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**PRESENTATION OF THE
PROFESSIONAL AND VOCATIONAL LICENSING DIVISION**

TO THE HOUSE COMMITTEE ON ECONOMIC REVITALIZATION,
BUSINESS, AND MILITARY AFFAIRS

TWENTY-FIFTH STATE LEGISLATURE
REGULAR SESSION of 2009

Thursday, February 5, 2009
8:00 a.m.

**TESTIMONY ON HOUSE BILL NO. 1427, RELATING TO PROFESSIONAL
EMPLOYER ORGANIZATIONS.**

TO THE HONORABLE ANGUS L. K. MCKELVEY, CHAIR,
AND MEMBERS OF THE COMMITTEE:

My name is Celia Suzuki, Program Specialist of the Professional and Vocational Licensing Division, Department of Commerce and Consumer Affairs ("Department"). The Department appreciates the opportunity to testify on House Bill No. 1427, Relating to Professional Employer Organizations.

House Bill No. 1427 creates a new chapter to regulate professional employer organizations by having them register with the Department. Section 26H-6, Hawaii Revised Statutes, requires that new regulatory measures being considered for enactment be referred to the Auditor for a sunrise analysis before any measure is enacted. The statute further requires that the analysis shall set forth the probable effects of regulation, assess whether its enactment is consistent with the legislative

policies of the Hawaii Regulatory Licensing Reform Act, and assess alternative forms of regulation.

Further, for the Committee's information, regardless if the regulatory scheme is one of licensing, certification, or registration, as a new regulatory measure, a sunrise is required.

Therefore, the Department strongly supports a sunrise study on this measure, as mandated by law, before regulating professional employer organizations. Thank you for the opportunity to testify on House Bill No. 1427.



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February 3, 2009

Representative Angus L.K. McKelvey, Chairman
House Committee on Economic Revitalization, Business, & Military Affairs
Conference Room 312
State Capitol
415 South Beretania Street
Honolulu, Hawaii 96813

Re: Support for HB 1427 Relating to Registration of Professional Employer Organizations

Dear Representative McKelvey and Members of the Committee:

On behalf of the National Association of Professional Employer Organizations, (NAPEO),¹ I am writing to express support for House Bill 1427, a measure which requires professional employer organizations (PEOs) to register with the Department of Commerce and Consumer Affairs.

By way of background, Professional Employer Organizations are businesses that partner with existing small businesses to enable them to cost-effectively outsource the management of human resources, employee benefits, payroll and workers' compensation so that PEO clients can focus on their core competencies to maintain and grow their bottom line. By forming an employment relationship with these small businesses and their employees, PEOs are able to offer enhanced access to employee benefits that makes a small business of 10 feel like they are part of a company of 10,000.

Last year, NAPEO and our local members participated in an interim working group to discuss PEOs and their interaction with the workers' compensation insurance system specifically, and on a broader level, PEOs and their interaction with state government. During this discussion with members of the legislature, the insurance community and the PEO industry, the central theme of *transparency* continued to surface as a driver for further statutory clarification in the state of Hawaii. To date, 36 states across the country regulate the PEO industry through licensing and/or registration programs to provide a level of transparency to consumers and state agencies that regulate aspects of the PEO employment relationship including workers' compensation, unemployment insurance and welfare benefit plans.

¹ The National Association of Professional Employer Organizations (NAPEO) is a national trade association of the professional employer organization (PEO) industry, representing a membership that generates more than 90% of the industry's total PEO gross revenues.

NAPEO supports House Bill 1427 because it is consistent with the discussions that arose out of the interim working group to provide a necessary and consistent framework for registering and regulating PEOs located in and operating in Hawaii. Specifically, this bill will:

1. Require transparency through annual registration of all PEOs, both domestic and mainland, and ensure proper documentation is provided to the state (i.e. proof of workers' comp, unemployment insurance, etc.);
2. Ensure PEOs are financially solvent through annual financial disclosures to ensure that small businesses that partner with PEOs are not harmed;
3. Detail clear responsibilities of both the PEO and client to ensure consumers are aware of the rights and responsibilities involved in the PEO relationship;
4. Provide enforcement tools to punish and ban bad actors from doing business in the state.

NAPEO strongly supports both transparency through registration and regulatory frameworks that create minimum standards and operational requirements. This legislation provides clear and transparent rules for PEOs that will be helpful to small businesses that engage PEOs as well as providing the state with proper regulatory standards governing this important industry.

NAPEO firmly believes that this important legislation will help protect consumers, achieve greater efficiencies at the state regulatory level and lead to a more robust, competitive and compliant PEO industry in the state of Hawaii. We urge you to carefully consider this legislation and to vote in support. If you have any questions about this bill or NAPEO's views, please do not hesitate to contact me. Thank you for your consideration.

Sincerely,



Todd J. Cohn
Assistant Director, State Government Affairs

Cc: John Radcliffe, Radcliffe and Associates, LLC
Barron Guss, Altres HR