

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2508

LATE

February 12, 2014

RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS

House Bill No. 2508 proposes to add a new section to Chapter 37, Budget, HRS, to restrict the use of funds appropriated or authorized for vacant State positions to the payment of salaries or wages and to prohibit these use of these funds for the payment of vacation credit or payments for transferred or discharged State employees. The bill also proposes to add similar language to Section 78-23, Leaves of Absence, HRS, to restrict the use of appropriations or authorizations for vacant State positions such that the funds could not be used for vacation credits for transferred employees or payments of vacation allowance for discharged employees.

The Department of Budget and Finance has serious concerns regarding this measure. The State of Hawaii's Executive Branch currently develops its budget using a Program Planning and Budgeting (PPB) system. The emphasis of the PPB system is on program objectives and effectiveness and not on specific line-item expenditures. Departmental budgets are developed along specified parameters, using proposed expenditure details to develop lump sum amounts (bottom line amounts) which comprise the State's budget.

The PPB system provides the flexibility for departments to be able to respond, as necessary, to unforeseen circumstances, such as when employees terminate, transfer, or retire and the department must account for accumulated vacation. Excessively strict expenditure controls can be problematic when circumstances not foreseen during

budget preparation arise, and can severely hamper the Executive's ability to operationally respond to these situations effectively and efficiently.

Further, flexibility is especially necessary during periods of economic downturn, when budget requests are generally restricted. The use of vacancy savings allows departments to address priority program needs that might otherwise go unaddressed, often to the detriment of program operations. For example, as a result of the Great Recession, the equipment budgets for many programs were significantly decreased or obliterated; as such, using vacancy savings may have been the only means to replace a broken - but essential - piece of equipment. We are still, in fact, in the process of rebuilding operating budgets based on current program requirements.

This is not to say that departments keep positions unfilled in order to use the vacancy savings for other purposes. Currently, positions may be left unfilled for the duration necessary to accumulate the funds necessary to pay vacation allowances. Vacancy savings may also result due to the time it takes for recruitment, which may be exacerbated due to the lack of qualified applicants.

This bill does not indicate how the payment of vacation credits for transferred or discharged State employees would be made. As these payments are required, the Legislature must provide an alternative means to fund such payments should the proposed statutory changes go forward. It would be difficult, however, to estimate the amount each department might need as employee transfers and discharges are generally unforeseen or uncertain.

The Legislature should also consider the opinion of respective departments on how the proposed prohibition on using vacancy savings to pay vacation allowances or other non-salary or wage program costs could adversely impact their operations.



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

TESTIMONY
OF
DEAN H. SEKI, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE
ON
FINANCE
ON
February 12, 2014
H.B. 2508

RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS

Chair Luke and members of the Committee, thank you for the opportunity to testify on H.B. 2508.

The Department of Accounting and General Services does not support H.B. 2508, as it limits the use of personnel services appropriations by excluding the use of the available funds for vacation payouts which the departments have no budget for.

Unlike most for-profit organizations which use the accrual basis of accounting, the State of Hawaii uses a cash basis of accounting. This method of accounting does not allow programs to accrue or set aside funds for the liability created for accrued vacation upon termination, transfer or retirement. A program's budget only has funding for salaries. Consequently, when an employee terminates, a program's appropriation is charged for both the final salary and the accrued vacation. If a program's appropriation cannot be charged for vacation, it has no funds to pay the unused vacation. Consequently, payment for accrued vacation can only be paid out of

savings from other expense categories. In the past ten years, programs' Other Current Expense budgets have been significantly reduced to meet budget reductions to avoid reduction in force actions or layoffs. If Other Current Expense budgets are used to fund vacation payouts, it significantly reduces or eliminates provisions for other necessary expenses such as equipment maintenance. This will result in significant delays in repairing air conditioning, elevators, and other maintained equipment or services.

Thank you for the opportunity to testify on this matter.

NEIL ABERCROMBIE
GOVERNOR



STATE OF HAWAII
DEPARTMENT OF PUBLIC SAFETY

919 Ala Moana Boulevard, 4th Floor
Honolulu, Hawaii 96814

TED SAKAI
DIRECTOR

Martha Torney
Deputy Director
Administration

Max Otani
Deputy Director
Corrections

Shawn Tsuha
Deputy Director
Law Enforcement

TESTIMONY ON HOUSE BILL (HB) 2508
RELATING TO
THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS
by
Ted Sakai, Director
Department of Public Safety

House Committee on Finance
Representative Sylvia Luke, Chair
Representatives Scott Y. Nishimoto and Aaron Ling Johanson, Vice Chairs

Wednesday, February 12, 2014; 2:00 p.m.
State Capitol, Conference Room 308

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee:

The Department of Public Safety (PSD) offers **comments** to HB 2508.

PSD appreciates the intent of this bill; however, we are concerned that the proposed restriction on the funds for vacant positions will negatively impact our ability to administer our budget. Specifically, if we are not able to use these funds to pay for vacation payouts for discharged employees, we will be unable to meet our legal obligation to make these payouts. Our options would be to use operating, or "B" funds, or to keep the departing employee's position vacant. The alternative would be to budget for vacation payouts; however, this would be very difficult to do, as we would not be able to predict the number of resignations and dismissals in a budget period, and the level of leave credits such employees would have earned.

Thank you for the opportunity to present this testimony.

STATE OF HAWAII
DEPARTMENT OF DEFENSE

TESTIMONY ON HOUSE BILL 2508
A BILL RELATING THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS

PRESENTATION TO
THE HOUSE COMMITTEE ON FINANCE

BY
DARRYLL D. M. WONG
STATE ADJUTANT GENERAL AND DIRECTOR OF STATE CIVIL DEFENSE
February 12, 2014

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the House Committee on Finance:

I am Maj Gen Darryll D. M. Wong, State Adjutant General and Director of State Civil Defense. Thank you for the opportunity to provide testimony on House Bill 2508.

The Department of Defense does not support HB 2508; specifically the limitation on using appropriated funds to pay vacation credits as an employee leaves state employment.

If this measure passes, the only source available for vacation payouts will be "Other Current Funds." Using "Other Current Funds" could hinder long term facility maintenance plans by reducing funds available for larger equipment maintenance projects.

Thank you for allowing me to provide testimony of House Bill 2437.

NEIL ABERCROMBIE
GOVERNOR



KATHRYN S. MATAYOSHI
SUPERINTENDENT

STATE OF HAWAII
DEPARTMENT OF EDUCATION
P.O. BOX 2360
HONOLULU, HAWAII 96804

Date: 02/12/2014

Committee: House Finance

Department: Education

Person Testifying: Kathryn S. Matayoshi, Superintendent of Education

Title of Bill: HB 2508 RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS.

Purpose of Bill: Restricts the use of funds appropriated or authorized for vacant state positions to the payment of salaries or wages. Expressly prohibits the use of these funds for vacation credit or payments for transferred or discharged state employees.

Department's Position:

The Department of Education opposes this bill.

This bill would preclude the practice of allowing schools and programs to shift funds between payroll and non-payroll expenses as conditions at their respective levels warrant. The following are two examples of this:

- Since school year 2007-08, schools have been assigned a tentative Weighted Student Formula allocation of dollars in a Financial Plan template. This allocation and template are used by the principal in conjunction with the school community council, to program the number and types of positions and non-payroll expenses for the following year. Then as the year progresses schools are allowed to recoup the balance of salary for vacant positions through what is referred to as the "buy/sell" process. This flexibility supports decision making at the school level in response to changing enrollment, student needs, and labor market conditions.
- Special education services are generally provided by State employees, but in situations when qualified applicants cannot be secured services must be provided by contractors. As the Department is required under the Individuals with Disabilities Education Act to provide services as specified in students' Individual Education Plan (IEP), having the flexibility to move money between characters is critical to maintain both compliance and quality student supports.

In addition, without an appropriated source of funding to make vacation payouts, the Department would not have funds to pay those mandatory payments.

Thank you for this opportunity to provide testimony on this bill.



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
DIRECTOR

MARY ALICE EVANS
DEPUTY DIRECTOR

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Written Statement of
RICHARD C. LIM
Director

Department of Business, Economic Development & Tourism
before the

HOUSE COMMITTEE ON FINANCE

Wednesday, February 12, 2014

2:00 p.m.

State Capitol, Conference Room 308

in consideration of

HB 2508

Relating to the Use of Funds for Public Employment Costs.

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Finance Committee.

HB 2508, Relating to the Use of Funds for Public Employment Costs, restricts the use of funds appropriated or authorized for vacant state positions to the payment of salaries or wages and prohibits use of these funds for vacation payouts for transferred or discharged state employees.

The Department of Business, Economic Development and Tourism (DBEDT) offers the following comments on the bill. This bill would make it difficult, if not impossible, to comply with the option provided in Chapter 78-23(c) of allowing employees leaving state service to receive a cash payment for their unused vacation balance. This amount is hard to budget since it is unknown until the employee tenders their resignation. The only remaining option would be for the employee to "run out" their accumulated vacation leave.

In that case, the program would be unable to fill the position until the employee had used up all their vacation. Since employees are entitled to accumulate up to 90 days of vacation, months could pass before the position could be filled again. This bill also appears to make it very difficult to pay earned vacation owed to a deceased employee's heirs.

Thank you for the opportunity to comment on this bill.

Written Statement of
ROBBIE MELTON
Executive Director & CEO
High Technology Development Corporation
before the
HOUSE COMMITTEE ON FINANCE

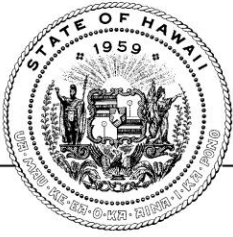
Wednesday, February 12, 2014
2:00 p.m.
State Capitol, Conference Room 308
In consideration of

HB 2508 RELATING TO USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS.

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the Committee on Finance.

The High Technology Development Corporation (HTDC) offers **comments** on HB 2508 relating to Use of Funds for Public Employment Costs. HTDC comments that HB 2508 affects the ability to use vacancy funds in situations that are beneficial to the agency. For example, during a hiring freeze, unexpected termination, or period where a qualified candidate cannot be identified, vacancy funds may be used to contract temporary consultant services to complete projects. This is especially critical for federal project work, where future funding is dependent on the agency's performance and matching state funds or in-kind contributions. A second example is for the payment of vacation allowance to terminating employees. The agency is not provided an alternate method for funding this type of liability. Therefore, limitations on the use of appropriations for personnel costs would negatively impact the agency.

Thank you for the opportunity to offer these comments.



OFFICE OF PLANNING STATE OF HAWAII

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NEIL ABERCROMBIE
GOVERNOR

JESSE K. SOUKI
DIRECTOR
OFFICE OF PLANNING

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Statement of
JESSE K. SOUKI
Director, Office of Planning
before the
HOUSE COMMITTEE ON FINANCE

Wednesday, February 12, 2014
2:00 PM
State Capitol, Conference Room 308

in consideration of
HB 2508
RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS.

Chair Luke, Vice Chairs Nishimoto and Johanson, and Members of the House Committee on Finance.

As the director of an attached agency that includes thirteen generally funded positions, HB 2508 is of great concern. In essence, the bill would prohibit the Office of Planning from using funding from any vacant position for vacation credit for transferred employees, for the payment of vacation allowance, or other compensation to discharged employees. This would negatively affect our office and its employees.

For example, the office does not have any control over when an employee might retire. Retiring employees have the option of using their accumulated vacation or being paid the cash equivalent in a lump sum. The office is required to pay this lump sum from its own budget, which can be a significant sum. The office has no discretionary funds, so the only available funding to address this financial obligation would be available funding from the position vacated by the retiring incumbent. Unless the legislature appropriates additional funding for our office's

obligation to pay the retiring employee the value of her accumulated vacation, the only option we have is to keep the position vacant to cover the unanticipated costs.

For the above reasons, we ask that you hold this bill. Thank you for the opportunity to testify on this measure.



From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 10, 2014 7:51 PM
To: FINTestimony
Cc: madeline_neely@yahoo.com
Subject: Submitted testimony for HB2508 on Feb 12, 2014 14:00PM

HB2508

Submitted on: 2/10/2014
 Testimony for FIN on Feb 12, 2014 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Madeline C Neely	Individual	Support	No

Comments: I am in support of this measure. HB2508 should also apply to all "city and county jurisdictions" within the state of Hawaii, as well.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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LATE

Testimony of
GLENN M. OKIMOTO
DIRECTOR

Deputy Directors
FORD N. FUCHIGAMI
RANDY GRUNE
AUDREY HIDANO
JADINE URASAKI

IN REPLY REFER TO:

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

February 12, 2014
2:00 p.m.
State Capitol, Room 308

HB 2508
RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS.

House Committee on Finance

The Department of Transportation strongly opposes House Bill 2508 which restricts the use of funds appropriated or authorized for vacant state positions to the payment of salaries or wages. The department has concerns about the adverse impacts this bill may create especially in fiscal year 2014 by effectively restricting the ability to fund vacation payouts and for transfers of vacation credits.

Vacancy savings in salaries and wages are used to fund vacation payouts and for transfers of vacation credits. If this ability to use vacancy savings is restricted, we would need to request legislative appropriations to fund vacation payouts and for transfers of vacation credits for any employees who transfer to new positions in general funded departments. As the bill will take effect on July 1, 2014, restricting departments from using the vacancy savings, departments would probably be unable to pay out vacation benefits upon retirement or transfer of the employees. Further, all future operating budgets would need to request funding for vacation payouts based upon some estimation which will need to take into account the number of employees eligible for retirement and their accrued vacation credits and the likelihood of employees transferring out of the division's employment.

In order to cover these payouts the department would be forced to use funds in other current operating expenses which would negatively impact our ability to respond to emergencies and/or unforeseen situations as well as potentially deferring maintenance at our airports, harbors and highway facilities.

The department thanks you for the opportunity to testify on this bill.



LATE

NEIL ABERCROMBIE
GOVERNOR

SHAN S. TSUTSUI
LT. GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

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KEALI'I S. LOPEZ
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI
DEPUTY DIRECTOR

PRESENTATION OF
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

TO THE HOUSE COMMITTEE ON
FINANCE

TWENTY-SEVENTH STATE LEGISLATURE
REGULAR SESSION, 2014

WEDNESDAY, FEBRUARY 12, 2014
2:00 P.M.

TESTIMONY ON HOUSE BILL NO. 2508
RELATING TO THE USE OF FUNDS FOR PUBLIC
EMPLOYMENT COSTS

TO THE HONORABLE SYLVIA LUKE, CHAIR,
AND TO THE HONORABLE SCOTT Y. NISHIMOTO
AND AARON LING JOHANSON, VICE CHAIRS,
AND MEMBERS OF THE COMMITTEE:

The Department of Commerce and Consumer Affairs ("Department") appreciates the opportunity to testify on House Bill No. 2508, Relating to the Use of Funds for Public Employment Costs. My name is Keali'i Lopez, Director of the Department. The Department offers the following testimony in opposition to the bill.

House Bill No. 2508 proposes to restrict the use of funds appropriated or authorized for vacant state positions to the payment of salaries or wages and

would prohibit the use of such funds for vacation credit or payments for transferred or discharged state employees.

Departmental budget development is essentially based on estimated or projected funding that will be needed to effectively carry out the Department's program objectives. Accordingly, during budget preparation, the Department incorporates into its expenditure plan all known and quantifiable elements based on historical data and experience. However, there are certain expenditure items that are unforeseeable and entirely unpredictable, and thus, cannot be properly budgeted for. These expenditures include payment or vacation credits for transferred or discharged state employees. Currently, budgeting for such items is not included in the Department's budget development process.

Given the exclusion of such expenditure items from the Department's projected budget, the Department needs the flexibility to adjust its expenditure plan in response to employee transfers or discharges that were unpredicted and unanticipated during the budget preparation process. Savings generated from vacant positions provide a means for the Department to deal with such unplanned expenditures in an effective and efficient manner.

The Department finds that the bill's prohibition on the use of vacancy savings for anything other than to fund the vacant positions will severely hamper the Department's ability to address such unanticipated costs, and may adversely impact the Department's programs. Vacancy savings are a much needed resource

Testimony on House Bill No. 2508
February 12, 2014
Page 3

for the Department to operationally respond effectively and efficiently to such unanticipated expenditures.

Thank you for the opportunity to testify. I would be happy to answer any questions the Committee may have.



STATE OF HAWAII
DEPARTMENT OF HEALTH
P.O. Box 3378
HONOLULU, HAWAII 96801-3378

In reply, please refer to:
File:

HOUSE COMMITTEE ON FINANCE

HB2508, RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT
COSTS

February 12, 2014

Testimony of Keith Yamamoto
Deputy Director of Health

1 **Department's Position:** Comments with recommendations.

2 **Fiscal Implications:** Unquantified, but likely severe impact operations and budgeting.

3 **Purpose and Justification:** The purpose of this bill is to restrict the use of funds appropriated by the
4 legislature for vacant positions only for the payment of salary or wages. Additionally, the measure
5 provides that the use of funds for vacant state positions cannot be used to pay out vacation credit or
6 vacation allowance costs.

7

8 DOH respectfully recommends the issue be further studied to identify and propose remedies to the root
9 causes, effects, and unintended consequences of such a significant shift in finance policy and operations.

10 For example, departmental vacancies result from varying factors: hiring restrictions, reorganization
11 actions, budget policy, and the lack of qualified pool of applicants exacerbated by outdated position
12 descriptions, all contribute to recruitment challenges.

13

1 At the DOH, vacancy savings have been utilized to meet emergency program needs, such as covering
2 waiver payments for Home and Community Based Waiver Services, Hawaii State Hospital overtime,
3 and vacation payouts.

4
5 Vacation payouts are not budgeted and difficult to predict. Programs have to cover these payouts within
6 their current allocations. This flexibility in the use of these resources has contributed to the ability of the
7 department to meet unexpected fiscally demanding requirements in a responsive fashion. Restricting the
8 use of vacancy savings will severely impact the department's flexibility to address pressing operational
9 needs and to effectively manage its resources to meet program demands.

10

11 Further study may also reveal options that better achieve the intent of this bill or do so in a less
12 disruptive way such as establishing a global reserve fund from which an agency or many agencies could
13 draw to meet sudden and unpredictable vacation payouts.

14

15 Thank you for the opportunity to testify on this measure.