



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

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by

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SB 884 SD2 Proposed HD1 – RELATING TO NON-GENERAL FUNDS

Chair Oshiro, Vice Chair Lee and Members of the Committee:

Thank you for the opportunity to provide testimony on this measure.

The University of Hawaii strongly opposes this bill. Special and Revolving funds are an essential part of the University's operating funds. In addition, they are required for specific purposes as noted below, and are legally obligated for those purposes.

University Revenue Undertaking Fund

The fund is comprised of revenue-generating and self-supporting University Bond System projects. The fund includes operating accounts, and major and ordinary repair and replacement accounts. Projects include the Bookstore, Faculty Housing, Food Services, UHM Parking, Student Housing, Telecommunications, and the Campus Center.

Balances for these funds are required for Working Capital. For example, the Bookstore requires a working capital reserve equal to six months operating expenses and Cost of Goods Sold. If these funds are not available, it would lead to an inability to purchase goods for resale.

As part of the University Bond System, executive policy requires an annual transfer of 50% of asset depreciation be set aside for repair and replacement projects. Also, pursuant to bond covenants, the bond system is required to maintain reserves for all outstanding bond system debt. Reserves are also required for major projects, such as the establishment of telecommunications capability in the new ITS building, design of Phase II of the Campus Center expansion, and furniture and equipment for the Campus Center Renovation.

Sweeping of these funds would severely impact campus operations. The Bookstore would be unable to provide students with necessary books and supplies on a timely basis for use in their academic studies. Essential support services such as network connectivity, email, voice/data service, online registration and distance learning opportunities would be severely impacted. Investment in infrastructure improvements could not be made. Student Housing

renovations would be adversely impacted. Annual debt service requirements or OHA Ceded Lands payments may also not be met.

Cancer Research Center of Hawaii SF

The mission of the Cancer Research Center of Hawaii is to reduce the burden of cancer through research, education, and service with an emphasis on the unique ethnic, cultural, and environmental characteristics of Hawaii and the Pacific. The bulk of the cash balances for this fund are needed for the new cancer center facility development costs; an updated business plan for the project indicates that costs have increased significantly and it is likely that a greater portion of the cost will be borne upfront by the University instead of by the developer.

Reserves are also required for current and future faculty commitments to support research efforts towards achieving the Center's mission. National Cancer Institute officials have advised the Center that up to 12 faculty should be recruited to remain competitive as a National Cancer Institute-designated cancer research center.

The Cancer Center is at a critical juncture of its existence and is undertaking a number of activities to ensure that it can continue as one of only 63 National Cancer Institute (NCI) designated Cancer Centers and to proceed with its goal to gain Comprehensive Cancer Center designation. These activities include:

- Recruitment of additional funded investigators to increase its grant funding base and fulfill programmatic requirements for NCI designation.
- Partnering with the community of health care providers in the State of Hawai'i to develop a matrix system of cancer care delivery that will rely on the Cancer Center's strengths in research and utilize the existing clinical facilities in the community.
- Construction of a new, state-of-the-art research facility that will properly support its current faculty and provide additional space to attract the quality of researchers required for the growth of the Center.

In just the past several months, the Cancer Center has succeeded in bringing together the major hospitals to support the matrix model of cancer care delivery and pledge their cooperation in moving forward. In conjunction with that agreement an international conference of translational cancer research was hosted by the Cancer Center, John A. Burns School of Medicine, Queen's Medical Center, Hawai'i Pacific Health and Kuakini Health System that attracted leaders in the field of cancer biology along with 2008 Nobel Prize laureate, Dr. Harald zur Hausen. The event served to raise awareness of the quality of cancer research occurring in Hawai'i and to demonstrate the commitment by all the partners to attract translational researchers to join the Cancer Center in its efforts.

The University of Hawai'i at Mānoa administration and our Board of Regents have also recognized the renewed momentum in moving the Center forward by resolving to act quickly to secure a site and development agreement for construction of the new research facility. All of this activity is dependent on a consistent revenue stream that is currently provided by the tobacco tax special fund.

The proposed reduction of anticipated revenues under the proposed HD1 would negatively impact the efforts of the University to proceed with development activities as outlined.

If funds are swept, construction of the new facility would have to be put on hold. This would postpone or eliminate the boost that the construction phase would bring the local economy in the form of construction jobs. Plans for a clinical research component which would bring the latest cancer treatments to Hawaii would also be adversely impacted. CRCH would also not be able to support the commitments made to faculty for their research support needs. Breaking start-up funding commitments could potentially result in legal issues, as the commitments were made in offer letters to faculty under recruitment. In addition to potential legal issues, failure to support research commitments would result in laying off research staff and would effectively stop work on research projects that could have resulted in extramural funding awards.

University of Hawaii Housing Assistance Revolving Fund

The Housing Assistance Revolving Fund's purpose is to implement the UH Faculty Housing Assistance Master Plan by providing financial assistance loans and rental housing units to faculty and staff of the University of Hawaii. The accrued balances are due to budgeted future repair and replacement projects for the Kau'iokahaloa Nui and Kau'iokahaloa Iki housing projects and for the annual debt service payments. In addition, the State Real Estate Commission requires a Condominium Maintenance Fee Reserve equal to 100% of replacement cost, which is equal to \$1,040,000. A reserve is also set aside to repurchase the remaining K-Iki unit, per Board of Regents approval.

Approximately \$1.5 million in Housing Assistance loan funds are reserved for mortgage loans to the faculty. An additional \$2 million is reserved for a proposed loan assistance program in partnership with Bank of Hawaii.

If balances are swept the Housing Assistance RF programs would not have sufficient funds to pay for planned repair and replacement projects, or to pay its annual debt service payments. The K-Iki project cannot be placed in the University Bond System until the last remaining unit is owned by UH; sweeping of the funds for this purchase would delay this. Any sweep of the Housing Assistance Loan Fund would not allow Faculty Housing to provide financial assistance for mortgage loans to faculty. The proposed loan assistance program with Bank of Hawaii would also not occur. Due to increasing operating costs and no rental rate increase, a sweep would cause the faculty housing projects to operate at a deficit by the end of FY 2010.

Information Technology and Services SF

Per statute (304A-2154, HRS), monies in the Information Technology and Services special fund are to be used "in support of systemwide information technology and services including personnel, equipment costs, and other expenses, as well as planning, design, and implementation of information technology infrastructure within the University".

Major components of this program include the provision of research networking support, provision of teleconferencing and video services, and software site licensing. The program must be able to replace major equipment in a timely manner in order to provide services that customers will pay for. Examples of the kinds of purchases made over multi-year periods include a multi-point control unit for videoconferences and video production equipment. This is particularly important as the program struggles to maintain and even increase services to meet customer expectations for technology support while General

Fund budgets are being decreased. If these funds are swept, that sends a clear message that the State penalizes responsible multi-year financial planning rather than encouraging such behavior.

Research and Training Revolving Fund

The Research and Training Overhead funds are used to support the research mission of the university. The funds are to be used for purposes that may result in additional research and training grants and contracts, and for facilitating research and training at the University. Funds are used (1) to recruit and support top faculty members; (2) for administrative support (i.e. fiscal, HR, compliance, etc.) for extramural contracts and grants; (3) to repair, replace, maintain, upgrade scientific equipment and facilities for continued research; (4) for mandatory matching for extramural contracts and grants; (5) for research projects; (6) for funding of graduate students; and (7) for working capital.

Additionally, an estimated \$1,500,000 is needed for the next 15 years for revenue bond payments for the Biomedical Sciences Building addition. The addition is needed to increase research space at the University which will increase research dollars. Funds have also been committed to several initiatives to expand the research programs at the University. These include committing start up funding or to supplement cost matching for new research programs such as the Applied Research Lab and Center of Excellence as well as to build a Regional Bio-containment Laboratory facility. Such investments are needed to aid the future growth of the research enterprise. A sweep would seriously jeopardize commitments made to sponsors to share in the costs of these new ventures. In addition, funds are required to pay the RCUH management fee of \$2 million for the rest of the year and any unforeseen expenses of ORS, which are both essential to management of the research enterprise.

If balances are swept, (1) it will significantly reduce the University's ability to recruit and retain new and competitive faculty; (2) we will be unable to meet ongoing obligations to fund start-up or required matching for grants for faculty, especially those hired in the last 3-5 years; (3) federal research dollars flowing to UH will decrease; (4) we will not be able to continue to maintain and operate scientific equipment and facilities; (5) working capital requirements for utilities, repairs, etc. cannot be met; and (6) we will be vulnerable to legal action from our inability to meet prior commitments/obligations.

In conclusion, lapsing of "excess" balances from the aforementioned special and revolving funds would significantly affect the University's ability to maintain the current level of services and programs provided to our students and faculty. Our ability to recruit and maintain faculty would also be impacted, and there are also potential legal issues that could result. Finally, passage of this bill will seriously impair the University's ability to provide security to its revenue bond holders and will jeopardize our bond rating, as all of the University's revenue bond debt is secured by its special and revolving funds.

In addition, SB884, SD2 proposed HD1 repeals the University of Hawaii's exemption from assessments on special funds for central services and departmental administrative expenses.

For fiscal year 2008, receipts for University of Hawaii special funds totaled approximately \$318 million. A 5% assessment on these receipts would have resulted in a \$16 million reduction in funds available to the University. The bulk of the special funds revenue can be attributed to the Tuition and Fees Special Fund and the University Revenue Undertakings

Special Fund. The revenue for these funds directly impact the services provided to our students, including educational programs, student and faculty housing, the campus center and bookstore operations, and other critical functions. A reduction in funds available to support these operations would have an adverse impact on the quality of services available to our students and faculty.

In addition, the University provides much of its own administrative services internally, via its own Human Resources, Financial Management, Internal Audit and other offices. Assessing the University the same assessment rate as other state agencies that rely more heavily on state central services would place an undue burden on the University.

Also, this proposed draft provides for the temporary transfer of interest from special funds, revolving funds, and special accounts to the general fund.

Under current law, the University retains all interest earned on its special and revolving funds. Passage of this bill will require that from July 1, 2009 until June 30, 2011, the president of the University of Hawaii shall transfer to the director of finance any interest earned on moneys of its special and revolving funds.

In many cases interest earnings are a significant portion of a program's operating revenue and the loss of these earnings would have a severe impact on program finances. Additionally, there may be legal issues associated with the transfer of interest earnings to the general fund. The University's special and revolving funds including interest earnings are pledged as security to University revenue bondholders. The transfer of interest may be a violation of existing bond covenants.

Thank you for the opportunity to provide this testimony.