

March 25, 2008

Thank you for giving the University of Hawaii at Hilo the opportunity to provide the Senate Committee on Ways & Means with additional written comments on HB2978 HD1 SD1. Chancellor Rose Tseng feels it would be appropriate to include more specific language about developing a University of Hawaii budgeting system and funding formula. We hope that this new input will allow us to reach concurrence on the language of HB2978.

In particular, we wish to delete paragraph (g) of Section 2. In the current version of HB2978, (g) appears on p. 8. We do not feel that (g) is adequate because it does not address the need to create a Task Force.

We then wish to add the new material below to p. 9, at the beginning of Section 3. This new language would assign the Task Force the responsibility of (1) hiring an external consultant and (2) developing a funding formula to link full-time equivalent (FTE) student enrollment with base allocations.

HB 2978 HD1 SD1

SECTION 3. To assist the University of Hawaii in developing a budgetary system that includes a funding formula, the University of Hawaii shall

- (1) Establish a task force to develop an equitable, consistent, and responsive funding formula for the distribution of fiscal resources to the various University of Hawaii campuses, provided that
 - (a) The funding formula shall:
 - (i) Be linked to the enrollment of full-time equivalent (FTE) students at each campus;
 - (ii) Recognize the varying costs of educating different categories of students, such as two-year, undergraduate, graduate, and professional program students;
 - (iii) Recognize the unique missions of the University of Hawaii's various campuses;
 - (iv) Be as simple and transparent as possible and be designed to allow the funding formula to be used as a basis for planning;
 - (v) Provide for transparency and accountability to ensure the efficient use of state resources; and provided that
 - (b) The members of the funding formula task force shall consist of five members as follows:

- (i) The chancellor of the University of Hawaii at Manoa or the chancellor's designee;
 - (ii) The chancellor of the University of Hawaii at Hilo or the chancellor's designee;
 - (iii) The chancellor of the University of Hawaii at West Oahu or the chancellor's designee;
 - (iv) The vice president or interim vice president of the University of Hawaii community colleges or the vice president's or interim vice president's designee; and
 - (v) The chief financial officer for the UH system, or the chief financial officer's designee.
- (2) Hire, as a consultant, upon the recommendation of the task force, an independent higher education finance expert to assist the task force to develop the funding formula and submit a report and recommendations. The consultant shall have experience working with policymakers in other states to develop or improve funding models, including funding formulas, to allocate public funds to campuses within the respective state's higher education system.
- (3) The task force's assignment shall be to submit a report and recommendations during 2008-2009 as to how FTE enrollment, historical enrollment growth, future enrollment growth, enrollment mix and the like should be linked to funding, through formula funding, base funding, incentive funding and/or any other methodology the task force may recommend. The consultant shall be directed to analyze and provide his or her expert opinion as to the methodology to be employed and as to whether campuses are under-funded or over-funded based on past enrollment growth, current enrollment, enrollment mix, funding, and other factors, and if so, to work with the task force to recommend the amount of adjustments to the campus base budgets needed to compensate for shortfalls in prior years and how those adjustments should be accomplished.
- (4) There is appropriated out of the general revenues of the State of Hawaii the sum of \$100,000 or so much thereof as may be necessary for the fiscal year 2008-2009 to hire the independent higher education finance expert.
- (5) The sum appropriated shall be expended by the University of Hawaii for purposes of this act.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Written Comments to
Senate Committee on Ways and Means
March 27, 2008 at 9:45 am

By
Linda Johnsrud, Vice President for Academic Planning and Policy,
And
Howard Todo, Vice President for Budget & Finance/CFO,
University of Hawai'i

HB 2978, HD1, SD1 – RELATING TO EDUCATION

Chair Baker, Vice Chair Tsutsui, and Members of the Committee on Ways and Means:

We are Linda Johnsrud, Vice President for Academic Planning and Policy and Howard Todo, Vice President for Budget and Finance and Chief Financial Officer, of the University of Hawai'i System. On behalf of the University System, We are providing written comments on House Bill 2978 House Draft 1, Senate Draft 1, which requires the University of Hawai'i to develop an incentive and performance outcome funding component for its long-range financial plan; requires an annual incentive and performance report, with specific baseline data, beginning in November 2008; and appropriates funds to hire an independent consultant to provide expert opinion and recommendations on funding methodologies.

The University very much appreciates the legislature's attention to our funding mechanisms and to the revisions that have been made to the original HB 2978. We welcome these revisions and strongly support HB 2978, HD1, SD1.

HB 2978, as originally drafted, could not be supported by the University because it established a funding formula task force while also appropriating funds for an independent consultant to provide expertise in funding formula development. The intent to hire an independent consultant while at the same time creating a task force charged with developing a formula linked to full time student enrollment was troublesome. Not only would it have duplicated effort and expense, but the predetermined conclusion in HB 2978 as originally drafted, of requiring a formula for funding and further requiring the use of student enrollment, to the exclusion of any other considerations, in determining that formula would pre-empt the expert opinion being requested from an outside consultant. In the current wording of SD1, the consultant is charged with providing a report and recommendations as to how full-time equivalent enrollment, historical enrollment growth, future enrollment growth, enrollment mix and the like should be linked to funding, through formula funding, base funding, incentive funding, or any other methodology the consultant, in the consultant's expert opinion, may recommend. This

allows the consultant to perform an independent, credible analysis of the linking of enrollment with funding, without predetermining the consultant's conclusions which would obviate the need for a consultant.

In addition, governance issues with regard to the University were problematic because an externally mandated task force would, through majority vote, have made decisions on an integral part of the long term financial plan for the UH. The University has established procedures for consulting and ensuring transparency in its strategic and financial planning efforts, and both the governance and operations of the task force and its exemption from chapter 92, Hawai'i Revised Statutes, were of major concern.

As you are aware, the University has been working on developing a long-term financial plan that includes base operating funds, capital improvement funding, and incentive and performance funding linked to measurable outcomes. Our report on this long-term plan has been filed with the legislature as requested by SCR 137 (2007) and SCR 79 (2007). This report may be accessed on the University of Hawaii website at:

http://www.hawaii.edu/offices/eaar/qovrel/reports/2008/scr137_2007_scr79_2007_2008_ltfp_report.pdf

As revised, HB 2978, HD1, SD1 incorporates specifications for the incentive and performance outcome funding plan we are developing; provides requirements for baseline data and annual measures of performance that we will be tracking; and also appropriates funding to hire a consultant who is a higher education finance expert to provide a report and recommendations to the University. We appreciate the intent of the bill to assist us in aligning state needs with our strategic outcomes and long term financial plan.

We look forward to working with you as we develop our baseline data and plans for the upcoming years. We respectfully request your consideration for the following amendments to Section 2 (b) which lists the baseline data for the past five years to be included in the University's 2008 annual performance and incentive report:

- (2) The number of students who have transferred to other higher education institutions within the University of Hawai'i system;
- (5) The number of openings in major workforce shortage areas, including but not limited to teaching, nursing, and technology, as data are available through the Department of Labor and Industrial Relations or similar sources; and
- (6) The number of graduates filling job openings in major workforce shortage areas, as data are available.

Thank you very much for the opportunity to provide written comments in support of HB 2978, HD1, SD1.