without access to a campus, $1.2 million to provide an online learning infrastructure and $2.7 million to enhance services to the campuses in the areas of capital improvements, human resources and financial management.

• In the technical adjustments category, we are requesting funding for the 3 month lag in salaries for new positions appropriated by the Legislature for fiscal year 2006-2007. This lag was designed to allow for the time required to fill the new positions. For the 2007-2009 biennium, we will need to fully fund these positions since will be filled by the beginning of the biennium. In addition we are asking for funding for 14 positions restored by the Legislature last session.

Our capital improvement budget calls for the following:

• $19.0 million to meet health, safety and code requirements
• $112.4 million to address deferred maintenance
• $140.4 million to address critically underserved regions and populations of the State
• $6.2 million for infrastructure improvements
• $12.8 million for major CIP planning
• $54.4 million for an information technology center to serve the university system statewide
• $69.9 million to address workforce development
• $243.2 million for continuing and initiating facilities projects on several of our campuses, increasing the educational capital of the State; and
• $39.6 million of funding authorization for projects to be funded by federal funds, private contributions or revolving funds

The Executive Budget

The Governor has proposed to fully fund most of the University’s first and second tier priorities of our operating budget requests as well as a portion of the third. Of course we’re supportive of that decision, though we would have liked all of the BOR approved budget to be funded.

Increasing continuing operating funding by the magnitude recommended by the Board of Regents for the Biennium Budget for 2007-2009, together with the increases granted by the Legislature in the 2005-2007 and 2003-2005 Bienniums, would result in increasing the University’s net annual operating budget by 38.6% over that 6 year period (approximately a 5.6% annual increase over that period.) That is a healthy increase. However, over the same 6 year period state revenues are projected by the Council on Revenues to increase by 63% (the actual increase in the first half of that period has been 39%.) In that context, our requested increase seems modest at about 60% of the rate of increase in state revenues.

On the CIP side, the Governor’s budget proposes $100 million of the $137.6 million requested, to meet health, safety and code requirements, address deferred maintenance and for infrastructure improvements. It also includes $35 million in general obligation bonds for design and construction at the West O‘ahu campus in Kapolei, and an authorization ceiling of $100 million in special funds to develop the first phase of the campus. Also included are $4.9 million and $19.9 in general obligation bond funds for the Waianae Education Center and the UH Hilo Hawaiian Language Building, respectively. In addition, spending authorization is provided for $36.3 million in federal funds for a US Geological Survey Building at UH Hilo and $0.8 million in revolving funds for planning additional research laboratory space and at Waahila Faculty Housing.

Included in the BOR-approved budget for CIP, but not included in the Governor’s budget, are these projects, which I have listed in order of our priority:
• As indicated previously, health, safety and code projects, deferred maintenance and infrastructure improvements - $37,664,000
• Planning for Native Hawaiian Success Centers, Systemwide - $500,000
Major CIP Planning, Systemwide including student housing renovations and developments at UH Manoa and UH Hilo - $12,800,000
Information Technology Center, Systemwide - $54,429,000
Temporary Facilities for Nursing Programs, Statewide - $6,837,000
Leeward CC, Social Sciences/Teacher Education Facility - $23,179,000
Honolulu CC, Advanced Technology Training Center - $39,886,000
UH Manoa, New Classroom Building - $7,518,000
UH Hilo, Student Services Building Addition and Renovation - $27,782,000
Windward CC, Library and Learning Resources Center - $43,157,000
Maui CC, Science Building - $37,141,000
UH Manoa, College of Education, New Building at UH Lab School to replace the one destroyed by fire - $49,515,000
UH Hilo, Campus Center Addition and Renovation - $2,900,000
Honolulu CC, Pacific Aerospace Training Center – Reroof Hangar 111 - $3,288,000
UH Manoa, Gartley Hall Renovation - $10,918,000
UH Manoa, Law School Expansion and Renovation - $7,241,000
UH Manoa, Performing Arts Facility and Parking Structure - $3,599,000
UH Manoa, Campus Center Complex, Renovation and Addition - $30,266,000
UH Hilo, College of Pharmacy Building - $2,500,000

While we understand the Governor’s need to make choices and set priorities, as the leader of this University I believe that the Legislature should fund the entire CIP budget request approved by the Board of Regents in order to meet our critical facilities needs.

Accountability and Measuring our Progress

The inclusive, thorough and transparent process I’ve described previously for the development of our budget reflects our commitment to maintain accountability for our operations and the funding provided to us. At the national level, the Spellings Commission and the Council of State Legislatures has reinforced the need for this. We recognize our critical role in fulfilling the State’s higher education needs. Attachment 4, “Performance Goals: Increasing the Educational Capital of the State of Hawaii 2007-2012” reflects our goals in this area. Attachment 5, “Measuring our Progress” highlights and updates a subset of performance indicators in our full which is issued biannually. The next full report will be issued soon and we will provide you a copy at that time.

Other Legislative Requests

Before concluding, permit me to address other legislation on our agenda this session since they impact our ability to more efficiently and effectively manage and finance our operations.

A few days ago we successfully issued $100 million of revenue bonds under authority granted to us by the Legislature for housing renovations and repairs. Supplementing the general obligation bond funds we receive from the Legislature for CIP, this will help us
complete the Frear Hall dormitory renovation and work on our deferred maintenance backlog. However, much more needs to be done and we have the financial capacity to support much more bonds than we have currently issued. We have submitted legislation to give us authority to issue bonds, the repayment of which will come from our revenues. This will give us the flexibility to supplement the amounts of CIP appropriations provided by the Legislature to the extent that we have the financial capacity. Let me point out that the bond market will determine by its willingness to buy our bonds, whether our bonding capacity and ability to carry and repay the debt are adequate.

Relating to this, we also issued approximately $130 million of revenue bonds in October which refunded bonds issued originally in 2002 to finance the construction of the John A. Burns School of Medicine in Kakaako. As a result of this refunding, which allowed us to take advantage of current low interest rates, the State and the University will be saving $8.3 million in debt service payments.

These revenue bond transactions demonstrate our capability and competence in using bonding authority responsibly and in the best interest of the University and the State.

Also in the area of fiscal flexibility, we are requesting restoration of our exemption from Section 103d of the State Procurement code. During the time we had the exemption we instituted processes and developed systems such as “Superquote”, our online procurement system, which allowed us to efficiently perform procurement while maintaining the financial controls required and actually providing greater transparency than under the State’s procurement process. Now that our exemption has been removed, we are forced to use the State’s more time consuming, people intensive and less transparent process. This has exacerbated our shortage of personnel and increased the time required to process contracts and purchases.

Finally, we currently have an extremely capable Board of Regents with a number of individuals with a high level of business and financial expertise as well as higher education experience. This is an integral part of being able to operate and manage the University effectively and with financial prudence. Accordingly, we have submitted legislation for the regent appointment process required with the passage of the Constitutional Amendment to Article X, Section 6 of the State Constitution in the past election.

Conclusion

We believe the Board of Regents-approved Biennium Budget request reflects a responsible and prudent response to the State’s higher education needs, resulting from a most transparent, thorough and inclusive process. At the same time, it results, as our accreditors require, in the alignment of our strategic, academic and budgetary plans. Thank you for your attention, and for your continuing support of the University of Hawai‘i.
Attachments
1. Biennium Budget Proposal Development Memorandum
2. Systemwide Priorities in the Biennium Budget Approved by the Board of Regents
3. General Fund Operating Budget Requests by Category of State Need
5. Measuring Our Progress