

JAN 23 2008

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# A BILL FOR AN ACT

RELATING TO THE UNIVERSITY OF HAWAII.

**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 measurable terms that relate to fiscal  
7 allocations. The overall purpose of this measure is to  
8 delineate a budgeting system.

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

- 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) Investment in faculty, staff, students, and their  
21 environment; and
- 22 (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, which  
6 include:

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

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

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



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

13           The long-term component will include the following:

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



1           The purpose of this Act is to require the University of  
2 Hawaii to develop an incentive and performance outcome funding  
3 component for the long-range finance plan. This requirement  
4 shall attempt to accomplish the following:

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

21           SECTION 2. (a) The University of Hawaii shall prepare an  
22 annual incentive and performance report in November of each year



1 that reflects the success of the University of Hawaii's previous  
2 incentive and performance plans and proposes the plan for the  
3 following year. The purpose of the annual incentive and  
4 performance report is to facilitate the legislature in  
5 allocating approximately two per cent of the University of  
6 Hawaii annual budget to facilitate the university's strategic  
7 plan and related state goals; provided that:

8 (1) During the 2009-2011 fiscal biennium, the focus shall  
9 be on developing incentive plans that have measurable  
10 performance outcomes; and

11 (2) Beginning with the 2011 fiscal year, the allocation of  
12 funds shall be based on the annual incentive and  
13 performance annual report.

14 (b) The University of Hawaii shall include within its  
15 strategic plan, measurable goals and performance-based outcome  
16 data.

17 (c) The University of Hawaii shall collect and maintain  
18 records of the following data, which shall be utilized in  
19 formulating the 2009 annual report required under subsection

20 (d):

21 (1) Regular admissions standards and comparisons of  
22 entering students to these standards;



- 1           (2) Remediation activities and indicators of remedial  
2           effectiveness;
- 3           (3) Enrollment, retention, and graduation data by gender,  
4           ethnicity, and program;
- 5           (4) Total student credit hours produced by institution and  
6           discipline;
- 7           (5) Amount of tuition collected and how the tuition was  
8           expended;
- 9           (6) Transfer rates to and from two-year and four-year  
10          colleges or universities;
- 11          (7) Total degrees awarded by institution and program and  
12          time to degree;
- 13          (8) Pass rates on professional licensure examinations;
- 14          (9) Placement data on graduates;
- 15          (10) Results of follow-up satisfaction studies of alumni,  
16          students, parents, and employers;
- 17          (11) Faculty workload and productivity data;
- 18          (12) Number and percentage of accredited and eligible  
19          programs;
- 20          (13) External or sponsored research funds; and
- 21          (14) Any additional relevant measurable goals and  
22          performance-based outcome data.



1 (d) The annual report shall describe the success of  
2 previous incentive and performance plans by analyzing the  
3 outcome performance measures in relation to the goals. The  
4 report also shall propose the following year's incentive plan,  
5 including identifying the goals and the performance outcome  
6 measures. The annual report shall reflect the following five  
7 state goals: education quality and effectiveness, access-  
8 diversity-equity, efficiency and productivity, contributions to  
9 state needs, and connection and contribution to other education  
10 sectors. The data that shall be analyzed under each category  
11 are delineated under the following state goals:

12 (1) Education quality and effectiveness - emphasizing  
13 undergraduate and graduate teaching and learning.  
14 Data may include standardized entrance scores; number  
15 of students in remediation; effectiveness of  
16 remediation; availability of academic programs; amount  
17 of financial commitment to instruction; student-  
18 faculty ratios; class size; percentage of students  
19 taking at least one course with fewer than fifteen  
20 students; student assessment results; student  
21 performance on nationally-normed examinations; type of  
22 faculty teaching lower-division courses; time to





1 degree completion; course demand analysis; graduation  
2 rates; performance of graduates on licensure  
3 examinations; job placement rates; graduate and  
4 employer satisfaction; number of degrees awarded by  
5 discipline and number of degrees granted;

6 (2) Access-diversity-equity - changing demographics and  
7 the changing needs of the student population,  
8 including persistence and graduation rates by  
9 ethnicity and gender, availability of financial aid,  
10 faculty diversity, college participation rates,  
11 progress in affirmative action, and student  
12 demographics compared to the state population  
13 demographics;

14 (3) Efficiency and productivity - how well and at what  
15 cost particular goals or priorities are met, including  
16 program costs, time to degree and number of credits by  
17 institution and degree, classroom and laboratory  
18 utilization, changes to students, state appropriations  
19 per capita and per resident student, total contact  
20 hours of instruction by faculty rank, facilities  
21 maintenance, average faculty salary, and student-  
22 faculty ratios;



1           (4) Contribution to state needs - concerns about workforce  
2           development and economic competitiveness issues,  
3           including what programs have been modified or added to  
4           meet employer needs, the number of graduates in  
5           critical employment fields, the economic impact on the  
6           state of graduates, and the continuing education  
7           patterns; and

8           (5) Connection and contribution to other education  
9           sectors - concerning the educational system as a  
10          whole, including effectiveness of remedial education,  
11          feedback on performance to high schools, and research  
12          and service in support of public education.

13   The proposed incentive and performance plan for the following  
14   years shall include descriptions of proposals to be carried out  
15   at the program, department, campus, or system level. The  
16   incentive plan proposals shall be distributed across all levels  
17   and funding shall go back to those levels if plans are  
18   successful as demonstrated by their outcome performance  
19   measures. The plan shall include a summary of what amount or  
20   percentage of the approximately two per cent of the overall  
21   incentive and performance plan budget shall be allocated to each  
22   program, department, college, campus, or system level.



1 SECTION 3. This Act shall take effect upon its approval.

2

INTRODUCED BY: Norman Satomah

Stevanne Chun Oshland

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**Report Title:**

UH; Budgeting; Financial Performance Incentives

**Description:**

Requires the University of Hawaii to develop a system of institutional financial performance incentives.

