

TESTIMONY BY KALBERT K. YOUNG  
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE  
STATE OF HAWAII  
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT  
ON  
SENATE BILL NO. 2916, S.D. 2

March 18, 2014

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Senate Bill No. 2916, S.D. 2, requires, rather than allows, the Employees' Retirement System (ERS) to require any department or agency of the State or counties to furnish to the ERS certain payroll and personnel transaction information, including any changes or errors in payments that require correcting or updating. The bill also provides that if a department or agency fails to provide the information, the State or county is required to pay to the ERS, on the first day of the following fiscal year in which the failure occurred, an amount equal to the employer contributions payable by the State or county relative to that department or agency. In addition, if the required payment is not made on the first day of the fiscal year, any unpaid amounts shall bear interest and any subsequent payments shall be applied first to accrued interest and then to the required payment.

The Department of Budget and Finance (B&F) has serious concerns with this measure. While we agree with the importance of getting timely information to the ERS, the punitive nature of the penalty is unduly harsh and could cause general fund cash flow problems at the onset of a fiscal year if the department failing to furnish the ERS with the required information is a large department. Individual departments do not feel the punitive fiscal impact of having to pay in advance the

ERS contributions because the contributions are budgeted within the three program areas of B&F. Below is a breakdown of projected annual payments to the ERS (amounts are in millions of dollars):

	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>	<u>FY 19</u>
BUF 741 – Retirement Benefits - State	\$294	\$336	\$351	\$362	\$369
BUF 745 – Retirement Benefits – Department of Education (DOE)	\$285	\$320	\$335	\$343	\$350
BUF 748 – Retirement Benefits – University of Hawaii (UH)	\$139	\$146	\$149	\$152	\$155

While Senate Bill No. 2916, S.D. 2, allows for the penalty to be assessed relative to the department not in compliance with Section 88-103.7, Hawaii Revised Statutes, should the department be the DOE or UH, the full year annual contribution being paid on the first day of the fiscal year would be quite detrimental to the State treasury. Furthermore, assessing interest on any unpaid amounts will negatively impact B&F's ability to provide full year payments as funding that would have gone towards payments must go towards paying interest penalties first.

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 17, 2014

TESTIMONY TO THE  
HOUSE COMMITTEE ON LABOR & PUBLIC EMPLOYMENT

For Hearing on Tuesday, March 18, 2014  
10:30 a.m., Conference Room 309

BY

BARBARA A. KRIEG  
DIRECTOR

**Senate Bill No. 2916, S.D. 2**  
**Relating to the Employees' Retirement System**

**WRITTEN TESTIMONY ONLY**

TO CHAIRPERSON MARK NAKASHIMA AND MEMBERS OF THE COMMITTEE

The purpose of S.B. 2916, S.D. 2 is to authorize the Employees' Retirement System (ERS) to require any department or agency of the State or counties to furnish to the ERS certain payroll and personnel transaction information, including any changes or errors in payments that require correcting or updating. The bill further requires ERS to assess penalties for failure to provide the requested information, in an amount equal to the employer contributions during the fiscal year in which the failure to provide the information occurred.

The Department of Human Resources Development (DHRD) offers the following comments regarding this bill:

DHRD provides electronic data files to the ERS system for the state departments under the administration of DHRD in the format currently prescribed. Information from DHRD's Human Resources Management System is sent to the ERS system via a system program in accordance with a set schedule. Other ERS employer jurisdictions likewise provide electronic data files to ERS.

We note that there are no parameters in this bill for the levying of penalties. In other words, the penalties must be assessed regardless of the circumstances. In this respect, an ERS employer could incur penalties if there was a system failure which corrupted the file or delayed the transmission of the file to ERS, or in the event of a natural disaster that prevented the employer from providing the data in a timely manner. DHRD therefore respectfully requests that the language be revised to provide ERS the discretion to determine that penalties should not be assessed in appropriate circumstances, where unforeseen and unavoidable circumstances have prevented an employer from complying with the law.

Thank you for the opportunity to testify on this measure.



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

**Date:** 03/18/2014

**Committee:** House Labor & Public  
Employment

**Department:** Education

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

**Title of Bill:** SB 2916, SD2(sscr2783) RELATING TO THE EMPLOYEES'  
RETIREMENT SYSTEM.

**Purpose of Bill:** Requires, rather than allows, the employees' retirement system to require any department or agency of the State or counties to furnish to the system certain payroll and personnel transaction information, including any changes or errors in payments that require correcting or updating. Provides that if a department or agency fails to provide the information, the State or county is required to pay to the system, on the first day of the following fiscal year in which the failure occurred, an amount equal to the employer contributions payable by the State or county relative to that department or agency. Provides that if the required payment is not made on the first day of the fiscal year, any unpaid amounts shall bear interest and any subsequent payments shall be applied first to accrued interest and then to the required payment. Requires reporting. Effective 7/1/2050. (SD2)

**Department's Position:**

S.B. 2916, SD2 proposes to amend Section 88-103.7, Hawaii Revised Statutes (HRS), which requires departments of the State and counties to provide payroll and personnel information electronically to the Employees' Retirement System (ERS).

Currently, the Department of Education (DOE) does not electronically transmit payroll information to the Employees' Retirement System (ERS). The DOE's payroll information is transmitted to ERS by the Department of Accounting and General Services (DAGS). The DOE payroll information provided to DAGS is based on requirements to process payroll and the DOE is not involved in the timing, content, or format of data transmitted to ERS.

TESTIMONY BY WESLEY K. MACHIDA  
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM  
STATE OF HAWAII

TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT  
ON  
SENATE BILL NO. 2916, S.D. 2

MARCH 18, 2014, 10:30 A.M.

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Nakashima and Members of the Committee:

S.B. 2916, S.D. 2, proposes to amend Section 88-103.7, Hawaii Revised Statutes (HRS), which requires departments of the State and counties to provide payroll and personnel information electronically to the Employees' Retirement System (ERS).

This proposal specifies that, in addition to allocating payments to the periods payments are earned and specifying the purpose or nature of the payments, the employers are required to "indicate any changes or errors in payments that require correcting or updating."

In addition, if the State or counties do not provide the information in the format required by the System, they would be required to pay their employer contributions at the beginning of the following fiscal year (rather than on a monthly basis) in which the failure occurred. Any unpaid amounts would be subject to additional interest based on a rate equal to the investment yield assumption of the ERS.

ERS's personnel and payroll file formats are currently configured to accept corrections, adjustments and updated information, though most employers do not utilize this capability, resulting in delays in the processing of retirement benefits.

The Board of Trustees of the Employees' Retirement System supports this bill.

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

DEPARTMENT OF HUMAN RESOURCES

**CITY AND COUNTY OF HONOLULU**

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KIRK CALDWELL  
MAYOR



CAROLEE C. KUBO  
DIRECTOR  
  
NOEL T. ONO  
ASSISTANT DIRECTOR

March 18, 2014

The Honorable Mark M. Nakashima, Chair  
and Members of the Committee  
on Labor & Public Employment  
The House of Representatives  
State Capitol, Room 309  
415 South Beretania Street  
Honolulu, Hawaii 96813

Dear Chair Nakashima and Members of the Committee:

**SUBJECT: Senate Bill No. 2916, SD2  
Relating to the Employees' Retirement System**

The City and County of Honolulu offers comments for your consideration on Senate Bill 2916, SD2 which would compel the Employees' Retirement System (ERS) to require the employers to submit data to the System in a particular electronic format and to penalize employers who did not comply. Our comments are as follows:

**Eliminate Penalties for Special Situations and Where Changes are made to the Required Format**

The City requests that the measure be amended so penalties are not assessed in special situations—such as when a system failure prevented the data transmission (this was mentioned in a prior State, Department of Human Resources Development's testimony), or when the ERS has changed the requested format.

We note that the City has worked diligently with the ERS to provide the data in the format specified by the ERS. However, that interface is one of the largest and most complex. Accordingly, while we believe that for the transmission of current data we are in compliance with the requirements of the bill, if the ERS should change the required format, the City would need sufficient time to make the changes and the City should not be assessed a penalty while these changes are made.

The Honorable Mark M. Nakashima, Chair  
and Members of the Committee  
on Labor & Public Employment  
March 18, 2014  
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#### Limit the Requirement to Future Payroll and Personnel Transactions

The City requests that the measure be amended to apply the requirements regarding transmission in the format required by the ERS and transmission only via electronic format to future Payroll and Personnel Transactions only.

As noted above, the City is transmitting electronically current Payroll and Personnel Transaction data to the ERS. However, requests for information from the ERS can sometimes go back many years (20 or more) to periods where, if the information exists, it may only exist in hard copy form. In such cases, it would take considerable resources to manually input the data (and check it to ensure accuracy) so it can be transmitted to the ERS. We also note that, in most cases, the information was transmitted to the ERS in hardcopy form at the time it was generated and this was the standard at that time.

#### Limit the Department of Budget and Finance's Report to State Agencies

The City requests a minor change to limit the report to the Legislature, that the Department of Budget and Finance is required to provide, to State departments and agencies that failed to comply with the law.

Thank you for the opportunity to comment on this measure.

Sincerely,

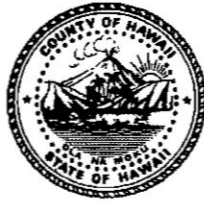


Carolee C. Kubo  
Director

cc: Mayor's Office



William P. Kenoi  
Mayor



Nancy E. Crawford  
Director

Deanna S. Sako  
Deputy Director

## County of Hawaii

### Finance Department

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March 17, 2014

The Honorable Mark M. Nakashima, Chair  
and Members of the House Committee on  
Labor & Public Employment  
Hawai'i State Capitol  
415 South Beretania Street, Room 309  
Honolulu, Hawai'i 96813

RE: Senate Bill 2916, SD 2, RELATING TO EMPLOYEES' RETIREMENT  
SYSTEM; PAYROLL AND PERSONNEL TRANSACTIONS

Aloha, Chair Nakashima and Committee Members:

The County of Hawai'i understands the intent of Senate Bill 2916, SD2, is to mandate that the Employees' Retirement System (ERS) require any department or agency of the State or counties to furnish to the system certain payroll and personnel transaction information, including any changes or errors in payments that require correcting or updating, by a specified deadline and in a specific manner. If the agency fails to provide the information by the required due date or in the required electronic format, the employer must pay an amount equal to the employer contribution from the year of failure. The payment must be made July 1<sup>st</sup> of the subsequent year or the amount will also be subject to interest. The ERS is not allowed any discretion in penalizing departments or agencies for failures, regardless of the circumstances.

The County of Hawai'i recognizes the importance of reporting all information, including any changes or errors in payments regarding payroll and personnel transactions, and we currently file information and pay in a timely manner.

Under the proposed legislation, the mandated penalty for late reporting or failure to use the specified electronic format would burden the County with a large advance payment. This is a particularly harsh penalty for what might be a single, excusable delay in reporting.

The Honorable Mark M. Nakashima, Chair  
and Members

March 17, 2014

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It is difficult for the County to know if it will be possible to comply with the required electronic format for changes and corrections, as we are not aware of the specific details. The County uses third party software for human resources and payroll processes, so changes require funding and time.

Maintaining language allowing ERS discretion in imposing a penalty for any failure to comply fully with this section would provide for reasonable decision making and fair penalization. Additionally, setting the effective date to a future year would provide necessary time for compliance.

We respectfully urge the committee to reject Senate Bill 2916, SD 2 in its current form. Thank you for your consideration.



Nancy Crawford  
Director of Finance