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**Subject:** Submitted testimony for HB2508 on Mar 21, 2014 09:05AM  
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**HB2508**

Submitted on: 3/20/2014

Testimony for WAM on Mar 21, 2014 09:05AM in Conference Room 211

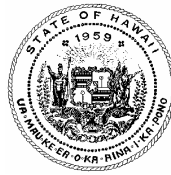
<b>Submitted By</b>	<b>Organization</b>	<b>Testifier Position</b>	<b>Present at Hearing</b>
Barbara A. Krieg	Department of Human Resources Development	Oppose	Yes

**Comments:**

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NEIL ABERCROMBIE  
GOVERNOR



BARBARA A. KRIEG  
DIRECTOR

LEILA A. KAGAWA  
DEPUTY DIRECTOR

**STATE OF HAWAII**  
**DEPARTMENT OF HUMAN RESOURCES DEVELOPMENT**  
235 S. BERETANIA STREET  
HONOLULU, HAWAII 96813-2437

March 20, 2014

**TESTIMONY TO THE  
SENATE COMMITTEE ON WAYS AND MEANS**

For Hearing on Friday, March 21, 2014  
9:05 a.m., Conference Room 211

BY

BARBARA A. KRIEG  
DIRECTOR

**House Bill No. 2508**  
**Relating to the Use of Funds for Public Employment Costs**

TO CHAIRPERSON DAVID Y. IGE AND MEMBERS OF THE COMMITTEE:

The purpose of House Bill No. 2508 is to restrict the use of funds appropriated or authorized for vacant State positions to the payment of salaries or wages and to prohibit the use of these funds for vacation credit or vacation allowance costs for transferred or discharged State employees.

The Department of Human Resources Development (DHRD) appreciates the intent of this bill to increase accountability and promote transparency in the appropriation and expenditure of public moneys. The Department is concerned that if an alternative means to fund vacation credit and allowance costs is not provided, then the measure will adversely impact our ability to meet legal obligations to make these payments.

Thank you for the opportunity to provide testimony on this measure.



STATE OF HAWAII  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
P.O. BOX 119, HONOLULU, HAWAII 96810-0119



TESTIMONY  
OF  
DEAN H. SEKI, COMPTROLLER  
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES  
TO THE  
SENATE COMMITTEE  
ON  
WAYS AND MEANS  
ON  
March 21, 2014

H.B. 2508

RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS

Chair Ige and members of the Committee, thank you for the opportunity to testify on H.B. 2508.

The Department of Accounting and General Services does not support H.B. 2508, as it limits the use of personnel services appropriations by excluding the use of the available funds for vacation payouts which the departments have no budget for.

Unlike most for-profit organizations which use the accrual basis of accounting, the State of Hawaii uses a cash basis of accounting. This method of accounting does not allow programs to accrue or set aside funds for the liability created for accrued vacation upon termination, transfer or retirement. A program's budget only has funding for salaries. Consequently, when an employee terminates, a program's appropriation is charged for both the final salary and the accrued vacation. If a program's appropriation cannot be charged for vacation, it has no funds to pay the unused vacation. Consequently, payment for accrued vacation can only be paid out of

savings from other expense categories. In the past ten years, programs' Other Current Expense budgets have been significantly reduced to meet budget reductions to avoid reduction in force actions or layoffs. If Other Current Expense budgets are used to fund vacation payouts, it significantly reduces or eliminates provisions for other necessary expenses such as equipment maintenance. This will result in significant delays in repairing air conditioning, elevators, and other maintained equipment or services.

Thank you for the opportunity to testify on this matter.



TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE SENATE COMMITTEE ON WAYS AND MEANS  
ON  
HOUSE BILL NO. 2508

March 21, 2014

RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS

House Bill No. 2508 proposes to add a new section to Chapter 37, Budget, HRS, to restrict the use of funds appropriated or authorized for vacant State positions to the payment of salaries or wages and to prohibit these use of these funds for the payment of vacation credit or payments for transferred or discharged State employees. The bill also proposes to add similar language to Section 78-23, Leaves of Absence, HRS, to restrict the use of appropriations or authorizations for vacant State positions such that the funds could not be used for vacation credits for transferred employees or payments of vacation allowance for discharged employees.

The Department of Budget and Finance has concerns regarding this measure as it would represent a significant departure from the way departments currently construct and manage their budgets, it would deviate from how the State currently executes the budget, and it is counter to how the Legislature currently deliberates and appropriates the budget. The State of Hawaii's Executive Branch currently develops its budget using a Program Planning and Budgeting (PPB) system. The emphasis of the PPB system is on program objectives and effectiveness and not on specific line-item expenditures. Departmental budgets are developed along specified parameters, using proposed expenditure details to develop lump sum amounts (bottom line amounts) which comprise the State's budget.

The PPB system provides the flexibility for departments to be able to respond, as necessary, to unforeseen circumstances, such as when employees terminate, transfer, or retire and the department must account for accumulated vacation. Excessively strict expenditure controls can be problematic when circumstances not foreseen during budget preparation arise, and can severely hamper the Executive's ability to operationally respond to these situations effectively and efficiently.

Further, flexibility is especially necessary during periods of economic downturn, when budget requests are generally restricted. The use of vacancy savings allows departments to address priority program needs that might otherwise go unaddressed, often to the detriment of program operations. For example, as a result of the Great Recession, the equipment budgets for many programs were significantly decreased or obliterated; as such, using vacancy savings may have been the only means to replace a broken - but essential - piece of equipment. We are still, in fact, in the process of rebuilding operating budgets based on current program requirements.

This is not to say that departments keep positions unfilled in order to use the vacancy savings for other purposes. Currently, positions may be left unfilled for the duration necessary to accumulate the funds necessary to pay vacation allowances. Vacancy savings may also result due to the time it takes for recruitment, which may be exacerbated due to the lack of qualified applicants.

This bill does not indicate how the payment of vacation credits for transferred or discharged State employees would be made. As these payments are required, the Legislature would still have to provide an alternative means to fund such payments should the proposed statutory changes go forward. In practical terms, it would be difficult to estimate the amount each department might need to address separation payments as employee transfers and discharges are generally unforeseen or uncertain.

The Legislature should also consider the opinion of respective departments on how the proposed prohibition on using vacancy savings to pay vacation allowances or other non-salary or wage program costs could adversely impact their operations.



STATE OF HAWAII  
DEPARTMENT OF EDUCATION  
P.O. BOX 2360  
HONOLULU, HAWAII 96804



**Date:** 03/21/2014

**Committee:** Senate Ways and Means

**Department:** Education

**Person Testifying:** Kathryn S. Matayoshi, Superintendent of Education

**Title of Bill:** HB 2508(hscr680-14) RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS.

**Purpose of Bill:** Restricts the use of funds appropriated or authorized for vacant state positions to the payment of salaries or wages. Expressly prohibits the use of these funds for vacation credit or payments for transferred or discharged state employees.

**Department's Position:**  
The Department of Education opposes this bill.

This bill would preclude the practice of allowing schools and programs to shift funds between payroll and non-payroll expenses as conditions warrant. The following are two examples of this:

- Since school year 2007-08, schools have been assigned a tentative Weighted Student Formula allocation of dollars in a Financial Plan template. This allocation and template are used by the principal in conjunction with the school community council, to program the number and types of positions and non-payroll expenses for the following year. Then as the year progresses schools are allowed to recoup the balance of salary for vacant positions through what is referred to as the "buy/sell" process. This flexibility supports decision making at the school level in response to changing enrollment, student needs, and labor market conditions.
- Special education services are generally provided by State employees, but in situations when qualified applicants cannot be secured services must be provided by contractors. As the Department is required under the Individuals with Disabilities Education Act to provide services as specified in students' Individual Education Plan (IEP), having the flexibility to move money between characters is critical to maintain both compliance and quality student supports.

In addition, without an appropriated source of funding to make vacation payouts, the Department would not have funds to pay those mandatory payments.

Thank you for this opportunity to provide testimony on this bill.





NEIL ABERCROMBIE  
GOVERNOR

SHAN S. TSUTSUI  
LT. GOVERNOR

STATE OF HAWAII  
OFFICE OF THE DIRECTOR  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

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KEALI'I S. LOPEZ  
DIRECTOR

JO ANN M. UCHIDA TAKEUCHI  
DEPUTY DIRECTOR

PRESENTATION OF  
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS

TO THE SENATE COMMITTEE ON  
WAYS AND MEANS

TWENTY-SEVENTH STATE LEGISLATURE  
REGULAR SESSION, 2014

FRIDAY, MARCH 21, 2014  
9:05 A.M.

TESTIMONY ON HOUSE BILL NO. 2508  
RELATING TO THE USE OF FUNDS FOR PUBLIC  
EMPLOYMENT COSTS

TO THE HONORABLE DAVID Y. IGE, CHAIR,  
AND TO THE HONORABLE MICHELLE N. KIDANI, VICE CHAIR,  
AND MEMBERS OF THE COMMITTEE:

The Department of Commerce and Consumer Affairs ("Department") appreciates the opportunity to testify on House Bill No. 2508, Relating to the Use of Funds for Public Employment Costs. My name is Keali'i Lopez, Director of the Department. The Department offers the following testimony in opposition to the bill.

House Bill No. 2508 proposes to restrict the use of funds appropriated or authorized for vacant state positions to the payment of salaries or wages and

would prohibit the use of such funds for vacation credit or payments for transferred or discharged state employees.

Departmental budget development is essentially based on estimated or projected funding that will be needed to effectively carry out the Department's program objectives. Accordingly, during budget preparation, the Department incorporates into its expenditure plan all known and quantifiable elements based on historical data and experience. However, there are certain expenditure items that are unforeseeable and entirely unpredictable, and thus, cannot be properly budgeted for. These expenditures include payment or vacation credits for transferred or discharged state employees. Currently, budgeting for such items is not included in the Department's budget development process.

Given the exclusion of such expenditure items from the Department's projected budget, the Department needs the flexibility to adjust its expenditure plan in response to employee transfers or discharges that were unpredicted and unanticipated during the budget preparation process. Savings generated from vacant positions provide a means for the Department to deal with such unplanned expenditures in an effective and efficient manner.

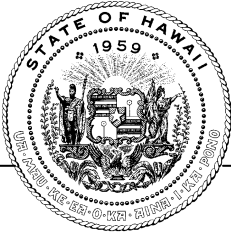
The Department fully understands and appreciates the Legislature's concerns that vacancy savings should not be used for other current expenses or equipment costs. And the Department agrees that sound budgetary policy supports efficiency and transparency in both the budgetary process and product, in that a department's budget should reflect its actual operational needs and properly

account for the means of financing to cover the programmed expenditures.

However, the Department disagrees that vacancy savings are mainly being used to cover non-personal costs. In addition to covering vacation credits for transferred or discharged state employees, vacancy savings are also needed by the Department to pay for temporary disability insurance benefits and to cover salary shortfalls of employees that transfer laterally into the Department. These costs are not only unpredictable, but in the case of lateralled employees, the costs reflect a recurring and long-term obligation of the Department.

Accordingly, the Department finds that the bill's prohibition on the use of vacancy savings for anything other than to fund the vacant positions will severely hamper the Department's ability to address such unanticipated costs, and may adversely impact the Department's programs. Vacancy savings are a much needed resource for the Department to operationally respond effectively and efficiently to such unanticipated expenditures.

Thank you for the opportunity to testify. I would be happy to answer any questions the Committee may have.



# OFFICE OF PLANNING STATE OF HAWAII

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GOVERNOR

LEO R. ASUNCION  
ACTING DIRECTOR  
OFFICE OF PLANNING

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Statement of  
**LEO R. ASUNCION**  
Acting Director, Office of Planning  
before the  
**SENATE COMMITTEE ON WAYS AND MEANS**

Friday, March 21, 2014  
9:05 AM  
State Capitol, Conference Room 211

in consideration of  
**HB 2508**  
**RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS.**

Chair Ige, Vice Chair Kidani, and Members of the Senate Committee on Ways and Means.

As the acting director of an attached agency that includes thirteen generally funded positions, HB 2508 is of great concern. In essence, the bill would prohibit the Office of Planning from using funding from any vacant position for vacation credit for transferred employees, for the payment of vacation allowance, or other compensation to discharged employees. This would negatively affect our office and its employees.

For example, the office does not have any control over when an employee might retire. Retiring employees have the option of using their accumulated vacation or being paid the cash equivalent in a lump sum. The office is required to pay this lump sum from its own budget, which can be a significant sum. The office has no discretionary funds, so the only available funding to address this financial obligation would be available funding from the position vacated by the retiring incumbent. Unless the legislature appropriates additional funding for our office's obligation to pay the retiring employee the value of her accumulated vacation, the only option we have is to keep the position vacant to cover the unanticipated costs.

For the above reasons, we ask that you hold this bill. Thank you for the opportunity to testify on this measure.



STATE OF HAWAII  
DEPARTMENT OF HEALTH  
P.O. Box 3378  
HONOLULU, HAWAII 96801-3378

In reply, please refer to:  
File:

**SENATE COMMITTEE ON WAYS AND MEANS**

**HB2508, RELATING TO THE USE OF FUNDS FOR PUBLIC EMPLOYMENT  
COSTS**

**March 21, 2014**

**Testimony of Linda Rosen, MD, MPH  
Director of Health**

**WRITTEN  
ONLY**

1 **Department's Position:** COMMENTS proposing a task force to further study root causes, effects, and  
2 unintended consequences.

3 **Fiscal Implications:** Unquantified, but likely severe impact operations and budgeting.

4 **Purpose and Justification:** The purpose of this bill is to restrict the use of funds appropriated by the  
5 legislature for vacant positions only for the payment of salary or wages. Additionally, the measure  
6 provides that the use of funds for vacant state positions cannot be used to pay out vacation credit or  
7 vacation allowance costs.

8

9 DOH respectfully recommends the issue be further studied to identify and propose remedies to the root  
10 causes, effects, and unintended consequences of such a significant shift in finance policy and operations.  
11 For example, departmental vacancies result from varying factors: hiring restrictions, reorganization  
12 actions, budget policy, and the lack of qualified pool of applicants exacerbated by outdated position  
13 descriptions, all contribute to recruitment challenges.

14

1 At the DOH, vacancy savings have been utilized to meet emergency program needs, such as covering  
2 waiver payments for Home and Community Based Waiver Services, Hawaii State Hospital overtime,  
3 and vacation payouts.

4  
5 Vacation payouts are not budgeted and difficult to predict. Programs have to cover these payouts within  
6 their current allocations. This flexibility in the use of these resources has contributed to the ability of the  
7 department to meet unexpected fiscally demanding requirements in a responsive fashion. Restricting the  
8 use of vacancy savings will severely impact the department's flexibility to address pressing operational  
9 needs and to effectively manage its resources to meet program demands.

10

11 Further study may also reveal options that better achieve the intent of this bill or do so in a less  
12 disruptive way such as establishing a global reserve fund from which an agency or many agencies could  
13 draw to meet sudden and unpredictable vacation payouts.

14

15 Thank you for the opportunity to testify on this measure.



**DEPARTMENT OF BUSINESS,  
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE  
GOVERNOR

RICHARD C. LIM  
DIRECTOR

MARY ALICE EVANS  
DEPUTY DIRECTOR

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Written Statement of  
**RICHARD C. LIM**  
Director

Department of Business, Economic Development & Tourism  
before the

**SENATE COMMITTEE ON WAYS AND MEANS**

Friday, March 21, 2014

9:05 AM

State Capitol, Conference Room 211

in consideration of

**HB 2508**

**Relating to the Use of Funds for Public Employment Costs.**

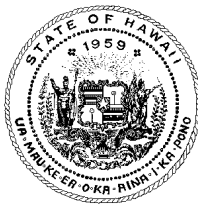
Chair Ige, Vice Chair Kidani, and Members of the Committee.

HB 2508, Relating to the Use of Funds for Public Employment Costs, restricts the use of funds appropriated or authorized for vacant state positions to the payment of salaries or wages and prohibits use of these funds for vacation payouts for transferred or discharged state employees.

The Department of Business, Economic Development and Tourism (DBEDT) offers the following comments on the bill. This bill would make it difficult, if not impossible, to comply with the option provided in Chapter 78-23(c) of allowing employees leaving state service to receive a cash payment for their unused vacation balance. This amount is hard to budget since it is unknown until the employee tenders their resignation. DBEDT, as one of the smaller departments, has great variability from year to year in the number of separations from state service, including retirement.

The only remaining option would be for the employee to "run out" their accumulated vacation leave. In that case, the program would be unable to fill the position until the employee had used up all their vacation. Since employees are entitled to accumulate up to 90 days of vacation, months could pass before the position could be filled again. This bill also appears to make it very difficult to pay earned vacation owed to a deceased employee's heirs.

Thank you for the opportunity to comment on this bill.



STATE OF HAWAII  
**DEPARTMENT OF PUBLIC SAFETY**  
919 Ala Moana Boulevard, 4th Floor  
Honolulu, Hawaii 96814

**TED SAKAI**  
DIRECTOR

**Martha Torney**  
Deputy Director  
Administration

**Max Otani**  
Deputy Director  
Corrections

**Shawn Tsuha**  
Deputy Director  
Law Enforcement

TESTIMONY ON HOUSE BILL (HB) 2508  
RELATING TO  
THE USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS  
by  
Ted Sakai, Director  
Department of Public Safety

Senate Committee on Ways and Means  
Senator David Y. Ige, Chair  
Senator Michelle N. Kidani, Vice Chair

Friday, March 21, 2014; 9:05 a.m.  
State Capitol, Conference Room 211

Chair Ige, Vice Chair Kidani, and Members of the Committee:

The Department of Public Safety (PSD) offers **comments** to HB 2508.

PSD appreciates the intent of this bill; however, we are concerned that the proposed restriction on the funds for vacant positions will negatively impact our ability to administer our budget. Specifically, if we are not able to use these funds to pay for vacation payouts for discharged employees, we will be unable to meet our legal obligation to make these payouts. Our options would be to use operating, or "B" funds, or to keep the departing employee's position vacant. The alternative would be to budget for vacation payouts; however, this would be very difficult to do, as we would not be able to predict the number of resignations and dismissals in a budget period, and the level of leave credits such employees would have earned.

Thank you for the opportunity to present this testimony.



**Testimony on House Bill 2508  
A Bill Relating to the Use of Funds for Public Employment**

**SENATE COMMITTEE ON WAYS AND MEANS**

**TWENTY-SEVENTH LEGISLATURE  
REGULAR SESSION OF 2014**

March 19, 2014

CHAIR IGE, VICE CHAIR KIDANI AND COMMITTEE MEMBERS:

I am Edward T. Teixeira, and I am testifying as an individual in opposition to House Bill 2508.

During my 15 years in State Civil Defense, we never had the benefit of a State budget allocation to make ends meet. We were fortunate to manage our operational budgets from year to year heavily relying on federal grant allocations that were awarded on a two year performance period. We got by in good and lean budget years using “creative budget management” strategies.

We relied on and fought hard to retain the division’s vacancy savings for the purpose of paying vacation payouts including the payment of compensatory time hours departing employees had accumulated to meet mission requirements. (Our State budget was not allocated overtime funds to pay for this requirement yet this requirement was a hot budget item each year). An example of the importance of vacancy savings is the shock I received when told by the department’s fiscal officer in 2003 that I could not hire to fill the division’s Hurricane Planner for a year because of the retiring employee’s vacation payout and compensatory time accrual.

Thank you for the opportunity to provide testimony that opposes this bill.

Written Statement of  
**ROBBIE MELTON**  
**Executive Director & CEO**  
High Technology Development Corporation  
before the  
**SENATE COMMITTEE ON**  
**WAYS AND MEANS**

Friday, March 21, 2014  
9:05 a.m.  
State Capitol, Conference Room 211  
In consideration of

**HB 2508 RELATING TO USE OF FUNDS FOR PUBLIC EMPLOYMENT COSTS.**

Chair Ige, Vice Chair Kidani, and Members of the Committee on Ways and Means.

The High Technology Development Corporation (HTDC) offers **comments** on HB 2508 relating to Use of Funds for Public Employment Costs. HTDC comments that HB 2508 affects the ability to use vacancy funds in situations that are beneficial to the agency. For example, during a hiring freeze, unexpected termination, or period where a qualified candidate cannot be identified, vacancy funds may be used to contract temporary consultant services to complete projects. This is especially critical for federal project work, where future funding is dependent on the agency's performance and matching state funds or in-kind contributions. A second example is for the payment of vacation allowance to terminating employees. The agency is not provided an alternate method for funding this type of liability. Therefore, limitations on the use of appropriations for personnel costs would negatively impact the agency.

Thank you for the opportunity to offer these comments.