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STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

January 29, 2020

WRITTEN TESTIMONY
OF
CURT T. OTAGURO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
SENATE COMMITTEES ON HIGHER EDUCATION
AND GOVERNMENT OPERATIONS

JANUARY 30, 2020, 3:45 P.M.
CONFERENCE ROOM 229, STATE CAPITOL

S.B. 2576

RELATING TO REIMBURSEMENTS FOR STATE CONTRIBUTIONS.

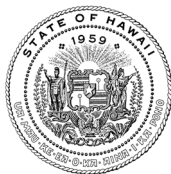
Chairs Kim and Thielen, Vice Chairs Kidani and Inouye, and members of the Committees, thank you for the opportunity to submit testimony on S.B. 2576.

The Department of Accounting and General Services (DAGS) supports the intent of this bill and would like to offer the following comments.

This Act to provide the University of Hawaii with certain exemptions from sections 87A-39 and 88-125, Hawaii Revised Statutes codifies the cost-sharing agreement between the University of Hawaii and the Department of Budget and Finance for the payment of fringe benefits for payroll charged to the tuition and fees special fund under the S397 account. This provides DAGS authorization to process the payroll directed and transmitted by the University of Hawaii coded to S397 for fringe assessments to be charged to the General Fund.

Thank you for the opportunity to testify on this matter.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

ROBERT YU
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
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ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON HIGHER EDUCATION
AND GOVERNMENT OPERATIONS
ON
SENATE BILL NO. 2576**

**January 30, 2020
3:45 p.m.
Room 229**

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.B. No. 2576 defines a S397 account and 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) by way of the S397 account. The bill also sets an unspecified dollar cap on the amount of salaries that fall under the S397 account and provides that the amount of the cap can be adjusted by concurrent resolution. The bill further requires UH to submit a report annually, providing information on: 1) changes to positions that qualify for the exemptions; 2) the total amount of salaries paid by the TFSF for positions that qualify for the exemptions; and 3) the estimated amount of reimbursements that were exempted.

B&F recommends that the bill be amended to: a) authorize exemptions from Sections 87A-39 and 88-125 pursuant to an executive order rather than statutorily specifying an administrative account number; and b) specify annual UH reporting requirements via the executive order as well. This would simplify the statutory amendments and avoid placing detailed administrative account number references and procedural and reporting details into statutes. Attachment 1 is a proposed re-draft of S.B. No. 2576 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

S.B. NO. 2576

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

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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.

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

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

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

16 "(a) Each of the departments and agencies hereinafter
17 described, the office of Hawaiian affairs, and the Hawaii health
18 systems corporation shall reimburse the State for the respective
19 amounts payable by the State to cover the liability of the State
20 to the various funds of the system on account of the employees
21 in the departments and agencies, the trustees of the office of
22 Hawaiian affairs, and the employees of the Hawaii health systems
23 corporation. This provision shall apply to any department or

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

13 SECTION 4. Statutory material to be repealed is bracketed
14 and stricken. New statutory material is underscored.

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

16

17

INTRODUCED BY: _____

S.B. NO. 2576

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.

RE-DRAFT



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Higher Education
and
Senate Committee on Government Operations
January 30, 2020 at 3:45 p.m.
by
Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer
University of Hawai'i System

SB 2576– RELATING TO REIMBURSEMENTS FOR STATE CONTRIBUTIONS

Chairs Kim and Thielen, Vice-Chairs Kidani and Inouye, and members of the Committees:

Thank you for the opportunity to present testimony today. The University of Hawai'i (University) is supportive of the concept in SB 2576 to the extent that the bill enables the current practice of "S397" whereby fringe costs can continued to be paid by the General Fund on some positions where their salaries are paid for in part or in whole by the Tuition and Fees Special Fund (TFSF). However, the prescription proposed in the bill will complicate the current practice, so we are offering the following comments and requested amendments.

We are appreciative that the Legislature seeks to put into statute the practice that the Department of Budget and Finance (B&F), the Department of Accounting and General Services (DAGS), 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. "S397" refers to a practice whereby General Fund authorized positions at the University that have insufficient General Funds appropriated to pay their salaries, can instead have the salaries paid for in part or in whole from the TFSF if the University has sufficient TFSF funds. Only if TFSF funds are used for General Fund authorized positions, can "S397" be utilized for fringe expense. This approach was developed more than 15 years ago in response to the economic downturn at the time, when there were insufficient General Funds to meet payroll. The practice served to preserve existing positions and service levels.

In order to streamline the proposed legislation, the University offers the following comments. The creation of a specific definition ("S397 account") may be problematic and unnecessary as the term "S397" refers to a budget/payroll code and is a mechanical reference to the current process. As such, Section 2 is not necessary and does not need to be specifically referenced by that term.

Additionally, the bill at Section 2 references a "memorandum dated July 18, 2005, between the department of accounting and general services and the University of

Hawaii.” We do not believe this is an accurate reference as we are not aware of such a memorandum between those parties. Be that as it may, this reference is not necessary and can be eliminated from the bill.

The bill proposes setting a specific cap. This could be operationally problematic to execute depending on the limit on such a cap or the period for implementation of this bill. For example, S397 remains a significant cost-share expense between the State and the University. As previously presented to the Committee, for FY19, the S397 expense was approximately \$14.2 million. This is a fringe cost that were it not provided for in General Funds, the University would have had to provide such funds from tuition and fees to cover current level of services. For this \$14.2 million in general funded fringe, the University put up more than \$27.2 million in TFSF funds to pay for General Fund authorized positions for which there was insufficient or no General Funds appropriated. We respectfully request that the cap be removed.

Also previously reported to Committee, in FY19, the University noted that approximately 1,215 positions utilized S397. However, this only meant that at some point during the year those positions may have utilized S397. It was NOT that all of those persons’ fringe were applied to S397 or that it was used for the duration of the year. The University does not object to the reporting requirement. However, listing all changes in salary amounts and the rationale for these changes may be quite voluminous.

Thank you for this opportunity to testify.