MEMORANDUM

TO: Chancellors

FROM: MRC Greenwood
President

SUBJECT: Distribution of General Fund Budget Reduction

Thank you for your input at the conference call and after, regarding the distribution of the $7.5 million in additional reductions the Legislature made this past legislative session to the University’s general funds for the coming fiscal year. Having given this considerable thought, I am informing you of my decision. First, let me recap the situation.

As you know, in the 2008 session, the Legislature reduced the campuses’ and system’s general fund budget for FY 2010 and FY 2011 by $30.5 million based on the Governor’s 20% reduction scenario, and then additionally reduced Mānoa by $14.7M and the community colleges by $660,000. This totaled approximately a $46 million reduction in general funds. The Legislature then appropriated $22 million in ARRA Part A funds to partially offset the general fund reductions, $14.7 to Mānoa, $7 million to the community colleges, and $300,000 to UH Hilo.

Subsequently, the Governor imposed restrictions in addition to the legislative reductions in the amount of $52 million for FY 2010 and $54 million for FY 2011. These restrictions were allocated by the Governor to the campuses and system based upon the relative payroll costs of each. In the 2009 legislative session the Governor proposed, and the Legislature agreed, to make the restrictions into permanent reductions to the general fund base appropriations. Added to the reductions made in the 2008 session, as described in the previous paragraph, the total reduction in general funds for fiscal year 2011 is $100 million.

In addition, the Legislature decided to further reduce our general fund budget by $7.5 million. However, the Legislature did not distribute the reduction to the campuses, allowing us to make that decision.

A number of different methods were used to allocate the previous $100 million in reductions. The initial 20% reduction scenario was partially based on the general funds and tuitions of each campus and partially based on other non-general fund sources of revenue. The legislature further adjusted this distribution in their allocation of ARRA funds and related reductions to general funds. The governor’s restriction which the legislature made into a reduction in our base of general funds was distributed based upon the proportional share of payroll costs of the campuses.

So now we must determine what the appropriate method is for distributing the additional $7.5 million in reductions. While it is not an overwhelming amount in relation to the previous cuts and in relation to our total general funds, still, it is not an insignificant amount and requires an approach appropriate to the circumstances, recognizing that several different methods have been used in the past.
The legislature’s reasoning for making additional cuts to the University, as they have stated, in the past two sessions, is that the University generates its own funds through tuitions. Fiscal year 2011 will be the 5th year in the current 6 year tuition schedule. Based on the latest financial information on actual tuitions for the fiscal year ended June 30, 2010, and based on scheduled tuition rates for fall 2010, tuition revenue will increase by the following amounts:

- UH Mānoa $15,219,619
- UH Hilo $2,438,061
- UH West O‘ahu $426,484
- UH Community Colleges $4,823,014

With current registrations running at approximately 9% higher than last year system wide, these amounts will likely be greater. However, we all know that tuition, in order to provide access to our resident students, covers only a portion of the cost of education. And because one of our primary goals is to increase the educational attainment of our citizenry, increased enrollment is very much encouraged. As indicated above, even without enrollment increases, revenues will increase due to the new tuition rates this fall. Therefore, I have decided to use those increased revenues, not including enrollment growth, as the basis for distributing the reductions.

I recognize that under this approach, the system offices would not take a share of the reduction. I believe this is appropriate as, unlike the campuses, the system does not have tuition income to offset reductions in general funds. As a result, reductions in general funds represent permanent reductions in total funding for the system, which will not be made up for through increases in tuition revenues.

Nevertheless, I have decided to have the system offices take a portion of the reduction in order to assist two programs which I believe are in particular need of support given the point they are in their development. These are the growth of the Kapolei campus of UH West O‘ahu and the College of Pharmacy at UH Hilo. Accordingly, UH System will absorb half of UH West Oahu’s reduction and half of the impact of including the College of Pharmacy’s tuition revenues in UH Hilo’s reduction.

The resulting distributions of the reduction to the campuses and system are:

- UH Mānoa $4,983,030
- UH Hilo $750,706
- UH West O‘ahu $69,817
- UH Community Colleges $1,579,095
- UH System $117,352

I am instructing the University Budget Office to implement these distributions.

I want to thank all of you for your extraordinary work in adjusting to the extremely difficult budget realities that we faced this past year and must now accommodate next year as well. As you are aware, we plan to work hard to increase our general fund budget for the biennium. This will require a unified commitment from all of us and good strategic communications. I know that we are up to the task and look forward to our next year together.

Mahalo.

cc: Vice Presidents
    Associate Vice Presidents
    Vice Chancellors for Administration
    UH Budget Director