Growth Or No Growth?
Moving from State-Supported to State-Assisted,
the University Of Hawai’i at Hilo Is at a Crossroads

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A budget overview of University of Hawai’i at Hilo, requested by the University of Hawai’i
System Vice President of Academic Affairs

Summary

By several measures--funding patterns within the system, peer institution comparisons, enrollment growth, and empirical observations from academic units--UH Hilo is underfunded by about $5 million.

UH Hilo student headcount has increased consecutively for the last five years, reaching a record high in 2002. However, over the same period, UH Hilo has received only an averaged 6.7% in state allocation per FTE while the remaining units of the system have received an averaged 15.9% increase.

Using an $8,000 per FTE student allocation from the State as a benchmark, a 10% annual increase in student FTE will require an additional $2 million a year. And UH Hilo has had a 17% increase in FTE over the past five years. With the anticipated 8% growth this fall, we estimate that an additional $5 million is needed for the base budget to meet the demand for increased instruction and support.

We find that UH Hilo spends $1,350 to $2,150 less per FTE than the average of its peer institutions using Year 2000 data. If comparable expenditures at peer institutions is an acceptable indicator for adequate funding, between $3.4 to $5.4 million is required for the base budget.

UH Hilo has taken some steps to diversify its funding sources. Within the last five years, the ratio between general fund allocations and tuition/grants and contracts income has decreased from just slightly more than 3:1 to 1:1, assuming minimum grant and contract activities prior to 1997. The change is largely due to an increase in extramural funding. Within the last four years, the total new extramural awards to UH Hilo have increased by about 387%. For UH Hilo to continue to increase extramural support, an office responsible for research and graduate education must be established.

For academic needs alone, using an empirical approach and assuming zero program growth, we calculate that more than $2.4 million is needed. Assuming that an average of
45% of the total budget is utilized for academic support, UH Hilo will require an additional $5.4 million per year.

The combination of continued growth in enrollment with no net increase and, in some cases, a decline in state support, has threatened the ability of UH Hilo to deliver quality education. Furthermore, it has made the task of offering new programs nearly impossible and has hindered the university’s ability to respond to the changing needs of the community and the demands of society. In order for UH Hilo to function in a normal fashion with good faculty and staff morale, and to grow as an effective teaching-learning institution, the various modes of estimation indicate that additional base funding of $5 million is needed.

We can reduce this amount through internal changes: by streamlining the operation, modifying tuition system, resetting priorities and fund raising. We can acquire the $5 million through several strategies:

- Within the next two to four years UH Hilo should diversify its income and generate $2 million or more from non-state sources.
- Within the next two years UH Hilo should diversify its income and generate $1 million from the elimination of lower division tuition rate.
- In the meantime, $2 million will be needed from the reallocation within the UH System.
- A culture change must occur so that financial responsibilities can be shared by the State of Hawai‘i, the UH System and the UH Hilo.

The History

In 1993, after 23 years of joint operation, UH Hilo and Hawai‘i Community College were separated. Although distinct academic and administrative structures were created, the physical structure has never really separated and UH Hilo continues to support Hawai‘i Community College. During early to mid 90’s, like all other higher education institutions in Hawai‘i, the University of Hawai‘i at Hilo experienced a series of budget cuts from the State, resulting in low morale, unfilled positions, and little growth in enrollment or programs.

During Fiscal Year 2001-02, another budget cut occurred. In order to preserve academic operations and academic quality, budget allocations for colleges and the library were maintained and in certain instances marginally increased. Since personnel cost was more that 80% of the total budget outlay, a mere 2% cut in overall budget would have to be met by a 20% cut in total non-personnel operating budget. Most of the administrative units, including offices of chancellor and vice chancellors, received drastic budget cuts. In the middle of FY 2002-03, the University received yet another cut in the form of the Governor’s restriction.
It is anticipated that further cuts will occur in the next two years. Currently UH Hilo has over 3,000 students with more than 35 undergraduate and graduate programs. The question must be raised: How long can UH Hilo sustain itself under the double jeopardy of inadequate base funding combined with a trend of continuing decreased state support?

During the 2001-2002 strategic planning process, the planning group documented a budget shortfall of $2 to $3 million. The figure was largely calculated from costs necessary to maintain adequate academic, student and administrative support for the campus, while allowing a modest growth of programs in response to the changing needs of constituents that the university is serving. The figure did not include the need for keeping pace with enrollment growth.

State Allocation

UH Hilo has been largely dependent on the state funding for its entire operation. In a typical year not counting on grants and contracts, approximately seventy-three percent of the total operating budget is funded by the State general funds, while the remaining 23 percent is supported by tuition income. This is consistent with UH Hilo’s mission as a predominantly teaching institution offering liberal arts education at the baccalaureate level.

For the past five years UH Hilo has received only a 7% to 11% increase in state allocation per headcount while the remaining units of the System have received a 14% to 23% increase. The table below is derived using the MAPS Current Fund Revenues & Expenditures Reports and fall enrollment figures (Headcount, HC; and Full time equivalent, FTE) taken from Fall Enrollment Report, University of Hawai‘i, Fall 2003. On a per FTE basis, UH Hilo has received only a 6% to 8% increase in state allocation per headcount while the remaining units of the System have received a 9% to 23% increase.

State Appropriation Per Student During Fiscal Year 1995-96 To 2001-02

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<th>Increase in State Appropriation per HC between FY95-96 and FY00-01</th>
<th>Increase in State Appropriation per HC between FY95-96 and FY01-02</th>
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<tr>
<td>UH Manoa</td>
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<tr>
<td>UH Hilo</td>
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<td>Community Colleges</td>
<td>19.8%</td>
<td>22.7%</td>
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<td>UH at West Oahu</td>
<td>21.7%</td>
<td>16.8%</td>
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Increase in State Appropriation per FTE between FY95-96 and FY00-01

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<td>Community Colleges</td>
<td>16.6%</td>
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<td>UH at West Oahu</td>
<td>8.7%</td>
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Increase in State Appropriation per FTE between FY95-96 and FY01-02

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Sources: State appropriation figures taken from MAPS Current Fund Revenues & Expenditures Reports; Fall Enrollment Figures (Headcount and FTE) taken from Fall Enrollment Report, University of Hawai‘i, Fall 2003.

Enrollment Change

Student headcount has increased consecutively for the last five years, with full-time student enrollment at UH Hilo reaching a record high in 2002 and anticipated to reach another record high this fall. More students means more tuition income, but also more classes to be offered. In practice, tuition income only covers a portion of the total cost for education: at UH Hilo in the current fiscal year, student tuition income covers 17% of the total expenditure when incomes from grants and contracts are included.

The UH system must develop an enrollment-based funding formula. In the absence of an equitable funding formula, institutions with persistent enrollment growth, like UH Hilo, will be penalized with flat funding. Currently UH Hilo receives $8,000 per student FTE. Using the $8,000 number as a bench mark, a 10% increase in student FTE will require an additional $2 million a year. With the anticipation of an 8% increase in fall, 2003, the enrollment growth for the last five years is 25% at UH Hilo. To keep pace with this growth, $5 million is needed in the base funding.
Grants and Contracts Activities

Grants and contracts activities have contributed significantly to the diversity of income at UH Hilo. However, a research structure needs to be established to sustain the growth in this important area.

The amount of current new awards from extramural grants and contracts in FY 2002-2003 is about $14 million. Within the last four years, the total of new extramural awards increased about 387%. Teaching and learning by students and faculty are enhanced by these research and training activities. The return of indirect costs is about $689,000 in the current fiscal year. The allocation of the returned overhead is: $224,000 for RCUH Hilo management; $ 50,000 for RCUH fund and construction administration; $145,000 for principle investigators; $100,000 for faculty development; and $170,000 for general research support by the administration.
Source: Research Corporation of University Hawai‘i Hilo, 2003

The Office of the Vice Chancellor for Academic Affairs manages the entire research enterprise with a faculty member serving, along with teaching and other administrative duties, as the Coordinator of the Research Council. RCUH Hilo contracts for pre- and post-award administration. Deficit spending during the past three-year is the primary reason for not being able to develop a research organization and infrastructure. To balance the FY 2001 operating budget, UH Hilo used $956,000 from tuition reserves. To balance the FY 2002 operating budget, UH Hilo used $1,160,000 from tuition reserves.

For UH Hilo to continue to increase its extramural support, an office responsible for research and graduate education is desperately needed. The residual amount of return overhead should be utilized for this purpose. Without such an office in place, the growth in grants and contracts will slow down and eventually stop.
Peer Institution Comparison

UH Hilo spent $1,350 less per FTE than the average expenditure at its peer institutions using Year 2000 data. The peer institutions are defined by the System Benchmark Comparisons. Per FTE expenditure at UH Hilo in 2000 was less than $15,000 as compared to $16,250 spent by the peer institutions during the same period. The actual UH Hilo figure is $14,200 taking into account of Office of Mauna Kea Management and Hawaii Community College.

The more accurate, lower figure is derived as follows. In the UH Hilo total budget, items such as Office of Mauna Kea Management and facilities support expenditures for Hawai‘i Community College are included. Office of Mauna Kea Management is a separate legislative item allocated to UH Hilo for the management of Mauna Kea. UH Hilo maintains shared facilities such as a library, student center, telephone and postage for Hawaii Community College. The combined total of these two items is about $2 million. Taking into consideration these two items that are not directly related to educational expenditure of UH Hilo students, the actual expenditure per FTE at Hilo is further reduced to $14,200. If comparable expenditure to peer institution is an acceptable indicator for adequate funding, between $3.4 to 5.4 millions additional allocation is needed.

Expenditure per FTE


Current Status of Academic Support

College of Arts and Science
The College of Arts and Sciences (CAS) is the largest college among academic units. It serves about 2,400 FTE students with 123 permanent faculty and 19 temporary faculty. A total of 31 programs are offered. The College has a dean and two support staff at the Dean’s office. Two assistants to the dean and four division chairs, all teaching faculty with released time for administrative duties, provide additional administrative support. From the budget outlay point of view, the arrangement is cost minimal. However, from the instructional and student point of view, it takes senior and experienced faculty away from the classroom.

Because of the increase in enrollment, functions such as purchasing disposable materials for laboratories, replacing equipment, start-up funds for new faculty, and maintaining offices have dramatically increased in CAS. Major increases in enrollment are concentrated in the Divisions of Natural and Social Sciences, which have the highest concentration of laboratory courses. Laboratories in chemistry and biology are in poor condition and out-dated. Safety features in the laboratories are sometimes not in compliance with established standards. A site visitor for the Science Technology Engineering and Mathematics grant commented on our modern computer technology capabilities but out-dated science laboratories. The number of support staff has not increased since 1998 despite a 20% increase in the number of students. The College cannot institute even the most minimal language requirement because of inadequate funding for foreign language instructors. New BOR-approved programs such as the master programs in counseling psychology and China-US relations have been postponed because of the funding constrains.

The budget shortfall for the College of Arts and Sciences is estimated to be $1.39 million: $507,000 for operations; $159,000 for support staff; $146,000 for clerical; and $578,000 for faculty positions.

**College of Hawaiian Language**

College of Hawaiian Language does not have a dean. It is headed by a director who also serves as a part-time teaching faculty and a staff person. The College shares a secretary with the CAS Humanities Division. The College depends heavily on federal funding. The College offers BA, MA, and a postbaccalaureate teacher certification program. The College also operates a laboratory school. The College serves about 80 undergraduate students, 5 graduate students and 14 students in the post-baccalaureate teacher certification programs with only five and a half permanent faculty. One of them also serves as the principal of laboratory school. By contrast, the UH Mānoa’s Hawaiian Language department has 40 undergraduate students with 11 faculty, plus 3 for other Polynesian languages and history of Polynesian. UH Mānoa’s School of Hawaiian, Asian, and Pacific Studies serves 62 undergraduate students with 14 courses taught by four faculty.

In spring 2003, the College finally received half of the $500,000 promised by the President in 2001. It hopes to receive the remaining $250,000 during the next fiscal year.
In addition, the University system must fulfill a long-standing agreement with the Office of Hawaiian Affairs with regard to the College. As part of the agreement, the University of Hawai‘i will fund two faculty positions and one clerical position.

It is estimated that $250,000 annually will be required to continue the OHA agreement and to cover the program operation including the operation of the laboratory school.

**College of Agriculture, Forestry and Natural Resource Management**

The College of Agriculture, Forestry and Natural Resource Management serves about 150 students. It has a dean with two support staff at the Dean’s office. Although classified as part of the Land Grant College, the CAFNRM receives no State or Federal support for agricultural research and extension. For FY 1995, the CAFRM operational budget was $246,225. With a consistent annual decline, the operational budget for FY 2002 was $128,000. As a result most of the equipment items in the college are twenty years old and are in critical need of maintenance or replacement. In the absence of an adequate number of animal technicians, the University Farm has been cited repeatedly for non-compliance with the standards enforced by the Institutional Animal Care and Use Committee.

The College will require an additional $250,000 each year to employ animal technicians, and to update the equipment in the laboratories and at the University Farm in order to improve the quality of learning and be in compliance with federal guidelines.

**College of Continuing Education and Community Service**

The College of Continuing Education and Community Service employs a dean and a staff. The operation of the college programs is completely tuition driven and receives no state allocation. Currently, the College serves about 1,000 students in the summer program and has a headcount of 600 to 700 during the regular semesters. The College has a goal of totally fiscal self-sufficiency by 2004, that is, the College will clear enough funds for its activities to cover the salaries of the dean and support staff.

**The University Library**

The Mookini Library serves about 5,000 students from both UH Hilo and Hawai‘i Community College. Its operating budget has remained relatively flat over the years. In the meantime, acquisition costs for journal and book have increased dramatically.

In the 1998 Federal Depository Library Program Evaluation Report, the Mookini Library was cited for non-compliance with national staffing standards and national bibliographic control standards (e.g. physical processing, cataloging, public access to materials). In 1998 it was noted that one additional librarian and one additional paraprofessional were
necessary to bring the Mookini Library into compliance. Since 1998, the Library has tried to come into compliance, but has continued to slip farther behind and is no longer meeting the mandatory 30 days to complete physical and cataloging access to government documents.

According to the American Library Association’s Association of College and Research Libraries Division standards, the Library is significantly below national staffing standards by 2 librarians and 8.5 paraprofessional staff, and is under budgeted for library materials by $110,840 per year.

The Library will require $450,000 additionally to be in compliance with the Federal Depository Library Program and meet American Library Association’s Association of College and Research Libraries Division standards.

**Office of Vice Chancellor for Academic Affairs**

The Office of the Vice Chancellor for Academic Affairs is responsible for the overall management of academic programs. It is also responsible for research, graduate education, international programs, accreditation, program review and other instructional functions. The office consists of a vice chancellor and a secretary. It is becoming increasingly difficult for one professional administrator and one support staff to manage these numerous and increasing responsibilities, in addition to managing the rapid growth of grants and contracts and bringing UH Hilo into line with WASC expectations for the assessment of student learning outcomes.

A total of $150,000 is needed to establish an office of research and graduate education within the office of the VCAA.

**Three Strategies for Growth**

One can always argue that stopping the growth of the institution is the only way to cope with the budget cuts. Of course this is neither visionary nor responsible for a public-serving institution which must meet the challenge of increasing needs for education. During the 2001-2002 strategic planning process, UH Hilo recognized that it needs to become less dependent on State support.

Internally, we can save an estimated $1 million by resetting priorities and by streamlining and increasing the efficiency of our operations. If State support continues with marginal growth, then the only way to cope with the increasing demand for programs and services and the need for continuing improvement in educational quality is to diversify the funding sources through entrepreneurial approaches.
First, UH Hilo can diversify sources of income. Within a period of two to four years, $3 million can be generated through these efforts:

- Many of our programs such as College of Continuing Education and Community Service ($130,000) and the Office of International Affairs ($170,000) have established the goal of fiscal self-sufficiency.
- We hope to integrate the Small Business Development Center with the School of Business to create synergy and engage entrepreneurial activities ($100,000).
- The Conference Center is being refocused to generate needed financial support for the university ($100,000).
- A change of the tuition system that was approved by the Board of Regents recently will generate additional tuition income ($1 million).
- We need to undertake fundraising efforts with greater vigor and effectiveness ($1 million).
- Faculty and staff continue to work diligently to increase extramural funding ($500,000)

Second, the UH System can help UH Hilo by increasing our allocation by $2 million annually. Adequate support will assist UH Hilo to meet the demands of enrollment growth and to sustain and even improve the quality of education.

Third, allocation of resources must be based on program priorities and a set of realistic and widely accepted performance indicators. Incentives must be provided to academic and administrative units to encourage innovations, efficiency, productivities and entrepreneurial activities. A cultural change from historical spending to zero-based budgeting should be encouraged, both at UH Hilo and UH System levels.

July 21, 2003