

State in Dire Financial Condition; Hawaii Taxpayers Owe \$25,000 for Past Debt, Plus \$8,872 Per Year for State Expenditures



Panel including State Budget & Finance Director Kalbert Young, Truth in Accounting President Sheila Weinberg, Maui Chamber of Commerce President Pamela Tumpap; and Economist Paul Brewbaker testifies on Hawaii's financial condition in 2011 (photo by Mel Ah Ching productions)

BY MALIA ZIMMERMAN- Hawaii state government's financial situation is dire, mainly because of unfunded obligations that total in the billions of dollars.

That was the assessment from Sheila Weinberg, founder of the Chicago-based Institute for Truth in Accounting, during a presentation that she made to Hawaii lawmakers on Monday at the Hawaii state capitol.

Weinberg, whose organization strives for "truth" and "transparency" in government accounting, offered more detail to a first of its kind report that looks at state debt nationwide.

The institute reports that based on the state's latest financial data (2009), Hawaii is rated as the 5th worst "sinkhole" state.

While Hawaii has \$19.5 billion worth of assets, only \$3.9 billion are available to pay \$15.4 billion of bills as they come due.

The Institute estimates that each person here - a state with just under 1.3 million residents - carries over \$25,000 in debt from past government spending.

There is a per capita burden of \$8,872 for Hawaii annually, which is in addition to the \$25,000 per person owed for stat debt.

However, there are 459,268 people paying federal taxes in the state.

Nationally the figures are much higher. To pay off the nation's deficit, each person in the state would have to write a check for \$247,000, she said.

For Hawaii, there are two major unfunded obligations that Weinberg, two credit rating agencies, and Hawaii's State Budget and Finance Director Kalbert Young, have singled out as problematic – the state Employee Retirement System (ERS) and the Hawaii Employee-Union Health Benefits Trust Fund (EUTF).

While various studies show Hawaii's unfunded obligations at different amounts, Weinberg's group used the state's own numbers that show that \$3.9 billion is state's share of \$5.1 in unfunded liabilities; the counties owe the rest.

And because the EUTF is a pay as you go system, the state has no funding or assets to cover the \$7.2 billion needed to cover state and county retirees' healthcare as promised to them – and the costs keep rising. The state pays out about \$1.2 billion a year.

The Hawaii State Teachers Association needs another \$1.6 billion for teachers healthcare, but this is also a pay as you go system with no assets or funding set aside to cover the total.

Weinberg said just to pay off the EUTF obligation, Hawaii would have to stop paying all of its state workers for 4 years just to catch up.

Because the state is not paying off these debts in full – or even budgeting for them – Weinberg said taxpayers in the future are being burdened with this debt.

Weinberg was one of four people who testified before the House and Senate members, organized by House Minority Leader Gene Ward, that also included Budget & Finance Director Kalbert Young, Economist Paul Brewbaker, and Maui Chamber of Commerce director Pamela Tumpap.

Young, who manages the state budget, shares the concerns outlined by Weinberg and two state credit agencies, Moodys and Standard & Poors. He told lawmakers that some changes are being made to improve the state's financial conditions, but more needs to be done.

He confirmed what national studies show: Hawaii is one of, if not the most, generous states for government employee retirement benefits.

Young also provided more information to *Hawaii Reporter* on the state's debt and unfunded obligations.

The actuary report for July 1, 2009 (issued in May 2011), lists the Present Value of Benefits for the ERS at \$18.1 billion, but the actuarial liability is \$14.1 billion, he said. (The latter is the number indicative of the unfunded liability). The \$18.1 billion is the present value of the overall obligation discounted at a certain rate (in this case, 5%).

The \$14.1 billion quantifies the value of the obligation that was made to government employees and retirees when they enter retirement - and all taxpayers are going to be impacted by this, Young said.

"The State and taxpayers have not been paying into the EUTF to fund up its future liabilities. Instead, the State and taxpayers have been content to pay only the yearly premium costs and expenses. Well, the cost of this coverage continues to increase at a rate faster than revenue is projected to increase. Since the liability is not being met, the liability is recorded on the State's financial statements, which reduce our asset position. In the end, the State and taxpayers will either have reduced services to fund growing health insurance premiums, or to begin funding the liability, or taxes and revenues will have to be increased to pay for either," Young said.

How can the state cover its debt? There really is only one way to make up the liability... and, that is to fund it, Young said.

"Now, we can continue as we have been doing for decades and fund it only for the current annual costs, but those costs are projected only to grow. They will grow because health insurance premiums are projected to increase annually, and the government work force is increasingly aging. Currently, there is 2-3 current employees for every current retiree."

How did the state get into this position with such as substantial unfunded liability? Young said it was unfunded the day the benefit of paying health insurance to retirees were promised and the State and taxpayers did not put the first \$1 aside to that future cost.

"This started decades decades decades ago. If previous taxpayers had put in their \$1 when they made that promise decades ago, current taxpayers would not have to contribute the \$10 that is needed today," Young said, confirming that the current arrangement is unsustainable into the future.

"At some point in the future, the expense for retiree health coverage will exceed health coverage cost for the government employers (the state and counties). This is because, under the current scenario, the employers pay 50% of current employees'

health insurance premiums, but as soon as that employee retires, the employers pay 100% of the premium. And, for employees who were employed prior to 1996, their spouses are also covered 100%. That means it costs employers and taxpayers more to provide coverage to retirees than to current workers," Young said.

He added: "At that point, taxpayers should recognize and realize they are paying for costs where they are not receiving any benefit. That is why the current system of paying only annual expenses is not wise or sustainable. It is unlikely that this benefit can be changed for current retirees or current employees for when they retire. But, it is unlikely that we can continue offering this benefit to all future employees. I believe that's where we need to start changing the system."

The Administration has already begun trying to address what many analyst say is a dire situation, Young said.

"If you recall, we introduced a bill that would have stopped the practice of reimbursing retirees for Medicare Part B. This amounts to approximately \$40 million a year in FY11. It's projected to grow to \$47+ million in FY12. It also contributes to the unfunded liability. The public and the legislature argued against reducing this benefit for government retirees. If benefits can not be reduced for current retirees or current employees when they retire, then we are only left with changing this benefit for future not-yet-hired employees. This will reduce the unfunded liability in time - decades decades from now. It's a start. The Administration intends to continue pressing for reform that will slow the growth in the liability and eventually address it. I don't know what the legislature collectively would offer towards this problem."

The state's financial woes have had an impact on its bond rating - the State was recently downgraded by both Moody's and Fitch, with both citing the large unfunded liability in the EUTF as one of the four top reasons for the downgrade and they also cited that the liability is growing.

"This is because we are doing nothing to address its growth," Young said. "I believe given the statistics on Hawaii's liability relative to other states, Hawaii could be faced with future credit action if we do not pro-actively begin to address this matter. Credit downgrades impact taxpayers because they translate to higher interest rates and borrowing costs. As a result, taxpayers will have to pay more for government or they will have to accept a larger portion of their taxes going towards debt."