Special Report

THE COSTS OF PUBLIC EMPLOYMENT IN THE ALOHA STATE

By Keli'i Akina, Ph.D., President/CEO and Joe Kent, Vice President of Research

1050 Bishop St. #508, Honolulu, HI 96813 | 808-591-9193
www.grassrootinstitute.org | info@grassrootinstitute.org

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INTRODUCTION

Hawaii's 14 public unions are engaged in contract negotiations with the state to boost salaries and benefits. If all unions receive a 1 percent pay increase, it will cost the state an extra $133 million every year.[i]

However, the unions have typically asked for a higher than 3.5 percent pay increase[ii], which would cost the state $395 million annually.

The demands of Hawaii's public unions ignore four significant facts about Hawaii's economy:

- County employees in Hawaii are among the highest-paid county workers in the country, adjusted for cost of living
- Hawaii private sector workers are the lowest-paid workers in the country, also adjusted for cost of living
- Hawaii's government is growing faster than the private sector
- Increasing public wages drastically will ultimately be paid through cuts in government services or tax increases

Many Hawaii public employees may deserve higher salaries, but residents, struggling with high taxes and a high cost of living, should not be further taxed to pay for it.

In contrast, Governor David Ige has called for lower expectations for public union salary increases. The governor has also dialed back on his spending plan for 2018 by $220 million.

The governor's budget may help store money for hard times while ensuring that public retirees have money waiting for them when they retire.

It's in the best interest of all Hawaii citizens to provide salary, health care and pension benefits that are affordable for both the public sector and the private sector. The state should work to bring its employees' total compensation more in line with what the private sector can afford.

COUNTY WORKERS IN THE STATE OF HAWAII ARE HIGHEST PAID IN NATION ON AVERAGE

The Aloha State's county workers receive the highest mean average wages of any county worker in the nation. The State of Hawaii pays its county workers an average of $61,365 a year.

Hawaii pay for county workers highest in the country

Average wages per county employee, 2015

State	County Workers	Rank
Hawaii	$61,365	1
New Jersey	$60,439	2
California	$60,248	3
Rhode Island	$58,278	4
New York	$57,875	5
Nevada	$52,832	10
Florida	$48,813	16
United States	$48,053	…
Colorado	$46,551	17
Michigan	$44,870	23
Iowa	$39,838	35
North Dakota	$38,697	39
Montana	$37,655	44
South Dakota	$32,633	50

Source: U.S. Bureau of Economic Analysis

Note: Not adjusted for cost-of-living

Even when adjusted for cost-of-living, local county wages rank sixth highest in the nation.

Aloha State's county wages adjusted for cost-of-living

Average wages per county employee, adjusted, 2015

State	County Workers	Rank
Rhode Island	$54,161	1
Nevada	$49,608	2
California	$49,182	3
Massachusetts	$48,870	4
New Jersey	$48,428	5
Hawaii	$48,205	6
Washington	$46,663	10
Illinois	$44,954	17
United States	$44,045	…
South Carolina	$43,931	18
Minnesota	$42,821	23
Kentucky	$39,816	35
Indiana	$38,705	39
Mississippi	$37,023	44
Utah	$32,726	50

Source: U.S. Bureau of Economic Analysis

Clearly, county wages in the State of Hawaii are well above the national average, even when adjusted for the Aloha State's high cost-of-living.

By contrast, Hawaii state workers make $46,319 on average, and private sector workers make only $45,266 per year on average, which is lower than the national average.[iii] When adjusted for cost of living, Hawaii state and private sector workers make the lowest wages in the nation.

Average state employee wages adjusted for cost-of-living

State	State Workers	Rank
Massachusetts	$53,016	1
Connecticut	$53,240	2
New York	$48,747	3
Illinois	$54,210	4
Minnesota	$48,618	10
Virginia	$41,491	15
United States	$46,431	…
Michigan	$49,987	16
Tennessee	$43,037	21
Oklahoma	$42,072	27
Wyoming	$45,889	32
Florida	$40,590	38
New Mexico	$45,557	44
Montana	$39,776	49
Hawaii	$36,386	50

Source: U.S. Bureau of Economic Analysis

Average private sector wages adjusted for cost-of-living

State	Private Workers	Rank
Massachusetts	$56,595	1
Connecticut	$55,366	2
New York	$54,057	3
Illinois	$52,611	4
Minnesota	$50,256	10
Virginia	$49,189	15
United States	$48,924	…
Michigan	$48,507	16
Tennessee	$47,516	21
Oklahoma	$46,379	27
Wyoming	$45,109	32
Florida	$43,617	38
New Mexico	$40,994	44
Montana	$38,679	49
Hawaii	$35,559	50

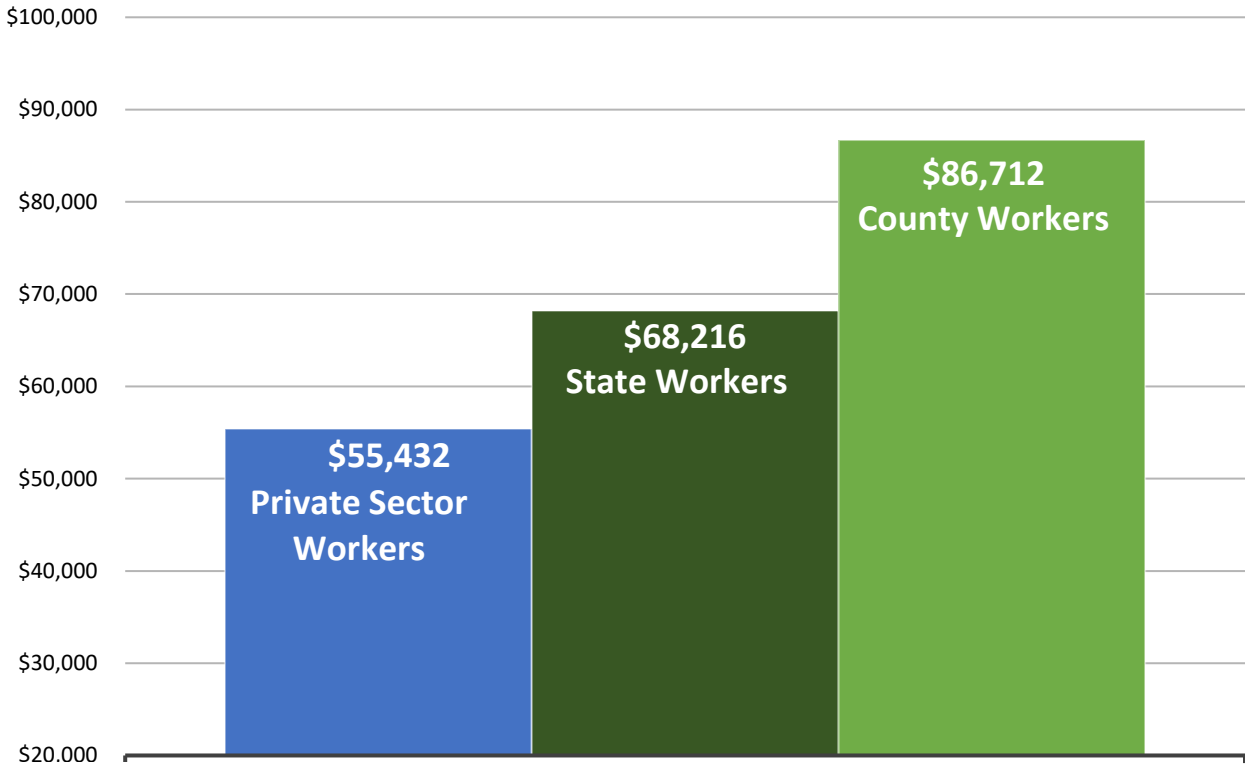
Source: U.S. Bureau of Economic Analysis

Hawaii government leaders need to balance the needs of government employees with the needs of private sector workers, and find a solution that is affordable for all citizens without raising taxes.

PUBLIC EMPLOYEES RECEIVE GENEROUS BENEFITS

When benefits are included, state and county workers receive much more in total than private sector workers.

Hawaii Average Annual Wages and Benefits

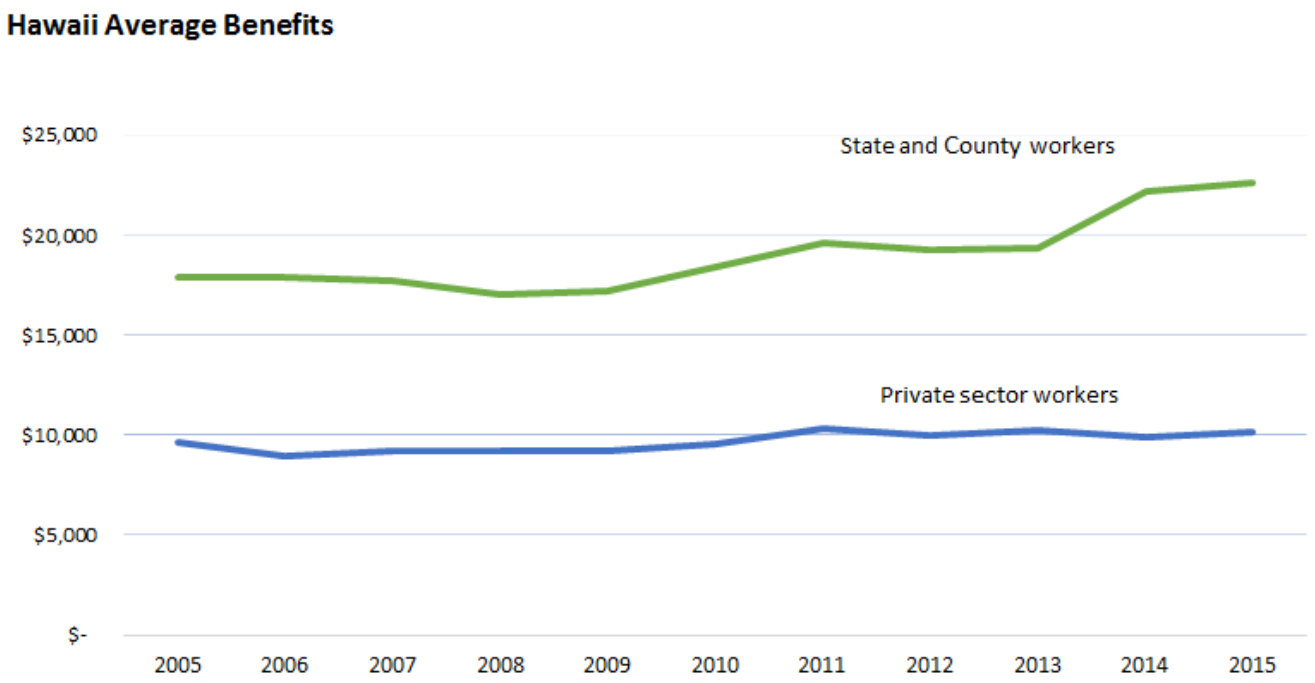


Source: U.S. Bureau of Economic Analysis
Note: Not adjusted for cost-of-living

Many of the increases in compensation for state and county employees come from generous benefits packages, which include comprehensive health insurance, life insurance, retirement programs, sick leave, vacation leave, and holidays. These benefits have been rising dramatically for government employees while average private sector benefits have flatlined in Hawaii.

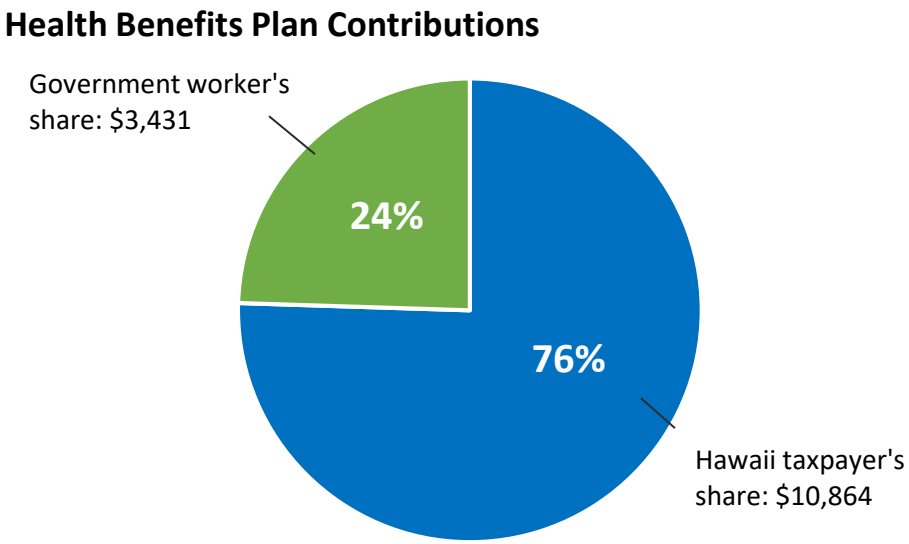
County workers in the State of Hawaii make the highest average benefits at $25,346 per person, followed by state workers at $21,897. On the contrary, benefits for private sector employees have stagnated at $10,166 per person annually.

Over the past decade, benefits for state and county workers have risen five times as fast as benefits for the private sector.

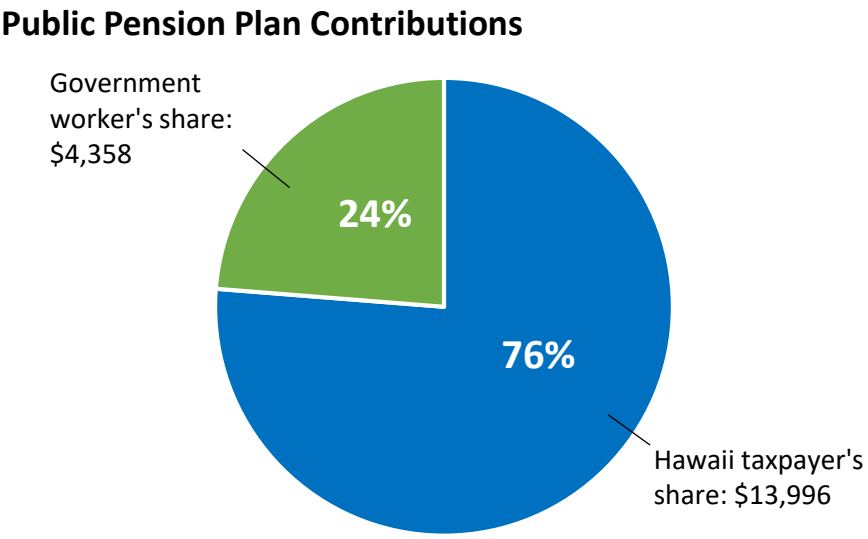


Source: U.S. Bureau of Economic Analysis
Note: Adjusted for inflation

In addition, taxpayers foot the majority of the bill for state and county worker pension and health benefits, which average $14,295 per beneficiary for health benefits annually, and $18,324 per beneficiary for pension benefits annually.[iv]



Source: EUTF Financial Statements 2015

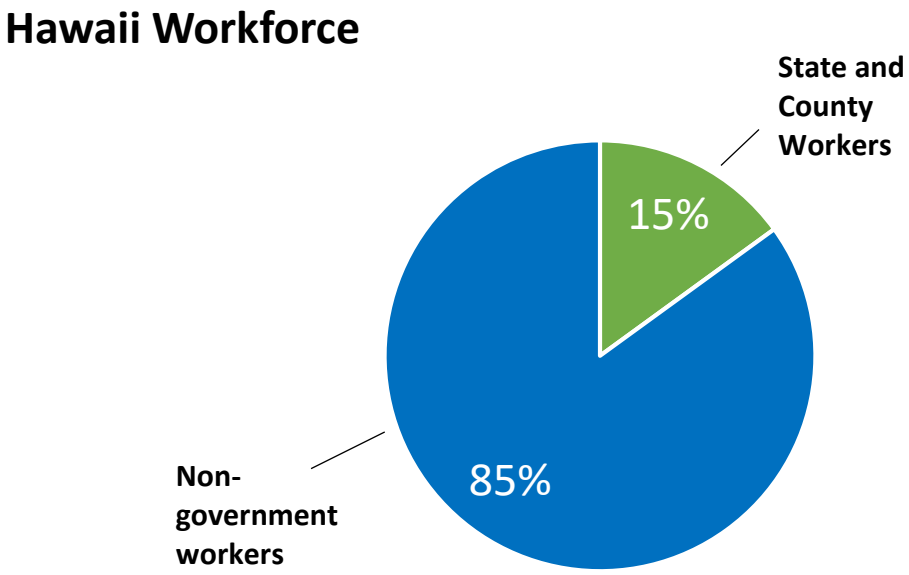


Source: ERS Financial Statements, 2015

When taxes are increased to pay for higher benefits, both public and private workers pay the extra taxes. However, raising taxes on the private sector hits families who are struggling to save for their own retirement – let alone the retirement of government workers.

HAWAII WORKFORCE

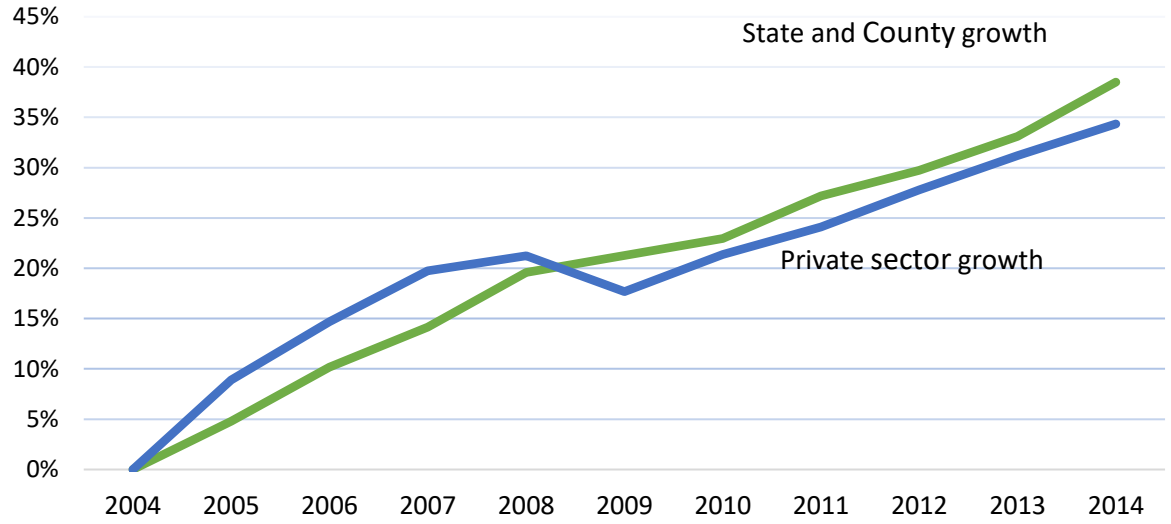
It is important to keep in mind that state and county workers in Hawaii only comprise 15% of the total local workforce, yet Hawaii taxpayers contribute an enormous amount to pay for generous government salaries and benefits.



Source: U.S. Bureau of Economic Analysis

With incentives such as higher average salaries and benefits in the public sector, it's no wonder that Hawaii's government has been growing 6% faster than the private sector in the past decade.[v]

GDP Growth in Hawaii Government vs Private Sector



Source: U.S. Bureau of Economic Analysis
Note: Adjusted for inflation

Many economists believe that in a good economy, the private sector should grow faster than the government.

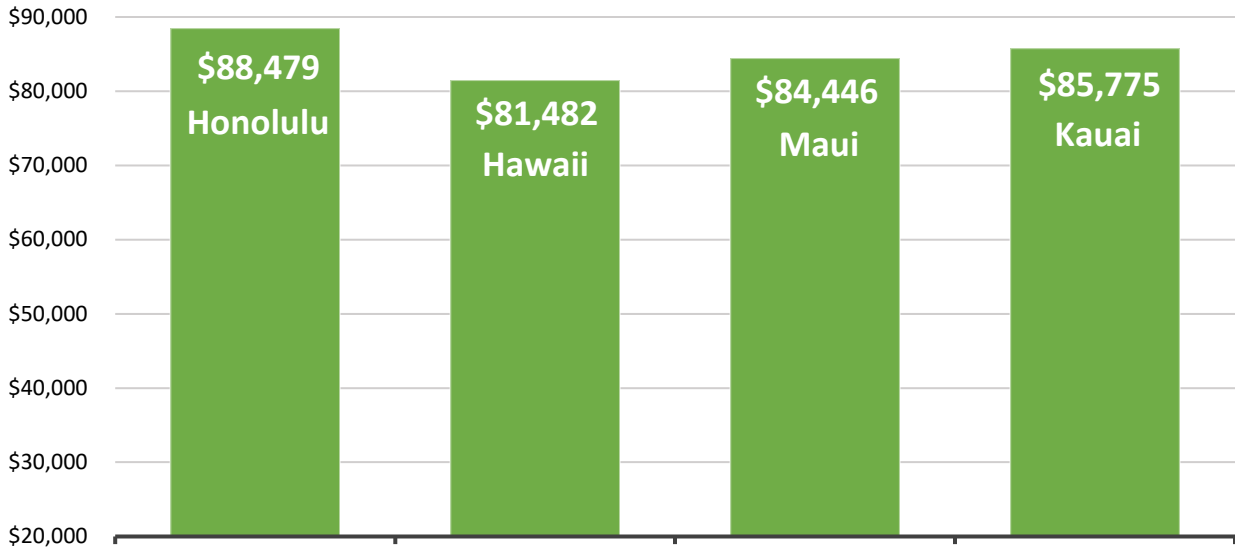
But in Hawaii, our economy is stuck in reverse, as government continues to grow faster than the private sector. This trend is unsustainable in the long run, especially if public sector workers continue to ask for more pay hikes paid for through higher taxes on Hawaii's citizens.

COUNTY DETAIL

When benefits are included, Honolulu County government workers make the highest total compensation on average, at $88,479 per person, compared to all other counties in the Aloha State. Hawaii, Maui and Kauai counties all receive over $80,000 per worker on average, when benefits are included.

Honolulu county employees make the highest wages and benefits in the state

Average wages and benefits per worker



Source: U.S. Bureau of Economic Analysis, 2015

Police and fire departments in Honolulu make among the highest average salaries compared to all other departments. The average salary for fire fighters in Honolulu County is $72,252, not including benefits, which ranks among the highest pay in the nation for fire fighters, even when adjusted for cost of living. [vi]

Honolulu Police officers average $72,760 per person in annual salaries, not including benefits, which also ranks among the highest in the nation when adjusted for cost of living. Keep in mind that overtime can easily double these figures.

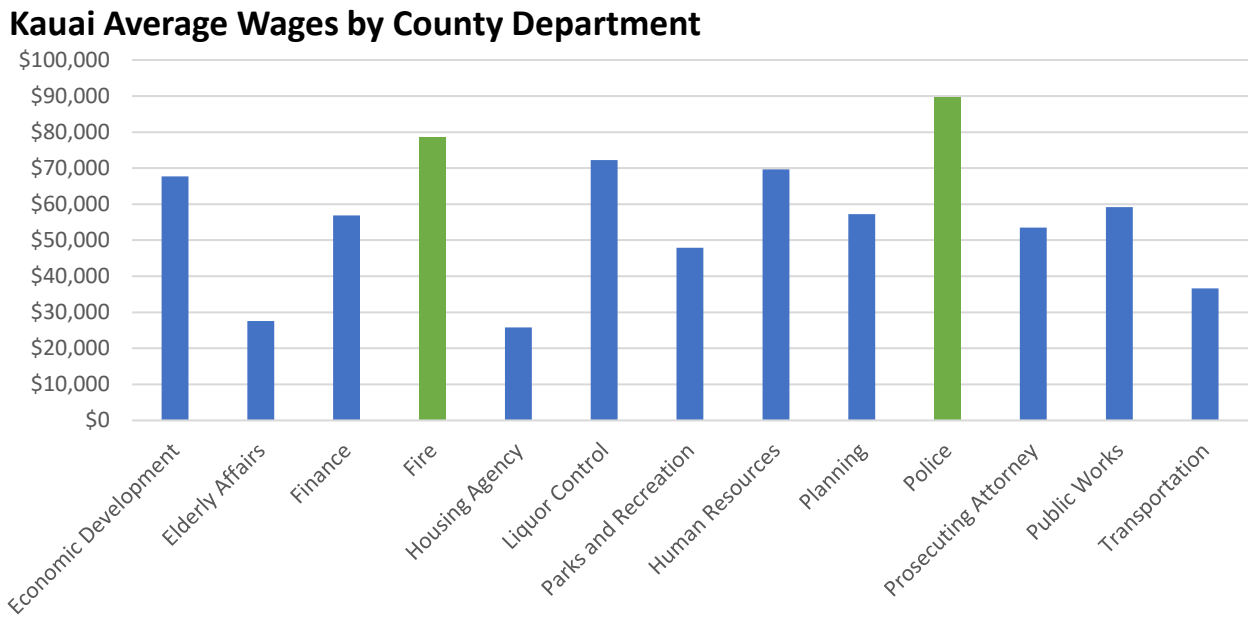
Police and fire departments across all counties in the Aloha State receive relatively high pay compared to other departments. In addition, police and fire departments typically have among the most employees among all county departments.

These salary numbers for police and fire departments dwarf private sector median wages statewide, which are only $38,750 per year.[vii]

Part of the reason for high salaries in emergency services departments may be because each county only gets one vote during union negotiations, whereas the state, which does not pay for

county police and fire services, gets four votes in the process. State politicians have every incentive to increase salaries and benefits for police workers, since they do not have to pay for the county employees.

KAUAI COUNTY DETAIL



Source: Kauai County Budget and Comprehensive Annual Financial Report

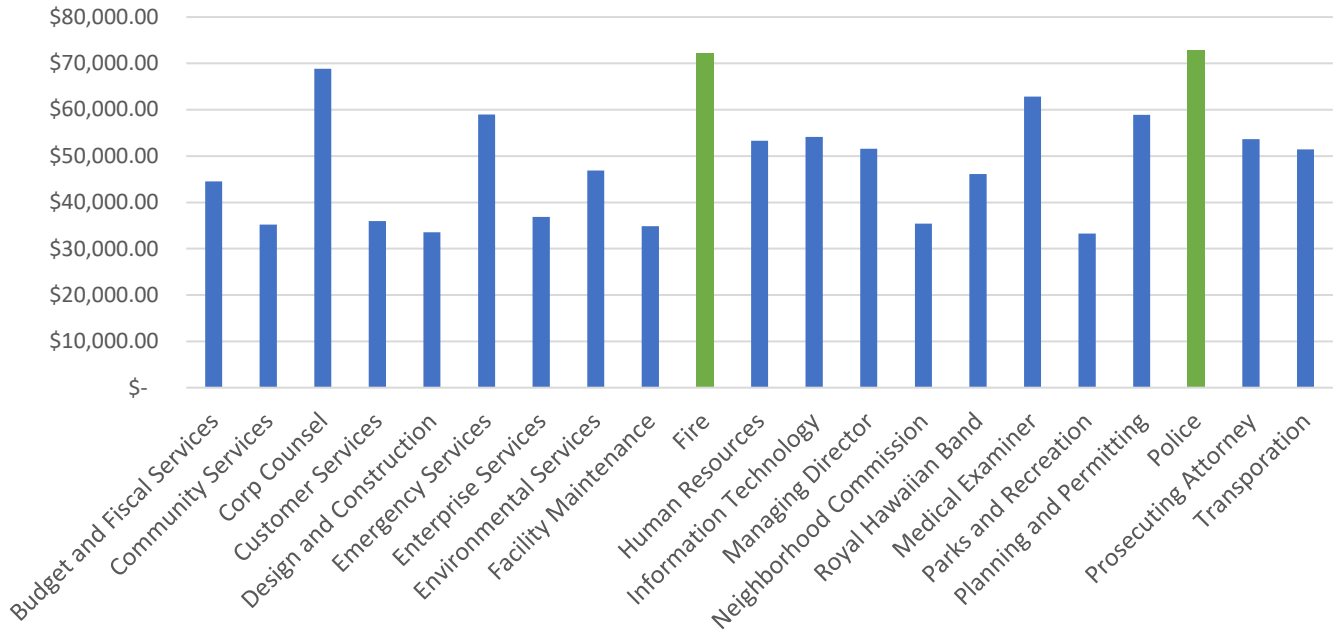
Kauai police and fire departments receive among the highest average salaries in the county, at $89,718 for police and $78,679 for fire workers. This is much higher than most other county employees in Kauai.

Police officers in Kauai also make higher salaries on average than police officers in all other counties in the Aloha State.

The average salary for all other Kauai county departments besides police and fire is $52,664. However, the average salary for private sector workers on Kauai is only $34,373.

HONOLULU COUNTY DETAIL

Honolulu Average Wages by County Department



Source: City and County of Honolulu Budget

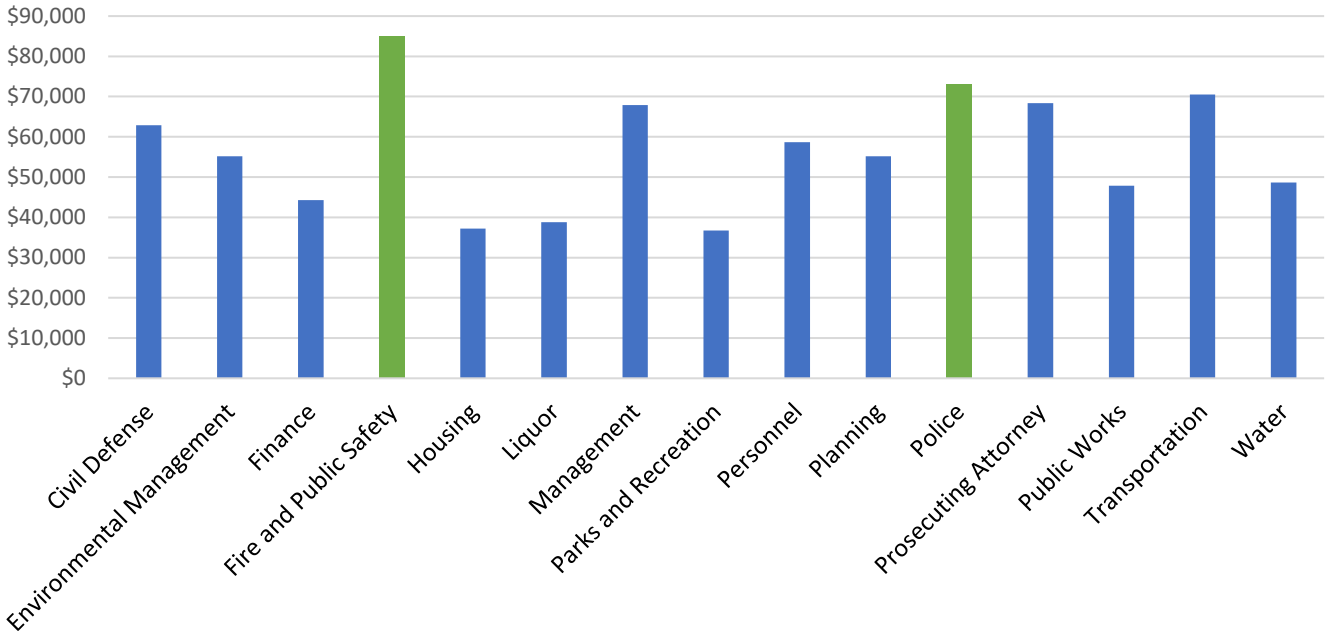
Honolulu police and fire departments receive among the highest salaries, at $72,670 for police and $72,252 for fire workers. Honolulu police and fire departments also have the most workers of any department, at 2794 employees and 1192 employees respectively.

Honolulu Department of Emergency Service workers receive the highest overtime on average of all Honolulu departments, at $10,837 per employee, followed by the Department of Environmental Services at $8,984, the Police Department at $6,851, and the Fire Department at $7,097. The average overtime for all other non-emergency or environmental related departments is only $1,078.

The average salary for all Honolulu county departments, excluding non-emergency and environmental related departments is $43,125. Honolulu county private sector workers make slightly more on average, excluding emergency and environmental county jobs, at $44,671 annually.

MAUI COUNTY DETAIL

Average Wage By Maui County Department



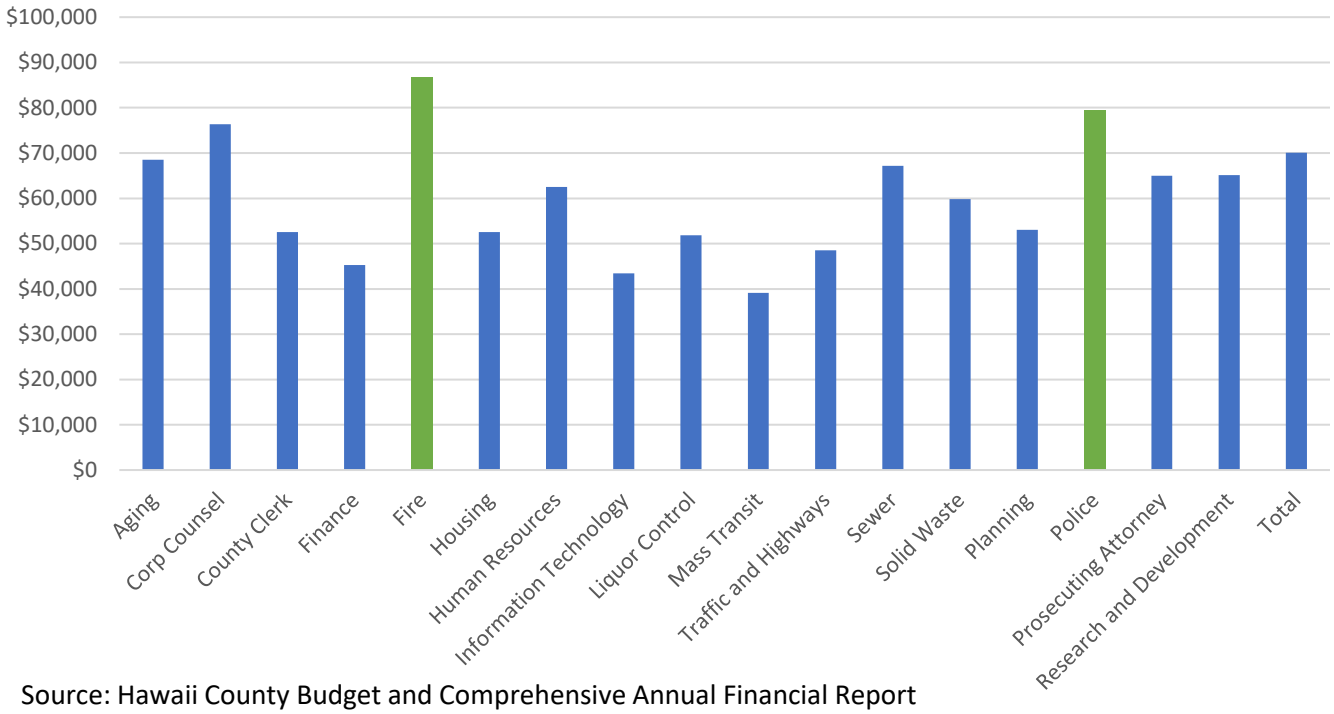
Source: Maui County Budget

On Maui, police and fire departments make among the highest average wages at $74,100 and $85,101 respectively. Police and fire also rank high in the amount of personnel per department, with 525 employees in the police department and 320 employees in the fire department. The Maui County Department of Parks and Recreation also ranks high in personnel at 455 employees, although the average compensation in the Department of Parks and Recreation is only $36,735.

The average compensation for all Maui County departments besides police and fire is $46,759. Keep in mind that private sector workers on Maui County average only $35,491 per year.

HAWAII COUNTY DETAIL

Average Wage by Hawaii County Department



Source: Hawaii County Budget and Comprehensive Annual Financial Report

Hawaii County is no exception when it comes to high pay for police and fire departments. Big Island police and fire workers average $79,356 and $86,772 in total compensation respectively, not including benefits. Police and fire departments on the Big Island also have among the most employees of any Hawaii County department, at 567 workers and 429 workers respectively.

Fire fighters in the County of Hawaii make higher average wages than all other fire fighters in the state.

Hawaii County emergency departments also receive the most overtime on average, at $10,308 for fire workers and $6,189 for police. Average overtime among all departments besides police and fire is $1,779.

The average total compensation for all Hawaii County departments besides police and fire is $54,775. However, private sector workers on the Big Island make the least among all counties, at only $30,066.

STATE DETAIL

Hawaii state workers make low average salaries compared to the rest of the nation, however, when benefits are included, state workers make much more than the average non-government worker.

Career state workers in Hawaii, those who work 30 or more years, average $683,262 in benefits over the course of their retirements.[viii] That's on top of Social Security benefits that nearly all state workers receive. Generous retirement rules, longer life expectancies, and substantial cost-of-living increases have boosted benefits.

Average Wages and Benefits for Hawaii State Departments

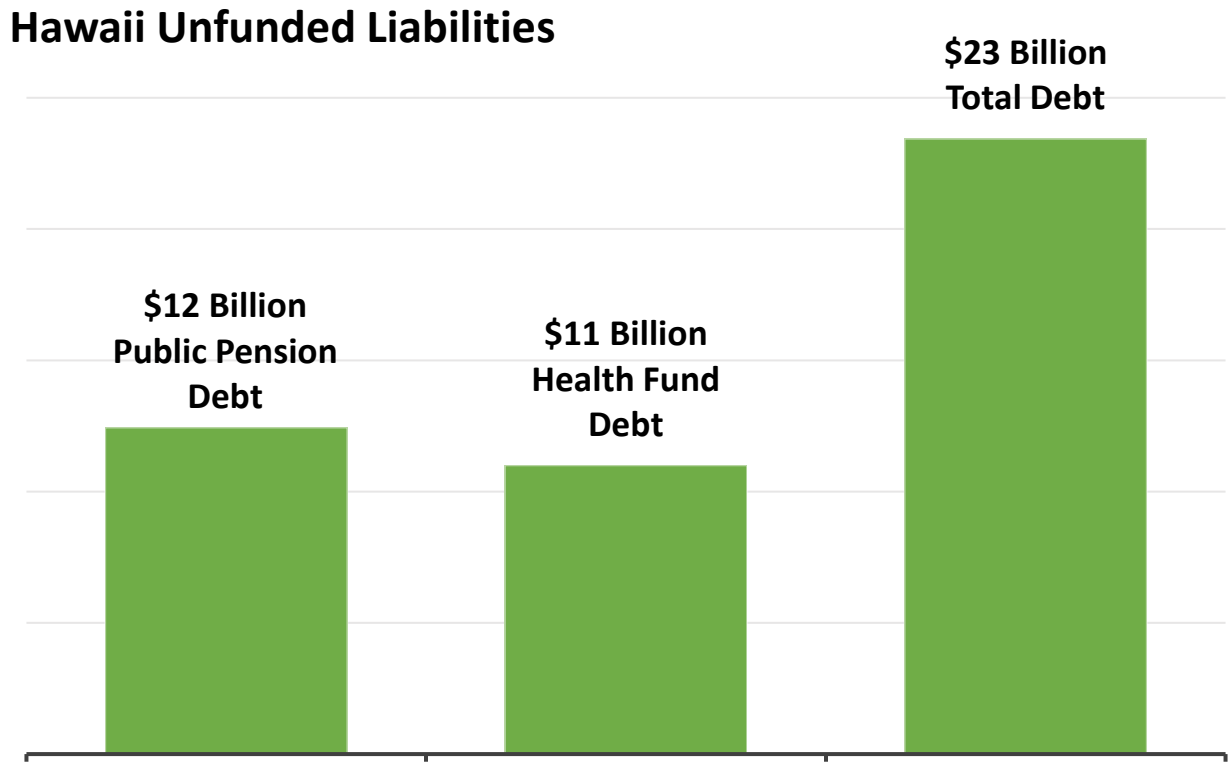
Hawaii State Department	Base Pay	Average Annual Pension Allowance
University of Hawaii	$79,551	$34,144
Human Resources	$71,437	$37,575
Agriculture	$65,991	$36,288
Health	$65,824	$21,660
Commerce and Consumer Affairs	$60,799	$27,814
Hawaiian Home Lands	$60,294	$26,967
Judiciary	$58,420	$28,580
Education	$56,874	$22,381
Public Safety	$56,148	$22,216
Labor and Industrial Relations	$55,774	$22,874
Taxation	$55,067	$28,080
Accounting and General Services	$52,625	$25,176
Charter Schools	$52,112	$14,952
Human Services	$50,980	$19,448
Land and Natural Resources	$50,920	$21,250
Attorney General	$49,473	$19,175
Budget and Finance	$48,570	$16,285
Defense	$47,316	$14,702
Transportation	$45,231	$19,782
Legislature	$42,345	$11,391
Business, Economic Development and Tourism	$31,920	$15,603

Source: Data obtained from Employee Retirement System pursuant to an open records request
Note: Does not include benefits from EUTF

HAWAII'S UNFUNDED LIABILITIES CRISIS

As public union leaders ask for higher pay and benefits, this may put a strain on Hawaii's unfunded liability crisis for pension and health benefits.

Higher pay for public workers also means higher pension benefits, as retirement calculations are based on salaries. This means that lavish increases in salaries for public workers could hit taxpayers twice: once when salaries go up, and again when the retirement benefits increase.



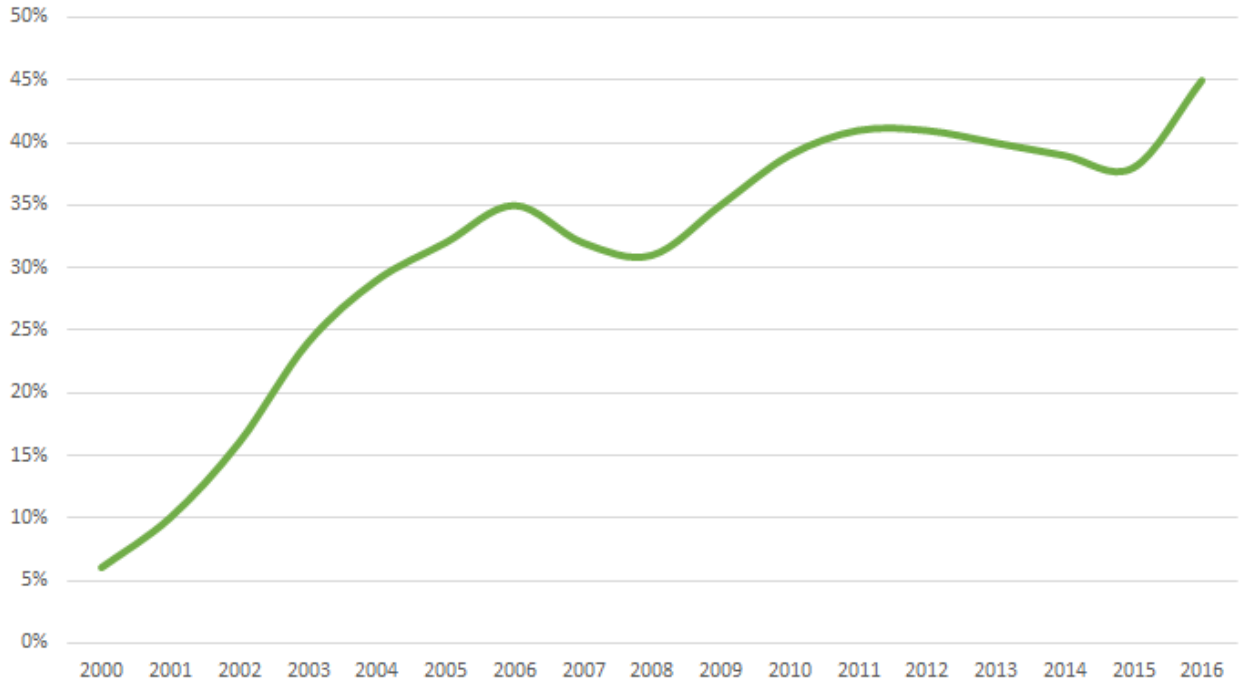
Source: ERS and EUTF Actuarial Valuation

Taxpayers in Hawaii cannot afford further increases in public pension debt, as Hawaii's unfunded liabilities for public pensions and health benefits total more than $23 billion, or $15,960 for every man, woman and child in the state.[ix]

Since the year 2000, Hawaii taxpayers have poured record amounts every year into the fund, but the debt continued to grow. Despite extra taxes and astronomical payments into the fund in a last effort to alleviate the problem, the debt kept rising.

Last year, state leaders poured $1.5 billion of taxpayer money toward satisfying the unfunded liabilities for pensions and health benefits for retirees, which is the highest payment the state has ever made, to no avail; the state debt grew higher than it has ever been.

Hawaii pension debt grows to record levels



Source: Hawaii State Employees' Retirement System 2016 Actuarial Valuation

Extra payments into the pension fund have come from tax money that normally goes toward critical government services such as education, affordable housing, maintenance and emergency services.

Already legislators have been complaining that they do not have the funds to pay for other departments because the money is being diverted toward paying off the debt.[x]

Island taxpayers must watch lawmakers closely this session to ensure that government spending and salary increases are kept in check without raising taxes.

Citizens should watch for reforms proposed by the state Employees' Retirement System which attempt to solve the pension spiking issue within government departments.

In addition, Hawaii's legislature should consider creating a self-managed pension plan for public worker retirees. Switching from a broken government-run pension system to a private, self-managed system would fix the debt problem for good.

The problem could be fixed by modeling Hawaii pension plans after other state's self-managed pension plans for government workers. This switch has helped a dozen states, such as Michigan, Alaska and Oklahoma, roll back their pension debts, ultimately allowing taxpayers in those jurisdictions to keep more money in their pockets.

When government workers contribute more to their pension fund, it means that taxpayers will have more money to spend on their own families.

INCREASED PAYMENTS FOR PENSION DEBT WILL COST MILLIONS

The state and counties may soon see millions of dollars diverted toward increased payments on the pension debt. The Hawaii State Employees' Retirement System has proposed legislation to increase state and county contributions to pay off the pension debt.

Measures SB927 and HB1061 at the state legislature would increase taxpayer contributions to the state pension fund by $337 million annually.

New payments for pension debt will cost millions

	Additional Annual Contributions	As a Percentage of Operating Budgets
State of Hawaii	$246,319,883	3.5%
County of Honolulu	$70,990,294	4.5%
County of Hawaii	$7,532,612	2.9%
County of Maui	$7,864,468	3.2%
County of Kauai	$4,155,723	15.5%
Total	$336,862,980	-

Source: Hawaii Legislature SB927/HB1061

The proposed increases could take money away from local government services like police, fire, schools, and building repair. Kauai County would be the most heavily impacted by the new required payments, which would make up 15.5 percent of the entire Kauai County budget.

All counties would be impacted heavily by the increased payment schedule, even though counties would have no decision rights over the measure, which is heavily supported at the legislature.

Although the measures for increased pension contributions are highly likely to pass, the governor has not included this expense in the current budget. This unbudgeted extra expense of hundreds of millions of dollars could lead to an era of deficit spending and fiscal crisis.

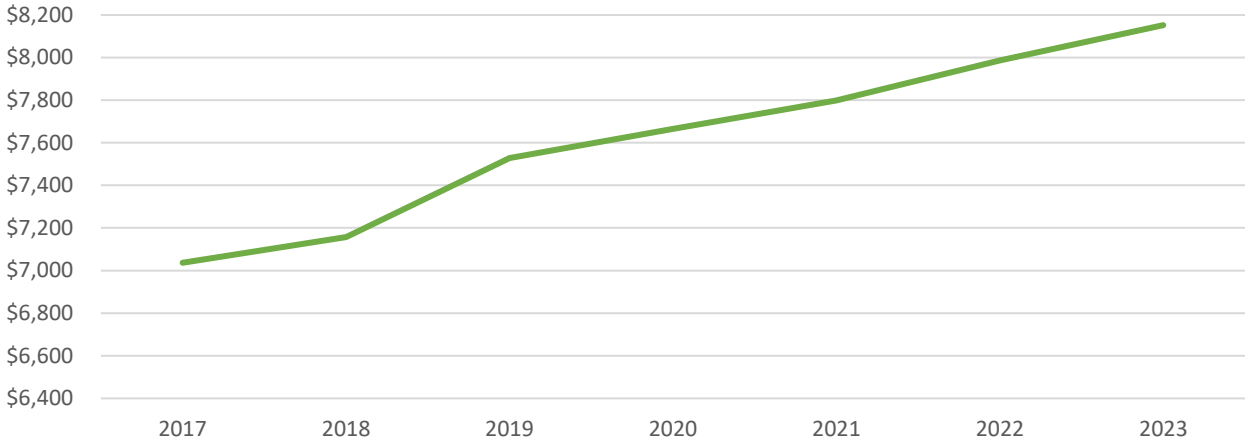
Ultimately, the money will either come from cuts to government services or from increased taxes. Unless Hawaii can gain control of the costs of public workers and pension debt, citizens and taxpayers may see vital government services disappear.

GOVERNOR DAVID IGE'S PROPOSED BUDGET

In response to the growing debt crisis, Governor David Ige recently cut $220 million from proposed spending increases. However, this modest reduction hardly made a dent in the skyrocketing costs overall, as Hawaii's spending is still projected to grow to record highs.

Governor Ige's "cuts" still result in big spending increases

Hawaii government spending plan, in Millions of Dollars



Source: Hawaii State Executive Biennium Budget, General Fund, Fiscal Year 2017 - 2019
Note: Includes $220 million spending reduction in 2018

Governor Ige did not include any pay raises in his current spending plan, and very little information has been shared with the public about the public union negotiations with the state over higher pay, but we do know one thing for certain: money is tight.

The governor's administration recently warned the unions that there is little money left in the budget for pay raises because of lower than expected tax revenues and increased debt for public pensions.

At the current rate, a 1 percent increase in pay across the board for all 14 public employee unions would cost $133 million, which would eliminate all surplus revenues projected for 2019, according to State Budget Director Wes Machida.[xi] Hawaii leaders should strive to keep government spending and salary increases in check without raising taxes.

Public union salary increases will cost millions

Salary Increase	Cost
1%	$113,000,000
3.5%	$395,500,000
5%	$565,000,000

Source: State Budget Director calculations, January 5th, 2017

CONCLUSION

Many workers in the Aloha State may deserve higher pay, but Hawaii's unstable financial situation may hurt both taxpayers and public union members.

The disparity in pay between certain county departments and private sector employees points to a broken system of pension spiking, generous benefits and unfunded liabilities for public retirees. The growing debt has the potential to devour local budgets, which could hurt many local families in the long run.

It's in the best interest of all Hawaii citizens to provide salary, health benefits and pension benefits that are both affordable for state workers and taxpayers. Instead of increasing public worker benefits dramatically, the state should work to bring its employees' total compensation more in line with what the private sector can afford.

At the end of the day, all of Hawaii's citizens need to work together to fix the problem without pushing the burden onto future generations.

ENDNOTES

[i] Testimony from State Budget Director Wes Machida, January 5,2017 <http://www.capitol.hawaii.gov/session2017/hearingnotices/HEARING_FIN-WAM_01-05-17_INFO_.HTM>

[ii] 3.5% payroll growth assumption taken from EUTF and ERS FY 2015 actuarial valuation reports.

[iii] State of Hawaii Department of Business, Economic Development and Tourism, *State of Hawaii Data Book 2015* (annual) <http://files.hawaii.gov/dbedt/economic/databook/2015-individual/12/122715.pdf> accessed January 4, 2017. Compared with data from the U.S. Bureau of Economic Analysis.

[iv] Hawaii Employer-Union Health Benefits Trust Fund Financial Statements, June 30, 2015 and 2014 <http://eutf.hawaii.gov/wp-content/uploads/2016/01/EUTF-2015-Financial-Statements-FINAL.pdf>.

[v] Hawaii's government has grown by 48% in the past decade, while the private sector has seen growth of 42% as a share of Gross Domestic Product since 2004. Source: State of Hawaii Department of Business, Economic Development and Tourism, *State of Hawaii Data Book 2015* (annual) < http://files.hawaii.gov/dbedt/economic/databook/2015-individual/13/130515.pdf>.

[vi] Compared with Bureau of Labor Statistics 2015 data <https://www.bls.gov/oes/current/oes332011.htm#st>.

[vii] Hawaii Workforce Infonet, Wages by Occupation 2015 <https://www.hiwi.org/vosnet/Default.aspx>.

[viii] Biggs, Andrew G. "Not So Modest: Pension Benefits for Full-Career State Government Employees" *American Enterprise Institute* March 2014 < https://www.aei.org/wp-content/uploads/2014/03/-aei-economic-perspective-march-2014_160053300510.pdf>.

[ix] Hawaii ERS and EUTF Financial Statements, June 30, 2015 <http://eutf.hawaii.gov/wp-content/uploads/2016/01/EUTF-2015-Financial-Statements-FINAL.pdf> and <http://ers.ehawaii.gov/wp-content/uploads/2012/05/2015-Actuarial-Valuation.pdf>.

[x] Dayton, Kevin. "Lawmakers pummel Ige's budget proposal" Honolulu Star-Advertiser January 6,2017 <http://www.staradvertiser.com/2017/01/06/hawaii-news/lawmakers-pummel-iges-budget-proposal/>.

[xi] Testimony from State Budget Director Wes Machida, January 5,2017 <http://www.capitol.hawaii.gov/session2017/hearingnotices/HEARING_FIN-WAM_01-05-17_INFO_.HTM>