



GOV. MSG. NO 830

EXECUTIVE CHAMBERS  
HONOLULU

LINDA LINGLE  
GOVERNOR

June 18, 2008

The Honorable Colleen Hanabusa, President  
and Members of the Senate  
Twenty-Fourth State Legislature  
State Capitol, Room 409  
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

This is to inform you that on June 18, 2008, the following bill was signed into law:

HB2978 HD1 SD2 CD1

A BILL FOR AN ACT RELATING TO EDUCATION.  
(ACT 188)

Sincerely,

A handwritten signature in black ink, appearing to read "Linda Lingle".

LINDA LINGLE

Approved by the Governor

on JUN 18 2008

HOUSE OF REPRESENTATIVES  
TWENTY-FOURTH LEGISLATURE, 2008  
STATE OF HAWAII

**ACT 188**

**H.B. NO.**

2978  
H.D. 1  
S.D. 2  
C.D. 1

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# 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 situation necessitates that the goals of the  
6 system's strategic plan be stated in measurable terms that  
7 relate to fiscal allocations. The overall purpose of this Act  
8 is to 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 institution of higher education in  
4 the 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 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 financial plan to reach the  
15 strategic goals. The objective is to develop an educational  
16 compact that would define the long-term goals to address  
17 Hawaii's major economic challenges and align the University of  
18 Hawaii with the achievement of these goals. The university  
19 would be accountable for meeting performance standards, and the  
20 higher education compact would be used to clearly link funding  
21 for the university with specific goals and performance measures.



1           Developing the educational compact requires delineating a  
2 financial plan that 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 provides 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 financial plan that will cover three biennial periods, starting  
9 with the 2009-2011 biennial budget and extending to 2015 to  
10 cover the same period as the strategic plan. The financial 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  
16                 obligations, 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 financial plan. This requirement  
4 shall attempt to accomplish the following:

- 5           (1) Increasing legislative and public support for higher  
6           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 program, department, college, 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           This Act also establishes a task force in the University of  
22 Hawaii to assist in developing a budgetary system that includes



1 an equitable, consistent, and responsive funding formula for the  
2 distribution of fiscal resources to the various campuses.

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

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

- 16 (1) The number of full-time equivalent students;
- 17 (2) The number of students who have transferred to other  
18 institutions of higher education within the University  
19 of Hawaii system;
- 20 (3) The number of students who have graduated;
- 21 (4) The number of full-time equivalent faculty;



1 (5) The number of openings in major workforce shortage  
2 areas, including but not limited to teaching, nursing,  
3 and technology, as data are available through the  
4 department of labor and industrial relations or  
5 similar sources; and

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

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

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

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

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





1 (f) The annual incentive and performance report shall  
2 describe the success of previous incentive and performance plans  
3 by analyzing the outcome performance measures in relation to  
4 plan goals. The report shall also propose the following year's  
5 incentive and performance plan, including identifying the goals,  
6 performance outcome measures, and sources of funding, which may  
7 include new general fund appropriations, reallocated existing  
8 general fund appropriations, and other sources of funding  
9 available to the university. Data appropriate to the individual  
10 performance measure shall be provided in the annual report.

11 SECTION 3. (a) There is established in the University of  
12 Hawaii a task force to assist the University of Hawaii in  
13 developing a budgetary system that includes an equitable,  
14 consistent, and responsive funding formula for the distribution  
15 of fiscal resources to the various University of Hawaii  
16 campuses. The funding formula shall:

- 17 (1) Be linked to the enrollment of full-time equivalent  
18 (FTE) students at each campus;
- 19 (2) Assign different weights in recognition of the varying  
20 costs and revenues relating to educating different  
21 categories of students, such as:



- 1           (A) The different classifications of students,  
2                   including two-year, undergraduate, graduate, and  
3                   professional-program students, and resident and  
4                   nonresident students;
- 5           (B) Students who are enrolled in programs that  
6                   address the major workforce needs of the state,  
7                   including teacher education; nursing; and the  
8                   science, technology, engineering, and math  
9                   disciplines; and
- 10          (C) Students with special support needs, including  
11                   those from underserved populations or who are at-  
12                   risk, because they are subject to language,  
13                   cultural, economic, or other disadvantages due to  
14                   their home and community environment;
- 15          (3) Include an incentive and performance component that  
16                   recognizes the unique goals and missions of the  
17                   University of Hawaii's various campuses, as well as  
18                   the higher education needs of the state;
- 19          (4) Be as simple and transparent as possible and be  
20                   designed to allow the funding formula to be used as a  
21                   basis for planning; and



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

3 (b) The members of the task force shall consist of six  
4 members as follows:

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

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

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

11 (4) The vice president or interim vice president of the  
12 University of Hawaii community colleges or the vice  
13 president's or interim vice president's designee;

14 (5) One member appointed by the president of the senate;  
15 and

16 (6) One member appointed by the speaker of the house of  
17 representatives.

18 (c) The task force shall select a chairperson by a  
19 majority vote of its members. A majority of the members of the  
20 task force shall constitute a quorum to conduct business. The  
21 concurrence of the majority of the members of the task force  
22 shall be necessary to make any action of the task force valid.



1 (d) The task force shall be exempt from chapter 92, Hawaii  
2 Revised Statutes; provided that the task force shall make a good  
3 faith effort to make its proceedings and work products  
4 accessible and available to the general public in a manner  
5 consistent with the intent of chapter 92, Hawaii Revised  
6 Statutes.

7 (e) The chief financial officer for the University of  
8 Hawaii system, or the chief financial officer's designee, shall  
9 serve as the liaison between the task force and the president of  
10 the University of Hawaii.

11 (f) The University of Hawaii shall hire, as a consultant,  
12 an independent higher education finance expert to work with the  
13 task force to develop the funding formula. The consultant shall  
14 have experience working with policymakers in other states to  
15 develop or improve funding models, including funding formulas,  
16 to allocate public funds to campuses within the respective  
17 state's higher education system.

18 The task force shall provide the consultant with the data  
19 necessary to develop the funding formula, including data  
20 relating to historical enrollment growth, future enrollment  
21 projections, estimated costs of educating different categories



1 of students, and performance incentives and goals for each of  
2 the various campuses.

3 (g) The task force shall submit to the president of the  
4 University of Hawaii, for the president's approval, a report of  
5 its progress, and any findings and recommendations, including  
6 those of the consultant, to include:

7 (1) Information as to how full-time equivalent enrollment,  
8 historical enrollment growth, future enrollment  
9 growth, enrollment mix, and similar factors should be  
10 linked to funding, through formula funding, base  
11 funding, incentive funding, or any other methodology;

12 (2) The consultant's analysis and expert opinion as to the  
13 methodology to be employed and as to whether campuses  
14 are underfunded or overfunded, based upon past  
15 enrollment growth, current enrollment, enrollment mix,  
16 funding, and other factors;

17 (3) The consultant's recommendations as to the amount of  
18 adjustments to the campus base budgets that are needed  
19 to compensate for shortfalls in prior years and how  
20 those adjustments should be accomplished; and



1           (4) A target date for the completion of a funding formula  
2                   together with any proposed legislation to establish  
3                   and implement the funding formula.

4 If approved by the president, the University of Hawaii shall  
5 submit this report to the legislature no later than twenty days  
6 prior to the convening of the regular session of 2009.

7           SECTION 4. This Act shall take effect on July 1, 2008.

APPROVED this 18 day of JUN , 2008



GOVERNOR OF THE STATE OF HAWAII

