

Honolulu, Hawaii

FEB 18 2022

RE: S.B. No. 3128

S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-First State Legislature
Regular Session of 2022
State of Hawaii

Sir:

Your Committee on Labor, Culture and the Arts, to which was referred S.B. No. 3128 entitled:

"A BILL FOR AN ACT RELATING TO THE ADEQUATE RESERVE FUND,"

begs leave to report as follows:

The purpose and intent of this measure is to amend the definition of "Adequate Reserve Fund" for calendar years 2023 through 2030 to exclude the Benefit Cost Rate from June 2020 through August 2021.

Your Committee received testimony in support of this measure from the Department of Labor and Industrial Relations. Your Committee received comments on this measure from the Tax Foundation of Hawaii.

Your Committee finds that an employer's unemployment insurance tax rate is computed once a year using two factors: the employer's claim history, meaning the unemployment insurance benefits paid out to the employer's former employees over the years; and the applicable unemployment insurance tax rate for the year, categorized from Schedule A to Schedule H, with A being the lowest and H being the highest rate.

The unemployment insurance tax rate schedule for the year is calculated by dividing the balance of the Unemployment Compensation Trust Fund by the Adequate Reserve Fund. Thus, a



higher Adequate Reserve Fund will result in a higher tax rate schedule for employers. The Adequate Reserve Fund is determined by multiplying the highest Benefit Cost Rate during the ten-year period by the total amount of wages paid by all employers during the last four calendar quarters. Thus, a higher Benefit Cost Rate will result in a higher Adequate Reserve Fund, which in turn will result in a higher tax rate schedule. The Benefit Cost Rate is calculated by dividing the total amount of unemployment insurance benefits paid to unemployed individuals during a twelve consecutive month period by the total amount of wages paid by all employers. Therefore, if there is a period during which a significant amount of unemployment benefits was paid out, the Adequate Reserve Fund, and in turn, the tax rate schedule for employers will be inflated for the subsequent ten years.


Your Committee finds that the coronavirus disease 2019 (COVID-19) pandemic caused an unprecedented increase in Hawaii's unemployment rate, which resulted in the State paying out a significant amount of unemployment insurance benefits, leading to the depletion of the Unemployment Compensation Trust Fund in June 2020. As such, the tax rate for 2021 and 2022 were slated to increase to Schedule H, the highest tax rate; however, the Legislature prevented this spike by passing Act 1, Session Laws of Hawaii 2021, which set the tax rates for 2021 and 2022 at Schedule D. This measure excludes the Benefit Cost Rate from June 2020 through August 2021 from the calculation of the Adequate Reserve Funds for calendar years 2023 through 2030, which will stabilize the tax rate schedules for those years while Hawaii's economy recovers from the disruptions caused by the pandemic.

Your Committee has amended this measure by making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the record of votes of the members of your Committee on Labor, Culture and the Arts that is attached to this report, your Committee is in accord with the intent and purpose of S.B. No. 3128, as amended herein, and recommends that it pass Second Reading in the form attached hereto as S.B. No. 3128, S.D. 1, and be referred to your Committee on Ways and Means.



Respectfully submitted on
behalf of the members of the
Committee on Labor, Culture and
the Arts,



BRIAN T. TANIGUCHI, Chair



