



UNIVERSITY OF HAWAI'I SYSTEM

Legislative Testimony

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Senate Committee on Ways and Means
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by
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HB 2542 HD1 Proposed SD1 – RELATING TO NON-GENERAL FUNDS

Chair Kim, Vice Chair Tsutsui and Members of the Committee:

Thank you for the opportunity to provide testimony on this measure.

The University of Hawai'i strongly opposes this bill as it relates to transferring funds from the University of Hawai'i's special and revolving funds. Special and revolving funds are an essential part of the University's operating funds. In addition, they are required for specific purposes as noted below, and are legally obligated for those purposes.

UNIVERSITY OF HAWAI'I HOUSING ASSISTANCE REVOLVING FUND

The purpose of the University of Hawai'i Housing Assistance Revolving Fund (HARF) is to provide financial assistance and rental housing units to faculty and staff of the University of Hawai'i. This is crucial for the recruitment and retention of the qualified faculty required in order for the University to continue to be the global university system that the state needs it to be.

As reported to your committee in the University's budget briefing, as of November 2009, there was \$4,590,642 in the HARF. These funds support two primary functions: 1) the operations of the Kau'iokahaloa Iki (K-Iki) faculty housing facility and 2) providing funds to assist faculty in financing the purchase of housing.

K-Iki

The funds for operating K-Iki consist of 3 accounts totaling \$2,474,775 as of November 2009. The State Real Estate Commission requires a Condominium Maintenance Fee Reserve equal to 100% of estimated replacement costs of the cash flow plan approved by the commission, which will need to be \$2,081,200 by fiscal year 2015. At this point there is only \$1,186,141 in this account, which also funds annual repairs and replacements of furniture and equipment. In addition, a reserve of \$600,000 is required to repurchase one remaining K-Iki unit which currently owned by a faculty member. In

the past year, one unit was repurchased by the UH for \$648,000, leaving only one unit not owned by the University. After these two requirements, the remaining \$688,000 is needed to fund the operating expenses of K-Iki.

Housing Assistance

In the past year, the University implemented a program to assist faculty in financing the purchase of housing. \$1.5 million was expended to fund this program, which has been very well received by the faculty. With the success of this program, the balance of \$2,115,868 for this purpose is critical for the continuation and expansion of the program. Especially in these difficult economic times, this program, which provides funds to guarantee loans by high performing faculty is critical for the recruitment and retention of highly qualified faculty to achieve the goals for increasing the number of educated citizens in the state of Hawai'i, contributing to the workforce and the economy, and advancing the University of Hawai'i's reputation for excellence and its ability to build the state's capacity as set forth in President MRC Greenwood's state of the University address.

In summary, taking funds from the Housing Assistance Revolving Fund would severely impair the Faculty Housing Program's ability to be self-sustaining. It would cripple the Faculty Housing Program's ability to meet its immediate financial obligations such as property management fees, routine maintenance costs, and utilities, placing its financial health in jeopardy. Deferring repair and replacement projects would end up costing the University more in the long-run, and would likely create safety issues. Terminating the mortgage assistance guarantee program would severely hamper the efforts of the University to recruit and retain qualified faculty and staff.

We ask you not to take these critical funds from the University of Hawai'i.

UNIVERSITY REVENUE-UNDERTAKINGS FUND

This fund is comprised of revenue-generating and self-supporting University Bond System projects. The fund includes operating accounts, and major and ordinary repair and replacement accounts. Projects include the Bookstore, Faculty Housing, Food Services, UHM Parking, Student Housing, Telecommunications, and the Campus Center.

Balances for these funds are required for repairs and maintenance and for working capital. For example, the Bookstore requires a working capital reserve equal to six months operating expenses and Cost of Goods Sold. If these funds are not available, it would lead to an inability to purchase goods for resale.

As part of the University Bond System, executive policy requires an annual transfer of 50% of asset depreciation be set aside for repair and replacement projects. Also, pursuant to bond covenants, the bond system is required to maintain reserves for all outstanding bond system debt. Reserves are also required for major projects, such as the establishment of telecommunications capability in the new ITS building, design of

Phase II of the Campus Center expansion, and furniture and equipment for the Campus Center Renovation.

Sweeping of these funds would severely impact campus operations. The Bookstore would be unable to provide students with necessary books and supplies on a timely basis for use in their academic studies. Essential support services such as network connectivity, email, voice/data service, online registration and distance learning opportunities would be severely impacted. Investment in infrastructure improvements could not be made. Student Housing renovations would be adversely impacted. Annual debt service requirements or OHA Ceded Lands payments may also not be met.

UNIVERSITY OF HAWAI'I RESEARCH AND TRAINING REVOLVING FUND

The Research and Training funds are used to support the research mission of the university. The funds are to be used for purposes that result in additional research and training grants and contracts, and for facilitating research and training at the University. These funds are used (1) to recruit and support top researchers; (2) for administrative support (i.e. fiscal, HR, compliance, etc.) for extramural contracts and grants; (3) to repair, replace, maintain, upgrade scientific equipment and facilities for continued research; (4) for mandatory matching for extramural contracts and grants; (5) for research projects; (6) for funding of graduate students; and (7) for working capital.

Additionally, an estimated \$1,500,000 is needed for the next 15 years for revenue bond payments for the Biomedical Sciences Building addition. The addition is needed to increase research space at the University which will increase research dollars. Funds have also been committed to several initiatives to expand the research programs at the University. These include committing start up funding or to supplement cost matching for new research programs such as the Applied Research Lab and Center of Excellence as well as to build a Regional Bio-containment Laboratory facility. Such investments are needed to aid the future growth of the research enterprise. A sweep would seriously jeopardize commitments made to sponsors to share in the costs of these new ventures. In addition, funds are required to pay the RCUH management fee for the rest of the year and any unforeseen expenses of ORS, which are both essential to management of the research enterprise.

If balances are swept, (1) it will significantly reduce the University's ability to recruit and retain new and competitive researchers; (2) we will be unable to meet ongoing obligations to fund start-up or required matching for grants for researchers, especially those hired in the last 3-5 years; (3) federal research dollars flowing to UH will decrease; (4) we will not be able to continue to maintain and operate scientific equipment and facilities; (5) working capital requirements for utilities, repairs, etc. cannot be met; and (6) we will be vulnerable to legal action from our inability to meet prior commitments/obligations.

As an example of this, last year the legislature swept \$5.1 million of these funds from the University. This left the University with \$5.1 million in prior obligations that it could not honor. As a result, we are unable to use these funds, as was planned, to implement

the Office of Mauna Kea Management's Comprehensive Management Plan, which is required by law. This jeopardizes the University's efforts to secure the Thirty Meter Telescope project which is estimated to bring in \$1.2 billion in construction to the State's economy.

In conclusion, lapsing of "excess" balances from the aforementioned special and revolving funds would significantly affect the University's ability to maintain the current level of services and programs provided to our students and faculty. Our ability to recruit and maintain faculty would also be impacted, and there are also potential legal issues that could result. Finally, passage of this bill will seriously impair the University's ability to provide security to its revenue bond holders and will jeopardize our bond rating, as all of the University's revenue bond debt is secured by its special and revolving funds.

Thank you for the opportunity to provide this testimony.