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DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES | KA ʻOIHANA LOIHELU A LAWELAWE LAULĀ
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WRITTEN TESTIMONY
OF
KEITH A. REGAN, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE

COMMITTEE ON LABOR

FEBRUARY 11, 2025, 9:00 A.M.
CONFERENCE ROOM 309 AND VIA VIDEOCONFERENCE, STATE CAPITOL

H.B. 90

RELATING TO PUBLIC EMPLOYEE COMPENSATION.

Chair Sayama, Vice Chair Lee, and Members of the Committee, thank you for the opportunity to submit testimony on H.B. 90 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 for 2025-2027.

The Department of Accounting and General Services (DAGS) appreciates the opportunity to provide **comments** on this bill.

The Department of Accounting and General Services is concerned that this change in the law would prompt the entire State to change its current payroll process. This change will have a significant impact on the current payroll process.

Currently the State of Hawaii uses two pay groups: After-the-fact (ATF) and LAG. The end date of the pay period for the ATF and LAG groups are 15 days and five (5) days prior the pay advice date, respectively. To be compliant with the Bill's language, the State will be required to move all employees in each of the pay groups to a predicted payroll to meet the requirement to pay staff on the fifteenth and last day of each month.

Implementing predicted payroll would require reconfiguring the payroll system and impact all departments' processing schedules to accommodate the change for pay dates to be the fifteenth and last day of the month. Additional resources will be required for the State to transition to a predictive payroll schedule. This will include additional funding and staff to support the vendor costs associated with reconfiguration.

Predicted payroll would eliminate the payroll lag and require additional funds to be appropriated to adjust to the predicted payroll schedule. As an example, the total payroll for pay date February 5, 2025, was approximately $172 million. Additional payroll funding for the July 31, 2025 pay date would require an estimated $138 million and $12 million for the current after-the-fact and lag pay groups, respectively. 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, 2025 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 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, 2026 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.

UPW HAWAII

UNITED PUBLIC WORKERS

AFSCME Local 646, AFL-CIO

HOUSE OF REPRESENTATIVES
THE THIRTY-THIRD LEGISLATURE
REGULAR SESSION OF 2025

COMMITTEE ON LABOR
Rep. Jackson D. Sayama, Chair
Rep. Mike Lee, Vice Chair

Tuesday, February 11, 2025, 9:00 AM
Conference Room 309 & Videoconference

Re: Testimony on HB90 – RELATING TO PUBLIC EMPLOYEE COMPENSATION

Chair Sayama, Vice Chair Lee, 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 **strongly supports** HB90, 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 27 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.

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HAWAII GOVERNMENT EMPLOYEES ASSOCIATION
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The Thirty-Third Legislature, State of Hawaii
House of Representatives
Committee on Labor

Testimony by
Hawaii Government Employees Association

February 11, 2025

H.B. 90 — RELATING TO PUBLIC EMPLOYEE COMPENSATION

The Hawaii Government Employees Association, AFSCME Local 152, AFL-CIO strongly supports the purpose and intent of H.B. 90, 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.

Thank you for the opportunity to provide testimony in strong support of H.B. 90.

Respectfully submitted,

Randy Perreira
Executive Director