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February 24, 2016

To: The Honorable Jill N. Tokuda, Chair,
The Honorable Donovan M. Dela Cruz, Vice Chair, and
Members of the Senate Committee on Ways and Means

Date: Wednesday, February 24, 2016
Time: 1:15 p.m.
Place: Conference Room 211, State Capitol

From: Linda Chu Takayama, Director
Department of Labor and Industrial Relations (DLIR)

Re: S.B. No. 2544 S.D. 1 Relating to Professional Employer Organizations

I. OVERVIEW OF PROPOSED LEGISLATION

This proposal seeks to statutorily increase the fees imposed upon professional employer organizations (PEO) to generate sufficient revenues to entirely fund the cost to regulate PEOs. The bill proposes to establish the fee amounts by using a sliding scale based on the number of covered employees of a PEO.

DLIR supports the measure that could enable the department to implement the law as intended. DLIR notes the Governor's Supplemental Budget request includes one specialist position to support the PEO program.

II. CURRENT LAW

DLIR administers the PEO law and collects the following fees from PEOs: registration fees (initial) of \$500, biennial renewal fees of \$750, and restoration fees of \$1,500. During this biennial period (July 1, 2014 - June 30, 2016), the department collected \$34,250 in fees that were deposited into the general fund.

III. COMMENTS ON THE SENATE BILL

With the exception of two \$13,000 appropriations in FY 14 and FY 15 that passed through the department to assist the Department of Commerce and Consumer Affairs to process registration applications, the department receives no funding or

additional staffing to administer the PEO program. Currently, there are 49 registered PEOs. To fund the cost to the program, the department estimates the biennial cost to be \$315,338.

The department offers the following comments concerning the proposal:

- Section 373L-8 (Fees) (c) requires the collected fees go to the state general fund. Amending this section could allow the department to retain the fees in a special fund, which would directly tie fees to the support of the program. However, that would also require taking into account the fringe costs associated with any staffing.
- Section 373L-2 (Registration required) (c) states that PEO registrations shall expire on June 30 of each even-numbered year. This measure requires the PEO to report covered employee counts by June 1st of each year, effective January 1, 2017. Because this is an even-numbered year and the effective date is January 1, 2017, the program cannot be self-supporting through either general or special funds until the next renewal period (2018).
- After further research and analysis by the department of the sliding scale set by the previous committee, the sliding scale was found to be inadequate to support the estimated costs to run the PEO program. The department estimates that based on 30,000 estimated covered PEO employees in Hawaii, PEOs would need to pay approximately \$10.50 per covered employee on a biennial basis to fund the \$315,338 to run the program.



February 22, 2016

The Honorable Jill N. Tokuda
Chairman
Senate Committee on Ways and Means
Hawaii State Capitol, Room 207
Honolulu, HI 96813

Subject: SB2544, SD1

Dear Senator Tokuda:

My name is Barron Guss, President and second-generation owner of ALTRES, Inc., a 45-year old Hawaii company and Hawaii's original and oldest Professional Employer Organization (PEO).

I support the intent of SB2544, which is to enable the State to recover the costs associated with PEO registration. However, I do not agree with the DLIR's assessment of the cost of doing so. Following is some background information on PEO registration, and the process involved, to support my position.

I have been a supporter of PEO registration since the idea was first introduced at the legislature as early as 2010. The original bill was written to protect consumers and ensure compliance within the framework of the law. This was to be achieved through registration and a requirement that each PEO undergo an independent financial audit, as well as provide a bond in case of financial failure. The legislature presented such a law to the governor and, at the 11th hour, some PEO operators who could not necessarily withstand the scrutiny of an audit protested and, as a result, the enforcement and surety provisions were stripped from the bill.

Today, upon initial registration, the law only requires PEOs to register with the DLIR, provide proof of insurance, a minimal bond, and the names of its current customers. The ongoing monthly reporting requirement is only to provide the names of new and cancelled customers. It is important to note that once the names are reported the process ends for the DLIR. The PEO client database is only referenced when another division within DLIR needs confirmation if an employer is in fact covered by a PEO. As you can see from the preceding, this is nothing more than database management.

To give you an idea of the task at hand, the PEO industry serves approximately 4,000 employers in the State. I agree that initially it will take some effort to enter these names into the database, but because the law has already been in effect for more than one year, the State should already have a jumpstart on the process.

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Once the database has been updated, the monthly volume shouldn't take more than two or three days per month to maintain, and here's why. My company is one of the largest PEOs in the State and we usually do not report more than 15 to 20 new or cancelled customers per month. There are two more PEOs of similar size whose numbers are probably the same. The balance of the marketplace is composed of very small PEOs or mainland PEOs who have one or two customers in the market. If we were to be generous with our estimates, it wouldn't be farfetched to assume that there would be no more than 200 new entries and deletions per month to the database. Assuming that it could take as long as ten minutes per entry (and, realistically, it should take no more than two minutes) one could attribute 34 hours of work per month to maintain PEO registration and database.

In the DLIR's original testimony in front of Senator Baker, they stated that they would need two additional staff members at a budget of \$140,000 in order to fulfill the requirements of the law. In the most recent report, they now have asked for more than \$300,000 – more than double their original estimate - to perform the tasks I illustrated above, which would take one person no more than one week to perform. That leaves three more weeks per month for the DLIR to use this person's time any way they see fit, including tasks that may be revealed as they implement the process.

Fees

In order to create equity between large and small PEOs, SB2544 suggests the use of the following sliding scale:

<u>Less than 50 covered employees</u>	<u>\$6.00 per employee</u>
<u>50 – 250 covered employees</u>	<u>\$7.00 per employee</u>
<u>251 - 500 covered employees</u>	<u>\$8.00 per employee</u>
<u>501 or more covered employees</u>	<u>\$9.00 per employee</u>

It should be noted that in order for a PEO to be economically viable, it must have a minimum of 1,000 covered employees. Any PEO that is reporting less than 1,000 covered employees most likely derives its income from other sources of business or is from out of state.

Therefore, for the purposes of discussion, there are two types of PEOs – those local to Hawaii and those that are not. Since the equity discussion has always been based on making sure the "little guy" survives in the market, the "little guy" PEO with less than 250 employees is probably not from Hawaii and is most likely a large PEO from the mainland that simply has one client here.

Furthermore, since the current matrix designates a large PEO to be one with more than 500 employees, using the above illustration, it can be reasoned that the highest rates would apply to every Hawaii-based PEO. Therefore, it follows reason that the proposed rate matrix should be adjusted to reflect the actual market conditions. I offer the following:

<u>Less than 250 covered employees</u>	<u>\$? per employee</u>
<u>251 – 1,000 covered employees</u>	<u>\$? per employee</u>
<u>1001 – 5,000 covered employees</u>	<u>\$? per employee</u>
<u>5001 - or more covered employees</u>	<u>\$? per employee</u>

It should also be noted, as anyone who deals in administration knows, as size or volume increases, so do efficiencies of scale. Therefore, charging large PEOs more based on the concept of “fair share” doesn’t make sense. Therefore, the concept of charging a different rate based on size should be eliminated. In anticipation that the sliding scale will not be eliminated, the rate matrix should actually provide a reduction in the rate for large PEOs per covered employee rather than an increase.

Excessive Fees

As noted previously, the amount of money the State is attributing to the cost of PEO registration needs to be reviewed. Once the true cost is determined, it may simply not be possible for the PEO industry to take on the complete burden as suggested in this legislation.

If we were to follow the suggested fees as outlined in SD1, my company’s bi-annual registration would be more than \$126,000, excessive by any standard. Taking into account the other two large PEOs in the market, the three of us would shoulder a financial burden of approximately \$400,000 bi-annually to essentially cover the cost of one clerical employee managing a database one week out of a month.

To put this number into perspective, I have attached Addendum A, a spreadsheet showing PEO registration fees across the nation. South Carolina fees are the highest at \$1,500 for a single PEO and caps the rate at \$3,000 for multiple PEOs operating under one ownership group.

Data Gathering

When queried about how many covered employees there are in Hawaii, the DLIR testified that they have no way of knowing. They further stated that once the registration process is implemented, it plans to create yet another process by which each PEO will report (through attestation) this information annually, which will create additional paperwork, administrative expense and the possibility for non-compliance and fraud.

A better solution is for the State to access the information it already has in its possession. Every Hawaii employer files form UC-B6 (Quarterly Wage, Contribution and Employment and Training Assessment Report) which reports the wages and number of employees attributed to that employer within the quarter. For the purposes of determining what each PEO should pay for its fair share of registration, the State should tally the total number of employees as reported by the 49 registered PEOs on the UC-B6 and then divide this number into the total labor cost for

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the registration (to be determined) and the result will be an accurate cost per covered employee for PEO administration.

The True Cost of PEO Registration

The true cost of PEO registration – nothing! Here's why.

Imagine if the 4,000 businesses the PEO industry serves suddenly decided to revert back to employing their workforce directly and the following quarter they filed their UC-B6 forms directly, their proof of workers' compensation and TDI insurance directly, and their benefit information directly.

If maintaining a database of PEO customer's names requires four staff members and a budget of \$300,000, then managing the information from 4,000 individual employers would take a staff of 50 and one can only imagine the funding the DLIR would be requesting at the legislature.

PEOs save the taxpayers of Hawaii millions of dollars annually because the customers of PEOs are reported under one single UC-B6 form, one single Workers Compensation policy, one single TDI policy, and one single Health Insurance policy. This 'umbrella' style aggregation simplifies the business of employment administration for everyone, especially the DLIR, and the best part is that the cost for this simplicity is picked up by the PEO client companies.

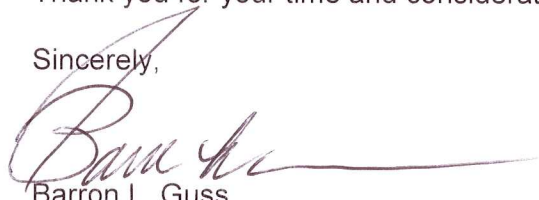
Time to Make Things Right

In conclusion, PEOs have a proven track record of improving compliance, improving employee welfare and benefits, reducing government overhead, making businesses more profitable and preserving workers' rights.

In our state, PEOs have worked tirelessly to gain acceptance from the local government and legislators through a legacy of transparency and communication. It's time to acknowledge our contributions by putting forth a registration fee schedule that is fair and appropriate.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in dark ink, appearing to read "Barron L. Guss", with a long, sweeping horizontal line extending to the right.

Barron L. Guss
President and CEO

BLG:lo

ADDENDUM A: PEO REGISTRATON FEES ACROSS THE NATION

State	Application Fee	Renewal Fee	Licensing Fee	Limited App Fee	Limited Renewal Fee	Limited License Fee	Other Fee
Alabama	\$1,000	\$500	\$0	\$500	\$250	\$0	
Alaska							
Arizona							
Arkansas	\$1,000	\$1,000	\$0	\$100	\$100	\$0	
California	\$Varies	\$Varies	\$0				
Colorado	\$500	\$500	\$0	\$0	\$0	\$0	NA
Connecticut	\$1,500	\$1,000	\$0	\$1,000	\$1,000	\$0	
Delaware	\$0	\$0	\$0	\$0	\$0	\$0	
							Fees vary for groups and time of year. Controlling Person License Fee: \$106.75
Florida	\$250	\$900	\$1,500	\$250	\$250	\$106.75	
Georgia	\$0	\$0	\$0	\$0	\$0	\$0	
							Restoration fee: \$1,500
Hawaii	\$500	\$750	\$0	\$0	\$0	\$0	
Idaho	\$0	\$0	\$0	\$0	\$0	\$0	'0
Illinois	\$1,000	\$1,000	\$0	\$0	\$0	\$0	
Indiana	\$500	\$250	\$0	\$250	\$250	\$0	
Iowa	\$0	\$0	\$0	\$0	\$0	\$0	
Kansas	\$1,000	\$1,000	\$0	\$500	\$500	\$0	
Kentucky	\$0	\$0	\$0	\$0	\$0	\$0	
Louisiana	\$500	\$300	\$0	\$0	\$0	\$0	
Maine	\$500	\$100	\$0	\$0	\$0	\$0	
Maryland	\$0	\$0	\$0	\$0	\$0	\$0	
Massachusetts	\$0	\$0	\$0	\$0	\$0	\$0	
Michigan	\$1,554	\$1,554	\$2,000	\$1,554	\$1,554	\$2,000	
Minnesota	\$110	\$0	\$0	\$0	\$0	\$0	
Mississippi	\$0	\$0	\$0	\$0	\$0	\$0	
Missouri	\$0	\$0	\$0	\$0	\$0	\$0	
Montana	\$750	\$750	\$0	\$500	\$500	\$0	
Nebraska	\$2,500	\$1,500	\$0	\$1,000	\$1,000	\$0	
Nevada	\$500	\$500	\$0	\$0	\$0	\$0	
New Hampshire	\$100	\$100	\$500	\$0	\$0	\$0	
New Jersey	\$0	\$0	\$0	\$0	\$0	\$0	
New Mexico	\$1,000	\$1,000	\$0	\$0	\$0	\$0	
New York	\$1,000 or \$500 per member	\$1,000 or \$500 per member	\$0	\$250	\$250	\$0	
North Carolina	\$1,000	\$1,000	\$0	\$1,000	\$0	\$0	

North Dakota	\$1,000	\$500	\$0	\$0	\$0	\$0	
Ohio	\$1,000 per PEO policy	\$250 per PEO policy	\$0	\$100	\$100	\$0	
Oklahoma	\$500 per PEO entity	\$250 per PEO entity	\$0	\$250 per PEO entity	\$250 per PEO entity	\$0	
Oregon	\$2,050 (2-year license)	\$2,050 (2-year license)	\$0	\$0	\$0	\$0	
Pennsylvania	\$0	\$0	\$0	\$0	\$0	\$0	
Rhode Island	\$500	\$250	\$0	\$0	\$0	\$0	
South Carolina	\$200 for Individual PEOs and \$300 for PEO Groups	\$1,500 for Individual PEOs and \$3,000 for PEO Groups	\$Varies based on year and type of application.	\$200 for Indiv. PEOs and \$300 for PEO Groups	\$500 for Individual PEOs and \$1,000 for PEO Groups	\$Varies based on year and type of application.	
South Dakota	\$0	\$0	\$0	\$0	\$0	\$0	
Tennessee	\$250	\$2,000 for Individual PEOs and \$2,000 for PEO Groups	\$2,000 for Individual PEOs and \$2,000 for PEO Groups	\$100	\$500 for Individual PEOs and \$1,000 for PEO Groups	\$500 for Individual PEOs and \$1,000 for PEO Groups	
Texas	\$200 for up to 249 employees, \$450 for up to 749 employees and \$700 for 750 or more employees	\$200 for up to 249 employees, \$450 for up to 749 employees and \$700 for 750 or more employees	\$Stated fees include \$150 application fee PLUS licensing fee	\$300	\$300	\$Stated fees include \$150 application fee PLUS licensing fee	Change reporting or reinstatement may required additional fees.
Utah	\$2,050	\$2,050	\$0	\$2,050	\$1,050	\$0	
Vermont	\$100 (plus licensing fee)	\$1,000	\$1,000	\$0	\$0	\$0	
Virginia	\$0	\$Annual assessment varies based on payroll	\$0	\$0	\$0	\$0	
Washington	\$0	\$0	\$0	\$0	\$0	\$0	
Washington DC	\$0	\$0	\$0	\$0	\$0	\$0	
West Virginia	\$300 per PEO	\$300 per PEO	\$0	\$200 per PEO	\$200 per PEO	\$0	
Wisconsin	\$75 per PEO or PEO Group	\$107 per PEO or PEO Group	\$0	\$75 per PEO or PEO Group	\$107 per PEO or PEO Group	\$0	
Wyoming	\$0	\$0	\$0	\$0	\$0	\$0	

**Testimony to the Committee on Ways and Means
Wednesday, February 24, 2016
1:15 p.m.
Conference Room 211**

**RE: SENATE BILL 2544 SD 1 - RELATING TO PROFESSIONAL EMPLOYER
ORGANIZATIONS**

Chair Tokuda, Vice Chair Dela Cruz, and Members of the Committee:

I. BACKGROUND

ProService Hawaii provides employee administration services to over 1,200 small businesses in Hawaii, representing over 22,000 employees in Hawaii. As a professional employer organization (PEO), we ensure that our clients remain compliant with Federal and State employment and labor laws, while allowing them to focus on their core business, providing needed and valuable services to the people and the economy of the State. In addition, we ensure that our clients' employees receive timely payment of wages, workers' compensation, TDI and benefits coverage. We also provide HR training and services, dispute resolution, and safety services to our clients and our clients' employees.

We support the efforts of this legislative body to regulate the PEO industry, as it is in this state's and our industry's best interests to have credible and complaint firms serving the community. Because of our belief that our clients deserve the peace of mind that they have contracted with reputable PEO, ProService has been voluntarily regulated by the Employer Services Assurance Corporation (ESAC), the gold standard for national independent oversight, auditing, and bonding, since 2006.

II. SB 2544 SD 1

- The current PEO registration law, HRS 373L is a consumer protection law; protecting Hawaii's businesses and our working families who depend on PEOs for payroll, health care, workers' comp coverage, and temporary disability insurance.
- SB 2544 SD 1 seeks to change the Biennial renewal fee from \$750 to a per employee fee ranging between \$6 and \$9 per employee based on the size of the PEO.

- The two largest PEOs in Hawaii – ProService Hawaii and Altres serve approximately a combined 20,000 employees.
 - Both ProService Hawaii and Altres would be subject to the \$9 per employee fee and would pay, at minimum, a combined \$180,000 based on the 20,000 employee count.
 - In reality the employee count would be much larger since the new “Report of employee count” section asks that employees who worked any hours during the period from May 1 of the prior year through April 30 of the year in which the report is made” is to be included in the employee count. This means that the \$9 fee would apply to brief hires, even working as little as one hour, which does not make sense. Including every single employee who worked at any time during the measurement period would increase the employee count by a minimum of 50%, making the amount paid by Altres and ProService Hawaii closer to \$270,000.
- The State DLIR has testified that the cost to administer the program is about \$300,000 over the biennial period. The DLIR, however, has not provided tangible proof to support that 300k figure. On its face, this seems to be very inflated amount. Since all PEOs renew during the same biennial period, and new PEOs are infrequent, the necessity of \$300,000 to review 49 PEO renewal packets once every two years seems high, especially as the work is shared with the Department of Commerce and Consumer Affairs. We encourage this legislative body to resolve an ongoing issue by looking for more efficiency from the administrative agency rather than just allocating more money without much scrutiny.
- The per employee fee is another tax on small businesses. Small businesses use PEOs as a way to reduce their costs, offer best-in-class benefits, and remain in compliance with wage and labor laws. By adding a per employee fee to PEOs, PEOs would be compelled to pass the fee along to their clients. The additional fee burdened by small employers could trickle down to impact their employees, in the form of decreased benefits, wages, and tough personnel decisions.
- There are lower cost ways to administer the program. A number of states utilize the Employer Services Assurance Corporation (ESAC) electronic registration system. To be registered with ESAC, a PEO must exceed all of the current Hawaii PEO registration requirements. If Hawaii were to use the ESAC electronic registration system, PEOs would apply for registration through the ESAC website, ESAC collects the registration

fees, and the fees and eligibility are transmitted to the State. Such a system would reduce the burden on our DCCA and DLIR, making the system more cost effective.

- We recommend that the DLIR investigate alternative registration methods and offer an accounting of the administration cost of the program before adding new fees that will unfairly burden small businesses.

Thank you for the opportunity to submit testimony.

February 23, 2016

Senator Jill N. Tokuda, Chair
Senator Donovan M. Dela Cruz, Vice Chair
Members of the Senate Committee on Ways and Means
Twenty-Eighth Legislature
Regular Session of 2016

RE: SB 2544, SD1 Professional Employer Organizations
Hearing date: February 24, 2016

Aloha Chair, Vice-Chair and Members of the Committee,

Thank you for allowing Hawaii Human Resources, Inc. (“HiHR”) to submit testimony in **OPPOSITION** to SB 2544, SD1 Relating to Professional Employer Organizations in its current form. HiHR assists its clients by administratively employing thousands of employees across the State of Hawai‘i. Founded in 2009, the HiHR is a local professional employer organization (“PEO”) that serves Hawai‘i’s business community by helping smaller employers with their human resource, payroll, employee insurance and benefits, healthcare, and other obligations.

PEO’s generally aim to make employment better for many of the thousands of employees in Hawai‘i who work for small employers. One way PEO’s do so is by providing “big-company” human resource services and benefits to small local businesses who can’t otherwise afford to offer a full suite of quality HR services. PEO’s are well positioned to help small employers with proper and timely compliance, best practices for coaching and counseling, retention and engagement initiatives, professional and vocational development, employee assistance programs, and more. Indeed, PEO’s assisting small employers with a large portion of their administrative and compliance burdens allows small employers to focus more on their core business functions, offer valuable training, and ultimately create more jobs.

As such, HiHR supports the intent of this bill, consistent with state policy, insofar as SB 2544, SD1 can be crafted to ensure that funds raised by PEO renewal registrations are directed at a clear and sensible regulatory scheme that uses those funds to promote and ensure a safe, honest, transparent, and healthy PEO industry in Hawai‘i. We are optimistic that workable and affordable regulations and funding are all possible with feedback and participation from the PEO industry and small businesses. At this stage, a number of initial issues regarding the scope, means, and funding of PEO regulation need to be identified and addressed.

For example, SB 2544, SD1 does not identify what exactly is contemplated beyond basic registration of PEO’s and their employees, as contemplated by HRS 373L. It would help to have more explanation or indication of what regulatory, enforcement, or tracking activities the proposed registration renewal fees are intended to fund. Does the total amount proposed cover anticipated salaries only? For what job functions? Registration set up and tracking costs? Software development costs? Investigation and enforcement costs?

Additionally, the fee scale in SB 2544, SD1 seems to overburden PEO’s helping more employees so it would help to explain how or why the number of employees a PEO serves administratively is expected to result in greater administrative costs for the Department. Without such specifics, it seems equally reasonable to conclude that PEO’s serving more employees would actually create cost-saving efficiencies for regulators.



Under the current version of Chapter 373L, Hawaii Revised Statutes, PEO's pay a biennial registration renewal fee of \$750. The renewal fees proposed under SB 2544, SD1 range from \$6.00 to \$9.00 per covered employee, based on the number of employees each PEO employs. This may seem reasonable at first glance until one considers that some PEO's who serve more employees will likely end up paying more than \$170,000 in registration renewal fees while smaller PEOs could only pay \$300 or less for the same registration renewal. Both PEOs will submit similar reports to the Department but PEO serving more employees will submit a report simply containing more employee names. Are there additional per-employee tasks or duties contemplated that justify charging a business a \$170,000 registration fee?

On another note, basing fee amounts on disproportionate sliding scales will result in a number of other unseen and seemingly inequitable consequences. PEO's serving more employees have generally invested more into the kind of compliance expertise and capacity that the Department surely wishes more small employer's had regular access to. Will high registration renewal fees inhibit PEO's from attempting to serve more employees? We hope careful and thoughtful precautions are taken before imposing renewal fees that will inadvertently inhibit the kind of PEO growth that leads to better compliance by small businesses.

From workers' compensation to wage and hour compliance; from disability laws to payroll tax regulations, from healthcare administration to compliance with Hawaii's non-discrimination laws, PEO's should be encouraged to expand their compliance assistance efforts across the marketplace and smaller PEO's need to grow their revenues in order to do so. The current fee schedule in SB 2544, SD1 will artificially increase the critical size needed for PEO's to be able to invest in the kind of compliance capacity and expertise small employers rarely have direct access to otherwise.

Another factor worth addressing at this point is how increasing registration renewal fees based solely on the number of employees served will increase the cost of regulating PEO's, triggering additional costs for compliance auditing and enforcement to ensure that PEO employee counts and reporting is done uniformly and properly. Those auditing and enforcement resources may be better directed at making small employers' worksites safer and more compliant.

The basic math of the fee structure proposed also calls a number of questions to mind. The fees anticipated by SB 2544, SD1 seem to exceed the biennial budget for regulating the 49 PEO's in the State, which is estimated to be about \$300,322. Further inquiry and clarification may be needed. The fee schedule proposed in SB 2544, SD1, however, given the reported employee numbers, should generate estimated fees around \$396,000 from the three PEO's largest alone.

Furthermore, the current amended version of the bill contemplates a per-employee fee for every employee who worked "any hours" for a PEO during the year. This general language seems to contemplate fees for even those employees who only work a few days and then quit or are terminated. The PEO, however, only realizes a tiny total administrative fee for that employee, far below the \$6-\$9 registration renewal fee that would be owed under the language currently contemplated.

Perhaps the legislature would be willing to contemplate a more straightforward and workable fee scale: a stepped fee range, for example. Instead of dealing with the many complicated, troubling, and ultimately costly issues associated with adopting a per-employee fee, the Department could simply charge a flat registration renewal fee of \$2,000 for PEO's reporting less than 50 employees with more than de minimus wage amounts to the DLIR's unemployment division under the PEO's DOL number; \$3,000 for PEO's reporting 50-250 employees; \$4,000 for PEO's reporting 251-500 covered employees; and \$5,000 for





PEO's reporting greater than 500 employees. Based upon the number of PEO's in Hawaii, adequate funds should be available to help ensure proper registration and tracking as is otherwise hinted at in SB 2544, SD1.

Proper regulation and sensible registration renewal fees are essential to ensuring all PEOs in the state are held to identical standards and encouraged to help ensure better workplaces for many. We hope the legislature and the Department are willing to work with PEO's who are well positioned to assist with achieving the mandate of ensuring safe, compliant, and fair worksites for the many thousands who work for Hawai'i's small employers. As it stands today, the funding and tracking scheme contemplated by SB 2544, SD1 will have adverse effects on the industry as a whole and gives little indication of how those burdens, ultimately laid at the doorstep of Hawaii's small employers, will help create a safer or more compliant work environment for Hawaii most valuable asset, it's people.

For these reasons, HiHR opposes SB 2544, SD1 in its current form. Mahalo for your consideration.

Sincerely,

Hawaii Human Resources, Inc.

A handwritten signature in black ink, appearing to read "Kalani A. Morse".

Kalani A. Morse, Esq.





National Association
of Professional Employer Organizations

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Alexandria, Virginia 22314

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February 23, 2016

Electronic Delivery

The Honorable Jill N. Tokuda
Chairman
Senate Committee on Ways and Means
Hawaii State Capitol, Room 207
Honolulu, HI 96813
sentokuda@capitol.hawaii.gov

Re: Senate Bill 2544

Dear Senator Tokuda,

On behalf of the members of the National Association of Professional Employer Organizations (NAPEO), I would like to express our opposition to Senate Bill 2544 and ask that you amend the bill so that it would enable the state to recover reasonable costs associated with the state's PEO registration statute. NAPEO is the largest trade association for PEOs, representing more than 300 PEO members' interests at all levels of government. We offer our comments in support of the comments proffered by Altres, Inc.

Industry background

PEOs 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 the PEO clients can maintain and grow their bottom lines. PEOs have a proven track record of improving compliance and reducing government overhead. By partnering with a PEO, a business is less likely to fail when compared to similar small businesses and is able to retain essential employees.

Licensing Fees in Other States

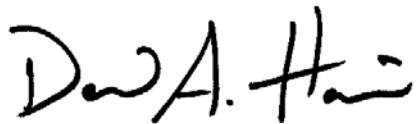
The sliding scale found in the most recent version of SB2544 would make Hawaii's PEO licensing renewal fees the highest in the nation by a wide amount. For instance, a PEO doing business in Hawaii that has 1,000 worksite employees would be required to pay \$9,000 bi-annually. Far more likely, a larger-sized PEO would pay much more to maintain the state's PEO registration program. This would be in stark contrast to a state like South Carolina, which caps its renewal fees at \$1500 per year for a single PEO, regardless of the amount of its worksite employees. Across the country, PEO renewal fees range from \$250 to \$2050 annually. It should also be noted that most PEO statutes nationwide require the overseeing agency in a

particular state to undertake far more activities to satisfy its duties to oversee the PEO industry in that state.

Further Conversation

We thank you for your consideration of our concerns. We look forward to working with you to ensure that Hawaii can continue to maintain its PEO program and that the state's registration fee schedule is reasonable. If you have any questions or need additional information, please feel free to contact me at dharris@napeo.org or 703-739-8173.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D.A. Harris". The signature is fluid and cursive, with the first name "Daniel" and last name "Harris" clearly distinguishable.

Daniel Harris
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