LATE

WRITTEN TESTIMONY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL 546, H.D. 2, S.D.1 Proposed S.D.2

April 3, 2013

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

House Bill No. (HB) 546, House Draft 2, Senate Draft (S.D.) 1 proposed S.D. 2, inserts the contents of Senate Bill No. 946 S.D.1 which establishes a statutory mechanism to pre-fund State and counties other post-employment benefits (OPEB) obligations as retained by an actuary retained by the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Directors. For the counties, the bill amends Chapter 87A, HRS by adding a new section to require that, beginning in FY 2019, each of the counties make annual required contributions for OPEB for its retirees and beneficiaries. The bill provides that if any portion of the required contribution as determined by the EUTF's actuary is not paid by a county, the Director of Finance is to retain that amount from the county's share of the transient accommodations tax or amounts from any other revenues collected on behalf of the county to make up the difference.

For the State, the bill requires that, beginning in FY 2019, the State is required to make annual required contributions for OPEB for its retirees and beneficiaries and that if any portion of the required contribution is not paid by the State, general excise tax revenues shall be diverted and deposited to make up the difference of the State's required annual contribution. The proposed S.D.2 also will establish a task force within the department of budget and finance for administrative purposes that will examine the unfunded liability of the EUTF.

The Department of Budget and Finance (Department) strongly supports this bill to make a statutory commitment towards pre-funding the State's and counties' OPEB obligations. It is also imperative for the State to take its first step with regard to the $100 million in OPEB pre-funding for FY 2014 and FY 2015 and to become accustomed in terms of contributing the full annual required contributions of $500 million in future fiscal. The Department also strongly supports the establishment of a Task Force that is necessary to further explore the wide range of complex issues and impacts that relates to the OPEB obligations and develop a comprehensive, well thought out, and sustainable plan after a full exploration and vetting of the many complex interconnected issues and impacts.

The Department respectfully proposes the following specific additional language for the Committee to consider in regards to the proposed S.D. 2:

> SECTION 3. The Hawaii employer-union health benefits trust fund task force shall examine the unfunded liability of the Hawaii employer-union health benefits trust fund, including: HB546, S.D. 2,
>
> (1) The current and projected unfunded actuarial accrued liability of the Hawaii employer-union health benefits trust fund;

(2) The availability of medical benefits plans other than plans that pay or reimburse medical services providers under a fee-for-service model; provided that the task force shall explore alternative medical benefits plans;

(3) The costs and benefits of alternative medical benefits plans in relation to the medical benefits plans currently offered by the trust fund;

(4) An evaluation of the costs and process of transitioning from the current medical benefits plans to an alternative medical benefits plan, including recommended proposed legislation; and

(5) An evaluation of the current structure of state and county employers paying a percentage of health insurance policy premiums and providing recommendations for a benefits plan for prospective employees, and

(6) Any other matters that are relevant to gaining a full and meaningful understanding of the circumstance of the trust fund.

SECTION 5. There is appropriated out of the general revenues of the State of Hawaii the sum of **$185,744** or so much thereof as may be necessary for fiscal year 2013-2014 to support the work of the Hawaii employer-union health benefits trust fund task force, including necessary travel expenses for task force members who reside outside of Oahu and consulting services of persons knowledgeable in relevant issues. The sum appropriated shall be expended by the department of budget and finance for the purposes of this Act.

SECTION 12. Not less than twenty days prior to the convening of the regular session of **2015,** the director of finance, in order to maximize the efficient use of resources and public funds, shall submit an implementation plan and any proposed legislation to the legislature to execute the following:

(1) Joint use of any investment information, advice, and services provided by fund managers retained by the board of trustees of the employees' retirement system with the board of trustees of the employer-union health benefits trust fund for the purpose of investing moneys contained in the separate trust fund established under section 87A-42, Hawaii Revised Statutes; and

(2) Procedures to accept and deposit employer contributions from county public employers into the separate trust fund established under section 87A-42, Hawaii Revised Statutes.

SECTION 13. There is appropriated out of the general revenues of the State of Hawaii the sum of $500,000 or so much thereof as may be necessary for fiscal year 2013-1014 for the department of budget and finance to conduct a study and develop an implementation plan to have both the Employer-Union Health Benefits Trust Fund and the Employee's Retirement System jointly share investment information and services.

The sum appropriated shall be expended by the department of budget and finance for the purposes of this Act.

SECTION 14. Statutory material to be repealed is bracketed and stricken. New statutory material is underscored.

SECTION 15. This Act shall take effect upon approval; provided that sections 8 and 13 shall take effect on July 1, 2013; provided that the amendments made to section 237D-6.5, Hawaii Revised Statutes, in section 10 of this Act shall not be repealed when section 237D-6.5, Hawaii Revised Statutes, is repealed and reenacted on June 30, 2015, pursuant to Act 61, Session Laws of Hawaii 2009, and Act 103, Session Laws of Hawaii 2011.

Thank you for the opportunity to submit testimony.

NEIL ABERCROMBIE
GOVERNOR

BARBARA A. KRIEG
DIRECTOR

LEILA A. KAGAWA
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT
235 S. BERETANIA STREET
HONOLULU, HAWAII 96813-2437

April 2, 2013

TESTIMONY TO THE
SENATE COMMITTEE ON WAYS AND MEANS

For Hearing on Wednesday, April 3, 2013
10:00 a.m., Conference Room 308

BY

BARBARA A. KRIEG
DIRECTOR

House Bill No. 546 House Draft 2 Proposed Senate Draft 2
Relating to the Hawai‘i Employer-Union Health Benefits Trust Fund

<u>WRITTEN TESTIMONY ONLY</u>

TO CHAIRPERSON DAVID IGE AND MEMBERS OF THE COMMITTEE:

Thank you for the opportunity to provide testimony on H.B. 546 H.D. 2 proposed Senate Draft 2. The measure establishes a taskforce to examine the Employer-Union Health Benefits Trust Fund (EUTF) unfunded liability, while providing funding for the task force and enforcement mechanism for the Department of Budget and Finance.

The Department of Human Resources Development (DHRD) strongly supports this bill. DHRD has a responsibility to recruit and retain the State of Hawaii’s Executive Branch employees. A key component of an employee's total compensation package is access to health benefits. As such, DHRD supports the continued efforts to create a more solvent EUTF, by finding real world solutions to pay down the EUTF’s unfunded liability. Thank you for the opportunity to provide testimony in strong support of H.B. 546 H.D. 2 proposed Senate Draft 2.

WRITTEN ONLY

TESTIMONY BY SANDRA YAHIRO
ACTING ADMINISTRATOR, HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
HOUSE BILL NO. 546 HD2, PROPOSED SD2

April 3, 2013

RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

The Hawaii Employer-Union Health Benefits Trust Fund (EUTF) Board of Trustees (Board) **supports the intent of examining the Other Post Employment Benefit** (OPEB) unfunded liability; however, the Board takes no position on the method of funding.

For your information, a sub-committee of the Board, the Benefits Committee, has been tasked with the responsibility of discussing various OPEB funding options, and the full Board will also be discussing OPEB funding options in a Board meeting that will be scheduled in late April or May, 2013.

Thank you for the opportunity to testify.

DEPARTMENT OF HUMAN RESOURCES
CITY AND COUNTY OF HONOLULU
650 SOUTH KING STREET, 10th Floor
HONOLULU, HAWAII 96813

KIRK CALDWELL
MAYOR

CAROLEE C. KUBO
DIRECTOR

NOEL T. ONO
ASSISTANT DIRECTOR

April 3, 2013

The Honorable David Y. Ige, Chair
and Members of the Committee on Ways and Means
State Senate
Hawaii State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Ige and Members of the Committee:

Subject: Testimony on Proposed S.D. 2 of H.B. 546, H.D. 2, S.D. 1, Relating to the Hawaii Employer-Union Health Benefits Trust Fund

The Department of Human Resources submits the following testimony in opposition to the portion of the proposed S.D. 2 of H.B. 546, H.D. 2, S.D. 1 which requires annual public employer contributions to be equal to the annual required public employer contribution determined by an actuary beginning in FY 2018-2019. The proposed S.D. 2 further requires the use of a county's transient accommodations tax ("TAT") revenues to supplement any county public employer contributions that do not fully meet the required level of public employer contributions. If the county's TAT revenues are insufficient to meet the required contributions, the state director of finance may deduct required amounts from revenues collected or held by the state on behalf of the county.

The City and County of Honolulu ("City") has been pre-funding its post-employment liabilities whenever and to the extent possible, that the City budget has allowed. To require levels of public employer contributions may make it difficult for the City to fulfill its other obligations for constituent services and may compel the City to raise property taxes. We would prefer that the City and the other counties be allowed to pre-fund their post-employment benefits as their budgets permit rather than mandating levels of funding as provided for in the proposed S.D. 2 of H.B. 546.

However, we do support the portion of the proposed S.D. 2 of H.B. 546 that creates a task force to examine the unfunded liabilities of Hawaii Employer-Union Health Benefits Trust Fund ("EUTF") and provides for county representation on the task force. As a major public employer and contributor to the EUTF, we feel it is critical that the counties be involved in future discussions on the unfunded liability. We sincerely appreciate the opportunity to be a part of the task force.

We, therefore, respectfully request that H.B. 546 be passed out of committee with only the provisions relating to the task force. Thank you for the opportunity to testify.

Sincerely,

Carolee C. Kubo

Carolee C. Kubo
Director

William P. Kenoi
Mayor

Nancy E. Crawford
Director

Deanna S. Sako
Deputy Director

LATE

County of Hawaii

Finance Department
25 Aupuni Street, Suite 2103• Hilo, Hawaii 96720
(808) 961-8234 • Fax (808) 961-8569

April 2, 2013

The Honorable David Y. Ige, Chair
and Members of the Senate Committee on
Ways and Means
Hawai'i State Capitol
415 South Beretania Street, Room 211
Honolulu, Hawai'i 96813

RE: House Bill 546, HD2,SD2 (Proposed), RELATING TO EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

Aloha, Chair Ige and Committee Members:

The County of Hawai'i understands the intent of House Bill 546, HD2, SD2 (Proposed), which would convene a task force and mandate full funding of actuarily determined annual required contributions (ARC) to the EUTF for post-employment health benefits. However, we must oppose this measure as written because it essentially gives future retiree health benefits priority over all other county obligations, including even the salaries of current employees.

This legislation would require the state finance director to withhold transient accommodation tax revenue from the counties to fund any portion of the ARC that was in excess of the county contribution to the fund.

The County of Hawai'i recognizes the importance of pre-funding future retiree health benefits, and supports a commitment to continuing that funding. The County contributed $61.6 million over the first four years of the pre-funding program. However, the county made a strategic decision to pay only current retiree costs for this fiscal year and last fiscal year based on our determination of the most appropriate budget during very difficult economic conditions. Under the proposed legislation, the County would no longer have the flexibility to exercise good judgment regarding the best interests of our community.

The state and the counties each have very different budgetary requirements and challenges. The counties must have the flexibility to choose how much to pay into prefunding reserves for items such as OPEB to allow for effective and prudent budgeting.

We also note that each employer has its own Other Post Employment Benefit (OPEB) liability and account for contributions, so a payment or non-payment by any county or the state, does not affect the others. There is no reason for the state to manage county contributions.

We respectfully urge the committee to reject House Bill 546, HD2, SD2 (Proposed). Thank you for your consideration.

Nancy E Crawford

Nancy Crawford
Director of Finance

Senate Committee on Ways and Means
Senator David Ige, Chair
Senator Michelle Kidani, Vice Chair

Wednesday, April 3, 2013
10:00 a.m.
Conference Room 211
State Capitol
415 South Beretania Street

Testimony in support of: HB546 HD2 (Proposed SD2) RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

My name is Glenn Dave Fernandez, HSTA-R (Hawaii State Teachers Association-Retired), and I am in strong support of HB546 HD2 SD2, which establishes the Hawaii Employer-Union Health Benefits Trust Fund Task Force, which will examine the unfunded liability of the Hawaii Employer-Union Health Benefits Trust Fund.

Health benefits is always a concern for retirees, so a bill creating a Task Force to examine the unfunded liabilities of the EUTF, possibly the underlying reasons for the unfunded liability, and to make recommendations to remove the unfunded liability of the EUTF is very welcome.

I am pleased that one member of the task force will be a public employee retiree because anything that affects the health benefits offered by the EUTF will also affect retirees.

I also find it interesting that the proposed SD2 also creates a separate post-employment benefits trust fund for each public employer to accept and account for each public employer's contribution for the OPEB. Though I am somewhat concerned that section 237-31 Remittance includes language regarding the state educational facilities improvement special fund and that the scope of the original language that created the EUTF Task Force seems to be transforming into something else.

However, that being said, I am still in strong support of the creation of the Task Force that will look at the unfunded liabilities of the EUTF and make recommendations on its findings to the legislature.

Thank you for giving me the opportunity to provide testimony on HB546 HD2 Proposed SD2.

Glenn Dave Fernandez
Secretary, HSTA-R

L E G I S L A T I V E

TAXBILLSERVICE

126 Queen Street, Suite 304 TAX FOUNDATION OF HAWAII Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, TRANSIENT ACCOMMODATION; Disposition to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF)

BILL NUMBER: HB 546, Proposed SD-2

INTRODUCED BY: Senate Committee on Ways and Means

BRIEF SUMMARY: Amends HRS section 237-31 to provide that commencing with fiscal year 2018-2019, a sum of general excise tax revenues that represents the difference between the state public employer's annual required contribution for the separate trust fund and the amount of the state public employer's contributions into that trust fund shall be deposited to the credit of the state's annual required contribution into that trust fund in each fiscal year.

Amends HRS section 237D-6.5 to provide that commencing with fiscal year 2018-2019, a sum that represents the difference between a county public employer's annual required contribution for the separate trust fund and the amount of the county public employer's contributions into that trust fund shall be retained by the director of finance and deposited to the credit of the county public employer's annual required contribution into that trust fund in each fiscal year, if the respective county fails to remit the total amount of the county's required annual contributions.

Amends HRS section 87A-42 to provide that the board of trustees of the Hawaii employer-union health benefits trust fund (EUTF) establish a separate trust fund for public employer contributions with separate accounts for the **state** public employer and for each **county** public employer. Provides that in any fiscal year subsequent to fiscal year 2017-2018 in which the state public employer contributions into the fund are less than the amount of the annual required contribution, an amount that represents the excess of the annual required contribution over the state public employer contributions shall be deposited into the separate trust fund from a portion of general excise tax revenues. Provides that in any fiscal year subsequent to the 2017-2018 fiscal year in which a county public employer contributions into the fund are less than the amount of the annual required contribution, the amount that represents the excess of the annual required contribution over the county public employer contributions shall be deposited into the fund from a portion of all transient accommodations tax revenues. Provides that in any fiscal year subsequent to fiscal year 2017-2018 in which the public employer contributions into the fund are less than the amount of the annual required contribution and the public employer is not entitled to transient accommodations tax sufficient to satisfy the total amount of the annual required contribution, the public employer's contributions shall be deposited into the fund from portions of any other revenues collected on behalf of the public employer or held by the state. Authorizes the director of finance to deduct the amount necessary to meet the public employer's annual required contribution from any revenues collected on behalf of the public employer held by the state and transfer the amount to the board for deposit into the separate trust fund.

Further, makes non-tax amendments to establish a task force to examine the unfunded liability of the EUTF, require the annual public employer contribution to be equal to the annual required public employer contribution to be determined by an actuary for the five-year fiscal period from 2014-2015 to 2018-2019. Also establishes a schedule to phase in the annual required state public employer contribution requirement. Directs the director of finance to report to the legislature on an implementation plan and proposed legislation to the 2014 legislature.

The amendments made to section HRS section 237D-6.5 shall not be repealed when HRS section 237D-6.5 is repealed and reenacted on June 30, 2015 pursuant to Act 61, SLH 2009, as amended by Act 103, SLH 2011.

EFFECTIVE DATE: July 1, 2013

STAFF COMMENTS: This measure would earmark: (1) general excise tax revenues for any shortfall of the state's required contribution to EUTF; (2) transient accommodation tax (TAT) revenues from each respective county for any shortfall in their required EUTF contribution to address the growing unfunded liability of the EUTF; and (3) provide that if the annual required contribution is not paid by a public employer that either does not receive transient accommodations tax revenues or is not entitled to sufficient transient accommodations tax revenues to fund the amount of the annual required contribution, then the director of finance may retain any portion of the owed amount from any other revenues collected on behalf of that public employer or held by the state.

If this measure were adopted, it would prioritize the funding of the EUTF ahead of all other purposes and will result in less general funds, TAT or other revenues available for their respective programs and/or services. In addition, the danger in adopting this measure is that it may spawn additional requests for other "creative" accounting through the earmarking of tax revenues. In addition, the automatic funding mechanism proposed in this measure would set aside general excise tax, TAT, and other revenue sources without going through the appropriation process and, most importantly, without legislative scrutiny or intervention.

While this measure also provides that this earmarking shall not prevent the legislature from appropriating additional funds to amortize the unfunded actuarial accrued liability of the trust fund, once the earmarking takes effect and automatically deposits the money into the EUTF, this earmarking may be "forgotten" and only the additional amount appropriated would be "visible" and subject to legislative approval.

More importantly, because the general excise tax revenues, TAT, and other revenues are earmarked for this purpose, the funds will go directly to the EUTF and not to the general fund where it would otherwise be counted against the general fund expenditure ceiling. Thus, the scheme proposed is an outright attempt to circumvent the constitutional mandate. Further, because the amount is designated for this purpose, will the taxpaying public know that this contribution is coming at the expense of all other programs or will it prompt a call for an increase in taxes so that both the unfunded liabilities and all other programs can be funded? And will lawmakers have the courage to cut programs financed with general fund dollars or will this situation lead lawmakers to raise the general excise tax or the TAT based on the need to fund the EUTF and maintain all other existing programs?

Lawmakers should admit that funds that should have been going toward paying down the unfunded liabilities of both the EUTF and the state pension system were instead used to fund new programs in the past or expand existing programs. Now that the day of judgment has arrived, will lawmakers merely "kick the can down the road" refusing to cut existing programs while attempting to pay down the unfunded liabilities of both the pension and health fund? Earmarking tax receipts, as this bill does, is an abdication of responsibility that, no doubt, will lead to pressure to raise additional revenues by raising taxes or enacting new revenue enhancements.

How soon lawmakers have forgotten how earmarking general fund revenues can get the state into trouble. It was only 1989 when lawmakers approved earmarking $90 million for educational facilities as the "commitment" to education and only three years later they took back the earmarking because general fund revenues started to dwindle. Further, rather than spurring on construction of classrooms, the earmarking merely created apathy as school officials knew they would receive $90 million off the top and they didn't have to justify a request for funding. Lawmakers should go back and read a little of their own history and learn from their mistakes.

While this proposal may be viewed as "the right thing to do" in order to insure the integrity of the EUTF, it makes no effort to curtail benefits for future beneficiaries nor does it address how the shortfall of resources created by this siphoning off of general excise tax, TAT, and other revenues will be dealt with while other general fund programs and TAT funded programs still demand funding. Is this just another back door way to create a demand for higher taxes? Will this bill merely punish future taxpayers for the mistakes made by the legislatures in the past?

Digested 4/1/13

Senate Committee on Ways and Means
Senator David Ige, Chair
Senator Michelle Kidani, Vice Chair

Wednesday, April 3, 2013
10:00 a.m.
Conference Room 211
State Capitol
415 South Beretania Street

Testimony in support of: HB546 HD2 (Proposed SD2) RELATING TO THE HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

My name is Beverly Gotelli, HSTA-R (Hawaii State Teachers Association-Retired), and I am in strong support of HB546 HD2 SD2, which establishes the Hawaii Employer-Union Health Benefits Trust Fund Task Force, which will examine the unfunded liability of the Hawaii Employer-Union Health Benefits Trust Fund.

Health benefits is always a concern for retirees, so a bill creating a Task Force to examine the unfunded liabilities of the EUTF, possibly the underlying reasons for the unfunded liability, and to make recommendations to remove the unfunded liability of the EUTF is very welcome.

I am pleased that one member of the task force will be a public employee retiree because anything that affects the health benefits offered by the EUTF will also affect retirees.

Thank you for giving me the opportunity to provide testimony on HB546 HD2 Proposed SD2.

Respectfully submitted,
Beverly Gotelli

2527 Tantalus Drive
Honolulu, HI 96813
2 April 2013

Honorable Senator David Ige
Chair, Senate Ways and Means Committee
http://www.capitol.hawaii.gov/submittestimony.aspx.

Honorable Chair Ige and Committee Members,

H.B. 546, HD2, SD1, r/t Hawaii EUTF
WAM Hearing, Wedneday, 3 April 2013, 10:00

Positions

1. I support the concept in SEC. 11 of the proposed SD2 to HB 546 to establish a specific formula and timetable for public employer (state and county) contributions to an EUTF fund, to effectively deal with the current unfunded liability. Exactly how much, when, and by what mechanism contributions should be made is negotiable, but the unfunded liability should be dealt with effectively soon.

2. I support a budget process which looks at and explains the big picture at once, and does not only deal with specific subjects one at a time.

Discussion.

1. I appreciate that the administration and legislature are now attempting to deal with the unfunded liability of the EUTF but ask, what is effective, timely funding? The proposed SD2 is more effective than other proposals I have seen. The administration earlier thought and presumably still thinks that the state cannot afford more than a $100M/yr contribution in FB 2013-2015 to an EUTF fund, even though it acknowledges that $994.9M/yr is needed. (Kalbert Young testimony of March 15, 2013 on SB 946, which has the same contribution formula as proposed HB 546.) Specifically, Mr. Young's testimony on SB 946 stated:

> For example, EUTF's July 1, 2012 actuarial valuation by Aon Hewitt determined that the State's annual required contribution for FY 2012-13 is $994.9 million - $474.5 million for normal cost plus interest and $520.4 million for amortization of unfunded actuarial accrued liability. Using this amount as a benchmark for illustrative purposes, the State's annual required contribution under this bill could be at least:
>
> - $200 million in FY 2014-15 (20% of $994.9);
> - $398 million in FY 2015-16 (40% of $994.9);
> - $597 million in FY 2016-17 (60% of $994.9);
> - $796 million in FY 2017-18 (80% of $994.9); and
> - $995 million in FY 2018-19 (100% of $994.9).
>
> In comparison, the Governor's FB 2013-15 budget proposes to appropriate approximately $100 million in each of the next fiscal years to get the State accustomed on the process towards contributing at least to amortizing the unfunded actuarial accrued liability of approximately $500 million. Furthermore, the six-year financial plan does contemplate moving the State up to the $500 million funding level in FY 2018 as State revenues build over that time. While we are all in agreement that the State does need to be pro-active in pre-funding its OPEB obligations, we are also mindful that the expense burden is a significant one.

> Considering the challenges the Legislature and the State face in revenue levels versus expenditure levels, we would suggest that the Legislature at least support the amount of annual required contribution specified in Senate Bill No. 946 to be reduced to no less than $100 million annually through FY 2016-17, which is the amount that the Administration has proposed as the State's initial pre-funding payment level for the near term.

How is $100M/yr effective? By what mechanism will the difference be made up later? Doesn't delay increase the problem later, because there is less time for any investments to grow? The ERS chief reportedly said that if past legislatures and administrations had not diverted $1.687 B over past deficits, the ERS would be 95% funded today, instead of facing an approx. $8 B (over 40%) underfunding. *Skimming leaves retirement fund short*, D. DePledge, Honolulu Star-Advertiser, 22 Feb. 2013.

What are the specific administration and legislative long term plans? How much will be the yearly shortfalls and how will they be paid in the years before full funding is achieved? If state economic growth is supposed to provide the funds, what are the assumptions for growth, and how will funds be dedicated to cover the EUTF gap instead of expanding or starting other items?

2. The budget process needs to provide a good overview to the public of the liabilities the state faces and competing programs.

The legislative process is fragmented. For example, the single subject rule for legislative bills leads to hearings on narrow subjects, and while the state budget (e.g. HB 200) covers a large range of spending items, the WAM and FIN hearings state budget hearings are segregated by topic or agency. In those hearings people and agencies testify for their own interests, but where is the public forum for balancing among competing interests?

Audits don't yet solve the problem. For example, the State's *Comprehensive Annual Financial Report for FY ending 30 June 2011* excluded the ERS and OHA. They "are not included in the state's basic financial statements because those agencies, based on their fiscal status and/or separate legal entity status, are not accountable to the state." (pp. 3-4. Dean H. Seki, Comptroller, and Jan S. Gouveia, Deputy Comptroller.) However, the State is accountable for ERS shortfalls. The state constitution protects state pensions and, by court decision, retiree health benefits.

So how many other major liabilities are outstanding, and are they compiled in any single document? ERS Chief Investment Officer, Vijoy Paul Chattergy, reportedly expects the ERS to be full funded in 30 years. (Feb. 18, 2013, Honolulu Star Advertiser). What is the legislature going to have to pay in each year between now and then to make up the difference for the ERS? And the ERS underfunded liability is smaller ($8.4B) than the EUTF's ($14B). SCR 184 (Working Group on an Entity to Enhance Financial Resources of Native Hawaiians) refers to a state duty to adequately fund DHHL. How will any collective bargaining compensation increases affect future post-employment benefit liabilities? How will new programs affect the state's ability to deal with existing liabilities? The problem of comprehensively identifying domestic liabilities is actually very common and difficult. *This Time is Different: Eight Centuries of Financial Folly*, xxviii, 101, C. Reinhart and K. Rogoff (2007).

I am a state retiree with 36 years of state service, who relies on the ERS and EUTF for myself and my wife and I am concerned about the health of the ERS and EUTF. However I am much more than a retiree; I am a citizen of Hawaii who cares about many other items, including energy, the environment, education, and the economy. I want to understand the big picture so I can comment better on what the state's priorities should be and so I can vote more intelligently.

The bill raises many other issues, on which I defer comment.

Thank you for the opportunity to testify.

Respectfully submitted,
Laurence K. Lau

Law Clerk, Chief Justice W.S. Richardson 1974-1975
Deputy Attorney General 1975-2003
Deputy Director for Environmental Health 2003-2010

From:	mailinglist@capitol.hawaii.gov
To:	WAM Testimony
Cc:	lorrainehora@yahoo.com
Subject:	Submitted testimony for HB546 on Apr 3, 2013 10:00AM
Date:	Tuesday, April 02, 2013 9:35:46 AM

HB546
Submitted on: 4/2/2013
Testimony for WAM on Apr 3, 2013 10:00AM in Conference Room 211

Submitted By	Organization	Testifier Position	Present at Hearing
Lorraine M. Hora	Individual	Comments Only	No

Comments: I am an HSTA Retiree and very concerned about our unfunded liability. I am in favor of and support HB546 HD2 SD2. Thank you.

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.