



UNIVERSITY OF HAWAII SYSTEM

Legislative Testimony

Testimony Presented Before the
Senate Committee on Ways and Means
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by
Kalbert Young
Vice President – Budget & Finance & Chief Financial Officer
University of Hawai'i

SB 249 SD1 – RELATING TO EMPLOYER-UNION HEALTH BENEFITS

Chair Tokuda, Vice Chair Kouchi, and members of the Ways and Means committee:

Thank you for this opportunity to testify. Senate Bill 249 Senate Draft 1, Relating to Employer-Union Health Benefits, proposes to require all non-general funds to contribute their proportionate share of the State's total annual required contribution (ARC). The University of Hawai'i (UH) has concerns regarding this measure and recommends revision.

The University of Hawai'i (UH) recognizes the significance of addressing the unfunded liabilities of the State of Hawai'i for employer-union health benefits, or as more commonly referred to as Other (than pension) Post-Employment Benefits (OPEB).

UH employs more than 7,500 people of whom 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 currently exceed \$600 million per year across the university, an additional expense to satisfy OPEB would be considerable – even for non-general funds.

Act 268, SLH 2013 will require the State to meet escalating portions of the OPEB ARC until FY19, after which the State will be contributing the full ARC. The State's 6 year financial plan contemplates that 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.

SB 249 SD1 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):

“(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 accommodate 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 ID for state-wide fringe benefits expenses situated within the Department of Budget and 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 this 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 respectfully request that the Senate Ways and Means Committee 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 SB 249 SD1 would cripple or decimate special fund operations – including a major portion of programming at UH.

The University of Hawai‘i appreciates the opportunity to express its concerns.