



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Higher Education
March 14, 2013 at 2:45pm

by
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HB 115 HD3 – RELATING TO HIGHER EDUCATION

Chair Taniguchi, Vice Chair Kahele, and Members of the Committee:

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 HD3 proposes establishing the Campus Planning Facility Board and the Major Repairs and Replacement Special Fund to address University repairs and maintenance. HB 115 HD3 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 an unspecified amount in general obligation bonds and authorizes a special fund appropriation ceiling of an unspecified amount 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. However, in fact, after the closing of the annual legislative session, the University already does convene 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. Thus, statutorily establishing such a board is not necessary.

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 concerns on Part II, Section 2. subsection 2 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 5% is 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), general obligation and revenue bond proceeds, research and training revolving funds, as well as other special and revolving funds which have been established by statute for specific purposes. In addition, the State Department of Budget and Finance has indicated in previous testimony that it is questionable whether the special fund created by HB 115 would meet the requirements of Section 37-52.3 of the HRS.

Moreover, aside from the technical concerns, the amount of the requirement, depending upon its application and amount, could constitute a significant impact on the operations, programs and personnel of the university. Tuition is the most flexible statutorily for purposes of this measure. If it and other revenues are assessed, it would negatively impact operating budgets. Ultimately it may have a domino effect resulting in a higher cost of attendance for students, whether it be tuition, student housing, parking rates, student fees, or other costs and restrict the flexibility of the University in carrying out its operations and pursuing its educational mission.

The University has additional concerns regarding proposed subsection 304A-B(c) 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 represent necessary working capital for the specific purposes of the respective special fund and with regard to revenue bond funded projects, are necessary for covering revenue bond debt service costs and any revenue bond reserve requirements. In addition, as indicated previously, application of this measure to specific special funds must be carefully determined. Furthermore, we are concerned that the use of the special fund created by this measure for the projects administered by the Campus Planning Facility Board not jeopardize the tax exempt status of the General Obligation bonds of the state or the revenue bonds of the university.

While the University appreciates the issuance of general obligation bond proceeds 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 \$122 million. Accordingly, the University requests that the bill provide a minimum \$198 million in general obligation bonds to fund \$76 million for two years of Health & Safety projects and \$122 million for two years of annual capital renewal requirements.

HB 115 HD3 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.