



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Labor and Public Employment
March 12, 2020 at 9:00 a.m.

by
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SB 2576 SD2 – RELATING TO REIMBURSEMENTS FOR STATE CONTRIBUTIONS

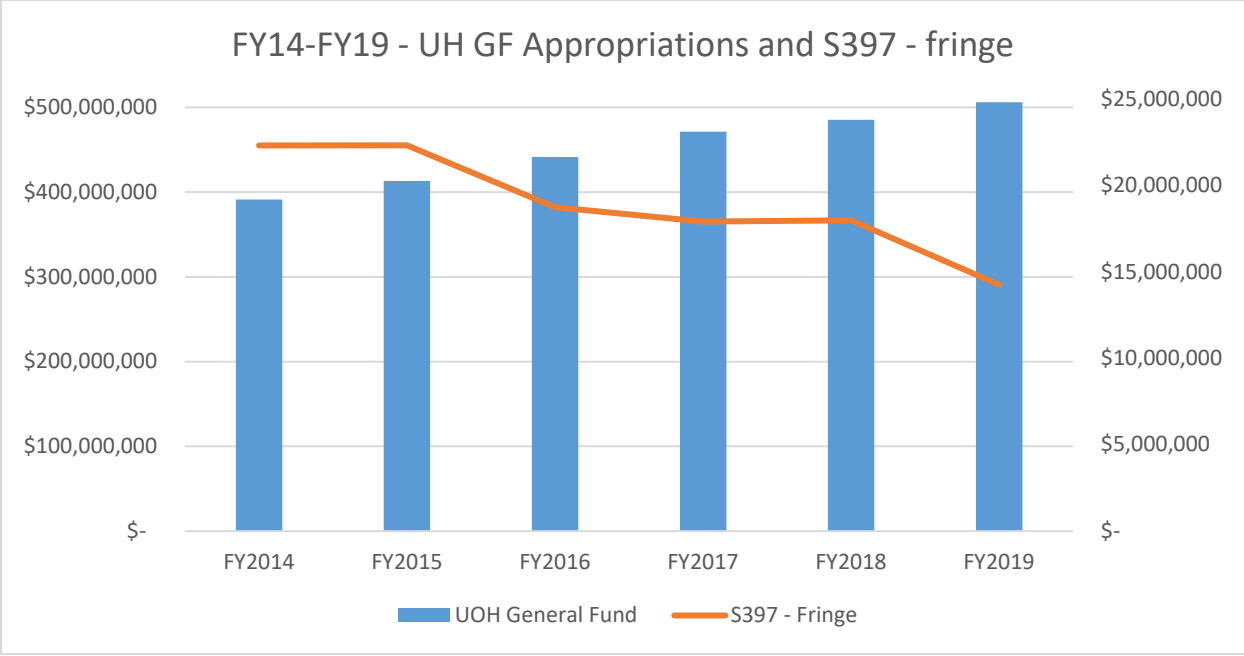
Chair Johanson, Vice Chair Eli, and members of the Committee:

Thank you for the opportunity to present testimony today. The University of Hawai'i (University) is supportive of the motive in SB 2576 SD2, 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.

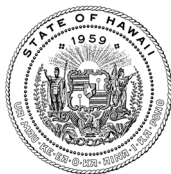
SB 2576 SD2 proposes setting an unspecified dollar amount cap in the bill. Depending on the level of the cap, this could be operationally problematic to execute during a near term fiscal year and would also be unnecessarily restrictive on both the Legislative and Executive Branches. Because the cap is 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.

DAVID Y. IGE
GOVERNOR



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TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
SENATE BILL NO. 2576, S.D. 2

March 12, 2020
9:00 a.m.
Room 309

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. 2.

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, detailing all positions exempted from reimbursements; and sets an unspecified dollar cap on the amount of salaries that can be exempted and provides that the amount of the cap shall be adjusted by passage of a 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 certain annual UH reporting requirements via the Executive Order as well – currently the bill only specifies a report “detailing all exempted positions.” 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. Attachment 1 is a proposed re-draft of S.B. No. 2576, S.D. 2, based on the above.

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.

Attachment

A BILL FOR AN ACT

RELATING TO REIMBURSEMENTS FOR STATE CONTRIBUTIONS.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. After the creation of the tuition and fees
2 special fund by Act 161, Session Laws of Hawaii 1995, many
3 University of Hawaii positions that were previously funded by
4 the general fund instead became funded by the tuition and fees
5 special fund. Section 87A-39, Hawaii Revised Statutes, requires
6 the University of Hawaii to reimburse the State for
7 contributions made by the State pursuant to sections 87A-32,
8 87A-33, 87A-34, 87A-35, 87A-36, and 87A-37, Hawaii Revised
9 Statutes, on account of University of Hawaii employees whose
10 compensation is paid in whole or in part from funds other than
11 the general fund.

12 In addition, section 88-125, Hawaii Revised Statutes,
13 requires the University of Hawaii to reimburse the State for the
14 respective amounts payable by the State to cover the liability
15 of the State to the various funds of the employees' retirement
16 system of the State. The department of budget and finance and
17 the University of Hawaii have subsequently agreed that
18 reimbursements pursuant to sections 87A-39 and 88-125, Hawaii

1 Revised Statutes, will be paid by the general fund to avoid an
2 unintended consequence that would have forced the University of
3 Hawaii to pay for fringe benefits costs that it previously did
4 not have to pay.

5 The legislature finds that, without this agreement, the
6 University of Hawaii would have been forced to consider
7 alternatives, such as increased tuition rates or staff
8 reductions, which would have resulted in a reduction in
9 services. The legislature further finds that, without this
10 agreement, the legislature would also have had to continue
11 providing general funds for University of Hawaii positions or
12 implement reduction in force measures for positions that it no
13 longer appropriated general funds for.

14 The legislature further finds that this cost-sharing
15 agreement will be beneficial to both the University of Hawaii
16 and the State.

17 The purpose of this Act is to provide the University of
18 Hawaii with certain exemptions from sections 87A-39 and 88-125,
19 Hawaii Revised Statutes, to codify in statute the cost-sharing
20 agreement between the University of Hawaii and the department of
21 budget and finance.

1 SECTION 2. Section 87A-39, Hawaii Revised Statutes, is
2 amended by amending subsection (a) to read as follows:

3 "(a) All state agencies having control of funds other than
4 the general fund shall reimburse the State for contributions
5 made by the State pursuant to sections 87A-32, 87A-33, 87A-34,
6 87A-35, 87A-36, and 87A-37 on account of agency employees whose
7 compensation is paid in whole or part from funds other than the
8 general fund. Certain positions of the University of Hawaii
9 that are authorized by the legislature for which salary costs
10 are paid in whole or in part by the tuition and fees special
11 fund may be exempted from this subsection pursuant to an
12 executive order; provided that if positions are exempted from
13 reimbursement under this subsection, the university shall submit
14 a report to the legislature annually in conformance with the
15 reporting requirements of the executive order."

16 SECTION 3. Section 88-125, Hawaii Revised Statutes, is
17 amended by amending subsection (a) to read as follows:

18 "(a) Each of the departments and agencies hereinafter
19 described, the office of Hawaiian affairs, and the Hawaii health
20 systems corporation shall reimburse the State for the respective
21 amounts payable by the State to cover the liability of the State
22 to the various funds of the system on account of the employees

1 in the departments and agencies, the trustees of the office of
2 Hawaiian affairs, and the employees of the Hawaii health systems
3 corporation. This provision shall apply to any department or
4 agency of the State that is authorized by law to fix, regulate,
5 and collect rents, rates, fees, or charges of any nature. This
6 subsection shall not apply as to rental units receiving federal
7 subsidies until approval has been obtained from the appropriate
8 federal agency. Certain positions of the University of Hawaii
9 that are authorized by the legislature for which salary costs
10 are paid in whole or in part by the tuition and fees special
11 fund may be exempted from this subsection pursuant to an
12 executive order; provided that if positions are exempted from
13 reimbursement under this subsection, the university shall submit
14 a report to the legislature annually in conformance with the
15 reporting requirements of the executive order."

16 SECTION 4. Statutory material to be repealed is bracketed
17 and stricken. New statutory material is underscored.

18 SECTION 5. This Act shall take effect upon its approval.

S.B. NO.

2576
S.D. 2
H.D. 1
PROPOSED

Report Title:

University of Hawaii; Tuition and Fees Special Fund

Description:

Specifies exemptions for the University of Hawaii from sections 87A-39 and 88-125, Hawaii Revised Statutes, to codify in statute the cost-sharing agreement between the University of Hawaii and the department of budget and finance, and requires reporting.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

PROPOSED