



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Higher Education
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by
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HB 1491 HD1 – RELATING TO THE BUDGET

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

The University of Hawai'i System strongly opposes this measure.

The existing statutory language that grants the University System certain flexibility in the use of its resources recognizes that only 40 percent of the University's entire operating budget is supported by State funds and, as a consequence, the University must leverage and reallocate our various revenue sources to meet our operating needs in a time-sensitive manner. The proposed amendments would prohibit the University from transferring funds between programs, e.g., administrative support programs such as information technology, risk management, and payroll processing, that by design are financed by a combination of both general funds and non-general funds. Another example of the University leveraging its funds are the efforts made to ensure the maximum delivery of instructional services by the community college system. Fluctuations in enrollment between semesters mean that general funds must be transferred between community college campuses to ensure that instructional services are available to students. Eliminating the University's authority to make transfers between programs penalizes a system that has been rewarding performance based upon cost-effective use of limited resources.

The University understands that it must do a better job to become more effective and efficient in use of the funds and transparent with respect to how the funds were used. To this end, key members of the BOR have become more closely involved in reviewing our financial reports and have requested more detailed information. Last November, the BOR adopted a policy requiring the President to implement a system wide operating reserve, beginning with the 2015-17 Fiscal Biennium. The President is presently working on defining the amount that each campus is able to commit to this operating reserve.

Article 10, section 6 of the Hawai'i State Constitution recognizes the authority of the BOR "... to have exclusive jurisdiction over the internal structure, management, and operation of the university" in balance with the Legislature's "... power to enact laws of statewide concern". Given that 60 percent of the University's operating budget is funded by private individuals paying tuition, or contracts and grants awarded for specific purposes that cannot be re-allocated, an appropriate question may be whether the University should be required to consult with the State's Department of Budget and Finance (B&F) regarding management of non-general fund revenues that are collected by the University System for university-specific activities.

State Director of Finance Kalbert Young, in his testimony, states that "The Department of Budget and Finance (B&F) defers to the UH regarding the operational impacts of the program budget execution exception provisions. The effect of removing UH's program budget execution exception provisions will mean that the UH will be subject to budget execution processes as applicable to nearly all other executive departments. This will likely mean that UH will be subject to reviews and recommendations by B&F and approvals by the Governor. Operationally, this will likely add to UH's current bureaucratic processes."

In the context of the current statutory flexibility to request and receive annual allotments, our newly implemented financial management system reflects the best practices of higher education financial system and does not recognize fiscal quarters. As a consequence University fiscal administrators develop and input an annual budget at the beginning of each fiscal year. Should the University be required to request quarterly allotments from the Department of Budget and Finance, this would as noted by Director Young add to the University's bureaucracy when it is moving forward in adopting best practices.

We respectfully request that this measure be Held.

Thank you for your consideration of our testimony on this measure.