

General Fund Financial Plan Update Based on COR's Sept 2012 Projection

Department of Budget and Finance
(9/18/12)

Comparison of Council on Revenues

Sept. 10, 2012 vs. Aug. 6, 2012 Report

General Funds

(\$ millions)

		<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>	<u>FY 19</u>
Tax revenues									
		15.0%	4.9%	3.9%	5.0%	1.2%	4.2%	5.1%	4.6%
	09-10-12	4,978.0	5,223.1	5,427.2	5,698.2	5,767.2	6,010.4	6,315.9	6,608.5
		14.9%	5.3%	4.0%	6.2%	4.0%	5.0%	5.0%	
	08-06-12	4,975.8	5,239.5	5,449.1	5,787.0	6,018.4	6,319.4	6,635.3	NA
	Difference	2.2	(16.5)	(21.9)	(88.7)	(251.2)	(309.0)	(319.5)	NA
Non-tax revenues									
	09-10-12	688.2	553.5	552.0	552.6	543.2	548.3	550.1	550.1
	08-06-12	555.2	555.2	553.7	554.4	544.9	550.0	551.9	551.9
	Difference	133.0	(1.7)	(1.7)	(1.8)	(1.7)	(1.7)	(1.7)	(1.7)
TOTAL - TAX + NON-TAX									
	09-10-12	5,666.2	5,776.6	5,979.2	6,250.8	6,310.4	6,558.6	6,866.0	7,158.7
	08-06-12	5,531.0	5,794.8	6,002.8	6,341.4	6,563.3	6,869.3	7,187.2	NA
	DIFFERENCE	135.2	(18.2)	(23.7)	(90.6)	(252.9)	(310.7)	(321.2)	NA

Preliminary General Fund Tax Revenue Collections as of August 2012

- COR projects 4.9% or \$5,223.1 M for FY 13
- First 2 months collections were 11.9% or \$870.8 M
- Need to average \$435.2 M for final 10 months
 - First 2 months average was \$435.4 M
 - Last FYs last 2 months average was \$420.0 M

Updated Preliminary General Fund Financial Plan

Updated GF Financial Plan Based on August 2012 COR Projections

(\$ millions)

	Actual <u>FY 11</u>	Actual <u>FY 12</u>	Estimated <u>FY 13</u>	Estimated <u>FY 14</u>	Estimated <u>FY 15</u>	Estimated <u>FY 16</u>	Estimated <u>FY 17</u>
REVENUES:							
Council on Revenues 08/06/12 projections:							
Growth Rate	-0.8%	14.9%	5.3%	4.0%	6.2%	4.0%	5.0%
Tax revenues	4,329.3	4,975.8	5,239.5	5,449.1	5,787.0	6,018.4	6,319.4
Nontax revenues	793.1	555.2	555.2	553.7	554.4	544.9	550.0
	5,122.5	5,531.0	5,794.8	6,002.8	6,341.4	6,563.3	6,869.3
HHRF - repayment from GET				(55.5)	(55.5)		
Other revenues & adjustments	(5.5)	129.7	7.3	7.3	7.3	6.9	6.5
2012 Legislature - revenue measures			(1.7)	(2.6)	(2.6)	0.4	(0.6)
TOTAL - REVENUES	5,116.9	5,660.6	5,800.4	5,951.9	6,290.5	6,570.6	6,875.2

Updated GF Financial Plan – 2012 Legislation

(\$ millions)

	Actual FY 11	Actual FY 12	Estimated FY 13	Estimated FY 14	Estimated FY 15	Estimated FY 16	Estimated FY 17
EXPENDITURES:							
Executive Branch:							
Executive budget - Act 106 est. out-yrs	4,943.3	5,443.5	5,598.8	5,884.7	6,059.4	6,212.9	6,350.6
PA/soc sec (incl. delayed FY 09 ERS payment)			(19.6)				
EUTF			(17.2)				
Specific appropriations (prior sessions)	95.2						
Claims Against the State (Act 8, Act 116)		11.3	5.0	5.0	5.0	5.0	5.0
2012 Legislature - expenditure measures		19.2	38.2	6.1	4.4	6.1	4.4
Sub-total - Specific apprns & other items	95.2	30.5	43.2	11.1	9.4	11.1	9.4
EXECUTIVE BRANCH EXP	5,038.5	5,474.0	5,605.2	5,895.7	6,068.7	6,224.0	6,359.9
Legislative Branch	31.7	32.2	32.2	32.2	32.2	32.2	32.2
Judicial Branch (Act 107/12))	130.7	132.7	134.5	134.5	134.5	134.5	134.5
OHA	2.5	2.4	2.4	2.4	2.4	2.4	2.4
Lapses	(234.7)	(129.9)	(65.0)	(65.0)	(65.0)	(65.0)	(65.0)
TOTAL EXPENDITURES	4,968.7	5,511.3	5,709.3	5,999.8	6,172.8	6,328.1	6,464.0
REV OVER EXPEND	148.2	149.3	91.0	(47.9)	117.7	242.5	411.2
CARRY-OVER BEGIN BALANCE	(22.2)	126.0	275.3	366.3	318.4	436.1	678.6
ENDING BALANCE	126.0	275.3	366.3	318.4	436.1	678.6	1,089.8

Updated GF Financial Plan – Aug. 2012 COR Revisions

(\$ millions)

	Actual <u>FY 11</u>	Actual <u>FY 12</u>	Estimated <u>FY 13</u>	Estimated <u>FY 14</u>	Estimated <u>FY 15</u>	Estimated <u>FY 16</u>	Estimated <u>FY 17</u>
COR 09-10-12 update:							
Tax revenues	0.0	2.2	(16.5)	(21.9)	(88.7)	(251.2)	(309.0)
Non-tax revenues:	0.0	133.0	(1.7)	(1.7)	(1.8)	(1.7)	(1.7)
Total - COR update difference	0.0	135.2	(18.2)	(23.7)	(90.6)	(252.9)	(310.7)
Impact on financial plan			(18.2)	(23.7)	(90.6)	(252.9)	(310.7)
REV OVER EXPEND	148.2	149.3	72.8	(71.6)	27.1	(10.4)	100.5
CARRY-OVER BEGIN BALANCE	(22.2)	126.0	275.3	348.1	276.6	303.7	293.2
ENDING BALANCE	126.0	275.3	348.1	276.6	303.7	293.2	393.7

Other Expenditure Adjustments & Other Considerations

(\$ millions)

	Actual <u>FY 11</u>	Actual <u>FY 12</u>	Estimated <u>FY 13</u>	Estimated <u>FY 14</u>	Estimated <u>FY 15</u>	Estimated <u>FY 16</u>	Estimated <u>FY 17</u>
Other considerations:							
OPEB actuarially required contributions (@20%)				100.0	105.5	111.3	117.4
Anti-spiking bill (Act 153/12)				13.0	13.0	13.0	13.0
Reprojections of fixed costs:							
Medicaid				?	?	?	?
Pension accumulation/social security				?	?	?	?
DHHL funding commitment beginning FY 15					?	?	?
Areas in budget that may have problems			?	?	?	?	?
IT initiative				?	?	?	?
Early childhood initiative				22.2	24.0	35.0	35.0
Federal funds supplanting			?	?	?	?	?
Collective bargaining costs for FB 14-15				?	?	?	?
Sub-total - Expenditure adj			0.0	135.2	142.5	159.3	165.4
REV OVER EXPEND	148.2	149.3	72.8	(206.8)	(115.4)	(169.7)	(64.9)
CARRY-OVER BEGIN BALANCE	(22.2)	126.0	275.3	348.1	141.4	26.0	(143.8)
ENDING BALANCE	126.0	275.3	348.1	141.4	26.0	(143.8)	(208.7)

Reasons to be Cautious in Spending

- Uncertain impact of cuts in federal spending on Hawaii's economy and funding of State programs
- Europe's economic uncertainty
- Possibility of high oil prices due to continuing tensions in the Middle East
- Tourism at near record levels – limited carrying capacity for continuous expansion
- Future years sustainability – are near term funding increases sustainable over long term?

Looming Budget Issues for Next Biennium and Beyond

- Collective bargaining in FB 14-15
- Federal fund cutbacks
- DHHL funding commitment beginning FY 15
- Areas of concern in budget (e.g., school bus, etc.)
- Information technology initiative
- Early childhood initiative
- OPEB pre-funding

State's Unfunded Liabilities

State's Unfunded Pension Liabilities

- Unfunded actuarial accrued liabilities (UAAL) for FY 11 is \$8.2 billion, up from \$7.1 billion for FY 10
- Hawaii's UAAL per capita (\$5,236) for FY 10 is 5th highest among states (highest means most UAAL per capita)
- Funded ratio for FY 11 is 59.4%, down from 61.4% for FY 10
- Hawaii's funded ratio for FY 10 is 41st highest among states (highest means largest percentage funded)
- Hawaii's debt per capita (\$3,606) plus UAAL per capita for FY 10 is 3rd highest among states (highest means most debt & UAAL per capita)

1 Employees' Retirement System of the State of Hawaii, 86th Annual Actuarial Valuation for FY 2011

2 Standard & Poor's, June 21, 2012

State's Unfunded OPEB Liabilities

- State is currently paying for retiree health benefits on a pay-as-you-go basis – no prefunding
- Other Post-Employment Benefits (OPEB) UAAL as of July 1, 2011 is \$13.6 billion, down from \$14.0 billion as of July 1, 2009 (includes Employers Union Trust Fund (EUTF) & Hawaii State Teachers Association VEBA; on January 1, 2011, HSTA VEBA was merged into EUTF)
- Hawaii's OPEB UAAL per capita (\$9,973) for FY 10 ranked 2nd highest among 48 reporting states (highest means most UAAL per capita)
- Annual Required Contribution (ARC) for FY 13 is \$994.9 million, of which \$474.5 million is normal cost & \$520.4 million is amortization of UAAL

1 State of Hawaii Employer-Union Trust Fund Postemployment Benefits Other Than Pensions Actuarial Valuation Study as of July 1, 2011

2 OPEB liabilities are lower than prior valuation amounts because: recognition of changes in the prescription drug plan decreased plan costs; overall healthcare costs experience was favorable compared to assumed trend; future healthcare trend was revised for updated expectations & employer caps are anticipated to have a greater impact as Medicare B premium index used to adjust these levels decreased from 2011 to 2012

3 Bloomberg Rankings, State Unfunded OPEB Per Capita, 2010 & 2009 & Dept. of Budget & Finance calculation based on EUTF OPEB valuation as of 7/1/11 & 2010 census population data

Why Pension & OPEB Unfunded Liabilities Matter?

- These liabilities total \$21.8 billion – over 4 times the FY 12 Executive operating budget (\$5.4 billion) & about \$15,209 per capita
- A growing percentage of the operating budget will have to be devoted to satisfying these obligations in the future – meaning less money for improving schools & other priority programs, even future wage increases
- The State is a frequent borrower in the bond market & rating agencies, as well as bond buyers, are placing increasing focus on pension & OPEB liabilities in their evaluation of an entity's credit
- Hawaii's metrics in this area are very poor & in the future there is a fair possibility of ratings downgrades if the State doesn't take corrective action relative to its peers – this could lead to increased borrowing costs, meaning less money for schools, etc.