



WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
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STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 115, H.D. 3, S.D. 1

April 3, 2013

RELATING TO HIGHER EDUCATION

House Bill No. 115, H.D. 3, S.D. 1, establishes the Major Repairs and Replacement Special Fund (MRRSF), into which shall be deposited: 1) beginning July 1, 2018, moneys collected from the major repairs and replacement fee (the fee consists of 5% of all gross revenues received by the University of Hawaii (UH) except as provided by law and excluding amounts from special funds from which repair and maintenance costs are already funded); 2) appropriations by the Legislature; and 3) gifts, donations and grants from public agencies and private persons. The MRRSF is to be used solely to fund repair and maintenance projects on UH's backlog list that have been approved for funding by the proposed Campus Planning Facility Board and that have an estimated useful life of no less than two years.

Additionally, the bill proposes to transfer 10% of the balances of all UH special funds for FY 2015-16 and for FY 2016-17 to the MRRSF unless prohibited by law and excluding amounts from special funds from which repair and maintenance costs are already funded. The bill also appropriates an unspecified sum in general obligation (G.O.) bond funds in FY 2013-14 and in FY 2014-15 for deposit into the MRRSF.

The bill also requires a financial and statutory review of UH special funds to:

a) ensure that the affected special funds have sufficient revenues to carry out their statutory purposes after deduction of the 5% fee and the 10% transfers; b) identify special funds that have either State or federal statutory prohibitions against such a fee or transfers; and c) identify special funds from which repair and maintenance costs are already funded.

The Department of Budget and Finance recognizes the bill's intent to fund UH's backlog of repair and maintenance projects and defers to UH regarding the bill's overall fiscal implications on their programs and budgets. However, as a matter of general policy, we do not support the creation of any special fund which does not meet the requirements of Section 37-52.3, HRS. Special or revolving funds should: 1) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries of the program; 2) provide an appropriate means of financing for the program or activity; and 3) demonstrate the capacity to be financially self-sustaining. In regards to House Bill No. 115, H.D. 3, S.D. 1, it is unclear whether there is a clear-cut nexus between the benefits sought and the source of funding and whether the fund will be self-sustaining. We encourage the Legislature to scrutinize the fiscal and operational plan for this program to ensure that it conforms to requirements of Section 37-52.3, HRS.

We also recommend that any proposed fees or transfers should not be implemented prior to completion of the special fund analysis for the 2014 Legislature. We are especially concerned that the proposed fee and transfers do not adversely affect any UH special fund's ability to cover revenue bond debt service costs and

revenue bond reserve requirements. Not being able to pay revenue bond debt service or maintain reserve requirements will have severe adverse financial consequences for the UH and possibly the State.

Finally, we have a technical comment on this bill. Federal tax law requires, among other things, that tax-exempt G.O. bond proceeds be used to finance projects that serve public purposes and do not benefit private entities. As the UH has numerous public/private partnerships, the UH will need to ensure that tax-exempt G.O. bond proceeds will not be used for the benefit of private entities. The State would need to issue taxable G.O. bonds at a higher cost should the UH provide assistance in the form of maintenance and repairs financing to private entities. The debt cost of any additional G.O. bond will need to be included in the statewide financial plan.