



**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON SENATE BILL NO. 160, SENATE DRAFT 1
RELATING TO UNIVERSITY OF HAWAI'I NON-GENERAL FUNDS**

**Senate Committee on Ways and Means
February 25, 2015**

Chair Tokuda and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for the opportunity to testify in support of Senate Bill 160, Senate Draft 1 (SB 160, SD 1), which would implement certain of our recommendations concerning University of Hawai'i non-general funds. Specifically, this bill would repeal two special funds and re-establish them as revolving funds, and repeal three special funds and two trust funds, in the University of Hawai'i.

The impetus for this bill is our Report No. 14-18, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the University of Hawai'i*. Our review of these funds include an evaluation of the original intent and purpose of each fund, including the degree to which each fund continues to serve its intended purpose. We also evaluate whether each fund meets statutory criteria for its respective fund type (i.e., special, revolving, or trust). The funds we listed in Report No. 14-18 that serve the purpose for which they were originally created, but did not meet the appropriate means of financing criterion because they function as revolving funds, and would be repealed and reclassified by this bill are:

1. Hawai'i Education Loan Program Revolving Fund (Sections 3, 4 and 5); and
2. Community Colleges Special Fund (Sections 6, 7 and 8).

The special funds we listed in Report No. 14-18 as not meeting criteria would be repealed by SB 160, SD 1:

1. University of Hawai'i Alumni Special Fund (Section 9);
2. Animal Research Farm, Waiale'e, O'ahu Special Fund (Section 11);
3. Career and Technical Training Projects Revolving Fund (Section 13);
4. Senator Hiram L. Fong Scholarship Program Endowment Trust (Section 15); and
5. Senator Oren E. Long Scholarship Program Endowment Trust (Section 17).

We concluded these funds no longer serve their intended purpose or meet statutory criteria; hence, it is appropriate for the Legislature to repeal each statutory provision and, for those administratively established, to repeal the funds and transfer remaining balances to the general fund. In its response to our report with respect to the funds listed above, the University of Hawai'i agreed with our conclusions.

Thank you for the opportunity to testify in support of SB 160, SD 1. I am available to answer any questions you may have.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Ways and Means
February 25, 2015 at 9:00 am Room 211

by
Kalbert Young
Vice President – Budget & Finance & Chief Financial Officer
University of Hawai'i

SB 160 SD1 – RELATING TO UNIVERSITY OF HAWAII NON-GENERAL FUNDS

Chair Tokuda, Vice Chair Kouchi, and members of the Ways and Means committee:

Thank you for this opportunity to testify. The University of Hawai'i (UH) SUPPORTS SB160 SD1, Relating to University of Hawaii Non-General Funds.

The bill does several things:

- Re-establishes the following funds as revolving funds instead of special funds:
 - Hawai'i Educator Loan Program Special Fund
 - Community Colleges Special Fund
- Repeals the following funds:
 - University of Hawai'i Alumni Special Fund;
 - Animal Research Farm, Waiale'e, O'ahu Special Fund;
 - Career and Technical Training Projects Revolving Fund;
 - Senator Hiram K. Fong Scholarship Endowment Trust Fund; and
 - Senator Oren E. Long Scholarship Endowment Trust Fund;
- Transfer any unencumbered funds to an appropriate destination fund.

These funds were identified in Auditor's Report No. 14-18, and UH is supportive of the actions contemplated in this bill, as already stated in its response included in that Report.

Of special note, the University would like to respectfully request the amendment of SB 160 SD1, to include the statutory authority to create the University of Hawaii Quasi-Endowment Trust Fund. Auditor's Report 14-18, concluded that the Quasi-Endowment Income and Scholarship Revolving Fund was not meeting the criteria for a revolving fund because it was "...not established by an act of the Legislature as required by Section 37-52.4, HRS." The Auditor recommended the termination of the fund and for the moneys to be properly disbursed by the Board of Regents according to its policies.

However, in contemplating the process that would result from following this recommendation, the University concludes that eliminating the fund itself would ignore the fact that there is a substantial endowment of which there would be an absence of a

proper vehicle for the expenditure of these legacy endowment funds. The Unrestricted Quasi-Endowment Income and Scholarship Revolving Fund serves as a temporary holding account for cash, receivables, temporary investments, and amounts due from other fund groups held by UH. This fund holds cash deposits from student, faculty, staff, and other organizations for items such as equipment, musical instruments, library carrels and lockers, faculty housing, and long distance telephone service. In agreement with the Auditor's Report, the University requests that a more appropriate result, would be to reclassify the revolving fund as a trust fund established via statutory definition. Therefore, we respectfully request the inclusion of the following language in this measure to establish a trust fund in statute:

"304A-2355 **University of Hawaii quasi-endowment trust fund.**
There is established the University of Hawaii quasi-endowment trust fund into which shall be deposited income derived from the university's endowment fund. Income deposited into this account may be expended by the university as set forth by the board of regents in policies and guidelines for costs and expenses associated with student financial aid programs including scholarships and student support services, awards, and project opportunities for the university."

Thank you for your time and consideration.

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126 Queen Street, Suite 304

TAX FOUNDATION OF HAWAII

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: MISCELLANEOUS, Reclassification of special funds

BILL NUMBER: SB 160, SD-1

INTRODUCED BY: Senate Committee on Higher Education and Arts

EXECUTIVE SUMMARY: Implements the state auditor's recommendation to reclassify various funds of the University of Hawaii.

BRIEF SUMMARY: Reclassifies the following special funds as revolving funds:

Housing educator loan program special fund
Community colleges special fund

Repeals: University of Hawaii alumni special fund
Animal research farm, Waialeale, Oahu special fund
Career and technical training projects revolving fund; University of Hawaii at Hilo
The Senator Hiram L. Fong scholarship program; endowment trust
The Senator Oren E. Long scholarship program; endowment trust

All balances in the funds reclassified as revolving funds shall remain in their respective funds.

On July 1, 2015 all unencumbered balances remaining in the repealed funds shall lapse into the general fund.

EFFECTIVE DATE: July 30, 2015

STAFF COMMENTS: This measure implements the state auditor's recommendation in the auditor's report No. 14-18 that reviewed the special funds, revolving funds, trust funds, and trust accounts of the University of Hawaii. The special funds reclassified by this measure were found to be essential to the respective program areas while the funds repealed were found to be no longer necessary or not meeting the criteria for continuance under law.

Digested 2/24/15