



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Finance
March 28, 2014 at 2:00 p.m.

by

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SB 2905 SD1 HD1 – RELATING TO THE UNIVERSITY OF HAWAII

Chair Luke, Vice Chairs Nishimoto and Johanson, 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 HD1 and our strong opposition to these Parts.

PART I

The existing program execution flexibility provided in section 37-74, Hawaii's Revised Statutes (HRS), recognizes that only 40 percent of the University's entire operating budget is supported by State general 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 University routinely transfers funds to cover system wide expenses related to 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. Transfers of general funds and tuition revenues between community college campuses ensure that instructional services are available to students as enrollments fluctuate between campuses and by semesters. Further, the community college system has set-aside a portion of their tuition revenues for performance based funding allotments to reward campus achievement of their performance targets. Eliminating the University's authority to make transfers between programs would penalize a system that has been rewarding performance based upon cost-effective use of limited resources.

Article 10, section 6 of the Hawaii 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 previous testimony on HB 1941, 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 our 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 add to the University's bureaucracy when it is moving forward in adopting best practices.

Finally, we note that the University System annually submits more than one dozen budget and finance related reports (See Attached List) as requested by the legislature through budget provisos or state laws. Specifically, section 37-47, HRS, requires that we submit annual reports to the Department of Budget and Finance for each of our non-general funds. These reports are shared with the Legislature and can be viewed at:

<http://budget.hawaii.gov/wp-content/uploads/2013/12/Reports-on-Non-General-Fund-Information-Fiscal-Years-2011-2017-UOH.pdf>

PART II

Part II proposes to prohibit the sale or gift of the University of Hawai'i at 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 a preliminary plan 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 repeal of Section 304A-2603 of the Hawai'i Revised Statutes and Chapter 304A, part VI, subpart D of the Hawai'i Revised Statutes. These statutes establish the structure under which the University is able to issue revenue bonds which are authorized by the Legislature to finance capital improvement projects.

Without these statutes, the University would be unable to issue revenue bonds when Capital Improvement Projects are authorized and appropriated by the Legislature to be funded by revenue bonds. Recent University of Hawai'i projects funded by revenue bonds include the Cancer Research Center, the UH West O'ahu Kapolei campus, energy conservation projects at the Community Colleges and Maui College, Hilo Student Housing and College of Pharmacy projects, Mānoa Student Housing renovations, and the UH Information Technology Building.

The ability to issue revenue bonds to fund projects authorized by the legislature to be funded by that source of financing 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 HD1.

University of Hawai'i
Budget and Finance
Reporting Requirements

Type of Report	Budget Proviso (Act 134)	HRS	Budget Testimony Tables
Biennium Budget Journal Tables/Appropriations Updates		37-68, 37-71, 37-72	Table 3, 4, 5, 6, 7, 8, 9, 10, 11
Biennium and Supplemental Budget Request Forms		37-68, 37-71, 37-72 Form A, Form B (Op), Table R, Table S (CIP)	Table 3, 4, 5, 6, 7, 8, 9, 10, 11
Hawai'i Annual Financial Audit/University of Hawai'i Annual Financial Audit		40-4, 40-5	
Non-general fund balances and projections	Section 129	37-47, 304A-2007	Table 12
Transfers of Appropriated Funds & Positions	Section 93	37-74	Table 10
Annual Report on Trust Fund Revenues and Gifts		304A-106	
Annual Report on Salaries/Salaries Exceeding Governor's Salary	Section 130	304A-1004	
Annual Report on University of Hawai'i tuition and fees special fund	Section 129	304A-2153	Table 12
Annual Report on Hawai'i scholarship and assistance special fund	Section 129	304A-2159	Table 12
Annual Report on Research and Training revolving fund	Section 129	304A-2253	Table 12
Annual Report on Community College Conference Center revolving fund	Section 129	304A-2273	Table 12
Personnel Actions (Vacant Positions, Separations/Hires/Unbudgeted Positions)	Section 113	37-68, 37-71, 37-72	Table 13, 14, 15
Overtime /Compensatory Time/Overpayments			Table 18, 19
Annual Report on Salaries/Salaries Exceeding Governor's Salary	Section 130	304A-1004	
Capital Improvement Projects/Revenues Bonds	Section 66, 74, 75	304A-2689	Table 20, 21, 22