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TESTIMONY
OF
SARAH ALLEN, ADMINISTRATOR
STATE PROCUREMENT OFFICE

TO THE HOUSE COMMITTEE
ON
FINANCE

February 24, 2017, 2:00 p.m.

House Bill 888
RELATING TO ADDRESSING THE HEALTH UNFUNDED LIABILITY

Chair Luke, Vice-Chair Cullen, and members of the committee, thank you for the opportunity to submit testimony on House Bill 888. The SPO opposes the verbiage of this bill, specifically Section 2, page 1, lines 15 to 16 requesting and exemption to the Hawaii Procurement Code as follows:

“Any contract for services executed pursuant to this Act shall be exempt from chapter 103D, Hawaii Revised Statutes.”

The Hawaii Public Procurement Code (code) is the single source of public procurement policy to be applied equally and uniformly, while providing fairness, open competition, a level playing field, government disclosure and transparency in the procurement and contracting process vital to good government.

Public procurement's primary objective is to provide everyone equal opportunity to compete for government contracts, to prevent favoritism, collusion, or fraud in awarding of contracts. To legislate that any one entity should be exempt from compliance with both HRS chapter 103D and 103F conveys a sense of disproportionate equality in the law's application.

Exemptions to the code mean that all procurements made with taxpayer monies from the auditor, will not have the same oversight, accountability and transparency requirements mandated by those procurements processes provided in the code. It means that there is no requirement for due diligence, proper planning or consideration of protections for the state in contract terms and conditions, nor are there any set requirements to conduct cost and price analysis and market research or post-award contract management. As such, Agencies can

choose whether to compete any procurement or go directly to one contractor. As a result, leveraging economies of scale and cost savings efficiencies found in the consistent application of the procurement code are lost. It also means Agencies are not required to adhere to the code's procurement integrity laws.

The National Association of State Procurement Officials state: "Businesses suffer when there is inconsistency in procurement laws and regulations. Complex, arcane procurement rules of numerous jurisdictions discourage competition by raising the costs to businesses to understand and comply with these different rules. Higher costs are recovered through the prices offered by a smaller pool of competitors, resulting in unnecessarily inflated costs to state and local governments."

When public bodies, are removed from the state's procurement code it results in the harm described above. As these entities create their own procurement rules, businesses are forced to track their various practices. Moreover, a public body often can no longer achieve the benefits of aggregation by using another public body's contract because different state laws and regulations may apply to the various public bodies making compliance more difficult.

Each year new procurement laws are applied to state agencies causing state agency contracts to become more complex and costly, while other public bodies, such as agencies with strong legislative influence, are exempted. Relieving some public bodies from some laws by exempting or excluding them from compliance with a common set of legal requirements creates an imbalance wherein the competitive environment becomes different among the various jurisdictions and the entire procurement process becomes less efficient and costlier for the state and vendors.

Thank you.



STATE OF HAWAII
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TESTIMONY BY DEREK MIZUNO
ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON HOUSE BILL NO. 888

February 24, 2017
2:00 p.m.
Room 308

RELATING TO ADDRESSING THE HEALTH UNFUNDED LIABILITY

Chair Luke, Vice Chair Cullen, and Members of the Committee:

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees has not had an opportunity to take a position on this bill. The EUTF Board's next meeting is March 3, 2017. At this time, EUTF staff would like to provide comments on the bill.

Under Section 87A-16(b), Hawaii Revised Statutes, the EUTF Board has the ability to self-fund (i.e. self-insure) the health benefit plans. The EUTF Board currently self-insures the prescription drug plans. The following is a summary of the funding methodology for the EUTF's significant health benefit plans:

1. Fully-insured – Kaiser medical and prescription drug, and life insurance plans.
2. Self-insured – prescription drug plans administered by CVS and SilverScript.
3. Fully-insured with one-way risk sharing – HMSA medical, HDS dental and VSP vision plans.

Under the fully-insured with one-way risk sharing model, the EUTF Board negotiates a premium with the contracted carrier. Should claims and expenses exceed

EUTF's Mission: We care for the health and well being of our beneficiaries by striving to provide quality benefit plans that are affordable, reliable, and meet their changing needs. We provide informed service that is excellent, courteous, and compassionate.

the premiums collected, the loss is borne by the insurer. However, should premiums exceed claims and expenses, the surplus is refunded to the EUTF. This can also be viewed as EUTF self-insuring up to the premium amount with insurance (i.e. stop loss insurance) above the premium.

The decision to self-insure or fully-insure is made by the EUTF Board in consultation with the EUTF's benefit consultant as part of the contractor selection process as part of a request for proposals conducted in accordance with Chapter 103D, Hawaii Revised Statutes. The EUTF Board examines the proposed premiums including expenses and taxes under a fully-insured model versus the projected claims, proposed fees, taxes and risk under a self-insured model to determine the funding method. Request for proposals are conducted at least every three years for medical and prescription drug plans and every four years for dental, vision and life insurance plans.

The health care industry is always changing and as a result a study today may not be applicable to the future. For example, the largest medical insurer in the state is currently in the process of changing its reimbursement model for their primary care providers. This change could impact a decision whether to self-insure or fully-insure.

Thank you for the opportunity to testify.

Testimony with Comments in Support of the Intent of HB 887 RELATING TO UNFUNDED LIABILITIES

LATE

and

HB 888 RELATING TO ADDRESSING THE HEALTH UNFUNDED LIABILITY

Presented to the House Committee on Finance

at the public hearing 2 p.m. February 24, 2017

in Conference Room 308 at the Hawaii State Capitol

by David H. Rolf, Mililani, Hawaii

Chair Luke, Vice Chair Cullen and members of the Committee:

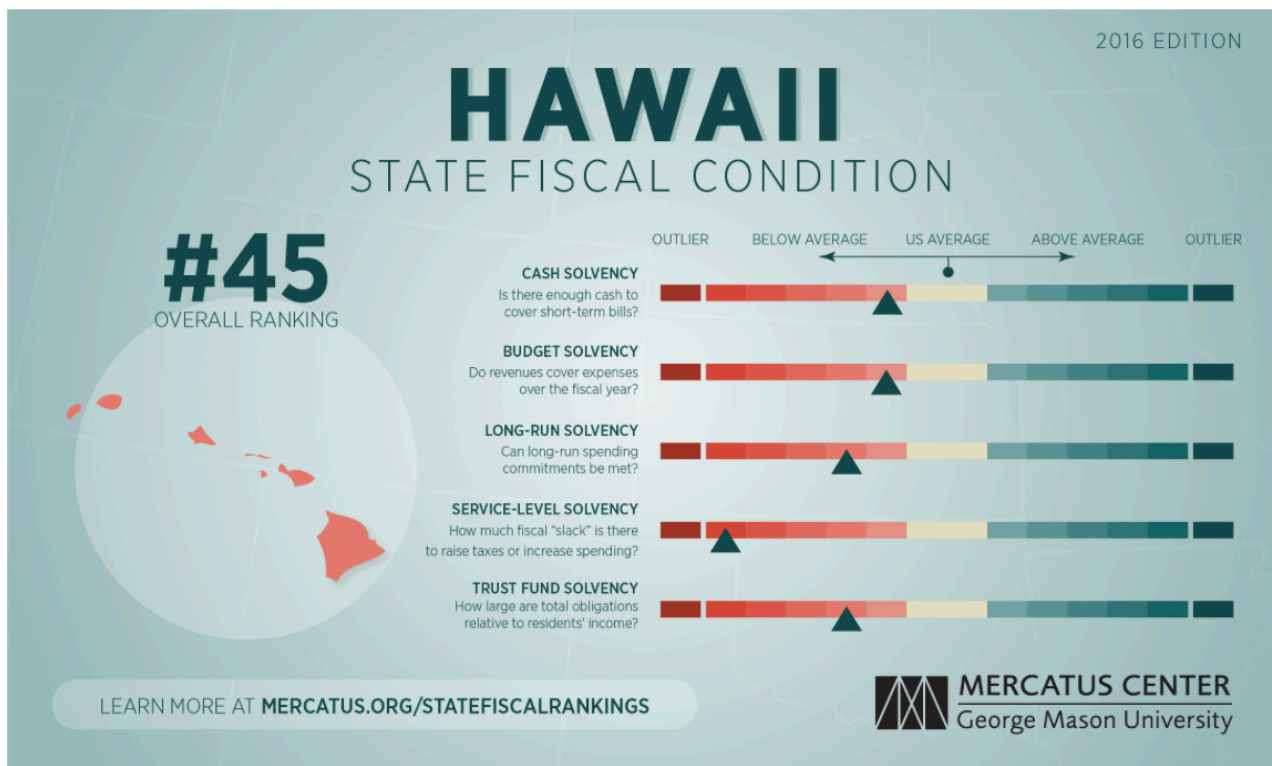
I am David Rolf, a 42-year resident of the State, and an occasional testifier, as a citizen, on serious matters pertaining to public policy, today, offering comments in support of the intent of HB887 and HB888 which relate to the State's unfunded liabilities and proposals for solutions to these unfunded state employee pension and public health fund liabilities.

Background on The Perfect Storm

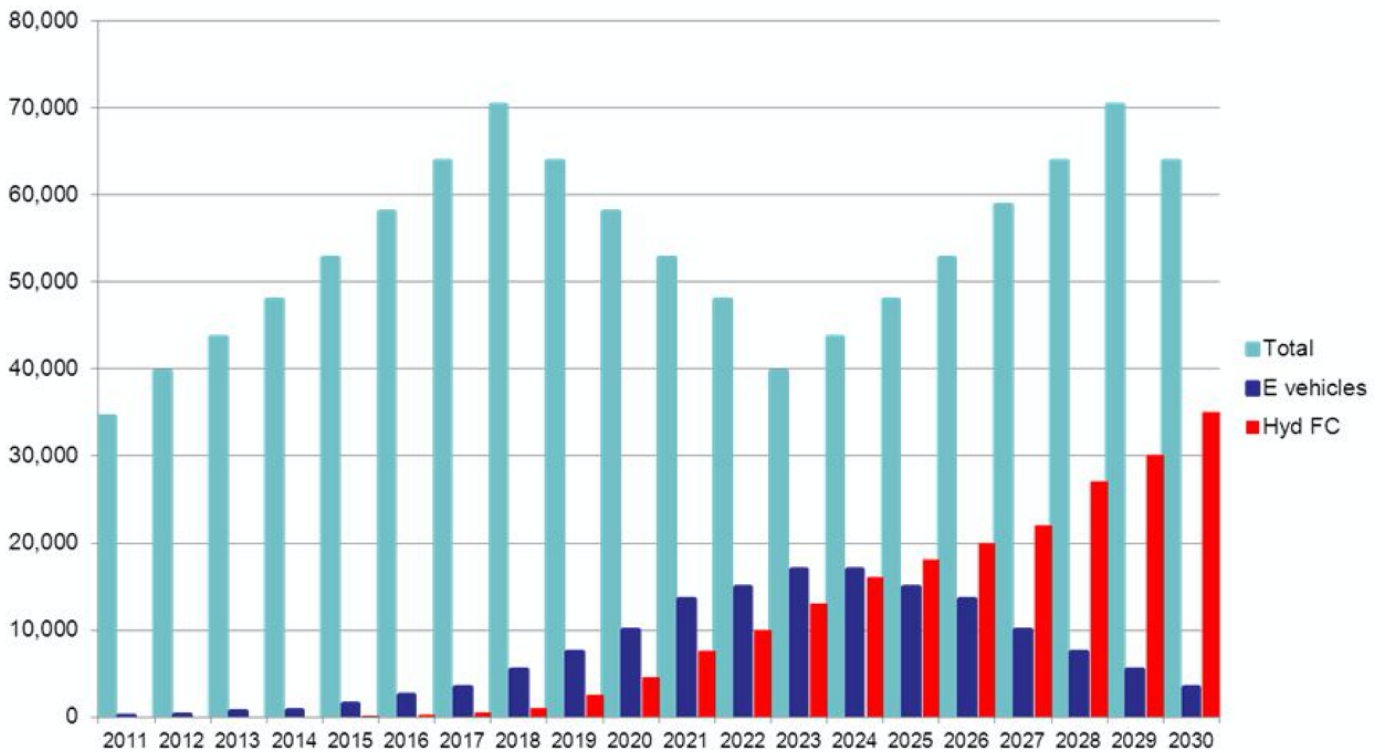
The collision of the billions of dollars needed to meet the rail funding demands--caused by the consistent understatement of the real costs (in billions)--with the pending billions of dollars of ERS shortfalls due to recent recognition of previously understated employee pension fund liabilities and health fund liabilities, is creating the perfect storm for the economy.

Right now, there is little "fiscal slack"

Hawaii is approaching Puerto Rico with regard to our State's ability to raise taxes or increase spending. See the State's position on the 4th bar on the chart below, Puerto Rico, is the dark maroon bar (outlier).



Since new car sales mirror the performance of the state’s economy, the below graphic has proven a useful tool for seeing what lies ahead not only for the auto sector but for the whole State economy.



The graph shows the predicted low point for new vehicle registrations approaching in six or so years. If the State economy follows this path, then the increasing demands of the two big underfunded programs will contribute to a strain on the State, during a low point in the economy.

I created this graph in 2010, with one of the purposes being to show the uptake of renewable energy vehicles that would be “needed” to meet the goals of the Hawaii Clean Energy Initiative. The graph has proven helpful for planning purposes, because the year-by-year predictions of electric, gasoline, and hydrogen vehicle uptake have proven accurate over the past six years.

I don’t know yet if my rough calculations about the pending troubles for the ERS fund and the public employee health benefits fund are accurate enough to publish. It is clear, however, that proposals for solutions, like those in HB 887 and HB 888 should, at this point, receive serious consideration.

Respectfully submitted,
 David H. Rolf
 Mililani, Hawaii

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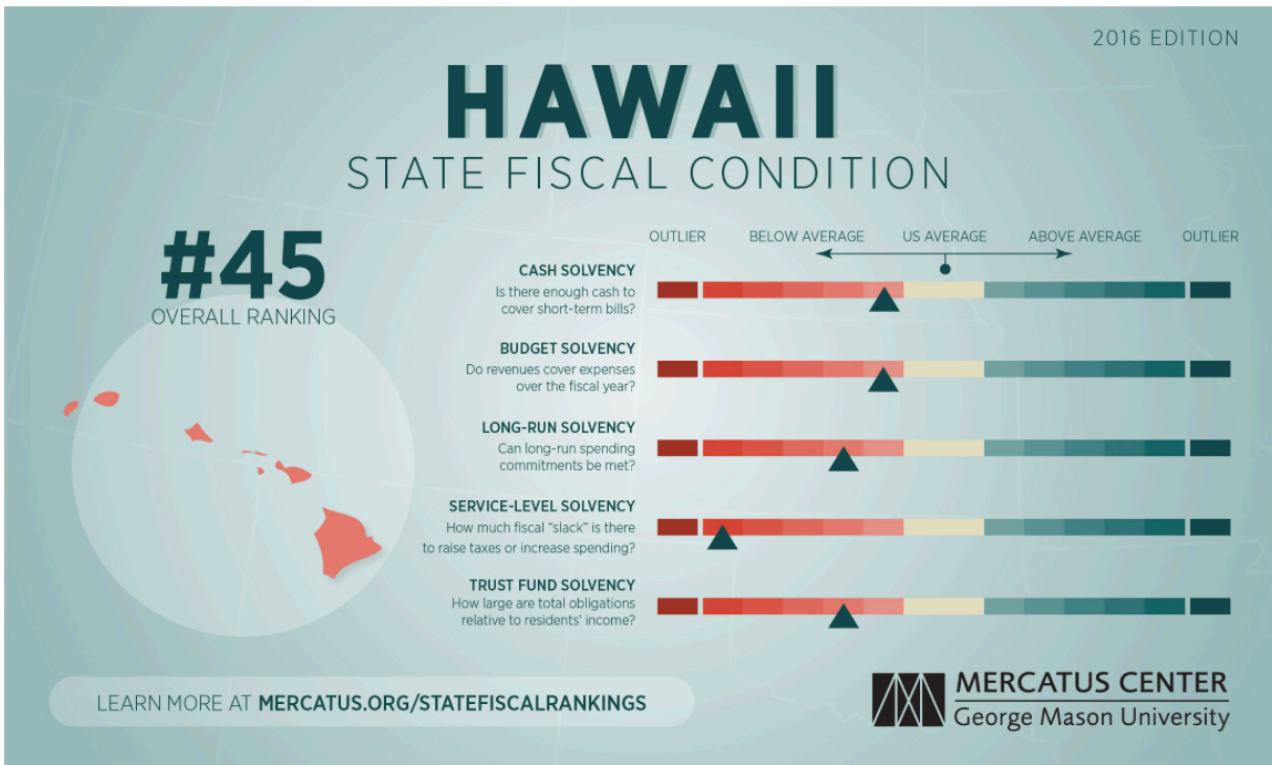
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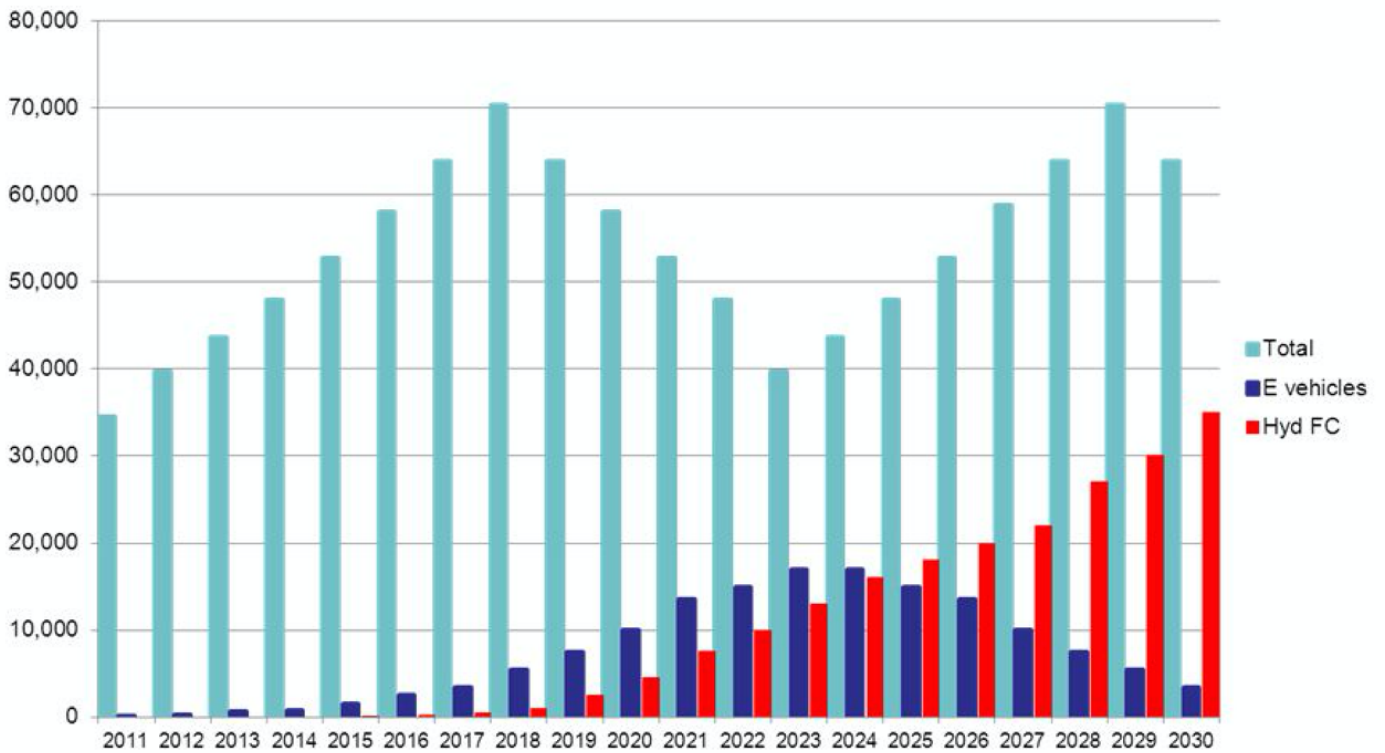
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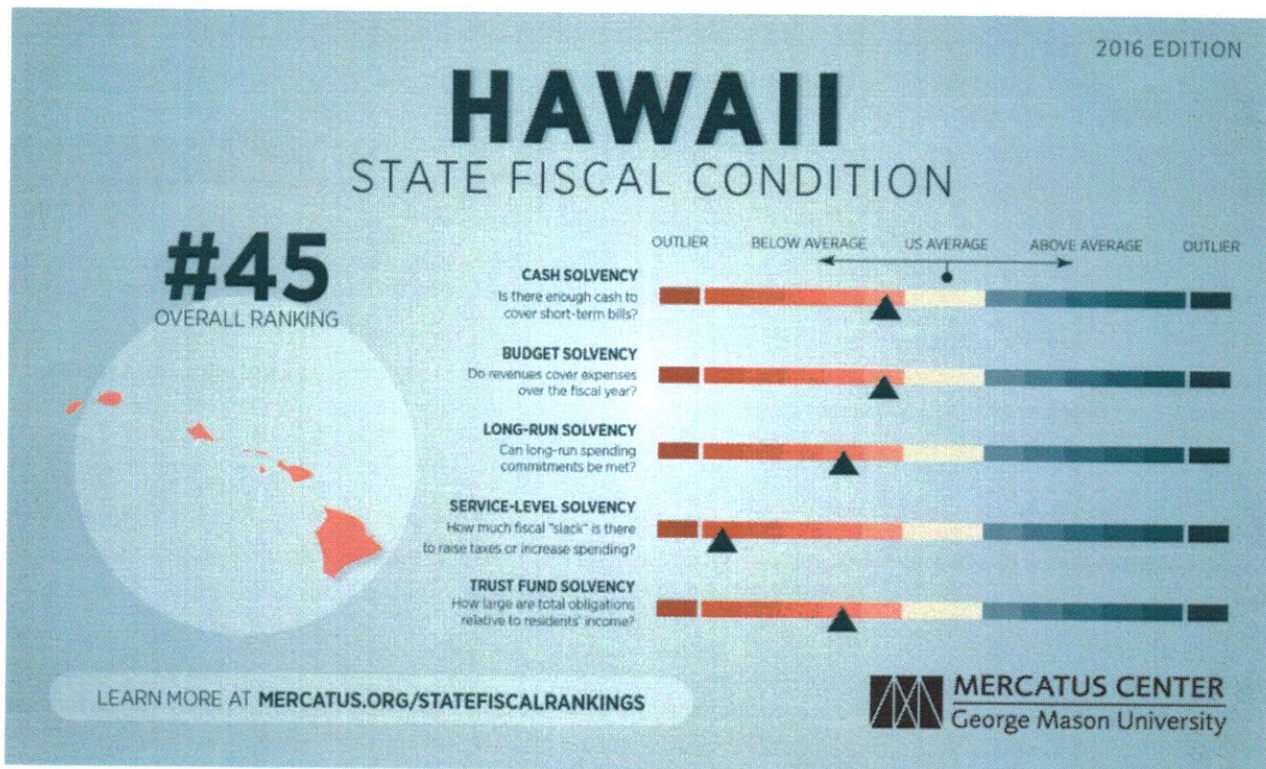
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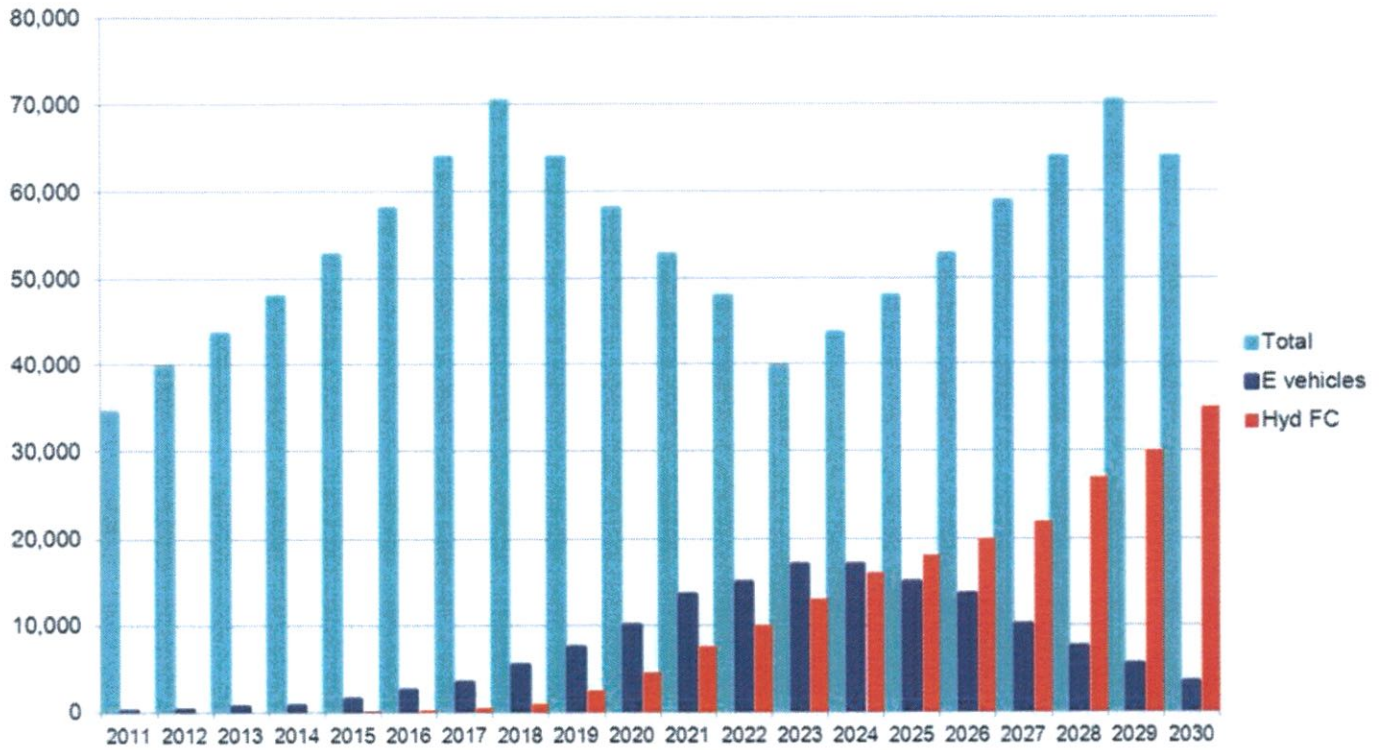
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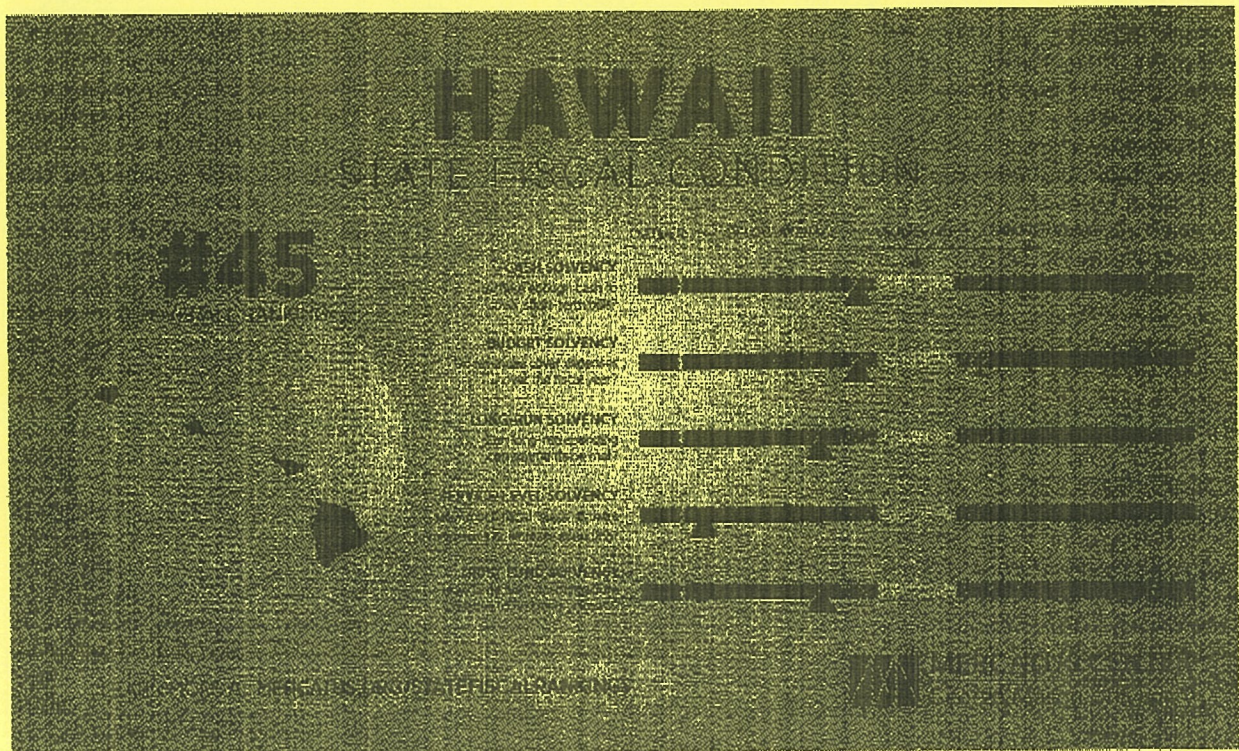
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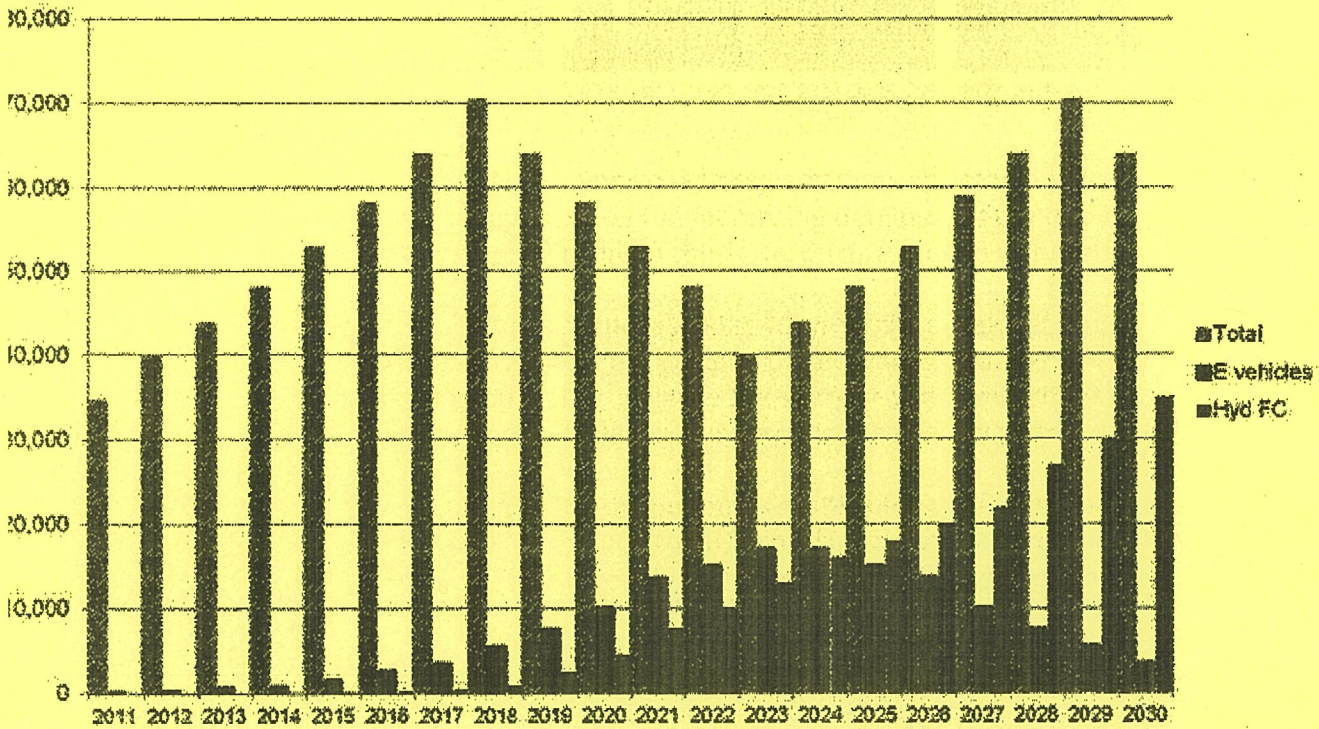
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Respectfully submitted,
David H. Rolf
Honolulu, Hawaii

LATE

From: mailinglist@capitol.hawaii.gov
Sent: Thursday, February 23, 2017 11:02 PM
To: FINTestimony
Cc: cwilson@ahcs.com
Subject: *Submitted testimony for HB888 on Feb 24, 2017 14:00PM*

HB888

Submitted on: 2/23/2017

Testimony for FIN on Feb 24, 2017 14:00PM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
cathy wilson	Individual	Support	No

Comments:

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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HOUSE COMMITTEE ON FINANCE
The Honorable Sylvia Luke, Chair
The Honorable Ty. J.K. Cullen, Vice Chair

LATE

H.B. No. 888, Relating to the Addressing the Health Unfunded Liability

Hearing: Friday, February 24, 2017, 2:00 p.m.

The Office of the Auditor has **no position** regarding H.B. No. 888, which directs us to study the feasibility of providing health benefits to state and county employees using a self-insured model. However, **we request that the committee consider extending the report deadline to no later than 20 days before the 2019 legislative session and appropriate funds in the amount of \$300,000 to conduct the requested study.**

As written, we are required to report our findings and recommendations, including any proposed legislation, to the legislature no later than 20 days before the 2018 legislative session. If this bill passes and is signed by the governor, we will have six months to procure the services of a consultant, perform the study, and submit the report to the legislature. Although the hiring of a consultant is exempt from the state procurement code, we expect to follow certain requirements, one of which is to issue a request for qualifications or other method of solicitation. We will need to identify who is willing and qualified to perform the study. **Extending the deadline to 20 days before the 2019 legislative session will allow us time to complete these tasks.**

In addition, while the bill authorizes us to contract the services of another entity to perform any related services that may be required to conduct the study and appropriates funds to conduct the study, it is not clear what related services or appropriations may be needed to conduct the study, given its broad scope. Clarification of the study's scope would assist our ability to determine the additional resources that we may need.

We are uncertain as to the cost of such a study but expect that the time and expertise to perform such a study may be similar to the workers compensation closed case study (Act 188, Session Laws of Hawai'i 2016) which the legislature appropriated \$300,000 for our office to complete.

We suggest this committee consider an appropriation of \$300,000 for us to hire a consultant, and additional staff as necessary, in support of the requested study. We currently have 13 line staff, all of whom are assigned to audits and are concerned about our ability to perform the requested study without additional staff.

We are available to work with the committee to more clearly define the study's scope.

Thank you for considering our testimony related to the audit requested in H.B. No. 888.