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LUIS P. SALAVERIA
DIRECTOR

SABRINA NASIR
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE
Ka 'Oihana Mālama Mo'ohelu a Kālā
P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON LABOR AND GOVERNMENT OPERATIONS
ON
HOUSE BILL NO. 1908

February 8, 2024
10:00 a.m.
Room 309 and Videoconference

RELATING TO PUBLIC EMPLOYEE COMPENSATION

The Department of Budget and Finance (B&F) opposes this bill.

House Bill (H.B.) No. 1908 amends Section 78-13, HRS, to repeal the after-the-fact payroll schedule for State of Hawai'i public officers and employees by requiring them to be paid pursuant to a predicted payroll schedule. The measure provides that the predicted payroll schedule shall not be subject to negotiation under Chapter 89, HRS.

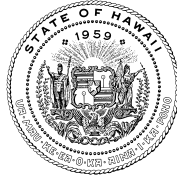
H.B. No. 1908 also appropriates unspecified general funds for FY 25 to the Department of Accounting and General Services to establish 6.00 full-time equivalent positions to perform tasks related to payroll processing, including training, expanded monitoring and auditing, expanded overpayment analysis and overpayment collection, and appropriates additional unspecified general funds for FY 25 to pay for costs necessary to convert employees from an after-the-fact payroll schedule to a predicted payroll schedule.

B&F opposes this bill because:

1. This measure will result in a reverse payroll lag effect. With the proposed implementation of a predicted payroll to begin with the August 5, 2024 payroll being moved up to be paid on July 31, 2024, the budgetary impact in FY 25 will result in 25 payroll payments rather than the standard 24 payroll payments. The estimated average pay date expenditure for the State of Hawai'i is approximately \$172 million, which means an additional \$172 million in costs for FY 25.
2. This measure will also likely exacerbate the existing State payroll overpayment problems which already require significant time and expense to correct.

Thank you for your consideration of our comments.

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



KEITH A. REGAN
COMPTROLLER
KA LUNA HO'OMALU HANA LAULĀ

MEOH-LENG SILLIMAN
DEPUTY COMPTROLLER
KA HOPE LUNA HO'OMALU HANA LAULĀ

STATE OF HAWAII | KA MOKU'ĀINA O HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES | KA 'OIHANA LOIHELU A LAWELAWÉ LAULĀ
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

WRITTEN TESTIMONY
OF
KEITH A. REGAN, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE COMMITTEES ON

**LABOR & GOVERNMENT OPERATIONS
EDUCATION**

FEBRUARY 8, 2024, 10:00 A.M.
CONFERENCE ROOM 309 AND VIA VIDEOCONFERENCE, STATE CAPITOL

H.B. 1908

RELATING TO PUBLIC EMPLOYEE COMPENSATION.

Chairs Matayoshi and Woodson, Vice Chairs Garrett and La Chica, and Members of the Committees, thank you for the opportunity to submit testimony on H.B. 1908 which repeals the payroll day for public officers and employees by requiring them to be paid pursuant to a predicted payroll schedule, rather than an after-the-fact payroll schedule. Provides that the predicted payroll schedule shall not be subject to negotiation under Chapter 89, HRS. Makes appropriations to establish 6 full-time equivalent positions and to cover the costs of converting to a predicted payroll schedule.

The Department of Accounting and General Services (DAGS) appreciates the opportunity to provide **comments** on this bill. We anticipate that the elimination of the payroll lag will require additional funds to be appropriated to adjust to the new payroll

schedule. As an example, the payroll for pay date February 5, 2024, was approximately \$172 million. Additionally, the after-the-fact portion for that payday was approximately \$84 million. As it would be difficult to exactly determine what the after-the-fact portion amount would be, if this measure were to move forward, we would need to ensure sufficient funds would be made available to prevent a situation whereby the State had insufficient funds available to cover the increase in payroll. We would recommend that further analysis of the dollar amount needed be conducted by the Department of Budget and Finance.

The proposed effective predicted payroll date of July 31, 2024 does not provide adequate time to reconfigure and test the payroll system. Aside from the payroll system, a change to a predicted payroll schedule will also impact the time and leave management system. It would be necessary to analyze the time and leave system to identify needs for reconfiguration and related costs. Additional funding will be required for state departments to transition to a predictive payroll schedule. This will include additional funding to support the vendor costs associated with reconfiguration.

It is anticipated that the State would expect to incur more retroactive adjustments that would need to be processed and addressed by each department's payroll, time and leave personnel, as well as DAGS' central payroll. For example, the prediction of hourly employees' time and differential work hours are uncertain and will likely result in the need for subsequent retroactive adjustments in the payroll and time and leave systems - a potential result of the shortened window of time that department staff would have to process those transactions.

We would like to clarify that the change from after-the-fact to a predicted payroll

schedule will not eliminate overpayments and, in fact, may increase overpayments since departments will have less time to determine the accuracy of employees' pay. Inevitably, there will continually be overpayment situations (i.e. leave without pay and terminations). Increased overpayments would require that departments utilize their limited resources to collect the overpayments which typically result from insufficient leave balances. The benefit of the payroll lag is that overpayments resulting from insufficient leave balances are typically caught before the payroll is processed.

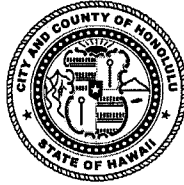
Finally, if this were to be enacted, we would request that sufficient time and resources be provided to DAGS and other departments to properly train and prepare for the change in payroll schedule. We recommend an effective date of predicted payroll date to be July 1, 2025 to allow for sufficient time to provide the necessary training, reconfigure the system, and conduct thorough testing prior to the transition.

Thank you for the opportunity to testify on this matter.

DEPARTMENT OF BUDGET AND FISCAL SERVICES
KA 'OIHANA MĀLAMA MO'OHELU A KĀLĀ
CITY AND COUNTY OF HONOLULU

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RICK BLANGIARDI
MAYOR
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ANDREW T. KAWANO
DIRECTOR
PO'O

CARRIE CASTLE
DEPUTY DIRECTOR
HOPE PO'O

February 6, 2024

The Honorable Scot Z. Matayoshi, Chair
The Honorable Andrew Takuya Garrett, Vice-Chair
and Members of the Committee on Labor and
Government Operations
State Capitol, Room 309
415 South Beretania Street
Honolulu, Hawai'i 96813

Dear Chair Matayoshi, Vice-Chair Garrett and Committee Members:

SUBJECT: Testimony Opposing House Bill 1908
Hearing: Thursday, February 8, 2024, 10:00 a.m., Room 309

The City and County of Honolulu (City) has serious concerns regarding House Bill 1908 (H.B. 1908), due to the potential impacts on the City's ability to pay employees timely and accurately. The bill will require a predictive payroll schedule rather than an after-the-fact payroll schedule.

The proposed change to a predictive payroll schedule would require employees to be paid on last day of each pay period (i.e. pay period 7/1/24-7/15/24 pay period would be required to be paid 7/15/24). The City's payroll process requires eight to eleven working days, depending on holidays. The process includes, but is not limited to, submitting and approving timesheets, processing changes to employee pay and/or deductions, reconciling leave use, reconciling payroll after closing and submitting the electronic net pay files to the banks for direct deposit. If the City is required to pay on a predictive schedule, it will be paying staff for time employees are scheduled to work at the end of the pay period which may not correspond to time actually worked. We anticipate this will lead to multiple overpayments and/or underpayments as well as errors in employee leave balances as reflected on their paystubs and in our payroll system.

The Honorable Scot Z. Matayoshi, Chair
The Honorable Andrew Takuya Garrett, Vice-Chair
and Members of the Committee on Labor and
Government Operations

February 6, 2024

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In addition, the proposed change in H.B. 1908 would also increase the City's costs as it will require the City to expend additional funds by hiring additional temporary staff to implement the change and to increase the cost of the contract with our Enterprise Resource Planning vendor to address the issues involved in implementing the change in the payroll schedule.

Finally, based on the time and effort to implement the change in payroll schedule, we will not meet the July 1, 2024 deadline set by H.B. 1908. Accordingly, we oppose H.B. 1908.

Thank you for the opportunity to testify on House Bill 1908.

Sincerely,

A handwritten signature in black ink, appearing to read "A. T. Kawano". The signature is stylized and cursive.

Andrew T. Kawano
Director



UNITED PUBLIC WORKERS

AFSCME Local 646, AFL-CIO

**HOUSE OF REPRESENTATIVES
THE THIRTY-SECOND LEGISLATURE
REGULAR SESSION OF 2024**

COMMITTEE ON LABOR & GOVERNMENT OPERATIONS

Rep. Scot Z. Matayoshi, Chair
Rep. Andrew Takuya Garrett, Vice Chair

Thursday, February 8, 2024, 10:00 AM
Conference Room 309 & Videoconference

Re: Testimony on HB1908 – RELATING TO PUBLIC EMPLOYEE COMPENSATION

Chair Matayoshi, Vice Chair Garrett, and Members of the Committee:

The United Public Workers, AFSCME Local 646, AFL-CIO (“UPW”) is the exclusive bargaining representative for approximately 14,000 public employees, which includes blue collar, non-supervisory employees in Bargaining Unit 1 and institutional, health, and correctional employees in Bargaining Unit 10, in the State of Hawaii and various counties.

UPW supports HB1908, which repeals payroll day for public officers and employees by requiring them to be paid pursuant to a predicted payroll schedule, rather than an after-the-fact payroll schedule.

Prior to 1998, all of Hawaii’s public employees were paid pursuant to a predicted payroll schedule. That conversion to an after-the-fact payroll schedule would ultimately establish the five-day pay lag that continues today. The switch from a predicted to an after-the-fact payroll schedule was touted by the Cayetano administration as a way to eliminate the recovery of overpayments made to public employees. At that time, the State had asserted that overpayment was such a pervasive problem that it was unable to recover substantial amounts.

In the 26 years since the implementation of the pay lag, advancements in banking procedures (e.g. electronic funds transfers) and the State’s considerable investment in the Hawaii Information Portal (HIP) should be able to address the State’s concerns from years past. We humbly ask you to pass this bill.

Thank you for the opportunity to provide testimony.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Kalani Werner', written over a light blue horizontal line.

Kalani Werner
State Director

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HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
AFSCME Local 152, AFL-CIO

RANDY PERREIRA, Executive Director • Tel: 808.543.0011 • Fax: 808.528.0922

The Thirty-Second Legislature, State of Hawaii
House of Representatives
Committee on Labor and Government Operations

Testimony by
Hawaii Government Employees Association

February 8, 2024

H.B. 1908 — RELATING TO PUBLIC EMPLOYEE COMPENSATION

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of H.B. 1908 which repeals the payroll lag for public employees by requiring them to be paid pursuant to a predicted payroll schedule, rather than an after-the-fact payroll schedule.

Over 20 years ago, then-Governor Ben Cayetano and his administration aggressively pursued a state payroll lag, citing budgetary concerns with an underlying threat to furlough and layoff government employees if the lag was not implemented. After much contention, the state implemented a two-week lag – the equivalent of one full pay period – over the course of several months. The Cayetano Administration sold the payroll lag as a temporary necessity to fix its budgetary woes, but the lag has remained intact for over two decades.

We respectfully argue that prompt payment of wages earned is sound fiscal policy which will result in funds expediently reaching employees' pocketbooks and money more quickly circulating in our economy. It is unreasonable to expect employees who perform overtime or newly hired employees who rely on their first paycheck to wait a full pay period and 5 additional days to be compensated for their work. This excessive delay in payment lowers the value of the wages earned.

We respectfully request a proposed amendment on Page 3 Line 1-2 to state, "The implementation of the predicted payroll shall be subject to negotiation under chapter 89". Employees should be afforded the opportunity to weigh-in on the day(s) that they receive their paychecks. Therefore, by including this amendment, this will ensure that the voices of employees affected by this payroll lag are heard through our ratification (voting) process.

Thank you for the opportunity to provide testimony in strong support of H.B. 1908.

Respectfully submitted,

Randy Perreira
Executive Director