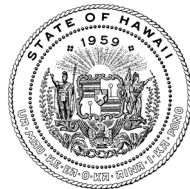


JOSH GREEN, M.D.
GOVERNOR



LUIS P. SALAVERIA
DIRECTOR

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EMPLOYEES' RETIREMENT SYSTEM
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BUDGET, PROGRAM PLANNING AND MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT

WRITTEN ONLY

TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 565, H.D. 1

February 27, 2023
10:00 a.m.
Room 308 and Videoconference

RELATING TO STATE SELF-INSURANCE AGAINST PROPERTY AND CASUALTY RISKS

The Department of Budget and Finance (B&F) offers comments on this bill.

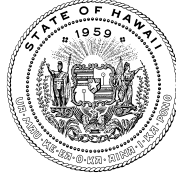
House Bill No. 565, H.D. 1, amends Chapter 41D, HRS, and does the following:

1) establishes the State Self-Insurance Against Property and Casualty Risks Special Fund (SSIAPCRSF) to be administered by the Comptroller to provide the State with self-insurance against the State's property and casualty risks; and 2) appropriates an unspecified amount of general funds to the Department of Accounting and General Services for FY 24 to be deposited into the SSIAPCRSF for the purposes of the bill.

B&F strongly recommends that an actuarial study be conducted prior to implementing a Statewide self-insurance mechanism in order to obtain informed estimates of the potential coverage, insurance expenses and costs to administer the SSIAPCRSF and to maintain adequate fund reserve. The proposed conversion from a third-party insurance to a fully self-insured coverage against the State's property and casualty risks is a major undertaking that may have long-term implications and exposure to financial risks for the State, so a careful analysis is needed.

Thank you for your consideration of our comments.

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



KEITH A. REGAN
COMPTROLLER
KA LUNA HO'OMALU HANA LAULĀ

MEOH-LENG SILLIMAN
DEPUTY COMPTROLLER
KA HOPE LUNA HO'OMALU HANA LAULĀ

STATE OF HAWAII | KA MOKU'ĀINA O HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES | KA 'OIHANA LOIHELU A LAWELAWĒ LAULĀ
P.O. BOX 119, HONOLULU, HAWAII 96810-0119

WRITTEN TESTIMONY
OF
KEITH A. REGAN, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE

COMMITTEE ON FINANCE

FEBRUARY 27, 2023, 10:00 AM
CONFERENCE ROOM 308 AND VIA VIDEOCONFERENCE, STATE CAPITOL

H.B. 565, H.D. 1

RELATING TO STATE SELF-INSURANCE AGAINST PROPERTY AND CASUALTY
RISKS.

Chair Yamashita, Vice Chair Kitagawa and Members of the Committee, thank you for the opportunity to testify on H.B. 565, H.D. 1.

The Department of Accounting and General Services (“Department”) provides the following **comments** on implementing a statewide self-insurance program to cover all lines of insurance coverages and eliminating the Comptroller’s discretion to purchase casualty and property insurance.

The Department appreciates the general intent to save the State the cost of its

annual insurance premiums by establishing and administering self-insurance coverage but has serious and grave concerns with the immediate conversion to a fully self-insured program.

As testified last session, without a formal and comprehensive study on the risks and costs involved with such an undertaking, we may be compromising the State's ability to manage risk exposure. The legislature concurred and an appropriation of \$150,000.00 in general revenues was authorized in Act 248, SLH 2022, for further analysis and consultation of a self-insurance program. A formal and comprehensive study on the risks and costs involved with immediate conversion to a fully self-insured program to the current Department insurance program is underway and estimated to be completed by September 2023.

The current statute allows for both insurance purchases and self-insurance as options, depending on insurance market conditions. We humbly and respectfully request that this option be preserved in order to protect the State against catastrophic losses and to minimize the total cost of insuring risk, as well as the ability to meet other insurance requirements and risk management considerations such as those related to FEMA reimbursement, procurement/financing agreements and credit rating agencies analysis on governance practices.

In summary, we appreciate the intent of this bill for total self-insurance as a cost-saving measure but, as mentioned, we have serious concerns regarding the risks and costs to the State without the benefit of further analysis and consultation. As such, we respectfully request that this measure be deferred until the study is complete.

Thank you for the opportunity to testify on this matter.