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OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

WRITTEN ONLY
TESTIMONY BY LAUREL A. JOHNSTON
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 101, PROPOSED S.D. 1

February 28, 2018
10:30 a.m.
Room 211

RELATING TO STATE FUNDS

Senate Bill No. 101, Proposed S.D. 1, would require that employer contributions paid on behalf of a special-funded civil service or exempt status employee be paid to the Employees' Retirement System (ERS) from the respective special fund.

The Department of Budget and Finance (B&F) has concerns regarding this measure. Currently, employer contributions for pensions are centrally budgeted under B&F. B&F has general-funded appropriations which fund the State's employer contributions for pension benefits up front.

In turn, special-funded programs are assessed for their share of the employer contributions for pension benefits, based on the State's current fringe benefit rate and program payroll, pursuant to Section 88-125, HRS. Thus, special funds are already paying their share of retirement benefit contributions with the exception of the University of Hawai'i's Tuition and Fees Special Fund, pursuant to a longstanding informal agreement.

Budgeting and fronting general funds for this fixed cost ensures that timely payments are made to the ERS. If each department's special-funded programs had to pay their respective amounts directly to ERS, there would likely be delays in processing and overdue payments under the current payroll system. This could be problematic for ERS and counterproductive to the State's efforts to address ERS' unfunded pension liability.

In addition, there may be issues in the future with federal fund reimbursements as increases to the State's fringe benefit rate for pension contributions may not be allowed.

Thank you for your consideration of our comments.



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Ways and Means
February 28, 2018 at 10:30 a.m.

by
Kalbert K. Young
Vice President for Budget and Finance/Chief Financial Officer
University of Hawai'i

SB 101 Proposed SD1 – RELATING TO STATE FUNDS

Chair Dela Cruz, Vice Chair Keith-Agaran, and members of the committee:

The University of the Hawai'i (UH) is opposed to SB 101 Proposed SD1, Relating to State Funds.

The purpose of this bill is to require that employer contributions to the Employees' Retirement System (ERS) on behalf of a civil service or exempt status employee hired under special fund revenues and whose contributions are paid to the ERS shall be paid from the respective special fund rather than the general fund.

This legislation would have a significant effect on the operations of the UH. The Department of Budget and Finance (B&F) and the University have an agreement whereby fringe benefits costs for employees whose payroll expenses are paid for by the Tuition and Fees Special Fund (TFSF) shall be paid for by the State general fund.

Should TFSF have to pay for the employer's share for ERS for these positions, it would cost the University approximately \$6.8 million, which represents 2 percent of the \$345.6 million in TFSF revenue collected for FY17. This difference would have to be made up of either a tuition increase, decreased programs, or a combination of the two.

The University recognizes the fiscal condition of the State of Hawai'i but respectfully requests that this bill be held and the current agreement between B&F and the University continue as it has since 2005.

Thank you for this opportunity to testify.