



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
House Committee on Finance  
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by

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### SB 292 SD1 – RELATING TO FUNDS

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

Thank you for the opportunity to testify 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.

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.

### Tuition and Fees SF

Tuition and Fees SF are a major portion of the University's operating funds. Per statute (304A-2153, HRS), the funds are to be expended to maintain or improve the University's programs and operations. These funds are especially critical to us now due to the proposed \$35 million reduction in our General Fund appropriation, with the shortfall to be covered by the Tuition and Fees SF.

It should also be noted that a portion of the Tuition and Fees SF 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 Hawaii 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, and as such the funds should be used for the benefit of the University of Hawaii students.

### 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. For this reason, the University strongly opposes SB 292 SD1.

Thank you for the opportunity to provide testimony with regards to this measure.