



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Higher Education
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by

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SB 2905 SD1 Proposed HD1 – RELATING TO THE UNIVERSITY OF HAWAII

Chair Choy, Vice Chair Ichiyama and members of the Committee:

Thank you for the opportunity to testify on this multi-faceted measure. This testimony will address Parts I, II, and IV of SB2905 SD1 Proposed HD1 and our strong opposition to these Parts.

PART I

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.

PART II

Part II proposes to prohibit the sale or gift of the University of Hawai'i – West O'ahu land acquired pursuant to Act 294, Session Laws of Hawai'i 1996 without prior consent of the Legislature.

The University does not have immediate plans to sell any of its lands at UH West O'ahu, as we are currently updating its long range development plan, including its critical business plan. The primary objective of this business plan is to identify financial options with the goal of providing additional revenues for UH West O'ahu and reducing the need to request additional general funds in the future.

The Board of Regents is currently updating its Board policy on land sales and its statements on their purposes, which include the promotion and support of the University's educational and research mission while advancing the principals of environmental stewardship and sustainability. We also note that the Board of Regents has formed a task group to plan for University of Hawai'i – West O'ahu lands, which they expect to have in August. This legislative measure may conflict with the University in meeting its mission.

The University's current focus for the land at UHWO is on ground leasing opportunities and there are no immediate plans to sell land, but the University needs the flexibility to sell land if a development opportunity which is compatible with the University campus should arise. For example, the current City's zoning calls for a significant portion of the lands surrounding the campus to be for residential development. In order for this to be practical, those lands would need to be sold in fee, since leasehold residential development is not feasible. These land sales proceeds would be applied against outstanding revenue bonds or loans, resulting in reducing its current debt service obligations within UH West Oahu's operating budget.

Should the University be required to get the Legislature's approval for land sales, the timely closing of any sale would be jeopardized if the Legislature is in recess.

PART IV

We respectfully oppose the amending of Section 304A-2603, Hawai'i Revised Statutes, by requiring the Legislature's approval of the amount of revenue bonds to be issued and the specific projects that would expend those revenue bonds. Legislative authorization and approval by the Governor is currently required in order for the University to issue revenue bonds. Requiring additional prior legislative approval would hamper the timely execution of revenue bond funded projects of the University.

The ability to issue authorized revenue bonds on a timely basis to fund projects is critical to the University.

For the above mentioned reasons, the University of Hawai'i System prefers the original intent of SB 2905 and we respectfully request that this measure remove Parts I, II and IV from the proposed HD1.