



UNIVERSITY
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SYSTEM

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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:

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“(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