



UNIVERSITY
of HAWAII
SYSTEM

Vice President for Budget and Finance
Chief Financial Officer

May 29, 2012

MEMORANDUM

TO: Council of Chancellors

FR: Linda Johnsrud *Linda Johnsrud*
Executive Vice President for Academic Affairs/Provost

Howard Todo *Howard Todo*
Vice President for Budget and Finance/CFO

RE: Fiscal Biennium 2013-15
University System Budget Development Process

Attached is the FB 20013-15 Budget Policy Paper (BPP) which was approved by the Board of Regents at its April 12 meeting. It includes revisions made as a result of comments made by Board members during discussion of the document at the Board meeting to reflect the following:

- Recognition of the Importance of managing the University's various funding sources in consideration of recent fiscal constraints at national and state levels;
- Clarification of our system-wide commitment of institution-based scholarships in relation to tuition increases;
- Recognition of the Importance of information technology as an educational and management tool to support positive student outcomes; and
- Integration of sustainability as a long-term goal within our education and research initiatives.

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The BPP for 2013-15 continues on the course established in the current fiscal biennium 2011-13. It builds upon the University's successful achievement in most of its performance measures and reconfirms our commitment to our 2008-2015 strategic outcomes, as follows:

- The Hawai'i Graduation Initiative proposes to increase the number of college graduates by focusing on access, affordability, and workforce development.
- Our Innovation, Technology Transfer and Commercialization initiative proposes to support the continuous development of a billion dollar-plus industry of research spin off and related services within the State of Hawai'i.
- Stewardship of Facilities remains a constant priority to ensure renewal of our education infrastructure, and encompasses Renovate to Innovate project targets aimed at research facility modernization to further advance the growth of Hawai'i's research industry.

As noted in the BPP, the University System Leadership is proposing the development of system-wide general fund requests in the above areas.

We will be consulting with campus administration and other key University constituent groups through a Biennium Budget Committee that will be convened during June and July. This advisory Committee will assist in the development of our system-wide budget request for FB2013-15. Once the Advisory Committee has made its recommendations to the President, we will discuss the proposed budget with the Council of Chancellors prior to the Board of Regents Budget Workshop in August. Attached in the timeline for the budget development and the composition of the Biennium Budget Committee.

Please don't hesitate to contact us or Laurel Johnston, University System Budget Director at 956-7323, if you have questions.

Attachments

FB 2013-15 Biennium Budget Development Timeline

April 04	Draft of Budget Policy Paper (BPP) discussed with Council of Chancellors (COC)
April 12	Presentation of Draft to Board of Regents (BOR). Board of Regents approved, with suggested revisions
May 18	Revised BPP discussed with Council of Chancellors
June to July	Biennium Budget Committee develop system-wide biennium budget request recommendation
Aug 01	Discuss Proposed FB13-15 with Council of Chancellors
Aug 22	FB13-15 Budget Workshop with BOR
Sept 05	Discuss FB13-15 draft Budget Request with COC
Sept 28	FB13-15 Budget Request for BOR Approval
Oct 2012	Transmittal of FB13-15 Request to Governor/B&F
Nov 2012	Transmittal of FB13-15 Request to Legislature
Nov & Dec 2012	Meetings with Key Legislators
Jan 2013	Budget Briefings with Legislative Committees
April 2013	Budget Conference Committee Meetings
July to Sept 2013	University and Campus Leadership Allocate Funding Awards

2013-2015 Biennium Budget Committee Members

System

Linda Johnsrud (Co-Chair)
Howard Todo (Co-Chair)
Jim Gaines
Brian Minaai
Laurel Johnston*
Jim Nishimoto*

UH Manoa

Virginia Hinshaw/Tom Apple
Kathy Cutshaw*
Reed Dasenbrock*

UH Hilo

Don Straney
Marcia Sakai*

UH West Oahu

Gene Awakuni
Donna Kiyosaki*

Community Colleges

John Morton
Mike Unebasami*

ACCFSC (2 representatives)

Pukoa Council (2 representatives)

Student Caucus (2 representatives)

*Resource/Representative

**University of Hawai'i System
2013-2015 Biennium Budget Policy Paper**

Purpose of the Budget Policy Paper

Section 8-3 of the Board of Regents policies requires the President of the University System to present a biennium budget policy paper for discussion and approval by the Board of Regents. Pursuant to this policy, the environmental context for the development of the fiscal biennium 2013-2015 budget request includes:

- Renewing the commitment to our system-wide strategic initiatives;
- Identifying challenges and opportunities within the University's funding streams; and
- Proposing program targets that align with our strategic initiatives.

Strategic Initiatives – 2008 to 2015 - Building Upon Our Progress

The public benefit received from our dual mission of education and research provides a return on investment to our community through an educated workforce and a research industry that is a cornerstone of our State's economy. Our three strategic initiatives established for 2008-2015, support this dual mission, as follows:

- The *Hawai'i Graduation Initiative* proposes to increase the number of college graduates by focusing on access, affordability, and workforce development.
- Our *Innovation, Technology Transfer and Commercialization Initiative* proposes to support the continuous development of a billion dollar-plus industry of research spin off and related services within the State of Hawai'i.
- *Stewardship of Facilities* remains a constant priority to ensure renewal of our education infrastructure, and encompasses *Renovate to Innovate* project targets aimed at research facility modernization to further advance the growth of Hawai'i's research industry.

The Biennium Budget Policy Paper for 2013-2015 continues on the course established in the current fiscal biennium 2011-2013. It builds upon the University's successful achievement in most of its performance measures and reconfirms our commitment to our 2008-2015 strategic outcomes, which have been further refined into specific program targets. The University of Hawai'i System administration proposes the development of a performance-based FB2013-2015 biennium budget request using the following two criteria:

- Maintaining significant progress on performance measures through 2015; and
- Leveraging tuition revenues with general funds.

Challenges and Opportunities within University Funding Streams

General Fund Revenue -- Ongoing Reductions since 2007

The University of Hawai'i System has faced general fund reductions totaling \$336 million since 2007, reflecting a 40 percent erosion of state support. In the current FY12, the University of Hawai'i System state-appropriated funding mix is 42 percent general funds and 58 percent non-general funds. Preliminary indicators from the 2012 legislative session show that general fund support for FY13 will remain at current levels with concurrent increases in expenditure ceilings for non-general funds.

General Fund Forecast -- Cautiously Optimistic

The Council on Revenues, at its March 7, 2012 meeting, revised the forecast for state General Fund tax revenue growth in FY12 from 11.5 to 12 percent. The Council further revised its growth forecast for FY13 from 6.5 to 7.5 percent. These upward trends reflect a cautiously optimistic forecast based upon slow but steady economic improvements at the state and federal levels.

Extramural Funds -- Continual Growth

In FY11, the University System reached \$489 million in extramural funds secured, our highest total ever. The Community College system received notification in January 2012 of a three-year federal grant of \$25 million from the U.S. Department of Labor, the largest award of its kind in the country, while the University's Gear Up program received a seven-year federal award of \$22 million as part of the P-20 collaborative. Despite the current fiscal constraints of the federal budget, the University System has experienced growth in extramural funding due to increased competitiveness and sustained system-wide commitment to our research initiatives.

Tuition Revenues -- Emerging Source of Core Funding

The six-year tuition schedule that included step increases beginning in 2007 expires with this 2012 academic year. Tuition and enrollment increases during this period resulted in additional system-wide net revenues of \$96 million. The Board of Regents, at their October 2011 meeting, approved the University System administration's request for a new five year tuition schedule of step increases, beginning with the 2013 academic year (Fall 2012). These increases have been critical to maintain the long-term financial health of the University System and have balanced out our stagnant general fund appropriations.

Scholarships -- Increasing from Tuition Revenues

Along with our increasing enrollment figures, we have awarded \$37.4 million in undergraduate and graduate scholarships for this academic year -- an increase of nine percent from 2011 and a cumulative 27 percent increase from 2009. We are meeting our goal of awarding four times the amount of institution-based financial assistance compared to what was awarded prior to the 2007 tuition increases.

Faculty and Staff Salaries -- Restoration and Repayments

Beginning in the current FY12, the salaries of University of Hawai'i Professional Assembly (UHPA) faculty members were reinstated to their levels prior to the reductions. Beginning in the FB13-15, in accordance with collective bargaining agreements, the University System must repay deferred compensation in lump sum payments to UHPA members as follows: 25 percent (FY13 and FY14) and remaining 50 percent (FY15). Estimated payback amounts are: \$5.6 million in FY13 and FY14, and 11.3 million in FY15, for a total of \$22.5 million over these three fiscal years. Depending upon the progress of negotiations with other collective bargaining units, additional funding for salary adjustments may also be required.

Enrollment Increases -- Several Campuses

Enrollment figures at all campuses are at an all-time high, with a cumulative 12 percent system-wide increase since 2009. Enrollments at community college campuses increased by 17 percent over the past four years, and enrollments in first professional degree programs increased by 60 percent in three years, largely due to the launch of the new pharmacy program at the Hilo campus. The opening of the West O'ahu campus in the Ewa Plain will offer expanded access for underserved populations and increase the going rates of Hawai'i high school graduates to University of Hawai'i programs.

Bond Financing -- Favorable Ratings

As of February 2012, the University closed a refunding bond issue of \$8.5 million, resulting in total savings of \$919,503 and annual savings of \$117,907 in interest and an additional \$70,000 in annual audit fees. Further, recent presentations by the University leadership team to several national bond rating agencies resulted in the University of Hawai'i System maintaining our bond ratings as follows:

- Fitch: AA
- Moody's: Aa2
- Standard & Poor's: A+

Biennium Budget Development Strategy

Given the environmental context outlined above, the University of Hawai'i System administration proposes the development of a performance-based FB2013-15 biennium budget request using the following two criteria:

- Maintaining significant progress on performance measures through 2015; and
- Leveraging tuition revenues with general funds.

The rationale for this strategy is two-fold. Even while enduring cuts in general fund support, the University System has shown success with many of our performance goals. This loss of general funds has required cost-shifting to non-general funds, which has been possible because of the emergence of tuition and fees revenues as a core source of funding. However, this cost-shifting is not sustainable without a more proactive approach to leveraging of general and non-general funds within the context of our performance goals.

Thus, the University System administration is proposing that we work with the Council of Chancellors to develop campus-wide performance-based budget requests that will award general funds with appropriate commitment of tuition and fees revenues generated and held by the campuses. Each campus administration shall be responsible for the allocation to specific programs of general funds received for performance-based funding in combination with a commitment of tuition revenues based upon the following:

- alignment with our three strategic initiatives;
- success toward achieving our 2015 performance outcomes; and
- incorporation of one or more of the performance targets for 2013-15.

Strategic Initiative #1: Hawai'i Graduation Initiative

Education Mission Objectives:

- Position the University of Hawai'i as one of the world's foremost Indigenous serving universities by supporting the access and success of Native Hawaiians.
- Increase the educational capital of our State by increasing participation and degree completion by underserved populations and low-income students.
- Address critical workforce shortages by increasing enrollments and completion rates in undergraduate, graduate, and professional degree programs, with a particular focus on science-technology-engineering-math, STEM disciplines.
- Increase the use of technology in education to enhance student access and improve student success.

Hawaii Graduation Initiative

For this past academic year, our graduation data shows an 8.5 percent increase in overall rates compared to the previous year. There were increases in all degrees types: certificates, associate, baccalaureate, masters and graduate degrees. We exceeded our 2011 goal (8,644) with 8,988 degrees or certificates earned. We have prepared a scorecard for campuses that demonstrates their progress in meeting our performance measures, including indicators that increase the likelihood of graduation, such as earning 30 credits in an academic year, attending summer school, completing college level English and math in the first year of college. The system-wide degree attainment of Native Hawaiians has steadily increased from 979 in 2009 to 1,609 graduates in 2011, a cumulative 64 percent increase. A plan that establishes the University of Hawai'i as a model Indigenous serving university has been developed by Native Hawaiian faculty and staff representing all campuses and will further our efforts in increasing degree attainment of Native Hawaiians throughout the University System.

The Board of Regents has noted that the University System needs to more systemically apply technology to expand access and enable more efficient utilization of resources. Particularly as student enrollment increases without commensurate increases in general fund support, more intentional use of modern education technologies, such as distance learning, can enhance the University's educational

capabilities for students throughout the State. Improved use of technology in support services and use of data (analytics) can increase student success for both campus-based and distance learners. Educational innovations such as hybrid courses can improve educational outcomes and reduce stresses on over-utilized physical facilities.

Performance Targets for 2013-15:

- **Maintain the progress in degree attainment of Native Hawaiian students at University of Hawai'i campuses, and prepare Native Hawaiian students, faculty, and staff to assume leadership positions within the University of Hawai'i System and in the community.**
- **Increase the number of graduates (undergraduate, graduate, and professional) through system-wide academic planning to ensure that our programs are efficient and effective, leveraging the strengths of the campuses to offer programs statewide.**
- **Increase the going rates of Hawai'i public and private high school students to University of Hawai'i campuses by examining financial aid policies to support and promote consideration of Hawai'i high school applicants.**
- **Increase system-wide use of technology to achieve positive education outcomes.**

Workforce Development

The University of Hawai'i System has a responsibility to ensure that the State has an effective workforce to meet both the current needs of the State and to support planned economic directions that the State is pursuing. The University System, through its community college and university campuses, is the major provider for the workforce in all sectors of the economy, from technical to professional positions. The University System will focus on extending access to new and existing high-demand programs throughout the State through appropriate use of distance learning technology, University centers, and cooperative agreements among the ten campuses.

In the next biennium, the University will continue to focus on improving the workforce by closing the gaps between the supply of highly qualified workers and employment sectors where there are identified shortages or where there are anticipated to be shortages. Some of these identified areas include engineering, certain health fields, hospitality industry, information sciences, and education. The University will develop programs or expand offerings in career fields included as part of the economic plans for the State, including science-technology-engineering-math (STEM) disciplines, energy conservation and green workforce, health informatics and other health fields, and sustainable agriculture. In some instances, this expanded labor supply may be accomplished through improved recruitment into targeted programs and improvements in degree completion in existing programs. In other instances, new degree programs may be required to meet emerging job classifications or ongoing workforce shortages.

Performance Targets for 2013-15:

- Increase the number of degree awards and job placements in emerging job classifications and workforce shortage areas, including science- technology-engineering-math (STEM) through targeted system-wide University consortia and initiatives.
- Establish an “entrepreneurship” curriculum that can be integrated within all academic disciplines to inspire student creativity. ✓

Strategic Initiative #2: Innovation, Technology Transfer and Commercialization

Research Mission Objectives:

- Contribute to the State's economy by providing a solid return on its investment through increasing extramural research grant awards within Hawai'i.
- Serve as the statewide leader of a collaborative research industry by leveraging the University's programs of academic prominence, such as ocean and earth sciences, astronomy, Asia and Pacific leadership, biomedical research, alternative energy and sustainable development.

Innovation through Research Collaboration

Hawai'i's research industry has developed without a synergistic partnership between the academic community, government entities and the private sector. The University of Hawai'i System, through its Innovation Council, is taking a leadership role by focusing on strategically intentional growth as follows:

- Building clusters of selective excellence to support the development of a sustainable research community well into the 21st century;
- Identifying research strengths of other academic institutions and private corporations within the State that are capable of adding critical mass and partnering with UH research endeavors;
- Identifying infrastructure and core capability gaps that inhibit 21st century research capability; and
- Building streamlined processes and policies to expedite strategic partnerships and technology transfer pathways.

Technology Transfer: Commercialization and Industry Alignment

The University of Hawai'i System is committed to moving quickly towards commercialization. This requires a system-wide plan, a set of processes and actions connecting university community to business initiatives and opportunities, supported by a strong set of alliances throughout the State and the federal government. With improved infrastructure in place (POST Building, C-MORE Hale, Kakaako Health Sciences complex, Maui High Performance Computing Center, high-speed broadband connections with national and internal networks) and with nearly \$500 million dollars of extramural funding, UH can identify areas with the greatest potential for increased technology transfer and dual use

opportunities. In addition, there is approximately \$160-170 million extramural (research and non-research) dollars per year being awarded to other Hawai'i-based higher education and private research entities.

In conjunction with identifying existing and potential areas of research excellence, the University of Hawai'i must also assess its talent pool and research infrastructure. Currently, the University System is developing formulas for growth, e.g. "X" researchers + "Y" square feet of infrastructure = yield "Z" return to the economy in additional jobs and revenue. We can begin by sharpening our proven research strengths in agricultural sciences, ocean and earth sciences, astronomy, Asia and Pacific leadership, biomedical research, alternative energy and sustainable development.

We should also consider the potential development of research focused on advanced informatics and cyber-infrastructure, which is an essential core capability for sustained excellence in disciplines such as digital media, creative industries, and expanded health sciences. At the same time, the University System should work toward accelerating technology transfer and commercialization efforts that align with emerging statewide initiatives to promote a broad and dynamic research industry within the university community and throughout the State.

Performance Targets for 2013-15:

- Increase extramural research-based funds through a statewide Innovation Council to promote collaborative research partnerships in national and international projects.
- Establish a \$1.0 billion dollar target for University System extramural funding that will drive the growth of a \$1.0 plus billion dollar statewide research industry that will generate approximately 10,000 jobs in the next five to seven years.
- Create a research development special fund to recruit world class researchers and support for their laboratories that will align with statewide research and innovation plans and drive increased commercialization and economic development.

Strategic Initiative #3: Stewardship of Facilities

Education and Research Mission Objectives

- Acquire, allocate, and manage public and private revenue streams to reflect exemplary stewardship over the University System's physical infrastructure.
- Reinvest in the University's physical infrastructure by correcting health and safety deficiencies and creating environmentally sustainable facilities.
- Modernize our physical infrastructure to maximize generation of external funds to sustain and expand research initiatives system-wide.

Improved Learning and Research Environments

The total replacement value of all University of Hawai'i facilities is estimated at \$4.2 billion. The University System is making progress in maintaining and improving our classrooms and laboratories to promote a successful learning and research environment. New construction and major renovation projects that are currently planned, underway or recently completed include:

University of Hawai'i at Mānoa

- Cancer Center in Kaka'ako
- Renovation of Student Housing Facilities (Johnson Hall and Gateway House)
- New Recreational Center Addition to the Campus Center
- Renovation at Webster Hall for a new Translational Health Simulation Center
- Edmondson Hall Renovation
- Gartley Hall Renovation
- Renovation of the Komohana Agricultural Complex in Hilo

University of Hawai'i at Hilo

- New Student Services Building
- New College of Hawaiian Language Building
- New School of Pharmacy and Health Sciences Building
- New Student Housing

University of Hawai'i—West O'ahu

- New Campus Development in Kapolei

University of Hawai'i—Community Colleges

- New Education and Innovation Instructional Facility at Leeward Community College
- New Science Building at Maui College
- New Library and Learning Resources Center at Windward Community College
- New Culinary Institute of the Pacific at Kapiolani Community College
- New Palamanui Campus at West Hawaii

University of Hawai'i System

- New Information Technology Center

Capital Improvements – Triple Bottom Line

Funds spent on capital improvements, particularly on research and training facilities, are a triple bottom line: they directly create jobs for Hawai'i's construction workers; they provide improved facilities that allow our faculty and staff to successfully compete for research grants; and they allow leveraging of external funds that we are awarded for research and training. Therefore, it is imperative to reinvest in the University System's physical infrastructure to sustain our education and research mission.

One of the University System's most challenging budgetary pressures is the continuing increase in energy costs. We must continue to seek energy efficiencies by adopting system-wide energy conservation initiatives and include energy system upgrades as part of major renovation projects. Even as the system realizes savings from energy efficiencies, these savings are eliminated by ongoing increases in energy costs that can only be met by cost-shifting funds away from education and research programs.

The University System is undertaking new construction projects and major renovations through the use of general obligation bonds, revenue bonds, and other University funds. In February of this year, Governor Abercrombie approved an emergency measure, Act 2, Session Laws of Hawaii 2012, to increase the University's revenue bond authorization ceiling by an additional \$100 million to finance construction and major renovation projects that qualify for revenue bonds.

Performance Targets for 2013-15:

- **Expedite state appropriations to finance capital renewal and modernization of University facilities to meet changing program needs.**
- **Decrease the system-wide deferred maintenance backlog using state general fund support to correct health and safety deficiencies.**
- **Commit University funds in energy conservation and sustainability initiatives, throughout the University System, that will provide a return on investment.**
- **Continue system-wide investment in *Renovate to Innovate* projects to support the growth of our research industry and workforce development programs.**

TO: Vice-Chancellors and Deans

FROM: Leon Richards, Chancellor

First of all, thank you, your department chairs, staff, and faculty for successfully implementing the following activities over the last 12 months:

- 1) The Integration of Student Learning Outcomes (SLO) into your Annual Report of Program Data (ARPD). We will be evaluating this SLO integration in AY 2013-2014.
- 2) The Implementation of New Program Review Policy and Completion of Evidence-Based Comprehensive Program Review (CPR) with Tactical Action Planning. We will be evaluating this new Policy and CPR process in AY 2103-2014.

In accordance with the timeline set in the College's Institutional Improvement Matrix (IIM) and the Engagement, Learning, and Achievement (KELA) Model, I am allocating your budget to support the tactical actions you have identified for improvement on the College's 10 Institutional Effectiveness Measures, and ongoing improvement in student learning.

The integration of SLO into ARPD, the new Program Review Policy, IIM, and KELA model were shared with the Policy, Planning, and Assessment Council (PPAC) in AY 2011-12. We should now encourage PPAC members to examine the completed CPRs which are posted at the OFIE website under the Program Review Tab.