



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Higher Education
February 10, 2015 at 2:00 pm Room 309

by
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HB 545 – RELATING TO FUNDS

Chair Choy, Vice Chair Ichiyama, and members of the Higher Education committee:

Thank you for this opportunity to testify. The University of Hawai'i (UH) generally opposes the proposed actions in HB 545, Relating to Funds, but does request consideration for a number of revisions.

HB 545 proposes several actions:

- Repeals the following funds:
 - University of Hawai'i Community Services Special Fund
 - Hawai'i Educator Loan Program Special Fund
 - Community Colleges Special Fund
 - Hawai'i Medical Education Special Fund;
 - Discoveries and Inventions Special Fund;
 - University of Hawai'i Alumni Special Fund;
 - Animal Research Farm, Waiale'e, O'ahu Special Fund;
 - Professional Student Exchange Program Special Fund;
 - Center for Labor Education and Research Revolving Fund;
 - Career and Technical Training Projects Revolving Fund;
 - Conference Center Revolving Fund;
 - Senator Hiram K. Fong Scholarship Endowment Trust Fund;
 - Senator Oren E. Long Scholarship Endowment Trust Fund;
 - Hawai'i Health Corps Special Fund;
- Abolishes the following funds:
 - Hurricane Iniki Insurance Proceeds Special Fund;
 - Agency Fund Trust Account;
 - University of Hawai'i Okinawa Program Trust Fund;
 - Unrestricted Quasi-Endowment Income and Scholarship Revolving Fund
- Lapses all unencumbered balances in these funds to the credit of the general fund

The first three funds, the University of Hawai'i Community Services Special Fund, the Hawai'i Educator Loan Program Special Fund, and the Community Colleges Special

Fund are still in use and should not be repealed. The Auditor in Auditor's Report No. 14-18, did note that the funds did still serve their intended purpose, but recommended that some of these funds be reclassified rather than repealed. **The University recommends HB 545 be amended to be consistent with the recommendations in the Auditor's Report 14-18, which did recommend for the University of Hawai'i Community Services Special Fund, the Hawai'i Educator Loan Program Special Fund, and the Community Colleges Special Fund to be reclassified in statute as revolving funds.**

The Hawai'i Medical Education Special Fund was established in 2003 with the Hawai'i Medical Education Council (HMEC) to address the needs of graduate medical education in Hawai'i. This account was established to separate any funding received by the state or extramural funding that was solely designated to support graduate medical education in Hawai'i. As of January 2015, a Family Medicine residency consortium has been established with direct funding Queens, Hawai'i Pacific Health, and HMSA. A portion of these consortium funds that have been designated to support the family medicine residency program may be deposited into this fund as early as this March. Eliminating this fund would hinder the operations of this critical family residency program at Wahiawa General Hospital, Queens Medical Center, and Kapi'olani Women's and Children's Medical Center. The Auditor's Report No. 14-18 recommended repeal of this fund, given what the Auditor noted as the program's "unfunded status and the fund's lack of financial activity." **Considering that recent activity to finalize the consortium will mean that there will be activity for this fund's purpose, the University recommends maintaining the statutory authority of the Hawai'i Medical Education Special Fund.**

The Discoveries and Inventions Special Fund (DISF) supports innovation and research commercialization. Its enabling statute (304A-2174) states that the fund "...shall be used to develop technologies that have potential commercial value, support the administration of technology transfer activities, and facilitate economic development through education and research undertaken at the university." This fund is a major component of UH's strategic priorities in the Hawai'i Innovation Initiative. In partnership with the local business community, UH has recently taken on a greater role to help diversify the state's economy by building a thriving innovation, research, and education and training enterprise. The Office of Technology Transfer and Economic Development (OTTED) will be an integral part of this commitment.

The DISF will provide OTTED and the University of Hawai'i the opportunity for funding innovation and research commercialization and to secure patents, copyrights, licensing and marketing of discoveries, inventions, and technologies developed at UH. To help spearhead this effort, local venture capitalist and entrepreneur William K. Richardson was hired in December 2014 as OTTED director. His office will work closely with UH's recently launched proof-of-concept center, XLR8UH, to help faculty and student researchers to fully exploit their UH-owned technologies commercially. The Auditor in

Audit Report 14-18 did note that this special fund does continue to serve its originally intended purpose, but noted that it receives funds from the Research and Training Revolving Fund (RTRF) to cover some expenses. Considering the overall use, the future focus and purpose of the fund, such RTRF funding is believed appropriate, to do otherwise, would mean that total support for this established program would be borne solely by general fund appropriations. **The University recommends that the Discoveries and Inventions Special Fund be maintained as a statutorily authorized special fund since there is an existing program and operation already in place that is dependent upon the use of the fund.**

Professional Student Exchange Program Special Fund was created by Act 137, SLH 2012 and supported as a best practice concept by the Western Interstate Commission for Higher Education (WICHE). The purpose of the fund is to account for receipts and disbursements related to providing financial support for participants of the professional student exchange program. Since the fund was only recently created in 2012, and its operations are still evolving, the University feels that it is premature to repeal it. **The Auditor in the Audit Report 14-18, did not recommend for this fund to be repealed, although she did indicate that reclassifying it as a revolving may be appropriate.**

Similarly, the Hawai'i Health Corps Revolving Fund was created by Act 187, SLH 2012, which passed unanimously from the Legislature. The fund was created to support the Hawai'i Health Corps Program and the Hawai'i Rural Health Care Provider Loan Repayment Program to encourage eligible physicians, physician assistants, and nurse practitioners to serve for a period of time in designated health professional shortage areas. Given the limited history for this fund, and that sources of originating funds are by private gifts, donations, legislative appropriations and loan repayments over time, the University believes it is premature to repeal this fund with less than 3 years since its inception. The Auditor did not recommend for this fund to be repealed in Audit Report 14-18, considering that there was limited history to determine if its status was more appropriate as a special fund or a revolving fund. **In agreeing, the University recommends that the Hawai'i Health Corps Revolving Fund maintain its current statutorily authorized status as a revolving fund.**

The Conference Center Revolving Fund – UH at Hilo was created to account for fees, charges and other moneys that UH-Hilo collected for the Conference Center Program in the College of Continuing Education and Community Service. Although recognizing that there has been minimal activity in its recent history, UH-Hilo is planning to utilize the Conference Center Revolving Fund to support the delivery of conference services in the immediate future and believes that this fund is needed and should be continued. This approach will help support a strategy and concept to encourage independent self-sustainability for a number of programs where possible. **The University recommends that the Conference Center Revolving Fund – UH at Hilo be allowed more time to maintain its statutory authority as a revolving fund.**

The Center for Labor Education and Research Revolving Fund supports the Center for Labor Education and Research (CLEAR), a program that is currently in operation at the University of Hawai'i at West O'ahu (UHWO). The Auditor did note that the fund does serve the purpose for which it was originally intended, but noted that the fund did not appear to be self-sufficient as a revolving fund. UHWO is a new campus that undergoing the growth of all its programs – including CLEAR. UHWO believes that over time the program and the fund will evolve and be self-sustaining reducing any burden on the general fund. **As such, the Center for Labor Education and Research Revolving Fund is recommended to maintain its current statutory authority as a revolving fund, or be reclassified as a special fund.**

The University is in the process of abolishing the Hurricane Iniki Insurance Proceeds Special Fund as identified by the Auditor's Report 14-18. The University agrees that the original purpose of the fund has been satisfied and is returning the unencumbered balance to the DAGS Risk Management. **The University agrees with HB 545 recommendation to repeal the Hurricane Iniki Insurance Proceeds Special Fund.**

The University also takes no position on the legislature's intent or desire as proposed in HB 545 to repeal the Senator Hiram K. Fong Scholarship Endowment Trust Fund and the Senator Oren E. Long Scholarship Endowment Trust Fund. Both these funds were not sufficiently funded following inception and remain as such.

Please note that the University of Hawai'i Okinawa Program Trust Fund was closed in FY2014 and therefore its inclusion in HB 545 is unnecessary for practical purposes. This trust fund was created administratively, but has since been closed administratively from use.

Of special note, the University would like to request the amendment of HB 545 to include the statutory authority to create the University of Hawai'i Quasi-Endowment Trust Fund. Auditor's Report 14-18, concluded that the Quasi-Endowment Income and Scholarship Revolving Fund was not meeting the criteria for a revolving fund because it was "...not established by an act of the Legislature as required by Section 37-52.4, HRS." The Auditor recommended the termination of the fund and for the moneys to be properly disbursed by the Board of Regents according to its policies. However, in contemplating the process that would result from following this recommendation, the University concludes that eliminating the fund itself would ignore the fact that there is a substantial endowment of which there would be an absence of a proper vehicle for the expenditure of these legacy endowment funds. The Unrestricted Quasi-Endowment Income and Scholarship Revolving Fund serves as a temporary holding account for cash, receivable, temporary investments, and amounts due from other fund groups held by UH. This fund holds cash deposits from student, faculty, staff, and other organizations for items such as equipment, musical instruments, library carrels and lockers, faculty housing, and long distance telephone service. In agreement with the Auditor's Report, the University requests that a more appropriate result, would be to

reclassify the revolving fund as a trust fund established via statutory definition. Therefore, we respectfully request the inclusion of the following language in this measure to establish a trust fund in statute:

"304A-2355 **University of Hawaii quasi-endowment trust fund.**
There is established the University of Hawaii quasi-endowment trust fund into which shall be deposited income derived from the University's Endowment Fund. Income deposited into this account may be expended by the University as set forth by the University Board of Regents in policies and guidelines for costs and expenses associated with student financial aid programs including scholarships and student support services, awards, and project opportunities for the University."

There are a number of other funds identified for recommended action in HB 545. The University does not have any opposition to the repeal or recommended disposition of these funds described in this measure.

Thank you for your time and consideration.