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Hawaii News

State ends fiscal year with record \$1 billion surplus

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The state was holding a record-setting \$1 billion general treasury cash surplus when it closed the books on last fiscal year, an extraordinary sum that likely will alter the course of contract negotiations as the state and counties begin a new round of bargaining with Hawaii's public worker unions.

Wes Machida, director of the state Department of Budget and Finance, said the estimated \$1 billion surplus for the year ending June 30 is the largest he can recall, and said the state was able to accumulate that large cash cushion by restricting state departments' spending even as state tax collections exceeded the official projections.

"Actual revenue collections have been good, the Hawaii economy is good and we are making sure that we live within our means," Machida said.

Gov. David Ige's administration imposed budget restrictions on discretionary spending by state departments ranging from 5 to 10 percent each year thus far, although some of that funding was later released to departments that demonstrated they needed the money, Machida said.

The state Council on Revenues, a panel of economists and other experts tasked with developing the official projections of state tax collections, predicted tax collections would increase by 6.1 percent in fiscal year 2016. In fact, overall tax collections increased by 8 percent, Machida said.

While the exact amount of the fund balance at the end of fiscal 2016 might vary somewhat, Machida said the \$1 billion total “should be in the ballpark.”

The previous record state surplus was during Gov. Neil Abercrombie’s administration, when Abercrombie announced the state had accumulated a “historically unprecedented” \$844 million cash balance at the end of fiscal year 2013.

The state in recent weeks opened a new round of contract negotiations with the public worker unions, and the \$1 billion surplus will profoundly affect that bargaining, said Ted Hong, a Hilo lawyer who was chief negotiator for the state during former Gov. Linda Lingle’s administration.

All of the state public worker unions from the United Public Workers and the University of Hawaii Professional Assembly to the Hawaii Government Employees Association and the Hawaii State Teachers Association have contracts that expire June 30.

Prior administrations often pleaded poverty, saying they simply didn’t have enough money to fund significant pay increases for public workers, Hong said. However, with the state sitting on a \$1 billion surplus, a significant pay increase for public workers “is a given,” he said. “Absolutely, that’s a given.”

“The first, fundamental issue is always whether there’s enough money to fund the proposed pay raises,” Hong said. “Now that issue here is going to be off the table.”

Hong suggested the state might use this opportunity to offer pay increases to the unions in exchange for changes in obsolete work rules or other contract provisions, essentially negotiating with the goal of making the public workforce more efficient.

In previous negotiations the state and county representatives often would tell the unions that they had little or no money for raises but said they still wanted to bargain for changes in the public workers’ contracts to provide for additional workplace flexibility.

“The unions’ response was always, understandably, ‘If you can’t give our members more money, why should we change anything in the contract?’” Hong said.

“Some people might look at this from a negative perspective, but actually it’s a positive (opportunity) because now they can take that issue of the money off the table and get down into changing some of the archaic language in the contract,” he said.

HSTA President Corey Rosenlee said Hawaii has a “teaching crisis” because Hawaii teachers are underpaid, which has led to vacancies. At the beginning of this month, the Department of Education reported it had 625 teaching vacancies, and the department was forced to use substitutes to fill the gap at the beginning of the new school year.

The budget surplus presents an opportunity to address that problem, Rosenlee said.

"As any parent can attest to, you've got to invest in your children's future, and in Hawaii, when kids are going without a teacher in classrooms with the roof falling in, and our classes are crowded, this is the time that we need to start investing in our kids," he said.

"To continually underpay your teachers to the point where we don't have teachers is a tragedy for the state, and so because they have this surplus, they need to start investing in our schools," he added.

The HSTA represents 13,500 teachers, and union representatives met with state officials for several hours last week in an early round of face-to-face negotiations.

While the large cash balance might look inviting to the state's public worker unions, Machida said some of that money is already committed elsewhere.

For example, state lawmakers this year appropriated \$200 million that is to be tucked away as cash reserves in the state's "rainy day" or emergency budget reserve fund, a step that will better position the state to weather the next recession. Lawmakers also appropriated an extra \$81 million to prepay future retirement health benefits for public workers.

"There's a lot of commitments that are coming up besides the collective bargaining, and we have to maintain a certain ... balance" in the general treasury, Machida said.

He also noted the state Constitution requires that if the general treasury ending balance exceeds 5 percent of general fund revenues for two consecutive years, the state must either transfer funds to the "rainy day" budget reserve fund or provide a refund to state taxpayers.

However, state lawmakers at times have met that constitutional requirement by providing state taxpayers with nominal \$1 refunds.