Update on the University of Hawai‘i at Mānoa Budget and Budget Outlook

November 2009

Lower than projected revenues brought about by the effects of a global recession have seriously affected Hawai‘i’s economy. Although all state budgets have been hit hard by the recession, Hawai‘i has been one of the hardest hit, along with California, Nevada, and Arizona. Nor is this an accident, since a major driver of the economy of the State is tourism, and California is the largest single source of tourists for Hawai‘i. The current financial crisis at the State level has led to substantial budget cuts to the University of Hawai‘i. Through a series of State executive and legislative budgetary actions, UH Mānoa’s base budget has been reduced by $66M. This amounts to a 26% reduction of our general fund budget.

As soon as it became clear that FY2010 and beyond were going to be difficult, the Chancellor established a Budget Workgroup chaired by Kathy Cutshaw, Vice Chancellor for Administration, Finance and Operations (VCAFO). This committee was established in December 2008 and was charged with recommending budget allocation strategies which would allow the campus to respond to short term budget reductions as well as recommending internal reallocation opportunities (http://www.manoa.hawaii.edu/ovcafo/newbdgtwkgrp/index.html). All recommendations on budget strategies were to be consistent with the campus-wide principles as stated in the UHM Strategic Plan and the WASC Institutional Proposal themes.

We developed four major approaches to the shortfall as it transpired, with an initial executive (Governor’s) reduction of $7.9 million in December 2008, followed by a reduction in funds appropriated by the legislature of $26.2 million in May 2009, followed by an additional executive reduction of $29.5 million in June 2009. First, the projected increase in tuition revenues for FY2010 ($14 million) stemming from a planned doubling of tuition from 2006 to 2012 would be dedicated to the shortfall. Second, UH Mānoa was fortunate to be allocated $14.7 million each year for FY2010 and 2011 through the American Recovery and Reinvestment Act to help offset the immediate impact of budget cuts for the next two years. Third, we made horizontal cuts to operating budgets, with a 4% cut to almost all units announced in late March and a further 6% cut announced in August. The budgets for campus security, building repair and maintenance and our newest college, the School of Hawaiian Knowledge, were exempted from the March and the August cuts, and the four component units of the Colleges of Arts and Sciences were cut 2.5% (not 6%) in the second round. These two cuts should realize $30.1 million in savings. Fourth, we expanded Mānoa Green Days, our attempt to realize substantial utility savings through selected building shut downs, and we project $3 million in savings from this source. These targets and projections have brought us close to a balanced budget for FY2010 and FY2011, especially since tuition revenue for Fall 2009 came in about $4 million ahead of projections. However, it is certainly premature to declare that our budgets for FY2010 and 2011 are in balance, since this assumes no falloff in revenues from any source, no further state cuts, and that every unit is able to realize the 10% reductions we have attributed to them. (The State revenue picture continues to worsen, making at least one of these highly unlikely.) It also leaves us with no fiscal reserves, since we are committing our institutional carry-forwards.
to make the budget balance. Furthermore, since these numbers include the $14.7 million in non-recurring stimulus money, we are faced with an additional reduction of around $15 million in two years. A fuller picture of all of this can be found on the VCAFO’s website, in the form of the Campus Budget Briefing given to the campus on September 23rd (see http://manoa.hawaii.edu/ovcafo/newbudget/CampusBriefing092309.pdf).

A different approach—the Prioritization Process—was put into place to address longer term issues. The Process Committee began to meet in Fall 2008 to identify the principles and priorities of the Mānoa campus and to develop a process to obtain these principles and priorities (http://www.manoa.hawaii.edu/ovcafo/newprocess/index.html). The last step in the prioritization process that followed across Spring 2009 was the formation of the Chancellor’s Prioritization Advisory Committee, which made a series of recommendations to the Chancellor in Summer 2009 considering steps that might be taken both to move Mānoa forward and to help address the medium-term budget situation. The preliminary recommendations by the Committee were communicated campus-wide on September 8, 2009. Concurrently, the Chancellor’s Prioritization Advisory Committee and the Budget Workgroup began to meet together in August 2009, establishing the Budget Prioritization Workgroup (http://www.manoa.hawaii.edu/ovcafo/BPW/index.html). This committee is discussing ways in which UH Mānoa can balance the budget while maintaining academic priorities. The Committee is focusing on academic and administrative efficiencies as well as opportunities to increase revenues. A related but independent effort is the development of draft enrollment goals for the campus and the formation of a Committee on Enrollment Planning, co-chaired by the Vice Chancellor for Academic Affairs and the Vice Chancellor for Students. We hope that a combination of all of these efforts—streamlining administrative structures in places on campus, ending or reducing general-fund subsidies for operations capable of generating their own revenues, and smart enrollment growth—will enable us to avoid further horizontal or across-the-board cuts and generate the estimated $15 million in deficit reduction we need by FY2012.

A major uncertainty in all of this is the state of our labor negotiations. The University cut salaries for all executives by 6-10% effective September 1, 2009, while one of the major unions representing most staff (Hawai‘i Government Employee Association [HGEA]) has accepted a two-year contract for FY2010 and 2011 cutting pay by 5% in return for the campus closing on specified days (around various holidays, thus avoiding instructional days), creating further opportunity for utility savings. However, neither of these affect our budget picture as decisively as would a new contract with the faculty union, University of Hawai‘i Professional Assembly (UHPA), which represents the faculty at all ten campuses of the university, as 75% of the payroll at Mānoa is for faculty. There is to date no agreement with this union involving salary reductions. The University’s proposal to UHPA was decisively rejected by the UHPA membership, with over 85% of those voting opposing the University’s proposal of a 5% salary reduction for FY2010 and 2011 comparable to the HGEA agreement. Reaching an agreement with UHPA would help the budgetary picture sketched above considerably, as the 5% salary reduction would save nearly $10 million in both FY2010 and 2011, restoring a budget cushion and allowing a rollback of some of the cuts to the budgets to individual schools and colleges. A failure to reach such an agreement while not changing any of these numbers might make
progress on reaching consensus on how to move forward considerably more difficult. Those engaged in bargaining include UHPA and the University of Hawai‘i System, so while this is critical for Mānoa, it is not something Mānoa itself shapes or controls. What will happen on this front between now and the Capacity and Preparatory Review site visit is not known or indeed knowable, but we will certainly be in a position to brief the team on its arrival on any salient recent developments.