



EXECUTIVE CHAMBERS
HONOLULU

NEIL ABERCROMBIE
GOVERNOR

HOUSE FINANCE COMMITTEE
Representative Marcus Oshiro, Chair
Representative Marilyn Lee, Vice Chair

March 30, 2011
3:00 pm Room 308

Written Testimony in SUPPORT on SB 1270
Relating to the Hawaii Hurricane Relief Fund

Chair Oshiro, Vice-Chair Lee, members of the Finance Committee:

The Office of the Governor is in support of Senate Bill 1270 Senate Draft 2, Relating to the Hawaii Hurricane Relief Fund, and offers the following amendments:

We respectfully request that the entirety of the Hawaii Hurricane Relief Fund (HHRF) be authorized for deposit into the general fund to balance the State's budget. In addition, we respectfully request that this transfer be authorized for this fiscal year.

In light of yesterday's projections by the Council on Revenues (Council), and the fact that only 3 months remain in the current fiscal year, there is a need to have the ability to transfer the entire balance of the HHRF to the general fund to balance the budget for this fiscal year. Should revenues be more robust than the Council's projection, the Administration will not transfer the entire amount; however, we respectfully request the authority to do so.

Thank you for this opportunity to testify.

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON FINANCE
ON
SENATE BILL NO. 1270, S.D. 2

March 30, 2011

RELATING TO THE HAWAII HURRICANE RELIEF FUND

Senate Bill No. 1270, S.D. 2, appropriates an unspecified amount of funds from the Hawaii Hurricane Relief Fund (HHRF) into the general fund for FY 12 as a means to balance the State's budget and maintain the levels of programs determined to be essential for education, public health, and public welfare. It also requires that no less than an unspecified amount be retained in HHRF and that the funding transferred be reimbursed by the general fund under a schedule determined by the Director of Finance starting no later than FY 14.

We support the concept of this bill and ask that it be passed out of committee for continued discussion as a contingency. Please be advised that given the current fiscal condition of the State and the financial prospects available to the State to address the fiscal shortfall of this year, along with the available measures to address the deficits of the next fiscal years, the committee should consider that all funds within the HHRF may be required for appropriation.



NEIL ABERCROMBIE
GOVERNOR

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KEALI'I S. LOPEZ
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EVERETT KANESHIGE
DEPUTY DIRECTOR

TO THE HOUSE COMMITTEE ON FINANCE
TWENTY-SIXTH LEGISLATURE
Regular Session of 2011

Wednesday, March 30, 2011
2 p.m.

**TESTIMONY ON SENATE BILL NO. 1270, S.D. 2 - RELATING TO THE HAWAII
HURRICANE RELIEF FUND.**

TO THE HONORABLE MARCUS R. OSHIRO, CHAIR, AND MEMBERS OF THE
COMMITTEE:

My name is Gordon I. Ito, State Insurance Commissioner ("Commissioner"),
testifying on behalf of the Department of Commerce and Consumer Affairs
("Department"). The Department takes no position on this bill, which removes an
unspecified sum of money from the Hawaii Hurricane Relief Fund ("HHRF"). However,
the Department submits the following comments.

If there is a severe hurricane in Hawaii, there is a substantial likelihood that
HHRF must restart to provide hurricane insurance to Hawaii's homeowners. That role is
important not just because it will protect homeowner's from being forced placed at high
rates, but also because it will facilitate the mortgage lending and real estate businesses
in Hawaii. HHRF can help to prevent a severe economic downturn.

HHRF will need moneys to restart operationally. In addition, HHRF will need
moneys to buy reinsurance. If HHRF does not have money to buy reinsurance, then
HHRF could be substantially delayed when it tries to re-enter the market. We would
suggest that HHRF keep at least \$70 million for this purpose.

We thank this Committee for the opportunity to present testimony on this matter.

Hawaii Hurricane Relief Fund
335 Merchant Street #213
Honolulu, HI 96813

Twenty-Sixth Legislature
Regular Session of 2011

**TESTIMONY BEFORE THE HOUSE COMMITTEE ON
FINANCE**

Wednesday, March 30, 2011

Conference Room 308, 3:00 p.m.

To the Honorable Chair Marcus R. Oshiro and the members of the Committee:

My name is Lloyd Lim and I am the acting executive director of the Hawaii Hurricane Relief Fund Board ("HHRF") of Directors ("Board"). I am testifying on behalf of the Board against S.B. No. 1270, SD 2, which takes removes an unspecified amount of money from HHRF. The Board opposes any taking of moneys from HHRF.

The HHRF has been dormant since the end of 2002. For the eight years prior to that it provided hurricane insurance in Hawaii when private insurers were unwilling to do so. This not only protected homeowners from being forced placed in the unregulated surplus lines market, but also enabled the mortgage lending and real estate industries to continue doing business, thus helping the overall economy. The HHRF stands ready to return to the market if another hurricane insurance scarcity arises due to a large hurricane in Hawaii or other catastrophic event worldwide that affects the reinsurance market.

Although we cannot say when the next hurricane will occur, we do know that one will occur. It is a not a question of "if", but "when" because Hawaii faces a perennial risk of hurricanes.

When the HHRF was active, it insured about two thirds of the residential homeowner's market. This represents a very large exposure. A direct hit on Oahu presents a particular problem because of density of the construction. It is for this reason that the HHRF Board has in the past opposed any taking of principal.

In addition, there are costs associated with maintaining the HHRF because we do an annual audit, perform accounting on licensed software, hire an investment manager, and maintain records.

There are costs associated with restarting HHRF that should also be considered. A substantial amount of amount should be set aside for this purpose which includes the purchase of reinsurance. Without money to purchase reinsurance in the first year, HHRF

cannot restart quickly.

Also, one should consider whether HHRF should have some reserve so that it does not have to insure the public with de minimis assets.

In general, because we do not know when the HHRF will restart, there is substantial uncertainty with respect to the risk that HHRF will face and the cost of reinsurance in the then existing market. This uncertainty and the long term inflation in home values should be factored into any amount set aside for restart. The more flexibility that we can give the HHRF Board of the future, the better able they will be to make good business decisions in the best interests of the people of the State of Hawaii.

We thank this Committee for the opportunity to submit testimony and ask that this bill be held.



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March 30, 2011

The Honorable Marcus R. Oshiro, Chair

House Committee on Finance

State Capitol, Room 308

Honolulu, Hawaii 96813

RE: S.B. 1270, S.D. 2, Relating to the Hawaii Hurricane Relief Fund

HEARING: Wednesday, March 30, 2011, at 3:00 p.m.

Aloha Chair Oshiro, Vice Chair Lee and Members of the Committee:

I am Myoung Oh, Government Affairs Director of the Hawai'i Association of REALTORS® ("HAR"), the voice of real estate in Hawai'i, testifying on behalf of its 8,500 members. HAR **opposes** S.B. 1270, S.D. 2, which: (1) appropriates funds for the housing placement program within the homeless programs office of the Department of Human Services (DHS); (2) appropriations funds to improve the existing public and affordable rental housing stock and increase public and affordable rental housing units in the State; and (3) requires DHS to immediately implement the housing first program.

On September 11, 1992, Hurricane Iniki struck Kaua'i, causing \$1.6 billion in damage. The devastation caused by Iniki left many insurance companies unable to obtain reinsurance, which rendered them incapable of providing insurance to the people of Kaua'i. Numerous real estate transactions were stalled or fell through as a direct result, leaving prospective homeowners and renters of investor-owned properties in limbo. Many parties, including HAR, worked on the formation of the HHRF during the 1993 legislative session.

Three revenue sources built the HHRF: (1) premiums from hurricane property insurance policies; (2) assessments from insurance companies; and (3) special mortgage recording fees paid by mortgagees/homeowners who did not pay cash for their property. In July 2001, the State stopped collecting the special mortgage recording fee.

HAR believes that in the unforeseeable future, should a severe hurricane strike Hawai'i, the HHRF should have appropriate funds in order to restart the HHRF. These funds will allow the HHRF to provide hurricane insurance, in a timely fashion, to Hawaii's homeowners for reinsurance.

Based upon the need to maintain funds in the HHRF, HAR would ask this Committee to retain a balance of at least \$70,000,000, as indicated by the State Insurance Commissioner, if any appropriation is made from the HHRF.

Mahalo for the opportunity to testify.

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