

TAX FOUNDATION OF HAWAII

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SUBJECT: MISCELLANEOUS, Repeal Non-General Funds

BILL NUMBER: HB 62

INTRODUCED BY: LUKE, CULLEN

EXECUTIVE SUMMARY: Repeals or reclassifies non-general funds of the University of Hawaii pursuant to recommendations of the Auditor. Transfers the unencumbered balances of repealed funds to the general fund.

SYNOPSIS:

- Reclassifies the community colleges special fund in section 304A-2162, HRS, as a revolving fund.
- Repeals the UH-Manoa intercollegiate athletics special fund in section 304A-2176.
- Repeals the University of Hawaii community services special fund in section 304A-2156.
- Repeals the conference center revolving fund for UH-Hilo in section 304A-2272.
- Repeals the professional student exchange program revolving fund in section 204A-2277.

Makes technical and conforming amendments. Provides that any unencumbered balances in the repealed funds lapse to the credit of the general fund.

EFFECTIVE DATE: July 1, 2021.

STAFF COMMENTS: The 1989 Tax Review Commission noted that use of special fund financing is a “departure from Hawaii’s sound fiscal policies and should be avoided.” It also noted that special funds are appropriate where the revenues to the funds maintain some direct connection between a public service and the beneficiary of that service. The Commission found that special funds which merely set aside general funds cannot be justified as such actions restrict budget flexibility, create inefficiencies, and lessen accountability. It recommended that such programs can be given priority under the normal budget process without having to resort to this type of financing.

Because of the spotlight of monies in special funds, HRS section 23-12 requires the State Auditor to review all existing special, revolving, and trust funds beginning in 2014 and at five-year intervals. This bill was the result of Auditor’s Report No. 20-03.

Digested 1/30/2021



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
House Committee on Higher Education & Technology
February 3, 2021 at 2:00 p.m., Room 309

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

HB 62 – RELATING TO NON-GENERAL FUNDS

Chair Takayama, Vice Chair DeCoite, and members of the Committee:

Thank you for the opportunity to present testimony today. The University of Hawai'i (UH) does not support House Bill No. 62, Relating to Non-General Funds, and provides comments with several proposed amendments. This bill repeals or reclassifies non-general funds of the UH pursuant to recommendations of the Auditor and transfers the unencumbered balances of repealed funds to the general fund.

Part II reclassifies the Community Colleges Special Fund into the Community Colleges Revolving Fund.

The UH respectfully requests that this part be removed from the bill and the Community Colleges Special Fund remain a special fund. The difference between a revolving fund and special fund is very slight and the interpretation has evolved over time. Auditor's Report No. 01-12, "Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the University of Hawai'i," from July 2001 looked at the same fund and recommended that it remain a special fund.

Additionally, the statute governing the fund allows for the deposit of funds from the Tuition and Fees Special Fund as well as tuition, fees, and charges for affiliated instructional, training, and public service courses and programs. As such, we feel that it is not intended for this fund to run as a "closed loop" similar to other revolving funds. The UH provided comment in the 2020 Auditor's Report as well.

Part III repeals the Mānoa Intercollegiate Athletics Special Fund, the UH Community Services Special Fund, UH-Hilo's Conference Center Revolving Fund, and the Professional Student Exchange Program Revolving Fund.

The UH respectfully requests that the Mānoa Intercollegiate Athletics Special Fund not be repealed. The 2020 Legislative Auditor's "Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the University of Hawai'i" noted that the UH Mānoa Intercollegiate Athletics Special Fund was not self-sufficient and should be

repealed. The UH offered comment that collegiate athletics is a major function at the UH and is operated as an enterprise. Athletics generates significant revenues from multiple sources (i.e., ticket sales, sponsorships, concessions, promotions, etc.). Most of those revenues pay for the operational activity of the athletic programs, but are also supplemented with campus revenues and state appropriations.

Although the fund is not self-sufficient and therefore was recommended for repeal in the Auditor's Report, the fund still provides a useful function. Repealing the fund would mean that the Athletics program at UH Mānoa would be entirely dependent on the general fund. All expenditures related to the athletics program, including travel, conference guarantees, salaries, student meals, student-athlete health and wellness, etc., would be paid by the State general fund. Additionally, the revenues that are collected for athletics purposes, including ticket revenue, broadcast distribution deals, concession agreements, and facilities rentals would be captured by the State general fund. This would significantly reduce the transparency of the Athletics program and create an unnecessary burden on the Athletics program, without improving the self-sufficiency of the program. The UH has been actively trying to build its athletics programs toward the goal of a true business enterprise – one that is self-sufficient. The vast overwhelming majority of collegiate athletics programs at other universities and colleges are also not self-sufficient, but UH believes that our combination of public- and university-funding support could help place UH athletics on sound footing.

Secondly, the UH respectfully requests that the Community Services Special Fund not be repealed. The Auditor notes in their report that the fund continues to serve the purpose for which it was created but finds that it should be repealed because it is not self-sufficient. We acknowledge the negative balance for the fund but also point out that the fund is slowly working on reducing that negative balance. At this point in time, closing the fund would serve no fiscal benefit to the State or UH, and it is our preference that it continue to function.

The UH respectfully requests that the statute governing UH-Hilo's Conference Center Revolving Fund be amended to allow its use by the Chancellor or their designee, rather than the dean of the College of Continuing Education and Community Service (which no longer exists). The UH is requesting a statutory revision to make the fund contemporary. The statutory change we request is provided in House Bill No. 1068, Relating to the Conference Center Revolving Fund, in its current form.

The UH agrees with the repeal of the Professional Student Exchange Program Revolving Fund.

Part IV reclassifies the University Bond and Interest Sinking Fund into a trust account. The UH agrees with the reclassification of this fund.

Thank you for this opportunity to testify.