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**STATE OF HAWAII**  
**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS**  
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January 26, 2010

To: The Honorable Karl Rhoads, Chair  
and Members of the House Committee on Labor & Public Employment

Date: January 26, 2010

Time: 9:00 a.m.

Place: Conference Room 309, State Capitol

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

**H.B. 2207 - Relating to Employment Security**

**I. OVERVIEW OF PROPOSED LEGISLATION**

H.B. 2207 proposes to do the following:

- Amend section 383-68, Hawaii Revised Statutes (HRS), to set the employer contribution rate at schedule E and schedule F for calendar years 2010 and 2011 respectively.
- Add new section to assess employers in order to repay the interest on outstanding loan balances received under Title XII of the Social Security Act.
- Amend the definition of the adequate reserve fund under section 383-63, HRS, to the benefit cost rate multiplied by the total remuneration paid.
- Amend section 383-22 to retain the maximum weekly benefit amount (MWBA) at 75% of the average weekly wage for 8 weeks, lower the MWBA to 70% for the next 8 weeks and then lower the MWBA again to 66 2/3%.

**II. CURRENT LAW**

Section 383-68, HRS, provides that the contribution rate schedule shall be determined by the ratio of the current reserve fund to the adequate reserve fund. Under current law, schedule F is applicable for calendar year 2010.

Section 383-63, HRS, was last amended in 2007 by Act 110 to temporarily change the definition of the adequate reserve fund as the highest 12-month benefit cost rate occurring in the last ten years. The adequate reserve fund is the amount needed to ensure trust fund solvency based on the highest level of unemployment experienced in the last ten years.

Section 383-22(b), HRS, was also amended by Act 110 to temporarily increase the maximum weekly benefit amount from 70% to 75% of the state's average weekly wage from January 1, 2008 to December 31, 2010.

### **III. HOUSE BILL 2207**

1. While the Department supports intent of a gradual increase in employer contributions to moderate higher taxes for businesses we believe the better alternative to H.B. 2207 and H.B. 2169 is the administration's proposal (Bill number to be assigned) as it provides greater tax moderation at a time when our economy needs it most. For more information on this issue go to [www.hawaii.gov/labor/ui](http://www.hawaii.gov/labor/ui) and click on "1/20/10 update" (see pages 1, 4 – 7a, 11 – 15, 27 and 30).
2. DLIR agrees that permanently setting the adequate reserve fund at a lower level will also reduce the tax burden on employers since maintaining the UI trust fund at a higher adequate reserve level translates to increased contributions for employers.
3. The Department opposes instituting multiple maximum weekly benefit amounts (MWBA) depending on the length of an individual's unemployment. The purpose of section 383-22(b), HRS, is to cap UI benefits payable on all claims filed in a given calendar year to 75% of the state's average weekly wage. Without this limit, high wage earners would be potentially eligible for inflated UI payments that would be charged to employer accounts. Furthermore the implementation of this measure would be at the very least an administrative nightmare and costly as the UI benefit computer software system does not have the capability to calculate 3 separate weekly benefit amounts on each claim.

Representative Karl Rhoads, Chair  
Representative Kyle Yamashita, Vice Chair  
Committee on Labor & Public Employment



HEARING      Tuesday, January 26, 2010  
                  9:00 am  
                  Conference Room 309  
                  State Capitol, Honolulu, Hawaii 96813

**RE:    HB2207, Relating to Employment Security**

Chair Rhoads, Vice Chair Yamashita, and Members of the Committee:

Retail Merchants of Hawaii (RMH) is a not-for-profit trade organization representing 200 members and over 2,000 storefronts, and is committed to support the retail industry and business in general in Hawaii. The retail industry is the one of the largest single employer in the state, employing almost 23% of the labor force.

**RMH** very much appreciates the initiative and the efforts of the Chair and the Legislature to address the impending Unemployment Insurance tax increase in a very timely manner.

Although **HB 2207** mitigates the longer term impact of the increase, we prefer and strongly support the language of **HB 2201**, which affords a more manageable tax increase.

Since the economic downturn, retailers have made serious efforts to contain employment costs through across-the-board wage and salary reductions, while keeping benefits intact. Marketing, advertising and travel budgets have been cut; basic operating expenses remain fixed or have increased.

Sales revenues are down. GET reports for Fiscal Year 2009 from the Department of Taxation indicate an almost \$2 billion decline in retail sales from the previous year. Sales for the first three months of this current fiscal are almost three quarters of a billion dollars lower than last year. Holiday figures are not available; early reports ranged from flat to double-digit decreases.

We recognize that the unemployment safety net is critical to our labor force; we are committed to maintaining benefits and restoring the health of the UI Insurance Program. We are asking you to consider the provisions in **HB2201**, developed via a consortium of business entities, which strike a balance between relief and restoration of the fund. Holding the tax rate schedules to D in 2010 and F in 2011 will help stabilize our businesses, budget accordingly, and hasten economic recovery.

Thank you for your consideration and for the opportunity to submit testimony. I look forward to continued dialogue to craft legislation to resolve this issue.

Carol Pregill, President

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House of Representatives  
The Twenty-Fifth Legislature  
Regular Session of 2010

COMMITTEE ON LABOR & PUBLIC EMPLOYMENT

Rep. Karl Rhoads, Chair  
Rep. Kyle T. Yamashita, Vice Chair

Hearing: Tuesday, January 26, 2010  
Time: 9:00 a.m.

Place: Conference Room 309, State Capitol

TESTIMONY OF ILWU LOCAL 142 RE:  
H.B. 2207 RELATING TO EMPLOYMENT SECURITY

Thank you for the opportunity to present testimony regarding HB 2207.

ILWU Local 142 is not unsympathetic to the concerns of local employers regarding the effect of taxation upon business enterprises. In the instance of HB 2207, there appears to be little constructive alternative to require assessments upon employers when they are necessary to avoid federal penalties on loan balances when the unemployment compensation fund's balance is not sufficient to pay anticipated benefits.

The proposed assessments will also permit repayment of loans made by the state to the U.S. Department of Labor for payment of benefit claims. Repayment of the loans is a self-evident necessity, and avoiding federal penalties is obviously prudent since the penalties could result in even greater future unemployment taxes on employers.

While the exact level of adjustment required is a judgment which ultimately requires actuarial skill, in principle we support maintaining the current level of weekly benefits at 75% of the average weekly wage. We urge that information be developed carefully by this committee and others to which this bill is referred to insure that the precise adjustments made maintain the fiscal integrity of unemployment compensation fund as well as being responsive to the needs of both Hawaii's workers and employers.



Randy Perreira  
President

# HAWAII STATE AFL-CIO

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The Twenty-Fifth Legislature, State of Hawaii  
Hawaii State House of Representatives  
Committee on Labor and Public Employment

Testimony by  
Hawaii State AFL-CIO  
January 26, 2010

## H.B. 2207 – RELATING TO EMPLOYMENT SECURITY

The Hawaii State AFL-CIO supports intent of H.B. 2207 which applies contribution rates schedules E and F to calendar years 2010 and 2011, respectively, notwithstanding the ratio of the current reserve fund to the adequate reserve fund; requires assessments upon employers to avoid federal penalties on outstanding loan balances on loans received from the U.S. Secretary of Labor when the balance in the unemployment compensation fund is insufficient to pay expected benefit claims; and permanently retains the adequate reserve fund at one times the product of the benefit cost rate multiplied by the total remuneration paid. H.B. 2207 also keeps the maximum weekly benefit amount at 75 percent of the average weekly wage, but reduces the maximum weekly benefit amount over the potential twenty-six week period of benefit eligibility.

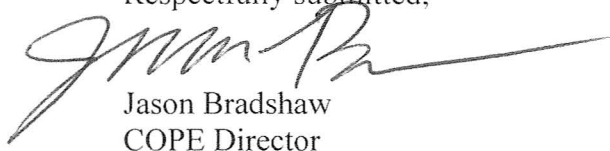
No one can deny the difficulties many are facing including businesses during these trying economic times. Thousands of workers have lost their jobs and a number of businesses have had to close or significantly downsize just to remain profitable. As of December 2009, Hawaii has had a 7 percent unemployment rate and the United States has had a staggering 10 percent unemployment rate and the sad truth is, those numbers may continue to increase.

Due to the higher than normal unemployment rates and the passage of ACT 110, Hawaii is now facing the reality that their unemployment fund will become insolvent in the near future. As a result, Hawaii must now figure out various ways to keep the fund solvent while continuing to pay the unemployment to the thousands of unemployed workers who desperately need the money to pay their bills, feed their families, and even patronage our many small businesses that exist in Hawaii. It may be slightly complicated, however, it is critical that benefits are not reduced and the bill is not rushed to ensure our unemployed can continue to survive in a state that already has higher than normal costs.

That Hawaii State AFL-CIO is pleased that H.B. 2207 retains the maximum weekly benefit at 75 percent of the average weekly wage and we urge that it continues to do so. However, we are concerned that it reduces the maximum weekly benefit amount over the potential twenty-six week period of benefit eligibility. The Hawaii State AFL-CIO opposes any amendments that would reduce benefits to those already struggling.

Thank you for the opportunity to testify.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Jason Bradshaw', with a long horizontal flourish extending to the right.

Jason Bradshaw  
COPE Director



## **Before the House Committee on Labor & Public Employment**

DATE: January 26, 2010

TIME: 9:00 a.m.

PLACE: Conference Room 309

### **Re: HB 2207 Relating to Employment Security**

#### **Testimony of Melissa Pavlicek for NFIB Hawaii**

We are testifying on behalf of the National Federation of Independent Business (NFIB) regarding unemployment insurance rate relief.

Although we support the intent of the measures intended to minimize the impact of the unemployment insurance tax increase, NFIB Hawaii supports amending the bills by holding the tax rate schedule to D in 2010 and F in 2011, permanently setting the taxable wage base at 90% and maintaining the adequate reserve multiplier at 1.0. We ask that you please amend this measure to include the provisions in the current draft of House Bill 2201, which is supported by a number of business organizations.

NFIB is the largest advocacy organization representing small and independent businesses in Washington, D.C. and all 50 state capitols, with more than 1,000 members in Hawaii and 600,000 members nationally. NFIB members are a diverse group consisting of high-tech manufacturers, retailers, farmers, professional service providers and many more.

We welcome the opportunity to engage with legislators on this and other issues during this session.

Testimony in SUPPORT of HB2207

RELATING TO EMPLOYMENT SECURITY

Submitted by the Hawaii Automobile Dealers Association  
*Hawaii's franchised new car dealers*  
to the House Committee on Labor and Public Employment  
for the hearing 9 a.m. Tuesday, January 26, 2010  
Conference Room 309, Hawaii State Capitol

Chair Rhoades, vice chair Yamashita and members of the committee:

Hawaii's franchised new car dealers comprise 12.5% of the state's total retail payroll. We SUPPORT this bill, which, if quickly enacted, will reduce, to some degree, the "tax shock" of what is anticipated to be a 10-fold increase in payroll taxes for many businesses this year.

New car sales this past year have dropped to the second lowest level recorded in the last 40 years.

Recently, dealerships have had to lay off more than 1,000 employees—20% of the total new car dealers' workforce. And still, many dealerships have not been profitable this past year. New car dealerships pay well—with annual salaries of \$51,000 per employee.

Because there have been so many layoffs of well-paid workers, dealerships' experience factors have caused their companies' unemployment fund reserves to be low...and dealers, in particular, will face the steepest of all payroll tax increases when the new rates take effect....with payroll taxes as high as \$2,000+ per employee annually.

At the beginning of the downturn, dealers postponed layoffs and, indeed, many good jobs were held in place for awhile with the help of the legislature's ACT 110 --which lowered the payroll tax three years ago allowing dealerships to retain needed operating cash paid to employees on the payrolls.

We all have heard frequently that the 2008-2009 recession has been the longest economic downturn since the Great Depression. Now, businesses, while coping with lowered revenues are facing the looming significantly increased payroll taxes.

Again, while we realize that the objective of this bill is to reduce the shock of this increase, the shock will still be significant.

Without any payroll tax reduction, however, dealers anticipate up to an additional 120 new car dealer employees will be laid off this coming year.

The bill proposes fixing the payroll tax rate at Schedule E for the year 2010, and F for 2011 establishing the wage base at 90% of the average wage instead of the current 100%, and possibly modifying the increase so



that many businesses will see something less (possibly closer to half) of the 10-fold increase for the coming year.

This bill's new structuring of the UI schedules postpones this 10-fold increase in the payroll taxes for *a year* to allow businesses to recover but the bill requires businesses to pay the interest on the monies borrowed from the federal government when the UI fund is depleted. It has been calculated that businesses will pay \$12 million in interest if this bill's plan is followed. The interest would cost businesses roughly an additional \$20 per employee.

A 5-fold to 6-fold increase would still be significant in these hard times, plus, with the charges of \$20 per employee for interest, it is anticipated that there still will be additional layoffs. No one, at this point, knows how many layoffs. But likely not as many as would be with a 10-fold increase.

Finally, HADA requests that the legislature maintain the Adequate Reserve Ratio at 1.0 as opposed to increasing it to 1.5 in 2011 so that the funds are circulated within the economy....12 months of benefits for the worst year in the past ten years is more than adequate reserves.

HADA respectfully asked that you pass HB 2207.

Respectfully submitted,

David H. Rolf  
Hawaii Automobile Dealers Association  
1100 Alakea St. Suite 2601  
Honolulu, Hawaii 96813  
Tel: 808 593-0031 Cel: 808 223-6015 Fax: 808 593-0569  
e-mail: [drolf@hawaiiidealer.com](mailto:drolf@hawaiiidealer.com)  
website: [www.hawaiiidealer.com](http://www.hawaiiidealer.com)

**yamashita1-Kristen**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, January 25, 2010 11:40 AM  
**To:** LABtestimony  
**Cc:** bob@mauidivers.com  
**Subject:** Testimony for HB2207 on 1/26/2010 9:00:00 AM

Testimony for LAB 1/26/2010 9:00:00 AM HB2207

Conference room: 309  
Testifier position: support  
Testifier will be present: No  
Submitted by: Robert M Taylor  
Organization: Maui Dvivers of Hawaii, Ltd  
Address: 1520 Liona Street Honolulu, Hawaii  
Phone: (808) 943-8304  
E-mail: [bob@mauidivers.com](mailto:bob@mauidivers.com)  
Submitted on: 1/25/2010

**Comments:**

To help reduce the "tax shock" and safeguard the statewide unemployment rate, please amend the bill by holding the tax rate schedule to D in 2010 and F in 2011, permanently set the taxable wage base at 90% and maintain the adequate reserve multiplier at 1.0. Our company has 480 employees and it would be devastating if our unemployment insurance was to increase substantially.

**yamashita1-Kristen**

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Monday, January 25, 2010 4:07 PM  
**To:** LABtestimony  
**Cc:** gorettiperdue@hotmail.com  
**Subject:** Testimony for HB2207 on 1/26/2010 9:00:00 AM

LATE

Testimony for LAB 1/26/2010 9:00:00 AM HB2207

Conference room: 309  
Testifier position: oppose  
Testifier will be present: No  
Submitted by: goretti m. perdue  
Organization: North Shore Custom Floors  
Address: p.o.box 43 kilauea, Hi. 96754  
Phone: (808) 828-1557  
E-mail: [gorettiperdue@hotmail.com](mailto:gorettiperdue@hotmail.com)  
Submitted on: 1/25/2010

**Comments:**

I oppose any increase in any taxation form at all, long time or short time, it will affect all business, our business is on the red and we are barely able to survive, it will be good if you guys come up with wome SBA loans that has not too many regulations, try to keep our government small, otherwise you will loose a lot of support from small business owners since a lot of us maybe will be out of business soon, it is very hard to stay aflot.

Mahalo.  
Goretti.