

Commission on Salaries Meeting Minutes
January 10, 2019
9:00 a.m.

Department of Human Resources Development
235 S. Beretania Street, Room 1403
Honolulu, Hawaii 96813

1. Call to Order

Meeting was called to order by Chairperson, Michael Irish at 9:00 a.m.

Members present: Michael Irish, Rachael Wong, Cameron Nekota, Dwayne Yoshina, Haunani Apoliona, Beth Tokioka, and Danna Holck.

Members missing: None.

Others present: Joy Inouye, Eliza Campos, Sunah Cheng, Kurt Kawafuchi, Wes Machida.

2. Approval of Meeting Minutes for January 3, 2019

Chairperson moved to approve meeting minutes. Move was seconded and with a unanimous vote, minutes were approved as written.

3. Presentation by the Council on Revenues on State Revenue Forecasts

- a. Kurt Kawafuchi, Chair of the Council on Revenues (Council), explained that the Council met the previous afternoon. He explained that the Council represents diverse views, but the general outlook of the Council is that the economy is continuing to grow but slowing. History shows that a recession usually follows the slowing of the economy.

The Council on Revenues lowered the revenue projections from 5% to 4.2%.

He went on to explain that the first 6 months of 2019 should be okay. However, in the latter part of 2019 or even 2020, we may see more of a slowing or perhaps a decline.

This forecast was previously 3.5% growth for the personal income for the state of Hawaii. It was reduced in November to 3.3% for calendar year 2018 and 2019. Personal income has always lagged the general fund revenues in Hawaii. In fiscal year 2018, the General Fund went up by 7.6%, however, the personal income only went up by 3.3%.

On-line sales (e.g., Amazon) and travel (e.g., Expedia) companies have contributed to the tax revenues due to the new law to tax online sales. More enforcement of on-line tax laws can bring in a lot more revenues for the State.

- b. The Commission requested insights from Wes Machida regarding the presentation. Wes Machida is the former State Budget and Finance (B &

F) Director, Employee Retirement System (ERS) board member, and *works with the House Speaker, Scott Saiki. (added at the 1/29/19 mtg)*

Wes Machida explained that there are four (4) programs that make up a significant portion of the general fund revenues; the pension, health, Medicaid, and debt service. Tax revenues are approximately seven (7) billion a year; out of the seven (7) billion, four (4) billion is used for the four (4) programs.

The pension and health benefits are currently underfunded by over twelve (12) billion each. These liabilities are increasing at a faster pace than the tax revenue increases.

The ERS reform of 2012 will help the unfunded liabilities but the employers will also need to increase funding every year which may be difficult.

- c. The elected officials and judges have the best benefit structure of any employee group. The cabinet members were once under that benefit structure. However, the cabinet members were taken out of that benefit group (3% multiplier) decades ago and placed into the general benefit structure (2% multiplier). Under the new structure that occurred in 2012, appointed persons from the private sector into cabinet positions will not qualify for retirement benefits, unless they stay beyond two (2) terms.
- d. There was discussion about the difficulty of recruiting for executive branch cabinet members because of the risk involved in accepting a position that only lasts 4 years. Even though they may have the desire to serve the public sector, many people feel that they cannot because of their family obligations and salary. Some people who are at the end of their careers can retire from the private sector and are more willing to serve in the public sector.

4. **Public Testimony**

There was no public testimony submitted.

5. **Discussion and Work Session on Commission Recommendations for Executive (Governor, Lt. Gov., Dept. Heads), Judicial (Justices and Judges), and Legislative (Legislators) Branch Positions**

- a. The total employees that the Commission is responsible for, is estimated at around 200 people which is a small portion of the approximately 69,000 members statewide in the pension system.
- b. A worksheet was passed out by a member of the commission. The worksheet contained an analysis of the salaries of all the full-time legislators in the nation, about ten (10) including Hawaii.

There was a second sheet listing the salaries of the four (4) county councils and comparing the average with the State. The county councilmembers earn an average of almost 11% more than members of

the State Legislature. In the leadership category, the average of the counties is 9.28% higher than the leadership of the State Legislature.

There was discussion about the difference in the scope of work – counties versus statewide responsibilities and about the county councils working year-round versus the legislators. The legislature is in session for five (5) months but some legislators may be working outside of the legislative session, reaching out to constituents, etc. They are responsible for their geographical areas year-round. It was also brought up that there is nothing to show that the legislators work year-round.

Comparing Hawaii's legislators to other states might not be as helpful, due to the size of the various states compared to Hawaii. However, the analysis does show that Hawaii's members are not overpaid.

- c. A suggestion was made to decide on what criteria will be used to decide salaries (e.g., budget, number of employees). There should be consistency in how the Commission makes recommendations. It was suggested that the Commission “does what is fair” and “do the right thing.”

6. Discuss Next Steps

- a. Continue discussing the legislative branch and then the remaining branches for next meeting.
- b. Next meeting will be held on January 22, 2019 at 10:00 a.m.

7. Adjournment

The meeting was adjourned at 11:10 a.m.