



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

830 PUNCHBOWL STREET, ROOM 321
HONOLULU, HAWAII 96813
www.hawaii.gov/labor
Phone: (808) 586-8842 / Fax: (808) 586-9099
Email: dlir.director@hawaii.gov

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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 229, State Capitol

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

**Testimony Expressing Concerns
for
S.B. 2876, H.D. 1 - RELATING TO EMPLOYMENT SECURITY**

I. OVERVIEW OF CURRENT PROPOSED LEGISLATION

Senate Bill 2876, HD1 proposes to allocate an unknown amount of Reed Act funds to the Workforce Investment Boards of the County of Hawaii and the City and County of Honolulu to improve employer outreach and services, labor force pool expansion, capacity building, and to fund some shared costs for the operations of the one-stop career centers within each county; and

II. CURRENT LAW

Section 383-123, HRS, was last amended in 2001 by Act 112 to conform state law to the Balanced Budget Act (BBA) of 1997. The BBA authorized use of Reed Act monies transferred in 2000, 2001, and 2002 for UI administration purposes only. In 2002, an additional \$31 million distribution from TEUCA allowed Reed Act funds to be used to pay for UI benefits or for the administration of the state's UI law and its system of public employment offices. Federal law governs how states may use the money pursuant to specific appropriation by the state legislature but before any monies can be appropriated, the state law must be amended to clearly delineate the uses of Reed Act funds.

Once amended, Reed Act funds may be used in the same manner that Wagner-Peyser Act funds are used to support One-Stop systems. The federal Wagner-Peyser law authorizes the expenditure of Wagner-Peyser funds for labor exchange activities, which include applicant services such as assessment, job matching, job search workshops, and vocational counseling; and employer services such as job fairs, referrals of qualified candidates to job openings, and coordination with the employer and other agencies for mass layoffs or plant closures.

Wagner-Peyser activities are statutorily mandated to be carried out in one-stop centers for workforce assistance to assure these activities are coordinated with other employment and training services in a local area. These other services are funded by the federal Workforce Investment Act ("WIA") and other sources. WIA funded activities are overseen by each County and a local WIB in each county.

III. SENATE BILL

The Department of Labor and Industrial Relations ("Department") expresses concerns regarding this bill for the following:

1. The Department is unable to provide a fiscal evaluation of the effect this bill would have on the Unemployment Insurance Trust Fund as the current and past drafts of this bill does not indicate a dollar amount to be allocated to the Workforce Investment Boards of the County of Hawaii and the City and County of Honolulu.

The Department needs this information in order to advise the legislature as to how the proposed allocation might affect the adequate reserve ratio of the fund and the current 3-year UI tax relief measure passed by the Legislature and enacted into law by the Governor during the 2007 Legislative Session.

2. The Department respectfully requests that if this bill were to move forward, that the committee amend the appropriation amount to allow the Department to charge (or negotiate with) the individual counties no more than 15 percent of the Reed Act funds that they plan to expend. Without this increase, there would be insufficient funds to carry out our responsibility to ensure that these funds are expended in accordance with federal law. Without access to additional funds, the impact would be to jeopardize adequate administration, and result in increased risk of disallowed costs, delays or suspension of cash drawdowns, potential suspension of activities, and other federal sanctions.

The federal government holds the DLIR wholly responsible to oversee, monitor, and report on Reed Act funds, including those expended by the counties. Any expenditure in violation of federal requirements may subject the state to sanctions, including disallowance of costs that must be repaid from non-federal funds such as state general revenue.