



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony for the
House Committee on Finance

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by

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SB 1154 SD2, HD1 RELATING TO THE UNIVERSITY OF HAWAII

Chair Oshiro, Vice Chair Lee 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.

Additional sections have been added to the bill in HD1 which limits the amount of the authorization for the University to issue revenue bonds under the bill to \$100 million. Our bond underwriters estimate that the University can issue \$250 million to \$330 million of additional revenue bonds without adversely affecting its credit rating. Thus, while we believe the marketplace and the sophisticated buyers who purchase our bonds would dictate against any unwise over-borrowing, such a cap clearly limits any such risk well below any amount that would have a significant adverse impact on the University or the State. Also, based on our discussions with the Attorney General's office, we believe this allays the concern they expressed in earlier hearings as to the constitutionality of the Bill. Finally, the requirement in SD2 for approval of the Legislature prior to issuance of revenue bonds would not accomplish the intent of the Bill, which is to provide flexibility to the University in facilities improvement and development to meet the needs of the University community. It would leave us in the same situation as currently, where if an opportunity for a needed capital improvement project arose, we would need to wait until after the next legislative session to begin to move forward on it.

We have worked with the Department of Budget and Finance and the Department of the Attorney General, both of whom raised concerns in previous hearings, and we believe the changes embodied in SB 1154 SD2, HD1 address their concerns, with the addition of one technical amendment. On page 2, line 22 we request the deletion of the word "university" before the word "network." This is in order to make that term consistent with the remainder of the bill.

With that technical amendment, the University strongly supports passage of this bill, as it would permit more flexibility in meeting our capital improvement needs.

Thank you for the opportunity to testify.