TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON JUDICIARY AND LABOR
SENATE BILL NO. 249

January 29, 2015

RELATING TO EMPLOYER-UNION HEALTH BENEFITS

Senate Bill No. 249 amends Section 87A-39, Hawaii Revised Statutes, "Reimbursement for state contributions," to add Section 87A-33.5 (regarding retirees who live outside of the State) and Section 87-42 (regarding other post-employment benefits (OPEB)) to the health benefit reimbursements required from a non-general or federal fund to the general fund. This bill also requires that the Director of Finance establish a rate or formula for these reimbursements and that the reimbursement for a portion of the annual required contribution for OPEB paid by a non-general or federal fund must begin in FY 17.

We are in general support of the bill but are concerned that the proposed subsections 2(c) and 2(d) added to Section 87A-39 requiring the Director of Finance to establish a rate or formula for the health benefit reimbursements and amending the definition of "contributions" reimbursable from non-general and federal funds to include amounts paid from general excise tax revenues may conflict with our efforts to meet the intent of the bill. Section 3 limits the start of OPEB reimbursements to FY 17 and requires that the amount of reimbursements in FY 17 and FY 18 must be based on the annual required contribution "actually made."

Currently, reimbursements from non-general and federal funds for the employer's share of health insurance premiums for active employees are assessed through the payroll system and are based on the actual plan selected by the active employee. A rate for health insurance for active employees is developed for budgeting purposes only. For retirees, the reimbursements from non-general and federal funds are also assessed through the payroll system but are based on a rate approved by the U.S. Department of Health and Human Services (USDHHS). Federal regulations require that costs be uniformly charged to federal and State programs.

We already have preliminary approval from USDHHS to add a fringe benefit rate for OPEB, in addition to the existing rate for Retiree Health Insurance. The OPEB rate will be based on budgeted amounts and subsequently revised based on actual collections. We plan to start assessing the OPEB rate in FY 16 and preliminary estimates indicate that the OPEB rate will be in the neighborhood of 10%. We notified the departments of the impending change and they have incorporated the increase in fringe benefits in their FB 2015-17 non-general fund budgets, as needed.

Consequently, we recommend that proposed subsections 2(c), 2(d) and Section 3 be deleted from the amendments to Section 87A-39.

UNIVERSITY of HAWAIʻI®
SYSTEM

KALBERT K. YOUNG
VICE PRESIDENT FOR BUDGET & FINANCE
CHIEF FINANCIAL OFFICER

January 29, 2015

The Honorable Gilbert S.C. Keith-Agaran, Chair
And Members
Senate Committee on Judiciary and Labor
Hawaii State Senate
Honolulu, Hawaii 96813

RE: S.B. 249: RELATING TO EMPLOYER-UNION HEALTH BENEFITS

Dear Chair Keith-Agaran and Members of the Committee:

The University of Hawaii recognizes the significance of addressing the unfunded liabilities of the State of Hawaii for employer-union health benefits, or as more commonly referred to as Other (than pension) Post-Employment Benefits (OPEB). S.B. 249 proposes to require all non-general funds to contribute their proportionate share of the State's total annual required contribution (ARC). The University does not support this bill without amended language to more fully provide for adequate total funding to meet special fund requirements. For accounting treatment related to financial reporting for each non-general fund or special fund in the State, the bill is rational. However, to simply require non-general funds to make the ARC payment does not fully recognize the current status of special funded operations – like that of the University of Hawaii.

The University of Hawaii employs more than 7,500 employees of which more than 700 are considered non-general funded. This includes employees whose method of funding is federal funds, special funds, or revolving funds. Considering personnel costs exceed $600 million a year across the university, an additional expense to satisfy OPEB would be considerable – even for non-general funds.

Act 268 (2013) will require the State to meet escalating portion of the OPEB ARC til FY19, after which the State will be contributing the full ARC. The State's 6-year financial plan contemplates the full ARC for the State could be as much as $520 million per year. Of that amount, a portion would be attributable to cover non-general fund employees.

S.B. 249 could be amended to include language that would more explicitly recognize a broader state-wide plan to fund OPEB for all employees. Please consider language that could be added as part (e) to the affect:

2444 Dole Street, Bachman Hall
Honolulu, Hawaiʻi 96822
Telephone: (808) 956-8903
Fax: (808) 956-5286
An Equal Opportunity/Affirmative Action Institution

> "(e) contributions under this section may include general fund appropriations of the Legislature meant to augment or subsidize non-general fund financial requirements where necessary."

As the former state finance director, who has previously worked on the unfunded liability strategy and had accommodated the forward-looking OPEB payments into the financial plan, I am aware that the approach to ensure adequate payment from all business lines is complex. The 6-year financial plan through FY2021, already contemplates the State satisfying the minimum ARC each year with general funds, since the payment of the ARC is appropriated in a program I.D. for state-wide fringe benefit expenses situated with the Department of Budget & Finance. The financial plan has previously contemplated that while general funds would be appropriated to satisfy the state contribution of the ARC, non-general funds would eventually have to "reimburse" the general fund for their allocated portion of the ARC. However, even I, considered that that would likely mean a significant number of special funds, would require additional general fund supplement to meet their allocation. The majority of special fund operations do not currently generate sufficient special fund revenues to meet the expected ARC. General fund subsidy should be expected and anticipated by the Legislature.

I recommend the Senate Committee on Judiciary and Labor and the Legislature, consider holistically the OPEB liability and the ARC payments and how they will be incorporated into the state-level financial plan, as well as, how ARC payments will be afforded at the operational level. The requirement put forth in S.B. 249, would cripple or decimate special fund operations – including, a major portion of programming at the University of Hawaii.

Thank you for your consideration.

Sincerely,

KALBERT K. YOUNG
VP for B&F/CFO