HCR 213
REQUESTING A SYSTEMWIDE FINANCIAL AUDIT OF THE
UNIVERSITY OF HAWAIʻI SYSTEM

Testimony Presented Before the
House Committee on Higher Education

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Chair Waters, Vice Chair Shimabukuro, members of the Committee, thank you for the opportunity to testify on House Concurrent Resolution 213. The University respectfully opposes this resolution.

While we certainly agree that with additional flexibility and an extra degree of autonomy comes added responsibility, we disagree strongly with the suggestion in the preamble to the resolution that the University has been unresponsive. This administration has been responsive to the Legislature and the taxpayers.

In June 1998, the members of the 1998 Hawai‘i Legislature and the UH Regents joined the University community to celebrate the signing of the UH autonomy bill (H.B. 2560) into law as Act 115. The new law afforded the University a substantial degree of flexibility in managing its resources. Since the earliest universities were established, there has been a tension between institutional control and public accountability. Both are essential in preserving the integrity that allows higher education to serve society. Act 115 enabled the University to be more entrepreneurial, to forge new relationships that benefit the University, and to be more flexible in its fiscal and administrative affairs. Such increased control did not lessen the University’s responsibility to the public. Hawai‘i’s people deserve to have their University judged by the quality and success of its students and graduates, by its first-rate research, and by the volume and relevance of its public service. In keeping with Act 161 of the 1996 Legislature, the University adopted benchmarks and performance indicators to measure and demonstrate progress on the multiple strategic goals embodied in the UH Strategic Plan. Copies of the most recent up-date, *The University of Hawai‘i Measuring Our Progress, 2004*, were made available to members of the House and Senate early in the 2005 session.

The responsiveness of this Administration is found also in the work of the Changing Directions project, funded through the Western Interstate Consortium of Higher Education in collaboration with the Lumina Foundation. This project aims to sustain access to higher education at a time when universities’ relative reliance on traditional sources of finance are also changing, and features exposure of legislators and university officials to best practice in nearly a dozen states around the country. The University of Hawai‘i has involved several legislators and their staff members in this project over the past year, including Senator Norman Sakamoto, Representative Mark Takai, and Staff Attorney Terrence Aratani, in order to develop a collaborative understanding of the
challenges facing higher education finance. We regret that all the conference activity in this project occurred during the last legislative session, and thus before members of this Committee had a chance to get involved.

Third, working with Vice Speaker Mark Takai and Senator Sakamoto, under the direction of Senate President Bunda and House Speaker Say, the University – including our faculty and students -- participated in a 4-month long project to recodify all the statutes affecting the University of Hawaii. The results of that effort, HB 1, HD2, has passed the House and is pending in the Ways and Means Committee.

Fourth, in collaboration with Senate Higher Education Committee Chair Senator Clayton Hee and Mr. Garrett Toguchi of his staff, Linda Johnsrud, our Interim Vice President for Academic Planning and Policy, spent considerable time discussing the funding criteria and processes used in other states and providing data and analysis on the past and present financing of higher education in Hawaii. These efforts focused in part on precisely some of the questions asked in the resolution, including the cost per student of providing a college education.

I understand there may be a concern with some on the Committee concerning the provision of information on the University’s priorities. The University is always willing and able to state its priorities and to be transparent in its operations.

Permit me to state for the record our understanding of the requests for information from this Committee which occurred during the first half of this legislative session. Shortly after the session began, we received a letter requesting more information on the University’s biennium budget request, as approved by our Board of Regents. That request, for operating funds of $31 million in the first year and $39 million in the second year, was the result of a year-long stocktaking and budget development process involving all campuses in which faculty leaders and student leaders from the 10 campus system participated. The stocktaking process identified needs for our University of about $125 million per year – about a 10% increase in the resources we derive from all sources: general funds, tuition and fees, Federal financial aid, research funding, gifts to the University of Hawaii Foundation, and auxiliary services.

We felt a request for general funds of about $35 million per year – a bit less than 30% of the identified need -- would be consistent with the support the University now receives from the State. When one nets out the fringe benefits, debt service and other “pass through” items first provided to UH and then taken back by the State, the net funds received by the university are about 32% of our total $1 billion budget.

In our request, we highlighted four priority areas: Native Hawaiian issues, addressing the enrollment surge of the last 3-4 years, rebuilding our infrastructure and properly funding challenged areas (such as Title IX, and providing more campus security for our students), and workforce development (particularly for more teachers, nurses, and construction workers).
This continuing group, the University’s Biennium Budget Committee, populated by student and faculty representatives, chancellors and administrators, is the ongoing vehicle we use to set the University’s priorities. In response to Chair Waters’ letter, I consulted several members of this Committee before preparing my response, which I sent shortly after receiving that letter.

In considering our response, we reflected upon our perception that 1) the University had already prioritized its needs in going from $125 million per year in needs to $35 million per year in requests for general funds; 2) our concerns—as well as the concerns expressed by our accreditors from the Western Association of Schools and Colleges—about the surge in UH enrollment of the past 3-4 years have been met with essentially no new general funds; and 3) the “pass through” problem which we have brought to the attention of the legislature has resulted in the loss of nearly $40 million in support from the University over the past several years. (Recent research on the “pass through” of gross general fund allocations to the University and back to the State for such items as fringe benefits and debt service indicates that UH has lost over $40 million in its annual net budget over the past several years. Taking the last fiscal year as an example, if one were to analyze the Budget documents for FY 2004 that specify the pass through costs for Fringe Benefits and Debt Service and compare them against the actual cost generated by the University of Hawaii (based on DAGS and B&F’s calculations), it is clear that the University of Hawaii had over $18 million “passed through” back to B&F over the actual cost. If Worker Compensation and Unemployment Insurance were added to the equation, that amount will be over $20 million.)

Given this context, we stated in our reply to Chair Waters that, if funding were not available at the levels requested, we would simply fund each of the initiatives we had put forward fractionally, at a level of intensity consistent with the State’s needs and our abilities to address them. We recognized that scale effects might necessitate eliminating some requests entirely, but stated that we had made no decisions on which ones that would be.

In public testimony shortly thereafter before this Committee, I amplified verbally for the Chair and other Committee members in attendance that the University will always place as its highest priority maintaining the accreditation of each of our 10 campuses, and insuring that our students have a healthy and safe environment in which to learn. Further, I said that we’ll have a bias toward funding existing programs over new ones, though to maintain our dynamism we will always want to support at least a few new programs. There was no request for further information at that time.

UH Vice President for Administration Sam Callejo also met with Chair Waters to discuss further our Board of Regents’ Biennium Budget. We have always extended our offer to provide additional information.

Meanwhile, from late February through mid-March, I convened the University’s Biennium Budget Committee on several occasions. In those deliberations the Committee did, in response to a request from the Chair of the Senate Ways and Means Committee, articulate more fully its preferences within the overall Biennium Budget request.
As the biennium budget funding for the University had by that time crossed over from the House to the Senate, the results of those deliberations were delivered on March 14 to Senate Ways and Means Chair Taniguchi, with copies to the Senate President, the House Speaker, the chair of the House Finance Committee, and the chairs of both the House and Senate Higher Education Committees.

Let me conclude my testimony by observing that the University already spends hundreds of thousands of dollars each year, from its own resources, to have its operations audited by a professional accounting firm, PricewaterhouseCoopers. In fact, at the beginning of this Legislative session I presented to the House and Senate Higher Education Committees the results of the most recent of those audits.

The University is always willing and ready to be completely transparent in its operations, and to make them available for information to the Legislative. Given that this Administration has been responsive in working with the Legislature, and given that our operations are routinely audited by private sector professional accounting firms, we do not agree with either the spirit or the intent of this resolution, and believe that the taxpayers’ resources could be better utilized in other pursuits.

Act 115 reflects the public’s trust in this University. The University is worthy of that trust. We will continue to manage our affairs to increase the strength and reputation of a world-class institution accountable to the public we serve.

We stand ready to answer any questions the Committee may have about this matter.