



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Finance
March 3, 2015 at 1:30 pm Room 308

by
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H.B. 545 H.D. 1 – RELATING TO FUNDS

Chair Luke, Vice Chair Nishimoto, and members of the Finance committee:

Thank you for this opportunity to testify. The University of Hawai'i (UH) generally supports the proposed actions in H.B. 545, Relating to Funds, but does request consideration for a number of revisions.

H.B. 545 proposes several actions:

- Establishes the University of Hawaii Quasi-endowment Trust Fund
- Repeals the following funds:
 - University of Hawaii Community Services Special Fund;
 - Hawaii Medical Education Special Fund;
 - Discoveries and Inventions Special Fund;
 - University of Hawai'i Alumni Special Fund;
 - Animal Research Farm, Waiale'e, O'ahu Special Fund;
 - Career and Technical Training Projects Revolving Fund;
 - Conference Center Revolving Fund;
 - Senator Hiram K. Fong Scholarship Endowment Trust Fund;
 - Senator Oren E. Long Scholarship Endowment Trust Fund; and
 - Hawaii Health Corps Special Fund
- Reclassifies the following funds as revolving funds:
 - Hawaii Educator Loan Program Special Fund;
 - Community Colleges Special Fund; and
 - Professional Student Exchange Program Special Fund
- Abolishes the following funds:
 - Hurricane Iniki Insurance Proceeds Special Fund;
 - Agency Fund Trust Account; and
 - University of Hawaii Okinawa Program Trust Fund
- Lapses all unencumbered balances in these funds to the credit of the general fund

The University of Hawaii Community Services Special Fund is still in use and should not be repealed. The Auditor's Report indicates that the fund is still serving the purpose for

which it was created – namely, providing public service programs including noncredit educational programs in professional development and training, personal growth and cultural enrichment; and cooperative extension and consultative services. Examples of such programs include the College of Tropical Agriculture and Human Resource's Agricultural Diagnostic Service Center which provides plant and soil testing services, diagnostics and recommendations throughout the state, and the Hawaii English Language Program (HELP) which provides full-time English language training for international students.

The fund has run a deficit in recent years; but that is due to an issue of annual transfers not being executed rather than a fundamental insufficiency of revenues. However, these issues are being resolved during the current fiscal year, and UH expects that the deficit in this fund will eventually be eliminated. **The University recommends that the University of Hawaii Community Services Special Fund continue to be a statutorily authorized special fund as there are existing programs using the fund and its deficit is anticipated to be eliminated within a few years.**

The Hawaii Medical Education Special Fund was established in 2003 with the Hawai'i Medical Education Council (HMEC) to address the needs of graduate medical education in Hawai'i. This account was established to separate any funding received by the state or extramural funding that was solely designated to support graduate medical education in Hawai'i. As of January 2015, a Family Medicine residency consortium has been established with direct funding Queens, Hawai'i Pacific Health, and HMSA. A portion of these consortium funds that have been designated to support the family medicine residency program may be deposited into this fund as early as this March. Eliminating this fund would hinder the operations of this critical family residency program at Wahiawa General Hospital, Queens Medical Center, and Kapi'olani Women's and Children's Medical Center. The Auditor's Report No. 14-18 recommended repeal of this fund, given what the Auditor noted as the program's "unfunded status and the fund's lack of financial activity." **Considering that recent activity to finalize the consortium will mean that there will be activity for this fund's purpose, the University recommends maintaining the statutory authority of the Hawaii Medical Education Special Fund.**

The Discoveries and Inventions Special Fund (DISF) supports innovation and research commercialization. Its enabling statute (304A-2174) states that the fund "...shall be used to develop technologies that have potential commercial value, support the administration of technology transfer activities, and facilitate economic development through education and research undertaken at the university." This fund is a major component of UH's strategic priorities in the Hawai'i Innovation Initiative. In partnership with the local business community, UH has recently taken on a greater role to help diversify the state's economy by building a thriving innovation, research, and education and training enterprise. The Office of Technology Transfer and Economic Development (OTTED) will be an integral part of this commitment.

The DISF will provide OTTED and the University of Hawai'i the opportunity for funding innovation and research commercialization and to secure patents, copyrights, licensing and marketing of discoveries, inventions, and technologies developed at UH. To help spearhead this effort, local venture capitalist and entrepreneur William K. Richardson was hired in December 2014 as OTTED director. His office will work closely with UH's recently launched proof-of-concept center, XLR8UH, to help faculty and student researchers to fully exploit their UH-owned technologies commercially. The Auditor in Audit Report 14-18 did note that this special fund does continue to serve its originally intended purpose, but noted that it receives funds from the Research and Training Revolving Fund (RTRF) to cover some expenses. Considering the overall use, the future focus and purpose of the fund, such RTRF funding is believed appropriate, to do otherwise, would mean that total support for this established program would be borne solely by general fund appropriations. **The University recommends that the Discoveries and Inventions Special Fund be maintained as a statutorily authorized special fund since there is an existing program and operation already in place that is dependent upon the use of the fund.**

Similarly, the Hawaii Health Corps Revolving Fund was created by Act 187, SLH 2012, which passed unanimously from the Legislature. The fund was created to support the Hawaii Health Corps Program and the Hawaii Rural Health Care Provider Loan Repayment Program to encourage eligible physicians, physician assistants, and nurse practitioners to serve for a period of time in designated health professional shortage areas. Given the limited history for this fund, and that sources of originating funds are by private gifts, donations, legislative appropriations and loan repayments over time, the University believes it is premature to repeal this fund with less than 3 years since its inception. The Auditor did not recommend for this fund to be repealed in Audit Report 14-18, considering that there was limited history to determine if its status was more appropriate as a special fund or a revolving fund. **In agreeing, the University recommends that the Hawaii Health Corps Revolving Fund maintain its current statutorily authorized status as a revolving fund.**

The Conference Center Revolving Fund – UH at Hilo was created to account for fees, charges and other moneys that UH-Hilo collected for the Conference Center Program in the College of Continuing Education and Community Service. Although recognizing that there has been minimal activity in its recent history, UH-Hilo is planning to utilize the Conference Center Revolving Fund to support the delivery of conference services in the immediate future and believes that this fund is needed and should be continued. This approach will help support a strategy and concept to encourage independent self-sustainability for a number of programs where possible. **The University recommends that the Conference Center Revolving Fund – UH at Hilo be allowed more time to maintain its statutory authority as a revolving fund.**

The University is in the process of abolishing the Hurricane Iniki Insurance Proceeds Special Fund as identified by the Auditor's Report 14-18. The University agrees that the original purpose of the fund has been satisfied and is returning the unencumbered balance to the DAGS Risk Management. **The University agrees with H.B. 545 HD1's recommendation to repeal the Hurricane Iniki Insurance Proceeds Special Fund.**

Please note that the University of Hawaii Okinawa Program Trust Fund was closed in FY2014 and therefore its inclusion in H.B. 545 is unnecessary for practical purposes. This trust fund was created administratively, but has since been closed administratively from use.

There are a number of other funds identified for recommended action in H.B. 545 HD1. The University does not have any opposition to the repeal or recommended disposition of these funds described in this measure.

Thank you for your time and consideration.

TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Repeals non-general funds of the University of Hawaii

BILL NUMBER: HB 545, HD-1

INTRODUCED BY: House Committee on Higher Education

EXECUTIVE SUMMARY: Repeals various non-general funds of the University of Hawaii. Some of the repeals are in accordance with the State Auditor's recommendation. Some other funds are spared and it is unclear why.

BRIEF SUMMARY: Repeals the following and transfers any unencumbered balances to the general fund:

- University of Hawaii community services special fund
- Hawaii medical education special fund
- Discoveries and inventions special fund
- University of Hawaii alumni special fund
- Animal research farm, Waialeale, Oahu special fund
- Career and training projects revolving fund, University of Hawaii at Hilo
- Conference center 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
- Hawaii health corps revolving fund

Abolishes the following funds administered by the University of Hawaii and provides that any unencumbered balances shall lapse to the general fund:

- Hurricane Iniki insurance proceeds special fund (established in 1993)
- Agency fund trust account (established prior to July 1985)
- University of Hawaii Okinawa program trust fund (established in 1968)

Reclassifies the following special funds into revolving funds:

- Hawaii educator loan program special fund - Hawaii educator loan program revolving fund
- Community colleges special fund - Community colleges revolving fund
- Professional student exchange program special fund - Professional student exchange program revolving fund

Establishes a University of Hawaii quasi-endowment trust fund into which shall be deposited income derived from the University's endowment fund.

EFFECTIVE DATE: July 1, 2015

STAFF COMMENTS: This measure implements some of the State Auditor's recommendations 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 report recommended some special funds should be reclassified as revolving funds and this measure repeals and abolishes various funds of the University of Hawaii.

The original measure repealed the center for labor education and research revolving fund, but this draft maintains this fund. The Auditor's report states that: "This fund continues to serve the purpose for which it was created, but does not meet all the criteria for a revolving fund and should be repealed. The fund is not self-sustaining, as expenditures have exceeded revenues for four fiscal years in our review period and the cash balance is declining." It would appear that the repeal of this fund would be the appropriate course of action.

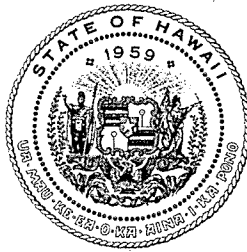
This draft also creates the University of Hawaii quasi-endowment trust fund. The committee report states that it renames the "unrestricted quasi-endowment income and scholarship revolving fund" as this fund and codifies it, but does not repeal the administratively established "Endowment Fund (trust fund)" which the Auditor found to continue to serve the purpose for which it was created and meets the criteria for a trust fund. Thus, if this measure passes there would be two trust funds. The unrestricted quasi-endowment income and scholarship revolving fund should be repealed as recommended by the Auditor's report.

The 1989 Tax Review Commission noted that use of special fund financing is a "departure from Hawaii's sound fiscal policies and should be avoided." It also noted that special funds are appropriate where the revenues to the funds maintain some direct connection between a public service and the beneficiary of that service. The Commission found that special funds which merely set aside general funds cannot be justified as such actions restrict budget flexibility, create inefficiencies, and lessen accountability. It recommended that such programs can be given priority under the normal budget process without having to resort to this type of financing.

Seconding the Commission's harsh criticism was the State Auditor's report issued in February of 1991 that recognized that the "tax is levied on the general public rather than specific beneficiaries of the program," and thus the fund did not reflect a "direct link between user benefits and user charges."

As a result of the recent spotlight of monies in special funds, the legislature by Act 130, SLH 2013, requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and every five years which assists in making government finances more transparent.

Digested 3/2/15



**TESTIMONY OF JAN K. YAMANE, ACTING STATE AUDITOR,
ON HOUSE BILL NO. 545, HOUSE DRAFT 1, RELATING TO FUNDS**

House Committee on Finance

March 3, 2015

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Chair Luke and Members of the Committee:

I am Jan Yamane, Acting State Auditor. Thank you for the opportunity to testify in partial support of House Bill 545, House Draft 1 (HB 545, HD 1), which would repeal and reclassify a number of 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 includes 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 as not meeting criteria would be repealed by HB 545, HD 1:

1. University of Hawai'i Community Services Special Fund (Section 2);
2. Hawai'i Medical Education Special Fund (Section 11);
3. Discoveries and Inventions Special Fund (Section 14);
4. University of Hawai'i Alumni Special Fund (Sections 17 and 18);
5. Animal Research Farm, Waiale'e O'ahu Special Fund (Sections 19 and 20);
6. Career and Technical Training Projects Revolving Fund (Sections 23 and 24);
7. Conference Center Revolving Fund (Sections 25 and 26);
8. Senator Hiram L. Fong Scholarship Program Endowment Trust Fund (Sections 27 and 28); and

9. Senator Oren E. Long Scholarship Program Endowment Trust Fund (Sections 29 and 30).

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 transfer remaining balances to the general fund.

The funds we listed in Report No. 14-18 as continuing to serve the purpose for which it was created, but functions as and meets the criteria for a revolving fund and would be reclassified from a special fund to a revolving fund by HB 545, HD 1:

1. Hawai'i Educator Loan Program Special Fund (Section 4);
2. Community Colleges Special Fund (Section 9); and
3. Professional Student Exchange Program Special Fund (Section 21).

Section 31 would repeal the Hawai'i Health Corps Revolving Fund. While we generally support the Legislature decreasing the high number of special and revolving funds, we have little information on fund. The fund was created in 2012 but has had no financial activity and therefore the fund has limited history from which to determine whether it is serving the purpose and meeting revolving fund criteria.

In addition, HB 545, HD 1, Section 33, abolishes three administratively created funds. The Hurricane Iniki Insurance Proceeds Special Fund, which we concluded no longer serve the purpose for which it was originally created, and the University of Hawai'i Okinawa Program Trust Fund, which is appropriate since the fund was closed and the program ended on June 30, 2013. In Report No. 14-18, we noted the Agency Fund Trust Account continues to serve the purpose for which it was created and meets the criteria for a trust account.

Thank you for the opportunity to testify in partial support of HB 545, HD 1. I am available to answer any questions you may have.