



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
Senate Committee on Higher Education  
and  
House Committee on Higher Education  
June 30, 2009 at 10:00am  
by  
David McClain  
President, University of Hawai'i

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

This testimony has been completed on June 28 for advance submission on June 29 prior to our Board of Regents meeting scheduled for 3:00 pm that day. I will be reporting to our Board of Regents again on June 29, and after delivering my written remarks today I will provide you with an update of the Board's deliberations on our response to the budget restrictions.

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 will report 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 on-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 June 29 and 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

**To the University of Hawai'i 'Ohana**

June 2, 2009

I know you all have questions growing out of Governor Lingle's address on Monday, June 1, particularly how it will affect you individually as well how it will influence the university's ability to accomplish our mission.

Noting that the law doesn't permit her to order furloughs for the Hawai'i Department of Education, the University of Hawai'i and the Hawai'i Health Systems Corporation, the governor has restricted our general funds expenditures in an amount equivalent to the three-day-per-month furlough she announced for other state employees.

While we have not received official notification, we estimate this restriction to be more than \$50 million per year in fiscal year 2010 and fiscal year 2011.

There are various scenarios and several uncertainties as to how this situation may play out at the state level. As we monitor ongoing developments, my leadership team and I are working to craft an appropriate response for the university, identifying the relevant questions, finding answers and working toward specific solutions.

In this process we will be in discussion with our Board of Regents, campus chancellors and other constituencies within and external to the university, including, of course, the unions that represent our employees.

There is no doubt that the State of Hawai'i is in a difficult fiscal situation. Right now 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.

I'll be in touch again in the days to come. Mahalo nui loa for all that you do for UH, and for the state of Hawai'i.

With best wishes and aloha,  
David McClain

**Update to the Board of Regents on the FY10 and FY11 Budget**  
June 10, 2009

President McClain reported to the Board of Regents on the status of the university's response to the governor's announcement on June 1 of three-day-per-month furloughs for most state workers and an equivalent restriction in the general funds budget for UH, the DOE and the Hawai'i Health Systems Corporation. UH has not received formal notification of the amount of the reduction from the governor's office or the Department of Budget and Finance, but estimates the magnitude to be in the \$50 million per year range for each of the next two fiscal years, FY10 and FY11.

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. The UH general funds budget is about \$725 million, including pass-throughs of fringe benefits and interest payments on debt; net of these amounts the general funds budget is about \$460 million.

The president reported that he has consulted with a number of groups within and external to the university to discuss the university's response to these budget reductions: the University Community Partnership, the Council of Chancellors, leaders from the Student Caucus, the All-Campus Council of Faculty Senate Chairs and the Pukoa Council, as well as the UH System leadership team. The president affirmed that administrative salary reductions will be part of the university's response.

UH is monitoring the situation at the state level and expects the furlough initiative to be challenged by several unions; the outcome of that challenge will indicate whether furloughs are an option for UH. Other options include increased efficiency of operations (including energy efficiency), reduced salaries for administrators, use of reserve funds and other non-general sources of funds and programmatic adjustments. Meanwhile, collective bargaining discussions continue, and the outcome of these will also influence the university's response.

The Senate and House Higher Education Committees will hold joint hearings on the university's response to the governor's budget restrictions on June 30.

## **Budget Situation Update for the UH 'Ohana**

June 19, 2009

Members of the UH 'Ohana:

I'm writing to bring you up to date on the university's response to the governor's June 1 announcement of her intention to furlough state workers three days a month for each of the next two fiscal years, in which she restricted our budget by an equivalent amount.

In my message on June 2, I committed to you 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." That commitment continues.

On June 10, I briefed our Board of Regents on the situation and on the discussions I've had about how to respond to the restrictions with student and faculty leaders, Native Hawaiian faculty and staff, chancellors and the system leadership team and community supporters of UH.

In my remarks to our board, I stated that we estimated the restrictions to amount to some \$50 million per year in FY10 and FY11, and I 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."

Earlier this week we received formal notification of the amount of the governor's restriction of our general funds budget. It will be \$52.1 million in FY10, and \$54.7 million in FY11, bringing our overall general funds reduction to \$76 million in FY10 and \$79 million in FY11.

As expected, several unions have now taken legal action to prevent the governor from implementing furloughs and have sought various forms of relief. Meanwhile, yesterday the governor presented more details of her furlough plans.

Last Wednesday I participated in collective bargaining discussions under the auspices of a federal mediator; further discussions are scheduled for next week. And some are calling for the Legislature to come back into session in July and enact revenue-increasing measures that would obviate the need for budget reductions or furloughs of this magnitude.

At the university, meanwhile, I reported to the board on June 10 that a year-on-year comparison of registrations for next fall's semester suggests a surge of enrollment of nearly 30 percent at our community colleges, with smaller increases at our baccalaureate campuses. Fall 2008 saw 6 percent enrollment growth to an all time record of 53,500. It's likely that our fall 2009 enrollment will top 60,000 students.

Though the situation remains fluid, we are making progress in crafting our response. 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.

I affirmed to our board on June 10 that salary reductions for administrative executives will be part of the university's plan. While we do not have a "rainy-day" fund as such at UH, we do have balances in some of our special and revolving funds, as well as continuing income flow from non-general sources of funds. We certainly can increase the efficiency and flexibility of our operations further (including energy efficiency, course articulation efficiency and perhaps scheduling efficiency), and we can make programmatic adjustments as necessary.

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.

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.

Meanwhile, as I noted above, collective bargaining discussions continue, and the outcome of these will also influence the university's response, as will the prospect of further actions by the courts, the governor and 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 not be overly hasty in finalizing our response, 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.

On June 29, I'll again be briefing our Board of Regents on our budget situation, and we'll review our progress on collective bargaining. On June 30, I'll be briefing a joint hearing on the university's budget challenges being held by the House and Senate Higher Education Committees.

Any actions that require Board of Regents approval will likely be on the board's July 23 agenda.

Mahalo nui loa for your patience during this difficult time and for your ongoing commitment to the students and communities we serve.

With best wishes and aloha,  
David McClain



## **Campus Prioritization Update**

### **May 13, 2009**

As the end of the semester nears, I want to take this opportunity to update you on our progress in the [campus prioritization process](#). I want to reassure you that this is an on-going effort, clearly already yielding benefits and guidance, but not a completed task by any means. Final decisions will be made in the fall after faculty return, so campus input can be obtained. Over the summer, we will work on evaluating the recommendations and developing options and processes for implementation, so the campus is poised to move forward in the fall.

Mahalo for everyone's efforts, because this prioritization process has already reaped many benefits by the dialog created among faculty and within departments and colleges. The Faculty Senate Executive Committee and I discussed the value generated by this activity; they noted the following: "a grass roots realization that students and the faculty have much to gain through flexible and extensive collaboration among departments, programs and colleges/schools; broadened understanding of the need for readily available accurate data to guide us in long term and day-to-day planning for both our curricula and our physical plant; and better use of our resources, including technologies in providing 21st-century learning opportunities for students and researchers." I surely agree with that view, because I have heard earnest enthusiasm for many ideas emerging from this effort and I thank you for investing intellectually in the development of strategies to move UH Mānoa forward.

As you know, we embarked on this process last year—as a way to set priorities to ensure that we invest our resources in areas that best fulfill our mission as a leading academic and research university serving Hawai‘i. A frequent question being asked was "how might we consolidate and reinvest to advance student success, programmatic strength, and academic reputation and quality?" As a result of those discussions, many areas have already begun to move toward streamlining and reorganizing on their own—an impressive outcome for sure.

At this point, we are completing Step 5, in which the four Vice Chancellors have met and jointly made preliminary recommendations stemming from the assessments made by the Deans and Directors and their committees. These are now available on the [Prioritization Process website](#). The Vice Chancellors have had numerous programs to review and, given that volume, I am simultaneously proceeding with Step 6 based on their preliminary recommendations.

As we move to Step 6, I have appointed a Prioritization Advisory Committee, including faculty, staff, and administrators and several individuals from the community and other campuses, to review the prioritization recommendations from the Vice Chancellors and propose strategies for long-term strategic investment. The names of committee members and its charge are available on the [Prioritization Process website](#). The Advisory Committee will continue to meet throughout the summer to identify and recommend campus-wide areas for investment and maintenance, as well as areas for consolidation, reorganization, reduction, or elimination. This time will also provide the opportunity for consultation with the Faculty Senate Executive Committee. These recommendations will be posted on the prioritization website for campus-wide feedback in the fall (Step 7).

The original timeframe had called for my final recommendations to be announced before the end of the semester. However, the sheer magnitude and historic significance of this first time endeavor require more time to ensure the best outcome, including additional consultation and refinement of information on a number of the recommendations. I appreciate your patience as we complete this step. At this point, it is reassuring that many ideas are surfacing to ensure that our priorities are driving the investment of our time and resources.

Some of the recommendations that have moved forward have been previously identified from other assessments and will be among the first areas I ask the campus to consider as priorities for implementation. Such examples include:

- Focusing on core mission by reducing the number of low enrollment certificates and degree programs
- Strengthening the School of Travel Industry Management, including reconsolidation with the College of Business
- Strengthening Water Resources Research Center and Environmental Center by consolidation and creation of a program in sustainability science, technology, and policy
- Enhancing the focus of Industrial Relations by integration with Hamilton Library
- Supporting UH Mānoa research by reorganization of the Pacific Biosciences Research Center, including the transfer of faculty, and staff into existing research oriented units, such as Natural Sciences, Medical School, SOEST, etc.

As the process has evolved, I have been studying the recommendations at each step, particularly in light of prior input from campus members who continually emphasized the importance of UH Mānoa providing a "multicultural global experience in an Hawaiian place of learning" and in view of the three goals I had derived from the current campus strategic plan "Defining Our Destiny." Based on that information, I have summarized my overview of the recommendations below this message for your consideration.

That is a brief review of the status of the Prioritization Process. Details of the process will continue to be posted on the [Prioritization Process website](#) and I will provide further updates as appropriate. I am confident that, by working together on the thoughtful contributions by everyone, UH Mānoa will keep moving forward in a positive direction.

I will end this message with one of my favorite quotes from Hawaiian scholar Mary Kawena Pukui who said, "Everybody paddle the canoes together; bail and paddle, paddle and bail, and the shore is reached." The UH Mānoa 'ohana is impressively moving toward new shores of greatness.

Mahalo nui loa.

Mahalo,

Virginia S. Hinshaw  
Chancellor  
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## Overview

Meeting the goals of UH Mānoa to serve as:

A. A destination of choice for great students, faculty, staff, the citizens of Hawai‘i, and beyond (with emphasis on ensuring student success, especially by providing an enhanced undergraduate learning experience).

- Ensure access to high demand critical courses
- Eliminate low demand courses, certificates, and majors
- Streamline progress through majors based on review of credit and course requirements
- Ensure intellectual critical mass by consolidating majors/programs
- Invest in academic programs that excel in demand, reputation, and impact
- Strengthen small units through association with larger, related schools/colleges
- Increase student recruitment and success via improved advising and financial aid, along with access to services such as counseling, housing, and health support
- Secure extramural funding, including grants, contracts, and donations to expand selected services for high-need student populations
- Expand learning opportunities through increased use of technology
- Organize curricular emphasis on environmental sustainability

B. A global leading research institution solving society's problems (with emphasis on ensuring support of UH Mānoa's unique ability in Hawai‘i to create new knowledge through research for the benefit of society).

- Support research initiatives and seek extramural funding in areas where UH Mānoa is uniquely positioned to excel
- Promote sustainability research leadership
- Reorganize centers to provide opportunities collaborations and new initiatives
- Focus certificates on high demand areas and discontinue others

C. A respectful, inclusive community that welcomes and nurtures diversity (with emphasis on strengthening respectful partnerships with our host culture and international colleagues in improving the future of Hawai‘i and the world).

- Strengthen the "Hawaiian sense of place" and educate campus members about our Native Hawaiian culture
- Expand leadership in international programs by sharpening the focus of our efforts
- Create a green campus and promote stewardship of natural resources
- Ensure Outreach College has maximum impact in serving local and extended communities
- Strengthen distance learning to conserve resources and to provide greater learning opportunities to all Hawaiian Islands and Pacific Islands neighbors