



# UNIVERSITY OF HAWAI'I

## TESTIMONY

### PRESIDENT'S OVERVIEW

Testimony Presented Before the  
Senate Committee on Higher Education  
House Committee on Higher Education

December 15, 2005

by

David McClain  
Interim President  
University of Hawaii System

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**Joint Hearings of the House and Senate Higher Education Committees**

**December 15, 2005**

Chairs Hee and Waters, members of the House and Senate Higher Education Committees: Mahalo for this opportunity to appear before you today to present the Supplemental Budget request approved by our Board of Regents earlier this fall and to report on the implementation of the Biennium Budget passed by the Legislature and approved by the Governor earlier this year.

Joining me today are the chancellors from each of our 10 campuses, along with several other members of my leadership team. Chancellor Denise Konan will present the operating budget request for UH Mānoa; Chancellor Rose Tseng will present the operating budget request for UH Hilo; and Chancellor Gene Awakuni will present the operating budget request for UH West O'ahu.

In the absence of Vice President for Community Colleges John Morton, I will present the overall community college operating request, assisted by each of the chancellors of our seven campuses, and by Associate Vice President for Academic Affairs Mike Rota; Associate Vice President for Administration Mike Unebasami had a prior commitment out of state. Vice President for Budget and Finance and Chief Financial Officer Howard Todo will present the UH System operating budget request, and Director of Capital Improvement Projects Jan Yokota will present our systemwide capital improvement Supplemental Budget request.

Aquarium Director Andrew Rossiter and Small Business Development Center Director Darryl Mleynek are available to answer any questions you may have about their particular budget requests.

Permit me to take this opportunity to thank the Legislature for your support of our Biennium Budget request. In January of this year we requested \$70 million in new operating funds for the biennium, and \$306 million in capital improvement funds. The Legislature approved a 2005-2007 operating budget increase of \$23 million and a capital improvements budget of \$168 million. We are indeed grateful at a time of double digit increases in state tax revenues that you have sought to increase your investment in the university.

Vice President for Administration Sam Callejo advises me that the state's investment in UH has now exceeded its fiscal 1995 level for the first time in a decade. Ten years ago, UH received \$352 million (11.5% of the state's budget). The next year, fiscal 1996, our general funds appropriation was reduced to \$283 million, 9.3% of the state's budget, and we were permitted to keep our tuition (then \$40 million) for the first

time; the net effect was a 1996 total of \$323 million, an 8.2% decrease in resources available to UH. This general funds allocation dipped to \$260 million in fiscal 1999, then rose to \$313 million in fiscal 2005, 8.1% of the state's budget.

Attached to my testimony is a spreadsheet chronicling our progress in spending the funds appropriated for this current fiscal year, the first year of the biennium. Each of our chancellors is prepared to address that question later this morning as part of their presentation. Also attached per the committees' request is an accounting of our vacant positions.

Let me say that in general the university, like any other employer in a state with the lowest unemployment rate in the nation and thus a very competitive labor market, has added to staff more slowly than we would have hoped. That said, we've redeployed the resources made available as a result to a variety of purposes: enhancing the security environment of our campuses via the purchase of equipment, hiring temporary instructors in order to get programs running while we recruit for more permanent faculty, and payment of our soaring electricity costs. Indeed, funding rising electricity costs is a leading item in our Supplemental Budget.

I want to assure the committees that our chancellors take seriously the intent embodied in the budget provisos and worksheets we receive. At the same time, consistent with the State Constitution and Hawai'i Revised Statutes, in implementing the budget I have given the chancellors discretion to use the funds provided in the fashion they believe will most benefit their campuses and the students who study there; where this purpose deviates from the expenditure pattern suggested by the legislature, I have asked the chancellors to document and explain their plans. Pursuant to a request made by the committee chairs in a meeting with me on December 12, I will insure that we notify the Legislature in a timely fashion of such decisions, rather than wait for hearings such as this.

I'm aware that the committee chairs are particularly interested in the decision by two of our chancellors not to implement in this fiscal year the transfer of one position between their campuses, as included in the budget worksheets we received. I would only observe that our accreditors have characterized this action by the Legislature as suggesting "a level of micro-management that raises a real question about the University's ability to maintain academic and operational integrity."

On the broader question of the Legislature adding money and/or positions to a campus when the Board of Regents has made no such request, our accreditors have commented, "During the 1980s our (accreditation review) teams were greatly concerned about legislative intervention through legislation or line-item budgeting, often put in by a single legislator attempting to privilege a specific campus, program or individual....These concerns led the University of Hawai'i...being placed on Warning for lack of sufficient autonomy."

We're grateful for your cooperation as we strive to be responsive to the state's needs, but to do so in a way that sustains our academic and operational integrity and thus our accreditation.

On September 13, I gave the following remarks at the annual convocation honoring our faculty and staff for their achievements. I regret that no one from either committee was able to accept our invitation to this event. I'd like to share them here.

*Aloha! Today we celebrate the latest vintage in a century-long tradition of excellence in teaching, research and service at the University of Hawai'i. Owing to the behavior of Mother Nature over the summer in Kennedy Theatre, we hold this celebration in a non-traditional setting, here in Orvis Auditorium. One might say that the bottle is new, but the wine remains the finest in our vineyards.*

*As the leader of your university over these past 15 months, I've felt at times like a commissioner of a major sports league, with our 10 campuses representing 10 teams. Like major league sports, we've got major market teams, teams in small markets, and teams with strong regional followings.*

*I'm pleased to say that every market we serve wants more of us – probably because the value of the excellent education we provide – that is, what it's worth in the marketplace -- is at least 3 times what it costs our students and their parents to buy it (at Mānoa) and as much as 7 times (at our community colleges). That's a fancy way of saying that the taxpayers of Hawai'i subsidize between 70% and 85% of the cost of our students' education.*

*To continue with the sports metaphor, our dedicated chancellors are the leaders, the general managers and the coaches, of those teams. And today is the day we announce the all-star roster – and an impressive roster it is.*

*(Those who have been listening closely will have noticed that I've used a metaphor about alcohol, and a sports metaphor – but I haven't tied them together. Don't worry – I'm not going there today!)*

*For the last 10 years or so, it's become traditional for the President to use this opportunity to reflect on the state of the University. Let me do so....briefly.*

*The "Cliff's Notes" version of the remarks to come is this: **UH is better off today than it was a year ago, and we can all be proud of that. But I'm still not satisfied – and neither should you be.***

*Our strategic vision is sound. We see ourselves as a University in an island setting, and the values we emphasize are the values that island peoples generally, and Native Hawaiians in particular, exalt: respect for each other and for the communities we create, and respect for the environment in which we live – both bound up in the Hawaiian concept of ahupua'a, where finite resources were shared for the benefit of all. Within*

*this island context, we acknowledge and celebrate our multicultural heritage, and our role as a bridge between the cultures of the West and the cultures of the Pacific and of Asia.*

*I believe this strategic vision makes the University of Hawai'i both locally responsive...and – in this increasingly globalized, “island Earth” world -- globally significant.*

*Our financial outlook is improved. For the first time in five years, we've received new money from the State Legislature (excluding collective bargaining augmentations) – though we received only about 30% of the \$70 million we needed for Native Hawaiian programs, workforce development initiatives, critical infrastructure items and to cope with the 15% enrollment surge of recent years.*

*We've put in place a multiyear tuition plan that will make what our students and their parents pay more similar to our peer institutions – and we've quadrupled the amount of financial aid going to needy students, so that we can continue to be among the nation's leaders in the access of the poor to higher education.*

*The University of Hawai'i Foundation raised \$34 million for UH, up 30% from the year before, and is aiming to raise \$43 million this year, the fourth of the Centennial Campaign.*

*Our research enterprise had another banner year, producing some \$354 million in grants and contracts, up from \$329 million in 2003-2004. We've submitted our indirect cost rate proposal, and expect to receive a more generous reimbursement rate for our indirect costs in the years to come.*

*Our campuses are operating more efficiently. Here at Mānoa, last spring Vice Chancellor Smatresk found a way to offer 8% more sections without any additional funding. This fall the Mānoa leadership managed the crushing demand for housing with many fewer complaints.*

*And of course Mānoa is the campus which faced a flood that did \$100 million of damage and lost only two days of classes – very much representing the “kulia i ka nu'u” (strive for the highest) spirit which I said last year would be the motto for my Administration.*

*Across our 10 campus system, our faculty and staff coped with another surge in enrollment, and responded quickly to the booming economy's needs for workforce training. I'm often amazed that nearly 30,000 individuals are pursuing some form of noncredit education every year at UH.*

*And in a way, I'm pleased that this year the enrollment surge seems to have abated, for with our 50,000 students pursuing a degree of some kind, we are certainly at capacity.*

*In order to expand our capacity, under the Regents' leadership the University is embarked on several public/private partnership initiatives, including*

- *Renovation and expansion of student housing here at Mānoa, with a goal of having more than 5,000 beds in 5-7 years, up from slightly more than 3,000 today.*
- *Build out of the West O'ahu campus to 1500 and then nearly 3000 students.*
- *Creation in Kaka'ako – adjacent to the two new buildings of the John A. Burns School of Medicine which have come on stream this year – of a comprehensive Cancer Research Center which will integrate research and clinical studies, simultaneously improving the quality of cancer care in Hawai'i while increasing the volume of research in the life sciences.*

*These initiatives will be joined by others elsewhere in the System to create additional housing, augment campuses, and add research and classroom facilities.*

*Since some of these initiatives will take us beyond 2010, the final year of our strategic plan, I've launched a “**Second Decade**” project to help us understand the State's need for higher education during 2011-2020, and where and how UH should respond to that need.*

*Recently, one of our leading citizens, an executive with several degrees who's worked and lived in Europe, North America and Asia, took the opportunity to take several courses in the humanities here at UH. I was most interested in his evaluation, as I hope you will be.*

*Here it is:*

*Professors --- Second to none; as good as the best he's experienced at leading universities in the U.S. and Europe.*

*Student engagement --- Many were bright and involved, but more than he expected were just “punching the clock” en route to their degree.*

*Facilities and the physical environment – Poorly maintained, poorly illuminated...a danger, and a tragedy.*

*His assessment provides a useful template about where we need to go from here.*

- *We must create an attractive and safe physical environment for our students...the recent initiative to earmark 5% of “new” general and tuition funds in the biennium for security upgrades is a start, but there's much more to be done.*

*Repair and maintenance, long an afterthought at this university, must become a priority. And we must vigilantly maintain and improve our technology base.*

- *We must engage our students more directly. We have excellent programs in service learning, for example, thanks to the work of Bob Franco at Kapi‘olani Community College and others, but they are not widespread. Working with our chancellors and faculty, I look forward this year to a conversation about ways to achieve greater civic engagement by all our students, and a greater celebration of democratic ideals, in the context of our own celebration of 100 years of higher education in Hawai‘i.*
- *We must support – and in some cases renew, given their current demographic profile – our excellent faculty. With new funds flowing in, many departments will be in the market for new faculty for the first time in several years. But where will these faculty live? And how can they afford to come here? We’re taking a close look at what can be done to augment our current complement of faculty housing; this may be another area where public/private partnerships can be productive. On faculty salaries, which have increased by just 2% per year through mid-2006, we’re fortunate that the current contract increases faculty compensation by about 8% per year through mid-2009. We’ll need every bit of this to stay competitive.*

*Facilities, students, faculty – these are the ingredients of the transformational educational experience the University of Hawai‘i has provided to its graduates over the years.*

*As your President, it’s my responsibility to sustain and improve all three. In the year just finished, with the help of the Regents, the UH System leadership team, the chancellors, and really the entire UH ohana, we’ve made some progress...but I’m not satisfied, and much remains to be done. Mahalo nui loa for the opportunity to serve this great University which has been my professional home for the last 15 years.*

Senators and representatives, our Supplemental Budget request reflects the assessment just stated. Our capital improvement budget calls for the following:

- \$88.4 million to address deferred maintenance
- \$4.5 million for infrastructure improvements
- \$12.7 million for health, safety and code requirements; and
- \$187 million for continuing and initiating facilities projects on several of our campuses
- \$33.5 million for UH West O‘ahu design and infrastructure construction

On the operating side, we’re requesting some \$35 million in continuing funding, including the following items:

- Over \$6 million at UH Hilo, including \$1.4 million to help establish a College of Pharmacy, \$1.0 million for Native Hawaiian initiatives, and significant increases in student support funding.
- \$700 thousand for UH West O‘ahu, half of which is for elementary education positions, with most of the balance for student support.
- Nearly \$11 million at our community colleges, including \$1.7 million for program review and assessment, \$2 million for workforce development initiatives, nearly \$1 million for programs for Native Hawaiians, and \$2.2 million to relieve UH Hilo of the financial burden of supporting Hawai‘i Community College activities.
- \$9 million at UH Mānoa including nearly \$1 million for increased student support, some \$2 million for revitalization of the arts and sciences, engineering, creative media, social work and tropical agriculture faculty and curricula, nearly \$1 million for workforce development in nursing, and \$1.4 million for Native Hawaiian programs.
- In addition to the above, nearly \$7 million across all campuses for electricity increases (\$4.3 million at Mānoa, \$200 thousand at UH Hilo, and \$2.4 million at the community colleges).

Our operating budget also includes a one-time \$6.6 million request for “working capital” funding to convert student tuition waivers to scholarships. Based on subsequent analysis by our new chief financial officer, Mr. Howard Todo, we now believe that our auditors will not require this working capital funding in order for us to proceed with this conversion. Accordingly, we are deleting it from our request.

Increasing continuing operating funding of this magnitude, \$35 million, would augment the University’s net operating budget by approximately 10%. However, since this amount is still slower than the growth in state revenues the university’s share of the state budget would decline further.

We believe this Supplemental Budget request represents a prudent but necessary response to the needs of our students and their families for quality academic programs taught in quality facilities by our excellent faculty, and to the needs of the State of Hawai‘i for workforce development. Thank you for your attention, and for your continuing enthusiastic support of the University of Hawai‘i as we transform lives, give our students some of the ingredients for success, and prepare them – as you senators and representatives have done – to change the world.

#### Attachments

1. Biennium Budget Implementation Report
2. Position Vacancy Report

UNIVERSITY OF HAWAII  
FY 2005-06  
GENERAL FUNDS

Revised: 12/09/05

MAJOR UNIT	DESCRIPTION	APPROPRIATED (PCRs)		PLANNED EXPENDITURES		SAVINGS		PROJECTED USE OF SAVINGS	
		FTE	\$	FTE	\$	FTE	\$		
UH Manoa	Section 40, Act 51, SLH 2004, Teacher Education	8.00	500,000	8.00	500,000	0.00	0		
	Flood Damage Funds	0.00	31,000,000	0.00	31,000,000	0.00	0		
	Funds for JABSOM in Kakaako	0.00	3,200,000	0.00	3,200,000	0.00	0		
	Undergraduate Nursing Program	5.00	334,000	5.00	167,000	0.00	167,000	5% Security	
	College of Engineering	3.00	175,000	0.00	0	3.00	175,000	5% Security	
	Campus Security	0.00	240,000	0.00	240,000	0.00	0		
	CTAHR Agric Research & Marketing	9.00	500,000	9.00	500,000	0.00	0		
	Ethnic Studies Faculty	2.00	120,000	0.00	0	2.00	10,000	2 FTE, recruitment/start-up costs	
							110,000	5 % Security	
	Lyon Arboretum	7.00	500,000	7.00	252,000	0.00	248,000	Lyon infrastructure	
	Philippine Studies	3.00	180,000	3.00	60,000	0.00	10,000	2 FTE, recruitment/start-up costs	
							110,000	5% Security	
		Sub-total Manoa	37.00	36,749,000	32.00	35,919,000	5.00	830,000	
	UH Hilo	North Hawaii Education Resource Center	3.00	123,750	3.00	75,000	0.00	48,750	
Pacific Aquaculture & Coastal Resource		6.00	218,864	6.00	100,000	0.00	118,864		
Mauna Kea Astronomy Educational Ctr		5.00	411,250	5.00	200,000	0.00	211,250		
Instructional Staffing		8.00	300,000	8.00	150,000	0.00	150,000		
Nursing Education		2.00	115,000	2.00	25,000	0.00	90,000		
Library Support		3.00	86,392	3.00	50,000	0.00	36,392		
Library Hawaiian Collection		1.00	34,000	1.00	28,349	0.00	5,651		
Teacher Education		0.00	110,000	0.00	50,000	0.00	60,000		
								\$61,405 Mandated for security by President McClain as one-time expenditure	
								\$110,000 this PCR to provide for Title IX compliance in athletics was not funded. To be compliant, we added women's golf, provided more scholarship to women athletes and adjusted coach's salary in womens sports. PCR is again submitted for supplemental funding.	
							\$85,000 Institutionalize the Five year Title III Infrastructure Grant as mandated by the granting agency. PCR was not funded last year and is again submitted for supplemental funding.		
							\$50,000 To increase the Native Hawaiian student population at UH Hilo. This is part of our initiative to better serve the Native Hawaiian population in the State. PCR was not funded last year and is again submitted for supplemental funding.		
							\$414,502 Utility cost increase is projected to be about \$800,000 for the year. PCR was not funded last year and is again submitted for supplemental funding.		
	Sub-total Hilo	28.00	1,399,256	28.00	678,349	0.00	720,907		
UH West Oahu	Education Facility	1.00	34,500	1.00	34,500	0.00	0		
	Applied Health	1.00	46,000	1.00	46,000	0.00	0		
	Sub-total West Oahu	2.00	80,500	2.00	80,500	0.00	0		
UH Community Colleges	HCC, Construction Academy	2.00	90,000	2.00	90,000	0.00	0		
	HCC, Students with Disabilities	2.00	150,000	2.00	150,000	0.00	0		
	HCC, CENT BA Program	2.00	100,000	2.00	100,000	0.00	0		
	KCC, Equipment Replacement	0.00	250,000	0.00	250,000	0.00	0		
	LCC, Teacher Training Program	5.00	178,000	5.00	104,619	0.00	73,381	Lecturer/overload	

MAJOR UNIT	DESCRIPTION	APPROPRIATED (PCRs)		PLANNED EXPENDITURES		SAVINGS		PROJECTED USE OF SAVINGS
		FTE	\$	FTE	\$	FTE	\$	
	WCC, Hawaiian Studies Program	2.00	115,000	2.00	85,358	0.00	29,642	1 position has been filled, recruitment of instructor has begun, expected to be filled 01/06, funds being used for temporary instructor from October,
	WCC, Technological Support	3.00	173,730	3.00	173,730	0.00	0	
	WCC, Counselor	1.00	50,000	1.00	40,401	0.00	9,599	College has used these funds to fill existing counselor vacancy.
	WCC, Financial Aid/Student Services	1.00	33,333	0.00	0	1.00	33,333	Funds used to fill Financial Aid Program position.
	HICC, Island-Wide Workforce	5.00	200,608	5.00	157,667	0.00	42,941	\$16,000 Lease rental for UH Center West Hawaii
	HICC, Remedial & Developmental Educ	1.00	37,532	1.00	18,766	0.00	18,766	\$5,011 postage & telephone usage cost
	HICC, Financial Aid/Student Services	1.00	50,000	1.00	24,696	0.00	25,304	\$45,000 replacement van for transporting carpentry students
	Maui CC, Applied Business & Info Tech	3.00	151,033	3.00	151,033	0.00	0	\$21,000 Computers
	Maui CC, Remedial Programs	2.00	88,000	2.00	88,000	0.00	0	
	Maui CC, Financial Aid/Student Services	1.00	50,000	1.00	50,000	0.00	0	
	Kauai CC, Students with Special Needs	1.00	66,000	1.00	40,554	0.00	25,446	Cover electricity shortfall
	Kauai CC, Nursing Program	1.00	92,326	1.00	59,242	0.00	33,084	Purchase laptop computers and Nursing supplies (proj. exp. Incl. Lecturers and Services for students w/disabilities and tutors)
	Kauai CC, Improve Student Services	1.00	100,000	1.00	35,912	0.00	64,088	\$17,000 Computer Operator
	Kauai CC, Financial Aid/Student Svcs	1.00	50,000	1.00	26,060	0.00	23,940	\$25,088 Increase Security Guard Service
	Syswd CC, Assigned Time/Conversion	15.00	465,000	15.00	465,000	0.00	0	\$22,000 SAS License Fee
	Syswd CC, Grants-in-Aid PAAC	0.00	80,000	0.00	80,000	0.00	0	Improve Security Lighting
	Sub-total UH CC	50.00	2,570,562	49.00	2,191,038	1.00	379,524	
UH Systemwide Programs	Banner	2.00	200,000	2.00	200,000	0.00	0	
	Program Review Assessment	0.00	100,000	0.00	100,000	0.00	0	
	Financial Aid Counselors	0.00	198,000	0.00	198,000	0.00	0	
	State Scholarship Program	0.00	500,000	0.00	500,000	0.00	0	
	Commission on National & Comm Srvc	0.00	145,000	0.00	145,000	0.00	0	
	Grants-in-Aid for HI Inst for Public Affairs	0.00	100,000	0.00	100,000	0.00	0	
	Grants-in-Aid for Natural Healing Science Foundation	0.00	100,000	0.00	100,000	0.00	0	
	Sub-total UH Systemwide Programs	2.00	1,343,000	2.00	1,343,000	0.00	0	
	<b>TOTAL UH</b>	<b>119.00</b>	<b>42,142,318</b>	<b>113.00</b>	<b>40,211,887</b>	<b>6.00</b>	<b>1,930,431</b>	

Prepared by UH Budget Office