MINUTES
HSAC EXECUTIVE COMMITTEE MEETING
August 27, 2015
Honolulu Hale, Committee Meeting Room
530 South King Street
Honolulu, Hawaii 96813

I. CALL TO ORDER

The HSAC Executive Committee meeting was called to order by President Mel Rapozo at 10:40 a.m. The following members comprising a quorum were present:

County of Kauai:	HSAC President Mel Rapozo, County of Kauai Council Chair
County of Hawaii:	Vice President Dennis Onishi, County of Hawaii Councilmember
City and County of Honolulu:	Secretary Ikaika Anderson, City and County of Honolulu Council Vice-Chair
County of Maui:	Treasurer Michael Victorino, County of Maui Councilmember
Others Present:	Honolulu staff Kamakana Watanabe, Legislative Analyst, Office of Council Services; Honolulu staff Brandon Mitsuda, Council Liaison, Honolulu City Council Administrative Support Services; Maui staff Kit Zulueta, Communication Director, Office of Council Services; Kauai staff Aida Okasaki, Legislative Assistant, Council Services Division; Romy Cachola, Hawaii State Representative

II. APPROVAL OF AGENDA

The Committee approved the agenda.

III. MINUTES

The Committee approved the Minutes of the July 29, 2015 Executive Committee meeting.

IV. NEW BUSINESS

A. Presentation by State Representative Romy M. Cachola addressing the State of Hawaii Employer – Union Health Benefits Trust Fund unfunded liability.

B. Representative Cachola's presentation to the Committee related to Other Post Employee Benefits (OPEB) and Act 268, relating to the Hawaii Employer-Union Health Benefits Trust Fund which was enacted in 2013. Act 268 amended Chapter 87A, Hawaii Revised Statutes, to provide for annual public employer contributions to the OPEB by each of the counties, commencing in fiscal year 2018-2019. It also establishes a separate trust fund which will receive the employer contributions that will prefund OPEB health and other benefit plan costs for retirees and their beneficiaries. Representative Cachola introduced HB 1356, CD2 and reported that this measure would establish a stabilization fund to cover future unfunded health care liabilities for public sector retiree health care premium increases. The fund, once the public employer subaccount balance reaches at least $2 billion in aggregate, will rely on a projected 7% interest rate to generate $140 million per year which will be used to fund public retiree health care benefits. Representative Cachola estimates that HB 1356, CD2 will help the counties pay down the $162 million per year the counties owe to the OPEB fund. Representative Cachola provided the committee a handout (attached).

(During discussion President Rapozo and Secretary Anderson questioned Representative Cachola: What has the State of Hawaii, Employees' Retirement System been receiving as a return on its investments? Representative Cachola believed it to be 4%. The 7% interest rate Representative Cachola is using is based on the GRS Key OPEB Assumptions, Actuary Report for December 2014. Secretary Anderson asked if the bill was still pending and it is. Representative Cachola believes that, using the method outlined in his presentation, the State of Hawaii can stretch the OPEB fund till 2036 until a solution can be found to prefunding.)

A motion was made, seconded and approved to receive the presentation.

V. REPORTS

A. Treasurer's Report

The Treasurer's Report for the month of July 2015, was submitted by the HSAC Treasurer.

Treasurer Victorino noted that for the period ended July 31, 2015, revenues totaled $11,374.94, while expenses totaled $6,978.23. Overall, the total HSAC account balance after accounting for revenues and expenses was $147,512.38.

The Treasurer's Report for the month of July 2015 was approved.

B. County Reports

1. <u>Maui County Report.</u> Treasurer Victorino reported that Maui County Council passed a $4 million debt forgiveness for a Maui homeless resource center and affordable housing project. The debt forgiveness represents Maui's commitment to resolving its homeless problems. The Council is discussing the concept of tiny houses for the homeless. Furthermore, the Council is pursuing legislation to reduce from 10,000 sq. ft. to 5,000 sq. ft. or 7,500 sq. ft., the square footage limit on ohana units to help increase affordable housing.

   Maui County Council is also working on rain water and catchment systems. The Council would like to see utilization of present water resources without spending more money on developing new resources. Treasurer Victorino noted that a bill on smoking at bus stops has moved forward and that the Maui Ethics Commission has approved lobbyists' registration conducted online. Further, the Council approved the repeal of the county's decal law that banned stickers on back and side windows of motor vehicles. Also, the Maui County Department of Health is looking at new rules for cesspools because new proposed upgrade requirements may create a significant hardship on homeowners. Finally, a bill regulating roadside stands and farmer markets is being reviewed by the Council. Treasurer Victorino hopes the bill will help to feature local farmers and products and eliminate the special permit needed to have these stands or markets.

2. <u>Hawaii County Report.</u> Vice President Onishi reported that Hawaii County Council is looking into not using "Round-Up" herbicide. The Council will be working on an alternative. (A discussion ensued regarding implementing the State wide ban.)

3. City and County of Honolulu Report. Secretary Anderson reported the following items for the City and County of Honolulu: 1) Honolulu City Council passed Bill 30 which removed the exemption of credit unions, from real property tax. 2) The Council also passed Bill 42, establishing a fund allowing for the City to financially assist those business that are either displaced or have financial difficulties because of the rail project. 3) The passing of Bill 24 relating to car sharing will establish a car sharing program in Honolulu that allows Honolulu residents to rent a car and pick up and drop off that car at numerous and convenient locations around Oahu beyond what the current car rental model allows. 4) Further, the Council passed Bill 45 relating to baby changing accommodations, which provides for baby changing accommodations to be made available at both men's and women's restroom facilities in areas open to the public, provided that certain amounts are spent on renovations to existing bathrooms or if new bathrooms are being constructed. 5) The Council passed Bill 44 relating to public/pedestrian malls in the downtown and Chinatown areas, which prohibits sitting and lying down on these mall during certain hours. Mayor Caldwell vetoed Bill 44, and the Council is considering an override of the veto. 6) Finally, the Council passed Bill 46, CD1. This bill will prevent people from camping, erecting tents or structures or engaging in certain other activities on City-owned stream banks. 7) The next Honolulu City Council meeting will be on Wednesday, Sept. 2nd.

   Secretary Anderson noted that the Zoning and Planning Committee passed out Bill 20, which is a Land Use Ordinance amendment that allows accessory dwelling units up to 800 sq. ft. in size to be added to existing dwelling units on a residential lot. The major component to Bill 20 would be the allowance of a second kitchen.

   (Discussion ensued regarding B&B's and TVU's in response to Bill 20. Further, discussion on Bill 24 (relating to car sharing) was had, including a question as to whether taxi companies had objected to the bill. Secretary Anderson was unsure, but requested Mr. Mitsuda to hand out a copy of the bill to all members. President Rapozo asked if baby diaper changing rooms would be required if the business has a "family" or unisex restroom.)

4. Kauai County Report. President Rapozo began by noting that Kauai County Council has repealed its barking dog ordinance. The Kauai Humane Society was supposed to validate the complaint but in most cases they did not. All cases have been thrown out due to the lack of verification of the complaint, therefore the ordinance has been repealed. President Rapozo went on to note that Kauai

Councilmember Kagawa would like to stop having term limits for the Council. Also, a $15 minimum wage is being discussed on Kauai. The Council would like to put the issue of a $15 minimum wage on the HSAC legislative package, as in 2019, the Council would like to see a $15 minimum wage. President Rapozo noted that a $10 minimum wage would shut down a lot of small businesses. Also, Kauai Mayor Carvalho is expected propose a .5% GET surcharge for Kauai County. This surcharge would generate an $8 million increase in revenue, however it was pointed out to Mayor Carvallho that the $8 million figure was incorrect and the surcharge would actually generate $23 million increase.

Finally, the State is concerned about the ohia trees on Kauai in light of the hurricane season.

(A discussion ensued regarding the $15/hour minimum wage. This wage increase was not passed by Kauai County Council. Further discussion ensued regarding the traffic problems of Kapaa, Kauai and possibly using the revenues from the GET surcharge to find solutions to alleviate the traffic in Kapaa.)

A motion was made, seconded and approved to receive the county reports.

C. NACo Report

Treasurer Anderson received a report from the NACo President Sally Clark requesting that NACo representatives participate fully in NACo meetings.

A motion was made, seconded and approved to receive the NACo Report.

D. WIR Report

No report.

E. 2015 Hawaii State Association of Counties Annual Conference Report

Treasurer Victorino thanked all who were involved in putting on the HSAC Annual Conferences for doing a wonderful job. No complaints were received. Treasurer Victorino notes that the program was a great success.

Treasurer Victorino gave the financial report: Total budget of $127,417.67. Expenses $85,589.64. Total revenue: $41,828.03.

(President Rapozo would like Secretary Anderson to draft a thank you letter to Maui County for hosting the HSAC Conference to be presented next meeting.)

A motion was made, seconded and approved to receive the 2015 Hawaii State Association of Counties Annual Conference Report.

VI. UNFINISHED BUSINESS

No unfinished business.

VII. NEW BUSINESS

Communication (08/18/2015) from HSAC Treasurer Michael P. Victorino, transmitting for the Executive Committee's review and approval: 1) a draft letter to Carbonaro CPAs & Management Group, and 2) a draft Audited Financial Statements (with Independent Auditor's' Report) for the years ended June 30, 2014 and 2015.

Treasurer Victoriono reported that copies of transmittals and review of draft letters as well as the draft audit have been completed. Treasurer Victorino reports that because of WIR and having a very successful HSAC Conference, HSAC made an excess of $200,000 in revenues and HSAC may have to pay taxes on those revenues, which put HSAC in a new category of taxes. Treasurer Victorino noted that the auditors found no problems in completing the audit. Treasurer Victorino is unsure as to the amount of the taxes to be paid are and he does not believe there will be penalties on the revenues.

A motion was made, seconded and approved to receive the item.

VIII. ANNOUNCEMENTS

A. Treasurer Victorino announced that the deadline of September 11, 2015 for the HSAC legislative package will not be met by Maui County Council because the Maui County will not meet until September 18, 2015.

President Rapozo stated that he will accept the package past September 11, 2015. Treasurer Victorino estimates that the Maui County HSAC package will be ready by September 20, 2015.

Treasurer Victorino reported that the HSAC legislative package from Maui County will include measurers relating to the sunshine law, short term investment policy and the approval and bargaining unit of negotiation. Treasurer Victorino and his colleagues feel it is unfair that the Governor has five votes for the State and the counties have only four votes.

Another issue that Maui County Council will be discussing is legislation to allow for police to issue a civil fine for various violations instead of traditional citations so that the county can keep the revenues instead of revenues going to the State.

Vice President Onishi would like to start the HSAC legislative package process earlier in the year. He also would like members to speak to the State representatives from their respective counties to get their support for HSAC's legislative package, as well.

Secretary Anderson reported that the HSAC legislative package from the City and County of Honolulu may include measures relating to mopeds, couples in care home facilities, and a third that is pending.

President Rapozo reported that HSAC legislative package from Kauai may include measures on amortization and the sunshine law.

B. Schedule the next meeting:

Thursday, September 11, 2015, Maui County, 11:00 a.m.

C. Other announcements.

IX. ADJOURNMENT

The meeting was adjourned at 12:15 p.m.

Respectfully submitted,

IKAIKA ANDERSON, Secretary
Hawaii State Association of Counties

PROPOSED HB1356 CD2

A PROPOSAL TO

BUILD ON ACT 268

TO

SAVE BILLIONS OF TAXPAYER $$$

Prefunding Other Post Employment Benefits (OPEB) is not required by GASB

GASB

"For OPEB, however, most governments currently follow a *pay-as-y[ou]-go* approach, paying an amount each year equal to the benefits distributed or claimed in that year. The new OPEB standards do no[t] mandate the funding of OPEB benefits (in other words, to set aside assets in advance to pay benefits in the future). As noted above, th[e] address accounting and financial reporting issues only."

-GASB Other Postemployment Benefits: A Plain-Language Summary of GASB Statements No. 43 and No. 45

Understanding the Problem of Unfunded Liabilities

- Currently, Hawaii has an estimated $18 billion in unfunded health care liabilities
- Health care premiums rose from $523 million (FY2004) to $869 million (FY2013), an average increase of $40 million/year, 40% ($17M) of which is for retirees
- Paying down OPEB unfunded liabilities will:
  - Cost the State about $500 million/year for the next 30 years starting in 2019
  - Cost the counties approximately $162 million/year starting in 2014

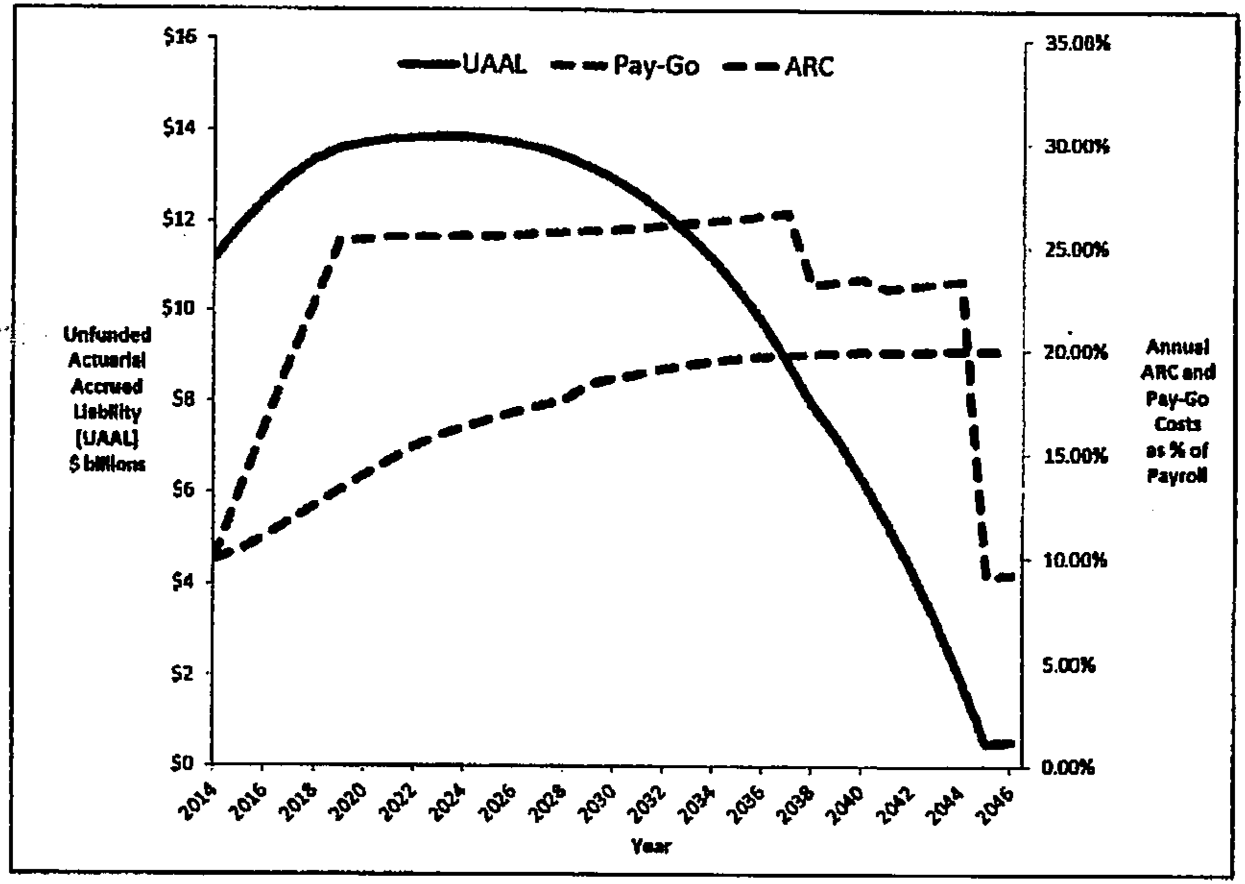
Solving the Problem

The Governor and Legislature took the first step with Act 268 (2013), which requires employer prefunding for retirees only and prescribes a funding schedule for the State and counties:

Fiscal Year	Percentage of Annual Required Contribution (ARC) to fund	Funding level for State (millions)	County Contributions (millions) \$467M prior
2014	-	\$100	\$162
2015	20%	\$117	tbd
2016	40%	\$200 (est.)	tbd
2017	60%	\$300 (est.)	tbd
2018	80%	\$400 (est.)	tbd
2019	100%	\$500 (est.)	tbd

Starting in 2019, the State will have to spend a projected \$500 million/year for the next 30 years to pay down the unfunded liability.

Projections - Assuming Minimum Contributions per ACT 268



Now that we have prefunding under Act 268, how do we fund premium increases into the future?

Possible funding solutions:

- **Raise taxes**, including the GET on the State level and property taxes on the county level?
- **Lay-off** state and county employees?
- **Cut back benefits** already promised to state and county employees?
- Any combination of the above?

None of the above is proposed by HB1356 CD2.

How does Proposed HB1356 CD2 work to achieve savings?

- Retains prefunding of OPEB Trust Fund in each employer sub-accounts
- Establishes a Stabilization fund to cover future retiree premium increases as they occur
- Reduces employer costs - no more employer prefunding contributions the OPEB Trust Fund, when public employer subaccount balance is at least $2 billion in aggregate
- To cover future premium increases for both employer and retirees:
  - Once OPEB Trust Fund subaccount balances reach $2 billion in aggregate including investment income, the subsequent investment income transfers to the Stabilization Fund per employer subaccount
    - projected at an average of $140 million per year, based on 7% interest rate projected by the GRS Actuarial Report from December 2014
  - Investment Income balance at end-of-the-fiscal-year shall remain in the EUTF Stabilization Fund per employer subaccount to compound with the following year investment income

HB1356 CD2 Proposed also:

- Keeps current management of EUTF in tact; all funds will be managed by EUTF
- Does NOT change existing benefits or programs
- Builds on, rather than repeals, Act 268
- Retains SD2 language that allows the EUTF to invest moneys in the same manner as the Employment Retirement System
- The number of retirees and beneficiaries is expected to decrease over time, decreasing the annual burden
  - Based on Act 88 from 2001
    - the retirees spouses are no longer covered
- Fund is <u>not</u> to be raided for <u>any</u> reason

Advantages

Funds not used to prefund the liability can increase funding flexibility in the future for both the State and counties, for example:

- Funding the Employee Retirement System reserves
- Funding collective bargaining agreements
- Funding education / charter schools
- Air Conditioning in the classrooms
- Addressing Homelessness problem
- Funding Hawaii Health Systems Corporation shortfall
- Cash Capital Improvement Projects (CIP) and other funding needs of State and Counties including rail transit for the City and County of Honolulu

State of Hawaii Health Insurance Costs

Retired Active and Beneficieries - HB1356 Revised Act 268

Fiscal Year	Active Employees Pay as you go (in millions)	Retirees Annual Premiums with Increases (in millions)	State Contributions Estimated per Act 268 schedule (in millions)	Actual C&C Contributions* TBD (in millions)	EUTF Aggregate Employer Accounts from State/C&C Contributions (in millions) + 7% Interest	Stabilization Fund from EUTF (avg 7% return based on GRS 2014) (in millions)	Investment Income from Stabilization Fund, 7% (in Millions)	Average Annual Retiree Premium Increase (in millions)
2007-2008	$ 289.00	$ 262.00		$ 34.27				
2008-2009	$ 318.00	$ 265.00		$ 58.81				
2009-2010	$ 357.00	$ 316.00		$ 41.34				
2010-2011	$ 399.00	$ 360.00		$ 32.10				
2011-2012	$ 481.00	$ 374.00		$ 59.01				
2012-2013	$ 486.00	$ 383.00		$ 54.80				
2013-2014	$ 518.00	$ 388.00	$ 100.00	$ 162.00	$ 729.00			
2014-2015	$ 538.00	$ 405.00	$ 117.00	$ *162.00*	$ 1,078.56	$ -		
2015-2016	$ 561.00	$ 422.00	$ 200.00	$ *162.00*	$ 1,541.40	$ -		
2016-2017**	$ 584.00	$ 439.00	$ 300.00	$ *162.00*	$ 2,000.00	$ 143.64		
2017-2018	$ 607.00	$ 456.00	$ 400.00	$ 162.00	$ 2,000.00	$ 828.64		$ 17.00
2018-2019	$ 630.00	$ 456.00			$ 2,000.00	$ 934.64	$ 58.00	$ 34.00
2019-2020	$ 653.00	$ 456.00			$ 2,000.00	$ 1,023.64	$ 65.42	$ 51.00
2020-2021	$ 676.00	$ 456.00			$ 2,000.00	$ 1,095.64	$ 71.65	$ 68.00
2021-2022	$ 699.00	$ 456.00			$ 2,000.00	$ 1,150.64	$ 76.69	$ 85.00
2022-2023	$ 722.00	$ 456.00			$ 2,000.00	$ 1,188.64	$ 80.54	$ 102.00
2023-2024	$ 745.00	$ 456.00			$ 2,000.00	$ 1,209.64	$ 83.20	$ 119.00
2024-2025	$ 768.00	$ 456.00			$ 2,000.00	$ 1,213.64	$ 84.67	$ 136.00
2025-2026	$ 791.00	$ 456.00			$ 2,000.00	$ 1,200.64	$ 84.95	$ 153.00
2026-2027	$ 814.00	$ 456.00			$ 2,000.00	$ 1,170.64	$ 84.04	$ 170.00
2027-2028	$ 837.00	$ 456.00			$ 2,000.00	$ 1,123.64	$ 81.94	$ 187.00
2028-2029	$ 860.00	$ 456.00			$ 2,000.00	$ 1,059.64	$ 78.65	$ 204.00
2029-2030	$ 883.00	$ 456.00			$ 2,000.00	$ 978.64	$ 74.17	$ 221.00
2030-2031	$ 906.00	$ 456.00			$ 2,000.00	$ 880.64	$ 68.50	$ 238.00
2031-2032	$ 929.00	$ 456.00			$ 2,000.00	$ 765.64	$ 61.64	$ 255.00
2032-2033	$ 952.00	$ 456.00			$ 2,000.00	$ 633.64	$ 53.59	$ 272.00
2033-2034	$ 975.00	$ 456.00			$ 2,000.00	$ 484.64	$ 44.35	$ 289.00
2034-2035	$ 998.00	$ 456.00			$ 2,000.00	$ 318.64	$ 33.92	$ 306.00
2035-2036	$ 1,021.00	$ 456.00			$ 2,000.00	$ 135.64	$ 22.30	$ 323.00

* average C&C projected contributions based on total between 2004 and 2013

** EUTF Employer Account Funds Reaches Aggregate $2 Billion in total contributions during fiscal year 2016-2017

Based on Act 268 Contribution Schedule for State

C&C contribution is a projection only beginning 2015

Investment Interest income to be an average of 7% annually

Based on GRS Key OPEB Assumptions, Actuary Report December 2014

7% of $2B = $140M

Annual Retiree premium increase projection of $17M for retirees only paid by employer

Annual increases of retiree premiums paid by EUTF out of Stabilization Fund (paid by both employer and retiree)

Remaining investment income stays in the EUTF Stabilizaition Fund per employer sub-account

Stabilization Fund is managed by EUTF

Annual Burden will likely decrease

Number of Retirees and beneficiaries will decrease

based on Act 88 from 2001

spouse no longer covered

Prefunding applies to Retirees only, not active employees

Each employer maintaines their own prefunded sub-account

C&C Contribution based on actuarial report done every 2 years

Stabilization Fund covers the retiree premium increases through to FY2035-2036 without dipping into the initial $2B

Annual Risk Sharing Refund has equalled approx $20M for active, retiree and dependent

Retiree percentage to be returned to EUTF Retiree Stabilization Fund