



TESTIMONY BY KALBERT K. YOUNG  
INTERIM DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT  
ON  
HOUSE BILL NO. 777

January 28, 2011

RELATING TO THE HEALTH FUND

House Bill No. 777 amends Section 87A-39, Hawaii Revised Statutes, "Reimbursement for state contributions" and establishes a formula for the reimbursement of the State general fund from non-general funds for health fund contributions for retired State employees and their dependent-beneficiaries.

We object to this bill for the following reasons:

1. A reimbursement process for retiree health benefits is already established through the fringe benefit rate negotiated between the State of Hawaii and the U.S. Department of Health and Human Services.
2. The accuracy, appropriateness and feasibility of the formula to determine the amount of reimbursement from each non-general fund are questionable. Using contributions to the Employees' Retirement System to distribute health fund retiree costs may not be accurate because retiree costs are based on the health plan selected by the retiree. In addition, the proportion that each non-general fund contributed during fiscal years 1991 to 1995 is applied to that non-general fund for the current fiscal year; however, what if that non-general fund did not exist during fiscal years 1991 to 1995? Furthermore, data on the retirement contributions from each non-general fund are kept for ten years and are not available for fiscal years before 2001.

3. We question why the bill provides that no reimbursement shall be made from any federal fund. Non-assessment of federal funds would result in the loss of approximately \$13 million a year based on the current fringe benefit rate process. If the intent of the bill is to assess federal funds through the current fringe benefit rate system and other non-general funds through the system proposed by House Bill No. 777, this would violate federal regulations. Office and Management and Budget Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments," requires that costs be assessed uniformly and consistently to both federal and state activities.