

DAVID Y. IGE
GOVERNOR



WESLEY K. MACHIDA
DIRECTOR

LAUREL A. JOHNSTON
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

December 30, 2016

The Honorable Ronald D. Kouchi,
President and Members of the Senate
Twenty-Ninth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki, Speaker
and Members of the House of
Representatives
Twenty-Ninth State Legislature
State Capitol, Room 431
Honolulu, Hawaii 96813

Dear President Kouchi, Speaker Souki, and Members of the Legislature:

For your information and consideration, I am transmitting a copy of the report as required by Act 67, SLH 2015, Relating to Budgeting. In accordance with Section 93-16, Hawaii Revised Statutes, I am informing you that the report may be viewed electronically at: www.budget.hawaii.gov/budget/reports-to-the-legislature.

Sincerely,

/s/ Laurel A. Johnston

for WESLEY K. MACHIDA
Director of Finance

Attachments

c: Legislative Reference Bureau

DEPARTMENT OF BUDGET AND FINANCE

REPORT TO THE TWENTY-NINTH STATE LEGISLATURE



ACT 67, SESSION LAWS OF HAWAII 2015
RELATING TO BUDGETING

DECEMBER 2016

ACT 67, SESSION LAWS OF HAWAII 2015

RELATING TO BUDGETING

I. Introduction:

Act 67, Session Laws of Hawaii (SLH) 2015 (Senate Bill (S.B.) No. 104), requires the Department of Budget and Finance (B&F) to work with one State department on a pilot project to develop efficiency measures for possible inclusion in various budget documents that are required to be prepared under the Executive Budget Act, Chapter 37, Part IV, Hawaii Revised Statutes (HRS).

II. Purpose of the Report:

The purpose of the report is for the identification and use of efficiency measures to assist the State in determining realistic department functionality and ensure that the planned investment of funds is thoroughly considered against anticipated outcomes. Additionally, the establishment of a single-department based efficiency measure pilot project will provide the State with the information it needs to implement efficiency measures across all State departments in the future.

III. Report Requirements:

- A. The Director of Finance shall select one State department to participate in a pilot project for the establishment of and data collection for efficiency measures intended to be included with the budget documents submitted to the Legislature after the Fiscal Biennium (FB) 2015-17.
- B. No later than 20 days prior to the convening of the Regular Session of 2017, the Director of Finance shall submit the following to the Legislature:
 - 1) The actual level of the efficiency measures attained in the Fiscal Year (FY) 2015-16, the estimated level of the efficiency measures for the FY 2016-17, and the estimated level for each of the next six fiscal years. The percentage change from fiscal year to fiscal year of the efficiency measures also shall be reported;
 - 2) A narrative and comments on the change in efficiency measures from fiscal year to fiscal year; and
 - 3) Any intended action to improve efficiency.
- C. The information shall be submitted concurrently with, but need not be included in, the budget documents for the Executive Budget for the FB 2017-19. Additionally, the report shall include a recommendation on whether to require the inclusion of efficiency measures for every State Executive department, commencing with the budget documents for the FB 2019-21.

- D. The report also shall include data on the cost incurred by the B&F and the selected State department for the performance of duties of the pilot project.
- E. No later than March 1, 2017, the auditor shall submit a report to the legislature evaluating the pilot project, including findings and recommendations on the pilot project.

IV. State Department Selected to Participate in the Pilot Project:

The University of Hawaii (UH) has agreed to participate in the subject pilot project, which will assist in determining whether the establishment of and data collection for efficiency measures should be included with the budget documents submitted to the legislature.

V. Efficiency Measures for Consideration:

A. UH efficiency measures for consideration:

- 1) Education and Related Expenditures per Full-Time Equivalent (FTE) Student

Attachment A provides the data relating to the specified costs per FTE students at the respective campuses.

- 2) Education and Related Expenditures per Completion of Degree/Certificates

Attachment B provides data relating to the specified costs per completion of a degree or certificate.

- 3) Expenditures (General Fund/Tuition and Fees Special Fund) per Degrees/Certificates

Attachment C provides data relating to average costs per degrees/certificates.

- 4) Expenditures (General Fund/Tuition and Fees Special Fund) per Number of Classes (Fall 2016)

Attachment D provides data relating to average costs per number of classes (using Fall 2016 data).

Based on discussions with UH, the data source is comprised of a variety of metrics. Various information is provided to the U.S. Department of Education, National Center for Education Statistics (NCES), Integrated Postsecondary Education Data System (IPEDS), which collects data from interrelated surveys from every college, university, and

technical/vocational institution that participates in the federal student financial aid programs (Title IV-eligible institutions). Information collected includes basic characteristics of institutions, enrollments, graduation rates and other outcome measures, institutional prices, student financial aid, admissions and academic libraries.

Such data can then be utilized to compare information (e.g., enrollment, costs, graduation rates) between universities. However, it is unknown whether such data can ascertain the quality, efficiency and effectiveness of the services or universities.

It is important to note that in the IPEDS surveys, the cost of attendance is defined as the amount of tuition and fees, room and board, books and supplies, and other expenses that a full-time, first-time degree/certificate-seeking student can expect to pay to go to college for an academic year. Attachments A and B use this definition, while Attachments C and D look at only the state and university contribution (general funds and tuition and fees).

B. B&F efficiency measures for consideration:

- 1) Percentage of business processes reviewed for system-wide protocols (standardization and documentation).
- 2) Percentage of goods and services using State or UH System-wide price lists or vendor lists (procurement efficiencies).

The proposed efficiency measures are intended to minimize duplications within and between campuses, standardize transactions and processes, and streamline data information and collection. However, obtaining data, determining standards, monitoring for compliance, and estimated funding requirements, are unknown.

VI. Summary of Findings:

A. UH Strategic Directions and Efforts:

Act 188, SLH 2008 (House Bill No. 2978, H.D. 1, S.D. 2, C.D. 1), established a task force to assist UH in developing a budgetary system and assist the Legislature in appropriating funds across the campuses. The bill also continued UH's strategic plan while providing the Legislature information relating to benchmark data, outcome measures and funding formula for distribution of funding to the campuses.

As part of UH's Report to the 2009 Legislature, eleven (11) generally accepted "good practice" principles in the development of institutional performance measures were presented. The report included the principles of formula funding and accountability or performance funding; however, due to

the economic downturn in the State, the strategic progress was delayed. Thus, internal reviews appears to have been undertaken to provide strategic directions.

Four strategic directions were established to guide UH's priorities for the next three biennia (2015-2021) along with proposed productivity and efficiency measures.¹

- Hawai'i Graduation Initiative (HGI) – HGI focuses on increasing the educational capital of the State by increasing the participation and completion of students, particularly Native Hawaiians, low-income students and those from underserved regions and populations and preparing them for success in the workforce and their communities. As the State's sole public higher education system, the University is committed to helping meet the State's 55 by '25 Campaign goal of having 55 percent of working age adults with a two- or four-year degree by 2025.
- Hawai'i Innovation Initiative (HII) - The goal of HII is to create more high-quality jobs and diversify Hawai'i's economy by leading the development of a \$1 billion innovation, research, education and training enterprise that addresses the challenges and opportunities faced by Hawai'i and the world.
- 21st Century Facilities (21CF) - 21CF seeks to eliminate the University's deferred maintenance backlog and modernize facilities and campus environments to be safe, sustainable and supportive of modern practices in teaching, learning and research.
- High Performance Mission-Driven Systems (HPMS) - Through cost-effective, transparent and accountable practices, the University's goals are to provide affordable access to a diverse student population and to offer a superb higher education experience.

B. Issues Raised by B&F to S.B. No. 104:

- 1) There may be technical issues with providing efficiency measures by the departments, which have been defined as “. . . the cost within the lowest level of a program to produce a single unit of activity or effectiveness measure of that level of the program.” Specific cost tracking would be more feasible with an Enterprise Resource Planning system, which is not yet available.
- 2) It is not clear what a “single unit” is for different units of measure.

¹ <http://blog.hawaii.edu/strategicdirections/>

- 3) It is also unclear what “cost,” although defined as “. . . the sum of research and development cost and operating cost,” should include. It is unclear if the costs of support staff (e.g., clerical), facilities (e.g., rent), utilities, fringe benefits, etc., should also be considered or whether it also includes centrally budgeted general funded costs.

Additionally, the cost to produce a single unit can vary widely depending upon the complexity of the measure or activity or inherent program costs, and the State agencies ability to collect such data or make projections to this level of detail.

- 4) Lastly, inclusion of efficiency measures will require significant changes be made to the budget documents. The computerized budget systems currently utilized by the Executive Branch to produce the various budget documents are not contemporary, technologically advanced systems. The core budgeting programs are COBOL-based systems that are over 40 years old. These, along with our web-based budget systems, would require extensive modifications which would likely be labor intensive. The development of interim reports and additional training requirements severely limits our limited resources.

C. State of Iowa, Board of Regents: Transparent, Inclusive Efficiency Review (TIER):

The State of Iowa, Board of Regents, embarked on an intensive review of the state’s three public universities (University of Iowa, Iowa State University, and the University of Northern Iowa), beginning in 2014. The purpose of TIER is to provide an independent review of the academic and administrative expenses across Iowa’s three public universities as well as the regent system.

Through a three phase approach, TIER intends to identify opportunities, conduct detailed analysis, and implement improvements to transform Iowa’s public universities. Opportunities include, but not limited to, reducing costs, increasing revenues, and improving service.

The Regents budgeted \$2.5 million to conduct a wide-ranging efficiency review study to find potential cost savings by proposing plans to change how the universities are structured and services are delivered. The TIER review identified 12 administrative business cases for potential savings. In January 2015, additional funds were subsequently approved to assist with implementation of a series of cost saving measures at the three public universities.

D. Additional Information for Consideration:

- Efficiency measures alone is not a clear determining factor of a program's success in meeting its objectives and goals. Providing services quickly or inexpensively does not equate to providing the right services or providing the appropriate level of services.

Definition of effectiveness: producing a result that is wanted.²

Definition of efficiency: the ability to do something or produce something without wasting materials, time, or energy.³

- Requiring departments to provide additional data and measures with no direct budget proposal impacts may result in irrelevant data and may hinder attempts to make programs more accountable, responsible, and sustainable.
- Departments may not have the staff and funding to collect the data timely and accurately, as well as analyze the information to determine whether anticipated outcomes have been met.
- Sources of data must be transparent and clearly understandable.
- Review of best practices and standards nationally should be considered and integrated to ensure performance outcomes are defined and accurate.
- Given limited resources, we must focus on high priority initiatives and programs. With numerous State and federal unfunded mandates, insufficient operational resources to effectively operate programs, and the need to ensure efficient and quality services is being provided, departments need to reassess program goals and objectives.

VII. Cost Incurred by UH and B&F Relating to the Pilot Project:

Act 67, SLH 2015, appropriated \$100,000 in general funds in FY 2016 for the efficiency measures pilot project required by this Act.

B&F appreciates the general fund resources provided for this effort; however, given limited staff resources and the necessity to properly oversee and monitor the consultant, B&F has not encumbered nor expended any general funds from Act 67, SLH 2015. Additionally, development of efficiency measures along with reviewing performance measures and outcomes; application of funding impacts based on performances; involvement of stakeholders; and discussions between the executive administration and the legislature, will require collaborative discussions, additional time and funding resources.

² Merriam-Webster

³ Merriam-Webster

Costs incurred by UH and B&F basically involves respective staff time. Due to other duties and responsibilities of the respective staff, total staff costs related to the pilot project is undetermined.

VIII. B&F Recommendations:

Act 67, SLH 2016, requires that the Director of Finance submit a recommendation on whether to require the inclusion of efficiency measures for every State Executive department, commencing with the budget documents for the FB 2019-21.

The following options were considered:

- 1) Status quo. Efficiency measures are not included under the Executive Budget Act.
- 2) Require every department to provide efficiency measures with corresponding data, beginning with FB 2019-21.
- 3) Further discussions with the Legislature and departments to develop measurable program expectations, identify data collection abilities and requirements, determine performance outcomes and goals, and funding requirements.

Recommend further discussions with the Legislature and departments to develop measurable program expectations (which may include review of program measures of effectiveness with corresponding efficiency measures), review of program goals and objectives, determine programs' benchmarks based on performance, and determine optimal funding levels.

Education & Related Expenditures Per FTE Student
 University of Hawaii System
 in thousands

	Fiscal Year												
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
MAN	\$21.9	\$20.4	\$19.7	\$20.6	\$21.4	\$22.6	\$24.0	\$22.6	\$22.0	\$24.1	\$25.3	\$27.2	\$31.4
HIL	\$18.7	\$17.7	\$18.5	\$18.8	\$19.6	\$22.4	\$23.5	\$23.4	\$24.3	\$24.2	\$23.2	\$24.0	\$23.7
WOA	\$12.4	\$12.5	\$13.1	\$14.1	\$16.7	\$18.6	\$19.1	\$15.8	\$14.7	\$18.6	\$18.8	\$15.7	\$18.1
UHCC Avg	\$10.1	\$9.5	\$9.5	\$9.9	\$10.3	\$11.3	\$11.9	\$11.5	\$11.6	\$12.1	\$12.2	\$12.8	\$13.8
HAW	\$12.0	\$11.0	\$10.9	\$11.3	\$13.1	\$13.0	\$13.5	\$12.4	\$10.1	\$10.9	\$12.7	\$13.0	\$15.0
HON	\$12.4	\$12.2	\$12.6	\$11.7	\$14.3	\$15.5	\$15.9	\$14.0	\$13.2	\$13.2	\$14.5	\$15.1	\$15.9
KAP	\$9.2	\$9.1	\$9.2	\$9.7	\$10.2	\$10.7	\$11.2	\$9.6	\$9.7	\$10.8	\$11.0	\$11.5	\$13.6
KAU	\$19.2	\$18.5	\$19.5	\$20.4	\$19.4	\$24.6	\$24.1	\$20.0	\$18.6	\$17.9	\$18.9	\$20.3	\$23.0
LEE	\$9.1	\$8.8	\$8.5	\$9.2	\$9.7	\$9.8	\$9.7	\$8.9	\$8.3	\$8.8	\$8.9	\$8.9	\$10.2
MAU	\$14.1	\$15.5	\$17.4	\$16.8	\$18.4	\$19.7	\$18.7	\$15.8	\$14.2	\$14.9	\$15.9	\$17.5	\$19.3
WIN	\$9.7	\$9.9	\$9.4	\$10.8	\$11.2	\$12.0	\$12.3	\$11.7	\$11.3	\$13.2	\$17.2	\$14.7	\$16.0

Education & Related Expenditures Per Completion
 University of Hawaii System
 in thousands

	Fiscal Year												
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
MAN	\$92.4	\$84.9	\$80.7	\$80.5	\$83.4	\$81.8	\$88.4	\$86.4	\$79.0	\$85.4	\$91.1	\$92.1	\$104.8
HIL	\$98.3	\$88.4	\$108.2	\$92.2	\$101.9	\$118.7	\$126.4	\$136.3	\$120.2	\$95.6	\$104.0	\$105.5	\$90.7
WOA	\$38.7	\$30.9	\$35.5	\$28.2	\$40.6	\$59.6	\$60.1	\$51.2	\$51.0	\$59.9	\$70.1	\$70.4	\$74.1
UHCC Avg	\$72.9	\$79.8	\$72.5	\$72.5	\$77.1	\$83.0	\$86.4	\$81.4	\$72.6	\$72.5	\$69.8	\$56.2	\$59.1
HAW	\$56.8	\$53.2	\$54.2	\$50.5	\$63.4	\$62.2	\$65.0	\$63.1	\$63.6	\$61.4	\$54.1	\$43.0	\$53.5
HON	\$47.6	\$54.4	\$57.9	\$54.9	\$63.4	\$69.5	\$75.7	\$75.8	\$65.1	\$62.4	\$69.2	\$56.4	\$53.3
KAP	\$64.7	\$62.4	\$53.7	\$63.8	\$57.2	\$68.3	\$74.7	\$63.3	\$59.8	\$54.5	\$46.9	\$37.5	\$47.4
KAU	\$112.1	\$145.4	\$77.3	\$111.8	\$97.5	\$108.9	\$98.3	\$101.6	\$75.2	\$78.6	\$77.1	\$89.6	\$73.2
LEE	\$62.2	\$64.1	\$67.3	\$60.3	\$66.8	\$76.1	\$80.8	\$67.9	\$61.6	\$58.0	\$55.7	\$38.8	\$48.2
MAU	\$83.1	\$88.3	\$101.4	\$81.6	\$92.8	\$94.5	\$102.1	\$95.9	\$78.9	\$70.0	\$67.8	\$62.1	\$72.5
WIN	\$83.6	\$91.1	\$95.8	\$84.7	\$98.5	\$101.4	\$108.1	\$102.0	\$104.4	\$122.8	\$117.9	\$65.9	\$65.9

UOH Operating Budget
General Fund / Special Fund Tuition & Fees

<u>Prog ID</u>	<u>FY16</u>	<u>FY17</u>
UOH100	\$ 433,118,515	\$ 453,379,776
UOH210	\$ 67,528,468	\$ 75,862,221
UOH700	\$ 29,209,460	\$ 31,212,843
UOH800	\$ 184,821,405	\$ 204,483,365

Number of Degrees & Certificates Earned

<u>Prog ID</u>	<u>FY16 Actual</u>	<u>FY17 Goal</u>
UOH100	4,940	5,098
UOH210	893	938
UOH700	474	419
UOH800	5,209	5,469

\$\$ / Degrees & Certificates Earned

<u>Prog ID</u>	<u>FY16 Actual</u>	<u>FY17 Goal</u>
UOH100	\$ 87,676	\$ 88,933
UOH210	\$ 75,620	\$ 80,877
UOH700	\$ 61,623	\$ 74,494
UOH800	\$ 35,481	\$ 37,390

UOH Operating Budget
General Fund / Special Fund Tuition & Fees

<u>Prog ID</u>	<u>FY16</u>	<u>FY17</u>
UOH100	\$ 433,118,515	\$ 453,379,776
UOH210	\$ 67,528,468	\$ 75,862,221
UOH700	\$ 29,209,460	\$ 31,212,843
UOH800	\$ 184,821,405	\$ 204,483,365

Number of Student Semester Hours (Fall 2016)

<u>Prog ID</u>	<u>FY16 Actual</u>	<u>FY17 Goal</u>
UOH100	216,860	245,938
UOH210	48,497	47,751
UOH700	27,516	29,568
UOH800	260,172	256,522

\$\$\$ / Student Semester Hours (Fall 2016)

<u>Prog ID</u>	<u>FY16 Actual</u>	<u>FY17 Goal</u>
UOH100	\$ 1,997	\$ 1,843
UOH210	\$ 1,392	\$ 1,589
UOH700	\$ 1,062	\$ 1,056
UOH800	\$ 710	\$ 797