TESTIMONY BY DAVID SHIMABUKURO
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 1904

RELATING TO GOVERNMENT

JANUARY 29, 2010

Chair Rhoads and Members of the Committee:

H.B. 1904 requires the set aside from general excise tax revenues of an amount equivalent to the State's annual employer contribution to amortize the ERS' unfunded accrued liability.

The ERS Board of Trustees has not yet had the opportunity to discuss this Bill and accordingly, has not yet taken a position.

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Disposition for unfunded liability of the employee's retirement system

BILL NUMBER: HB 1904

INTRODUCED BY: Say

BRIEF SUMMARY: Amends HRS section 237-31 to earmark a sum equal to the unfunded liability contribution for state employees during a fiscal year to be deposited in that fiscal year into a separate account in the general fund.

Amends HRS section 88-124 to provide that payments for the unfunded accrued liability portion of the state's monthly contribution for state employees shall be made from the account in the general fund; provided that reimbursements to the general fund from other funds, as required under section 88-125, shall be deposited into the general fund, but not the account.

EFFECTIVE DATE: July 1, 2011

STAFF COMMENTS: The proposed measure would earmark general excise tax revenues into a separate account of the general fund equal to the amount of the unfunded accrued liability contribution by the state for state employees during a fiscal year.

If this measure were adopted, it would prioritize these funds ahead of all other general funds and result in less general funds available for other programs and services. In addition, the danger in adopting this measure is that it may spawn additional requests for other "creative" accounting through the earmarking of general excise tax revenues. In addition, the automatic funding mechanism proposed in this measure would set aside general excise tax revenues without going through the appropriation process and, most importantly, without legislative scrutiny or intervention.

How soon lawmakers have forgotten how earmarking general fund revenues can get the state into trouble. It was only 1989 when lawmakers approved earmarking $90 million for educational facilities as the "commitment" to education and only three years later took back the earmarking because general fund revenues started to dwindle. Further, rather than spurring on construction of classrooms, the earmarking merely created apathy as school officials knew they would receive $90 million off the top and they didn't have to justify a request for funding. Lawmakers should go back and read a little of their own history and learn from their mistakes.

While this proposal may look prudent in setting aside money into a special account within the general fund, it can and probably will affect the general fund cash flow, putting the state in a possible precarious position of not being able to pay its bills, or pay its employees or the worst case scenario not being able to meet its repayment of debt. The state was in such a position this past year when an accounting error double counted tax collections because those collections from delinquent taxpayers were set out separately in one column and again included in the grand totals. Setting off amounts to meet certain standing obligations reduces the flexibility of state budget officials in managing the state's financial condition.

Finally, this measure violates the spirit, if not the intent, of the general fund expenditure ceiling. Inasmuch as the "set aside" would direct these tax revenues into the proposed special account within the general fund does not absolve the fact that this money is not being appropriated and there it remains questionable whether or not the "expenditure" of these funds would be measured against the constitutional spending ceiling of general funds. For the state council on revenues, this would represent yet one more adjustment they have to make to their forecast of general fund tax revenues.

Digested 1/28/10

LATE

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HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT
TESTIMONY REGARDING HB 1904
RELATING TO GOVERNMENT

*****WRITTEN TESTIMONY ONLY*****

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: JANUARY 29, 2010
TIME: 9:30AM
ROOM: 309

This measure proposes to direct an amount equal to the unfunded accrued liability for the Employee's Retirement System.

The Department of Taxation ("Department") **takes no position on the concept** of this legislation; **however opposes the funding mechanism.**

THE DEPARTMENT CANNOT SUPPORT GET REVENUE DIVERSIONS—The Department is always cautious about policy that redirects general excise tax revenue away from the general fund and into specific special funds. The Department routinely opposes funding mechanisms such as this because the general excise tax represents over one-half of the State's overall operating revenue stream. The Department strongly prefers that a direct appropriation be the means for funding this liability so that the amount may be budgeted and prioritized just as any other program.

REVENUE IMPACT—This measure could potentially have a dramatic impact on the general fund disbursement priorities. As the Department understands it, the unfunded ERS liability is over $5.1 billion. Though funding the unfunded ERS liability is a worthwhile endeavor, tying up general fund revenues impacts other programs and government services.

LATE

WRITTEN ONLY

TESTIMONY BY GEORGINA K. KAWAMURA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 1904

January 29, 2009

RELATING TO GOVERNMENT

House Bill No. 1904 sets aside from the general excise tax revenues an amount necessary to amortize the unfunded accrued liability for State employees during a fiscal year and deposits the funds into a separate account in the general fund starting on July 1, 2011.

We do not believe that this bill is necessary as amortization of the unfunded accrued liability for State employees is already included in the assessment rate for the Employees' Retirement System pursuant to Section 88-122, Hawaii Revised Statutes. Section 88-122 provides for a process to systematically review contribution requirements to ensure that the unfunded accrued liability can be repaid within the 30-year period specified by the Governmental Accounting Standards Board.