

**TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON FINANCE  
ON  
HOUSE BILL NO. 1811, H.D.1**

**February 28, 2012**

**RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM**

House Bill No. 1811, House Draft 1, proposes to increase the employer's contribution to the Employees' Retirement System (ERS) for non-base pay components of an employees' earnings. The intent of the bill is to address insufficient funding of the ERS when employees' earnings are significantly increased during specific periods of their employment.

The Department of Budget and Finance supports the intent of this bill to find a means and measure to address the unfunded portion of the ERS liability – especially, that portion of the liability that could be attributable to uneven and significant earnings increases during specific periods of an employee's employment (i.e. in the final 5 years prior to retirement). Increasing the employer contribution rate for non-base pay will increase the funding level for the ERS, but this increased funding level may still not be enough to target specific liabilities of any particular employee. For example, non-base pay earned early in an employee's career will have a lesser effect on contributing to an unfunded liability than non-base pay earned at the end of an employee's career. Also, a steady evenly earned rate of non-base pay over the length of a career will have even a lesser effect on an unfunded liability.

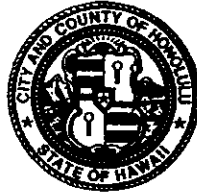
The Department would also point out that this bill will require the State to appropriate additional funds to provide for the increased rate. The State does have a significant number of departments, agencies and employees where there is over-time during the fiscal year. Since the nature of overtime is an operational matter that is difficult to predict with any regularity, we would have to assess an estimate for future overtime in order to compare it to the proposed rate, before we are able to provide an estimate of the additional budget cost. If the committee should decide to move this bill forward, I would recommend that the implementation date be sufficiently in advance so that the State and county employers can plan-fully prepare and budget for this increased expense.

Thank you for the opportunity to provide testimony on this measure.

POLICE DEPARTMENT  
**CITY AND COUNTY OF HONOLULU**

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OUR REFERENCE JC-JK

February 28, 2012

The Honorable Marcus R. Oshiro, Chair  
and Members  
Committee on Finance  
House of Representatives  
State Capitol  
Honolulu, Hawaii 96813

Dear Chair Oshiro and Members:

**Subject: House Bill No. 1811, H.D. 1, Relating to the Employees' Retirement System**

I am Janet Crotteau, Major of the Legislative Liaison Office of the Honolulu Police Department (HPD), City and County of Honolulu.

The HPD has several concerns with House Bill No. 1811, H.D. 1, and would like to submit comments regarding the impact that it may have on the counties and the police departments.

We understand that the intent of this bill is to deal with the unfunded liability currently facing the Employee Retirement System (ERS) by requiring the counties to contribute greater monetary contributions to the system on their employees' non-base compensation. However, police officers are currently paying into the retirement system at a higher rate for both base and non-base compensation.

The HPD recognizes overtime as an inherent part of police work that must be used wisely and managed so that we get the best use out of our funds. Overtime can result from the following occurrences: when officers work on a holiday, they receive overtime holiday pay; when officers attend court during the day and their normal shift is during the evening, they receive overtime pay; when officers make arrests or are assigned major cases at the end of their shift, they work overtime. In many of these circumstances, although the officer would rather choose to go home to his or her family, this is not possible. Their presence on the job is mandated by a supervisor and is often required for the safety of the public. Overtime is not built into the job, but occurs as a result of it.

Overtime use in HPD is currently managed by departmental policies and collective bargaining agreements. These management controls have been in existence for many years and have led to the HPD routinely giving money back to the City Council. The basic premise for management is that overtime work must be approved before it is earned, and supervisors at all levels are held responsible for its expenditure. The initial supervisor must give the first approval, but ultimately, the division commanders are required to explain the use of their overtime at command level reviews held by the Chief of Police.

*Serving and Protecting With Aloha*

The Honorable Marcus R. Oshiro, Chair  
and Members  
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Our collective bargaining agreements detail the hours and conditions of work to protect both the employee and employer. These agreements spell out when overtime must be paid; i.e., a change of shift or schedule without 24-hour notice requires overtime, as does court, holidays and any additional hours of work beyond the normal shift. These agreements have been worked out and agreed upon through years of negotiations so that they are acceptable to both union and management.

Collective bargaining agreements (CBA) can be changed upon written notification by the union or employer, but a CBA is not a contract that can be easily changed. Notification must be given before negotiations can begin, and this can entail a lengthy process until completion. The existing CBA remains in effect until the new agreement is signed by all of the participants.

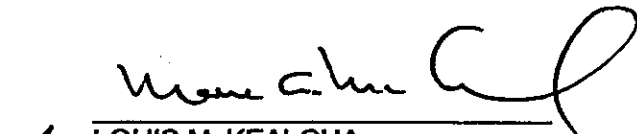
As a result, we are concerned that the counties are being required to pay more toward the Employees' Retirement System for their first responders due to no fault of their own. We believe this is an inequitable solution to the problem before the State and request the Finance Committee to hold this bill.

Thank you for the opportunity to testify.

Sincerely,

  
JANET CROTTEAU, Major  
Legislative Liaison Office

APPROVED:

  
LOUIS M. KEALOHA  
Chief of Police