

**Program ID and Title: UOH-900/University of Hawai'i Systemwide Programs
Budget Request for Fiscal Biennium 2005-2007**

I. Introduction:

a) Overview of the University of Hawai'i System:

The University of Hawai'i System is committed to supporting the 10 campuses in transforming students' lives through higher education. Its primary objectives are to facilitate the operation of the University as an organization by providing quality academic, technical, and career education across the ten-campus UH System; to provide access to higher education for students from all economic and social backgrounds; and to plan and administer certain Statewide postsecondary education programs as funded by the Federal government.

The UH System provides policy direction, leadership, and planning for its campuses. Its activities include policy formulation; statewide planning and coordination; management of financial, budgeting, personnel, and information technology services; and public relations. All services are rendered with the goal of supporting students, faculty, staff, and facilities, to insure that the University continues to give students the ingredients for success upon graduation.

b) Overview of the University of Hawai'i System Re-Organization Model:

The University of Hawai'i System Administration underwent significant changes in 2004. One of the most important changes in leadership has occurred at the president's level. On October 22nd, David McClain was named Interim President through August 14, 2006.

As Acting President, David McClain began immediately to review the UH System administrative structure, declaring the need to "tailor and rightsize" the existing structure to the University's fiscal realities. Dr. Shirley Daniel, the Walker Chair and Professor of Accountancy at University of Hawai'i at Mānoa's College of Business Administration, to serve as a special consultant to the President to review the budget and finance processes of the University. She presented her findings to the Board of Regents in August 2004, concluding that a chief financial officer position was essential, and outlining the options for the placement and reporting relationship of this function in the UH System structure.

Later in September, President McClain proposed a reorganization of the UH System's administrative structure. The UH System Office of Human Resources estimated the resource savings of this reorganization at \$876,000. After receiving comments on the proposed reorganization from all affected constituencies, a revised reorganization was approved by the Board of Regents at their November 2004 meeting. The most prominent features of the revised reorganization proposal are:

- Elimination of the Vice President for University Affairs and External Relations; this function will continue to be handled by the Associate Vice-President in this area, Ms. Carolyn Tanaka.
- Elimination of the Vice President for International Education; the University will recruit for an Associate Vice-President in this area.
- Redescription of the Chief of Staff position to be the Vice President for Administration, and abolishment of the Chief of Staff position; the VP Administration will now oversee human resources, external affairs, capital improvement projects, and information technology services. (The Chief Information Officer will have a dual reporting relationship to the VP Administration and, for strategic planning purposes, to the President.)
- Redescription of the Vice President for Administration/Chief Financial Officer position to a new Vice President for Budget and Finance/Chief Financial Officer position. This office will oversee the university budget, financial management, community college administrative affairs, and UH System administrative affairs.

Additionally, the title of the Vice President of Academic Affairs has been changed to Vice President for Academic Planning and Policy, in response to campus feedback that the position needed to focus more on planning and policy and less on academic operations (appointment to this position will be made early in 2005). Some policy issues related to students-most notably tuition, enrollment management, and residency requirements-have been transferred from the Vice President for Student Affairs to the Vice President for Academic Planning and Policy. Reflecting earlier BOR actions, the Internal Auditor's position has been placed as a direct report to the Board of Regents. Risk Management now reports to the Vice President and University General Counsel.

c) University of Hawai'i Student Scholarship and Assistance Fund: This FY 2005-06 the University of Hawai'i has a \$20 million, one-time funding request, to provide seed money to establish a University of Hawai'i Student Scholarship and Assistance Fund. The fund will be solely used to provide direct financial assistance to qualified students enrolled at any campus of the University. In contrast to the current practice of awarding tuition waivers to reduce the burden of tuition, the University is seeking to convert tuition waivers to scholarships. This change is consistent with common practice nationwide. In addition, the administration of this scholarship program will ensure that students receiving aid will apply first for federal financial aid so that the first dollars used for financial assistance will be federal dollars. The fund would be replenished through transfers back from the Tuition and Fees Special Fund accounts. The Student Scholarship Fund would increase access to the University for those low income students who are unable to pay the full tuition. The Scholarship Fund would also support merit based awards in keeping with current policy.

II. Program Performance Results:

The University of Hawai'i continues to make strides in advancing instruction, research, administration and public service through the use of information technologies.

Between 2002 and 2004 UH executed a major two-year project named Banner that has converted its ten separate student information systems into a single consolidated system. All ten campuses are now in production on the new system. This \$20 million implementation was fully funded internally by committing new revenue from the modest increases in the current 5-year tuition schedule. The overall project has been executed on time and on budget.

Other recent notable achievements include:

UH implemented a new procurement system that integrates the State's first online bidding system with web-based purchasing to support a paperless sourcing and purchasing process. The bidding system development was outsourced to a local company that has provided superior service at much more favorable terms than larger mainland companies.

UH upgraded its Human Resources Information System to the latest version of PeopleSoft without consultants or any additional external funding.

The University's internal special-funded systemwide software site license program is estimated to save participating units over \$1m/year.

The University has implemented Internet-based videoconferencing at all campuses and education centers on six islands to reduce travel costs and time in the post-9/11 world.

Through internal reallocation, UH has initiated a new systemwide pilot program to redesign courses with large enrollments to reduce costs while improving instructional outcomes through the use of technology.

Maui High Performance Supercomputing Center (MHPCC) – In each year the University of Hawai'i has continued to improve its operational management of MHPCC to address all prior concerns and compliance issues. UH has already achieved the performance level necessary to maintain management of MHPCC for the maximum 10-year term possible under the performance-based contract, and is now focusing on enhancing the capacity of UH faculty and students to leverage this unique resource for Hawai'i-based research and education.

To achieve equity of services to students systemwide and support all UH campuses' strategic plans, a budget of \$300,000 is requested each year of the

biennium to implement a “broker” model that will benefit students on all ten campuses in psychological/psychiatric consults; discrimination/civil rights training; residency policy/appeals; health policies/clearances; financial aid, disability, alcohol/tobacco/drug prevention, and SEVIS federal compliances; judicial affairs policies/procedures; provision of student services via distance and alternative programs; student services via information technology; and others. Development, implementation and evaluation of the plan will be provided by the Senior Student Affairs Officers (Council of Senior Student Affairs Officers) and student government leaders (UH Student Caucus) of all campuses.

The Office of Research Services (ORS) was transferred from UH Manoa to UH System in the last year. ORS processes grants and contracts for all units of the System with the exception of UH Hilo where the contracts and grants are processed by RCUH. ORS is responsible for all aspects of compliance, fiscal and procedural. This transfer moved 39.5 FTE and \$1.6 million from UH Manoa to UH System. The transfer was an approved part of the System re-organization.

The volume of proposals submitted and awards received have increased each year for the past five years, approximately doubling over this time period, reaching \$330 million last year. There has been no change in the number of FTE's assigned to ORS in this five year time period.

The Office of International Education successfully administered the new federally-mandated Exchange Visitor Program (SEVIS) record management and reporting system for more than 500 J-1 scholars and J-2 dependents for the University of Hawai'i System. Additionally, more than 170 nonimmigrant and immigrant petitions for international faculty, researchers, and APTs were processed for the UH System. This was all accomplished with a staff of only two full-time employees. Beginning December 2004, a third temporary position was filled in order to meet the growing numbers of international visiting scholars and faculty hires.

Since its inception, while the Office of International Education was established to serve all ten UH campuses, it has been operating under the chancellor for community colleges, on the UH organizational charts. At the November, 2004 BOR meeting, the system level reorganization has relocated the office to the system-level, and will now report to the Vice President for Academic Affairs, Planning and Policy. This important realignment will help to clarify for internal and external constituencies, the scope and mandate for the office.

III. Problems and Issues:

The University of Hawai'i has been working with the Executive Administration and will be discussing with the 2005 Legislature the devastating flood that hit the Mānoa campus the night of October 30th. Approximately 30 buildings and the primary electrical infrastructure along East-West Road sustained damage from the

flood waters. The major buildings that sustained the bulk of the damage were Hamilton Library and the Biomedical Sciences complex.

The current estimate of the destruction is at \$80 million before factoring in business interruption and lost research time and data. Damages could reach \$100 million when all is tallied up.

The State insurance policy has a \$25 million limit with a 3% deductible. The University of Hawai'i has been working with the State Risk Manager and the insurance broker – Marsh, Inc. in putting together the details of the claim. One major problem that came to our attention as the claim was being prepared, that the State Risk Management Special Fund has a spending ceiling of \$10.45 million. Because of the fire at Waianae High School and payment of the premium of \$7 million, we were told that even though the State Risk Management Special Fund received the funds from the insurance carrier, they would not be able to release any money to the University of Hawai'i because they had reached their spending ceiling. In addressing this problem at the 2005 Legislative Session, we will support DAGS in having the spending ceiling raised to at least the amount of the insurance (\$25 million) limit plus the annual premium (\$7 million) for a ceiling of \$32 million.

At this point, the clean up and restoration of electrical power is complete in all the buildings except Hamilton Library and the Biomedical Sciences complex. Only floors 2 through 7 of the Tower Building has generated electrical power.

Strategic Plan for Information Technology. The University of Hawai'i adopted a new Strategic Plan for Information Technology in 2000. While this plan is guiding the very real progress being made, full implementation would require a system-wide funding increase of approximate \$20m per year along with approximately 80 new positions. This is consistent with the historic level of under-funding of information technology relative to peer institutions. The University's ability to support its core operations as well as to enhance teaching & learning, research, administration and public service is impeded by the limited information technology infrastructure and support currently available.

As highlighted by the October 30 Manoa flood, UH is particularly challenged by the need to house its critical information technology infrastructure in suitable facilities with acceptable power and air-conditioning. The Board of Regents approved the construction of a new building on the UH- Mānoa campus to house this critical infrastructure, but this building is not included in the executive budget. The University's infrastructure will continue to experience unnecessary outages, limitations of availability, and significant risk until acceptable facilities are available.

Unfunded Workers' Compensation Costs. In July of 1997, the Governor delegated budgetary responsibility to the University of Hawai'i for payment of its employee claims for workers' compensation. The Executive Budget in the FY 1997-98

included \$1,106,164 to pay for the employer's share of the general funded employees fringe benefit cost for workers' compensation. The appropriation amount has remained constant over the years and is the same amount budgeted in the current biennium. In FY 2003-2004, the employer's share for the worker's compensation fringe benefit for general funded employees of the University came to \$3,554,439. The balance of \$2,448,275 was subsidized by the transfer of funds from Tuition and Fees Special accounts to pay for the fringe benefit expense of the general fund employees. Over a 5 year period, from 1999 to 2003, the University has paid an additional \$11.4 million to cover the unfunded workers compensation costs from its special funds. The University has been proactive in cost containment programs, however the cost is expected to continue to increase. It is unfair to continue to burden the Tuition and Fees Special Funds with the fringe benefit expense of general fund employees.

University Procurement. Act 216 SLH, 2004 repealed the University's exemption from the State Procurement Code. Effective January 1, 2005, the University will be subject to the State Procurement Code. The University has worked hard on procurement procedures that are open, accountable, efficient, and better suits the needs of the University than the State's procurement code. We require open competition for all purchases over \$2,500 rather than the "3 quote" process used by the State. As noted earlier the University has implemented the State's first online bidding system with web-based purchasing. Of particular concern are onerous provisions of the State Procurement code such as requirements for the buyer to obtain for all purchases regardless of dollar amount, prior to the award of a contract, certificates of tax clearance from DOTAX and IRS, certificate of compliance from DLIR, and certificate of good standing from DCCA,. This may be cumbersome considering the University's unique research and training needs as well as it's international activities. The state's procurement code will increase the workload and processing time involved in the purchasing process.

IV. Expenditures for Fiscal Year 2004-2005:

	Appropriation Budget Act FY 2004-05	Collective Bargaining	Transfer In Transfer Out	Restriction	Estimated Total Expenditure
Personal Services	(379.50) 21,220,036	-- 1,228,313	(2.00) 129,704	<80,000>	(381.50) 22,498,053
Current Expense	188,729,327	--	--	--	188,729,327
Equipment	235,000	--	--	--	235,000
Motor Vehicles	--	--	--	--	--
TOTAL	210,184,363	1,228,313	129,704	<80,000>	211,462,380
General Funds	(366.50) 188,000,766	1,228,313	(2.00) 129,704	<80,000>	(368.50) 189,278,783
Special Funds	(4.00) 8,368,128	--	--	--	(4.00) 8,368,128
Federal Funds	(4.00) 657,667	--	--	--	(4.00) 657,667
Revolving Funds	(5.00) 13,157,802	--	--	--	(5.00) 13,157,802

There has been a net increase of two position counts to this program. Two position counts were transferred-out to UOH 700-UH West Oahu and four positions were transferred-in from UOH 100. The reallocation of two vacant positions to UH West Oahu from the UOH 900 program was necessary to meet accreditation requirements. Appropriations at West Oahu included funds for temporary positions with no permanent position counts. The permanent positions will enhance the University's position with respect to the WASC accreditation of the West Oahu campus. Four position counts and \$129,704 has been transferred from Manoa to the UOH-900 program to reflect the change in reporting relationship of the Office of Student Affairs. Under the organization adopted by the BOR in December 2002, the Vice President of Student Affairs reports to the President instead of the Manoa Chancellor.

V. Biennial Budget Requests for Fiscal Biennium 2005-2007:

	Budget Request <u>FY 2005-06</u>	Budget Request <u>FY 2006-07</u>	Biennium Requirement
Personal Services	(385.50) 24,252,378	(385.50) 25,184,480	(385.50) 49,436,858
Current Expense	273,124,391	275,658,939	548,782,930
Equipment	35,000	35,000	70,000
Motor Vehicles	--	--	--
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TOTAL	297,411,769	300,878,419	598,289,788
General Fund	(372.50) 275,228,172	(372.50) 278,694,822	(372.50) 556,922,994
Special Funds	(4.00) 8,368,128	(4.00) 8,368,128	(4.00) 16,736,256
Federal Funds	(4.00) 657,667	(4.00) 657,667	(4.00) 1,315,334
Revolving Funds	(5.00) 13,157,802	(5.00) 13,157,802	(5.00) 26,315,604

Workload or Program Requests:

The Executive Biennium Budget for this program includes the following program change requests.

	Item/Description	MOF	Cost Category	2005-06	2006-07
1.	Transfer of the Office of the Vice President of Student Affairs to Systemwide from Manoa	A	A-Personnel Costs	(4.00) 187,320	(4.00) 187,320
			B-Current Expenses	--	--
			C-Equipment	--	--
			TOTAL	(4.00) 187,320	(4.00) 187,320

This request is to transfer four positions and related personnel costs of the Office of the Vice President of Student Affairs to the Systemwide program from Manoa. The University has administratively transferred the positions and funds in the current fiscal year to reflect the December 2002 organizational change adopted by the Board of Regents. This transfer will align the UOH-900 appropriation with the current administrative allocation.

	Item/Description	MOF	Cost Category	2005-06	2006-07
2.	Transfer two position counts to UH West Oahu	A	A-Personnel Costs	<(2.00)> --	<(2.00)> --
			B-Current Expenses	--	--
			C-Equipment	--	--
			TOTAL	<(2.00)> --	<(2.00)> --

The transfer of these position counts is necessary to meet part of the requirements imposed by the WASC accreditation of the West Oahu campus. Temporary positions were initially established at West Oahu to immediately meet the requirements of the accreditation report. The administrative internal reallocation of positions in the current fiscal year reflects the University's commitment to the development and continued accreditation of the West Oahu campus. This transfer will align the UOH-900 appropriation with the current administrative allocation.

	Item/Description	MOF	Cost Category	2005-06	2006-07
3.	Transfer of the Office of Interantional Education (OIE) to Systemwide Program (UOH 900)	A	A-Personnel Costs	(4.00) 232,012	(4.00) 232,012
			B-Current Expenses	--	--
			C-Equipment	--	--
			TOTAL	(4.00) 232,012	(4.00) 232,012

Under the Systemwide Administrative reorganization, a systemwide International Education unit was established under the Systemwide Programs (UOH 900). The Office of International Education is an integral unit of this operation whose budget is being formally transferred to the Systemwide Programs (UOH 900) from the Community Colleges (UOH 800) for the FB 2005-2007.

	Item/Description	MOF	Cost Category	2005-06	2006-07
4.	Lump Sum Support for the University of Hawai'i	A	A-Personnel Costs	--	--
			B-Current Expenses	10,000,000	15,000,000
			C-Equipment	--	--
			TOTAL	-- 10,000,000	-- 15,000,000

This request is for \$10 million in FY 2005-06 and \$15 million in FY 2006-07 to support the ten campuses of the University of Hawai'i. This aggregate request is made in the Systemwide program to underscore the needs of the entire University of Hawai'i system. In agreement with the administration, once the amount of aggregate biennium appropriation is made, funds will be transferred to the individual campuses for budgetary execution.

	Item/Description	MOF	Cost Category	2005-06	2006-07
5.	Student Scholarship and Assistance Special Fund	A	A-Personnel Costs	--	--
			B-Current Expenses	20,000,000	--
			C-Equipment	--	--
			TOTAL	20,000,000	--

This FY 2005-06 one-time funding request, made in cooperation and with the support of the Governor, is to provide seed money to establish a University of Hawai'i Student Scholarship and Assistance Fund. The fund would provide financial assistance and encourage students to obtain additional tuition and scholarship support from various sources of funds. The fund would be solely used to provide financial assistance to qualified students enrolled at any campus of the University. In contrast to the current practice of awarding tuition waivers to reduce the burden of tuition, the University is looking to provide more assistance to students in the form of scholarships rather than tuition waivers. This change is consistent with the common practice nationwide and will enable more families to obtain tax benefits they would otherwise not receive through tuition waivers. The fund would be replenished through transfers back from the Tuition and Fees Special Fund accounts. The Student Scholarship Fund would increase the opportunities for students to attend the University for those who are unable to pay the full tuition. The Scholarship Fund would also be used to make merit based awards.

VI. Restrictions/Reductions:

The remaining Executive restriction of \$80,000, imposed on UOH-900, represents the grant-in-aid appropriation for the Pacific Asia Affairs Council. The Governor has yet to release the funds for this specific appropriation.

VII. Capital Improvement Request for Fiscal Years 2005-2007:

The Capital Improvement Program request will be covered in a separate testimony.

VIII. Proposed Lapses of Capital Improvements Program Projects:

The Capital Improvement Program request will be covered in a separate testimony.