



**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES**
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TESTIMONY
OF
RUSS K. SAITO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE
ON
FINANCE
ON
March 26, 2008

S.B. 2780, S.D. 2, H.D. 1

RELATING TO PUBLIC WORKS

Chair Oshiro and members of the Committee, thank you for the opportunity to testify on S.B. 2780, S.D. 2, H.D. 1. This bill expands the definition of a public work to include a construction contract between private persons using state or county land for commercial, profit-making activity. It requires that the bill's provisions be included in a lease or other agreement for use of the state or county land.

The Department of Accounting General Services (DAGS) opposes this bill because it will require government agencies to submit copies of all leases to DAGS, and collect and maintain weekly certified payrolls from the construction project owner, in which the government agency has little or no involvement. Such would be the case if DAGS entered into a ground lease with a developer to build a state office building at no cost to the State. The agreement might allow the developer to build other commercial improvements to recoup its cost, and serve as a profit incentive. Under this scenario,

DAGS would not be a party to the initial contract for commercial improvements or the future maintenance, and would have little involvement in overseeing the construction. Collecting and maintaining weekly certified payroll in this case, as well as collecting copies of leases from all government agencies, would be an unnecessary burden.

DAGS recommends that this bill be held.

Thank you very much for the opportunity to testify on this matter.



**STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**

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March 25, 2008

To: The Honorable Marcus Oshiro, Chair
and Members of the House Committee on Finance

Date: March 26, 2008

Time: 2:00 p.m.

Place: Conference Room 308, State Capitol

From: Darwin L.D. Ching, Director
Department of Labor and Industrial Relations

**Testimony in Opposition
to
S. B. 2780, HD1 - Relating to Public Works**

I. OVERVIEW OF PROPOSED LEGISLATION

Senate Bill 2780, HD1 changes the scope of the Wages and Hours of Employees on Public Works, Chapter 104, Hawaii Revised Statutes ("HRS"), to include all construction contracts between private parties that involve state or county leased land for commercial, profit making activities valued at \$500,000 or more.

S.B. 2780, S.D.2 also requires copies of the land leases to be filed with the Department of Labor and Industrial Relations ("Department") and certified payrolls to be filed with the agency entering into the agreement for the use of state land. This measure also requires that the applicability of Chapter 104, HRS, be inserted in each lease or other agreement related to the use of state or county land and requires a copy of the lease or other agreement to be filed with the Department of Accounting and General Services.

II. CURRENT LAW

The Wages and Hours of Employees on Public Works Law, Chapter 104, HRS, currently applies to State and county public construction projects. However, Chapter 104, HRS, already applies to initial construction on state or county land under the Hawaii Administrative Rules, section 12-22-1(1), definition of "public work".

III. SENATE BILL

The Department opposes this bill for the following reasons:

1. This law is not needed as state law, via Section 12-22-1, Hawaii Administrative Rules, defines "public work" as follows:

"Public work" shall be as defined in section 104-2(a), Hawaii Revised Statutes, and includes without limitation:

- (1) Any building, structure, road, or real property, the construction of which is undertaken:
 - (A) By authority of; and
 - (B) Through the use of funds, grants, loans, bonds, land, or other resources of the State or any county, board, bureau, authority, commission, or other agency or instrumentality thereof, to serve the interest of the general public, regardless of whether title thereof is held by a state or county agency. *However, subsequent construction to fixtures or appurtenances attached to the assigned space of an individual occupant, lessee, or tenant of the building or structure, contracted by other than a state or county agency or instrumentality thereof, shall not be subject to chapter 104, Hawaii Revised Statutes.*

...

Thus, the administrative rules already require that a contractor must follow Chapter 104, HRS, for any building or structure constructed on state or county land under private contract, but this requirement does not extend to subsequent construction, by individuals, occupants or tenants other than a state or county agency. For example, Chapter 104, HRS, would apply when Aloha Tower Marketplace was constructed, but would not extend to subsequent improvements made by its private tenants currently in the facility.

2. The language contained in S.B. 2780, S.D. 2 seems to expand Chapter 104, HRS, into areas not envisioned or intended by the original crafters.

Chapter 104, HRS, is intended to ensure fair bidding for public works projects in which the state or county was funding the construction of a new facility. The legislature has already expanded Chapter 104 in areas not originally envisioned, such as Special Purpose Revenue Bonds, and into areas where the state or county is leasing 50% or more of the assignable feet. This expansion has already caused uncertainty as to which projects are public works and which are not.

It also has raised issues of existing facilities and whether alteration and maintenance now falls under Chapter 104, HRS, thereby increasing the costs to the building

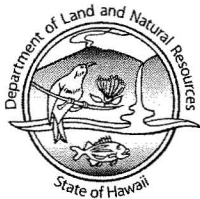
owners and to the agencies that lease space, as the lease and maintenance costs increase to absorb these new requirements.

3. The Department understands that this measure is to capture all major renovation work, as in the recent land lease that went out for bid for the Naniloa property in Hilo; however, as drafted, there are serious concerns on to whom this bill would apply.

How is commercial, profit making activity defined? Is a low-income mixed-use housing development a commercial, profit-making activity if the developer is a non-profit organization, but includes a portion of commercial square feet to service the community? What about a developer in the business of building residential buildings?

4. The Department is concerned with the practicality of such a requirement. **This measure requires that the governmental agency that leases the land would be the contracting agency. However, this would be ineffective because that agency, likely the Department of Land and Natural Resources (“DLNR”), would have no authority over the project as they are not a party to the contract between the private entities.** Further, they would not have access to private funds to be withheld for violations of chapter 104. Nor could the Department request DLNR to withhold funding to pay workers that were not paid the prevailing wage.
5. Chapter 104 is set up to monitor public contracts where a governmental contracting agency is a party to the agreement; **its purpose is not to act as a construction regulation law.** If regulation in the construction industry is what is wanted, then it should be addressed in other places in the law instead of trying to make private projects into “public works” by using a broad definition that ignores the purpose and intent of the law.

LINDA LINGLE
GOVERNOR OF HAWAII



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

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LAND
STATE PARKS

**TESTIMONY OF THE CHAIRPERSON
OF THE BOARD OF LAND AND NATURAL RESOURCES**

On Senate Bill 2780, Senate Draft 2, House Draft 1 – RELATING TO PUBLIC WORKS

**BEFORE THE HOUSE COMMITTEE ON
FINANCE**

March 26, 2008

Senate Bill 2780, Senate Draft 2, House Draft 1 proposes to broaden the definition of “public work” to include a construction contract valued at \$500,000 or more between private persons using state or county land for commercial, profit making activity, and subjecting the construction contract to the wage and hour requirements of Chapter 104, Hawaii Revised Statutes (HRS), as amended. The Department of Land and Natural Resources (Department) strongly opposes this bill.

The intent of Chapter 104, HRS, is to ensure employees of public work projects are paid no less than prevailing public employee wages and receive the same work schedule privileges as public employees. “Public work” projects are intended to be those projects constructed for use by the State or county or are paid for with State or county revenues. This bill, however, would subject lessees of public lands to these public employee wage and hour requirements notwithstanding the fact that the lessee is a private entity operating a private business. These lessees’ operations are not funded by government revenues nor are the leases entered for the purpose of the lessees constructing improvements to be used or occupied by government agencies.

The Department currently manages approximately 1,013 leases of public lands, the majority of which have been issued to private entities for a variety of purposes, including agriculture, pasture, commercial, industrial, and resort uses and would be subject to the requirements imposed by the bill. Unlike construction contracts for true “public work” projects, the Department acts as a passive landlord in the leases it manages and does not dictate, oversee or participate in the lessees’ operations or management, let alone get involved in personnel issues and decisions. As such, it would be inappropriate as well as impossible for the Department to monitor and enforce any proposed wage and hour provisions.

Moreover, the bill also requires the government agency leasing the state lands to be the governmental contracting agency for the construction project on the site. Such a requirement would impose an unreasonable burden on government agencies acting as passive landlords by obligating them to enter into and be bound by the terms of a construction contract for purely private purposes in which they have no interest or control but for the fact that it is situated on public lands.

Testimony from Alfred C. Lardizabal
Government and Community Relations Director
Laborers' Union Local 368

In Support of

SB2780, SD2, HD1 Relating to Public Works Projects

To the Committee on Finance
Tuesday, March 26, 2008, 2:00 p.m.
Conference Room 308
State Capitol

Honorable Representative Marcus R. Oshiro, Chair; Representative Marilyn B. Lee, Vice Chair; and Members of the Committee:

There is a need to clarify the requirements for the payment of prevailing wages on public works projects relative to the use of state or county land for commercial, profit-making activities. The administrative rules provide for the payment of prevailing wages when there is construction undertaken through the use of "...land, or other resources of the state or any county..."

This bill will clarify the situation. We can agree with Standing Committee Report Number 1303-08 in changing the effective date for the purposes of encouraging further discussion and resolution in conference committee.

We strongly support this bill. Thank you for the opportunity to submit this testimony.