



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony for the
Senate Ways and Means Committee

February 22, 2007

by

Howard Todo

Vice President for Budget & Finance/ CFO

SB 1154 RELATING TO THE UNIVERSITY OF HAWAII

Chair Baker and Members of the Committee:

The purpose of this bill is to grant additional flexibility to the University Board of Regents (BOR) in the financing and administration of capital projects within the jurisdiction of the University. We believe that passage of this bill will permit the University to become more responsive in attending to capital projects benefiting the students, faculty, and staff of the University community. Act 115, SLH 1998, commonly referred to as the "Autonomy Bill" granted the University of Hawaii substantial flexibility in managing its resources. Consistent with the Autonomy Bill, this bill would allow greater self-governance authority by expanding the Board's authority to borrow funds as part of the University's financing strategy.

We believe that the University has demonstrated the capability and competence to use its bonding authority responsibly and in the best interest of the University and the State. In October 2006, the University issued approximately \$130 million of revenue bonds which refunded bonds issued originally in 2002 to finance the construction of the John A. Burns School of Medicine. As a result of the refunding, the State and the University will be saving \$8.3 million in debt service payments. More recently, the University issued \$100 million of revenue bonds authorized by the Legislature for University Housing projects. Related to these bond issues, it should be noted that Moody's Investor's Service upgraded the underlying rating of the University's revenue bonds from A1 to Aa3 citing a number of positive factors including, ***"We believe the University's role as the sole provider of public higher education for the Aa2-rated State of Hawaii provides a fundamental underpinning for the Aa3-rating as it is likely to contribute to steady enrollment, consistent state support, and good research prospects."***

However, more capital financing is still necessary and the University has the financial capacity to support more bonds than is currently outstanding. This bill will give the Board the flexibility to supplement legislative appropriations to the extent it has the financial capacity to issue and repay the bonds.

The University strongly supports passage of this bill as it would permit more flexibility in the use of bond financing in meeting our financing requirements.

In the hearing on this bill before the Senate Committee on Education, the Department of Budget and Finance and the Department of the Attorney General raised concerns and opposed

the bill based on those concerns. Subsequently, we have been discussing their concerns with them and attempting to resolve them. Toward that end we recommended changes to the bill which were incorporated in S.D.1. We shared those proposed revisions, which were intended to address their concerns, with them. While I believe they found those changes to be agreeable for the most part, they have communicated some additional concerns and recommended wording changes. We certainly intend to continue to communicate with both parties and to work toward resolving their concerns. We are optimistic that we can find acceptable alternatives. We ask that you allow us to continue our dialogue.

Thank you for the opportunity to testify.