
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 This Act also requires the University of Hawaii to
20 establish a task force to assist in developing a funding formula
21 for the distribution of fiscal resources to the various
22 campuses.



1 SECTION 2. (a) The University of Hawaii shall prepare and
2 provide to the legislature an annual incentive and performance
3 report and plan in November of each year beginning in 2008. A
4 major purpose of the annual incentive and performance report and
5 plan is to assist the legislature in appropriating up to two per
6 cent of the University of Hawaii's annual budget to facilitate
7 the university's strategic plan and related state goals.

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

- 14 (1) The number of full-time equivalent students;
15 (2) The number of students who have transferred to other
16 higher education institutions within the University of
17 Hawaii system;
18 (3) The number of students who have graduated;
19 (4) The number of full-time equivalent faculty;
20 (5) The number of openings in major workforce shortage
21 areas, including but not limited to teaching, nursing,
22 and technology, as data are available through the



1 department of labor and industrial relations or
2 similar sources; and

3 (6) The number of graduates filling job openings in major
4 workforce shortage areas, as data are available.

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

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

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

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

19 (f) The annual performance and incentive report shall
20 describe the success of previous incentive and performance plans
21 by analyzing the outcome performance measures in relation to
22 plan goals. The report also shall propose the following year's



1 incentive plan, including identifying the goals, performance
2 outcome measures, and sources of funding, that may include new
3 general fund appropriations, reallocated existing general fund
4 appropriations, and other sources of funding available to the
5 university. Data appropriate to the individual performance
6 measure shall be provided in the annual report.

7 SECTION 3. (a) To assist the University of Hawaii in
8 developing a budgetary system that includes a funding formula,
9 the University of Hawaii shall establish a task force to develop
10 an equitable, consistent, and responsive funding formula for the
11 distribution of fiscal resources to the various University of
12 Hawaii campuses, provided that the funding formula shall:

- 13 (1) Be linked to the enrollment of full-time equivalent
14 (FTE) students at each campus;
- 15 (2) Recognize the varying costs of educating different
16 categories of students, such as two-year,
17 undergraduate, graduate, and professional program
18 students;
- 19 (3) Recognize the unique missions of the University of
20 Hawaii's various campuses;



1 (4) Be as simple and transparent as possible and be
2 designed to allow the funding formula to be used as a
3 basis for planning; and

4 (5) Provide for transparency and accountability to ensure
5 the efficient use of state resources.

6 (b) The members of the funding formula task force shall
7 consist of five members as follows:

8 (1) The chancellor of the University of Hawaii at Manoa or
9 the chancellor's designee;

10 (2) The chancellor of the University of Hawaii at Hilo or
11 the chancellor's designee;

12 (3) The chancellor of the University of Hawaii at West
13 Oahu or the chancellor's designee;

14 (4) The vice president or interim vice president of the
15 University of Hawaii community colleges or the vice
16 president's or interim vice president's designee; and

17 (5) The chief financial officer for the University of
18 Hawaii system, or the chief financial officer's
19 designee.

20 (c) The University of Hawaii may hire, as a consultant,
21 upon the recommendation of the task force, an independent higher
22 education finance expert to assist the task force in developing



1 the funding formula and in submitting the report and
2 recommendations pursuant to subsection (d). The consultant
3 shall have experience working with policymakers in other states
4 to develop or improve funding models, including funding
5 formulas, to allocate public funds to campuses within the
6 respective state's higher education system.

7 (d) The task force shall submit a report and
8 recommendations to the legislature no later than twenty days
9 prior to the convening of the regular session of 2009 as to how
10 full time equivalent enrollment, historical enrollment growth,
11 future enrollment growth, enrollment mix, and similar factors
12 should be linked to funding, through formula funding, base
13 funding, incentive funding, or any other methodology. The
14 report and recommendations shall contain the consultant's
15 analysis and expert opinion as to the methodology to be employed
16 and as to whether campuses are underfunded or overfunded, based
17 upon past enrollment growth, current enrollment, enrollment mix,
18 funding, and other factors. The report and recommendations
19 shall also contain the consultant's recommendations as to the
20 amount of adjustments to the campus base budgets that are needed
21 to compensate for shortfalls in prior years and how those
22 adjustments should be accomplished.



1 SECTION 4. There is appropriated out of the general
2 revenues of the State of Hawaii the sum of \$ or so
3 much thereof as may be necessary for fiscal year 2008-2009 to
4 hire an independent higher education finance expert.

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

7 SECTION 5. This Act shall take effect on July 1, 2080.



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; and establish a task force to develop a funding formula for the distribution of fiscal resources to the various campuses. (SD2)

