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MANAGEMENT DIVISION  
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OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**WRITTEN TESTIMONY**  
TESTIMONY BY CRAIG K. HIRAI  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
SENATE BILL NO. 2576, S.D. 1

**February 20, 2020**  
**10:35 a.m.**  
**Room 211**

RELATING TO REIMBURSEMENTS FOR STATE CONTRIBUTIONS

The Department of Budget and Finance (B&F) supports the general intent of Senate Bill (S.B.) No. 2576, S.D. 1.

The bill authorizes exemptions from Sections 87A-39 and 88-125, HRS, to codify the cost-sharing agreement between B&F and the University of Hawai'i (UH) regarding reimbursement of fringe benefit expenses for certain UH positions that are authorized by the Legislature for which salary costs are paid in whole or in part by the Tuition and Fees Special Fund (TFSF). The bill also: requires UH to submit a report to the Legislature annually in conformance with the reporting requirements; and sets an unspecified dollar cap on the amount of salaries that may be exempted and provides that the amount of the cap is to be adjusted by concurrent resolution.

B&F recommends that the bill be amended to: a) authorize exemptions from Sections 87A-39 and 88-125 pursuant to an executive order - currently the bill only references "positions that are authorized by the Legislature"; and b) specify annual UH reporting requirements via the executive order as well - currently the bill only

references a report “in conformance with the reporting requirements.” Using an executive order to identify which positions are authorized and specific reporting requirements would simplify the statutory amendments and avoid placing administrative procedural and reporting details into statutes.

Regarding the proposed cap on the amount of salaries that may be exempted, B&F would recommend against such a cap to give UH flexibility to manage its affairs and to avoid a moving limit that requires annual adjustments.

With regards to the executive order, it would:

- Allow exemptions from Sections 87A-39 and 88-125 for certain UH positions authorized by the Legislature as general fund appropriated positions for which there are permanent position counts but no general funds have been appropriated and for which salaries are paid in whole or in part from the TFSF.
- Require B&F to prepare and update a listing each fiscal year of such positions authorized in the BJ Details of the respective General Appropriations Act or Supplemental Appropriations Act.
- Require the Department of Accounting and General Services (DAGS) to create and document its operating procedures to effectuate payroll processing of such positions.
- Require UH to create and document its operating procedures to be in conformance with DAGS and B&F requirements.
- Require UH to submit a report to the Legislature, at least 20 days before the convening of each regular session, with the following information:

1. Change in position classification and associated salary amount during the preceding fiscal year as compared to the actual position classification and associated salary amount at the end of the fiscal year for positions that qualify for exemption and rationale for the change.
2. Actual amount paid for salaries from the TFSF for the preceding fiscal year for positions that qualify for exemption, including:
  - a. Amounts by position, indicating program ID/campus, position number, position title, and authorized full-time equivalent position count;
  - b. Totals by program ID; and
  - c. Systemwide total.
3. Estimated amount of reimbursements for the preceding fiscal year that were exempted from the reimbursement requirements of Sections 87A-39 and 88-125, including:
  - a. Totals by program ID; and
  - b. Systemwide total.
4. Historical general fund and TFSF expenditures by fiscal year for a rolling ten-year period that ends with the previous fiscal year (e.g., FY 11 to FY 20), including:
  - a. Amounts expended for payroll and other costs for both funds;
  - b. Amounts transferred from the TFSF; and
  - c. Amounts expended from the S397 appropriation account or comparable “non-imposed” payroll account for wages and the estimated amount of fringe benefit expenses exempted from reimbursement.

B&F believes that the proposed approach will provide the Legislature, Executive, and UH with the transparency and accountability all parties are seeking with respect to fringe benefit reimbursement exemptions while affording UH flexibility to manage its affairs.

Thank you for the opportunity to present our testimony.



# UNIVERSITY OF HAWAII SYSTEM

## Legislative Testimony

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Testimony Presented Before the  
Senate Committee on Ways and Means  
February 20, 2020 at 10:35 a.m.

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

### SB 2576 SD1 – RELATING TO REIMBURSEMENTS FOR STATE CONTRIBUTIONS

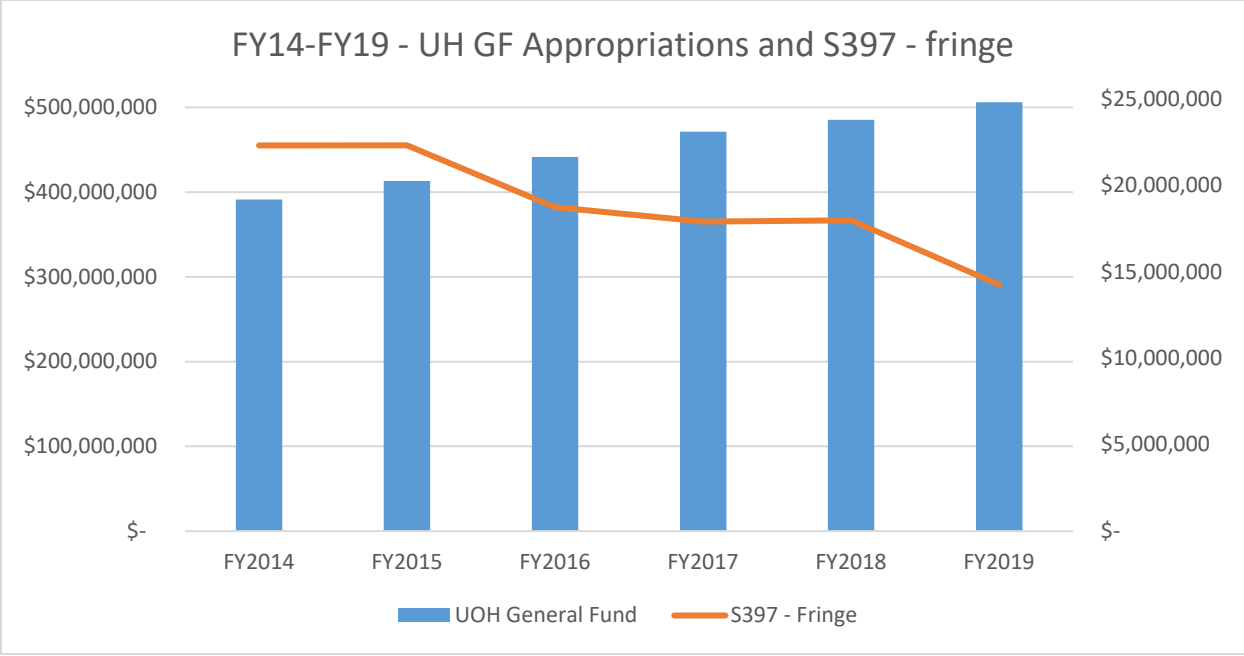
Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the Committee:

Thank you for the opportunity to present testimony today. The University of Hawai'i (University) is supportive of the motive in SB 2576 SD1, Relating to Reimbursements for State Contributions, but has a few comments and requested amendments.

We are appreciative that the Legislature seeks to put into statute the practice that the Department of Budget and Finance, the Department of Accounting and General Services, and the University have utilized for the last 15 years as a cost-sharing agreement that is beneficial to both the University and the rest of State government. Having this agreement in place has previously allowed the State to avoid reductions in force at the University during times of general revenues decline. The arrangement has also assisted in mitigating the needs for increased tuition revenue at the University.

SB 2576 SD1 proposes setting an unspecified dollar amount cap in the bill. Depending on the level of the cap, this could be operationally problematic to execute during a near term fiscal year and would also be unnecessarily restrictive on both the Legislative and Executive Branches. Because the cap is statutorily in place in both the pension and health benefits sections of Hawai'i Revised Statutes, it would be difficult to find the right numbers in a given year. We respectfully request that the cap be removed.

The University has worked to decrease the utilization of this arrangement in recent years as evidenced in the graph below. For FY19 the amount of fringe benefits paid by the general fund was \$14.2 million for \$27.2 million in salaries paid from the Tuition and Fees Special Fund. However, we note that this is primarily the result of the increased availability of general funds and should it be the Committee's desire to keep the specific cap in place, we respectfully request that the total amount be \$50 million, as this would ensure minimal disruption to the University's operations.



Thank you for this opportunity to testify.