

**Legislative Briefing to the Joint Meeting of the
Senate Ways and Means Committee and the House Finance Committee
Interim President David McClain
January 12, 2005**

Good morning, Chair Taniguchi, Chair Takamine, and members of the Senate Ways and Means Committee and the House Finance Committee. My best wishes to each of you for the New Year. I appreciate the opportunity to provide this briefing on the University of Hawai'i, including an up-date on recent changes and accomplishments, and the plans of each of our campuses for continued and future service to the State of Hawai'i.

The Chancellors of each of our ten campuses are here today to discuss with you the testimony they have submitted:

Peggy Cha, Kaua'i Community College
Peter Englert, University of Hawai'i at Mānoa
Rockne Frietas, Hawai'i Community College
Linda Johnsrud, University of Hawai'i -- West O'ahu
Angela Meixell, Windward Community College
John Morton, Kapi'olani Community College
Ramsey Pedersen, Honolulu Community College
Clyde Sakamoto, Maui Community College
Mark Silliman, Leeward Community College
Rose Tseng, University of Hawai'i at Hilo

Vice President of Administration, Sam Callejo, is here to address the system biennium budget request, and Jan Yokota, Director of Capital Improvement Projects for the UH System, is here to address that portion of our budget request. Also with us today to answer your questions on their written testimony are Darrell Mlyenek, State Director of the Hawai'i Small Business Development Center Network, and Andrew Rossiter, Director of the Waikiki Aquarium.

Finally, we will conclude our presentation today with an overview of the consequences and recovery status of the October 30 flood of the Mānoa campus that caused nearly \$80 million in damage to buildings and their contents, plus additional millions of dollars in lost intellectual property.

Before continuing, permit me also to introduce several members of our Board of Regents who are in attendance, as well as other senior members of the UH System leadership team.

We are a few short months away from beginning the final biennium of the University's first century. Starting in the spring of 2007, we will begin a year-long celebration of 100 years of higher education in Hawai'i. During these 100 years, I think you'll agree, the University of Hawai'i has made an enormous difference in the society, culture and economy of our State. As many of you know from personal experience, we've educated the leaders of Hawai'i; we're the core provider of training for our workforce; and perhaps most importantly, we've been the agent of social mobility in our society. Today, nearly 80,000 students – about 50,000 enrolled in

courses for academic credit and the remainder taking noncredit coursework -- are pursuing their educational voyages in the University of Hawai'i System's 10 campuses; we're transforming their lives, giving them the ingredients for success, and preparing them -- as we prepared some of you -- to change the world.

This is a huge educational enterprise; at about \$1 billion, our activities are equivalent to more than 3% of gross state product. Were we a private corporation, *Hawai'i Business* has calculated that we would be the fifth largest in the State. Even more importantly, we provide an excellent return -- both to our students and to the State -- on funds invested in us. For every dollar of general funds appropriated by the State, the UH System generates another \$2.09 of education-related expenditures in the economy. And our students benefit in the form of higher incomes and an improved ability to contribute to the welfare of their families and of society. In the last four years, we're second in the country in the rate of increase of access of the poorest students to higher education. At the same time, our research enterprise generates \$330 million in Federal, State and private research and training grants; one recent study of the world's top 500 research universities put UH in the top one-third.

We know where we're going as a University System of ten campuses with differentiated missions. We have a sound strategic plan, developed in 2002 and looking ahead to 2010, that is committed to student access and student success, and aims to excel in basic and applied research and to create effective partnerships for workforce development and lifelong learning in our community. We intend to conduct ourselves in a fashion that supports a positive, healthful, resource efficient and sustainable environment. And we seek first and foremost to preserve and perpetuate the values that are at the core of our strategic plan, the values of our host Hawaiian culture.

This centering of our strategic plan on Native Hawaiian values allows us to be both locally responsive, as every good public university should, but also positions the University of Hawai'i to be globally significant. Let me explain why.

When I first came to the University nearly 15 years ago, the emphasis of the University's strategic plan was Hawai'i's role as a bridge between East and West, and we were very much an Asia-Pacific university. With all the globalization of the last 15 years, however, there are now many bridges between East and West. We remain an interesting bridge, to be sure, but our uniqueness, our special identity, is found less and less in that role.

Now, drawing the core of our identity from values based on our indigenous culture, we are able to articulate to the newly-globalized world -- "Island Earth" -- the values of community and respect that animate island societies generally, Polynesian island societies more particularly, and Hawai'i specifically, and that are sometimes in short supply in continental societies.

These traits parallel nicely the University's performance in the more practical aspects of its work -- the global significance of the work of our leading scientists and scholars, and the local responsiveness represented by the access we provide our citizens and the training we provide our workforce.

Our task now, with an excellent strategic plan in place with clearly articulated ambitions, is to execute that plan, to turn rhetoric into reality. The strategic plan raised the hopes of our students, faculty, staff and the community, but what we must do now is finance those hopes. And that's why we're here with you today. As we help our students embark on their voyages, our biennium budget is really the wind in our, and their, sails.

The biennium budget approved by our Board of Regents should be understood and considered, of course, in tandem with the Board-approved list of legislative initiatives. For we need not only additional financial resources, but we also need the maximum degree of administrative, regulatory, legal and financial flexibility and support if we are to accomplish our goals. In that connection, we're grateful that the Governor has included in her proposed budget for the Department of Business, Economic Development and Tourism one of our original initiatives, \$1.5 million per year in matching funds for the University's Research Infrastructure Improvement grant from the National Science Foundation's Experimental Program to Stimulate Competitive Research (EPSCoR). We're also grateful for the Governor's support of our request to amend current law to again exempt the University of Hawai'i from the State procurement process, as was our status until January 1, 2005, and to support several other initiatives that will give us greater financial flexibility.

As I noted in my University Convocation remarks last September, we understand that the Governor and the Legislature have many competing demands for the taxpayers' limited financial resources, particularly in the areas of K-12 education, health, welfare and public safety. Since the State's funds are precious, we think it responsible to share with you an integrated financial plan that highlights our revenue expectations from all sources of income including but not limited to general funds, as well as from cost savings we can generate from reengineering our own internal operations.

In this context, I'm pleased to begin this briefing with an overview of the reorganization of the UH System administration approved by the Board of Regents in November 2004. Upon assuming the leadership of the University in mid-June, I launched a review of the UH System administrative structure with the intent to "tailor and right-size" the existing UH System administrative structure to the University's fiscal realities. The resulting plan, which saved several hundred thousand dollars in salaries, eliminated two vice-president positions (for external affairs, and for international education), reframed the role of the chief of staff as a vice-president for administration, and focused the former vice-president/chief financial officer position entirely on the financial management of the University, as a vice-president for budget and finance/CFO. I am pleased to report that the recruitment for a CFO/VP of Budget and Finance has been initiated, and the position is projected to be filled by mid-spring. This appointment will be a significant step in ensuring the fiscal integrity of the University.

In recognition of the needs of the State, our students and the University, we developed our Biennium Budget proposal for the 2005-07 years as an integrated financing plan that capitalizes on all sources of revenues, and which reflects the exercise of the discipline of setting priorities among our many competing needs. From February to April 2004, the chancellors of the campuses and representatives from system-wide initiatives (e.g., Nursing, International Education, Puko'a Council (representing Hawai'i interests on a system-wide basis) were asked to

make “stocktaking” presentations to our Council of Chancellors. We asked each unit to answer four questions: What is it that you do? How do you pay for it? What is it that you would like to do? And how do you plan to pay for it? Each presenter was required to align their mission, strategic plan, academic plan, and budget plans. Members of the system-wide All Campus Council of Faculty Senate Chairs (ACCFSC) Budget Advisory Committee and members of the Student Caucus, along with the chancellors and chief academic officers, listened intently to the presentations. The ACCFSC suggested ten criteria, e.g., enrollment, areas of excellence, challenged areas (under-funded, but essential), and Native Hawaiian Issues, that might be used to make decisions to narrow the budget priorities. These criteria were discussed and expanded by the Presidential Advisory Committee on Planning and Priorities, an all-university group responsible for the System Strategic Plan and the identification of overall university priorities. The criteria were then used as guides in the development of the University’s biennium budget.

At the conclusion of the stocktaking process, a Biennium Budget Committee was formed to work through the summer on the proposal. The Committee, chaired by then Chief of Staff Callejo, included system administrators, chancellors, faculty, and student representatives. During the course of the Committee’s meetings, the criteria for decision making were discussed and four themes were identified, all in alignment with the Strategic Plan, to focus the budget priorities. These four themes are:

- **Expanding Workforce Development and Economic Diversification Initiatives** to meet the needs of the State in areas of occupational growth as well as personnel shortages (e.g., teaching, nursing and construction), and leveraging the resources of the University for economic expansion and job creation.
- **Serving Native Hawaiians**, one of the most economically disadvantaged groups in the State of Hawai‘i, through expanded recruitment and support services to increase retention and graduation rates, and honoring our host culture through expanded curricular offerings and staffing in Hawaiian Language and Cultural Studies.
- **Addressing Infrastructure, Repair, and Maintenance Needs** in order to protect the State’s investment in the physical plant and sustain the facilities for future generations.
- **Addressing Past Enrollment Surges and Meeting Future Enrollment Demands** by clarifying institutional missions in order to ensure student access to affordable and appropriate education and training opportunities.

Each of these priorities represents a compelling State interest and evidences the University’s commitment to use its resources in service to the citizens of the State. The budget proposals submitted by each of the ten Chancellors reflect these priorities within the mission and context of each campus.

In recognition of the limits of funding available from the State, the University now seeks a level of appropriation from the State commensurate with the significant benefits to be derived by the State.

The Biennium Budget Proposal approved by the Board of Regents in September 2004 reflects the University's effort to develop an integrated approach to balancing increases in state appropriations in the context of projected Council of Revenue projections, tuition increases, and financial aid to maximize student access to higher education.

Under the leadership of the interim Associate Vice President for Planning and Policy, Linda Johnsrud, the UH System received a WICHE/Lumina grant entitled, "Changing Direction: Integrating Higher Education Financial Aid and Financing Policies," which allowed the University to sponsor a state roundtable facilitated by Dennis Jones, president of the National Center for Higher Education Management Systems (NCHEMS). During late September, 2004, he met with members of the Governor's budget and policy staff, State legislators, the UH system administration and Chancellors, UH financial aid and budget staff, and reaffirmed the State's need for an integrated financing model. He also noted that although all campuses were underfunded relative to their peer institutions, the mix of revenues by institutional type did not reflect the balance typical of their peers. In other words, the relative share of cost borne by the state through appropriations and the cost borne by students through tuition needed to be addressed over time, with the student sharing increasing from current levels.

Currently, the University is in the final years of a five year tuition schedule averaging a modest 3% increase per year. This schedule ends in 2005-2006, the second year of the biennium budget. The Biennium Budget committee reviewed several proposals that included differential increases in tuition in light of comparative data that indicates, for example, that the Mānoa campus could sustain increased tuition levels to reach the national averages while increases at the baccalaureate-granting campuses and the community colleges need to be more modest. A proposed schedule for 2006 through 2011 will be discussed with the Board of Regents at their January meeting, and will be presented at a series of open meetings for public comment. The planning for this tuition schedule is coupled with a commitment to earmark a significant portion of the increase in tuition revenues to financial aid to protect access for low income students.

Thanks to Legislative action last session, a Scholarship Fund was established to provide the University with a mechanism to convert some of our tuition waivers to scholarships – allowing the University and our students to make better use of Federal financing incentives for higher education, such as Pell Grants and scholarship tax credits. We're most grateful that the Governor has included in the Executive Budget being submitted to the Legislature a one time infusion of \$20 million in the first year of the biennium to allow us to implement this conversion to scholarships. Additionally, we are working with members of the Legislature to sponsor a bill to establish a State scholarship fund that would provide state monies directly to students with established need who are attending a public college or university in the state.

As many of you know, the state of Hawai'i is one of only three states that does not have a significant scholarship program that provides direct funding to students. In part as a result of this, in the national report card on higher education, *Measuring Up 2004*, the state of Hawai'i receives a "D" in affordability. Given the significant support provided by the Legislature to higher education over the years, and the fact that Hawai'i is eleventh among all states in providing access to higher education of the poorest 20% of the income distribution, that grade is unfortunate. The creation and funding of a state scholarship program will provide the legislature

with the means to ensure the access of the state's neediest citizens to workforce development and training. The State scholarship fund would serve as a source of funds in a comprehensive financial aid plan that would require students to be proactive in applying for federal, state, and institutional aid.

Last year at this time, we talked about our initial efforts to execute the *University of Hawai'i System Strategic Plan: Entering the University's Second Century, 2002–2010*. As noted earlier in my remarks, this plan continues to enjoy the broad commitment of the many constituents who participated in its development. The progress made by the University in aligning the budget to the strategic plan is a direct reflection of strength of the plan. As noted by the WASC Team in their March 2004 visit report, up to this point the University has moved forward to frame priorities and to implement the strategic plan with no additional funding.

To demonstrate the University's commitment to implementing the strategic plan, the University's Office of Academic Planning and Policy has produced a report entitled: *Measuring Our Progress, 2004*, which updates the *2002 Institutional Effectiveness Report*. I have copies available for members of the Committee. The title of this report has been changed to reflect the importance the University places on measuring the University's progress on the goals of the strategic plan. In response to Act 161 of the 1995 Legislative session, the report provides measures of performance, benchmarks, and other indicators of our progress in meeting the goals we set forth in the Strategic Plan, and honors our agreement to be accountable to the people of Hawai'i. This report lays the foundation from which we can gauge our progress in the next two years. Based on the full report, we have also produced a brochure that highlights a subset of indicators that show the University's progress on measures of participation, performance, affordability, funding, and economic impact.

These measures indicate that since fall 2000, enrollment in for-credit programs has increased by 12.9% system-wide and is projected to reach 56,000 by 2009.

For the sixth year in a row, the University of Hawai'i received record support for research and training dollars. Extramural funds reached \$330 million in FY2004, a 2% increase over the previous year and an increase of 2.3 times the support received ten years ago. And private giving continues to be strong. The Centennial Campaign for the University, which was launched in 2002 and is still in its quiet phase, has raised over \$60 million to date, and the market value of our endowment has reached an all-time high.

We expect the research enterprise to continue to flourish in the years to come, and the UH Foundation is currently on a path that calls for raising \$40 million per year. However, unlike other sources of funds, funds generated for research and nearly all funds donated to the University of Hawai'i Foundation come with restrictions on their expenditure – making the general funds we receive from taxpayers and the tuition funds we receive from students and their parents all the more valuable.

As important as these quantitative measures are, we are also pleased that qualitative measures show the University's progress as well. Last year we reported that UH Manoa had received re-accreditation for the maximum period of ten years, and this year we can congratulate UH Hilo on

the same success with its re-accreditation visit. UH West Oahu will not receive official word from the WASC commission on its re-accreditation bid until March, but the team report after the visit was uniformly positive. The accreditation of all seven community colleges was affirmed in fall 2000 for six years, the maximum allowed by ACCJC policy, the WASC junior commission.

In closing, I want to assure the members of the Joint Committee on Finance and Ways and Means, that it is the commitment of this administration to seek ever more transparent means to ensure the adequacy and integrity of our financial systems. We have grounded the Biennium Budget Proposal in priorities that directly address the State's needs for workforce development and economic diversification, while honoring the centrality of Native Hawaiian values and perspectives in the University's strategic plan, and taking steps to restore and repair the University's physical infrastructure. In our discussions of a new tuition schedule, we recognize the relative cost share of education that is borne by the State and the need to increase the share borne by the students.

We are seeking to collaborate with the Governor and you the Legislature, in designing approaches to financial aid that will maintain access for the State's neediest citizens. Our Chancellors are stepping up to the challenge of limited fiscal resources as well. They are committed to do what they can to keep education affordable and to search for ways to lower their operating costs in order to find the resources needed to serve students and the state. The University pledges to work aggressively to increase revenues from external sources and to increase operating efficiencies to maximize productivity.

Recently the Association of Governing Boards observed that the Board of Regents and I share the overall responsibility for the University. We look forward to working with the Governor and the Legislature to enable the University of Hawai'i to finance the hope embodied in our strategic plan, that we may reach our potential in transforming the lives of our students, giving them the ingredients for success, and preparing them to serve the people of the State of the Hawai'i.