



# GOV. MSG. NO. 7

EXECUTIVE CHAMBERS  
HONOLULU

DAVID Y. IGE  
GOVERNOR

March 21, 2017

✓ The Honorable Ronald D. Kouchi,  
President and Members of the Senate  
Twenty-Ninth State Legislature  
State Capitol, Room 409  
Honolulu, Hawaii 96813

The Honorable Joseph M. Souki,  
Speaker and Members of the House  
of Representatives  
Twenty-Ninth State Legislature  
State Capitol, Room 431  
Honolulu, Hawaii 96813

Dear Senate President Kouchi, Speaker Souki and Members of the Legislature:

Transmitted herewith are proposed changes to the FB 2017-19 Executive Budget Request. Adjustments and provisos are proposed to the FY 18 and FY 19 operating budget.

The Administration is requesting general funds of \$30,637,298 in FY 18 to cover separation benefits for employees affected by the phase out in Hawaii Health Systems Corporation's (HHSC) Maui Region hospitals in a manner that will not jeopardize the tax-qualified status of the Employees' Retirement System (ERS), as proposed by a bill to be identified. It is requested that B&F be designated the expending agency to facilitate implementation of the payments.

B&F is requesting reductions in general funds totaling \$4,343,751 in FY 18 and \$15,468,750 in FY 19 to reflect decreases in planned bond issuances for FY 18, FY 19, and FY 20 and a lower interest rate on the bonds issued. This is in response to the Council on Revenues lowering its revenue growth projections further from 3% to 2.5% in FY 17, 5% to 4% in FY 18, and 4.4% to 4% in FY 19 at its March 2017 meeting.

B&F is also requesting additional general funds totaling \$34,625,428 in FY 18 and \$70,673,178 in FY 19 to cover employer contribution rate increases proposed by Senate Bill No. 936, Relating to the Employees' Retirement System. Based on the five-year actuarial experience review performed as of June 30, 2016, by the system's actuary pursuant to Section 88-105, HRS, the ERS' actuary recommended changes to the actuarial assumptions used for the actuarial valuation of the system. These changes were subsequently adopted by the ERS' Board. Based on these new

assumptions, the employer contribution rates need to be increased to keep the amortization period of the unfunded actuarial accrued liability from exceeding 30 years. The funding amounts requested reflect the revised phase-in of contribution rate increase of 3.0% for police officers, firefighters, and corrections officers and 1.0% for all other employees in FY 18 and an additional 3.0% for police officers, firefighters, and corrections officers and 1.0% for all other employees in FY 19.

## OPERATING BUDGET

### 1. Operating Budget Adjustments

#### **Department of Budget and Finance (BUF)**

##### Departmental Administration and Budget Division (BUF 101/AA)

Adds general funds of \$30,637,298 in FY 18 for the severance pay (\$28,873,079) and Social Security and Medicare payments (\$1,764,219) for employees to be separated from State employment due to the upcoming transfer of the HHSC's Maui Region to Kaiser Permanente management.

##### Debt Service Payments - State (BUF 721/ST)

Reduces general funds by \$1,991,175 in FY 18 and \$7,090,875 in FY 19 for interest payments on debt service due to decreases in planned bond issuances and a lower interest rate on the bonds issued.

##### Debt Service Payments - DOE (BUF 725/LE)

Reduces general funds by \$1,717,085 in FY 18 and \$6,114,797 in FY 19 for interest payments on debt service due to decreases in planned bond issuances and a lower interest rate on the bonds issued.

##### Debt Service Payments - UH (BUF 728/HE)

Reduces general funds by \$635,491 in FY 18 and \$2,263,078 in FY 19 for interest payments on debt service due to decreases in planned bond issuances and a lower interest rate on the bonds issued.

##### Retirement Benefits Payments - State (BUF 741/ST)

Adds general funds of \$15,719,015 in FY 18 and \$32,066,791 in FY 19 for additional retirement benefits payments funding for the State (except the Department of Education (DOE) and the University of Hawaii (UH)) to reflect a phase-in of employer contribution rate increases from 25% to 28% in FY 18 and from 25% to 31% in FY 19 for police officers, firefighters, and corrections officers, and from 17% to 18% in FY 18 and from 17% to 19% in FY 19 for all other employees.

Retirement Benefits Payments - DOE (BUF 745/LE)

Adds general funds of \$12,807,840 in FY 18 and \$26,165,298 in FY 19 for additional retirement benefits payments funding for the DOE to reflect the phase-in noted above.

Retirement Benefits Payments - UH (BUF 748/HE)

Adds general funds of \$6,098,573 in FY 18 and \$12,441,089 in FY 19 for additional retirement benefits payments funding for the UH to reflect a phase-in noted above.

2. Provisos

**Department of Budget and Finance (BUF)**

Departmental Administration and Budget Division (BUF 101/AA)

Adds a proviso that specifies that of the general fund appropriation for BUF 101/AA, the sum of \$30,637,298 or so much thereof as may be necessary for FY 18 shall be expended for the purpose of employee separation benefits related to the transfer of HHSC's Maui Region.

Retirement Benefits Payments - State (BUF 741/ST), DOE (BUF 745/LE), UH (BUF 748/HE)

Adds a proviso that specifies that of the general fund appropriations for BUF 741/ST, BUF 745/LE, and BUF 748/HE, the sums of \$15,719,015 for BUF 741/ST, \$12,807,840 for BUF 745/LE and \$6,098,573 for BUF 748/HE, or so much thereof as may be necessary, in FY 18, and the sums of \$32,066,791 for BUF 741/ST, \$26,165,298 for BUF 745/LE and \$12,441,089 for BUF 748/HE, or so much thereof as may be necessary, in FY 19, shall be expended for the phase-in of employer contribution rate increases from 25% to 28% in FY 18 and from 25% to 31% in FY 19 for police officers, firefighters, and corrections officers and from 17% to 18% in FY 18 and from 17% to 19% in FY 19 for all other employees.

Your staff may contact the Department of Budget and Finance for additional information. Your understanding and assistance is appreciated.

Sincerely,



DAVID Y. IGE  
Governor, State of Hawaii

Attachment

c: Honorable Jill N. Tokuda  
Honorable Sylvia Luke

OPERATING1. Operating Budget Adjustments:**Department of Budget and Finance (BUF)**Departmental Administration and Budget Division (BUF 101/AA)

Adds general funds of \$30,637,298 in FY 18 for the severance pay (\$28,873,079) and Social Security and Medicare payments (\$1,764,219) for employees to be separated from State employment due to the upcoming transfer of the Hawaii Health Systems Corporation's (HHSC) Maui Region to Kaiser Permanente management, pursuant to HB/SB\_\_\_\_, Relating to \_\_\_\_.

	<u>FY 2018</u>	<u>FY 2019</u>
Other Current Expenses	\$30,637,298 A	..... A

Debt Service Payments - State (BUF 721/ST)

Reduces general funds by \$1,991,175 in FY 18 and \$7,090,875 in FY 19 for interest payments on debt service due to decreases in planned bond issuances and a lower interest rate on the bonds issued.

	<u>FY 2018</u>	<u>FY 2019</u>
Other Current Expenses	-\$1,991,175 A	-\$7,090,875 A

Debt Service Payments - DOE (BUF 725/LE)

Reduces general funds by \$1,717,085 in FY 18 and \$6,114,797 in FY 19 for interest payments on debt service due to decreases in planned bond issuances and a lower interest rate on the bonds issued.

	<u>FY 2018</u>	<u>FY 2019</u>
Other Current Expenses	-\$1,717,085 A	-\$6,114,797 A

Debt Service Payments - UH (BUF 728/HE)

Reduces general funds by \$635,491 in FY 18 and \$2,263,078 in FY 19 for interest payments on debt service due to decreases in planned bond issuances and a lower interest rate on the bonds issued.

	<u>FY 2018</u>	<u>FY 2019</u>
Other Current Expenses	-\$635,491 A	-\$2,263,078 A

Retirement Benefits Payments - State (BUF 741/ST)

Adds general funds of \$15,719,015 in FY 18 and \$32,066,791 in FY 19 for additional retirement benefits payments funding for the State (except the Department of Education (DOE) and the University of Hawaii) to reflect a phase-in of employer contribution rate increases from 25% to 28% in FY 18 and from 25% to 31% in FY 19 for police officers, firefighters, and corrections officers and from 17% to 18% in FY 18 and from 17% to 19% in FY 19 for all other employees, pursuant to Senate Bill No. 936, Relating to the Employees' Retirement System.

	<u>FY 2018</u>	<u>FY 2019</u>
Other Current Expenses	\$15,719,015 A	\$32,066,791 A

Retirement Benefits Payments - DOE (BUF 745/LE)

Adds general funds of \$12,807,840 in FY 18 and \$26,165,298 in FY 19 for additional retirement benefits payments funding for the DOE to reflect the phase-in noted above.

	<u>FY 2018</u>	<u>FY 2019</u>
Other Current Expenses	\$12,807,840 A	\$26,165,298 A

Retirement Benefits Payments - UH (BUF 748/HE)

Adds general funds of \$6,098,573 in FY 18 and \$12,441,089 in FY 19 for additional retirement benefits payments funding for the UH to reflect a phase-in noted above.

	<u>FY 2018</u>	<u>FY 2019</u>
Other Current Expenses	\$6,098,573 A	\$12,441,089 A

2. Provisos

**Program Appropriation Provisions**

House Bill No. 100, Part III, is amended:

**Department of Budget and Finance (BUF)**

By adding two new sections to read as follows:

“SECTION ##. Provided that of the general fund appropriation for (BUF101/AA), the sum of \$30,637,298 or so much thereof as may be necessary for fiscal year 2017-2018 shall be expended for the purpose of providing separation benefits for employees affected by the finalized transfer of the Hawaii Health Systems Corporation’s Maui Region to Kaiser Permanente pursuant to Act 103, SLH 2015 and HB/SB\_\_\_, Relating to \_\_\_; provided further that the director of finance may transfer the monies to the Hawaii health systems corporation for the purpose noted above.”

“SECTION ##. Provided that of the general fund appropriations for retirement benefits payments (BUF741-BUF748), the following sums specified in fiscal biennium 2017-2019 or so much thereof as may be necessary shall be expended for the phase-in of employer contribution rate increases from 25% to 28% in fiscal year 2017-2018 and from 25% to 31% in fiscal year 2018-2019 for police officers, firefighters, and corrections officers and from 17% to 18% in fiscal year 2017-2018 and from 17% to 19% in fiscal year 2018-2019 for all other employees only as follows, pursuant to Senate Bill 936, Relating to the Employees’ Retirement System:

Program I.D.	FY 2017-2018	FY 2018-2019
BUF741	\$15,719,015	\$32,066,791
BUF745	\$12,807,840	\$26,165,298
BUF748	\$6,098,573	\$12,441,089”