



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

---

Testimony Presented Before the  
House Committee on Finance  
March 2, 2021 at 1:00 p.m.

by  
Kalbert K. Young  
Vice President for Budget and Finance/Chief Financial Officer  
University of Hawai'i System

### HB 1297 HD1 – RELATING TO STATE FINANCES

Chair Luke, Vice Chair Cullen, and members of the Committee:

Thank you for the opportunity to present testimony today. The University of Hawai'i (UH) opposes House Bill No. 1297 House Draft 1, Relating to State Finances. UH's testimony is limited to four sections: sections 1 and 2 that remove exemptions from the central services assessments for all UH special funds; and sections 3 and 23 that sunsets and eliminates the transfers of moneys collected from the cigarette tax to the Hawai'i Cancer Research Special Fund.

Regarding Sections 1 and 2, the central services assessment as outlined in §36-27, Hawai'i Revised Statutes (HRS), is "...for the purpose of defraying the prorated estimate of central service expenses of government in relation to all special funds..." The UH's special funds reside outside of the state treasury in UH's own accounts, and UH maintains its own financial accounting system which manages all financial transactions of these funds – including, revenue collection and accounting, disbursement, and reconciliations. UH reports to the Department of Accounting and General Services (DAGS) on a quarterly basis via the Journal Voucher (JV) process. Because the level of accounting support that UH receives from DAGS is minimal, we feel that having these funds of the UH pay for services that UH does not receive is not appropriate. These UH special funds include the Tuition and Fees Special Fund and the Athletics Special Fund, among others.

In addition to removing this assessment exemption for all UH special funds, the bill specifically removes the exemption for the Hawai'i Cancer Research Special Fund, which is supported by proceeds from the cigarette and tobacco taxes (§245-3 and §245-15 HRS). Administrative costs are already assessed on cigarette and tobacco taxes per §245-26 HRS, totaling \$1.7 million in fiscal year 2020, in addition to general funds allocation of \$63.5 million, or 58% of taxes collected pursuant to §245-3 HRS for the same fiscal period.

Regarding Sections 3 & 23, this bill also sunsets as of July 1, 2021, the distribution of any cigarette tax proceeds to the Hawai'i Cancer Research Special Fund, as well as

three other health related special funds identified in §245-15 HRS. The Hawai'i Cancer Research Special Fund, which funds the UH Cancer Center revenue bonds and a significant portion of the building-related operations of the UH Cancer Center, would have its entire revenue stream eliminated. Of the \$113 million in cigarette and tobacco taxes collected annually, approximately \$13 million is distributed to the Hawai'i Cancer Research Special Fund, and its elimination would significantly impair the ability of the UH Cancer Center to function, with potentially fatal consequences.

Additionally, revenue bonds were issued for the construction of the UH Cancer Center building with Hawai'i Cancer Research Special Fund revenues being used to secure those bonds. With the elimination of any revenue stream, the UH Cancer Center would either default on those bonds or trigger those bonds to be called, either of which would be devastating to the UH Cancer Center. Altering the prescribed funding sources on existing bond debt is a serious matter, with major credit implications for UH and the State of Hawai'i.

The UH Cancer Center produces approximately \$40 million in direct economic activity via its research, including \$20 million in leveraged federal funding annually. The loss of the revenue stream to the Hawai'i Cancer Research Special Fund will most likely result in the closure of the UH Cancer Center, after 50 years of progress in cancer research benefitting the people of Hawai'i.

Thank you for this opportunity to testify.