



LATE TESTIMONY



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February 4, 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 Professional Employment Organizations

Dear Representative McKelvey:

My name is Barron Guss, President and second-generation owner of ALTRES, Inc., a 40-year old Hawaii company. I am here today to testify in support of HB 1427, Relating to Professional Employment Organizations.

Background

Professional Employer Organizations act as the human resources and administrative arm of over 2,000 of Hawaii's small businesses. In this capacity, a PEO prepares payroll, provides workers' compensation, health insurance and enhanced lifestyle benefits to the employees of the clients they serve, which now numbers over 20,000.

For close to 30 years, ALTRES has been providing these services and promoting the benefits of the PEO relationship for Hawaii's businesses. Since that time, the industry has grown with a solid list of local providers of these services. In recent years, the Legislature has recognized PEOs with the passing of Act 225, which clarified the manner in which PEOs handle the monies they receive for distribution on behalf of their clients and employees as well as how the General Excise Tax is applied.

Why Registration

In Hawaii, we are very fortunate that the local PEO providers have been reputable and professional in the manner in which they conduct business, but this has not been the case in some areas of the mainland. PEO failures can have a negative impact on local government, businesses and their employees. It can come in the form of failure to pay taxes, including withholding, social security and retirement benefits, as well as sometimes creating a lapse in insurance coverage, leaving individuals to fend for themselves.

Traditionally, an industry asks for licensure and registration to protect its home turf and to provide a competitive advantage for its incumbent businesses. That's not true in this case, as in my 29-year history of promoting these services, I have come across businesses that have subscribed to the services of a mainland PEO only to discover that there has been no adherence to Hawaii State laws, including our pre-paid health act, TDI, as well using non-admitted carriers for workers' compensation insurance. Registration would allow Hawaii authorities to put these foreign businesses on notice for our requirements as well as ensure that Hawaii's businesses and their employees are protected from these bad faith providers.

Transparency

In last Session, there was a working group formed to study the current status of PEOs in the State and their effect, if any, on labor issues, insurance practices and general business issues. It was agreed that there were no issues with the industry locally, but the establishment of transparency and operational standards would be a prudent measure, given the past problems on the mainland. Currently, there are over 35 states that have adopted PEO registration and the National Association of Professional Employer Organizations (NAPEO) is working to ensure that the other 15 will not have to worry about exposure in this area.

The proposed Legislation calls for declaration of the PEO as well as adherence to certain operational standards, including audited financial statements, positive net worth, and proof of coverage for workers' compensation insurance. I would like to work with the various committees to strengthen the Bill to include proof of coverage for medical insurance, if applicable, as well as TDI.

Revenue Positive

NAPEO cites that over 25 of its current members claim to have employment relationships with persons in the State of Hawaii. It is important to note that there are a number of PEOs in the State that currently do not belong to NAPEO, as well as service providers that do not necessarily show up on the radar, bringing the potential number of service providers to more than 50.

There is currently a proposed \$1,500 service fee for each registration, bringing a positive financial impact of \$75,000 to the State.

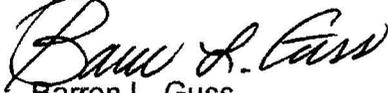
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Summary

Coming from an industry that stresses that its main benefit is to provide simplicity for business owners, it is ironic that I am asking for more government regulation and paperwork. However, I feel it is imperative that our industry and the State move toward creating an environment of transparency and accountability in the PEO industry.

Thank you for your consideration.

Sincerely,

A handwritten signature in cursive script that reads "Barron L. Guss".

Barron L. Guss
President and CEO

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