



March 14, 2008

MEMORANDUM

TO: Chancellors
System Senior Management
All Campus Council of Faculty Senate Chairs
Pukoa Council
UH Student Caucus
Systemwide Groups

VIA: David McClain, President

Handwritten signature of David McClain.

FROM: Howard Todo, VP for Budget & Financial/Chief Financial Officer Handwritten signature of Howard Todo.
Linda Johnsrud, VP for Academic Planning and Policy Handwritten signature of Linda Johnsrud.

SUBJECT: 2009-2011 BIENNIUM BUDGET PROPOSAL DEVELOPMENT

The biennium budget preparation process as described herein is based on the principles and guidelines set forth in Section 8-3 of the Board of Regents Policies. Accordingly, this document will serve as the budget policy paper as prescribed therein. As such, it sets forth the environmental context for budget building and general program, policy and management objectives, and institutional priorities to guide the preparation of the biennial budget.

Strategic Plans, State Needs and Strategic Outcomes

The System and Campus strategic plans along with the results of the Second Decade Project continue to provide the basis for the development of the biennium budget. The Second Decade Project identified the following higher education needs for the state:

- Increasing the educational capital of the state
- Expanding and increasing our workforce
- Contributing to the diversification of the State's economy
- Increasing our service to certain underserved regions and populations, particularly Native Hawaiians

A full version of the Second Decade Project analysis may be accessed at:
http://www.hawaii.edu/offices/app/seconddecade/second_decade_feb07_1pg.pdf

In addition, we need to maintain and renew the infrastructure necessary to address these four focus areas. This is a basic, primary need which has been recognized and reflected

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in previous biennium and supplemental budget requests, as well as the 2002-2010 UH Strategic Plan.

Also, over the past several months, we have been conducting forums open to members of the University community and the general public to update the University's strategic plan. To date, 37 meetings have been conducted at UH campuses, university centers, and before community groups.

The product of these discussions has been a reaffirmation of the goals of the strategic plan developed in 2002, and the realization that these goals need to be accompanied by specific strategic outcomes and performance indicators that measure the University's performance through the next three biennia, to 2015, as we strive to meet the State's higher education needs referred to above. The outcomes and indicators developed through this effort are provided as Attachment 1 to this memorandum.

A key strategic outcome identified in this process is the required investments in the University's physical plant in order to meet our current repair and maintenance needs as well as to reduce the University's estimated \$400 million deferred maintenance backlog. The condition of the entire University system's physical plant has been further brought to focus by the flood at Edmondson Hall and the condition of the Manoa intercollegiate athletics facilities. The Legislature has expressed a desire to assist the University in dealing with this deferred maintenance backlog.

Long-Term Finance Plan

In order to provide further environmental context, also attached is a report to the Legislature on a proposed strategy for a long term finance plan for the University. This report was prepared in response to a concurrent resolution by both houses of the Legislature. While the proposed plan has not been formally accepted or endorsed by the Legislature at this point in time, and many more details would need to be determined prior to full implementation, the proposed approach to a long-term finance plan for the University of Hawaii is not inconsistent with the approach being employed for development of the 2009-2011 biennium budget as set forth in this memorandum.

Economic Outlook

The State Council on Revenues has been lowering its projections of state revenues over its past several meetings, resulting in the State Budget & Finance Department instituting budget restrictions for all state departments other than the Department of Education and the University of Hawaii and changing source of funding for certain capital improvement projects from general funds to general obligation bonds. The legislature has been exploring scenarios involving 3% and 6% budget reductions and has discussed with the University the possibility of reducing current operating funds and positions in order to provide for requests in the Board of Regents approved supplemental budget request.

Biennium Budget Development Strategy

Given the expected slower growth in state revenues, competing need for additional resources from other state agencies, and whatever collective bargaining increases may be negotiated for the 2009-11 biennium, it is incumbent on the University to develop a realistic budget request that recognizes the financial condition of the State. To this end, the following budget development guidelines will be employed:

- Repair, Renewal and Replacement

The budget requests for the 2009-2011 biennium will focus on repair, renewal and replacement of current facilities and equipment. The primary intent of this concentration is to reduce deferred maintenance during the biennium to the maximum extent possible, given practical limitations in the number of projects that can be managed and conducted concurrently. Accordingly, requests for planning, design or construction of new buildings may be considered only in the subsequent two biennia of the state's 6-year planning period. For purposes of the 2009-2011 biennium budget development, repair, renewal and replacement of facilities and equipment shall be categorized as capital infrastructure requests, without regard to whether the source of funding will be from state general funds or general obligation bond funds. Such determination will be made subsequently.

In addition, revenue generating facilities which may be funded by revenue bonds may be proposed.

- Collective Bargaining

Additional funds to cover any new collective bargaining costs incurred over the biennium will be coordinated and requested on a statewide basis by the Department of Budget and Finance. The University expects to receive budget augmentations during the biennium from the Department of Budget and Finance for this purpose.

- Inflation

A request for a non-personnel inflation adjustment for general fund operating costs will be developed centrally for each campus/major unit.

- Other Operating Budget Requests

In addition to the requests provided for above, each campus will be allowed to propose a maximum of three requests for additional general funds (program change requests) for consideration. Each request must be congruent with the strategic outcomes included in Attachment 1 and must have quantifiable and measurable goals. The amount of funding being requested must be directly tied to the attainment of the goals being proposed. The degree to which the requests support and advance the achievement of strategic outcomes will be a key determinant in the selection of requests supported by the President for approval by the Board of Regents. The dollar amounts of the requests which are recommended to the Board will not be "apportioned" to campuses based on their current proportion of the operating budget, but rather, will be based on the merit of the proposal. The President will make the ultimate decisions as to the number and dollar amounts of requests to recommend to the Board of Regents. However, for purposes of managing expectations, it is envisioned that all requests by the University for this category of budget requests will

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total no more than \$10 million in each year of the biennium due to current economic conditions.

Other than as provided for above, any new initiatives or programs, or changes to programs, will be funded through reallocations or other revenue sources, such as tuition and fees.

As in prior years, system-wide coordinating groups should work with each campus to integrate their proposals into the campus budgets.

Stocktaking

As in past years, each campus will be asked to develop a budget proposal, in accordance with the guidelines above, and make a "stocktaking" presentation to an audience consisting of all other campuses, system-wide groups, the President, and any other interested parties. System-wide coordinating groups are invited to participate and make presentations as well.

Detailed instructions and guidelines, formats, and a schedule for the stocktaking sessions will be distributed in a separate memorandum and posted on the Academic Planning and Policy website: <http://www.hawaii.edu/offices/?office=aa>

Biennium Budget Review Process

A Biennium Budget Advisory Committee (BBAC) will be established and charged with the task of making recommendations on the formulation of the system-wide biennium budget proposal. The members of the BBAC will be appointed by the President to represent the various constituencies of the University system and will include faculty, staff, and students. Upon conclusion of the stocktaking sessions, the BBAC will formulate a recommendation on the biennium budget and transmit its findings and recommendations to the President. The President will decide which requests, and in what amounts, he will support and recommend to the Board of Regents.

Timing

Stocktaking presentations are anticipated to be scheduled in April, with preliminary recommendations presented to the Board of Regents in a workshop on the biennium budget in August, and formal presentation and approval of the biennium budget requests by the Board at its September meeting.