



UNIVERSITY OF HAWAI'I SYSTEM

TESTIMONY

HB 1800

Testimony Presented Before the
House Committee on Education

March 5, 2004

by

Edwin C. Cadman, MD
Dean, John A. Burns School of Medicine
University of Hawai'i at Manoa

Statement of
Edwin C. Cadman, MD
Dean, John A. Burns School of Medicine, University of Hawai'i at Manoa

before the

HOUSE COMMITTEE ON FINANCE

March 5, 2004

State Capitol, Conference Room 308, 10:00 a.m.

in consideration of

HB 1800

RELATING TO THE STATE BUDGET

Chair Takamine, Vice Chair Kawakami and Committee members.

I am Ed Cadman, Dean of the John A Burns School of Medicine (JABSOM) of the University of Hawaii. I am here in strong support of the University of Hawaii's supplemental budget request for the new JABSOM Kaka'ako campus—for temporary operating funding to support the facility's core operating costs during the start-up phase and for ongoing support for the new University of Hawaii Health Sciences Library—which has been included in the Executive supplemental budget.

Our School is named after a visionary governor, John A. Burns, who nearly forty years ago, saw the wisdom of establishing a medical school in Hawaii to ensure that the state's citizens would have a steady supply of well trained physicians to tend to their health care needs. I think Governor Burns would be proud of the progress we have made. At JABSOM, we have trained about fifty percent of the state's practicing physicians and many of the state's health care leaders have graduated from our School. Many of these outstanding individuals would never have had the opportunity to pursue a career in medicine had it not been for the foresight of Governor Burns.

With the opening of the new Kaka'ako campus just months away, JABSOM is about to begin a new era. I believe that John Burns would share with enthusiasm the vision we have to help diversify the state's economy by creating a platform to develop the biotechnology industry in our state. The research to be conducted at JABSOM in Kaka'ako is the keystone around which this industry will be built. The benefits of an expanded "knowledge based" economy are many. New direct and indirect dollars from research, new well paying jobs, new opportunities for start-up businesses and capital formation and an employment opportunity here in Hawaii for

kids interested in careers in science and research. The state has been generous in standing behind the bond issue that allowed the Kaka'ako campus to become a reality. The economic model for this campus is to eventually be fiscally self sufficient. However, until we have reached full occupancy and our research programs are running at capacity we ask for modest temporary start up funding of \$1.724 million to help us to open and begin to operate the new campus. The "jump start" we are requesting will allow us to lay the foundation for future financial success.

In addition, we are requesting ongoing funding of \$1.8 million to defray the operating costs of the new health sciences library which is a part of the Kaka'ako project. This library is necessary for JABSOM's accreditation. Furthermore, the library will be open to the general public and will serve the information resource needs of our community's health care practitioners. It will become the primary medical reference library for our state.

In sum, JABSOM requests a total supplemental budget amounting to \$3.525 million. With this assistance we can begin to realize the vision of a research intensive medical school that can serve as an economic engine for the state. As the new campus in Kaka'ako opens and we enter the next phase of JABSOM's growth and development, I would like to conclude by stating that I appreciate the support that the legislature has provided to the School over the years. With your continued support I am confident that we will meet our ambitious goals and, in doing so, honor the legacy of Governor Burns.

Please refer to Attachments 1 and 2 which describe both of our funding requests in further detail.

Thank you for the opportunity to testify.

Attachment 1
University of Hawai`i
Additional Information for the Supplemental Budget Request

John A. Burns School of Medicine Kaka`ako Campus—Core Facility Operation
Fiscal Year Ending June 30, 2005

Background

We appreciate the opportunity to submit this request for operating funds for the new University of Hawai`i, John A. Burns School of Medicine, Kaka`ako campus. The construction project is currently on schedule and it is expected that the education and administration building and the biomedical research building will be complete in October 2004 and June 2005, respectively. Until the new campus becomes fully operational and the mechanisms for cost recovery and other revenue generation are in place, additional State funding is requested for the facility's core operating costs to allow a reasonable start-up phase that will prevent any negative impact to the School's core educational programs or to the current high growth rate in its extramurally-funded research and training programs.

The education and administration building will house approximately 114,546 square feet of faculty and staff offices, classrooms, a patient simulation center, a lecture hall, a bookstore, a café, and the University Health Sciences Library. The biomedical research building will provide 184,142 square feet of laboratories, offices, and supporting spaces for research staff. Adjacent to the research building will be the child care and fitness center, loading docks, and the central plant comprising a total of 18,537 square feet. Parking will include 221 stalls of surface level parking on site and approximately 400 stalls on an adjacent site.

Facility core operating cost estimates and funding plan

A preliminary estimate of the initial annualized cost of the facility's core operations with high occupancy is approximately \$6.73 million. The attached Exhibit 1 illustrates in summary format the major components of this estimate which include utilities, telephone and data, and services such as janitorial, maintenance, landscaping, securing, trash removal, window washing, and environmental health and safety. The estimated total cost for the fiscal year ending June 30, 2005 is approximately \$1.8 million which represents a very conservative base-line estimate. This estimate accounts for start dates of November 1, 2004 and June 1, 2005 for the education and administration building and the research building, respectively. The assumptions built into this estimate are based on the best information currently available to us. As construction progresses, we will need to change assumptions and estimates or include new assumptions as we develop a clearer understanding of the full scope of operating issues that we will face with the new facility.

We anticipate that a substantial portion of the operating costs of the core facilities will be funded in future years mainly through the extramural facilities and administrative (a.k.a. "F&A" or "indirect cost") recovery mechanism and secondarily through interest earnings on endowments generated from naming opportunities and a contribution from the ancillary services provided on the campus. Although we expect the research building to be primarily funded from the F&A recovery cost mechanism, we do anticipate the need to have an on-going investment from the

State to cover any portion of the operating costs of the education and administration building that may not be fully funded from the combination of F&A cost recovery, interest earnings on endowments, and the ancillary services contribution.

We are currently in the planning phase of structuring the F&A cost recovery mechanism with the Federal Department of Health and Human Services. We are also working under the lead of the University of Hawaii Foundation which is spearheading the fundraising campaign to capitalize on this prime opportunity. Exhibit 2 illustrates the estimated costs, projected funding, and the requested on-going investment from the State in future years.

Other Operating Costs – No funding requested

Funding for the operating costs associated with ancillary services such as the child care, fitness center, café, parking, and the book store have not been included in this request because it is fully expected that these services will generate revenue sufficient to cover those operating costs and may potentially contribute to funding the on-going overall operating costs of the campus in future years. Similarly, operating costs associated with specialized infrastructure required to support biomedical research activities have also not been included in this request because it is expected that this infrastructure can be funded through the extramural F&A cost recovery mechanism.

Summary

In summary, we are requesting total funding of \$1.8 million for the fiscal year ending June 30, 2005 to support the initial year of operations of the new Medical School campus. We were able to refine our initial estimate of \$2.1 million and we feel that this revised estimate is a very conservative base-line which was developed based on a detailed assessment of the various operating needs of the new campus. Although we expect the total operating costs of the research building to eventually be self supporting through F&A cost recovery, the costs of running the Education and Administration Building cannot be fully recovered via this mechanism. Therefore, we request on-going State funding support for a portion of the operating costs of this building. We will continue to refine the estimates for future years as we progress through the construction phase and through the process of structuring the new F&A cost recovery mechanism.

Thank you for your continued support of the new medical school campus. We are confident that the State's investment in the new facilities will yield great results for the School, the University, and the entire State.

Attachment 2
University of Hawai`i
Additional Information for the Supplemental Budget Request

University of Hawaii –Health Sciences Library
Fiscal Year Ending June 30, 2005

Background

We appreciate the opportunity to submit this request for operating funds for the new University of Hawaii Health Sciences Library which will be operated out of the new medical school campus in Kakaako. The Library will be operated out of the education and administration building by the University Librarian. The new library will be the result of an effort which began in 2001 to bring in-house this currently purchased service which is a critical component of the educational programs of several University Schools including, Medicine, Nursing, Public Health, and Social Work. The need to in-house this function is being driven mainly by the recent accreditation review by the Liaison Committee on Medical Education (LCME), which serves as the Medical School's accrediting body. The Medical School was cited for having insufficient library resources. We are responsible for taking corrective action to ensure we preserve the Medical School's accreditation status for the next review (which is scheduled for April 2004) and to ensure that this issue does not affect the accreditation status of the other impacted schools.

A preliminary estimate of the initial annualized cost of operating the new University Health Sciences Library is approximately \$1.82 million. The attached Exhibit 1 illustrates in summary format the major components of this estimate. Accounting for a start-date of November 1, 2004 plus start-up costs of approximately \$285,000, the estimated total cost for the fiscal year ending June 30, 2005 is approximately \$1.72 million.

Historically, the Medical School has purchased this service out of its existing budget in the amount of \$500,000 on behalf of all University health science units. This service will no longer be available from an outside source. Once the new library is fully operational, this amount along with outside user fee charges and interest earnings on endowments generated from naming opportunities, is expected to contribute to reducing the total amount of additional State funding needed to operate the library. Exhibit 2 illustrates the estimated costs, projected funding, and the requested on-going investment from the State in future years needed to bring this service up to standards.

In summary, we are requesting total funding of \$1.724 million for the fiscal year ending June 30, 2005 to support the initial year of operations the University Health Sciences Library. We were able to refine our initial estimate of \$1.8 million and we now feel that this revised estimate is a very conservative base-line which was developed based on a detailed assessment of the various operating needs of the library. The costs of running the Education and Administration Building, including the University Health Sciences Library, cannot be fully recovered via the extramural indirect cost recovery mechanism which will be the primary funding source of the research building. Therefore, we request on-going State funding support for a portion of the operating costs of the library. We will continue to refine the estimates for future years as we progress through the construction phase and refine the operating parameters of the new library.

Thank you for your continued support of the new medical school campus and the accreditation of its education program. We are confident that the State's investment in the new facilities will yield great results for the School, the University, and the entire State.

Exhibit 2
University of Hawaii -Health Sciences Library (Kaka'ako Campus)
Operating Cost Projections - Future Years
Fiscal Years Ending June 30, 2005 to 2009

Fiscal Year Ending June 30,				
2005	2006	2007	2008	2009

Library Services Operating Budget

Total Start Up Costs	284,650				
Administration	166,387	233,188	239,017	244,993	251,117
Public Services	51,480	79,950	81,949	83,997	86,097
Circulation	77,532	135,915	139,313	142,796	146,366
ILS/Document Delivery	18,850	38,643	39,609	40,599	41,614
Reference	117,000	187,883	192,580	197,394	202,329
Systems	35,178	54,633	55,998	57,398	58,833
Technical Services (off-site)	203,346	247,845	254,041	260,392	266,902
Student Assistants	15,000	30,750	31,519	32,307	33,114
Collection	677,883	692,955	708,403	724,239	740,469
Other Costs	77,060	162,045	163,198	164,380	165,592
Total Recurring Operating Costs	1,439,715	1,863,805	1,905,627	1,948,494	1,992,434
Total Library Services Costs	1,724,365	1,863,805	1,905,627	1,948,494	1,992,434

Projected Funding Sources

Existing Funds Available	-	500,000	500,000	500,000	500,000
Gift/Endowment Revenue	-	-	125,000	131,250	137,813
Library User Fees	-	186,380	190,563	194,849	199,243
Total Projected Funding	-	686,380	815,563	826,099	837,056

TOTAL STATE SUPPORT REQUESTED	1,724,365	1,177,424	1,090,064	1,122,395	1,155,378
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Exhibit 2
John A. Burns School of Medicine Kaka'ako Campus
Operating Cost Projections - Future Years
Fiscal Years Ending June 30, 2005 to 2009

	Fiscal Year Ending June 30,				
	2005	2006	2007	2008	2009
<i>Facilities Operating Budget</i>					
Water	44,738	160,690	164,708	168,825	173,046
Sewer	40,290	144,681	148,298	152,006	155,806
Electricity	835,910	4,029,432	4,130,167	4,233,422	4,339,257
Total Utility Costs	920,939	4,334,803	4,443,173	4,554,253	4,668,109
Telephone Charges	64,000	190,958	195,731	200,625	205,640
Hardware Maintenance	40,700	118,216	120,671	123,188	125,767
Software Maintenance	29,712	68,040	68,040	68,040	68,040
Support Services	238,940	650,793	667,063	683,739	700,833
Total Telephone & Data Costs	373,352	1,028,006	1,051,505	1,075,592	1,100,281
Janitorial	204,981	602,378	617,022	632,033	647,418
Maintenance	100,370	296,509	303,922	311,520	319,308
Landscaping	26,863	84,562	86,676	88,843	91,064
Security	71,712	210,595	215,860	221,256	226,787
Trash Removal	29,102	89,374	91,609	93,899	96,246
Window Washing	-	30,857	31,628	32,419	33,229
Environmental Health & Safety	10,190	125,337	128,470	131,682	134,974
Total Main Services Costs	443,218	1,439,612	1,475,187	1,511,652	1,549,028
Mail Service	23,803	55,645	57,036	58,462	59,924
Shuttle Service	39,342	64,255	65,862	67,508	69,196
Total Other Services	63,145	119,900	122,898	125,970	129,120
Total Facilities Management Costs	-	106,600	109,265	111,997	114,797
Total Facilities Core Operating Costs	1,800,654	7,028,921	7,202,028	7,379,463	7,561,333
<i>Projected Funding Sources</i>					
Indirect Cost Recovery	-	2,728,952	5,592,462	5,730,385	5,871,756
Gift/Endowment Revenue	-	-	875,000	918,750	964,688
Contribution from Ancillary Services	-	361,204	369,614	378,233	387,069
Total Projected Funding	-	3,090,156	6,837,076	7,027,368	7,223,512
TOTAL STATE SUPPORT REQUESTED	1,800,654	3,938,765	364,952	352,094	337,822