



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

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January 30, 2012

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

Date: Tuesday, January 31, 2012.  
Time: 9:00 a.m.  
Place: Conference Room 309, State Capitol

From: Dwight Takamine, Director  
Department of Labor and Industrial Relations

**Re: H.B. 2585 Relating to Unemployment Insurance Interest Payment**

**I. OVERVIEW OF PROPOSED LEGISLATION**

HB2585 amends sections 383-128 and 383-129, Hawaii Revised Statutes (HRS), to provide for the payment of interest on Title XII loans as one of the uses of the Employment and Training (E&T) fund and also to authorize the Department of Labor and Industrial Relations (DLIR) director to increase the E&T assessment in increments of .01 per cent retroactive to January 1, 2012 for payment of interest on federal loans for unemployment insurance benefits in the event it becomes necessary. Sections 383-128 and 383-129 will be repealed on January 1, 2013.

The department strongly supports this bill for the reasons cited below.

**II. CURRENT LAW**

Currently, under sections 383-128 and 383-129, HRS, the E&T fund cannot be used to pay interest on Title XII loans and employers are assessed a rate of .01% of UI taxable wages for purposes of funding training programs administered by the DLIR Workforce Development Division. The assessment is collected with the UI contributions on a quarterly basis. For calendar year 2012, there was no E&T assessment planned as Title XII loans are expected to be

repaid by the due date of September 30, 2012 based on the trust fund projections under tax rate schedule H.

### III. COMMENTS ON THE HOUSE BILL

The Department strongly supports this measure and recommends passage of this bill.

1. Hawaii's UI trust fund is currently at an extremely low level and is projected to become insolvent again at the end of March 2012. Should Hawaii require federal loans in 2012 to continue payment of UI benefits, interest will be payable as early as September 2012. An interest surcharge must be assessed on employers during the current legislative session in anticipation of trust fund shortfalls in 2012 resulting from possible lower contribution schedules and increases in unemployment rates. In 2011, \$211,000 in interest became due to an outstanding loan balance of \$14 million in December 2010.
2. Failure to pay interest when due may result in the loss of the employer's 5.4% FUTA tax offset credit and the loss of approximately \$16 million in administrative grants to operate the UI program in Hawaii. Employers will be liable for the full 6.0% FUTA tax resulting in an increase from \$42 to \$420 per employee annually. More critically, jobless workers will not be able to collect UI benefits due to the total shutdown of all local offices.
3. Section 383-61.5 provides that the director (of DLIR) may assess all employers the amounts that are sufficient to pay the principal and interest costs on the Title XII loans; provided that the director develops a mechanism of distributing these payments among employers in a fair and equitable manner.

As in 2011, the department is requesting that the use of the E&T fund be expanded temporarily to include the payment of interest on Title XII loans. Section 383-129 is amended to provide authority to the director to determine the amount of increase in the E&T assessment rate for 2012 sufficient to pay interest costs.

4. The E&T assessment is retroactive to the beginning of 2012 and is an integral part of the experience rating process that assigns the annual contribution rate schedules to employers. Therefore, the department requests that any amendments to sections 383-128 and -129 be enacted by March 9, 2012.

The Twenty-Sixth Legislature  
Regular Session of 2012

HOUSE OF REPRESENTATIVES  
Committee on Labor & Public Employment  
Rep. Karl Rhoads, Chair  
Rep. Kyle T. Yamashita, Vice Chair  
State Capitol, Conference Room 309  
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LATE

**STATEMENT OF THE ILWU LOCAL 142 ON H.B. 2585  
RELATING TO UNEMPLOYMENT INSURANCE INTEREST PAYMENT**

The ILWU Local 142 supports H.B. 2585, which authorizes the Department of Labor and Industrial Relations director to increase the Employment and Training assessment in increments of .01 percent retroactive to January 1, 2012, for payment of interest on federal loans for unemployment insurance benefits.

When the Unemployment Insurance Trust Fund went broke in 2010, the State was forced to borrow from the federal government to make good on its commitment to pay unemployment insurance benefits to eligible unemployed workers. If the loan was not repaid in certain time periods, the State was required to pay interest on the money borrowed. Considering that the adequacy of the UI Trust Fund to pay benefits to all who qualify remains in question due to the slowly recovering economy and mass layoffs that continue, the Department is rightfully concerned that another federal loan may be needed, possibly necessitating interest payments in the future.

H.B. 2585 is being proposed to ensure that money will be available to pay the interest by using the Employment and Training Fund (ETF) and authorizing the Department to increase assessments as needed for this purpose. If no interest payment is required, the money will remain in the ETF to be used for training programs that will benefit employers and their employees.

The ILWU believes this is a sound proposal and urges passage of H.B. 2585. Thank you for considering our testimony.