

STAND. COM. REP. NO.

481

Honolulu, Hawaii

FEB 19 2021

RE: S.B. No. 1087  
S.D. 1

Honorable Ronald D. Kouchi  
President of the Senate  
Thirty-First State Legislature  
Regular Session of 2021  
State of Hawaii

Sir:

Your Committee on Labor, Culture and the Arts, to which was referred S.B. No. 1087 entitled:

"A BILL FOR AN ACT RELATING TO THE HAWAII EMPLOYER-UNION  
HEALTH BENEFITS TRUST FUND,"

begs leave to report as follows:

The purpose and intent of this measure is to temporarily suspend the requirement for public employers to make annual required contributions into the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) for four years, through fiscal year 2024-2025.

Your Committee received testimony in support of this measure from the Department of Budget and Finance, County of Hawai'i, and one individual. Your Committee received testimony in opposition to this measure from the Health Committee of the Democratic Party of Hawai'i. Your Committee received comments on this measure from the Hawaii Employer-Union Health Benefits Trust Fund and Americans for Democratic Action Hawai'i.

Your Committee finds that the EUTF is a state agency administratively attached to the Department of Budget and Finance that provides eligible State and county employees and retirees and their eligible dependents with health and life insurance benefits. EUTF receives monthly contributions known as "pay-as-you go" premiums from public employers that is used towards the payment of



costs for the beneficiaries' health benefit and group life insurance plans.

In 2013, to reduce the EUTF's substantial amount of unfunded liability, the Legislature passed Act 268, Sessions Laws of Hawaii 2013, that required the EUTF to establish a separate trust fund entitled the Other Post-Employment Benefits (OPEB) Trust, into which the employers must pay annual required contributions to pre-fund the OPEB plan costs for existing employees as well as pay down the EUTF's existing unfunded liability. The amount of annual required contribution is determined by the EUTF, and beginning fiscal year 2018-2019, public employers were required to pay an amount sufficient to fully cover the "normal cost", which is the OPEB cost attributable to the current year of service and the "amortization payment", which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next thirty years.

Your Committee finds that on July 17, 2020, to address the \$2.3 billion budget shortfall resulting from the impacts of the coronavirus disease 2019 (COVID-19) pandemic, the Governor issued a Tenth Proclamation Related to the COVID-19 Emergency, which suspended the State's payment of \$408 million as the annual required contributions for the fiscal year ending June 30, 2021. As a result, for fiscal year 2020-2021, the State and counties contributions will be limited to their share of the monthly "pay-as-you-go" premiums and claims expenses. This measure will extend this suspension for four more years, until fiscal year 2024-2025.

In July 2020, Moody's Investors Service, one of the three major credit rating agencies that publish bond-ratings for Hawaii, downgraded the rating for the State's general obligation (GO) bonds from Aa1 to Aa2, considering the long-term effect of the COVID-19 pandemic on the State's economy. In October 2020, Fitch Ratings downgraded its rating for the State's outstanding GO bonds from AA+ to AA. S&P Global Ratings has assigned the State an AA+ rating with a negative outlook. Your Committee finds that the Department of Budget and Finance is requesting the suspension of the annual required contribution payments in this measure to balance the State's budget with minimum impact on the State's bond ratings. According to the Department, the four-year suspension will reduce the State's fixed costs by \$1,434,439,000, and provide the public employers with the flexibility to address budgetary



shortfalls while the economy recovers from the impact of the COVID-19 pandemic.

Your Committee also recognizes the concerns raised in testimony on the negative impacts of the elongated suspension of the annual required contribution payments. Prefunding of the OPEB is a sound, long-term budget policy that hedges against the risk of the EUTF's annual current benefits payments outpacing its revenues. Prefunding also allows the investment earnings from the funds to be used in the future for payment of retiree premiums. The suspension of contributions will delay the public employers from reaching a full-funded status of their OPEB funds unless payments are accelerated after the suspension is repealed. According to the EUTF's projections, this measure will increase its unfunded liability, resulting in a net increase of \$4.1 billion in the State's required payments for fiscal years 2026 to 2055. Furthermore, the State's fringe benefits rate for non-general funds will be lower than it would be without the suspension.

Therefore, your Committee has considered amending this measure to shorten the duration of the suspension from four to two years with the opportunity for the Department of Budget and Finance to request for further extensions thereafter, if necessary. However, according to the Department, shortening the duration of the suspension period would result in a negative general fund ending balance for fiscal years 2024-2025 and 2025-2026. Since a state's general fund ending balance is one of the factors considered in bond ratings, shortening the duration of the suspension may have a negative impact on the State's bond-rating. Based on the testimony from the Department, your Committee believes further discussion of this complex issue is needed.

Accordingly, your Committee has amended this measure by:

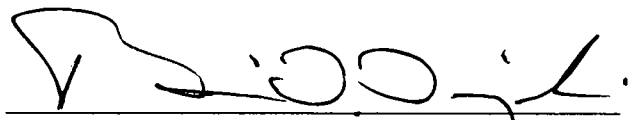
- (1) Inserting an effective date of July 1, 2050, to encourage further discussion; and
- (2) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Labor, Culture and the Arts that is attached to this



report, your Committee is in accord with the intent and purpose of S.B. No. 1087, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 1087, S.D. 1, and be referred to your Committees on Judiciary and Ways and Means.

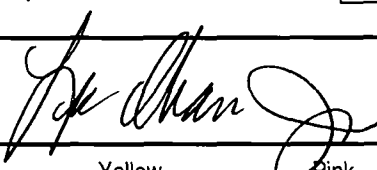
Respectfully submitted on  
behalf of the members of the  
Committee on Labor, Culture and  
the Arts,

  
\_\_\_\_\_  
BRIAN T. TANIGUCHI, Chair



The Senate  
 Thirty-First Legislature  
 State of Hawai'i

**Record of Votes**  
**Committee on Labor, Culture and the Arts**  
**LCA**

Bill / Resolution No.:* <b>SB 1087</b>	Committee Referral: <b>LCA, JDC/WAM</b>	Date: <b>2/10/21</b>		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
TANIGUCHI, Brian T. (C)	✓			
IHARA, Jr., Les (VC)	✓			
CHANG, Stanley	✓			
KEOHOKALOLE, Jarrett	✓			
FEVELLA, Kurt	✓			
<b>TOTAL</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
<b>Distribution:</b> Original     Yellow     Pink     Goldenrod File with Committee Report     Clerk's Office     Drafting Agency     Committee File Copy				

\*Only one measure per Record of Votes