

Testimony Presented Before the  
Senate Committee on Higher Education  
and  
House Committee on Higher Education  
June 30, 2009 at 10:00am  
by  
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Chairs Tokuda and Chang, Vice Chairs Sakamoto and Nakashima and members of the Senate Higher Education and House Higher Education Committees:

Aloha and mahalo for the opportunity to bring you up to date on the University's response to the Governor's June 1 announcement of her intention to furlough state executive branch workers three days a month for each of the next two fiscal years. While she acknowledged the University's authority over such matters, the Governor announced her intention to restrict our budget by an equivalent amount.

Joining me this morning are the chancellors of our Mānoa, Hilo and West O'ahu campuses, respectively Virginia Hinshaw, Rose Tseng and Gene Awakuni, as well as vice-president John Morton representing our seven community colleges, and our UH system leadership team.

Communication with the UH 'Ohana, and Recent Developments

I've attached to this testimony the messages I've conveyed to our campuses since the Governor's announcement, on June 2, June 10 (in a report to our Board of Regents) and June 19. You will see that in my message to the UH 'ohana on June 2, I stated that *"my highest priority is to find the best path forward that will minimize the impact on each of you while limiting the negative consequences on the students and communities we serve, who are relying on us more than ever to continue to educate and innovate."*

On June 10 I reported to the Board of Regents on the discussions I've had about how to respond to the restrictions with student and faculty leaders, with Native Hawaiian faculty and staff, with chancellors and the system leadership team, and with community supporters of UH. I am sure it will come as no surprise to you that my consultations with the UH 'ohana have indicated concern by many regarding the impact of 13.8% salary reductions, on top of increases in health care costs and other increases in taxes and fees, particularly as this would affect our employees at the lower end of the salary scales.

In my June 10 remarks to the Board I stated that we estimated the Governor's restrictions to amount to some \$50 million per year in FY 10 and FY 11, and went on to note that *"This restriction comes in addition to a \$46 million per year reduction in the university's general funds budget approved by the 2009 Legislature, which is to be offset by an infusion of \$22 million per year in federal stimulus funds, for a net reduction of \$24 million per year. Thus taking the governor's restriction and the legislature's action*

*together, UH expects to have a general funds budget in FY10 and FY11 some \$75 million less than current levels."*

Let me be clear that since last fall we have planned for the \$24 million annual general funds reduction received from the Legislature, intending to respond with a mixture of financing using funds from other sources, and some programmatic adjustments. (Our Board of Regents budget approved last fall anticipated reductions between \$13 million and \$31 million.)

Further, because at times during the Legislature's deliberations it looked as if that general funds reduction might grow to as much as \$50 million, we've made some preparations, particularly on the Mānoa campus, for further adjustments needed to reach that higher target. These additional adjustments, and any further programmatic actions required to meet the budget reduction targets, will be most difficult to implement, representing as they must a roll-back of the increased educational services we've provided to our students since 2004.

On June 15 we received formal notification of the amount of the Governor's restriction of our general funds budget. It will be \$52.1 million in FY 10, and \$54.7 million in FY 11, bringing our overall general funds reduction to \$98 million in FY 10 and \$100 million in FY 11. This reduction amounts to more than 20% of UH's general funds allocation, net of pass-through amounts for fringe benefits, interest payments and the like. After the anticipated injection of \$22 million in Federal stimulus funds, our net reduction for the next two fiscal years would be \$76 million and \$78 million.

As expected, several unions have now taken legal action to prevent the Governor from implementing furloughs, and have sought various forms of relief. In turn, the Governor has presented more details of her furlough plans, and collective bargaining discussions have been proceeding under the auspices of a Federal mediator.

#### Current Trends in Non-general Funds, Enrollments and Graduation Totals

At the University, meanwhile, I reported to the Board on June 29 four important pieces of data:

- First, our Centennial Campaign will conclude today, June 30, having raised nearly \$280 million to support the University of Hawai'i, more than 10% above our \$250 million target.
- Second, our research enterprise has had a banner year, attracting some \$407 million via more than 2000 research and training grants, an increase of more than 18% from FY08 levels.
- Third, at our May commencements on all 10 campuses, we awarded more than 5,000 degrees and certificates; for the year as a whole, our graduates number about 8,000.
- Fourth, year-on-year comparison of registrations for next fall's semester suggests a surge of enrollment of nearly 25% at our community colleges, with smaller increases at our baccalaureate campuses, for an overall projected increase of nearly 15%. Fall 2008 saw 6% enrollment growth to an all time record of 53,500

pursuing for-credit work. It's likely that our fall 2009 enrollment will top 60,000 students. We serve an additional 25,000 students pursuing non-credit work, for a total of 85,000.

### UH's Response to the New Budget Restrictions

Though the situation remains fluid, we have made progress in crafting our response to the new and larger budget restriction. As we do so we are guided by the strategic plan reaffirmed by our Board during our centennial year of 2007-2008, and by the 10 strategic outcomes and performance measures approved by the Board at that time, which were purposively determined to meet the current needs of the state of Hawai'i for education and innovation (see <http://www.hawaii.edu/ovppp/uhplan>, relevant portions of which will be distributed at this hearing). Similarly, our campuses are guided by their strategic plans and internal budget and prioritization processes. As an example, I've included a recent report to her campus from Chancellor Hinshaw as an attachment to this testimony.

I affirmed to our Board on June 10 that salary reductions for administrative executives will be part of the university's multifaceted plan. While we do not have a "rainy-day" fund as such at UH, we do have continuing income flow from non-general-fund sources that we can use to some extent to address this new, higher level of budget restriction.

We intend to continue to increase the efficiency and flexibility of our operations further through improved energy efficiency, enhanced academic articulation, greater scheduling efficiency and improved administrative practices. Some of these gains in efficiency to achieve long-term operational cost savings may require up-front investments, to which we remain fully committed.

We can also make further programmatic adjustments as necessary, but as I've noted above not without impact on the students we serve.

One idea that surfaced in several of my conversations with members of our UH 'ohana was the institution of an early retirement program; while I currently believe this would require action at the State level, it's a concept I support.

For the past several years, attrition of our workforce has occurred at a fairly constant rate of 6%-7%, or about 650 employees per year, with 150 of those separations being retirements (about 60 faculty per year, 90 staff). These data on separations do not include the hiring and termination of lecturers.

Excluding fringe benefits, these separations represent perhaps as much as \$40 million in payroll costs. To the extent that we do not replace those separating, we can achieve some cost savings there. (Of course, with enrollment surging 15% this year after a 6% rise last year, some replacements will be necessary to maintain access with quality.)

Finally, of course, there are increased funding opportunities for both our students and our scholars that will help mitigate and offset these State general funds budget restrictions. The American Recovery and Reinvestment Act (ARRA), aka Federal

stimulus funds, will provide students in Hawai'i with \$52 million in Pell grant funds, \$17 million more than last year, and will provide our researchers with increased grant opportunities via enlarged budgets at such Federal agencies as the National Science Foundation, the National Institutes of Health, the Department of Homeland Security and the Department of Energy. Vice President for Research Jim Gaines is traveling today, but Vice President David Lassner can brief you on the ARRA opportunities for researchers. Associate Vice President for Student Affairs Karen Lee can do the same on ARRA funds to support students, and Vice President Linda Johnsrud can address ARRA funding for longitudinal data systems, early learning, college & career ready curriculum, and teacher education. Tomorrow we'll be briefing the Legislature on our efforts to access ARRA funds.

As you can tell from this review of our options, the final package will likely involve several initiatives, not just one approach, and it's clear that some actions can bear fruit in FY10, while others won't have an effect until FY11.

### Concluding Remarks

Meanwhile, as you know, collective bargaining discussions continue, and the outcome of these will also influence the university's ultimate response, as will the prospect of further actions by the courts defining the legality of implementing furloughs, actions by the Governor – and actions by you and your colleagues in the Legislature.

Because of these prospective actions, and because of the dramatic growth we expect in the number of students we serve, it's important that the University respond in a timely but measured fashion, and that we use the financial flexibility afforded by our multiple sources of funds. At the same time, I want to stress that this budget restriction is three times greater than the one we were prepared to address when the Legislature concluded its work in early May, so we will have to take some actions in the relatively near future, as the fiscal year begins. To the extent that our actions require Board of Regents review or approval, these matters will be on the BOR's agenda on July 23.

My leadership team and I welcome your questions and suggestions. Mahalo nui loa for your continuing support of the University during these challenging times and your steadfast appreciation of public higher education as an essential foundation of Hawai'i's economic recovery and the long-term health of our State.

Attachments