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# A BILL FOR AN ACT

RELATING TO EDUCATION.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that the University of  
2 Hawaii is accountable to the legislature and should be  
3 accountable for its funds in a manner that is consistent across  
4 the campuses and understandable by the legislature and the  
5 public. This necessitates that the goals of the system's  
6 strategic plan shall be stated in measurable terms that relate  
7 to fiscal allocations. The overall purpose of this Act is to  
8 delineate a budgeting system for the University of Hawaii.

9           The University of Hawaii has been developing a long-term  
10 financial plan pursuant to a request from the legislature under  
11 Senate Concurrent Resolution No. 137, adopted in 2007.  
12 Additionally, Senate Concurrent Resolution No. 79, adopted in  
13 2007, requested the University of Hawaii to report on the  
14 linking of funding for individual campuses and performance  
15 goals, which would require the University of Hawaii to develop a  
16 budgeting system that reflects achievements, challenges, and  
17 needs.



1 Presently, the University of Hawaii's operational funding  
2 is determined each fiscal biennium based on specific program and  
3 personnel requests. In addition, supplemental budget requests  
4 are prepared for the second year of each fiscal biennium to  
5 address unforeseen issues and funding deficiencies that have  
6 arisen after the biennial budget has been approved and funds  
7 allocated. State appropriations for the University of Hawaii  
8 fluctuate based on current spending needs and state general  
9 revenue levels.

10 As a guide, the University of Hawaii system strategic plan  
11 was prepared in 2002 as a means for the university to chart its  
12 course through 2010. The strategic plan outlined the University  
13 of Hawaii's vision, mission, commitments and core values, and  
14 planning imperatives. The plan identified the following key  
15 strategic goals for the university as a means of advancing its  
16 strategic imperatives, including developing:

- 17 (1) Educational effectiveness and student success;
- 18 (2) A learning, research, and service network;
- 19 (3) A model local, regional, and global university;
- 20 (4) Faculty, staff, students, and their environment; and
- 21 (5) Resources and stewardship.



1           During fiscal year 2007-2008, the University of Hawaii  
2 reexamined its strategic plan to update it for the next eight  
3 years. As the only public higher education institution in the  
4 State, the University of Hawaii is largely responsible for  
5 helping the State meet its higher education needs, that include:

- 6           (1) Increasing the educational capital of the State;
- 7           (2) Expanding workforce development initiatives;
- 8           (3) Assisting in diversifying the economy; and
- 9           (4) Addressing underserved regions and populations of the  
10           State, particularly native Hawaiians.

11 These goals are being incorporated into the strategic plan that  
12 will guide the university through 2015.

13           The next step is to develop a financial plan to reach the  
14 strategic goals. The objective is to develop an educational  
15 compact that would define the long-term goals to address  
16 Hawaii's major economic challenges and align the University of  
17 Hawaii to the achievement of these goals. The university would  
18 be accountable for meeting performance standards and the higher  
19 education compact would be used to clearly link funding for the  
20 university with specific goals and performance measures.

21           Developing the educational compact requires delineating a  
22 financial plan that would link the strategic plan goals to



1 accompanying funding. Thus, there will be a long-term component  
2 to the financial plan that indicates the long-term costs of  
3 achieving the strategic goals and by providing long-term funding  
4 targets for each institution within the University of Hawaii  
5 system. There will also be a medium-term component to the  
6 financial plan that will cover three biennial periods, starting  
7 with the 2009-2011 biennial budget and extending to 2015 to  
8 cover the same period as the strategic plan. The financial plan  
9 will outline the financial costs to achieve the strategic plan  
10 and will be based on measurable goals.

11 The long-term component will include the following:

- 12 (1) Base operating funds--the ongoing fiscal obligations  
13 that need to be adjusted for inflation and obligations  
14 such as collective bargaining;
- 15 (2) Capital improvement funding--annual and deferred  
16 maintenance obligations; and
- 17 (3) Incentive and performance outcome funding--funds  
18 provided as a result of achieving specific performance  
19 goals.

20 The purpose of this Act is to require the University of  
21 Hawaii to develop an incentive and performance outcome funding



1 component for the long-range financial plan. This requirement  
2 shall attempt to accomplish the following:

- 3 (1) Increasing legislative and public support for higher  
4 education;
- 5 (2) Allocating funds through a dual approach of incentives  
6 and performance-based funding;
- 7 (3) Monitoring the general condition of the University of  
8 Hawaii system;
- 9 (4) Identifying potential sources of problems or areas for  
10 improvement;
- 11 (5) Improving the effectiveness and efficiency of colleges  
12 and universities within the University of Hawaii  
13 system;
- 14 (6) Focusing program, department, college, and university  
15 efforts on state priorities and goals;
- 16 (7) Assessing progress on state priorities and goals to  
17 improve graduate and undergraduate education; and
- 18 (8) Improving consumer information on higher education.

19 SECTION 2. (a) The University of Hawaii shall prepare and  
20 provide to the legislature an annual incentive and performance  
21 report and plan in November of each year beginning in 2008. A  
22 major purpose of the annual incentive and performance report and



1 plan is to assist the legislature in appropriating up to two per  
2 cent of the University of Hawaii's annual budget to facilitate  
3 the university's strategic plan and related state goals.

4 (b) The 2008 incentive and performance report and plan  
5 shall present University of Hawaii and state workforce  
6 quantitative information that form the baseline data for future  
7 comparisons. The university shall include at least the  
8 following baseline data for the past five years by program,  
9 department, campus, and university:

- 10 (1) The number of full-time equivalent students;
- 11 (2) The number of students who have transferred to other  
12 higher education institutions;
- 13 (3) The number of students who have graduated;
- 14 (4) The number of full-time equivalent faculty;
- 15 (5) The number of openings in major workforce shortage  
16 areas, including but not limited to teaching, nursing,  
17 and technology; and
- 18 (6) The number of graduates filling job openings in major  
19 workforce shortage areas.

20 The report shall also include a project plan of the same data  
21 for the upcoming five years.



1 (c) Beginning in 2009, the performance incentive report  
2 and plan shall continue to provide the quantitative data as well  
3 as a qualitative data analysis of the success of the endeavors  
4 to enroll, transfer, and graduate students and how this is  
5 matching the university's strategic plan and the state workforce  
6 needs. The allocation of up to two per cent of incentive and  
7 performance funds shall be based on these results.

8 (d) The University of Hawaii shall include within its  
9 strategic plan measurable goals and performance data.

10 (e) The University of Hawaii shall collect and maintain  
11 benchmark data in keeping with section 304A-2001, Hawaii Revised  
12 Statutes.

13 (f) The annual performance and incentive report shall  
14 describe the success of previous incentive and performance plans  
15 by analyzing the outcome performance measures in relation to  
16 plan goals. The report also shall propose the following year's  
17 incentive plan, including identifying the goals, performance  
18 outcome measures, and sources of funding, that may include new  
19 general fund appropriations, reallocated existing general fund  
20 appropriations, and other sources of funding available to the  
21 university. Data appropriate to the individual performance  
22 measure shall be provided in the annual report.



1 (g) In order to assist the University of Hawaii in  
2 developing the proposed incentive and performance plan, the  
3 University of Hawaii shall hire, as a consultant, an independent  
4 higher education finance expert to provide a report and  
5 recommendations. The consultant shall have experience working  
6 with policymakers in other states to successfully develop or  
7 improve funding models, including funding formulas, to allocate  
8 public funds to campuses within the respective state's higher  
9 education system. The consultant's assignment shall be to  
10 provide a report and recommendations during 2009 as to how full-  
11 time equivalent enrollment, historical enrollment growth, future  
12 enrollment growth, enrollment mix, and the like should be linked  
13 to funding, through formula funding, base funding, incentive  
14 funding, or any other methodology the consultant, in the  
15 consultant's expert opinion, may recommend. The consultant  
16 shall also be directed to analyze and provide expertise on  
17 whether campuses are under- or over-funded based on past  
18 enrollment, growth, current enrollment, enrollment mix, funding,  
19 and other factors, and, if so, to recommend the amount of  
20 adjustments needed and how those adjustments should be  
21 accomplished.





1 (h) The proposed incentive and performance plan for the  
2 following years shall include descriptions of proposals to be  
3 carried out at the program, department, campus, or system level.  
4 The incentive plan proposals shall be distributed across all  
5 levels and funding shall go back to those levels if plans are  
6 successful as demonstrated by their outcome performance  
7 measures. The plan shall include a summary of what amount or  
8 percentage of up to two per cent of the overall incentive and  
9 performance plan budget shall be allocated to each program,  
10 department, college, campus, or system level.

11 SECTION 3. There is appropriated out of the general  
12 revenues of the State of Hawaii the sum of \$100,000 or so much  
13 thereof as may be necessary for fiscal year 2008-2009 to hire an  
14 independent higher education finance expert.

15 The sum appropriated shall be expended by the University of  
16 Hawaii for the purposes of this Act.

17 SECTION 4. This Act shall take effect on July 1, 2008.



**Report Title:**

UH; Budgeting Systems

**Description:**

Requires the University of Hawaii to develop an incentive and performance outcome funding component for its long-range financial plan. (SD1)

