HB 549

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE BILL NO. 549

February 5, 2013

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

House Bill No. 549 amends Section 237-31, HRS, to require that beginning in FY 2014-15, $500 million of general excise tax revenues be annually deposited into the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) until such time that the unfunded actuarial accrued liability is fully amortized. The bill further prohibits these revenues from being used to pay for public employer contributions toward the annual employee-beneficiary and dependent-beneficiary health benefits plan premium costs or EUTF administrative expenses.

The Department of Budget and Finance supports the intent of this bill to make a significant commitment towards eliminating the State's other post-employment benefits (OPEB) unfunded liability. However, we are concerned that the $500 million amount is not affordable at the present time without drastic reductions in other areas of the State's budget or significant measures to increase State general fund tax revenues. The Governor's proposed FB 2013-15 budget proposes to appropriate approximately $100 million in each of the next fiscal years to get the State accustomed on the process towards contributing to the full annual required contribution of $500 million. Furthermore, the 6-year financial plan does contemplate moving the State up to this full funding level in FY 2018 as State revenues build over that time. While we are all in agreement that the State does need to be pro-active in pre-funding its OPEB obligations, we are also mindful that the expense burden is a significant one.

Considering the challenges the Legislature and the State face in revenue levels versus expenditure levels, we would suggest that the Legislature at least support the amount of general excise tax deposit specified in House Bill No. 549 be reduced to no less than $100 million annually, which is the amount that the Administration has proposed as the State's initial prefunding payment level for the near term.

L E G I S L A T I V E

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SUBJECT: GENERAL EXCISE, Disposition for unfunded actuarial accrued liability of the Hawaii employer-union health benefits trust fund

BILL NUMBER: HB 549

INTRODUCED BY: Choy, Coffman, Cullen, Har, Ichiyama, Oshiro, Say, Takayama

BRIEF SUMMARY: Amends HRS section 237-31 to provide that in each fiscal year from fiscal 2015 $500 million from all general excise tax revenues realized by the state shall be deposited into the Hawaii employer-union health benefits trust fund until the unfunded actuarial accrued liability of the trust fund is fully amortized. No portion of the deposit shall be used to pay the employer contributions toward the annual employee-beneficiaries' and dependent-beneficiaries' health benefits plan premium costs or Medicare part B premium reimbursements or administrative expenses of the trust fund. This action shall not prevent the legislature from appropriating funds to amortize the unfunded actuarial accrued liability.

EFFECTIVE DATE: July 1, 2014

STAFF COMMENTS: The proposed measure would earmark $500 million in general excise tax revenues from fiscal 2015 until the Hawaii employer-union health benefits trust fund's actuarial accrued liability is fully amortized.

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 nor would it be subject to the general fund expenditure ceiling.

While this measure also provides that this earmarking shall not prevent the legislature from appropriating additional funds to amortize the unfunded actuarial accrued liability of the trust fund, once the earmarking takes effect and automatically deposits $500 million into the employer-union health benefits trust, this earmarking may be "forgotten" and only the additional amount appropriated would be "visible" and subject to legislative approval.

More importantly, because the general excise tax revenues are earmarked for this purpose, the question is whether or not when the sum set aside for the unfunded liability contribution is actually made the amount will be appropriated as general funds and, thus, will it be counted against the constitutional general fund expenditure ceiling? Further, because the amount is designated for this purpose, will the taxpaying public know that this contribution is coming at the expense of all other programs or will it prompt a call for an increase in taxes so that both the unfunded liabilities and all other programs can continue to be funded at the current level of service?

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 they 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 be viewed as "the right thing to do" in order to insure the integrity of the Hawaii employer-union health benefits trust fund, it makes no effort to curtail benefits for future beneficiaries nor does it address how the shortfall of resources created by this siphoning off of general excise tax revenue will be dealt with while other general funded programs still demand funding. Is this just another back door way to create a demand for higher taxes? Will this bill merely punish future taxpayers for the mistakes made by the legislatures in the past?

To that end, does this bill absolve lawmakers, as well as the administration, of any responsibility to oversee the viability of the two funds? In other words, will this measure let elected officials off the hook for dealing with a pension and health system that appears to be unsustainable. Merely earmarking revenues to pay down the unfunded liabilities of the pension and health system without addressing head on the issue of the mounting costs is irresponsible. In addition, earmarking a specific amount of revenues for paying down these unfunded liabilities without addressing the shortfall it will create in the general fund unless spending is curtailed for current on-going programs is also irresponsible. Similarly, taxpayers should not be asked to bail out the failure of legislatures past with tax increases in the future.

Digested 2/4/13

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LATE TESTIMONY