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HOUSE COMMITTEE ON FINANCE

TESTIMONY REGARDING HB 2521 HD 1
RELATING TO EDUCATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 20, 2008
TIME: 3:30PM
ROOM: 308

This bill, among other things, requires a mandatory deposit of the difference between $50 million in general excise tax revenues and the amount of general obligation bonds authorized and appropriated for the University of Hawaii facility repair and maintenance costs.

The Department of Taxation ("Department") **opposes the general excise tax funding mechanism** contained in this legislation.

This legislation seeks to create an alternative funding system for the repair and maintenance of the University of Hawaii facilities. The Department recognizes that a proper learning environment is critical to a student's learning ability.

I. THE DEPARTMENT CANNOT SUPPORT GET REVENUE DIVERSIONS.

The Department is always cautious about policy that redirects general excise tax revenue away from the general fund and into specific special funds. The Department routinely opposes funding mechanisms such as this because the general excise tax represents over one-half of the State's overall operating revenue stream. The Department strongly prefers that a direct appropriation be the means for funding this program so that the amount may be budgeted and prioritized just as any other program.

II. REVENUE ESTIMATE.

This bill will result in a revenue loss to the general fund, assuming the general excise tax deposit triggering event occurs.

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Disposition for U.H. repair and maintenance special account

BILL NUMBER: HB 2521, HD-1

INTRODUCED BY: House Committee on Higher Education

BRIEF SUMMARY: Amends HRS section 237-31 to provide that if the legislature does not fulfill its legislative intent to authorize and appropriate at least $50 million in G.O. bonds for the fiscal period of July 1, 2008 to June 30, 2014 for the repair and maintenance of University of Hawaii facilities, that an amount of general excise tax revenues that represents the difference between the $50 million and the amount of G.O. bonds authorized and appropriated shall be deposited into the U.H. repair and maintenance special account.

Adds a new section to HRS chapter 36 to establish the University of Hawaii repair and maintenance special account into which shall be deposited: (1) 1% of general fund revenues that accrue for the fiscal period between July 1, 2008 and June 30, 2014; (2) interest earned on moneys in the special account; and (3) general excise tax revenues that represent the difference between the $50 million and the amount of G.O. bonds authorized and appropriated for the fiscal period July 1, 2008 to June 30, 2014. No general excise tax revenues that accrue after June 30, 2014 shall be deposited in this special account and this section shall be repealed on the day following the date of the last payment of moneys from the special account.

Appropriates $50 million out of the U.H. repair and maintenance special account for fiscal 2009 for the maintenance of U.H. facilities. Authorizes the issuance of G.O. bonds of $50 million for the repair and maintenance of U.H. facilities.

The amendments made to HRS chapter 237-31 shall not be repealed when that section is repealed and reenacted on June 30, 2008 by Act 304, SLH 2006.

EFFECTIVE DATE: July 1, 2008

STAFF COMMENTS: This measure is proposed to address the need to repair and maintain the facilities at the University of Hawaii by diverting 1% of general excise tax revenues for a six-year period beginning on July 1, 2008. It also provides that if the legislature fails to authorize at least $50 million in G.O. bonds during the fiscal period of July 1, 2008 to June 30, 2014, an amount that represents the difference between $50 million and the amount appropriated, shall be deposited into the newly established U.H. repair and maintenance special account.

While this measure proposes to earmark 1% of all general fund revenues for the repair and maintenance of University of Hawaii facilities, it should be noted that as with any earmarking, the legislature will be giving their stamp of approval for another "automatic funding" mechanism. Funds would be diverted to the special fund without any legislative intervention. Without legislative scrutiny, it would be difficult to ascertain the effectiveness of the program and whether or not the fund has too little or too much revenue. More importantly, the diversion of general excise tax revenues to this special fund would mean that there would be that much less in general funds for other programs and services. This is reminiscent of the legislature's earlier folly in earmarking $90 million in general excise tax revenues for the repair and maintenance of the state's educational facilities in 1989. As one senator called it, it was "the legislature's commitment to education." That commitment ran about three years when the fortunes of the general fund starting going south and lawmakers took back the general excise tax revenues and replaced then with bond proceeds. If nothing else, this provision violates the spirit, if not the intent, of the general fund expenditure ceiling as it would allow what has been traditionally a receipt of the general fund to be spent without being counted against the ceiling as the moneys would be spent out of yet another special fund.

In addition, the earmarked funds and the amount that would make up the difference between bond proceeds and $50 million would result in the repair and maintenance of U.H. facilities with cash rather than G.O. bonds which are the normal financing method. Bonds allow more than the current generation of taxpayers to pay for capital improvements that are intended for several generations to be beneficiaries. This puts a greater burden than is necessary on the current generation of taxpayers and if other spending is not curtailed could mean imposing additional taxes on this generation of taxpayers if other services are to be maintained.

The danger in adopting this measure is that it may spawn additional requests for funding of other "needy" programs through the earmarking of general excise tax revenues.

How soon lawmakers have forgotten how earmarking general fund revenues can get the state into trouble. When the $90 million in general excise tax revenues was earmarked for school facilities, instead of spurring construction and repair of classrooms, the earmarking merely created apathy as school officials knew they would receive $90 million off the top and they didn't have to justify a request for funding. Here we are almost 20 years later and there is still a backlog of repairs and maintenance for educational facilities. Instead of proposing measures like these, lawmakers should go back and read a little of their own history and learn from their mistakes.

Rather than perpetuating the earmarking of general funds, lawmakers should repeal all earmarking and utilize the appropriation process which would be more accountable than any earmarking scheme. At least, lawmakers will be able to evaluate how the program is working and whether or not the program is being fully utilized. So if lawmakers want to assure that UH facilities continue down their deteriorating path, just earmark revenues and hold no one accountable for this embarrassment.

Digested 2/19/08

Written Testimony Presented Before the
House Committee on Finance

February 20, 2008 at 3:30 p.m.

by
Virginia S. Hinshaw, Chancellor
University of Hawai'i at Mānoa

HB 2521, HD1 Relating to Education

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

Aloha! I'm delighted to have the opportunity to discuss with you all the potential creation of a University of Hawai'i repair and maintenance account for the funding of capital renewal, deferred maintenance, repair, renovation, improvement, and replacement projects.

As you know, maintenance and repair on the University of Hawai'i at Mānoa campus is a mounting concern, and I am very grateful for the growing interest in this problem—and in particular for recent efforts by the Legislature and others to help find creative solutions to the critical state of our campus infrastructure.

It is no secret that restoring the Mānoa campus and making it a destination of choice is my top priority. Since arriving in July, I quickly recognized that facilities deterioration on campus represents our major challenge, and led me to describe our campus as a jewel in many ways—particularly intellectually—but also to note that it is badly tarnished physically. Such deterioration didn't happen overnight, but rather is the result of decades of neglected repairs and maintenance.

In this our Centennial year, we have much to celebrate. We were able to bring Hawai'i to New Orleans for the experience of a lifetime watching our very own Warriors compete in the Sugar Bowl. It was thrilling, and I am so proud of our entire institution, particularly our athletics program, for being able to accomplish that experience and to our community for their unbelievable support.

This experience generated great pride in being affiliated with UH—it was palpable and visible in New Orleans. Through athletics, folks learned a lot about Hawai'i and UH Mānoa; such recognition benefits the State and our sister UH campuses.

Along with pride, however, competition at the national level brought with it the recognition that many of our campus facilities are in need of a major overhaul. This is the case in athletics and across the campus. It will take a tremendous effort by all of our supporters to have facilities that can support our mission.

I appreciate that your job is difficult because the University is not the only institution in the state with deferred maintenance issues—and the needs are great. I'm not looking to you all to solve all of our problems, but rather to join us in leveraging the state's investment in the University and supporting projects where we do not have other revenue or private opportunities for support.

Facilities do clearly play a significant role in making UH Mānoa a destination of choice for students, faculty, staff, and community members. Thankfully our new Assistant VC for Facilities, Dave Hafner, has the expertise to analyze our facilities needs—here are a few facts:

- Our deferred maintenance backlog has been chronically underestimated, our new estimate using business standard analyses indicates upwards of $400,000,000;
- Our current facilities workforce is only able to react to breakdowns on campus, about 950 work orders a month, with a backlog of 4,607 work orders;
- Less than 5% of our efforts are expended on preventive maintenance, making the future full of more of the same experiences. Twenty-five buildings currently have major system breakdowns, 37 have significant leaks—and that's not surprising since 36 of our buildings are over 60 years old; a top priority is to repairs the roofs to protect the programs from continual water damage;
- Costs are increasing—sewage up 82% in 6 months; construction costs at a 10% inflation rate, which makes delays vastly expensive.

So how do we address these challenges? Certainly resources play a key role but so does having nimbleness and flexibility. My goal is for us to move more rapidly and efficiently to realize the full value of investments you make. To accomplish that, we need to change the way we do business—such as pursuing public/private partnerships, restoration of our state procurement exemption, using debt, assertive licensing and more.

The Mānoa Facilities team is changing to improve and meet our needs—for example, they are participating for the first time in a process which serves as a nation-wide benchmark for campus facilities performance. Due to R&M upgrades on their part, our electricity usage is down by 6 and ½ % from last year—a potential savings of $1.3 million annually.

We're certainly seeing positive changes due to your investments—our new dormitory Frear Hall is on time, on budget and will open this fall and is sorely needed. Our next target is renovation of the four residential towers. Campus Center is being renovated to meet student needs.

Private investments are moving us ahead as well and are critical to our future—clearly the Shidler gift to the Business School has been transformational, both intellectually and physically—and our entering MBA students are the most highly qualified to date—there is a connection.

Since Mānoa is a large enterprise, there are a number of requests within the budget important to our future and our Mānoa team members and I will seek to answer any questions you may have about those.

In closing, my hope for the future is that we can work together to realize the full potential of UH Mānoa as a beautiful, intellectually stimulating center of activity – in that way, UH Mānoa can best serve the State of Hawai'i and also be a strong partner for our sister UH campuses. I know your investment in the university generates great returns because our alumni, public service, and research advances all contribute positively to the lives of our citizens and I believe we should all be quite proud of those activities. Mahalo.

FINtestimony

From: Joel Fischer [jfischer@hawaii.edu]
Sent: Saturday, February 16, 2008 8:29 PM
To: FINtestimony
Subject: HB2521; FIN; 2/20; 3:30; Rm 308

Importance: High

HB2521, HD1, Relating to the University of Hawai`i FIN; Chair, Rep Oshiro

BE CAREFUL WHAT YOU WISH FOR.

I am not exactly opposed to the appropriation of funds for UH because we sorely need them. However, an ongoing appropriation of 1% of general funds is particularly worrisome, though it would be far less so with competent administrators and BOR members using it. What I am concerned about is ongoing, automatic appropriations for the UH under the current BOR and President. Both entities have clearly displayed their incompetence at correcting problems at UH, and especially their incompetence at handling large amounts of money. Please review the latest findings of the State Auditor if you need external verification of these points.

Therefore, I am urging the committee to have external, financial watchdogs evaluating all aspects of the use of any large amounts of money appropriated for the UH. In fact, we may have to make this legislation effective in 2010 instead of right away to evaluate whether UH can handle the money from the general obligation bonds BEFORE we release the annual 1%.

We all want the improvements. But we all have to be very careful that these funds are not misused.

Thank you.

Aloha, joel

Dr. Joel Fischer, ACSW
President, 19-3, Democratic Party

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"It is reasonable that everyone who asks justice should DO justice."
Thomas Jefferson

"There comes a time when one must take a position that is neither safe, nor politic, nor popular, but one must take it because one's conscience tells one that it is right."
Dr. Martin Luther King, Jr.

"Never, never, never quit."
Winston Churchill

THE UNIVERSITY OF HAWAII ENVIRONMENTAL CENTER IS PLEASED TO SUBMIT THIS TESTIMONY IN ACCORDANCE WITH ACT 132 OF 1970 WHICH CREATED THE CENTER. AUTHORS ARE MEMBERS OF THE UNIVERSITY COMMUNITY.

RL: 2171

LATE

HB 2527
RELATING TO SMART GROWTH

House Committee on Finance
Public Hearing – February 20, 2008
3:30 p.m., State Capitol, Conference Room 308

By
Peter Rappa, Environmental Center

HB 2527 requires the Department of Land and Natural Resources to establish a system of greenways and trails. It also requires the Office of Planning to coordinate smart growth planning. We emphasize that our testimony on this measure does not represent an official position of the University of Hawaii.

The University of Hawaii Sea Grant College Program created a new Center for Smart Building and Community Design in February 2004 to advance the principles of smart growth in Hawaii. Working with the U.S. Environmental Protection Agency and the City and County of Honolulu's Department of Planning and Permitting and others, the Center sponsored a smart growth workshop in Kapolei in May 2004. Several developers including D.R. Horton have adopted the principles of smart growth for their proposed development in Ewa named Ho'opili. The Department of Planning and Permitting have also adopted the principles of smart growth and have been requiring better street connectivity in their review of permit applications for proposed new subdivisions.

Because of Hawaii's size and its need to preserve open space to protect endemic flora and fauna, the staff at the Center for Smart Building and Community Design believes that new developments must be compact, transits oriented, located close to existing services and offer a range of housing type and price points to attract a diverse mix of people. We would look to the Office of Planning as an important partner in our work to make Hawaii's communities more livable.

Thank you for the opportunity to comment on this bill.

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