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STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

WRITTEN ONLY

TESTIMONY BY THOMAS WILLIAMS
EXECUTIVE DIRECTOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII

TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON

SENATE BILL NO. 2142, S.D. 1

February 20, 2020
10:35 A.M.
Conference Room 211

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee,

S.B. 2142, H.D. 1, amends section 88-103.7, Hawaii Revised Statutes, to allow departments more time to comply with provisions requiring them to furnish personnel and payroll information to the Employees' Retirement System of the State of Hawaii (ERS). The ERS provides the following comments:

1. Section 88-103.7(b) requires that State and county departments provide payroll and personnel information as required by the ERS by June 30, 2020 and that the ERS "shall require that information be furnished in electronic format and that information with respect to payroll and personnel transactions:
 - (1) Allocate payments, including bonuses, salary adjustments, payments for compensatory time, and workers' compensation, to monthly or other periods as requested by the system;
 - (2) Specify the purpose or nature of the payment; and
 - (3) Indicate any changes or errors in payments that require correcting or updating."



Employees' Retirement System
of the State of Hawaii

2. Further, section 88-103.7(c) notes that if a department or agency of the State or county fails to furnish the system with the information required pursuant to this section in the format required by the system “the State or county shall pay to the system, on the first day of the fiscal year following the fiscal year in which the failure to furnish the required information occurred, an amount equal to the employer contributions payable by the State or county, relative to the department or agency that is not in compliance with this section, during the fiscal year in which the failure to furnish the required information occurred.”
3. We understand the concern that more time is needed by both the employer and the ERS to cooperatively comply with reporting requirements. The primary purpose of section 88-103.7(c) was to encourage reporting compliance, not to impose a penalty of advanced payments of employer contributions, nor additional interest for late payments. The ERS has been working collaboratively with employers to address the many and complex challenges attendant to employer reporting of ERS contributions. We agree with the changes made by the Senate Committee on Labor, Culture and the Arts, which extended the employers’ evaluation period by three additional years during which each department will be required to progress toward full ERS compliance. After which, the aforementioned penalties would apply.

Thank you for this opportunity to testify.

DEPARTMENT OF BUDGET AND FISCAL SERVICES
CITY AND COUNTY OF HONOLULU

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DEPUTY DIRECTOR

February 20, 2020

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair
and Members of the Committee on Ways and Means
The Senate
State Capitol, Room 211
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Dela Cruz, Vice Chair Keith-Agaran, and Members of the Committee:

**SUBJECT: Senate Bill No. 2142 SD1
Relating to the Employees' Retirement System**

Senate Bill 2142 SD1 seeks to extend the deadline by which the State and counties are required to furnish payroll and personnel transaction information to the Employees' Retirement System (ERS) in an electronic format as specified by the ERS. The City and County of Honolulu Departments of Budget and Fiscal Services, Human Resources, and Information Technology (the City) jointly submit testimony in **strong support** of this measure.

While the City has been providing its payroll and personnel transaction information to the ERS in electronic format since well before the passage of Act 87, City staff and our contractors have worked diligently with ERS staff for the past five years to improve reporting to meet compliance with Act 87. Unfortunately, despite all parties putting in cooperative efforts, this project has been extremely challenging. Other counties have likewise informed us that they face similar challenges.

The City is fully committed to transmitting payroll and personnel transaction information to the ERS in an electronic format that will work with both parties' systems, but is unable to meet "compliance" as defined by the ERS by the current deadline of July 1st. Ongoing difficulties remain in resolving the major complexities involved in getting systems to "talk" to each other, and such difficulties are exacerbated by the vast number of data elements that must be tracked for the various plans. We suspect that this project is even more formidable for the ERS staff, who must deal not just with the City system, but with the various systems of all the employers.

To give some idea of the numbers at stake, the City roughly estimates that ERS contributions account for approximately 8% of the City's operating budget. Total ERS contributions for fiscal year 2020 are projected to be approximately \$205 million. If the penalty portion of Act 87 were to be enforced against the City, the City could lose an estimated \$4.1 million in investment income, or an estimated \$6.9 million under the alternative penalties, at 7% monthly interest. The City simply cannot afford to let that happen.

The Honorable Donovan M. Dela Cruz, Chair
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair
and Members of the Committee on Ways and Means
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The City notes that an ERS suggestion to provide a three year extension--with two additional years, if needed--was altered by the Senate Committee on Labor, Culture and the Arts when it amended this bill to reflect a new deadline of 2023 in SD1, without the option of two additional years. While the City appreciates any extension of time, the City would feel more comfortable with a five year extension, as proposed in the original draft of this bill, or two additional discretionary years, as suggested by the ERS. A longer extension would in no way lessen the City's efforts to comply with the ERS' reporting requirements as soon as possible. Additional time is reasonable, given our understanding that all the employers, as well as the ERS, face limitations in current system configurations.

Last, we note that the City was heartened by the ERS' statement in its last report to the Legislature, that it is exploring "an intermediate adjustment process which will create the 'net change' transaction based on the employer's pay adjustment information." See ERS' Act 87 Report on Status of Employer Reporting of Information 2019, p. 2 of 5, paragraph A, *available at* <http://ers.ehawaii.gov/wp-content/uploads/2019/12/Employer-Reporting-2019.pdf>. This sort of programming could go a long way towards allowing the City and other employers to meet reporting requirements as soon as possible.

Based on the foregoing, we ask for your support in advancing this measure. Thank you for the opportunity to testify in **strong support** of SB 2142 SD1.

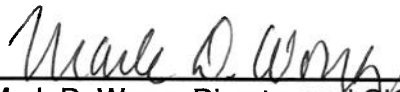
Sincerely,



Nelson H. Koyanagi Jr., Director
Department of Budget and Fiscal Services



Carolee C. Kubo, Director
Department of Human Resources



Mark D. Wong, Director and CIO
Department of Information Technology