

# UNIVERSITY OF HAWAI‘I SYSTEM REPORT



REPORT TO THE 2014 LEGISLATURE

REPORT ON THE PLAN TO REALLOCATE THE GENERAL FUND  
APPROPRIATION TO ACHIEVE A DISTRIBUTION AMONG CAMPUSES  
BASED ON FUNDING NEEDS

Act 134, Session Laws of Hawai'i 2013 (Section 132)

January 2014

## **Introduction**

Section 132 of Act 134 (General Appropriations Act of 2013) requests the development of a plan to reallocate general fund resources among major units of the University of Hawai'i (UH) System based on funding need and not the ability to generate non-general revenues or amount of past general fund appropriations.

## **Policy Framework**

The UH notes that the Legislature appropriates funds to the major units of the University annually at program Level 3, including Mānoa, Hilo, West O'ahu and the Community College System. While the UH President has the statutory authority to reallocate general funds among programs, in general this is done only in situations that involve emergencies and in response to major changes in budget execution, such as executive branch restrictions. Otherwise, the UH System practice is to expend appropriated funds in accordance with the annual General Appropriations Acts passed by the legislature.

## **Internal Reallocation in Practice**

*De facto* internal reallocations of the proportion of general funds allocated to major units have occurred when the Executive Branch has imposed lump sum restrictions on the UH's general fund allocations due to statewide fiscal constraints. In those situations, the UH takes into consideration the factors of interest to the Legislature including enrollment growth and tuition growth, noting that enrollment contributes to both expenditures (costs) as well as revenue (tuition) in a differential manner. Similarly, when lump sum restrictions are relaxed, the funds are not always restored in exactly the same way they were restricted, again, based on the factors noted.

In addition, the UH has made ad-hoc redistributions of general funds to address emergency situations. For example, the opening of the new West O'ahu campus required additional operating funds over what had been allocated to operate out of portable buildings with Leeward CC as the host campus. Internal reallocations supported initial West O'ahu campus operations during their first academic year at Kapolei. The UH is also committed to moving funds as programs are shifted between campuses. For example, with the completion of the West O'ahu campus and appropriation of initial funding for an Allied Health building there, discussions are underway regarding the relocation of the Dental Hygiene program from Mānoa to West O'ahu. This would be accompanied by a transfer of the associated general fund resources (dollars and positions) from Mānoa to West O'ahu.

When these reallocations are made using the UH's statutory authority, they are reported back to the Executive Branch and Legislature the following year as part of the UH's Budget Request for review with the successive General Appropriations Act. In this manner, the Legislature has full visibility into internal reallocations.

## **Use of Metrics**

The UH has historically used metrics in its underlying financial planning, most notably in the setting of tuition. State governments throughout the country, including in Hawai'i, have been unable to continue historically strong financial support of public higher education during recent recessions and in the face of growth in other non-discretionary costs. As students and their families have been called on to provide an increasing level of the cost of students' education, the UH has applied a differential approach to the distribution of educational costs between students and taxpayers. During discussions in 2011 with the Board of Regents (BOR) on the current system wide tuition schedule, the UH leadership proposed tuition rates based upon ratios of tuition revenues to general fund support that reflect the differing levels of educational programs across the UH System. Mānoa, a selective admissions university with the largest number of academic programs and a robust research enterprise, is expected to generate a higher percentage of its operating budget from tuition revenues. The Community College System, which serves as the entry point for many of Hawai'i's students, including those who are least prepared academically or financially for education, remains primarily state-supported to ensure that its open admissions education and career and technical training programs have the broadest possible reach throughout our State. Hilo and West O'ahu's tuition is set between that of Mānoa and the Community Colleges to provide opportunities for affordable baccalaureate education to Hawai'i residents. This general approach has been the foundation of the tuition schedules established by the BOR.

In addition, the BOR received a comprehensive presentation in Spring 2013 of a number of proposed productivity metrics to be considered for across the UH System. These included major unit and campus level data on education and related (E&R) expenditures, growth in E&R expenditures, breakdown in E&R expenditures. Analytical metrics on cost of completion, student/staff ratios and student success ratios were introduced with intra-UH data shown as well as comparison to external peer institutions. More information on this work-in-progress is available at: <http://www.hawaii.edu/offices/app/efficiency.html>

As part of a BOR community outreach plan, in November 2013, all legislators along with other UH internal and external stakeholders were invited to a Regents-sponsored full-day public forum on the cost of public higher education. Two renowned national experts presented their latest research and current national trends for participants to consider in developing a shared understanding of the challenges and opportunities that the UH System is facing in providing quality affordable higher education within our State's sole public university system. More information on the Forum is available at: [http://www.hawaii.edu/offices/app/cost\\_bor.html](http://www.hawaii.edu/offices/app/cost_bor.html)

In response to Act 188, Session Laws of Hawai'i 2008, the UH has explored moving to outcome-based financing, and provides annual updates regarding our progress on our performance indicators. The latest report can be found at:

[http://www.hawaii.edu/offices/eur/govrel/reports/2014/act100-slh1999\\_2014\\_gov-operations\\_annual-report.pdf](http://www.hawaii.edu/offices/eur/govrel/reports/2014/act100-slh1999_2014_gov-operations_annual-report.pdf)

While outcome-based funding has not been embraced by the Legislative or Executive branches, the UH has attempted to request that new funding be appropriated based on success metrics that advance strategic directions. The community colleges have used this approach as part of the internal allocation of general funds within their Level 3 program appropriation. This work on productivity metrics can also be used to support outcomes-based funding system wide, and UH will continue to promote this approach internally and with public policymakers in Hawai'i.

Finally, given our \$1.5 billion annual operating budget, in November 2013, our Board of Regents prudently adopted a mandatory system-wide financial reserve policy. The UH administration is currently working to update UH Executive Policy and will incorporate the consideration of reserves as part of the Fiscal Biennium 2015-17 budget development process, which will begin this February.

### **Trends in General Fund Appropriations and Enrollment**

The UH notes that this budget proviso suggests that metrics for reallocation be developed that reallocate general funds from Mānoa to other units. During the recent recession, Mānoa bore the brunt of the University's general fund reductions as shown in Tables 1 and 2 on page 4. Additionally, the Mānoa campus general fund base budget was reduced \$7 million in the current FY14 when the legislature reallocated operating funds to other campuses.

### **Conclusion**

In effect, the reallocation suggested in this budget proviso has already been occurring through recent budget periods. Nonetheless, the UH is committed to developing budget and financial processes, including for Fiscal Biennium 2015-17 budget development that will more fully embrace efficiency and productivity metrics as well as the factors highlighted in this proviso.

Table 1.

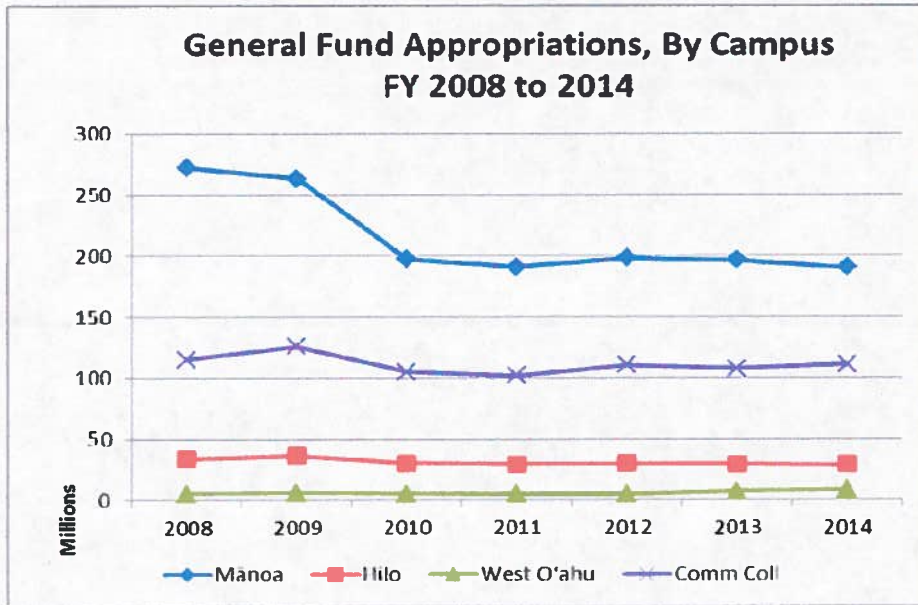


Table 2.

As shown below, during this same period, enrollment at Mānoa has remained stable, in effect, reducing the general fund investment per student.



### Fall 2008 to Fall 2013

