



STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

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WRITTEN TESTIMONY
OF
DEAN H. SEKI, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE
ON
JUDICIARY
ON
January 16, 2014

H.B. 677

RELATING TO CLAIMS AGAINST THE STATE

Chair Rhoads and members of the Committee, thank you for the opportunity to submit written testimony on H.B. 677.

The Department of Accounting and General Services (DAGS) opposes H.B. 677.

DAGS opposes H.B. 677 as it is unclear as to the benefit or objective of this bill. When applying the methodology outlined in this measure, we calculate that the claim's settlement amount within the Comptroller's authority from 2008 through 2014 would range from \$10,000 to \$11,458, an insignificant increase over the seven (7) year period (see attached DAGS spreadsheet). We have also analyzed the claims paid in the five (5) year period from 2008 through 2012 and found that if the Comptroller's settlement authority were increased from \$10,000 to \$50,000, the average annual number of claims would increase by ten (10) with an aggregate value of \$264,000. This would not result in any significant operational changes to either the Department of the Attorney General or DAGS.

Our other concerns relating to H.B. 677 are as follows.

1. The bill is unclear as to which CPI index to use. From our research there are two annualized CPI indexes, one for the first half of the year and the second, for the later half. Because the state operates on a fiscal year basis, it is conceivable that the CPI index to be used in a current fiscal year is that from the first half of the prior calendar year (see attached BLS News Release dated August 15, 2013).
2. It is also unclear as to what the publishing requirements are for the Comptroller to “publish” the new annual amounts.
3. The bill does not address negative changes to the CPI index and if there was a negative index, in the current methodology, the Comptroller’s settlement authority amount would be reduced. This is possible as in our review of the CPI index history, in 2009, the index was -1.0% for the first half of the year.

Thank you for the opportunity to submit written testimony on this matter.

Department of Accounting and General Services
 Calculation of Impact on Claims Settled by the Comptroller from HB 677
 January 14, 2014

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Settlement Amount	\$ 10,000	\$ 10,360	\$ 10,433	\$ 10,610	\$ 11,034	\$ 11,255
CPI Dollar Increase	<u>\$ 360</u>	<u>\$ 73</u>	<u>\$ 177</u>	<u>\$ 424</u>	<u>\$ 221</u>	<u>\$ 203</u>
	\$ 10,360	\$ 10,433	\$ 10,610	\$ 11,034	\$ 11,255	\$ 11,458
Prior Year CPI Change (1)	3.6%	0.7%	1.7%	4.0%	2.0%	1.8%

(1) Using change identified as "Second Half" "Annual" change except for 2014 which uses the 2013 "First Half" "Annual" change

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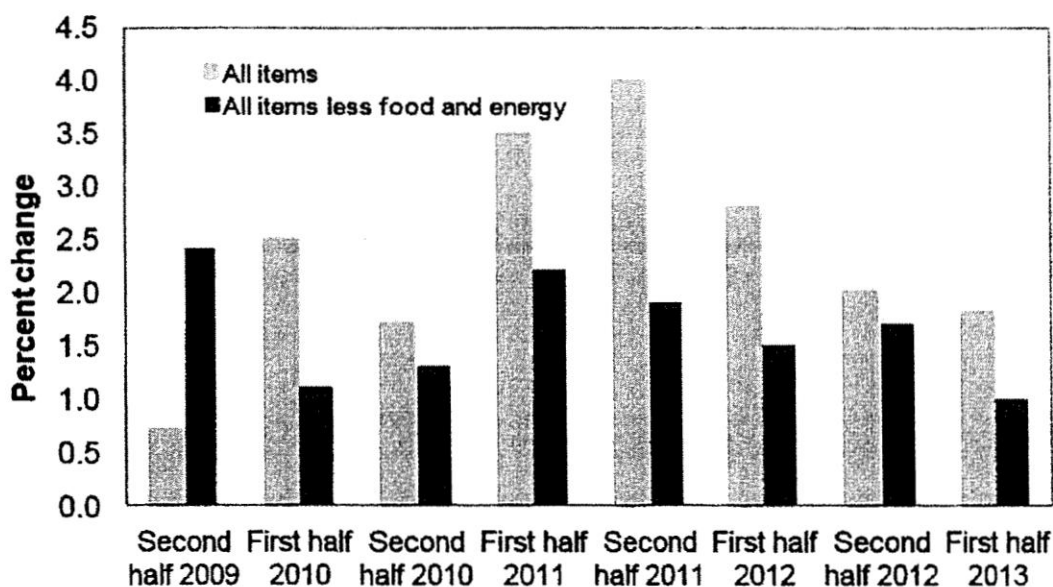
CONSUMER PRICE INDEX, HONOLULU – FIRST HALF 2013

Area prices up 1.2 percent over the past six months, up 1.8 percent from a year ago

Prices in the greater Honolulu area, as measured by the Consumer Price Index for All Urban Consumers (CPI-U), advanced 1.2 percent in the first half of 2013, the U.S. Bureau of Labor Statistics reported today. (See table A.) Regional Commissioner Richard J. Holden noted that this latest six-month increase was influenced by higher prices for shelter, food, and medical care. (Data in this report are not seasonally adjusted. Accordingly, six-month-to-six-month changes may reflect seasonal influences.)

Over the past 12 months, the CPI-U rose 1.8 percent. (See chart 1.) Energy prices edged down 0.2 percent, mainly due to a decrease in the price of gasoline. The index for all items less food and energy increased 1.8 percent over the year.

Chart 1. Over-the-year percent change in CPI-U, Honolulu, Second half 2009 - First half 2013



Source: U.S. Bureau of Labor Statistics.

Food

Food prices advanced 2.4 percent in the first half of 2013. (See table 1.) Prices for food at home rose 1.6 percent for the past six months. Prices for food away from home increased 3.0 percent for the same period.

For the year ending in the first half of 2013, food prices rose 3.3 percent. Prices for food at home advanced 2.1 percent during the past 12 months, and prices for food away from home increased 4.6 percent.

Energy

Energy prices increased 0.7 percent since the second half of 2012. Gasoline led the increases with a gain of 1.4 percent followed by natural gas service (0.7 percent) and electricity (0.1 percent).

Energy prices edged down 0.2 percent over the year. The decreases were influenced by declines in natural gas service (-2.8 percent) and gasoline prices (-0.7 percent). Electricity prices increased 0.5 percent during the same period.

All items less food and energy

The index for all items less food and energy increased 1.0 percent from the second half of 2012 to the first half of 2013. Among the index components, increases were recorded for medical care (2.4 percent), recreation (1.6 percent), and shelter (1.0 percent). In contrast, lower prices were reported for apparel (-1.2 percent) and education and communication (-0.4 percent).

Over the year, the index for all items less food and energy advanced 1.8 percent. Prices increased for alcoholic beverages (12.9 percent), medical care (2.8 percent), and shelter (2.2 percent). Partially offsetting the increases were lower prices for apparel (-2.3 percent).

Table A. Honolulu CPI-U monthly and annual percent changes (not seasonally adjusted)

Semi-annual period	2008		2009		2010		2011		2012		2013	
	Semi-annual	Annual	Semi-annual	Annual	Semi-annual	Annual	Semi-annual	Annual	Semi-annual	Annual	Semi-annual	Annual
First Half	2.2	4.9	-1.0	0.3	0.8	2.5	2.5	3.5	1.3	2.8	1.2	1.8
Second Half	1.3	3.6	1.7	0.7	0.9	1.7	1.4	4.0	0.7	2.0		

CPI-W

In the first half of 2013, the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) was 251.663, up 1.0 percent. The CPI-W increased 1.5 percent over the year.

The second half of 2013 Consumer Price Index for Honolulu is scheduled to be released mid-February 2014.

Technical Note

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services. The Bureau of Labor Statistics publishes CPIs for two population groups: (1) a CPI for All Urban Consumers (CPI-U) which covers approximately 88 percent of the total population and (2) a CPI for Urban Wage Earners and Clerical Workers (CPI-W) which covers 29 percent of the total population. The CPI-U includes, in addition to wage earners and clerical workers, groups such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force.

The CPI is based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and the other goods and services that people buy for day-to-day living. Each month, prices are collected in 87 urban areas across the country from about 4,000 housing units and approximately 26,000 retail establishments--department stores, supermarkets, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index.

The index measures price changes from a designated reference date (1982-84) that equals 100.0. An increase of 16.5 percent, for example, is shown as 116.5. This change can also be expressed in dollars as follows: the price of a base period "market basket" of goods and services in the CPI has risen from \$10 in 1982-84 to \$11.65. For further details see the CPI home page on the Internet at www.bls.gov/cpi and the *BLS Handbook of Methods, Chapter 17, The Consumer Price Index*, available on the Internet at www.bls.gov/opub/hom/homch17_a.htm.

In calculating the index, price changes for the various items in each location are averaged together with weights that represent their importance in the spending of the appropriate population group. Local data are then combined to obtain a U.S. city average. Because the sample size of a local area is smaller, the local area index is subject to substantially more sampling and other measurement error than the national index. In addition, local indexes are not adjusted for seasonal influences. As a result, local area indexes show greater volatility than the national index, although their long-term trends are quite similar. NOTE: Area indexes do not measure differences in the level of prices between cities; they only measure the average change in prices for each area since the base period.

The Honolulu metropolitan area covered in this release consists of Honolulu County in the State of Hawaii.

Information in this release will be made available to sensory impaired individuals upon request. Voice phone: 202-691-5200; Federal Relay Service: 1-800-877-8339.

Consumer Price Index for All Urban Consumers (CPI-U): Indexes for semiannual averages and percent changes for selected periods

Honolulu, HI (1982-84=100 unless otherwise noted)

Item and Group	Semiannual average indexes			Percent change to 1st half 2013 from—	
	1st half 2012	2nd half 2012	1st half 2013	1st half 2012	2nd half 2012
Expenditure category					
All items	248.646	250.303	253.202	1.8	1.2
All items (1967=100)	684.515	689.077	697.058	-	-
Food and beverages	241.047	244.524	250.337	3.9	2.4
Food	242.226	244.403	250.151	3.3	2.4
Food at home	250.543	251.971	255.888	2.1	1.6
Food away from home	228.589	232.101	236.991	4.6	3.0
Alcoholic beverages	222.298	244.299	250.987	12.9	2.7
Housing	263.954	266.993	269.213	2.0	.8
Shelter	279.116	282.288	285.152	2.2	1.0
Rent of primary residence ¹	277.224	279.018	281.093	1.4	.7
Owners' equivalent rent of residences ^{1 2}	287.790	291.926	295.814	2.8	1.3
Owners' equivalent rent of primary residence ^{1 2}	287.790	291.926	295.814	2.8	1.3
Fuels and utilities	358.849	361.647	361.822	.8	.0
Household energy	326.622	327.382	327.720	.3	.1
Energy services ¹	321.932	322.756	323.087	.4	.1
Electricity ¹	317.555	318.988	319.216	.5	.1
Utility (piped) gas service ¹	347.542	335.414	337.828	-2.8	.7
Household furnishings and operations	152.506	153.666	154.423	1.3	.5
Apparel	122.187	120.775	119.349	-2.3	-1.2
Transportation	233.236	229.315	232.743	-2	1.5
Private transportation	236.798	234.964	236.782	.0	.8
Motor fuel	332.546	325.681	330.172	-7	1.4
Gasoline (all types)	342.111	335.087	339.865	-7	1.4
Gasoline, unleaded regular ³	363.777	356.358	361.351	-7	1.4
Gasoline, unleaded midgrade ^{3 4}	266.309	260.424	264.255	-8	1.5
Gasoline, unleaded premium ³	301.161	295.270	299.731	-5	1.5
Medical care	333.781	335.102	343.253	2.8	2.4
Recreation ⁵	113.396	114.526	116.347	2.6	1.6
Education and communication ⁵	135.804	138.748	138.251	1.8	-.4
Other goods and services	440.182	440.674	446.226	1.4	1.3
Commodity and service group					
All items	248.646	250.303	253.202	1.8	1.2
Commodities	198.367	198.434	200.687	1.2	1.1
Commodities less food and beverages	169.598	167.855	168.153	-.9	.2
Nondurables less food and beverages	216.859	214.265	214.632	-1.0	.2
Durables	117.681	116.872	117.098	-.5	.2
Services	293.024	295.997	299.462	2.2	1.2
Special aggregate indexes					
All items less medical care	244.153	245.823	248.469	1.8	1.1
All items less shelter	236.005	236.806	239.785	1.6	1.3
Commodities less food	171.860	170.911	171.426	-.3	.3
Nondurables	230.336	230.801	233.924	1.6	1.4
Nondurables less food	217.175	216.114	216.873	-.1	.4
Services less rent of shelter ²	311.190	313.442	317.844	2.1	1.4
Services less medical care services	288.675	291.621	294.687	2.1	1.1
Energy	327.295	324.275	326.666	-.2	.7
All items less energy	244.982	246.981	250.048	2.1	1.2
All items less food and energy	246.853	248.829	251.405	1.8	1.0

¹ This index series was calculated using a Laspeyres estimator. All other item stratum index series were calculated using a geometric means estimator.

² Index is on a December 1982=100 base.

³ Special Index based on a substantially smaller sample.

⁴ Indexes on a December 1993=100 base.

⁵ Indexes on a December 1997=100 base.

- Data not available.