



February 8, 2021

To: The Honorable Donovan M. Dela Cruz, Chair,
The Honorable Gilbert S.C. Keith-Agaran, Vice Chair, and
Members of the Senate Committee on Ways and Means

Date: Monday, February 8, 2021

Time: 10:50 a.m.

Place: Room 221, State Capitol

From: Anne Perreira-Eustaquio, Director
Department of Labor and Industrial Relations (DLIR)

Re: S.B. No. 1159SD1 RELATING TO EMPLOYMENT SECURITY

I. OVERVIEW OF PROPOSED LEGISLATION

This measure seeks to temporarily reduce unemployment insurance contribution rates as a method to help contain the economic fallout from COVID-19 by helping expedite the State's economic recovery and protecting employers from facing higher tax rates at a time when they can least afford to pay them.

The proposal sets the contribution rate schedule for calendar years 2021, 2022, and 2023 at schedule D, F, and G respectively. The bill also permits the Director to omit benefits charged for experience rating for employers due to the event of COVID-19 in calendar years 2020 and 2021 as well as housekeeping provisions.

The DLIR strongly supports this Administration measure.

II. CURRENT LAW

The Unemployment Compensation Trust Fund (UCTF) had a reserve of \$607.5 million as of November 2019. The UCTF balance was depleted in June 2020 due to the extraordinary unemployment rate caused by the disruptions of the COVID-19 Pandemic. A contributory employer's Hawaii unemployment insurance contribution rate is computed once a year based on the employer's reserve ratio and the tax schedule (one of eight possible schedules, A through H) in effect for the year. The tax rate schedule will be at the highest rate at Schedule H in calendar years 2021, 2022, and 2023 without statutory intervention to reduce the schedule.

Section 383-69, Hawaii Revised Statutes, (HRS), prescribes the procedure the department uses to determine each employer's rate of contributions pursuant to sections 383-63 to 383-69, HRS.

The bill also amends the definitions of benefit year and week and conforms the manner of filing partial claims to the same as total or part-total.

III. COMMENTS ON THE SENATE BILL

The DLIR strongly supports the measure as it provides relief to contributory employers by setting the contribution rate schedule at D in 2021, F in 2022, and G in 2023. The COVID-19 Pandemic created an unprecedented increase in Hawaii's unemployment rate as the seasonally adjusted unemployment rate increased to 23.6% in April from 2.7% in February. This temporary relief will help ensure employees can return to work safely, and employers can rehire their employees once the immediate public health crisis abates. It will also help ensure more businesses will be able to survive this crisis and rehire their employees once they can safely resume operations.

The department proposes using Schedule D for 2021 as it is the first schedule that levies all employers at rates from .2% up to 5.8%. Under Schedule F all employers would pay contributions at rates 1.2% up to 6.2%. Under Schedule G all employers would pay contributions at rates from 1.8% to 6.4%. Under Schedule H the contributions would range from 2.4% to 6.6%. Setting the tax rate schedules from D, F, and G will mean that all contributory employers will share in the replenishment of the UCTF and help re-establish the fund's integrity.

The bill also enables the department to omit the benefits charged in the annual experience rating calculation for contributory employers thereby reducing the impact of employers' experience due to the unprecedented challenges caused by COVID-19.

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February 3, 2021

Dana Bergeman
CEO
Bergeman Group
812 Ilaniwai Street
Honolulu, Hawaii 96813

**RE: Written Testimony
SB1278 & Related Measures**

Aloha Chair Onishi, Chair Luke, and Members of the Committees,

My name is Dana Bergeman, and I am a local small business owner. Mahalo for scheduling this hearing. The political will to reconsider the tax rate schedule for Hawaii employers is much appreciated and I'd like to respectfully provide comments and concerns.

SB1278 proposes to hold rates at Schedule C for 2021 and transitions to Schedule D for 2022, and also mandates that COVID related claims do not impact the rates. While this is a step in the right direction, I believe that raising the tax rate schedule to anything other than Schedule C for 2021 and 2022 will have a deleterious effect on Hawaii's small business owners, manifesting most acutely as a significant and negative financial impact on Hawaii's business community. Plainly speaking, our economy will need more than one year to recover. I support the proposal to adopt Schedule C, however, I respectfully submit that schedule C should be extended into 2022 before moving to Schedule D in 2023.

Many small businesses, including mine, have commitments that we cannot change. Specifically, we are contractually bound prices we cannot increase to offset Covid-19 induced increases in taxation. Over time this may be possible, however, few among us have the ability to simply raise our prices sufficiently in the short terms, in a depressed marketplace, to offset an abrupt tax increase. For me personally, this scenario will translate to tens of thousands in additional tax burden I would need to somehow recover or otherwise offset. Given that nearly all of us – including me – have already cut costs to survive Covid-19, the proposed tax increase would leave me with no other choice but to cut salaries, proceed with additional layoffs or both.

The mass shutdowns that triggered skyrocketing unemployment and the collapse of the economy were the result of governmental decisions to save us from a Covid-19 healthcare calamity. No business owner could reasonably anticipate such an event. These shutdowns were not bad business decisions we made. Rather, they were governmental decisions necessary to save society. It is therefore not reasonable to expect employers to be responsible for footing the bill alone.

I implore you to extend Schedule C into 2022 before moving to Schedule D in 2023. Moreover, I appeal to lawmakers to seek out other ways of replenishing the trust fund outside of tax hikes on employers alone. We cannot solely carry the burden, and certainly cannot carry it now, when we've yet to recover.

Finally, I ask that you work collaboratively – in a bipartisan fashion – with our congressional delegates to obtain federal government assistance, using more CARES Act or similar funds to provide relief, pay down federal loans, issue government bonds and spread out the timing and the source of repayment.

The unemployment tax/trust system was not designed to accommodate such an unprecedented and historic event, nor the draconian but nonetheless necessary governmental orders that caused meteoric unemployment. Given this, everyone is responsible for replenishing the trust fund, not just employers.

Respectfully,

BERGEMAN GROUP

DocuSigned by:

EA902B96F0B74B5...
Dana Bergeman
CEO



INTERNATIONAL LONGSHORE & WAREHOUSE UNION

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LOCAL 142

The Thirty-First Legislature
Regular Session of 2021

THE SENATE

Committee on Ways and Means

Senator Donovan M. Dela Cruz, Chair

Senator Gilbert S.C. Keith-Agaran, Vice Chair

State Capitol, Conference Room 211

Monday, February 8, 2021; 10:50 a.m.

STATEMENT OF THE ILWU LOCAL 142 ON S.B. 1159, S.D.1 RELATING TO EMPLOYMENT SECURITY

The ILWU Local 142 **supports** S.B. 1159, S.D.1 which sets the rate of employer contributions to the State Unemployment Compensation Trust Fund for calendar years 2021, 2022, and 2023, at schedules D, F, and G, respectively, under the Hawaii employer security law, allows the director of labor and industrial relations to modify the annual contribution rate computation method for all employers for calendar years 2021 and 2022, by omitting from the calculation, benefits charged against their accounts, amends the definitions of benefit year and week, conforms the manner of filing partial unemployment benefits claims to those of total and part-total unemployment benefits claims and effective date of amendments to the contribution rate schedule and computation method is retroactive to 1/1/2021.

The Covid-19 pandemic has wreaked havoc on the Hawaii economy and unfortunately hundreds of thousands of workers have lost their jobs and many are still unemployed today. This has undoubtedly drained the unemployment compensation trust fund and without legislative action, employers will likely be faced with the highest schedule. This measure will help lower the schedules which could help some businesses and organizations that are financially struggling.

We recommend passage of S.B. 1159, S.D.1 to keep the conversation and dialogue alive regarding this issue.

Thank you for the opportunity to testify.



To: WAM Committee
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

From: Jozette Montalvo
Hawaii Petroleum, LLC-Vice President, Human Resource

RE: SB1159 Relating to Unemployment

Date: February 4, 2021

Thank you for the opportunity to provide testimony. Hawaii Petroleum Company is an independent petroleum marketer operating on the islands of Maui and Hawaii, with approximately 325 employees on two islands. We operate 17 Minit Stop convenience stores, and 16 Ohana Fuels stations.

Hawaii Petroleum is in **support of SB1159** for the following reasons.

Employers are amid continued fall-out from the virus, one of them being increased unemployment cost. SB1159 will provide employers with a "COVID break" where the Department of Labor & Industrial Relations can omit benefits charges for "experience rating" for employers due to the COVID-19 event. We support this.

Without unemployment relief, additional unemployment cost will create an excessive burden on employers and struggling businesses during this current pandemic and economic slowdown. Additional labor cost will drive more employee cuts and higher unemployment cost.

During these extreme fragile economic times, Hawaii businesses need more support, not more cost. As such, it is recommended that the State seek Federal assistance for relief.

For these reasons, we kindly ask that you vote **YES** on **SB1159**.

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TO: Committee on Ways and Means

FROM: Adrian Hong, President of Island Plastic Bags, Inc.

RE: SB 1159 SD1 Relating to Employment Security

POSITION: COMMENTS

Thank you for the opportunity to submit comments on SB 1159 SD1. My name is Adrian Hong and I am the president of Island Plastic Bags Inc. (IPB), a second-generation, family business in Halawa Valley that manufactures plastic trash liners and food grade bags. While the company greatly appreciates the intent of SB1159 SD1, Island Plastic Bags prefers the language in HB 1278 as it gives more relief to small businesses. Relief is badly needed to avoid crippling payroll tax hikes on already struggling businesses.

At the onset of the pandemic, I told my employees that we would not lay anyone off because of the pandemic. I told them that they would still have all their health and 401K benefits. Almost a year on, we have kept that promise but it has been by no means easy. 2020 was the worst year on record for our company. Our revenues in 2020 were down 36% compared to the previous year.

While a PPP loan and the Small Business Recovery & Relief Fund grant we received helped tremendously, we are still very far away from operating at a sustainable level of revenues. The absolute last thing we need is more taxes on our struggling business. The harder you make it for small businesses, the less of them will survive the pandemic. That will cost the state jobs, tax revenues, and a more vibrant and diverse economy in the future.

I understand that as legislators that you only have difficult decisions ahead of you this session, but I urge you to think of what will happen if more small businesses go under. Thank you for the opportunity to provide comments on SB 1159 SD1. Should you have any questions or comments about my testimony you can contact me by email at ahong@islandplasticbags.com or by phone at 808-484-4046.

Sincerely,

Adrian K. Hong, CPA*

President

Island Plastic Bags, Inc.

www.islandplasticbags.com

Email: ahong@islandplasticbags.com | Phone: 808-484-4046 | Fax: 808-488-8505

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Toby Taniguchi, KTA Superstores, *Advisor*

TO:

Committee on Ways and Means
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

FROM: HAWAII FOOD INDUSTRY ASSOCIATION
Lauren Zirbel, Executive Director

DATE: February 8, 2021
TIME: 10:50am
PLACE: Via Videoconference

RE: SB1159 Relating to Employment Security

Position: Support with Requested Amendment

The Hawaii Food Industry Association is comprised of two hundred member companies representing retailers, suppliers, producers, and distributors of food and beverage related products in the State of Hawaii.

This measure is necessary in order to prevent abrupt unmanageable increases in the contributions required by employers to the Unemployment Compensation Trust Fund (UCTF). Under the current schedule the required contributions for many employers would quadruple, for other employers the required contribution would increase more than tenfold.

Due to the COVID-19 pandemic many Hawaii businesses were forced to close and others were forced to downsize. This caused the \$607.5 million in the UCTF to be depleted by June of last year and the State has received a \$700 million loan from the Federal government. Paying back the Federal government loan and replenishing the fund after these types of events it not how the system was designed and is not what the schedules were set up to do. Requiring contributions to the fund that will cause Hawaii businesses to close and eliminate more jobs is self-defeating.

We believe that the changes proposed in SB682 will have a greater positive impact and allow more business to continue providing more jobs. We ask that that text if this measure be deleted and replaced with the text from SB682.

The economic crisis caused by the COVID-19 pandemic has impacted every aspect of our state's economy and our local businesses are struggling. We have already seen dozens of business closures and unfortunately more are likely before our state recovers. With the suggested amendment this measure is the kind of support that local companies need from the state as they work to survive. We urge you to pass this measure with the requested amendment and we thank you for the opportunity to testify.



Chair Onishi, Chair Luke, and Members of the Committees:

My name is Carlos Delgado and I'm the owner of The Boiling Crab in Kaka'ako. We have been there since December of 2017 and have worked very hard to make a positive impact on our community, along with providing jobs for 50 to 60 people. I know you are all aware of how difficult it has been on all businesses during this past year, but restaurant industry has undoubtedly been hit the hardest. More restaurants have closed during this time than any time in our history, so it is paramount that this tax relief be thought out thoroughly.

Thank you for scheduling this hearing. The political will to improve the tax rate schedule for Hawaii employers is much appreciated. However, I'd like to respectfully provide comments about my concerns.

HB1278 holds the schedule at C for 2021 and D for 2022 and mandates that COVID related claims do not impact the rates. While this is a step in the right direction, I fear that raising the tax rate schedule to anything other than Schedule C for 2021 and 2022 will have negative and significant financial impacts on Hawaii's business community.

I support the proposed Schedule C, but ask that the schedule be extended into 2022 as well before moving to D in 2023. Our economy will need more than one year to recover. The mass shutdowns that triggered unemployment to skyrocket were the result of societal decisions rather than *business* decisions, of which employers cannot fairly be responsible for footing the bill alone.

I also urge our lawmakers to look for other ways to replenish the trust fund outside of tax hikes on employers. We must work with our congressional delegates to ask the federal government for relief, using more CARES funds to pay down federal loans, or issue government bonds and spread out the timing and the source of repayment. Everyone is responsible for replenishing the trust fund, not just employers.

Thank you for listening to my concerns.

Carlos Delgado



February 5, 2021

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Committee on Ways and Means
State Capitol
Honolulu, Hawaii 96813

Subject: SB1159, SD1, February 8, 2021, 10:50 am, Room 211

Dear Senators Dela Cruz and Keith-Agaran:

My name is Barron Guss, President of ALTRES, Inc., a three-generation, 52-year old Hawaii company and Hawaii's original and oldest Professional Employer Organization (PEO).

The pandemic has had far-reaching effects on all aspects of everyday life. Hawaii businesses are no exception and have experienced more than their fair share of hardship beyond the forced closures. Now they face a new threat that could have them shutting their doors forever.

Since March, the State of Hawaii Unemployment Trust Fund (UTF) has been paying out benefits to a substantial portion of Hawaii residents at unprecedented rates. Unfortunately, the system could not sustain an outpouring of money at these levels. Now the fund has reached a point of insolvency and employers are mandated to replenish it.

Over the past 40 years working in the professional employer industry on both the local and national levels, I have witnessed the financial breakdown of other UI funds, but never of this magnitude or with such unimaginable consequences.

It's important to keep in mind that the SUI system was NOT designed to provide community-wide economic assistance in the event of an emergency or, in this case, a pandemic. It is intended to act as a relief mechanism for the gradual expansion and contraction of an economy. It specifically addresses the temporary needs of individuals when they find themselves without income and can also temper the effects of an economic downturn.

Recessions come on gradually and, by design, the State Unemployment Tax Act (SUTA) fund can self-regulate and manage an unemployed population of 2.4%, similar to what we experienced in 2019 and even a number close to twice that of 4.5%, as we had in 2010. In contrast, Hawaii residents turned to the only economic assistance available to them, the State of Hawaii Unemployment Trust Fund.

February 5, 2021
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In April and May of 2020, the two-month average for the unemployed in the islands reached 24.0%, with November's average at 10.1%. With these unprecedented unemployment levels, it's easy to understand why the reserves in a system that was not designed for emergency welfare would collapse under its own weight with a tenfold increase in benefits paid out in only two months. Even at today's averages, the system is being taxed at a 4X ratio.

In 2019, the State received approximately \$178M in contributions via unemployment taxes on wages by employers. In contrast, it paid out \$151M in benefits to qualifying individuals, leaving a year-end surplus of over \$25M and an accumulated \$600M in reserves.

The Problem - At the end 2021 Hawaii will owe the Federal Government \$1.242B!

As of July 2020, the ten-year accumulated reserves of \$600M in the UI Fund was depleted to zero. Because of Hawaii's participation in the Federal Unemployment program, it is entitled to borrow money (Title XII Advances) in the event of a deficit such as we have today. As of December 2020, the State of Hawaii had borrowed \$749M from the federal government and since then it has paid down the balance from two sources - leftover CARES Act funds from the first round of funding and approximately \$3M from employer contributions, leaving today's loan balance at approximately \$700M.

The most recent estimates are that Hawaii will pay out on average \$60M a month or \$720M in benefits over 2021, in contrast to the \$151M of benefits paid out in 2019. Basically, when you factor in the reduced contributions due to the pandemic and the borrowed balance of what is needed to provide benefits, **by the end 2021 Hawaii will owe the Federal Government \$1.242B!**

What to do?

Rather than cite the financial impact that the imposition of a higher rate schedule would have on Hawaii businesses, I would like to redirect your thinking to the "elephant in the room" -- the debt itself.

There has not been enough discussion about who should be responsible for its repayment. As previously stated, the outpouring of funds from the UTF was not caused by employers or even a recession, but an event that could be equated to a natural disaster, no different than a tsunami or hurricane. For these types of disasters there is precedent, which led to the creation of the Hurricane Relief Fund or federal assistance from FEMA.

One could confuse that borrowing money from the federal government's program (Title XII Advances) is similar to FEMA, but I would argue that it is not, because FEMA monies do not need to be repaid and they are definitely not repaid by employers.

Decision making to what end?

As expected, all the discussion up to now, and the testimony in the Senate hearings, have been focused on which schedule to use. The DLIR's focus is on replenishing the fund and the business community is fixed on keeping the schedule at "C" for the foreseeable future.

Today you will be asked to balance the need for repayment with the restart of the economy. Because of the lack of information and the inability of the DLIR to truly forecast the future, through no fault of your own the likelihood of making the right decision is at risk. Please take a moment and consider the following information as you contemplate the future of our state.

If you are planning on employers paying the debt - which will be at \$1.2B by the end of 2021, it really doesn't matter what rate schedule you use. It will never get repaid by using "C", "D" or even "H."

Here's why.

In 2019, with a robust economy and using schedule "C", the income to the UTF was \$151M. Since on average, schedule "H" is 3X "C," the average maximum income to the UTF would be \$450M per year if we could get back to pre-pandemic levels, which is highly unlikely. In 2021 the UTF is forecast to pay out \$720M, which already has us borrowing more money and we would still have a growing deficit by using the highest rate schedule.

So, let's just suppose that we are talking about income and benefits payout in 2022, 2023 and beyond.

Where is the delta? At what point will the income into the fund via employer contributions equal the outpayment of benefits? Of course, this is a variable because the choice of what schedule to use for the employer assessment is what you are trying to decide. The conundrum is at what point will the desire to increase the rate of income to the UTF stall the economic recovery for Hawaii?

Choosing a rate schedule simply addresses the symptoms caused by the problem but does not sufficiently address the debt repayment, as the income into the UTF can never service the repayment of the principal without killing the economy.

What to do

It's a self-fulfilling prophecy - raise taxes to pay off the debt and the economy slows or keep taxes low to preserve the economy and the debt increases.

The only choice is to redirect the Legislature's focus to moving the debt from the DLIR and repay it from the General Fund. It should be clear by now that there is no way that taxes levied on employee wages will ever be able to keep pace with the debt. At best, there will be a time in the future when contributions should be able to keep up with the benefits payout and paying the interest on the debt, but nothing more.

Economic Stimulus

By moving the debt onto the State of Hawaii's balance sheet, it redirects the balance of your decision-making to what schedule should be used to restart the economy. You may even consider a drastic action like moving to a lower schedule, such as "B" or even "A" to create momentum and give business some true economic stimulus to hire more workers.

Financing the Debt

A natural response to moving the debt to the budget is to say, "tax revenues are down across the board and the State can't afford it." Well, if the State can't afford it, do you really think employers can?

A solution is to leave the debt with the federal government and simply pay the interest on the loan for the next ten years. There is, of course, an interplay with the FUTA tax credit and reduction, but the maximum penalties are far less than the potential devastation by increasing taxes. Keep in mind the maximum FUTA tax reduction is \$420, which pales in comparison to just one schedule tier increase from "C" to "D."

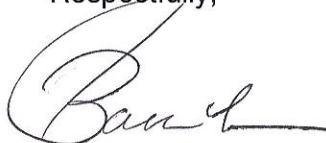
The best way to address the debt, if funds are not available from the general fund, is to issue a bond, which allows the State to borrow money on its own terms with no penalty from the federal government via the FUTA system. There are many ways to make Hawaii state bonds attractive to lenders, including tax free income, which will cost the state far less than the penalties and impact on the economy.

In Conclusion

Your moxie as legislators is now being tested. Do you do what appears right and popular or do you look deeper for solutions that make the most sense in the long run to give Hawaii a chance to rebound before our businesses pick up their tents and leave town, with our residents soon to follow. This is not unprecedented because, if you recall, in 2019 Hawaii experienced negative population growth and those long in tooth will remember that companies like the Outrigger Hotels and Matson moved their offices to the mainland along with their employees.

Thank you for your efforts on behalf of all the people of Hawaii.

Respectfully,



Barron L. Guss
President and CEO

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: UNEMPLOYMENT, Tax Rate Schedule Relief

BILL NUMBER: SB 1159 SD-1

INTRODUCED BY: Senate Committee on Labor, Culture, and the Arts

EXECUTIVE SUMMARY: Sets the rate of employer contributions to the State Unemployment Compensation Trust Fund for calendar years 2021, 2022, and 2023 at schedules D, F, and G, respectively, under the Hawaii employer security law. Allows the director of labor and industrial relations to modify the annual contribution rate computation method for all employers for calendar years 2021 and 2022, by omitting from the calculation, benefits charged against their accounts. Amends the definitions of benefit year and week. Conforms the manner of filing partial unemployment benefits claims to those of total and part total unemployment benefits claims. Effective date of amendments to the contribution rate schedule and computation method is retroactive to 1/1/2021.

SYNOPSIS: Makes definitional changes to sections 383-1, HRS.

Amends section 383-68, HRS, to set the unemployment contribution schedules for calendar years 2021, 2022, and 2023.

Amends section 383-69, HRS, to allow the director to modify for calendar years 2021 and 2022 the annual computation to omit benefits charged for all employers to address the disruptions caused by COVID-19.

Makes a technical and conforming change to section 383-29.7, HRS.

EFFECTIVE DATE: Upon approval.

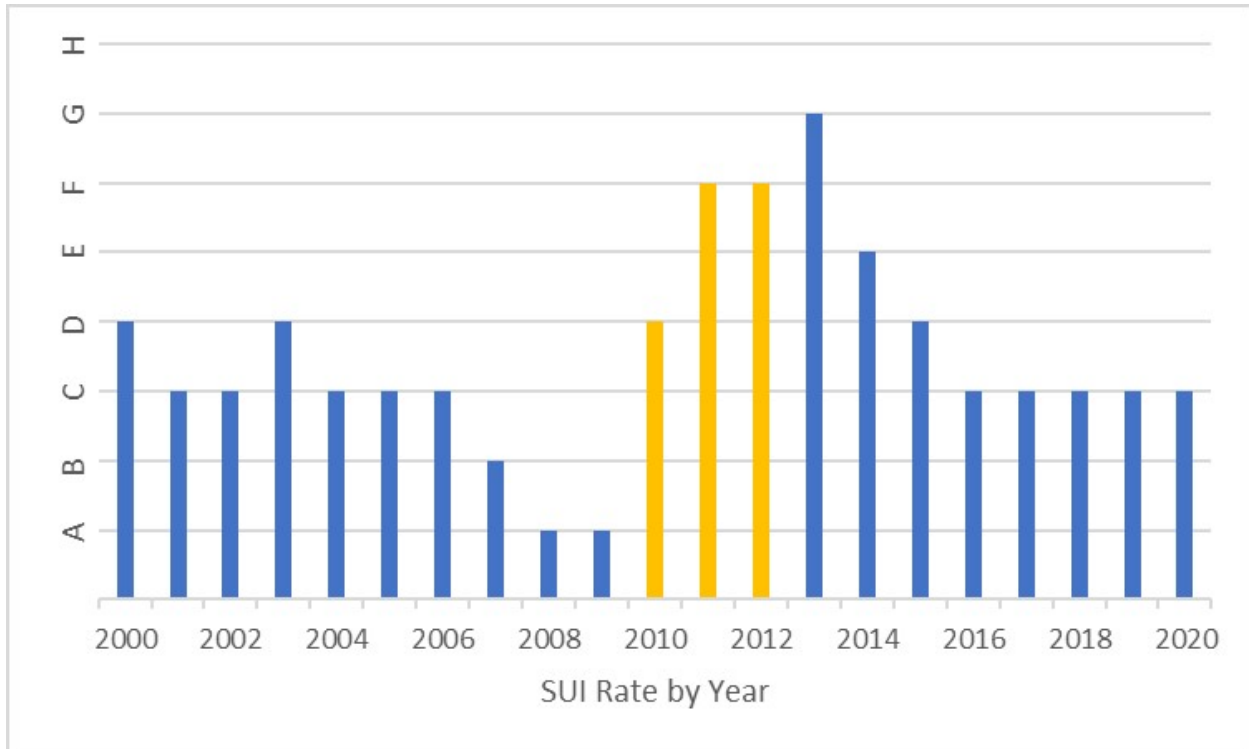
STAFF COMMENTS: This bill is an Administration bill sponsored by the Department of Labor and Industrial Relations, identified as LBR-03 (21).

The purpose of the Foundation's testimony is to provide lawmakers with background on unemployment rate schedules and the consequences of Title XII borrowing.

State unemployment insurance (SUI) is largely funded by employers. Most employers are charged tax that depends on two things: the overall health of the fund into which SUI tax is collected, and the claims history of the employer. So, an employer with a long history of chargeable claims, for example, will pay more than others. Also, if there is lots of money built up in the fund then the tax rate goes down for everyone.

The health of the fund determines the proper tax rate schedule. The schedules are named after a letter of the alphabet, with A the least costly schedule and H the most expensive. The fund

health is measured at the end of the year, and that measurement is used to set the rate for the following year. Here is a chart of the SUI rate schedule for the past 20 years:



Source: DLIR Reports compiled by Tax Foundation of Hawaii.

Although the Great Recession of 2008 and related events caused the fund to run out of money and we needed to borrow around \$180 million from Uncle Sam, employers were not subjected to the dreaded Schedule H because our lawmakers passed special legislation to control the SUI rates and override the normal formulas for the years 2010 through 2012 (the orange bars in the diagram). The current bill provides an override of the formulas as well.

Our unemployment system, as of January 8, 2021, has paid out \$3.4 billion in unemployment benefits. About half of it was funded by the federal government through various programs such as the \$300 “plus-up,” but Hawaii employers and/or taxpayers are on the hook for the other half.

At the end of 2019, the unemployment taxes that Hawaii employers had paid were sitting in a trust fund of about \$600 million. It’s now gone, and the State took out a \$700 million loan from the federal government to keep the unemployment trust fund afloat. There are several immediate consequences.

First, because our fund hit the “empty” mark at the end of last year, the unemployment tax on businesses is supposed to go up to Schedule H, the highest statutory rate. The Grassroot Institute of Hawaii has calculated that unemployment tax will triple in 2021 unless lawmakers change the system.

Next, if our State is borrowing money from Uncle Sam, interest may be charged. The interest rate for “Title XII advances,” which is what these borrowings are called, is expected to be

2.2777% in 2021. If we are unable to repay the \$700 million, then, we as Hawaii taxpayers may be on the hook for around \$16 million in annual interest. Our State's Director of Finance testified that this debt is "not legally an obligation of the state," but the law does not seem to support that conclusion. As described in a Congressional Research Service report at <https://crsreports.congress.gov/product/pdf/RS/RS22954>, federal law prohibits passing the interest cost to employers through the state unemployment tax system, which means it will need to be paid for by other funds such as collections of tax revenue. Of course, there is a possibility that Congress could forgo interest because of the pandemic. The Families First Coronavirus Response Act of 2020 did just that, waiving interest for all of last year, so Hawaii didn't owe any interest to Uncle Sam on the \$700 million as of the end of 2020. Relief under that act ended, and the interest clock started ticking again, on New Year's Day, at the rate of about \$43,700 per day.

Also, federal unemployment tax will increase for those employers in a State that hasn't fully repaid its loan by November 10 of the second year in which the loan was outstanding at the beginning of the year. That is, if we can't repay the \$700 million federal loan by November 10, 2022, federal tax increases will kick in beginning January 1, 2023. The additional tax is 30 basis points on the first \$7,000 of wages to an employee, or roughly \$21 per employee in 2023. The tax ramps up in subsequent years. It would be \$42 per employee in 2024 and gets progressively worse in later years until the debt is repaid. None of these dollars go to or are set aside for the State. Again, Congress could change these consequences if it wants to, but it's not something over which any one State has control.

Digested 2/4/2021



February 5, 2021

Honorable Donovan Dela Cruz, chairman
Honorable Gil Keith-Agaran, vice chairman
Ways and Means Committee
The Senate
State Capitol
415 South Beretania St.
Honolulu, Hawai'i 96813

Re: S.B. 1189, RELATING TO EMPLOYMENT SECURITY

Dear Chairman Dela Cruz, Vice Chairman Keith-Agaran and Committee Members:

As an operator of multiple pandemic aid programs in Maui County, we have seen the pain and suffering of COVID-19 and the collapse of the Hawaii economy up-close and personal. Maui Economic Opportunity, a Community Action Partnership agency, serves the economically disadvantaged, persons with disabilities and senior citizens. We run the paratransit bus service for Maui County, Head Start child care centers, and an assortment of other programs, including substance abuse and bullying prevention for youths and inmate transitional support.

MEO employs about 225 workers across the three islands of Maui County and has continued to run as an essential operation during the pandemic.

Let me be clear: We cannot afford any increases in doing business. Our budget is largely comprised of grants – with strict restrictions on their use – and prospects for future levels of funding remain murky. Our projections are for flat revenue, at best, while some costs have already risen, such as insurance premiums. As a nonprofit entity, MEO also pays workers' compensation, temporary disability and payroll taxes, like other for-profit businesses in Hawaii.

Any increase in the unemployment insurance cost will force us to make tough decisions that may impact our workforce -- which is somewhat ironic since labor reductions would add to the unemployment compensation rolls and cost.

As a result, we implore the state Legislature and governor to definitely act before March 2021 to prevent Schedule H – the highest unemployment insurance rate – from taking effect. Of the bills being floated to that purpose, we advocate for S.B. 628 – which provides for the lowest unemployment insurance costs for businesses and nonprofit organizations – over S.B. 1189 and its higher rates.

Thank you for the opportunity to comment, provide a view from the ground of the current difficult nonprofit/business climate and the impacts of increasing the costs of unemployment insurance.

Debbie Cabebe, SHRM-SCP, SPHR
Chief Executive Officer
Maui Economic Opportunity

The Promise of Community Action

Community Action changes people's lives, embodies the spirit of hope, improves communities, and makes America a better place to live. We care about the entire community, and we are dedicated to helping people help themselves and each other.





John Uekawa, President
Dave Roff, Executive Director

HADA TESTIMONY PROVIDING COMMENTS
ON SB1159, SD1

RELATING TO EMPLOYMENT SECURITY
Presented to the Senate Committee on Ways and Means
At the Public Hearing, 10:50 a.m. Monday, February 8, 2021
Conference Room 211, Hawaii State Capitol
VIA VIDEOCONFERENCE

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

Absent a spectacular miracle, like the federal government forgiving Title XII advances of \$700 million, (our Congressional delegation has told us not to hold our breath for something like this to happen), the grim reality of our unemployment taxes is something we can't avoid. We paid a staggering amount of money in unemployment benefits in 2020, borrowing funds in the process. Our state government will need to be accountable for that money somehow, and the 2021 Legislature will be debating whose backs will bear that burden. (Tax Foundation of Hawaii)

The above statement by the Tax Foundation of Hawaii points to the grim reality settling in on business owners during this legislative session amid the additional reality of increased income taxes, additional fees, and new assessments being considered for placement on business owners, which will result in a pulling down of the performance of economy.

To avoid further economic slowdown, HADA's dealerships join you in seeking solutions.

With our participation in the discussion on the bills being introduced today, and others being introduced in this session, we join in the deliberative process that will see a question being thought out, researched and discussed, with the fundamental question being this: "How will this measure improve the economy?"

Robust commerce is what is needed right now to grow the economy, not additional tax burdens.

There is a need to change the negative narrative.

A recent Hawaii daily newspaper headline “Unemployment Tax to Triple” is part of that dispiriting narrative. The subhead on that story read: “Hawaii businesses fear the (UI) increases will ruin the road to economic recovery.”

Certainly, to grow back the economy more rapidly from the pent-up demand, there is a need to minimize the burdens on business capital.

One Hawaii dealership owner explains that his accountant said the current UI Level H, the maximum statutory level, if it remains in effect, would cost his dealerships more than \$1,000 in additional expenses per employee this year.

To visualize what \$1,000 looks like just lay ten \$100 bills on a tabletop, and you’ll say that’s a lot of money.

Multiply that \$1,000 times 20 if you are a small restaurant owner or times 350 if you are owner of several dealerships.

It’s a large amount of money for both businesses, at a time money is in short supply, or when your business is taking losses.

That is why HADA dealers believe maintaining the insurance rate at the previous Level C for 2021, instead of its current Level H, the highest level will allow businesses time to address pent-up demand and get the economy growing again. The levels for subsequent years should be addressed as the economy improves and the reserves are replenished.

The elephant in the room, however, as Barron Guss, the CEO of ALTRES, Inc. a three-generation, locally-owned professional employer organization put it, is the UI-related debt. It is being accumulated by the continuing excess of unemployment insurance benefits being paid out compared to the amount of unemployment insurance payments by employers that is coming in.

We agree with Mr. Guss, who concludes that “the best way to address the debt, if funds are not available from the general fund, is to issue a bond to borrow money on its own terms, with no penalty from the federal government via the FUTA system. “

The members of our association thank you for the opportunity to comment SB1159, SD1.

Respectfully submitted by David H. Rolf
On behalf of the members of The Hawaii Automobile Dealers Association

Aloha,

Thank you for hearing my thoughts on the upcoming SB1159.

I represent a small restaurant operating in Manoa that provides vocational training for individuals recovering from Alcohol and Drug abuse, we have, like so many others been significantly impacted over the past year; we have seen the collapse of the visitor count, closed our doors for the first four months of the stay at home orders and have worked diligently to comply with all the requirements to keep our guests as safe as possible. We have managed to build our staff back up to almost pre-Covid numbers but sales and profits are struggling as we strive to keep afloat in these conditions.

The proposal that is written into SB 1159 would be very damaging to our business, the progression of rate changes from D to G over three years would do significant harm to the small business that remain open after almost a year of the pandemic economy.

I understand the need to replenish the fund as quickly as possible, however by increasing the rate schedule to D and finally to G, you would cause significant harm to my business and I believe other small business would feel the same. I propose that you set the rate at schedule C for the next three years without an experience modifier.

We believe that placing the burden of re-funding the unemployment fund on the few remaining business is simply

not effective. Efforts may be better spent trying to find ways to restore health to the visitor industry and getting a larger share of that workforce back in action and allow the larger volume of tax dollars be collected from a greater number man-hours and businesses .

Thank you for taking the time to read my thoughts on the matter

Mahalo

Ross Anderson

Owner

Waioli Kitchen and BakeShop

SB-1159-SD-1

Submitted on: 2/5/2021 12:11:09 PM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Peter Wood	Testifying for Sailing Maui Inc., Kapalua Kai Sailing Inc. Crystal Seahorse LTD.	Oppose	No

Comments:

HULA GIRL SAILING CHARTERS SAILING MAUI INC. SHANGRI-A SAILING CHARTERS

KAPALUA KAI SAILING INC.

PMB 307, SUITE 109 B, 5095 NAPILIHU ST. LAHAINA, HAWAII 96761

PHONE 808-669-0133, FAX 808-665-0209, EMAIL sailingmaui@yahoo.com, WEBSITE www.sailingmaui.com

February 5, 2021

RE: Written Testimony SB1278 & Related Measures

Aloha Chair Onishi, Chair Luke, and Members of the Committees,

As a small company employing 10 full time staff, we are barely able to make payroll, in addition to paying for health insurance and TDI. Add in the Marine Insurance, basic operating costs, mandatory dry dock, licenses, and a hundred other taxes, fees, and hard costs of operating a small business, and it will be nothing short of a miracle that our companies will survive this Pandemic and related financial issues.

Because State and Federal agencies are the entities that have mandated restrictions and shut downs, the onus for footing the ensuing increase in unemployment costs lies on those entities, not the small businesses that are already suffering due to the shut downs that have caused an economic crash across the boards.

We would like to respectfully provide comments and concerns. SB1278 proposes to hold rates at Schedule C for 2021 and transitions to Schedule D for 2022, and also mandates that COVID related claims do not impact the rates. While this is a step in the right direction, we believe that raising the tax rate schedule to anything other than Schedule C for 2021 and 2022 will have a severely negative effect on Hawaii's small business owners, manifesting most acutely as a significant and negative financial impact on Hawaii's business community. Plainly speaking, our economy will need more than one year to recover. We support the proposal to adopt Schedule C, however, we respectfully submit that schedule C should be extended into 2022 before moving to Schedule D in 2023. Many small businesses, including ours, have commitments that we cannot change. Specifically, our prices we cannot increase to offset Covid-19 induced increases in taxation. Over time this may be possible, however, few among us have the ability to simply raise our prices sufficiently in the short terms, in a depressed marketplace, to offset an abrupt tax increase. Given that nearly all of us – including our companies – have already cut costs to survive Covid-19, the proposed tax increase would leave us with no other choice but to cut salaries, proceed with additional layoffs or both. The mass shutdowns that triggered skyrocketing unemployment and the collapse of the economy were the result of governmental decisions to save us from a Covid-19 healthcare calamity. No business owner could reasonably anticipate such an event. These shutdowns were not bad business decisions we made. Rather, they were governmental decisions necessary to save society. It is therefore not reasonable to expect employers to be responsible for footing the bill alone.

Inca Robbin

Peter Wood

Owners - Operators

Kapalua Kai Sailing Inc.

Sailing Maui Inc.

Crystal Seahorse Ltd.



February 5, 2021

To: The Honorable Senator Donovan M. Dela Cruz, Chair
The Honorable Senator Gilbert S.C. Keith-Agaran, Vice Chair
Members of the Committee on Ways and Means

Date: Monday, February 8, 2021
Time: 10:50 am
Place: Hawaii State Capitol, Conference Room 211

From: Wayne Hikiji, President
Envisions Entertainment & Productions, Inc., dba Envisions Creative Event Production

RE: Testimony In Opposition to SB1159, SD1 Relating to Employment Security

My name is Wayne Hikiji and I am the president of *Envisions Entertainment & Productions, Inc.* ("*Envisions*"), an event production company based in Kahului, Maui. We have been in business for 25 years and up until this Pandemic had 20 full-time employees who have been us between 16-25 years, approximately 20-25 part-time seasonal workers, and around 120 independent contractors contracted annually. Because of the Pandemic, we have furloughed all but 11 of our full-time key employees.

Given the unprecedented economic devastation this pandemic has caused, small businesses like ours simply cannot afford an increase to the SUTA tax in 2021 or 2022, especially to the degree that SB1159, SD1 proposes. To be sure, if SUTA tax rates are increased, many businesses may be forced out of business which will result in the loss of many Hawaii jobs and create an insurmountable obstacle to rebuilding our already fragile economy.

Please remember that the mass shutdowns that triggered unemployment to skyrocket were the result of societal and governmental decisions, not business decisions. So if this Committee wants to help Hawaii's economic recover, the State of Hawaii and this Legislature should look for other ways to replenish the trust fund rather than unfairly put the onus of the pandemic's impact squarely on Hawaii businesses who, due to no fault of our own, are currently struggling just to stay afloat.

Economists are predicting that our economy will take years to recover. Therefore, we call on all legislators to take the right action as was done in 2010 with Act 2 which artificially lowered SUTA rates following the Great Recession of 2008. We humbly ask that this Committee **(i) mandate that 2020 utilization rates be excluded in determining 2021 and 2022 rates, (ii) keep the Tax Schedule Rate at C for 2021 and 2022, and (iii) move to Schedule D in 2023.**

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Wayne Hikiji", is written over a horizontal line. The signature is fluid and cursive.

Wayne Hikiji
Its President

36 Pa'a Street, Kahului, Hawaii 96732 * Office: (808) 874-1000 * Fax: (808) 879-0720
INFO@EnvisionsEntertainment.com

SB-1159-SD-1

Submitted on: 2/5/2021 2:05:15 PM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Garrett W. Marrero	Testifying for Maui Brewing Co.	Oppose	No

Comments:

Aloha,

We strongly OPPOSE this bill as the rates are simply too high for small businesses to bare when we've been closed for the better part of a year and operate on reduced capacity.

This measure will prove to hurt small business and cut deeply in what we're all experiencing during this session that can accuratley be described as a "death of a thousand cuts".

We know there is a shrotfall in the budget but it is NOT due to small business operators. We will be forced to shift prodcuton elsewhere, decrease size of team and automate more tasks in an effort to shed head counts. Nothing could make me sadder than to have to lean out my team that we kept on fully employed throughout the pandemic only to layoff due to unwise government decisions.

Mahalo for your time.



Activities & Attractions Association of Hawaii, Inc.
Not for Profit 501c-6 ~ Preserve, Protect and Unite

[COMMITTEE ON WAYS AND MEANS](#)

Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair

DATE: Monday, February 8, 2021
TIME: 10:50 A.M.
PLACE: Conference Room 211
TIMESLOT: WAM

February 5, 2021

Aloha Honorable Chair Dela Cruz, Vice-Chair Agaran, and Members of the Ways and Means Committee,

As the executive director of the Activities & Attractions Association of Hawaii, Inc. (A3H), representing Hawaii's in-destination experiences, I would like to extend a big mahalo for your efforts to stop the TRIPLING of UI costs to Hawaii's Businesses. We appreciate holding rates at Schedule C for 2021 & for not having COVID-related claims impact their rate. It is not enough.

Dr. Tiam/DBEDT and Dr. Brewbaker both forecasted and agreed that Hawaii's economy would likely fully recover in 2024 at the February 3, 2021 PATA-TTRA Luncheon. We urge you to modify SB1159 SD1 further and, in SD2, hold at Schedule C until 2023

Our visitor industry is slowly reopening; most are running on fumes, awaiting additional funds from the second round of SBA loans. There are still many that, due to the restriction, cannot open or will not open due to the low level of visitors.

Please provide legislation that reflects the common saying, "We are all in this together."

Mahalo,

Toni

Toni Marie Davis
Executive Director
Activities & Attractions Association of Hawaii, Inc.
PO Box 598, Makawao, Hawaii 96768
D: 808-871-7947 * M: 808-264-0000* F: 808-877-3104 Toll Free: 800-398-9698

SB-1159-SD-1

Submitted on: 2/5/2021 11:42:30 AM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Lisa	Testifying for Warren & Annabelle's	Oppose	No

Comments:

Aloha,

My husband and I are small business owners on the island of Maui. We have been in business almost 22 years. Before COVID, we employed close to 20 people. Due to the mandates, we have not been able to reopen. We are barely hanging on, yet it is our intent to be able to open our doors and once again have paying customers. At this time, we are struggling to make ends meet. Although we have not had an income in over 10 months, we still have some bills that have to be paid if we intend to open again. It is not our fault that all our employees got laid off. PLEASE DO NOT RAISE UI RATES. We cannot make it with the increases in this bill. We do not want to permanently close. Please do not make it any harder for small businesses - the lifeblood of Hawaii's economy. We are all counting on you to help us. By helping small businesses, you are helping your neighbors, friends and family and all our livelihoods.

Thank you,

Respectfully,

Lisa Gibson



**Comments to the Committee on Labor, Culture and the Arts
Monday, February 8, 2021
10:50 a.m. Conference Room 211**

**RE: SENATE BILL 1159 S.D. 1
RELATING TO EMPLOYMENT SECURITY**

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

We appreciate your efforts to assure there are affordable unemployment insurance taxes, allowing employers to recover from the pandemic. Thank you for the opportunity to submit comments.

BACKGROUND

ProService Hawaii provides employee administration services to over 2,400 small businesses in Hawaii, representing over 35,000 employees in Hawaii. As a professional employer organization (PEO), we ensure that our clients remain compliant with Federal and State employment and labor laws, while allowing them to focus on their core business, providing needed and valuable services to the people and the economy of the State. In addition, we ensure that our clients' employees receive timely payment of; wages, workers' compensation and TDI benefits coverage. We also provide HR training and services, dispute resolution, and safety services to our clients and our clients' employees.

We support the efforts of this legislative body to explore the options to support employers with affordable unemployment insurance taxes as it is in this state's and business' best interests to offer an opportunity to rebound and not penalize employers for bringing employees back into the workforce. We are providing comments to encourage a lower rate unemployment insurance rate schedule for the next several years.

[SB1159 SD1](#) adjusts the schedule to D, F, and G for calendar years 2021, 2022, and 2023, respectively. The bill also allows the Director to modify 2020 and 2021 experience from the rate calculation method. We support schedule relief, but ask that the schedule be C for 2021 and 2022 before increasing in 2023. Our economy needs more time to recover.

SUMMARY OF COMMENTS and CONCERNS

There are two issues to address:



1. Holding payroll taxes down so our economy can rebound
2. Replenishing the UI trust fund and paying down the Federal loan

Holding the payroll tax down: Unless a bill is passed and signed by the Governor before March, the tax rate schedule will increase from Schedule C to Schedule H in 2021 and rates could triple for some employers. Businesses of all sizes, but particularly small businesses, cannot handle a steep SUTA increase. **A local business with 5 employees could pay an extra \$7,000 in SUTA taxes if rates are increased to Schedule H.** This will create disincentives to hire (or re-hire) employees and slow down business recovery. In their already weakened state, many more businesses will shut their doors thereby shrinking local employment opportunities for Hawaii workers for good. Our local businesses and workers have suffered enough already.

Replenishing the UI Fund: The government cannot fairly hold employers solely responsible for replenishing the trust fund. Our unemployment system was originally designed to be 100% funded by employers to provide wage benefits to those unemployed who were between jobs as a result of *business* decisions. The pandemic and the ensuing shutdowns were not business decisions. The mass shutdowns were societal decisions responding to an *unforeseen* catastrophe. The fund was not intended to pay for major disasters. Moreover, the unemployment system has become a mechanism to deliver economic relief to the population of Hawaii, much like social security, and it is entirely unfair to ask employers alone to foot the bill. We understand that the Administration's position is that under Schedule C, 15% of businesses are not contributing to the fund and have recommended Schedule D. Employers who are lucky enough to have weathered 2020 should not be penalized for surviving and subsidizing the businesses who unfortunately did not make it.

Our lawmakers need to look for *other ways* to replenish the trust fund outside of tax hikes on employers. We must work with our congressional delegates to ask the federal government for relief, using more CARES funds to pay down federal loans, or issue government bonds and spread out the timing and the source of repayment. Everyone is responsible, not just employers.

Looking at ProService's a sample of 2400 clients, and that Schedule D is, on average, .4% higher than Schedule C, a schedule change disproportionately impacts those who currently have lower contribution rates (in our sample, we are classifying this as rates lower than 1% currently which is 58.2% of our full population) Nearly 60% of our entire population will receive a 50-300% increase in their SUTA rates.

10.6% of our clients would go from a zero contribution to .2% (\$96 per EE)
5.6% go from .1 to .4% (\$192 per EE) a 300% increase
9.5% go from .2 to .6% (\$288 per EE), a 200% increase
10.9% go from .4 to .8% (\$384 per EE), a 100% increase



12% go from .6 to 1% (\$480 per EE), a 67% increase
9.6% go from .8 to 1.2% (\$576 per EE), a 50% increase

The most vulnerable businesses in our economy: Restaurants, Hotels, Construction, are already paying higher rates and any increase simply makes the cost of business untenable

CONCLUSION

While this is a step in the right direction, **we fear that raising the tax rate schedule to anything other than Schedule C for 2021 and 2022 will have negative and significant financial impacts on Hawaii's business community.** It will force many businesses to close.

The mass shutdowns that triggered unemployment to skyrocket were the result of *societal* decisions rather than *business* decisions, of which employers cannot fairly be responsible for footing the bill alone. The trust fund was not intended to pay for financial relief for major disasters.

We urge this legislative body to amend this bill and advocate for holding rates at Schedule C for 2021 and 2022, mandate the exclusion of 2020 utilization, and look for *new* ways to replenish the state's depleted unemployment reserves.

Thank you for the opportunity to comment.

Nelson Befitel

Chief Counsel

ProService Hawaii



February 8, 2021

10:50 a.m.

Conference Room 211

**To: Senate Committee on Ways and Means
Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair**

**From: Grassroot Institute of Hawaii
Joe Kent, Executive Vice President**

RE: SB1159 SD1 — RELATING TO EMPLOYMENT SECURITY

Comments Only

Dear Chair and Committee Members:

The Grassroot Institute of Hawaii would like to offer its comments on [SB1159 SD1](#), which would set the contribution rate for the unemployment insurance tax at Schedule D for the calendar year 2021, Schedule F for the year 2022 and Schedule G for the year 2023.

This bill seeks to offer much-needed relief to local businesses that are still reeling from the COVID-19 pandemic and lockdowns, but we are concerned that it does not go far enough.

Without action from the Legislature, the employer contribution rate for 2021 will be set at schedule H, a record high for our state. That means Hawaii employers will be taxed between 2.2% and 6.6% per employee, depending on how much the employer contributed in the previous year as well as other factors.

According to [analysis](#) from the Grassroot Institute, under the automatic increase to Schedule H, the average employer will see the unemployment tax triple, from 1.11% or \$534 per employee in 2020 to 3.65% or \$1,757 per employee in 2021.

For some businesses, the increases will be even more dramatic. New businesses will see a tax increase from \$1,154 per employee in 2020 to \$2,501 per employee in 2021. Some could go from \$0 per employee in 2020 to \$1,154 per employee in 2021.

Under the proposed Schedule D, the rate would only increase by 38%, according to our [analysis](#). But this would still be a painful hike for the many struggling businesses in our state. Under Schedule F, which would go into effect in 2022, the average increase would be approximately 126%. And under Schedule G, slated for 2023, the average increase would be about 178%.

While this bill would represent an improvement over the automatic Schedule H tax increase, it still would create a massive burden for local employers. The severe increase to schedules F and G, occurring while the economy is still in a depression, would hamper the state's economic recovery and could have the unintended effect of prolonging Hawaii's high unemployment rate.

For some businesses, this tax hike may be catastrophic. Many organizations would have to choose between rehiring employees or paying the tax. Bringing on new staff would become exponentially more expensive.

Instead of enacting a stepped-up contribution rate from Schedule D to Schedule G over the next three years, legislators should keep the contribution rate at schedule C for 2021 and 2022. Only after that point should they consider raising it to schedules D or E.

By setting the employer contribution rate at Schedule C for the next two years, the Legislature would avert a disastrous tax increase and help local businesses get back on their feet.

We hold that the best way to help increase state revenues and refill the state coffers is to help the economy flourish. Resetting the employer contribution rate to a lower tier for the next few years would help considerably in the long-term economic recovery of our state.

Thank you for the opportunity to submit our comments.

Sincerely,

Joe Kent
Executive Vice President
Grassroot Institute of Hawaii



February 5, 2021

Senator Donovan Dela Cruz, Chair
Senate Ways and Means Committee
Hawaii State Legislature

Comments on SB1159 SD1

Dear Senator Dela Cruz and Members of the Senate Ways and Means Committee,

Thank you for the opportunity to provide comments on SB1159 SD1.

The impacts of COVID19 on Hawaii Island's tourism economy have been truly devastating and we appreciate the State Legislature's efforts to address concerns related to the proposed increases in Unemployment Insurance costs as quickly as possible. We support setting the rates as low as possible for 2021, and ask you to please consider the long-term horizon for economic recovery for luxury hotels and resorts. During her presentation to the Pacific Asia Travel Association earlier this week, Amelia Lim from CBRE explained that while some accommodations may recover to 2019 levels by 2024, the luxury accommodations sector (which represents the majority of hotels and resorts throughout the state) will likely not recover until 2025 or 2026. Therefore, providing immediate support in 2021, and looking a longer timeline for full recovery as you schedule increases, would be greatly appreciated.

KCRA is a collection of master-planned resorts and hotels, situated north of the Ellison Onizuka Kona International Airport at Keahole, which represents more than 3,500 hotel and timeshare accommodations and an equal number of resort residential units. This is approximately 35 percent of the visitor accommodations available on the Island of Hawai'i. KCRA member properties annually pay more than \$25 million in TAT, \$25 million in GET and \$11 million in property taxes.

Mahalo for the opportunity to provide comments.

Sincerely,

A handwritten signature in black ink that reads "Stephanie P. Donoho". The signature is written in a cursive, flowing style.

Stephanie Donoho
Administrative Director



MAUI

CHAMBER OF COMMERCE

VOICE OF BUSINESS

**HEARING BEFORE SENATE COMMITTEE ON WAYS & MEANS
HAWAII STATE CAPITOL, SENATE CONFERENCE ROOM 211
MONDAY, FEBRUARY 8, 2021 AT 10:50 A.M.**

To 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,

OPPOSE SB1159 SD1 RELATING TO EMPLOYMENT SECURITY

My name is Pamela Tumpap. I am the President of the Maui Chamber of Commerce, in the county most impacted by the COVID-19 pandemic in terms of our dependence on the visitor industry and corresponding rate of unemployment. We used to think the trickle-down effect from the visitor industry was 75%, but today it is likely between 85-95%.

Businesses in Maui are facing extreme hardships this year and have a long road ahead for recovery. Many of our businesses are micro businesses by national standards and a lot of them are smaller micro businesses. In a recent survey of our membership, 10% said they are unsure if their business will survive and that will likely depend on additional relief. It is widely recognized that supporting the visitor industry is a top priority due to Maui's dependence and the visitor industry decline during the pandemic. Given this, visitor industry support was not on the list and therefore, the UI Rate became the #1 issue of our membership.

The Maui Chamber of Commerce opposes SB1159 SD1 due to the higher rates proposed. Proposing anything other than staying at Schedule C for at least 2021 is ignoring the devastation businesses have faced this past year and will continue to face with a lagging economy.

OUR SUGGESTION: We understand the Administration and the Director of the Department of Labor are pushing to start at Schedule D because 15% of businesses would not pay at Schedule C. To address this, we strongly recommend staying at Schedule C, but at a minimum reserve rate of .1400-.1499. In this scenario, all businesses would contribute, with those at the bottom (who have had an excellent experience rating) paying a maximum of \$47.40 per month instead of \$94.80 per month on Schedule D and NOT PENALIZING the other 85% of businesses, who would otherwise be contributing to ensure we have an equitable contribution system.

Many businesses across the state have quietly closed (and some not so quietly) over the past year and we know many are just hanging on by a thread. With economic recovery projected to take several years and so many uncertainties on the horizon, such as case counts, additional restrictions, initial vaccine distribution and one's ability to get the second dose, businesses have serious concerns.



MAUI

CHAMBER OF COMMERCE

VOICE OF BUSINESS

Testimony on SB1159 SD1 Page 2.

Legislators **must** recognize the dire conditions and do everything possible to keep our remaining businesses alive, which means staying at Schedule C and giving them time to recover. Even moving up to Schedule D could result in an increase of \$94.80-\$474 per employee. For a business with 10 employees, this would equate to roughly \$1,000-\$5,000 and **businesses simply cannot afford it. Businesses have cut out things like membership dues and subscriptions, advertising and marketing, supplies and many other expenses that are not among their core expenses. They have cut down to the bone to maintain critical expenses such as commercial rent/ mortgage, employee wages and benefits, insurance, utilities, and essential supplies. To survive, they have exhausted their reserves, dipped into savings, taken out loans (some of which may be forgiven or not), sold important assets, taken money from children's college funds and more. They don't know where this money is going to come from and wonder where you think they can find it.**

Further, we want to echo what others have shared in testimony. Under normal circumstances, the UI fund is the responsibility of employers, but these are not normal circumstances. COVID-19 devastated our economy and businesses were forced to shut down and then operate under restrictions due to County and State rules. **The burden of replenishing this fund, which was decimated due to a global pandemic and County and State decisions, should not be the responsibility of businesses alone!**

While we appreciate the Department of Labor Director's efforts and understand that the Governor is proposing Schedule D for an equitable system, we feel we have come up with a solution so that all businesses contribute in our recovery, but **it is imperative that you hear the voices of the businesses who are paying into this fund and the industry groups (who each represent thousands to tens of thousands of employees) who are saying this is not the time to increase their expenses.**

Sincerely,

Pamela Tumpap
President

To advance and promote a healthy economic environment for business, advocating for a responsive government and quality education, while preserving Maui's unique community characteristics.

SB-1159-SD-1

Submitted on: 2/5/2021 6:42:33 PM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Josh Landry	Testifying for Landry Construction Inc.	Oppose	No

Comments:

Hello,

I am a local Maui owned business with six employees who has been operating in Maui County for the last two and a half years. In that time I have experienced the burdens put on local businesses and their consumers by our government in the form of tariffs on imported goods, as well as the most recent shipping rate increase of over 40% from Matson.

Adding to the above-mentioned rate increases, a 2% increase in my UI rate would result in a substantial increase in my payroll cost. As a contractor whose main client base is well above 90% local to Maui County and not tourism-based, this, in turn, would result in a significant increase in my costs to perform work for local families. This leaves more families to not affect the necessary repairs and upgrades to their home meaning less business for me and a direct impact on the economy as a whole.

Being one of the many business owners across the State of Hawaii fortunate enough to maintain their business throughout this pandemic all while maintaining the securities of the families entrusting us with their livelihood, I implore you to consider that now is not the time to further put the burden on the businesses that are keeping our local economy intact.

Thank you,

Josh Landry



**Testimony to the Senate Committee on Ways and Means
Monday, February 8, 2021 at 10:50 A.M.
Written Testimony**

RE: SB 1159, SD 1, RELATING TO EMPLOYMENT SECURITY

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

The Chamber of Commerce Hawaii ("The Chamber") **supports the intent of SB 1159, SD 1 but prefers the content of SB 682 which sets the rate of employer contributions for calendar years 2021, 2022, and 2023 at schedules C, D, and E, respectfully.**

The Chamber is Hawaii's leading statewide business advocacy organization, representing 2,000+ businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

As we know, \$607.5 million in the unemployment compensation trust fund ("UCTF") was depleted in June 2020, due to the extraordinary increase in Hawaii's unemployment rate triggered from business closures and layoffs. Then, the State received a \$700 million loan from the federal government. The consequence of these events is government cannot fairly hold employers solely responsible for replenishing the trust fund and the liability of the federal loan.

Based on historic UCTF data and the financial obligation that the state and employers are facing, there is no realistic nor projected means to replenish the trust fund even at the highest Schedule H level with further extending the federal loan, an appropriation from the General Fund, or a combination of the two. On average between 2017 and 2019, \$170 million in contributions have been deposited to the UCTF. Projecting that we will continue to face high unemployment rates and business closures, contribution into the fund will likely be than what was collected in 2019, an increase of UI other than Schedule C in 2021 will only prolong the recovery for struggling businesses and working families but may be the tipping point for small businesses into either closing their brick-and-mortar stores or consider cutting jobs, thus exacerbating the depleted UCTF again.



	2017	2018	2019
Unemployment Compensation Trust Fund			
Contributions	\$156 million	\$170 million*	\$185 million*
Interest	\$12 million	\$12 million*	\$13 million*
Benefits	\$160 million	\$147 million*	\$154 million*
Fund Balance (end of year)	\$522 million	\$557 million*	\$601 million*
Unemployment Rates			
Hawai'i Insured Unemployment Rate	1.2%	1.1%*	1.1%*
Hawai'i Total Unemployment Rate	2.4%	2.6%*	2.6%*
U.S. Total Unemployment Rate	4.4%		
Taxable Wage Base			
	\$44,000	\$45,900	\$46,800
Tax Schedule			
	Schedule C	Schedule C	Schedule C
Tax Rates			
Minimum	0.0%	0.0%	0.0%
Maximum	5.6%	5.6%	5.6%
Average			
% of Taxable Wages	1.0%	1.0%*	1.0%*
% of Total Wages	0.7%	0.7%*	0.7%*
Weekly Benefit Amount			
Minimum	\$5	\$5	\$5
Maximum	\$592	\$619	\$630
Average	\$484		
Average Benefit Duration			
	15.6 weeks		

* estimated

To reduce the blow to businesses and shouldering the large burden of the unemployment compensation trust fund, **The Chamber is respectfully urging that Schedule C, D, and E be implemented for calendar years 2021, 2022, and 2023, respectively.** This will allow employers to keep workers employed during this economic recovery period. Employers laying off workers due to the higher contribution rates will only exacerbate the UCTF and will only slow Hawaii's road to recovery.

In a new Pulse of Business survey¹ conducted in partnership with Omnitrak and with the support of Central Pacific Bank Foundation, the Hawaii Chamber of Commerce Foundation found the economic impact of the COVID-19 pandemic continues to have dramatic consequences for local businesses. The Pulse of Business results are not surprising and that one primary issue facing businesses is the cost of paying higher unemployment taxes in 2020 while they continue to suffer from the economic impact of the COVID-19 pandemic.

¹ <https://www.staradvertiser.com/2021/02/02/breaking-news/survey-finds-hawaii-businesses-reeling-from-lost-revenue-cutting-jobs-and-expecting-a-long-road-to-recovery/>



Chamber of Commerce HAWAII

The Voice of Business

The Pulse of Business survey found that:

- Revenues fell an average of 45% from 2019 to 2020, with no significant differences between Oahu and neighbor isles.
- Three in five businesses say they cannot afford any increase in unemployment insurance this year;
- Almost all (94%) favor unemployment tax relief; and
- A majority (76%) said an increase of UI taxes from an average of about \$600 to \$2,600 per full-time employee could trigger more job reductions.

The Legislature and the Governor have until March 2021 to provide the necessary relief that struggling employers and workers are facing or otherwise, businesses will be faced to bear a substantial burden of unemployment tax increase, which is roughly three times what they paid in 2020. The burden of a UI premium increase will not only prolong the recovery for struggling businesses and working families but may be the tipping point for small businesses into either closing their stores or consider cutting jobs.

Thank you for this opportunity to provide testimony.

SB-1159-SD-1

Submitted on: 2/6/2021 10:31:39 AM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Marvin Woo	Testifying for Woos Electrical	Comments	No

Comments:

Aloha Chair Dela Cruz, Vice-Chair Keith-Agaran, and Members of the Committees:

My name is Marvin Woo and I'm the business owner of Woo's Electrical & Appliance, a small local business with 4 employees providing residential electrical and appliance repairs.

Thank you for scheduling this hearing. The political will to improve the tax rate schedule for Hawaii employers is much appreciated. However, I'd like to respectfully provide comments about my concerns.

SB1159 SD1 adjusts the schedule to D, F, and G for calendar years 2021, 2022, and 2023, respectively but this is much too high for Hawaii businesses like mine. While I support schedule relief, I respectfully ask to hold the tax schedule at C for 2021 and 2022, before increasing it in 2023. Our economy needs more time to recover.

In addition to schedule relief, I urge you to consider how the state will repay its federal loan. By some accounts, Hawaii could owe the federal government \$1.2 billion dollars by the end of 2021 and currently there isn't enough discussion about how this will be addressed or who will be responsible for repayment. It must be said outright: Relying on Hawaii's employers simply cannot be the answer. There were other options available and employers never asked the government to take out a huge Title XII loan.

As you consider your decisions today, I respectfully ask that you keep the tax rate at Schedule C for 2021 and 2022. This gives businesses like mine the "best" chance possible to recover and thus stimulates the economy. Meanwhile, I urge you to look for "other ways" to finance the state's debt, whether it's moving debt from the DLIR to the General Fund, or exploring issuing state bonds which allow the state to borrow money on its own terms at a lesser impact to our economy. If we do not do so, what's the risk? More business closures, more brain drain and more instability for Hawaii's people.

Mahalo for your time and for listening to my concerns.

Marvin Woo

SB-1159-SD-1

Submitted on: 2/6/2021 1:28:55 PM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Heather Bailey	Individual	Comments	No

Comments:

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

My name is Heather Bailey and I'm a business owner. I own AVS Audio Visual Services Hawaii and have been in business since 1999. Pre-pandemic we employed 34 people.

Thank you for scheduling this hearing. The political will to improve the tax rate schedule for Hawaii employers is much appreciated. However, I'd like to respectfully provide comments about my concerns.

SB1159 SD1 adjusts the schedule to D, F, and G for calendar years 2021, 2022, and 2023, respectively but this is much too high for Hawaii businesses like mine. While I support schedule relief, I respectfully ask to hold the tax schedule at C for 2021 and 2022, before increasing it in 2023. Our economy needs more time to recover.

In addition to schedule relief, I urge you to consider how the state will repay its federal loan. By some accounts, Hawaii could owe the federal government \$1.2 billion dollars by the end of 2021 and currently there isn't enough discussion about how this will be addressed or who will be responsible for repayment. It must be said outright: Relying on Hawaii's employers simply cannot be the answer. There were other options available and employers never asked the government to take out a huge Title XII loan.

As you consider your decisions today, I respectfully ask that you keep the tax rate at Schedule C for 2021 and 2022. This gives businesses like mine the *best* chance possible to recover and thus stimulates the economy. Meanwhile, I urge you to look for *other ways* to finance the state's debt, whether it's moving debt from the DLIR to the General Fund, or exploring issuing state bonds which allow the state to borrow money on its own terms at a lesser impact to our economy. If we do not do so, what's the risk? More business closures, more brain drain and more instability for Hawaii's people.

Thank you for listening to my concerns.

Heather Bailey

February 6, 2021

RE: SB1159 SD1 RELATING TO EMPLOYMENT SECURITY

Dear Chair Dela Cruz and the Senate Committee on Ways and Means,

The Kona-Kohala Chamber of Commerce is very concerned about increases to the employer contribution rate for the State Unemployment Compensation Trust Fund and we support legislation to reduce the pending mandate from schedule C to H. However, **we oppose SB1159 SD1 RELATING TO EMPLOYMENT SECURITY** that increases the schedule to D in 2021, F in 2022 and G in 2023. These increases are simply too high.

With nearly 500 members, our Chamber represents the business community in the Kona and Kohala districts on the west side of Hawai'i Island where the tourism industry drives the local economy. Our businesses were especially hard hit in 2020 due to COVID-19 impacts that resulted in substantial loss of business. With the Governor's stay-at-home order for non-essential workers and the mandatory 14-day quarantine for travelers, many businesses in our region were unable to operate at no fault of their own.

Although the Safe Travels Hawai'i Program allows for travelers to bypass the now 10-day quarantine with a negative COVID-19 test result, the visitor count continues to be extremely low. According to the Hawai'i Tourism Authority December 2020 Hawai'i Hotel Performance Report, the occupancy for the Kohala Coast, where our major resorts are located, was at 26.8% in 2020 compared to 79% in 2019 – a 52.2% difference. This significant decrease is felt throughout our local economy, especially with our small businesses that contribute to the visitor experience whether it's retail, restaurants, farming, fishing, activities and tours.

Based on the recent University of Hawai'i Economic Research Organization's Annual Hawai'i Forecast, Hawai'i Island visitor arrivals by air in 2019 were at 1,763,900 million, but the 2020 count is 462,300 – a change of -73.8%! The forecast projects only 766,100 visitors in 2021.

COVID-19 economic and financial impacts will continue in 2021 and beyond and our businesses will continue to struggle. This is not the time to increase the cost of doing business. **This is not the time to increase the employer contribution tax rate. We ask that the schedule stay at C for 2021 and 2022** and if increases are needed in 2023, it go up as little as possible.

The Kona-Kohala Chamber of Commerce exists to provide leadership and advocacy for a successful business environment in West Hawai'i.

Sincerely,



Wendy J. Laros
President and CEO, Kona-Kohala Chamber of Commerce

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

My name is Dr. Craig Haga and I am the business owner of our family endodontic practice, which has been serving the community since 1966. We maintain a staff of 12 employees.

Thank you for scheduling this hearing. The political will to improve the tax rate schedule for Hawaii employers is much appreciated. However, I'd like to respectfully provide comments about my concerns.

SB1159 SD1 adjusts the schedule to D, F, and G for calendar years 2021, 2022, and 2023, respectively but this is much too high for Hawaii businesses like mine. While I support schedule relief, I respectfully ask to hold the tax schedule at C for 2021 and 2022, before increasing it in 2023. Our economy needs more time to recover.

In addition to schedule relief, I urge you to consider how the state will repay its federal loan. By some accounts, Hawaii could owe the federal government \$1.2 billion dollars by the end of 2021 and currently there isn't enough discussion about how this will be addressed or who will be responsible for repayment. It must be said outright: Relying on Hawaii's employers simply cannot be the answer. There were other options available and employers never asked the government to take out a huge Title XII loan.

As you consider your decisions today, I respectfully ask that you keep the tax rate at Schedule C for 2021 and 2022. This gives businesses like mine the best chance possible to recover and thus stimulates the economy. Meanwhile, I urge you to look for other ways to finance the state's debt, whether it's moving debt from the DLIR to the General Fund, or exploring issuing state bonds which allow the state to borrow money on its own terms at a lesser impact to our economy. If we do not do so, what's the risk? More business closures, more brain drain and more instability for Hawaii's people.

Thank you for listening to my concerns.

Dr. Craig Haga

SB1159 SD1
**SETS THE RATE OF EMPLOYER CONTRIBUTIONS TO THE STATE UNEMPLOYMENT
COMPENSATION TRUST FUND FOR CALENDAR YEARS 2021, 2022, 2023.**
Senate Committee on Ways and Means

February 8, 2021

10:50 AM

Room 211

The Council for Native Hawaiian Advancement (CNHA), a member-based 501(c)(3) non-profit organization with a mission to enhance the cultural, economic, political, and community development of Native Hawaiians, offers the following **COMMENTS** on SB1159 SD1, which would set the rate for employer contributions to the State Unemployment Compensation Trust Fund for the calendar years 2021, 2022, 2023, at scheduled D, F, and G, respectively under the Hawai'i Employer Security law .

CNHA and its member organizations, like many Hawai'i-based small businesses, have endeavored economic hardship as a result of the COVID-19 pandemic. This hardship is often compounded by the State's incredibly high cost of living and high cost to do business; hardships that continue to impact small businesses as the pandemic persists. At the national level and according to the February 2021 Congressional Budget Office report, the number of employed Americans is not expected to return to its pre-pandemic levels until 2024. Here in the State of Hawai'i, the University of Hawai'i Economic Research Organization, in its December 2020 Annual Hawai'i Forecast, appears to paint a similar picture of the State economy, with forecasts not yet returning to pre-pandemic levels through 2023. With that said, increasing the rate for employer contributions, while businesses continue to endeavor hardship could surely result in a continuous decline and an inevitable closure. CNHA emphasizes that raising the tax rate schedule to anything other than Schedule C for the years 2021 and 2022 will have a negative financial impact on Hawai'i's business community and the many residents who depend upon it.

CNHA understands that unless legislative action is taken, the mandated schedule for year 2021 is schedule H, at currently the highest tax rate. The current measure, as written, however, would still increase the tax rate Schedule to D, while significantly increasing it in 2022



and 2023 to Schedule F and Schedule D, respectively. This sudden leap over the next two years, for some businesses, can amount to nearly double the cost of present contributions – for such an increase to be a reasonable one, it should be expected that by that time, businesses would at least double their current financial standing. Economic forecasts at both the federal and state levels are not so positive. For non-profit organizations, like CNHA, who have been instrumental in providing relief and support for our many families in need at this time, such an increase in contributions would be devastating to operations. CNHA again emphasizes that a manageable tax rate schedule for years 2021 and 2022 should be Schedule C and subsequently raised to D in year 2023. Mahalo nui loa for this opportunity to provide testimony on this measure.

Respectfully,

J. Kūhiō Lewis
President & CEO
Council for Native Hawaiian Advancement



MOLOKAI CHAMBER OF COMMERCE

P.O. Box 515
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info@molokaichamber.org

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February 7, 2021

THE SENATE
THE THIRTY-FIRST LEGISLATURE
REGULAR SESSION OF 2021

COMMITTEE ON WAYS AND MEANS

Monday, February 8, 2021 @ 10:50 am
Conference Room 211
State Capitol, 415 South Beretania Street

OPPOSE SB1159 SD1 RELATING TO EMPLOYMENT SECURITY

Aloha Committee on Ways and Means Honorable Chair Dela Cruz, Vice Chair Keith-Agaran and Committee Members:

As a representative organization of the neighbor-island of Molokai with dozens of members who employ hundreds of our neighbors, friends and families, we are respectfully submitting testimony to **OPPOSE** SB1159 SD1 as written.

Small and Micro businesses make up the majority of our island's business community and under normal circumstances any additional mandates that increase the cost of doing business could have a substantial negative impact on their operations, financial health and their very ability to stay in business.

Adding to that, the financial consequences of the Covid-19 Pandemic have pushed our businesses to the limit of their ability to stay in business. Proposing anything other than staying at Schedule C for at least 2021 will cause an additional financial hardship that our businesses simply cannot bear, and may cause some to shutter their operations.

We echo the sentiments of the Maui Chamber of Commerce and support the proposal contained in their testimony, which is as follows:

“OUR SUGGESTION: We understand the Administration and the Director of the Department of Labor are pushing to start at Schedule D because 15% of businesses would not pay at Schedule C. To address this, we strongly recommend staying at Schedule C, but at a minimum reserve rate of .1400-.1499. In this scenario, all businesses would contribute, with those at the bottom (who have had an excellent experience rating) paying a maximum of \$47.40 per month instead of \$94.80 per month on Schedule D and NOT PENALIZING the other 85% of businesses, who would otherwise be contributing to ensure we have an equitable contribution system.”

Our businesses are responsible for contributing to the UI fund under normal circumstances, but these are not. Covid-19 has had a devastating effect on our economy and our businesses were mandated to stop their operations by the County and the State and were only allowed to re-open under severe restrictions, which are still currently in place. Additionally the restriction on allowing visitors to Hawaii was mandated by the state and not in control of our businesses. For these reasons, the State, Counties and businesses should share in the burden of replenishing the UI fund.

We sincerely appreciate everyone's efforts in trying to come up with an equitable solution for all parties involved, but placing this burden solely on our small businesses could have the unintended consequence of even more business closures and job losses.

Now is not the time to increase the financial burdens of our businesses, they need your help.

For these reasons, among others we humbly ask you to revise the bill to make it more compatible with our businesses ability to stay in business.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Stephenson', with a long horizontal flourish extending to the right.

Robert Stephenson, President & CEO



HAWAI'I LODGING & TOURISM
ASSOCIATION

Testimony of
Mufi Hannemann
President & CEO
Hawai'i Lodging & Tourism Association

Committee on Ways & Means
Senate Bill 1159, SD1: Relating to Employment Security

Chair Dela Cruz and members of the Committees, mahalo for the opportunity to submit testimony on behalf of the Hawai'i Lodging & Tourism Association, the state's largest private sector visitor industry organization.

The Hawai'i Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers—advocates on behalf of a tourism industry that has been disproportionately affected by an unprecedented pandemic and an ensuing economic downturn. With travel at a near standstill and strict government mandates in place, businesses across the tourism sector were forced to furlough thousands of employees and in many cases drastically downsize their operations. With the enactment of the Safe Travels program, our hospitality industry slowly began to resume, and businesses are beginning to recover. However, should the State adhere to its current unemployment tax rate schedule increase, many employers would be saddled with an insurmountable tax rate that would prolong bringing workers back to work and would dampen the progress we have made in our economic recovery.

In December of last year, Hawai'i recorded the highest unemployment rate in the nation as businesses continued to struggle with the absence of tourism. UHERO estimated that more than 1,400 local businesses had closed their doors permanently due to the COVID-19 pandemic, with another 2,000 suspending their operations. These businesses in their totality represent the appeal of our economy to prospective tourists. Travelers come here not only for our world-class hotels, but to enjoy our local cuisine, take advantage of our services and attractions, and shop at our local stores. Any business that is forced to close their doors for good would not only remove jobs from the marketplace, but would harm our overall appeal as a destination, and we need tourism to recover now more than ever.

For these reasons, we urge you to pass a measure like Senate Bill 682 that would offer local business owners as much tax relief as possible. Doing so would not only keep businesses open and local residents employed, but also help Hawai'i to retain its status as a premier place to live, work, play, and visit.

Thank you for the opportunity to offer these comments.



TESTIMONY OF TINA YAMAKI, PRESIDENT
RETAIL MERCHANTS OF HAWAII
February 8, 2021

Re: SB 1159 SD1 Relating to Employment Security

Good morning Chair Dela Cruz and members of the Senate Committee on Ways and Means. I am Tina Yamaki, President of the Retail Merchants of Hawaii and I appreciate this opportunity to testify.

The Retail Merchants of Hawaii was founded in 1901, RMH is a statewide, not for profit trade organization committed to the growth and development of the retail industry in Hawaii. Our membership includes small mom & pop stores, large box stores, resellers, luxury retail, department stores, shopping malls, local, national, and international retailers, chains, and everyone in between.

We understand the intent of SB 1159 SD1 Relating Employment Security, we would prefer schedules C & D. This measure sets the rate of employer contributions to the State Unemployment Compensation Trust Fund for calendar years 2021, 2022, and 2023, at schedules D, F, and G, respectively, under the Hawaii employer security law; allows the director of labor and industrial relations to modify the annual contribution rate computation method for all employers for calendar years 2021 and 2022, by omitting from the calculation, benefits charged against their accounts; amends the definitions of benefit year and week; conforms the manner of filing partial unemployment benefits claims to those of total and part-total unemployment benefits claims; effective date of amendments to the contribution rate schedule and computation method is retroactive to 1/1/2021.

While we understand the need to replenish the Unemployment Insurance fund, retailers like many businesses are not able to afford the increase in these schedules - especially if schedule automatically changes each year to a higher rate. This increase in the cost of doing business may be the decision in a business closing for good. Other businesses have indicated that to pay for this increase, they would once again have to cut their staff - thus adding to the already high number of unemployed in Hawaii. Retailers are unable to absorb the exuberant increase in unemployment insurance. Cost would be passed on to the customers. Retailers realize that if their products are too costly, they will lose the sale. Their customers will seek an alternative retailer who many are not in Hawaii because they offer the item cheaper.

While we prefer schedule C, if the rate increased beyond schedule D, the rate increase employers must pay per employee will be detrimental to many local businesses who are already hanging on by a thread to remain open. The retail industry has been one of the hardest hit during the pandemic. Since the pandemic, those retailers who were deemed non-essential were forced to close their businesses for months due to government orders. Those on Oahu were forced to close their businesses a second time with no income from online sales unless they were fulfilling the orders from home. Retailers have also had to endure an almost 50% rate increase in interisland shipping. Many stores who rely directly on the visitors are not opening until the customer base returns - if they can hold on that long. They have also reduced their staff, taken pay-cuts and more to survive. The 3rd Commercial Lease Rent survey from data collected between December 1 and 31, 2020 revealed:

- One in 10 Hawaii businesses permanently closed over the course of the pandemic, and 67 percent were impacted significantly by government restrictions.
- From April through December 2020, 50 percent of businesses did not pay their rent in full.
- Three in 10 businesses expected to miss three full rent payments between October and December 2020, and more than half expected to miss at least one full rent payment between January and June 2021.
- Tourism accounts for at least one-quarter of the overall revenue of 37 percent of Hawaii businesses.
- 86 percent of businesses saw their annual revenue decrease in 2020, and 82 percent expect a decrease in 2021 as well.

Retailers like many businesses are struggling to survive and keep their employees employed. Many cannot afford an increase in doing business. We hope that you will hold this bill.

Mahalo again for this opportunity to testify.

LATE

Senate Committee on Ways and Means Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair



Working together for Kapolei

Monday, February 8, 2021 at 10:50 A.M., Conference Room #211

RE: SB 1159, SD1, RELATING TO EMPLOYMENT SECURITY

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

My name is Kiran Polk, and I am the Executive Director of the Kapolei Chamber of Commerce. The Kapolei Chamber of Commerce is an advocate for businesses in the Kapolei region. The Chamber works on behalf of its members and the entire business community to improve the regional and State economic climate and help Kapolei businesses thrive. We are a member-driven, member-supported organization representing the interests of all types of business: small, medium or large, for profit or non-profit businesses or sole proprietorship.

The Kapolei Chamber of Commerce **supports the intent of SB 1159, SD1 however we urge consideration to maintain schedule C for calendar years 2021 and 2022.** It has been widely forecasted that it will be a slow road of economic recovery over several years to come. The effects of COVID-19 on our economy are unprecedented and we should take this into consideration in addressing concerns with that understanding and perspective respectively.

Businesses and employees are facing difficult challenges and for our businesses that contribute to the fund, experiencing increases several times the current amount of the unemployment insurance (UI) premium will be devastating. Many of our businesses, especially small businesses are struggling. Any and every increase to the cost of doing business including the increase of employer contributions to the UI trust fund could be the expense that will send more of our businesses into closure.

It is estimated that on average, an employer paying \$600 per employee per year to the UI trust fund right now, will have an UI increase to more than \$2,600 per employee. For many businesses this increase will not only make business survival out of reach, but it may tip them into the brink of closure. The end result of some businesses shutting their doors coupled with others who stay open yet have job cuts will dig us into yet a deeper hole.

Thank you for your consideration and this opportunity to provide testimony.

Best,

Kiran Polk
Executive Director



LATE

Senate Committee on Ways and Means

**Senator Donovan M. Dela Cruz, Chair
Senator Gilbert S.C. Keith-Agaran, Vice Chair
Monday, February 8, 2021 at 10:50 A.M.
Written Testimony**

RE: SB 1159, SD1, RELATING TO EMPLOYMENT SECURITY

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

The Society of Human Resource Management (SHRM) Hawaii supports the intent of SB 1159, SD1 but prefers the contents of SB 682 which would create much needed relief by imposing schedule C, D and E in calendar years 2021, 2022, 2023, respectively.

SHRM Hawaii serves and represents nearly 600 members and employers' statewide and human resource management is a critical component to the success and survival of the many businesses that make up our local economy. HR professionals are responsible for evaluating and balancing the needs of both the employers and employees and caring for businesses' most valuable asset: the working people of our state.

The State Unemployment Compensation Trust Fund (UCTF) is largely funded by employers and determined based on the employer's experience in the payment of contributions and benefits. UCTF, which had a reserve of \$607.5 million as of November 2019, was depleted in June 2020, due to the extraordinary increase in Hawaii's unemployment rate caused by the COVID-19 pandemic. Consequently, the State received a \$700 million loan from the federal government as federal unemployment insurance advances under Title XII of the Social Security Act to continue payment of unemployment benefits.

The government cannot fairly hold employers solely responsible for replenishing the trust fund and to pay off the loan debt. Our unemployment system was originally designed to be 100% funded by employers to provide wage benefits to those unemployed who were between jobs as a result of business decisions. The pandemic and the ensuing shutdowns were not business decisions.



The looming UI premium increases will force many employers who fought to keep people working throughout the pandemic to ultimately exacerbate our struggling economy by cutting more jobs they would otherwise keep and an increase in UI will place business survival out of reach for many and cause job losses and business closures.

The Legislature and the Governor have until March 2021 to provide relief to struggling employers and workers before employers are forced to bear substantial UI tax burdens that will deepen and prolong the economic recovery for struggling businesses and working families. We implore you to help Hawaii's employers stave off what will be a catastrophic tipping point for many small businesses and provide much needed relief to help them continue preserving much needed jobs.

SHRM appreciates your consideration and we respectfully urge your Committee to consider setting for calendar years 2021, 2022, and 2023, the employer contribution rate at schedule C, D, and E respectively.

Thank you for this opportunity to provide testimony.

Kalani Morse
Legislative Affairs Committee Co-Chair

Dailyn Yanagida
Legislative Affairs Committee Co-Chair



SB-1159-SD-1

Submitted on: 2/3/2021 8:16:48 PM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Randy Dietz	Individual	Comments	No

Comments:

Aloha, Chair Onishi, Chair Luke, and Members of the Committees:

My name is Randy and I'm a business owner. I own a welding business in Kapolei. I have been in business since 2014 and now have 4 full-time employees.

Thank you for scheduling this hearing. The political will to improve the tax rate schedule for Hawaii employers is much appreciated. However, I'd like to respectfully provide comments about my concerns.

HB1278 holds the schedule at C for 2021 and D for 2022 and mandates that COVID-related claims do not impact the rates. While this is a step in the right direction, I fear that raising the tax rate schedule to anything other than Schedule C for 2021 and 2022 will have negative and significant financial impacts on Hawaii's business community.

I support the proposed Schedule C but ask that the schedule be extended into 2022 as well before moving to D in 2023. Our economy will need more than one year to recover.

The mass shutdowns that triggered unemployment to skyrocket were the result of *societal* decisions rather than *business* decisions, of which employers cannot fairly be responsible for footing the bill alone.

I also urge our lawmakers to look for other ways to replenish the trust fund outside of tax hikes on employers. We must work with our congressional delegates to ask the federal government for relief, using more CARES funds to pay down federal loans, or issue government bonds and spread out the timing and the source of repayment. Everyone is responsible for replenishing the trust fund, not just employers.

Mahalo for listening to my concerns.

Randy Dietz

SB-1159-SD-1

Submitted on: 2/5/2021 8:54:03 AM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Michael Miyahira	Individual	Oppose	No

Comments:

The path we take to replenishing the UI fund will be impacted by the pace of our economy's recovery from the pandemic. At this point in time, no one knows with any certainty how quickly our recovery will be.

I suggest the helping the business community to recover will have a much more positive impact on the UI fund's replenishment. A more vibrant economy will translate into more people employed, which then translates into more employer contributions to the UI fund.

I suggest that schedule C be used for 2021, and schedule D for 2022 and 2023. The question could be revisited in 2022 as to the schedules to be employed in 2024 and beyond.

SB-1159-SD-1

Submitted on: 2/5/2021 9:26:03 AM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Greg Howeth	Individual	Oppose	No

Comments:

The mass shutdowns that triggered skyrocketing unemployment and the collapse of the economy were the result of governmental decisions to save us from a Covid-19 healthcare calamity. No business owner could reasonably anticipate such an event. These shutdowns were not bad business decisions we made. Rather, they were governmental decisions necessary to save society. It is therefore not reasonable to expect employers to be responsible for footing the bill alone. I implore you to extend Schedule C into 2022 before moving to Schedule D in 2023. Moreover, I appeal to lawmakers to seek out other ways of replenishing the trust fund outside of tax hikes on employers alone. We cannot solely carry the burden, and certainly cannot carry it now, when we've yet to recover.

SB-1159-SD-1

Submitted on: 2/5/2021 2:43:06 PM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Shaye Clarke	Individual	Oppose	No

Comments:

It is unfair to punish the small businesses of Hawaii by increasing unemployment insurance rates when COVID is not self-inflicted incident on the businesses to increase unemployment employee rates. Economically, small businesses are dealing with enough so don't continue to punish them with increased rates.

SB-1159-SD-1

Submitted on: 2/6/2021 11:18:28 AM

Testimony for WAM on 2/8/2021 10:50:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Bob Hansen	Individual	Oppose	No

Comments:

Please lower the unemployment tax. It is going to kill businesses and cripple mine.