

DAVID Y. IGE
GOVERNOR



THOMAS WILLIAMS
EXECUTIVE DIRECTOR

KANOE MARGOL
DEPUTY EXECUTIVE DIRECTOR

STATE OF HAWAII
EMPLOYEES' RETIREMENT SYSTEM

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

TO THE SENATE COMMITTEE ON LABOR, CULTURE AND THE ARTS
ON

SENATE BILL NO. 431

February 5, 2021
3:00 P.M.
Conference Room 225

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM

Chair Taniguchi, Vice Chair Ihara, and Members of the Committee,

S.B. 431 proposes to amend section 88-103.7, Hawaii Revised Statutes, to allow departments more time to comply with provisions requiring them to furnish personnel and payroll information to the Employees' Retirement System of the State of Hawaii (ERS). The ERS provides the following comments:

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



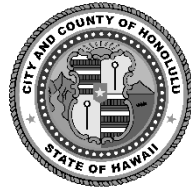
Employees' Retirement System
of the State of Hawaii

section in the format required by the system “the State or county shall pay to the system, on the first day of the fiscal year following the fiscal year in which the failure to furnish the required information occurred, an amount equal to the employer contributions payable by the State or county, relative to the department or agency that is not in compliance with this section, during the fiscal year in which the failure to furnish the required information occurred.”

3. When a similar proposal was submitted during the 2020 legislative session, S.B. 2142, we agreed that more time was needed by both the employer and the ERS to cooperatively comply with reporting requirements. The primary purpose of section 88-103.7(c) was to encourage reporting compliance, not to impose a penalty of advanced payments of employer contributions, nor additional interest for late payments. S.B. 2142 initially contained a 5-year extension. The ERS proposed a 3-year extension, with discretion to allow two additional 1-year extensions. Your Committee held a hearing on S.B. 2142 on February 4, 2020. Your Committee found that “the state departments and counties have been working cooperatively with the Employees' Retirement System staff towards compliance including working jointly with software vendors to resolve issues of non-compliance.” Your Committee further recognized “the challenges in meeting the necessary requirements for all parties.” See SSCR 2848. Your Committee amended S.B. 2142 by reducing the extension from 5 years to 3 years. See SSCR 2848 and S.B. 2142 SD1. S.B. 2142 SD2 also contained a 3-year extension.
4. The ERS has been working collaboratively with employers to address the many and complex challenges attendant to employer reporting of ERS contributions. We would propose however, that rather than the full 5-year extension as suggested by S.B. 431, that the advance payment and interest provision now existing be extended for a period of three additional years during which, the ERS evaluates each department’s progress toward full compliance. In 2024, after this 3-year review, the ERS may allow at its discretion two additional 1-year extensions after which the advance payment requirement would apply.

Thank you for this opportunity to testify.

DEPARTMENT OF BUDGET AND FISCAL SERVICES
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RICK BLANGIARDI
MAYOR

ANDREW T. KAWANO
DIRECTOR DESIGNATE

KELLI J. NISHIMURA
ACTING DEPUTY DIRECTOR

February 5, 2021

The Honorable Brian T. Taniguchi, Chair
The Honorable Les Ihara, Jr., Vice Chair
and Members of the Committee on Labor, Culture and the Arts
The Senate
State Capitol, Room 211
415 South Beretania Street
Honolulu, Hawaii 96813

Dear Chair Taniguchi, Vice Chair Ihara, Jr., and Members of the Committee:

SUBJECT: Senate Bill No. 431
Relating to the Employees' Retirement System

Senate Bill 431 seeks to extend the deadline by which the State and counties are required to furnish payroll and personnel transaction information to the Employees' Retirement System (ERS) in an electronic format as specified by the ERS. The City and County of Honolulu Departments of Budget and Fiscal Services, Human Resources, and Information Technology (the City) jointly submit testimony in **strong support** of this measure.

For the past six years, City staff and contractors have worked diligently with ERS staff to improve reporting, with a goal of meeting Act 87 compliance standards. Unfortunately, even though the City had already been providing its payroll and personnel transaction information to the ERS in an electronic format since well before the passage of Act 87, and despite all parties putting in cooperative efforts, this project has been extremely challenging.

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

To give some idea of the numbers at stake, the City roughly estimates that ERS contributions account for approximately 9 percent of the City's total operating budget. Total ERS contributions for fiscal year 2021 are projected to be approximately \$262 million. Due to the adverse impact of the pandemic, the City has implemented agency budget cuts in FY21 and also in the soon to be submitted FY22 budget and simply cannot afford to pay the estimated ERS contribution for FY22 upfront without severely impacting the City's ability to provide core services due to potential cash flow issues nor the associated interest penalties for non-payment.

The Honorable Brian T. Taniguchi, Chair
The Honorable Les Ihara, Jr., Vice Chair
and Members of the Committee on Labor, Culture and the Arts
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The City supports a five year extension, especially since urgent issues related to the COVID pandemic have taken away resources from this project. The pandemic aside, please know that an extension would in no way lessen the City's efforts to comply with the ERS' reporting requirements as soon as possible. However, the City feels additional time is reasonable, given our understanding that some, if not all, the employers, as well as the ERS, face limitations in current system configurations.

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

Based on the foregoing, we ask for your support in advancing this measure. Thank you for the opportunity to testify in **strong support** of SB431.

Sincerely,

Andrew T. Kawano, Director Designate
Department of Budget and Fiscal Services

Noel T. Ono, Acting Director
Department of Human Resources

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

DEPARTMENT OF HUMAN RESOURCES

ANNETTE L. ANDERSON, DIRECTOR



DEREK S.K. KAWAKAMI, MAYOR
MICHAEL A. DAHLIG, MANAGING DIRECTOR

Testimony of Annette L. Anderson

Director of Human Resources, County of Kaua'i

Before the
Senate Committee of Labor, Culture and the Arts
February 5, 2021 at 3:00 pm
Conference Room 225

In consideration of
Senate Bill 431
Relating to the Employees' Retirement System

Honorable Chair Taniguchi, Vice Chair Ihara, and Members of the Committee:

The County of Kaua'i, Department of Human Resources **supports** S.B. No. 431 as this measure would extend the deadline by which the State and counties are required to furnish payroll and personnel transaction information to the Employees' Retirement System (ERS) in an electronic form as specified by the ERS.

The County of Kaua'i has always been committed to providing its payroll and personnel transactions to the ERS in the necessary format to successfully interface with the ERS platform. Since 2015 when the deadline was first put into place, the County has worked cooperatively with the ERS staff towards compliance including working jointly with our software vendor to discuss programming issues that has led to non-compliance.

As discussed in the 2019 report to the legislature, the ERS recognized the challenges in meeting the necessary requirements for both the employers and ERS. While the County of Kaua'i, along with all other Employer jurisdictions have all been working diligently towards compliance and even making substantial progress, significant challenges still remain.

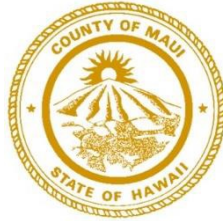
Given the penalties associated with Act 87, SLH 2015 for non-compliance, we believe that extending the deadline for compliance is reasonable. This will allow for all jurisdictions and the ERS to continue to work collaboratively in the best interest of our employees.

Thank you for the opportunity to provide testimony and mahalo for your consideration.

MICHAEL P. VICTORINO
Mayor

DAVID J. UNDERWOOD
Director

Cynthia Razo-Porter
Deputy Director



DEPARTMENT OF PERSONNEL SERVICES

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February 4, 2021

TESTIMONY TO THE
SENATE COMMITTEE ON LABOR, CULTURE AND THE ARTS

For hearing on Friday, February 5, 2021
3:00 p.m., Conference Room 225

BY
DAVID J. UNDERWOOD
DIRECTOR OF PERSONNEL SERVICES
COUNTY OF MAUI

Senate Bill No. 431
Relating to the Employees' Retirement System

TO CHAIR TANIGUCHI, VICE CHAIR IHARA, AND MEMBERS OF THE COMMITTEE:

Senate Bill 431 seeks to extend the deadline by which the State and counties are required to furnish payroll and personnel transaction information to the Employees' Retirement System (ERS) in an electronic format as specified by the ERS. The County of Maui **strongly supports** this measure.

While the County fully supports and remains committed to the goal of reporting data electronically to the ERS, we believe an extension of the statutory deadline is in the interest of all parties. We believe that the various jurisdictions and the ERS have been working diligently and cooperatively toward this end, and have made substantial progress. For the County of Maui, for example, the implementation of a new HR/Payroll system in 2019 has led to improvements in our reporting, and we continue to meet and correspond regularly with ERS staff to continue this improvement. Even with this progress, however, HR, payroll, and pension management systems all process, use, and store information very differently. Translating and communicating information between these systems in a way that meets everyone's requirements and capabilities is extremely complex, and significant difficulties still remain in some areas.

In addition, all jurisdictions have been severely impacted over the past year by numerous challenges in responding to the coronavirus pandemic. The efforts involved in supporting a shift to a distributed workforce, creating and implementing new types of federal-mandated leave, adjusting payroll systems to accommodate new categories of pay, and dealing with the manpower shortages

and uncertainly caused by the pandemic have serious impaired the ability of human resource and payroll staff to focus on other initiatives such as this one.

In light of this, we do not believe the current deadline is attainable for the County. From our discussions with other jurisdictions, we are clearly not alone in this situation. We also note that in its latest report to the legislature on the subject, the ERS itself stated that "Although the requirements may be clear, meeting those requirements have proved to be arduous to impossible for both the employers and ERS."

In view of these challenges, and given that the July 1, 2020 statutory changes would impose severe financial penalties on the employing jurisdictions, we believe that extending that deadline is reasonable. This would allow all jurisdictions, and the ERS, to continue to work collaboratively to best serve their members.

We also note that the proposed measure would continue to require that an annual report as to the status of the employers' reporting be filed with the legislature. We believe this would allow the legislature to continue to monitor this important issue, and we strongly support this provision as well.

Given the foregoing, we humbly request your support in advancing this measure, and thank you for the opportunity to provide testimony.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Underwood', with a stylized, cursive flourish extending to the right.

DAVID J. UNDERWOOD
Director of Personnel Services