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TESTIMONY BY LUIS P. SALAVERIA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON WATER & LAND
ON
HOUSE BILL NO. 2378

February 1, 2024
9:00 A.M.
Room 430 and Videoconference

RELATING TO THE HURRICANE RESERVE TRUST FUND

The Department of Budget and Finance (B&F) strongly supports H.B. 2378, an Administration bill to move the Hurricane Reserve Trust Fund into the State Treasury. This measure also makes a housekeeping amendment to repeal an obsolete portion of section 237-31, HRS, that related to the replenishment of funds transferred from the Hurricane Reserve Trust Fund in 2011.

The state treasury maintains an investment pool consisting of participating state accounts. Funds within the state treasury are prudently managed to achieve the investment objectives of safety, liquidity, and yield, in priority order. The investment pool also enables the achievement of economies of scale for the effective and efficient management of funds and enhances the State's liquidity position.

Presently, under section 431P-16, HRS, the Hurricane Reserve Trust Fund is established outside the state treasury under the direction of a board. Although established outside the state treasury, by statute, interest earned from the principal in the Hurricane Reserve Trust Fund is transferred and deposited into the general fund each year.

The amount of interest earned from the principal in the Hurricane Reserve Trust Fund and deposited to the general fund has fluctuated over the years. For the past several years, the fund has been invested by a bank trust division and operations have been dormant. At this time, it would be in the State's best interest to place the Hurricane Reserve Trust Fund within the state treasury. The transfer will also align investment objectives as the interest on the principal belongs to the general fund.

Following discussions with the Department of Commerce and Consumer Affairs, which administers the Hurricane Reserve Trust Fund, B&F is proposing minor amendments to section 2 of the bill as follows:

Page 2, line 17, through page 3, line 11, should be amended to read as follows:

SECTION 2. Section 431P-16, Hawaii Revised Statutes, is amended by amending subsection (a) to read as follows:

"(a) The fund shall establish [~~outside the state treasury~~] a hurricane reserve trust fund and any accounts thereunder and any other trust fund or account necessary to carry out the purposes of this chapter. Moneys deposited in the hurricane reserve trust fund and any accounts thereunder or any other trust fund or account shall be held by the fund, as trustee, in a depository as defined in section 38-1 or according to a similar arrangement [~~at the discretion of the board,~~] including, but not limited to, trust or custodial accounts created for the benefit of the fund's secured parties under contractual claims financing arrangements. [~~These moneys may be invested and reinvested in accordance with the plan of operation.~~] Disbursements

from the trust funds shall not be subject to chapter 103D and shall be made in accordance with procedures adopted by the board."

Thank you for your consideration of our comments.

JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA



KENNETH S. HARA
DIRECTOR OF EMERGENCY
MANAGEMENT

JAMES DS. BARROS
ADMINISTRATOR OF
EMERGENCY MANAGEMENT

STATE OF HAWAII
KA MOKU'ĀINA O HAWAI'I
DEPARTMENT OF DEFENSE
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STATE OF HAWAI'I
DEPARTMENT OF DEFENSE
HAWAI'I EMERGENCY MANAGEMENT AGENCY

TESTIMONY ON HOUSE BILL 2378,
RELATING TO EMERGENCY MANAGEMENT

BEFORE THE HOUSE COMMITTEE ON
WATER & LAND

BY

JAMES DS. BARROS
ADMINISTRATOR
HAWAI'I EMERGENCY MANAGEMENT AGENCY

FEBRUARY 1, 2024

Aloha Chair Ichiyama, Vice-Chair Poepoe, and Members of the Committee:

Thank you for the opportunity to submit testimony to **SUPPORT** HB2378.

The response provided by the State of Hawai'i following the devastating August wildfires on Maui identified immediate challenges presented by an emergency. HI-EMA strongly **SUPPORTS** HB2378 for its guidance concerning establishment of an actionable fund to be used before, during, and after a hurricane. Maintaining a \$5,000,000 buffer from the general excise tax revenues offers emergency managers an immediate source of crucial funding to access when time is critical.

HI-EMA also supports placing this money in investment accounts to assure it is working for the benefit of the state provided that its passage does not replace or adversely impacts priorities indicated in the Executive Budget.

We encourage passage of this measure as another monetary tool available in the event of emergencies.

Thank you for the opportunity to provide testimony on House Bill 2378.

James Barros: james.barros@hawaii.gov; 808-733-4300

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 305

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: GENERAL EXCISE, Earmark to Hurricane Reserve Trust Fund

BILL NUMBER: HB 2378, SB 3067

INTRODUCED BY: HB by SAIKI; SB by KOUCHI (Governor's Package)

EXECUTIVE SUMMARY: Moves the Hurricane Reserve Trust Fund into the State Treasury and deletes the earmark on the General Excise Tax that is meant for the Fund.

SYNOPSIS: Amends section 237-31, HRS, to delete earmarks (2) and (3) from the general excise tax. These earmarks now read as follows:

(2) A sum from all general excise tax revenues realized by the State that is equal to one half of the total amount of funds appropriated or transferred out of the hurricane reserve trust fund under sections 4 and 5 of Act 62, Session Laws of Hawaii 2011, shall be deposited into the hurricane reserve trust fund in fiscal year 2013-2014 and in fiscal year 2014-2015; provided that the deposit required in each fiscal year shall be made by October 1 of that fiscal year; and

(3) Commencing with fiscal year 2018-2019, a sum from all general excise tax revenues realized by the State that represents the difference between the state public employer's annual required contribution for the separate trust fund established under section 87A-42 and the amount of the state public employer's contributions into that trust fund shall be deposited to the credit of the State's annual required contribution into that trust fund in each fiscal year, as provided in section 87A-42.

Amends section 431P-16, HRS, to delete the requirement that the hurricane reserve trust fund be outside the state treasury.

EFFECTIVE DATE: Upon approval.

STAFF COMMENTS: We are concerned that the deletion of earmark (3) from section 237-31, HRS, is beyond the title of this bill, "Relating to the Hurricane Reserve Trust Fund." The third earmark has nothing to do with the Hurricane Reserve Trust Fund and, instead, has to do with actually required contributions to the state and municipal governments' OPEB post-employment benefits for retired government employees. At a minimum, the bill should be amended to restore present earmark (3).

Digested: 1/30/2024

TESTIMONY OF ALISON UEOKA

COMMITTEE ON WATER & LAND
Representative Linda Ichiyama, Chair
Representative Mahina Poepoe, Vice Chair

Thursday, February 1, 2024
9:00 a.m.

HB 2378

Chair Ichiyama, Vice Chair Poepoe, and members of the Committee on Water & Land, my name is Alison Ueoka, President for Hawaii Insurers Council. The Hawaii Insurers Council is a non-profit trade association of property and casualty insurance companies licensed to do business in Hawaii. Member companies underwrite approximately forty percent of all property and casualty insurance premiums in the state.

Hawaii Insurers Council **opposes** this bill. This bill moves the Hurricane Reserve Trust Fund into the State Treasury. We believe the amount in the fund is approximately \$180 million. Hawaii is experiencing extremely challenging issues regarding property insurance and one of them is the very high cost of hurricane reinsurance. Global insured disaster losses exceeded \$100 billion in 2023. As a result, hurricane reinsurance capacity for Hawaii is less and the cost is much higher. Because of this, we estimate there are approximately 400 condominium buildings that are severely underinsured for hurricane coverage. The consequence of a condominium building not being insured for hurricane coverage up to the building's value means that Fannie Mae and Freddie Mac will not purchase unit mortgages of these buildings. Without purchasers in the secondary mortgage market, there will be limited lending on those buildings and transactions may be limited to only those who can purchase a condominium unit with cash. The Hawaii Hurricane Relief Fund (HHRF) could fill this gap in coverage and

help to stabilize the insurance market for these condominiums. If the HHRF is reactivated, monies will be needed to capitalize the fund.

In addition to the present need for hurricane coverage for some condominium buildings, we anticipate there may be a further need for hurricane coverage for single family homes as one insurer for hurricane coverage has recently left Hawaii. There is a bill in this Legislature, HB 2686 that will enable the HHRF and Hawaii Property Insurance Association to respectively reactivate and expand to meet this need.

We believe the Hurricane Reserve Trust Funds should be used to capitalize the HHRF to meet the needs of Hawaii's citizens and to help stabilize the insurance marketplace in Hawaii.

We ask that this bill be held. Thank you for the opportunity to testify.