



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

830 PUNCHBOWL STREET, ROOM 321  
HONOLULU, HAWAII 96813

<http://labor.hawaii.gov>

February 20, 2013

To: The Honorable Sylvia Luke, Chair,  
The Honorable Scott Y. Nishimoto, Vice Chair,  
The Honorable Aaron Ling Johanson, Vice Chair, and  
Members of the House Committee on Finance

Date: Friday, February 22, 2013  
Time: 11:00 a.m.  
Place: Conference Room 308, State Capitol

From: Dwight Y. Takamine, Director  
Department of Labor and Industrial Relations (DLIR)

**Re: H.B. No. 1028 H.D. 1 Relating to Employment**

**I. OVERVIEW OF PROPOSED LEGISLATION**

H.B. No. 1028 H.D. 1 proposes to do the following:

- Amend section 383-22, Hawaii Revised Statutes (HRS), to retain the maximum weekly benefit amount (MWBA) at 75% of the average weekly wage (AWW) from 1/1/2013 to 12/31/2013 and return the MWBA to 70% of the AWW on 1/1/2014.
- Amend section 383-68, HRS, to extend the employer contribution rate at schedule F for calendar year 2013.
- Increases the hourly minimum wage to \$7.75 on 01/01/14, \$8.25 on 01/01/15, and \$8.75 on 01/01/16

The Department has major concerns with Section 1 as the Unemployment Insurance (UI) trust fund is still below the adequate reserve level prescribed by law. The DLIR recognizes the importance of providing an increase in the minimum wage that would improve the quality of life for current minimum wage workers. However, the DLIR prefers the Administration's bill (HB0916), which restores the 20% erosion in the buying power lost since the minimum rate was last raised over six years ago. The Administration proposal will also improve the quality of life for minimum wage workers by adjusting the minimum wage for inflation to give workers more purchasing power. It will also provide an incentive for those moving from welfare to work to earn wages

that will enable them to become self-sufficient.

## **II. CURRENT LAW**

Effective 1/1/2013, the MWBA is 70% of the state AWW. From 2008 through 2012, several laws were enacted to temporarily increase jobless benefits by raising the MWBA from 70% to 75% of the state and concurrently reduce income to the UI trust fund by lowering employer taxes.

Section 383-68, HRS, provides that the contribution rate schedule for each calendar year shall be determined by the ratio of the current reserve fund to the adequate reserve fund. However, since calendar year 2008, the statutorily determined rate schedules have been artificially lowered by legislative actions, resulting in savings of \$350 million to employers. Under current law, Schedule G should be in effect for calendar year 2013.

The current minimum wage is \$7.25. Employers are allowed to claim a tip credit of 25 cents for tipped employees, i.e. pay them \$7.00, provided the tipped employee actually makes at least \$7.75 an hour, or 50 cents above the minimum wage.

## **III. COMMENTS ON THE HOUSE BILL**

The Department has major concerns about the repeated disregard of the original intent of the legislature in defining and maintaining the UI trust fund at the “adequate reserve level” despite the experience of insolvency in 2010. The Department was forced to request federal advances from December 2010 to July 2011 and from March 2012 to April 2012. At the present balance of \$92 million, the trust fund level is only at one-fourth of the adequate reserve level of \$384 million.

While Hawaii has been fortunate to be able to repay its outstanding loans without additional borrowing, the commitment to start rebuilding the trust fund is critical when our jobless rates are steadily declining. Recently, Hawaii’s unemployment rate is at 5.2%, one of the lowest in the U.S., and at pre-recession level. Financing of the UI trust fund is countercyclical, thus UI reserves should be accumulated during periods of economic prosperity to withstand recession level benefit outgo that result in higher tax liabilities for employers when they can least afford it.

Moreover, because there is always an element of uncertainty in the future, like the “fiscal cliff” and the continuing challenges in the European economy, it is always important and prudent to adhere to the intent in the establishment of the trust fund, which was to ensure there are adequate reserves capable of paying benefits to cushion economic downturns and provide income for those individuals unemployed through no fault of their own. Currently, there is only 3 months of benefits at the highest benefit cost ratio.

The Department is opposed to retroactively modifying the MWBA provision, which will not only detrimentally affect trust fund solvency but also impose a heavy administrative burden to identify and make retroactive payment adjustments to January 1, 2013. In lieu of a retroactive date, the Department recommends the effective date of April 7, 2013 to this proposal.

Any amendments to tax provisions, such as those proposed in this measure, must be enacted prior to March 8, 2013 due to scheduling of the annual experience rating programs. Any delay beyond this date will interfere with providing employers with timely notice of their tax rates, their appeal rights and filing of the first quarter contributions due.

Regarding the minimum wage provision in the measure, the DLIR prefers the Administration's bill (HB0916) that restores the buying power lost by minimum wage workers since 2007, adjusts the rate to account for inflation and provides a proportional increase in the tip credit.

The purpose of the Administration proposal is to raise the minimum wage to further the economic recovery of Hawaii and lift Hawaii residents out of poverty and to match the minimum wage to the cost of inflation on an annual basis. An increase in the minimum wage will boost consumer demand and jobs because minimum and low-wage workers spend most if not all of their increased wages and therefore will generate economic activity to support our continued recovery from the recession.

### **Minimum Wage is higher in 19 states and D.C. despite higher cost of living in Hawaii**

The following twenty states or jurisdictions have a higher minimum wage than Hawaii as of January 1 2013; ten of these states index their minimum wage to inflation so that the real value of the minimum wage does not fall every year.

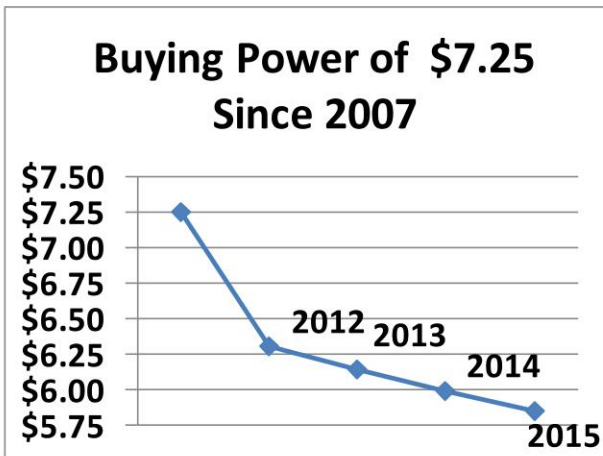
\$9.19	Washington*
\$8.95	Oregon*
\$8.60	Vermont*
\$8.25	Connecticut*, District of Columbia*, Nevada*, Illinois
\$8.00	California, Massachusetts*
\$7.75	Alaska, Rhode Island
\$7.85	Ohio*
\$7.79	Florida*
\$7.80	Arizona*, Montana*
\$7.78	Colorado*
\$7.50	Maine*, New Mexico
\$7.40	Michigan, Rhode Island

\*Denotes indexed to a cost of living or other indexing mechanism.

**Give Hawaii’s minimum wage earners more buying power**

This Administration proposal will improve the quality of life for current minimum wage workers by adjusting the minimum wage for inflation to give workers more purchasing power. The majority of minimum wage workers in such occupations as waitperson, food service counter worker, and bus person, will also see an improvement in their economic sustainability.

The last minimum wage increase was in 2007. Using that as the base year, and adjusting



the current \$7.25 minimum wage for inflation based on the most recent Consumer Price Index that is updated semi-annually and using the Department of Business Economic Development and Tourism's (DBEDT) CPI-U forecast for 2013 to 2014, a worker would have to be paid \$8.78 by 2014 to have the same purchasing power that the worker had in 2007 at \$7.25 an hour. Conversely, if the current minimum wage were deflated to 2007 dollars, it would be worth only \$5.99 in 2014.

By increasing the minimum wage and providing a mechanism for it to keep up with the cost of inflation, the number of Hawaii residents living in poverty will decrease. The U.S. Census Bureau recently estimated that 17.4 percent of state residents live in poverty, or about one-fifth of Hawaii residents, and that makes Hawaii the seventh highest state with the percentage of people living in poverty. Minimum wage earners in Hawaii currently earn \$15,080 annually working 40 hours a week for 52 weeks.

**2013 Hawaii Poverty Guidelines**

Household size	100%	133%	150%	200%	300%	400%
1	\$12,860	\$17,104	\$19,290	\$25,720	\$38,580	\$51,440
2	17,410	23,155	26,115	34,820	52,230	69,640
3	21,960	29,207	32,940	43,920	65,880	87,840
4	26,510	35,258	39,765	53,020	79,530	106,040
5	31,060	41,310	46,590	62,120	93,180	124,240
6	35,610	47,361	53,415	71,220	106,830	142,440
7	40,160	53,413	60,240	80,320	120,480	160,640
8	44,710	59,464	67,065	89,420	134,130	178,840

Source: Calculations by Families USA based on data from the U.S. Department of Health and Human Services

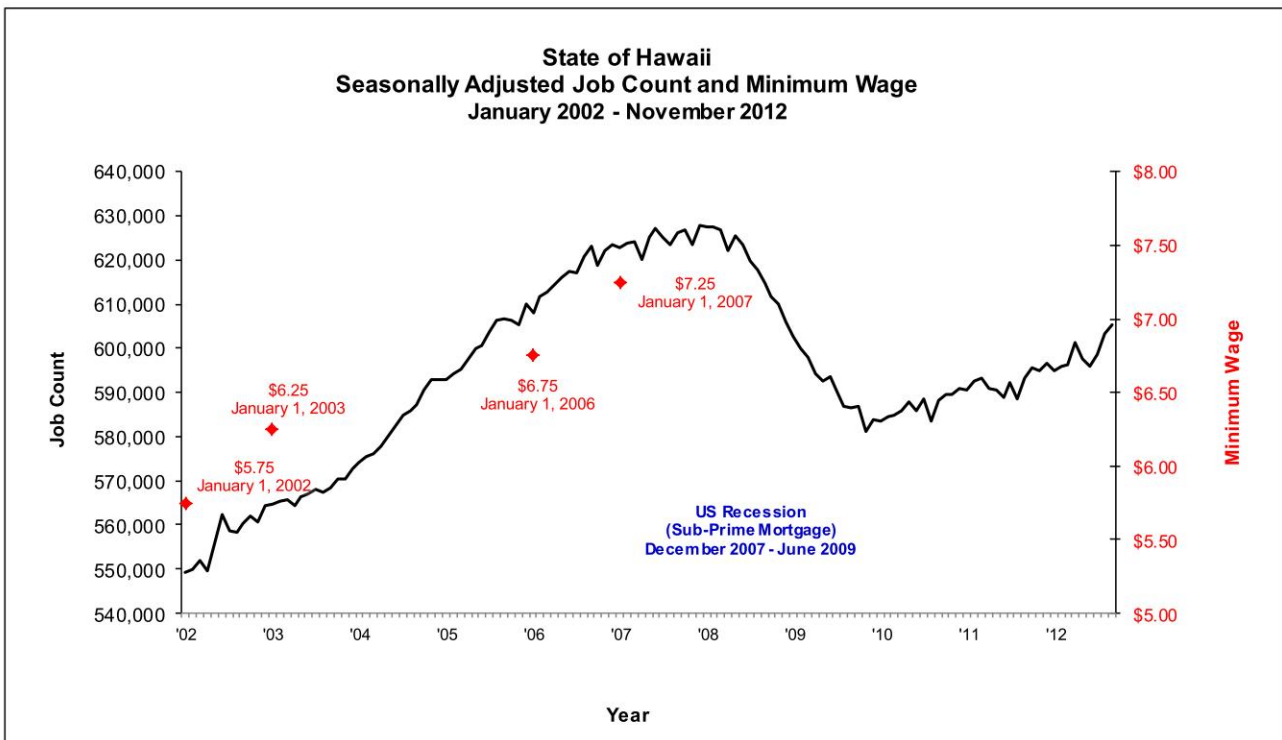
It is also desirable for Hawaii to maintain a minimum wage standard that reflects the increase in the cost of living, especially considering Hawaii is the most expensive state to live in. (See 2012 ACCRA Third Quarter 2012 Cost of Living Data as published by the Missouri Economic Research and Information Center at [http://www.missourieconomy.org/indicators/cost\\_of\\_living/index.stm](http://www.missourieconomy.org/indicators/cost_of_living/index.stm)).

- ✓ The cost of living is 12% higher than the next highest area (Washington, D.C.) and eighty-nine per cent higher than in Oklahoma, which is the least expensive area.
- ✓ The cost of groceries is 15% higher than in Alaska, which is the state with the second highest grocery costs, and seventy-one per cent higher than Kansas, which has the lowest grocery costs in the nation.
- ✓ Similarly, the cost of transportation is 12% higher than Connecticut, which is the state with the second highest transportation costs, and forty-seven per cent higher than Mississippi, which has the lowest transportation costs in the nation.

### Increased tip credit balances increase in minimum wage

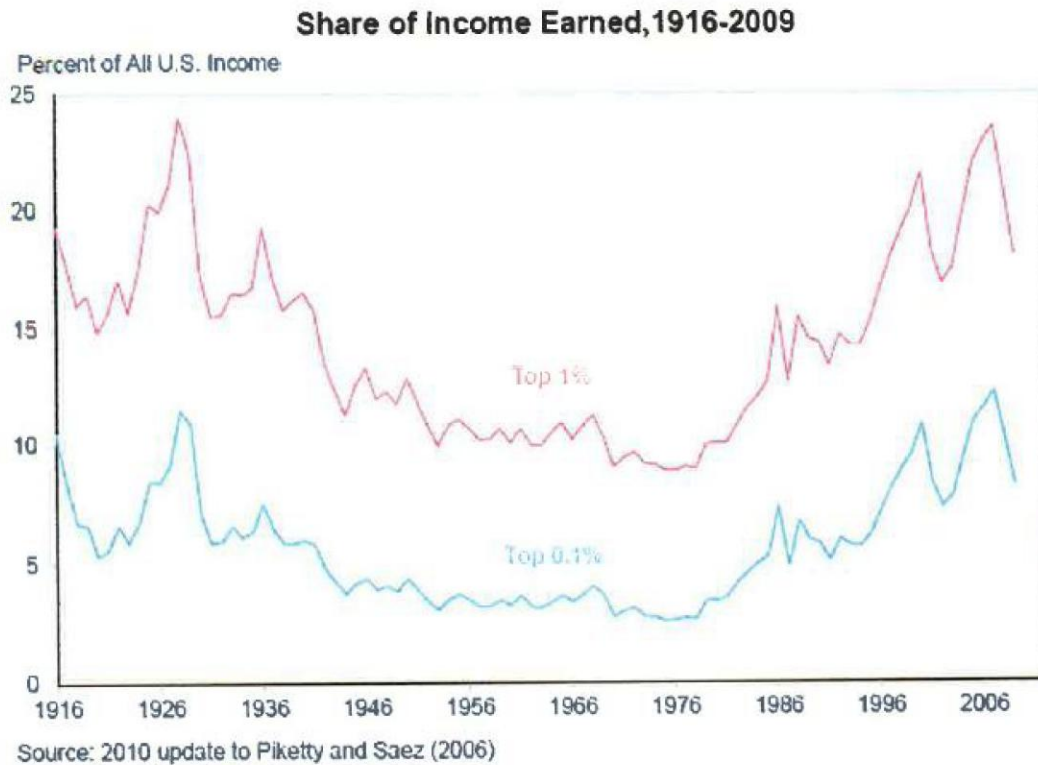
The twenty per cent increase in the tip credit in the Administration proposal is proportional to the proposed increase in the minimum wage rate. The increase in tip credit will allow employers with tipped employees to pay their tipped employees \$8.45 per hour as long as they earn \$9.25 per hour including tips.

### Increase in minimum wage does not affect job count

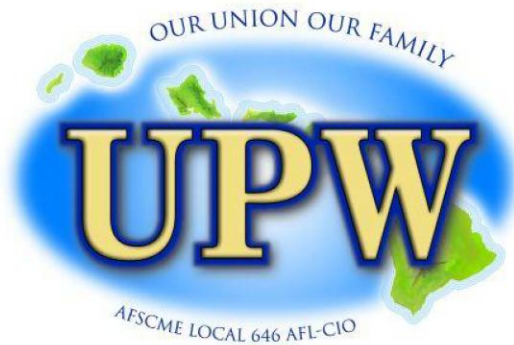


Since 2002, the minimum wage has increased four times and on each of those occasions, the seasonally adjusted job count continued to grow.

“We can either settle for a country where a shrinking number of people do really well, while a growing number of Americans barely get by,” said President Obama in his 2012 State of the Union address. “Or we can restore an economy where everyone gets a fair shot, everyone does their fair share, and everyone plays by the same set of rules.”



Source: Alan Krueger, President’s Council of Economic Advisors, *The Rise and Consequences of Economic Inequality*, 2012



THE HAWAII STATE HOUSE OF REPRESENTATIVES  
The Twenty-Seventh Legislature  
Regular Session of 2013

COMMITTEE ON FINANCE

The Honorable Rep. Sylvia Luke, Chair  
The Honorable Rep. Scott Nishimoto, Vice Chair  
The Honorable Rep. Aaron Ling Johanson, Vice Chair

DATE OF HEARING: Friday, February 22, 2013

TIME OF HEARING: 11 a.m.

PLACE OF HEARING: Conference Room 308

**TESTIMONY ON HB1028 HD1 RELATING TO EMPLOYMENT**

By DAYTON M. NAKANELUA,  
State Director of the United Public Workers, AFSCME Local 646, AFL-CIO

My name is Dayton M. Nakanelua and I am the State Director of the United Public Workers, AFSCME, Local 646, AFL-CIO (UPW). The UPW is the exclusive representative for approximately 11,000 public employees, which include blue collar, non-supervisory employees in Bargaining Unit 01 and institutional, health and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties. The UPW also represents about 1,500 members of the private sector.

The UPW supports HB10286 HD1 that extends the maximum weekly benefit amount at seventy-five per cent of the average weekly wage from December 31, 2012, to December 31, 2013; sets, for calendar year 2013, the employer contribution rate at schedule F; increases the hourly minimum wage to \$7.75 on January 1, 2014, \$8.25 on January 1, 2015, and \$8.75 on January 1, 2016; and applies retroactively to January 1, 2013.

The cost of living in Hawaii is the highest in the nation, but our state's minimum wage is still equivalent to the federal minimum of \$7.25 an hour. The last time that the minimum wage was increased was in 2007. As of 2012, the poverty level for a family of two in Hawaii is \$17,410 and \$21,960 for a family of three. An individual who works 40 hours a week at minimum wage for 52 weeks would earn \$58.00 a day, \$290.00 a week, and \$15,080 a year. A family of two or more would be well below the poverty level. Accordingly, we are in support of legislation to increase the minimum wage.

However, we would like to raise concerns regarding the employer contribution rate being set at schedule F. The UI trust fund adequate reserve level is \$384 million, and the State is nowhere near to meeting this amount. We recognize that our economy is still recovering, but it is critical that we address the deficit in the fund to avoid being forced to borrow money or face insolvency.

Thank you for the opportunity to testify.





House of Representatives  
Twenty-Seventh Legislature, 2013  
State of Hawai'i

TO: Honorable Sylvia Luke, Chair  
Honorable Scott Nishimoto, Vice Chair  
Honorable Aaron Ling Johanson, Vice Chair  
Members of the Committee on Finance

DATE: Friday, February 22, 2013

TIME: 11:00 AM

PLACE: Conference Room 308  
Hawai'i State Capitol  
415 South Beretania Street  
Honolulu, Hawai'i 96813

FROM: National Federation of Independent Business (NFIB) Hawai'i

**RE: HOUSE BILL 1028, HD1, RELATING TO EMPLOYMENT**

Chair Luke, Vice Chair Nishimoto, Vice Chair Johanson, and members of the Committee,

Thank you for the opportunity to testify in opposition of HB 1028, HD1. NFIB Hawai'i respectfully **opposes** this measure.

This legislation would extend the maximum weekly benefit amount at 75% of the average weekly wage from 12/31/2012 to 12/31/2013. We are concerned that an extension of such benefits will result in a number of adverse effects for business owners. We note that small businesses play a major role in the American economy, representing 99% of all employer firms, employing about half of private-sector employees and generating 60 – 80 percent of net new jobs annually over the last decade. Therefore, we ask lawmakers to help ensure that public policies help spur economic growth by taking into account the unique perspective of those who own and operate a small business in America.

In addition, NFIB opposes increases in the current minimum wage. Mandatory wage increases hurt not only small businesses, but their employees as well. Most minimum-wage jobs are offered by small businesses. The overwhelming majority of economists continue to affirm the negative impact of mandatory wage increases on jobs. Mandatory minimum-wage increases end up reducing employment levels for those people with the lowest skills.

The National Federation of Independent Business is the largest advocacy organization representing small and independent businesses in Washington, D.C., and all 50 state capitals. In Hawaii, NFIB represents more than 1,000 members. NFIB's purpose is to impact public policy at the state and federal level and be a key business resource for small and independent business in America. NFIB also provides timely information designed to help small businesses succeed.



Randy Ferreira  
President

# HAWAII STATE AFL-CIO

320 Ward Avenue, Suite 209 • Honolulu, Hawaii 96814

The Twenty-Seventh Legislature, State of Hawaii  
Hawaii State House of Representatives  
Committee on Finance

Telephone: (808) 597-1441  
Fax: (808) 593-2149

Testimony by  
Hawaii State AFL-CIO  
February 22, 2013

## H.B. 1028, HD-1 – RELATING TO EMPLOYMENT

The Hawaii State AFL-CIO supports the increase to the minimum wage but has concerns setting the employer contribution rate at schedule F. We would also prefer the minimum wage to be indexed to the Consumer Price Index (CPI).

Hawaii's cost of living is the highest in the nation; however, Hawaii's minimum wage is still equal to the federal minimum wage of \$7.25 an hour. In fact, the last time Hawaii raised the minimum wage was six year ago in 2007 and if Hawaii's minimum wage had been indexed to the Consumer Price Index (CPI) the minimum wage in 2012 would have been \$8.35 an hour. Even states with a lower cost of living have increased their minimum wage while Hawaii has sat back. States such as California, Washington, Illinois, Oregon, and even Nevada all have a higher minimum wage than Hawaii. In fact, 19 states and the District of Columbia have a higher minimum wage than Hawaii and all of them have a lower cost of living. Additionally, Santa Fe has raised its minimum wage to \$10.29 an hour, and San Francisco has raised its minimum wage to \$10.55 an hour becoming the two highest mandatory minimum wages in the country. Even with the higher minimum wages, a number of studies have indicated San Francisco and Santa Fe's minimum wage hasn't had a negative affect on vital components of their economy, such as job creation and unemployment.

Moreover, the poverty line for a family of two in Hawaii as of 2012, is \$17,410, and is increased to \$21,960 for a family of three. A full-time minimum wage worker in Hawaii who works 40 hours a week for 52 weeks would earn \$58.00 a day, \$290.00 a week, and a disturbingly low \$15,080.00 a year. This, unfortunately for a family of two or more, is well below the poverty level. The truth is, over 17 percent or nearly 229,000 Hawaii residents live in poverty when calculating cost of living and regrettably, according to the National Low Income Housing Coalition, in no state can a minimum wage worker afford a two-bedroom unit at Fair Market Rent, working a standard 40-hour work week. In Hawaii, a minimum wage worker would need to work 175 hours a week to afford rent.

According to a report by the National Economic Council in 2000, increasing the minimum wage does not have a negative effect on employment. The National Economic Council states, "since the (national) minimum wage increase in 1996, the economy has created more than 10 million jobs and the unemployment rate has fallen from 5.2 percent in September 1996 to 4.1 percent in February 2000, near its lowest level in thirty years. Labor market trends for workers most affected by the minimum wage increase—including younger workers, workers with lower educational levels, and minorities—also show no negative impact of the minimum wage on employment. Numerous careful economic studies, including ones by David Card

and Alan Krueger, have shown that increasing the minimum wage has no negative effect on employment. Recent research has even suggested that higher wages can increase employment, because they increase employers' ability to attract, retain, and motivate workers. And they benefit workers by increasing the reward to work."

Furthermore, a more recent study conducted in 2010 by University of California, Berkeley, economics professor Michael Reich also concludes that the minimum wage does not lead to the short- or long-term loss of low-paying jobs. Professor Michael Reich proclaims "although increasing the minimum wage can stimulate the economy by putting more money in the pockets of those most likely to spend it on necessities, he said, suggestions to raise minimum wages typically trigger fears. These fears center around the idea that raising the minimum wage would force many employers to reduce job offerings to meet a more expensive payroll, or that a "tipping point" where the minimum wage becomes too high has already been reached."

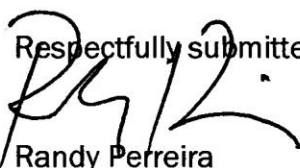
It should also be noted that ten states, some of them conservative have increased their minimum wage this year. The ten states that saw an increase to their minimum wage include Washington, Arizona, Colorado, Florida, Missouri, Montana, Ohio, Oregon, Rhode Island, and Vermont. Even Mayor Bloomberg of New York endorsed a 2012 proposal to increase New York's minimum wage above the federal level of \$7.25 an hour proclaiming "the genius of the free market is not always perfect."

In fact, some economists such as Paul Osterman, an economics professor at MIT maintain raising the minimum wage to get more cash to the working poor is just as crucial as creating a large number of low-wage positions. He asserts "gradually raising the federal minimum wage to something close to that level (\$10 an hour) over the next few years would be an important first step to helping the working poor climb out of poverty, while injecting more money into the economy."

Currently, the unemployment insurance trust fund balance is at \$125 million and is considerably short of the adequate reserve level of \$384 million. The first priority should be to ensure the adequate reserve level is met should the economy dip back into a recession. While we hope the economy continues to improve and the unemployment rate continues to drop, we must be prepared for the worst.

We hope the legislature recognizes the importance of raising the minimum wage and we strongly urge the passage of H.B. 1028, HD1 amended to include indexing to the CPI and keeping the current UI schedule.

Thank you for the opportunity to testify.

Respectfully submitted,  
  
Randy Perreira  
President



## American Income Life Insurance Company

**Daryl Barnett**  
**Director, Labor Relations**

**House of Representatives**  
**House Committee on Finance**  
**The Twenty-Seventh Legislature**  
**State of Hawaii**

Mr. Chairman, Members of the committee, thank you for providing American Income Life Insurance Company with the opportunity to comment on H.B. 1028, "Minimum Wage: Employment".

Between American Income life Insurance Company (AIL), and National Income Life Insurance Company (NILCO), and Union Heritage Life Insurance, we are licensed in four countries, the United States of America, New Zealand, Ireland and Canada. We currently have over 4000 unionized representatives and employees internationally, which includes our representatives in the state of Hawaii. Our headquarters for the company is located in the United States of America.

In the State of Hawaii, American Income Life (AIL) has offices with approximately 80 representatives and employees of AIL all who work on all Islands. As a company, we are pleased to be able to provide career opportunities to local residents. As a company we contribute to the State of Hawaii and the community through the payment of taxes. We are a community minded organization, and contribute to many activities in the community.

Today more than ever, we need to protect workers as well as the long-term economic interest of American business. It is only logical for businesses to support policies that create a robust middle class, spur economic growth, and create shared prosperity. This type of legislative amendment is good for workers, and ultimately, that is good for our economy.

Raising the minimum wage is good for Hawaiian families; in particular raising the minimum wage would be benefit women as they are amongst the lowest paid. We submit that raising the minimum wage is a family friendly policy. We also submit, minimum wage would enable families the ability to make choices.

Working families would be able to participate more readily in community activities, they no longer would have to work three and four jobs in order to have sufficient income for a family. As a result of payroll increases income tax revenues would rise and this in turn would drive down the federal deficit.

Raising minimum wage is good for the Hawaii's economy it provides workers with money, which will be used to purchase goods and invest in local products. We believe that increasing minimum wage is not only good for families but is good for the state of Hawaii. State benefits would cost less and there would be less need for income support.

Some employers may argue that raising the minimum wage is bad for business; we disagree.

At American Income Life, our perspective and experience lead us to a different reaction. When workers make a decent wage, they become a better customer. When we have a larger base of customers who can afford our insurance, we prosper and grow. When we prosper and grow, we hire more agents to sell more products, and increase our staff to service our policyholders. When we have more agents, more employees, and more customers sharing in a piece of the economic pie, we have stronger communities. A fairer process of income distribution is in our view created with minimum wages. Low wages is a major cause of poverty and social inequity. It is simple: employers should be capable of providing their employees with a fair days wages.

Putting aside any moral imperative that in reality it would require \$10.25 an hour from a family of four to tiptoe beyond poverty, or the criminality that women already earn 20% less than men, an employer who can't afford to pay \$8.25 an hour, most likely won't stay in business. The reality is depressed wages, depress the overall community. Putting more money into more people's pockets benefits both business and workers.

The answer to this question - " what is a fair wage " will most likely always differ, based on whether you are paying or receiving the wage. This common sense increase to the minimum wage is a first step in resolving what is best for the whole community. This increase moves us in the right direction to creating a sustainable economy.

We say YES to increasing the Minimum Wage.

Thank you

A handwritten signature in black ink that reads "Daryl Barnett." The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Daryl Barnett  
Director labor Public Relations  
American Income Life.  
db/UFCW

# House of Representatives H.B. 1028

**February 20, 2013**

## Presentation to the House Committee Finance

## Presented by American Income Life

Daryl Barnett

Director Labor Relations

1701 K. N.W. Washington, D.C.

USA 20006

# Hawai'i Alliance for Retired Americans

An affiliate of the Alliance for Retired Americans  
c/o HEA 1953 South Beretania St., Suite 5C · Honolulu, Hawaii 96826

AFT Hawaii Retirees  
HGEA Retirees  
HSTA – Retired  
ILWU Retirees  
Kokua Council  
UPW Retirees  
Hawaii Family Caregivers Coalition  
Kupuna Education Center

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(Submitted by email to: [FINtestimony@capitol.hawaii.gov](mailto:FINtestimony@capitol.hawaii.gov))

Testimony of Al Hamai in support of HB1028, HD1 Relating to Employment

## **House Committee on Finance**

**February 22, 2013, 11:00 p.m. Conference Room 308**

Chair Sylvia Luke and Members of the Committee,

HARA supports the purpose of HB 1028, HD1, as it relates to increasing the minimum wage to \$8.75 on January 1, 2016. We urge your Committee to amend the bill to advance the date for setting the \$8.75 wage and to index it to the Consumer Price Index (CPI). This is the right thing to do, now.

We believe in the dignity of all work. Workers now and in the future, earning the lowest wages, more than others, need your help to live with greater dignity and hope.

Nationally, President Obama proposed the increase in the minimum wage to \$9.00 by the end of 2015. The New York Times in its editorial, "From the Bottom Up" on February 17 supported the proposal and pointed out among other facts:

"Over all, the argument that a higher wage will kill jobs has been debunked by a [range of studies](#) showing that a higher minimum wage boosts pay without measurably reducing employment, while improving productivity. One [study](#) from the Federal Reserve Bank of Chicago found that a \$1 increase in the minimum wage results, on average, in \$2,800 in new spending by affected households in the following year, in large part because the increase helps workers accumulate down payments to buy cars. Owning a car, in turn, helps workers to keep their jobs."

We urge your Committee to approve HB1028, HD1, with our proposed amendments. The time to act is now. Mahalo and Aloha.

*HARA is a strong voice for Hawaii's retirees and seniors; a diverse community-based organization with national roots; a grassroots organizer, educator, and communicator; and a trusted source of information for decision-makers.*







Representative Sylvia Luke, Chair  
Representative Scott Y. Nishimoto, Vice Chair  
Representative Aaron Ling Johanson, Vice Chair  
Committee on Finance

HEARING        Friday, February 22, 2013  
                    11:00 am  
                    Agenda #1  
                    Conference Room 308  
                    State Capitol, Honolulu, Hawaii 96813

**RE     HB1028, HD1, Relating to Employment**

Chair Luke, Vice Chairs Nishimoto and Johanson, 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 one of the largest employers in the state, employing 25% of the labor force.

**RMH supports Section I**, which extends the maximum weekly benefit amount at 75% of the average weekly wage from 12/31/2012 to 12/31/2013, and sets for calendar year 2013 the employer contribution rate at schedule F.

The retail industry has experienced slow but steady growth over the past year or so, with existing companies opening new locations and new retailers entering the marketplace. New jobs at all levels are being created. But there are still hundreds of small retailers hovering on the edge of survival. This tax relief most assuredly will provide greater stability and an unexpected and welcome resource at this critical time.

**RMH opposes Section II**, which raises the hourly minimum wage to \$7.75 on January 01, 2014, \$8.25 on January 01, 2015 and \$8.75 on January 01, 2016.

An increase in the minimum wage causes a compression of wages between newly hired, inexperienced workers and veteran, experienced employees. An attempt to mandate scheduled adjustments at the lowest tier of the employment scale would cause a tremendous and prohibitive increase in overall employment costs. Furthermore, an increase in payroll costs also leads to increase benefit costs that are based on wages, including vacation and holiday pay, unemployment insurance, social security and Medicare, and workers' compensation premiums.

An additional but generally not considered real benefit within the retail industry is the employee discount which is provided to all employees. Generally in the 25% to 30% range, this discount represents a real savings to employees, particularly in the grocery and apparel categories.

Our economy remains vulnerable. Our focus should be on stabilizing our businesses so as to enable increasing employment and hastening recovery. Thank you for your consideration and for the opportunity to comment on this measure.

Carol Pregill, President



**HAWAII CATHOLIC CONFERENCE**

6301 Pali Highway  
Kaneohe, HI 96744-5224

**ONLINE SUBMITTAL**

Hearing on Friday, February 22, 2013 @11:00 a.m.  
Conference Room #308

**DATE:** February 20, 2013

**TO:** **House Committee on Finance**  
Rep. Sylvia Luke, Chair  
Rep. Scott Nishimoto, Vice Chair  
Rep. Aaron Johanson, Vice Chair

**FROM:** Walter Yoshimitsu, Executive Director

**RE:** Support for HB 1028 HD 1 Relating to Employment

I am Walter Yoshimitsu, representing the Hawaii Catholic Conference. The Hawaii Catholic Conference is the public policy voice for the Roman Catholic Church in the State of Hawaii under the leadership of Bishop Larry Silva. We urge the Committee to support HB 1028 HD1 and increase the minimum wage in Hawaii. We believe such an increase is consistent with the tenets of Catholic social teaching on the dignity of workers, the needs of low income wage earners in our state, and the principles that have driven welfare reform at both the state and federal levels.

For over a century, the Catholic Church has addressed the rights of workers in modern industrial societies in light of the principles of Catholic social teaching. A number of these principles are relevant to a discussion over the minimum wage and I offer them for thought. Even the United States Conference of Catholic Bishops has supported this very important issue and made it a priority.

**The Dignity of Workers.** Ultimately, the value of work is grounded in the dignity of the human beings who toil in various workplaces across our great state. Every life has value and every worker has dignity. Wages are a critical way by which we recognize that dignity.

**Rights and Responsibilities.** Our rights are grounded in our own personal responsibility as well as to those in our community. Each of us has the twin responsibility of developing our own God given skills to its fullest and being able to provide for the needs of our families. This is why Catholic social teaching has long defined a just wage in terms of a "family wage," or that which is necessary to meet the needs of a family.

**Strengthening the Family.** Many of these working people are parents. In this context, raising the minimum wage is one way to strengthen the families of Hawaii. We strongly believe that an increase in the minimum wage is a matter of fairness and justice, and we hope it can be addressed as soon as possible so that it will benefit the people in Hawaii that need it most.

In light of these considerations, raising the state minimum wage is good public policy and we encourage you to pass this bill. Mahalo for the opportunity to testify.



To: House Committee on Finance  
Representative Sylvia Luke, Chair  
Representative Scott Nishimoto, Vice Chair  
Representative Aaron Ling Johanson, Chair

From: Melanie Bailey  
T S Restaurants Hawaii  
Human Resources Manager

Hearing Date: February 22, 2013

RE: HB1028 HD1 RELATING TO EMPLOYMENT (**TIP CREDIT**)

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We are opposed to an increase in minimum wage. If there is an increase, we request that there is correspondingly an increase in the tip credit. An increase in the tip credit will enable restaurants to raise pay for non-tipped employees creating more equity in wages.

### **Tipped versus Non-Tipped Employees**

The restaurant business is a fragile industry with a high failure rate. They operate on very tight profit margins and are dependent on many factors to be successful.

T S Restaurants employ approximately 1400 residents in Hawaii. In our company, two-thirds of our employees make \$7 an hour plus tips; they are the front of the house employees: Servers, Bartenders and support personnel like Bussers. These employees make significantly more than minimum wage, many earn more through tips than our non-tipped managers.

Often restaurants pay back of house employees' minimum wage (dishwashers, cooks, cleaning staff) because it is all they can afford. As a company, we have been fortunate in being able to pay greater than minimum wage for our highly valued kitchen staff, but we know that is not the situation for many restaurants.

If we increase the wages of our tipped employees, we will be unable to continue to raise the rates of our back of the house support staff. Without a corresponding change in the tip credit, we will be giving an increase to the wrong group of employees. Menu prices will rise and the tipped staff will receive another increase as their tip percentages increase.

## Creating Equity: What are we proposing?

If minimum wage is increased, correspondingly increase the tip credit. This way, restaurants can increase wages for the non-tipped employees who would benefit the most.

Hawaii has the lowest tip credit in the country. The Hawaii tip credit is \$0.25 per hour compared to a national range of \$1.45-\$5.48 per hour, with the majority of states exceeding \$5.00 per hour. Even a moderate increase in the Hawaii tip credit would provide additional revenue for restaurants to pay the back of the house staff. This would provide real benefit to a substantial number of Hawaii employees.

### Suggested language:

SECTION 3. Section 387-2, Hawaii Revised Statutes, is amended to read as follows:

"**§387-2 Minimum wages.** Except as provided in section 387-9 and this section, every employer shall pay to each employee employed by the employer, wages at the rate of not less than:

~~[(1) \$6.25 per hour beginning January 1, 2003;~~

~~(2) \$6.75 per hour beginning January 1, 2006; and~~

~~(3)] (1) \$7.25 per hour beginning January 1, 2007[-];~~

(2) \$7.75 per hour beginning January 1, 2014; a tip credit may be used in the amount of \$.75 by the employee's employer as long as the combined amount the employee receives from the employee's employer and in tips is at least 50 cents more than the applicable minimum wage.

(3) \$8.25 per hour beginning January 1, 2015; a tip credit may be used in the amount of \$1.25 by the employee's employer as long as the combined amount the employee receives from the employee's employer and in tips is at least 50 cents more than the applicable minimum wage and

(4) \$8.75 per hour beginning January 1, 2016; and a tip credit may be used in the amount of \$1.75 by the employee's employer as long as the combined amount the employee receives from the employee's employer and in tips is at least 50 cents more than the applicable minimum wage.

~~The hourly wage of a tipped employee may be deemed to be increased on account of tips if the employee is paid not less than 25 cents below the applicable minimum wage by the employee's employer and the combined amount the employee receives from the employee's employer and in tips is at least 50 cents more than the applicable minimum wage."~~



## **History of the Tip Credit**

The Tip Credit was added to the FLSA in 1966 to allow employers to meet their main wage obligation by having a certain amount of tips count toward the applicable minimum wage. It allows servers to receive a special wage that is lower than minimum wage. This special wage + the tips servers receive, must equal or exceed the State or Federal minimum wage. In Hawaii, it must be \$.50 over the minimum wage.

The reasoning behind the law was; employers create the conditions that enable tipped employees to earn tips and as such, employers should be allowed credit for some of the tips their employees receive from customers. By allowing employers to pay a sub-minimum wage to servers, they are able to afford to pay a living wage to the back of the house employees, such as cooks, dishwashers, and cleaning personnel.

## **What are other States are doing?**

The intent of the original federal bill allowed employers to credit tips to themselves by an amount of up to 50% of minimum wage. The current law goes even further with a federal minimum wage of \$7.25 and a tip credit of \$5.12.

19 States have a tip credit ranging from \$5.02- \$5.48 an hour

16 States have a tip credit ranging from \$2.25 - \$4.98 an hour

7 States use a percentage ranging from 20-55% which comes out to \$1.45-\$3.98 an hour

Hawaii has not kept pace, of the 42 States with the tip credit; Hawaii's is the lowest at \$0.25 per hour.

Thank you for your time.

Respectfully,

Melanie Bailey

[Melanie@tsrestaurants.com](mailto:Melanie@tsrestaurants.com)

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To: Honorable Sylvia Luke, Chair  
Honorable Scott Y. Nishimoto, Vice-Chair  
Honorable Aaron Ling Johanson, Vice-chair  
Members of the Committee on Finance

House of Representatives  
Twenty-Seventh Legislature  
State of Hawaii

Date: Friday, February 22, 2013

Time: 11:00 AM

Place: Conference Room 308, State Capitol  
415 South Beretania Street  
Honolulu, Hawaii 96813

Re: **House Bill No. 1028, H.D. 1**

Chair Luke, Vice Chairs Nishimoto and Johanson, and members of the Committee on Finance:

My name is James Chan and I am the General Manager and owner of Hawaiian Chip Company. We are a small company that employs 17 people. We have employed local people for over ten years to manufacture taro and sweet potato chips, BBQ sauces, and hot sauces.

I am deeply concerned about the impact that Section 3 of H.B. 1028, H.D. 1, will have on my company. This provision of the bill raises minimum wage to \$7.75 per hour beginning on January 1, 2014, \$8.25 per hour beginning on January 1, 2015, and \$8.75 per hour beginning on January 1, 2016. The initial increase of approximately 7% and each subsequent wage increase required by this bill will place a huge financial burden on my business.

First, this legislative measure will require us to raise all wages, not just those at the lowest end of the pay scale. While all of my employees are compensated at levels above the current minimum wage, mandating an increase of the minimum wage will require us to commensurately raise all wages in order to attract and retain quality employees.

Second, this wage increase will be passed on to our customers. If we have to raise the prices of our products, customers (restaurants, stores, and the general public) will buy less, our sales will slow, and we will consequently reduce the amount that we manufacture and sell. Ultimately, our employees' work hours will be reduced. I believe that this would be an unintended consequence of Section 3 of this measure.

For these reasons, I oppose H.B. 1028, H.D. 1.

Sincerely,

A handwritten signature in black ink, appearing to read "James Chan", written over a white background.

James Chan  
General Manager and Owner

## FINTestimony

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**From:** mailinglist@capitol.hawaii.gov  
**Sent:** Wednesday, February 20, 2013 4:41 PM  
**To:** FINTestimony  
**Cc:** tabraham08@gmail.com  
**Subject:** \*Submitted testimony for HB1028 on Feb 22, 2013 11:00AM\*

### **HB1028**

Submitted on: 2/20/2013

Testimony for FIN on Feb 22, 2013 11:00AM in Conference Room 308

<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Troy Abraham	Individual	Support	No

#### Comments:

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

Do not reply to this email. This inbox is not monitored. For assistance please email [webmaster@capitol.hawaii.gov](mailto:webmaster@capitol.hawaii.gov)