HB 115 HD2 – RELATING TO HIGHER EDUCATION

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the House Committee on Finance:

Thank you for the opportunity to testify in support of the intent of this measure with concerns. We are grateful for your consideration of this measure to address the University’s $460 million backlog of deferred repair and maintenance projects. As you know, our needs are sizeable and a detailed priority list of renovation, capital renewal, and backlog of maintenance projects has been provided to you in our Fiscal Biennium 2013-15 Budget Request.

HB 115 HD2 proposes establishing the Campus Planning Facility Board and the Major Repairs and Replacement Special Fund to address University repairs and maintenance. HB 115 HD2 also deposits 5% of all moneys received by the University beginning July 1, 2017, and transfers 10% of special fund balances for fiscal years 2014-15, and 2015-16 into this special fund. The bill also authorizes the issuance of and appropriates $38 million in general obligation bonds and authorizes a special fund appropriation ceiling of $100 million in fiscal years 2013-14 and 2014-15.

The University acknowledges the importance of a campus planning facility board that evaluates, identifies, prioritizes, and allocate moneys for repair and maintenance projects of the University. In fact, after the closing of the annual legislative session, the University convenes such a group consisting of the three vice chancellors for administration of the four-year universities, the associate vice president for the community college system, their respective directors of facilities management, and the staff of the Office of Capital Improvements with that overall objective in mind.

The University supports in concept the establishment of a major repairs and replacement special fund to fund repair and maintenance projects in the University’s backlog. However, the University has grave concerns on proposed subsection 304A-B(a)(1) regarding the requirement of 5% of all moneys received by the University of
Hawai‘i be deposited in this special fund beginning July 1, 2017. Clear, careful
definition of funds that the Committee intends for the 5% to be applied to is necessary in
order to avoid legal issues and uncertainties. The University’s operating budget is
approximately $1.5 billion and consists of general funds, tuition and student fees,
extramural contracts and grants, gifts and donations, auxiliary enterprise revenues,
operations of the projects in the revenues undertakings special fund (bond system),
revenue and general obligation bond proceeds, research and training revolving funds,
as well as other special and revolving funds which have been established by statute for
specific purposes. The measure uses the wording “except as provided by law”. Since
each special fund of the University has been statutorily established with a stated
purpose, it is not clear whether and in what cases this bill might supersede the
establishing legislation for specific special funds. Without clear definition, it is not
possible to determine how to apply this legislation or how much the earmarked funds
would amount to. Furthermore, the amount of the requirement, depending upon its
application and amount, could constitute a significant restriction on the flexibility of the
University to carry out its operations and pursue its educational mission.

The University has additional concerns regarding proposed subsection 304A-B(b) which
restricts the fund to be used solely to fund repair and maintenance projects on the
University’s backlog list. The University requires the additional flexibility to use such
funds for minor and major renovation and renewal projects where deemed appropriate.

The University also has concerns on Part III Section 3(1) and (2) of the bill which
requires the director of finance to deduct 10% of the University’s special fund balances
for fiscal year 2014-15 and again for fiscal year 2015-16. These special fund balances
are necessary working capital for the specific purposes of the respective special fund.
As indicated previously, we are concerned that it is not clear which would take
precedence – this measure, which states that it shall not apply to funds for which federal
or state law prohibits such a transfer, or the enabling legislation for the special or
revolving fund which establishes a purpose for the fund.

While the University appreciates the $38 million general obligation bond proceeds that
are to be deposited in the subject special fund in fiscal years 2014 and 2015, the
University’s number one priority, Health & Safety projects alone total $38 million for
each of the two years, and to prevent an increase of backlog, funding the University’s
annual capital renewal requirements for the next two years totals another $98 million.
The University requests that the bill provide a minimum $174 million in general
obligation bonds to fund two years of Health & Safety projects and $98 million for two
years of annual capital renewal requirements.

HB 115 HD2 has the potential to positively impact the physical environment at all of our
campuses, which will benefit the entire University of Hawai‘i community and the State.
However, we have concerns as to the application and effect of this measure on the
operations of the University.

Thank you for the opportunity to testify on this measure.