



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Higher Education
and
House Committee on Higher Education
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by
John Morton
Vice President for Community Colleges
University of Hawai'i

INFORMATIONAL BRIEFING – Act 188, Session Laws of Hawai'i 2008

Chairs Tokuda and Chang and Members of the Committees,

My name is John Morton and I am Vice-President for Community Colleges and, along with Senator Sakamoto, co-chair of the Act 188 Task Force.

Act 188 of the Session Laws of Hawai'i 2008 established this task force to assist the University of Hawai'i in developing a

budgetary system that includes an equitable, consistent, and responsive funding formula for the distribution of fiscal resources to the various University of Hawai'i campuses. The funding formula shall:

- (1) Be linked to the enrollment of full-time equivalent (FTE) students at each campus;*
- (2) Assign different weights in recognition of the varying costs and revenues relating to educating different categories of students...*

In accordance with the statute, the task force was convened with the following members:

Gene Awakuni, Chancellor, UH-West Oahu
Virginia Hinshaw, Chancellor, UH-Manoa
John Morton, Vice-President, UH Community Colleges
Senator Norman Sakamoto, appointed by the President of the State Senate
Rose Tseng, Chancellor, UH-Hilo
Carol Ann VanCamp, appointed by the Speaker of the House of Representatives

As provided by the law, the task force solicited proposals for a consultant to assist with the development of the funding formula. Proposals were solicited from four national

firms with experience in developing state funding formulas and, by unanimous consent, the task force selected Mary McKeown-Moak of MGT of America, Inc. as the consultant. Ms. McKeown-Moak is with us here today and would be happy to answer any questions you may have.

Working with data provided by UH and from national data sources, the consultant and the task force have been considering various approaches and methods of formula funding. The principles of formula funding and of accountability or performance funding as presented by the consultant are included as attachments to this testimony.

In developing the potential formula for the University of Hawai'i, the task force is considering

- 1) a factor related to the base cost of higher education, that is, what costs are necessary once a decision is made to have a college whether it is Kauai Community College or UH-Manoa. Included in this factor would be fixed administrative costs.
- 2) a factor related to the credit hours generated by the students. This factor is a measure of full-time equivalent student enrollment and includes not just the cost of instruction but also of the related costs associated with student services, library services, and other support driven by higher enrollments. The factor would account for the fact that different levels of students have different costs – graduate and professional programs cost more than undergraduate, science classes cost more than history classes, technical classes cost more than liberal arts. The factor would account for the mix of levels, programs, and students at the various campuses. The factor would also be designed to take into account enrollment trends and not react too quickly to sudden shifts in enrollment.
- 3) a factor related to contact hours generated by students who do not earn credit. Examples are apprenticeship students, Employment Training Center students, and construction academy students.
- 4) a factor related to the number of native Hawaiian students enrolled.
- 5) a factor related to the number of Pell Grant recipients as a proxy for how well we are serving low-income students.
- 6) a factor related to the headcount of students. While credit hours or contact hours are the best measure of cost in some areas, certain costs are the same whether a student is taking one class or four classes. This factor accounts for that impact.
- 7) a factor related to the Gross Square Footage of the campus. This factor is related to the operations and maintenance of the space, including utility costs.

The costs associated with construction or repair and maintenance are not part of the formula.

- 8) a factor related to the level of extramurally funded research.
- 9) a factor related to the amount of general funded public service activity such as agriculture extension agents or the Imiloa science center.
- 10) a factor related to performance in reaching the identified strategic outcomes – student graduation and transfer rates, meeting State workforce needs, more STEM graduates, etc.

The Task Force continues its work and is now focusing on refining these factors, the costs associated with each factor, and the relative weights each factor should have. There is recognition that the formula must reflect the different missions and associated costs of the different components of the University, the differences in cost associated with size, scale, and geographic location, and costs associated with providing incentives in achieving the identified strategic outcomes of the University.

As we consider the adoption of a formula for the University of Hawai'i, there are several issues that must be thoroughly understood before implementation, including

- the formula does not determine how much money should come to the University from the State. The formula is designed to establish what is a reasonable and equitable funding level for a campus given the mix of programs and activities. What proportion of that cost should be borne by the State, what proportion borne by the student, what proportion borne by other revenue sources is a separate question from the results of the formula. The distribution of shared cost is not likely to be the same for the Manoa campus as it is for the baccalaureate campuses or for the community colleges.
- experience in other states has shown that the existence of a formula is no guarantee that the University will receive the expected level of funding from the State. In difficult economic times, it is often the case that states can only fund a fraction of the formulaic amount and the University must adjust its budget or increase its revenue sources to balance the budget. Since universities often operate counter to economic cycles, enrollments and the associated costs may well be rising at a time when the State's tax base and ability to pay is decreasing. A formula does not solve that dilemma.
- the use of the formula is a very different approach than our current budgeting system. With a formula, the University would no longer come to the executive and the legislature with individual program change requests. For example, the University would not come to the Legislature for permission to hire a new janitor

to maintain a newly constructed building but would have to make that decision internally within the allocation of the formula.

- a mechanism would have to be developed to monitor the impacts of the formula and ensure that the right actions are being rewarded and that the weights and factors are achieving the goals that we establish. The University is almost unique in the country in its complexity and creating the right formula with the right weighting and with the right incentives is likely to take some adjustments. It is also important that the introduction of a new method of funding such as a formula not be too disruptive to the on-going operations of the University.
- the University would be responsible to the Legislature for the achievement of the agreed upon strategic outcomes. The shift to a focus on outcomes rather than approving budget inputs is significant and there would have to be continuing dialogue to ensure that the University and the Legislature understood and agreed upon the desired outcomes.
- the Legislature could propose initiatives to the University outside the funding formula to further State objectives beyond the normal operating budget but these likely would be very focused.
- a mechanism would need to be developed for the consideration of major new program initiatives outside the scope of the current formulas. For example, the decision to initiate a program like Pharmacy at UH-Hilo represented a significant change in mission and the costs of that program, including the start-up costs, would not have been part of the formula for UH-Hilo. Some mechanism would be needed to consider new funding for such major new programs.
- consideration will need to be given on how to handle State funding that is outside the normal biennium budget process or the University budget. This includes fringe benefits and collective bargaining augmentation.

While we have much work yet to do, the Task Force anticipates that the recommendation for a funding formula can be completed in Spring 2009. This recommendation will also inform the incentive and performance report and plan required in Section 2 of the Act. The work of the task force, including all minutes of meetings and related documents may be viewed at <http://www.hawaii.edu/act188/>.