



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Finance
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by
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SB 2695 SD1 Proposed HD1 – RELATING TO NON-GENERAL FUNDS

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

Aloha. Thank you for your previous support and for the opportunity to provide testimony on this measure.

The University of Hawai'i strongly opposes this bill.

INTRODUCTION

The University has already endured \$98 million in reductions to its general funds in the current fiscal year, and in the executive budget proposal for the supplemental budget year beginning July 1, 2010 that reduction is further increased to \$100 million, which represents more than a 21% decrease to our general funds. The previous reductions have impacted the University's ability to deliver academic programs by restricting the filling of positions, reducing class offerings, and increasing class sizes. A significant number of lecturers have not been renewed even as we serve the largest number of students in the university's history. Other critical program areas, such as financial aid and student services, have also been adversely impacted. All our state-funded employees are taking pay cuts and we have reduced our workforce in a number of areas. We have also improved efficiency with added electronic services. Campuses have been closed for the winter holidays and spring break, reducing utility costs for those periods of time. Despite the severe impact on our budget, we have worked diligently to minimize the impact on students, without interruption to instructional days, and we are committed to dealing with the increased levels of enrollment resulting from the economic crisis.

The Finance Committee has already proposed, in the House version of the Budget Bill, HB 2200 HD1, an additional \$10 million reduction. This would amount to a total \$110 million in cuts for next year, a reduction of more than 23% in our general funds. At a time when we are experiencing record enrollment with 58,000 students last fall — 8,000 additional students in the last two years alone — this additional reduction will

require more drastic measures that will impact students, other constituents and the state's economy.

Now, with the proposed HD1 of SB 2695, \$58,750,000 of the University's special and revolving funds would be taken from the University and transferred to the state's general fund to fund its budget deficit. As I've stated previously, the University should be part of the solution to this economic crisis, and we have been striving to be such. However, these additional cuts would have a crippling effect and send a chilling message regarding the role and priority of public higher education in the minds of the Legislature. The \$100 million reduction to the University reflects an across-the-board cut, compared to other state agencies. Then we were given an additional \$10 million cut proposed by the House, while many other state agencies received relief from the executive budget reductions. Now add to that almost \$59 million in additional fund cuts to the University, which represents more than 60 percent of the cuts to all state agencies proposed in this bill. If this measure passes this committee, the message is clear: Public higher education is not a priority for the State of Hawai'i.

In the following parts of this testimony, we address the specific University of Hawai'i funds affected by the proposed HD1 of SB2695 and the impact of the proposed cuts — and I have many colleagues here today who can explain these devastating impacts in more detail. But I want to stress that all of these funds represent integral parts of the operations of the University — tuition, research, revenue-generating operations, information technology, and faculty housing. Taking these funds directly affects the overall University's operations. These funds were to be used to help deal with the reduction in general funds by the legislature and governor. Now, not only is that reduction greater, but these funds are being taken away, which would create deficits in these operations as well. This may need to be made up for with general funds from other parts of the University's operations, by more draconian cuts or by increasing tuitions further, which would place an additional financial burden on students and their families at a time when they can least afford it. Thus far, the University has managed to navigate this economic storm without reducing instructional time. Taking these special and revolving funds to address the state's budget deficit not only is counterproductive, but also sends the wrong message.

Let us envision the scenario that could result from the proposed additional cuts: The progress with the Cancer Research Center ceases and Hawai'i loses this life-saving effort for the people of Hawai'i; Hawai'i's students no longer have the option of attending a major public research university in Hawai'i and must go to the mainland; fewer students select UH as budget cuts erode the learning experience they need and deserve; the research generation of UH drops sharply because the practice of taking research and training support to meet state budget shortfalls drives away the faculty generating such income, curtails the generation of new grants requiring matching RTRF funds and reduces start-up packages needed to hire new research faculty; no longer do up to 20 percent of alumni give to an institution that the State fails to support; and the list goes on.

The University system is making changes to accomplish its mission. These changes are not easy, but we are committed to making steady progress. The University serves

the State of Hawai'i well in many ways and has the potential to do even more. But cuts such as these truly push the University past the tipping point. Such a decision would be damaging to Hawai'i now and well into the future. We urge you not to make such a decision.

TUITION AND FEES SPECIAL FUND

Tuition and fees special funds are a major portion of the University's operating funds. Per statute (304A-2153, HRS), the funds are used to maintain or improve the University's programs and operations. These funds are especially critical to us now due to the proposed \$110 million reduction in our General Fund appropriation, with the Tuition and Fees Special Fund earmarked to cover a portion of the shortfall. The proposed HD1 of SB 2695 would take \$20 million of these funds and move them to the state's general fund creating a severe crisis for the University.

It should also be noted that a portion of the tuition and fees special fund balances are held by Outreach College, for revenues and expenditures for all Outreach credit program activities (Summer Session, Extension, Evening & Weekend and Off-island credit course offerings). A significant portion of the accrued balance is reserved for sponsor use. Sponsors (University of Hawai'i departments) that run programs through Outreach College are able to retain a portion of their revenue in accounts maintained by Outreach College. These funds are available to the sponsors for their use in offering future programs/courses.

Deposits to the Tuition and Fees special fund are comprised of tuition, fees, and other credit course-related charges paid by students, and as such the funds should be used for the benefit of the University of Hawai'i students. It is not right or fair for them to pay tuition and have those dollars not stay at the University for purposes of funding their education but instead be used to fund the state budget deficit. This would be even more unfair if it caused the University to have to further raise tuition.

We understand and empathize with the difficult decisions the legislature has to make but this action would be tantamount to a decision that the State of Hawai'i cannot support a public research 1 university — UH Mānoa — for its citizens. A major portion of these budget reductions will affect UH Mānoa, Hawai'i's only research 1 university, which serves as a major generator of educated citizens, professionals, new knowledge, jobs and resources for Hawai'i. Even considering an additional reduction at this point, on top of a \$66M cut in general funds for Mānoa alone, sends a clear and chilling message to current and future students, faculty, staff, alumni and friends. UH Mānoa is still struggling to meet the current budget reduction — an action that has consumed all of its tuition increases, resulted in 370 fewer faculty and staff 9 percent fewer classes, and significant reductions in services for the campus and the community.

Other potential impacts to UH Hilo, UH West Oahu, and our seven community college campuses, as well as Mānoa, from sweeping tuition and fees special funds include:

- Further reductions in the level of instruction, student support services and other services beyond the reductions already made. Reductions in services to students, such as counseling, tutoring, advising, financial aid and other support services, would negatively impact the ability of students to succeed and finish school. It takes a combination of all of these programs to make the college experience a productive, positive one for students. Students pay their tuition expecting a certain level of instruction and services.
- Possible reductions in library hours that impact our students and our community.
- Possible employee layoffs in all categories.
- Possible increases in future tuition that would be higher than expected to offset this cut, creating a spiral effect of having many potential students either choose not to go to college or to go to mainland colleges.
- Possible reductions in financial aid and scholarship awards to our students, as those awards are fully funded by tuition.
- Potentially fewer courses could be offered per semester, reducing the ability for our students to get the classes that they need. This will negatively impact our retention and graduation rates.
- Negative impacts on our ability to provide security and maintain health and safety standards for our campus, creating liability for the university and for our faculty, staff, and students. This would be reflected in cuts to janitorial services, maintenance, security, and health and safety departments.
- Reductions in our student workers. In some cases, these jobs are the only source of income for our students. This, again, could cause students to drop out of school due to lack of this assistance.
- Cuts in mental health and other health services to our students, which would put more pressure on other state agencies.
- Possible reductions in programs that provide outreach to the community.

Further, at the Community Colleges we have experienced an unprecedented growth of 8,000 students in the past two years. Most of these students are adults over the age of 25 who have been hit hard by the recession and are turning to education as a means to increase their qualifications for living wage jobs. The colleges have accommodated these students by adding classes and the tuition revenue is funding the costs for these additional classes. We expect the enrollment to stay high and perhaps grow even further next year and we are totally dependent on the tuition revenue to meet this demand. Sweeping the tuition revenue into the state's general fund is essentially taxing these students to meet other State needs.

We have been doing our part to be part of the solution to the State's economic woes. Having UH pay more than our share of the state problem, especially from tuitions paid by students is bad for the state and not fair to our students. It is indeed deeply troubling that this measure proposes to take fees and tuition funds that students have paid for specific purposes and from which we have provided financial aid including scholarships, to fund the state's budget deficit and pay for costs of other state agencies. Many students borrowed money to pay these fees and tuition. In other areas, the students have 'taxed' themselves to pay for specific services, like the bus passes and health services, that are specific to meet student needs. We committed to use those funds to meet those needs. Any other use of these funds does not serve students in any way.

CANCER RESEARCH SPECIAL FUND

The mission of the Cancer Research Center of Hawai'i is to reduce the burden of cancer through research, education, and service with an emphasis on the unique ethnic, cultural, and environmental characteristics of Hawai'i and the Pacific. The bulk of the cash balances for this fund are needed for the new cancer center facility development costs.

We have developed an unprecedented partnership which, working together, is prepared to break ground on this life saving facility in late summer or early fall.

The proposed HD of SB 2695 would take \$15 million funds from this special fund and sweep it into the state general fund. If these funds are swept, construction of the new facility would have to be put on hold, at a time when the costs of construction are unusually low compared to past years. We cannot predict how long the cost of construction will remain low and, if it increases, we may not be able to afford a new cancer center.

Holding the construction of the Cancer Center would postpone or eliminate the boost that the construction phase would bring the local economy (over 300 new jobs in the local construction industry). Plans for a clinical research component which would bring the latest cancer treatments to Hawai'i would also be adversely impacted. CRCH would 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 the positive momentum that led to the formation of a Consortium with QMC, HPH and Kuakini. This Consortium will allow us (CRCH, HPH and QMC) to expand the clinical trials we can offer to Hawai'i cancer patients and reduce the need for them to travel to the mainland for treatment.

These funds are required for current and future commitments to support research efforts towards achieving the Center's mission. National Cancer Institute (NCI) officials have advised us that we need to significantly expand our faculty in the very immediate future to remain competitive as a National Cancer Institute-designated cancer research center and to keep the NCI grant that comes with that designation. Active recruitment in response to the NCI request is ongoing: if funds are swept, we would have to halt the recruitment and with that we would inevitably lose NCI designation. NCI designation is key to the consortium partnership formed with QMC, HPH and Kuakini and the whole consortium would rapidly collapse. Ultimately cancer patients in Hawai'i would have paid the highest price.

UNIVERSITY REVENUE-UNDERTAKINGS FUND

The proposed HD1 of SB 2695 would take \$11 million from the University Revenue-Undertakings Fund. These are funds that provide collateral for our revenue bonds. Investors in these bonds relied upon the University maintaining reserves in these funds for repayment of the bonds in their decisions to purchase the bonds. Sweeping these

funds could have serious consequences regarding bond covenants, as well as negative impact on bond ratings and future ability to sell bonds and the interest rates on those bonds.

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.

UNIVERSITY OF HAWAI'I RESEARCH AND TRAINING REVOLVING FUND

The proposed HD1 of SB 2695 would sweep \$10 million of Research and Training Revolving fund monies into the state general fund to offset the state's budget deficit.

The Research and Training funds are used to support the research mission of the university. The funds are to be used for purposes that result in additional research and training grants and contracts, and for facilitating research and training at the University. These funds are used (1) to recruit and support top researchers; (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 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 researchers; (2) we will be unable to meet ongoing obligations to fund start-up or required matching for grants for researchers, 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.

As an example of this, last year the legislature swept \$5.1 million of these funds from the University. This left the University with \$5.1 million in prior obligations that it could not honor. As a result, we are unable to use these funds, as was planned, to implement the Office of Mauna Kea Management's Comprehensive Management Plan, which is required by law. This jeopardizes the University's efforts to secure the Thirty Meter Telescope project which is estimated to bring in \$1.2 billion in construction to the State's economy.

UNIVERSITY OF HAWAI'I HOUSING ASSISTANCE REVOLVING FUND

The purpose of the University of Hawai'i Housing Assistance Revolving Fund (HARF) is to provide financial assistance and rental housing units to faculty and staff of the University of Hawai'i. This is crucial for the recruitment and retention of the qualified faculty required in order for the University to continue to be the global university system that the state needs it to be.

As reported to your committee in the University's budget briefing, as of November 2009, there was \$4,590,642 in the HARF. These funds support two primary functions: 1) the operations of the Kau'iokahaloa Iki (K-Iki) faculty housing facility and 2) providing funds to assist faculty in financing the purchase of housing. The proposed HD1 to SB 2695 would take \$2,000,000 of these funds, nearly half of the balance, and sweep it into the state general fund.

K-Iki

The funds for operating K-Iki consist of 3 accounts totaling \$2,474,775 as of November 2009. The State Real Estate Commission requires a Condominium Maintenance Fee Reserve equal to 100% of estimated replacement costs of the cash flow plan approved by the commission, which will need to be \$2,081,200 by fiscal year 2015. At this point there is only \$1,186,141 in this account, which also funds annual repairs and

replacements of furniture and equipment. In addition, a reserve of \$600,000 is required to repurchase one remaining K-Iki unit which is currently owned by a faculty member. In the past year, one unit was repurchased by the UH for \$648,000, leaving only one unit not owned by the University. After these two requirements, the remaining \$688,000 is needed to fund the operating expenses of K-Iki.

Housing Assistance

In the past year, the University implemented a program to assist faculty in financing the purchase of housing. \$1.5 million was expended to fund this program, which has been very well received by the faculty. With the success of this program, the balance of \$2,115,868 for this purpose is critical for the continuation and expansion of the program. Especially in these difficult economic times, this program, which provides funds to guarantee loans by high performing faculty is critical for the recruitment and retention of highly qualified faculty to achieve the goals for increasing the number of educated citizens in the state of Hawai'i, contributing to the workforce and the economy, and advancing the University of Hawai'i's reputation for excellence and its ability to build the state's capacity as set forth in President MRC Greenwood's state of the University address.

In summary, taking funds from the Housing Assistance Revolving Fund would severely impair the Faculty Housing Program's ability to be self-sustaining. It would cripple the Faculty Housing Program's ability to meet its immediate financial obligations, such as property management fees, routine maintenance costs, and utilities, placing its financial health in jeopardy. Deferring repair and replacement projects would end up costing the University more in the long-run and would likely create safety issues. Terminating the mortgage assistance guarantee program would severely hamper the University's efforts to recruit and retain qualified faculty and staff.

We ask you not to take these critical funds from the University of Hawai'i.

INFORMATION TECHNOLOGY AND SERVICES SPECIAL FUND

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".

HD1 proposes to sweep \$750,000 from the UH Information Technology and Services Special Fund into the state general fund. This would have disastrous consequences for a number of program activities this fund supports. This fund balance enables UH to site-license or bulk-license software at heavily discounted prices and then share these reduced costs among participating campuses, units and departments throughout the UH System. Without the funds to purchase software up-front, programs and units would have to directly buy from vendors without the benefit of discounted or site license

pricing. This program also supports the systemwide licensing of security software for all UH student, faculty and staff computers throughout the UH System on all campuses and islands. Security software is made available at no direct cost in order to maximally protect members of the UH community and our campuses from viruses and spyware that can damage operations and threaten their personal information. Funds generated through the provision of IT Services and deposited in this fund are also used as matching funds for federal grants to support UH IT infrastructure and services. Accordingly, sweeping these funds would have significant negative impact on our entrepreneurial initiatives to obtain federal support to replace diminishing state resources. Investments from this fund have also supported expansion in videoconferencing equipment to support distance learning for neighbor island students and reduce travel by faculty and staff. Overall, this action would send a clear message that the State penalizes responsible multi-year financial planning rather than encouraging such behavior.

CONCLUSION

Special and Revolving funds are an essential part of the University's operating funds. In addition, they are required for specific purposes and, as described above, are obligated and earmarked for those purposes.

UH is an economic driver to the state of Hawai'i; additional cuts will have negative ripple effects and create a worsening economic condition. UH can help to stimulate the economy, but not if these cuts cripple us, preventing us from helping the state recover and making the recovery longer than it would otherwise be.

Taking these funds from the University to fund the state's budget deficit in addition to the already onerous \$110 million in reductions proposed by the House draft budget would send an extremely negative message to everyone in the state as to the Legislature's decision regarding the priority of public higher education. We urge you not to make such a decision.

Thank you for the opportunity to provide this testimony.