

LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR



KURT KAWAFUCHI
DIRECTOR OF TAXATION

SANDRA L. YAHIRO
DEPUTY DIRECTOR

STATE OF HAWAII
DEPARTMENT OF TAXATION
P.O. BOX 259
HONOLULU, HAWAII 96809

PHONE NO: (808) 587-1510
FAX NO: (808) 587-1560

SENATE COMMITTEE ON ECONOMIC DEVELOPMENT & TAXATION

TESTIMONY REGARDING SB 3013 SD 1 RELATING TO LOSS MITIGATION

TESTIFIER: KURT KAWAFUCHI, DIRECTOR OF TAXATION (OR DESIGNEE)
DATE: FEBRUARY 12, 2008
TIME: 1:15PM
ROOM: 224

This legislation, among other things, provides a nonrefundable income tax credit for the installation of wind-resistive devices.

The Senate Committee on Commerce, Consumer Protection & Affordable Housing made technical nonsubstantive amendments to the measure unrelated to the tax credit.

The Department of Taxation (Department) supports this Lingle-Aiona Administration.

I. PROVIDING INCENTIVES TO REDUCE LOSSES IS IMPORTANT.

The Department very much supports this measure and the pursuits by the Insurance Commissioner in providing incentives to the insurance and other loss mitigation industry participants by encouraging homeowners to purchase devices that will prevent property loss during events, such as natural disasters. Natural disasters are unpredictable events. For homes and other structures, the best time to make improvements to these structures is when construction is occurring. This legislation will encourage homebuilders to make improvements to reduce the devastation that can occur during natural disasters.

II. TECHNICAL COMMENTS.

The Department strongly prefers the approach taken in this bill for the following reasons:

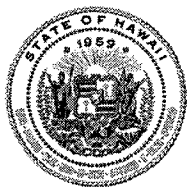
DETERMINATION OF APPROPRIATE DEVICES—This legislation allows the Department to make rules, which have the force and effect of law, without effect to Chapter 91. This allows flexibility to allow credits based upon technological or other advances in the loss mitigation wind resistive device industry.

APPROVAL OF INSURANCE COMMISSIONER—The Department is not an expert in which devices are most appropriate. The Department would rather defer to experts, such as the Insurance Commissioner. Provisions are provided in this bill to allow the Insurance Commissioner to review applications for the credit to ensure proper approval of credits. The Department partners with other state agencies to issue other types of credits, depending upon the expertise involved.

III. REVENUE IMPACT

This legislation will result in a revenue loss of approximately \$4 million per year.

It was assumed that the number of new homes built in 2009 will be roughly the same as built today. There were 6912 housing starts in 2007. We assume a 33% adoption rate, with an average expenditure of \$5,000 per house. With a tax credit of percentage, the revenue impact is $(6912 \text{ housing starts}) \times (33\% \text{ adoption rate}) \times (\$5000) \times (35\%) = \$4.0 \text{ million}$.



LINDA LINGLE
GOVERNOR
JAMES R. AIONA, JR.
LT. GOVERNOR

STATE OF HAWAII
OFFICE OF THE DIRECTOR
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 310
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: (808) 586-2850
Fax Number: (808) 586-2856
www.hawaii.gov/dcca

LAWRENCE M. REIFURTH
DIRECTOR
RONALD BOYER
DEPUTY DIRECTOR

TO THE SENATE COMMITTEE ON
ECONOMIC DEVELOPMENT AND TAXATION

TWENTY-FOURTH LEGISLATURE
Regular Session of 2008

Tuesday, February 12, 2008
1:15 p.m.

**TESTIMONY ON SENATE BILL NO. 3013, S.D. 1 – RELATING TO LOSS
MITIGATION**

TO THE HONORABLE CAROL FUKUNAGA, CHAIR, AND MEMBERS OF THE
COMMITTEE:

My name is J. P. Schmidt, State Insurance Commissioner, testifying on behalf of the Department of Commerce and Consumer Affairs (“Department”). The Department opposes this bill which relates to the State’s hurricane loss mitigation grant program. The purpose of the grant program is to reduce potential loss from hurricane or other wind damage by giving individuals an incentive to retrofit their property with wind resistive devices.

There is an ambiguity created by this bill and the related standing committee report. Standing Committee Report No. 2046 states that the purpose of this bill is to supplement the loss mitigation grant program by adding on a hurricane retrofit tax credit. However, Section 2 of the bill states that funding for the grant program is to continue until the tax credit becomes available, which suggests that the tax credit is to replace the grant program as was contemplated by the original S.B. 3013. This ambiguity should be cleared up.

If the purpose of this bill is to add a tax credit of 35 percent of the cost of the retrofit to the present 35 percent grant, it would create a total subsidy of 70 percent.

DCCA Testimony of J.P. Schmidt
S. B. No. 3013, SD 1
February 12, 2008
Page 2

We believe this subsidy may be excessive because it could produce very high utilization and prohibitively high program costs to the State. For example, we estimate that there are 240,000 single family homes perhaps 85 percent of which need retrofits. If the average subsidy was \$2,000 and the utilization was 50 percent, the total cost to the State would be \$204 million dollars. We urge the Committee to consider whether this kind of expenditure can be sustained given all the other priorities facing the State government.

It should also be pointed out that the \$500,000 appropriated for the grant program expenditure in 2008-2009 is likely to be insufficient if a 70 percent total subsidy is maintained because of the increased utilization.

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

TESTIMONY OF T.R. BONGARTZ of Hawaii Security Shutters, Inc.

(EDT) Senate Committee on Economic Development and Taxation: Tuesday February 12, 2008. Room 224, 1:15 pm Re: SENATE BILL 3013 SD1 –RELATING TO LOSS MITIGATION - Chair Fukunaga, Vice Chair Espero, and Members:

My name is T.R. Bongartz. I am a small business owner selling hurricane protection products for ten years in Hawaii. I am in very strong support of the Loss Mitigation Grant Program, Act 179, and therefore, I am strongly opposed to this new legislation.

We do not need another Bill. We just need to revitalize and improve the present Grant Program in the following areas:

1. Advertise and Promote the program so that folks know there is an incentive for them to protect their homes and property. Then get rid of the verbiage on the DCCA website that states that there may be no money available for their grant application even if their grant is approved. That to me is just a “scare tactic” to influence folks not to bother to protect their homes or apply for the grant money. The Insurance Division knows they are only granting a portion of the approved funding so why try and dissuade the public? That type of verbiage is typical of what I perceive to be an overall negative and lets make this program so difficult attitude of DCCA that no one will bother to use the Grant Program.

2. Increase the incentive from the present 35% to 50% and increase the cap to at least \$6000, or Florida’s level at a minimum. The average cost to protect the windows and doors of a **small single family** home is around \$12,000. Two story homes cost over \$17,000.

3. Make the present Grant Program more responsive to the public in the area of “approved products”. At present, homeowners cannot obtain their Grant money as only about five products have been approved by Mr. Gary Chock, the contract engineer for DCCA. For example, I have spent over \$20,000 protecting the doors and windows on my home, but my application for a measly \$2100 grant was rejected as the products were not “pre-approved” by DCCA. Does DCCA really think that homeowners will spent such large sums of money to protect their homes on products that are not approved or rated as hurricane protection products? The fact of the matter is that the State of Florida has already approved hundreds of hurricane products that can be used to protect homes here in Hawaii. One simply has to go to www.floridabuilding.org to determine if a hurricane product has been approved, and that should be the only requirement needed for DCCA to approve the Grant Money.

Thank you for the opportunity to present this testimony

Senate Committee on Economic Development and Taxation
Tuesday February 12, 2008. Room 224. 1:15 pm
Testimony on SENATE BILL 3013 SD1 -- RELATING TO LOSS MITIGATION
Testimony offered by Michael P. Hamnett

Chair Fukunaga, Vice Chair Espero, and Members

My name is Michael Hamnett. I am Executive Director of the Research Corporation of the University of Hawaii, a researcher in Social Science Research Institute at the University of Hawaii, and chair of the Statewide Hazard Mitigation Forum. However, I am testifying on my own behalf.

I strongly support reauthorization of funding for the hazard mitigation grant program originally funded through Act 179, Disaster Emergency Preparedness Act of 2005. Such programs are going to be critical in reducing the risk of future catastrophic losses from future hurricanes and avoiding an insurance crisis like that experienced after Hurricane Iniki in 1992.

While I feel that a shift from matching grants to tax credits as proposed in SB 3013 SD 1 has its merits, such a change will provide no incentives to older lower income residents who pay little or no taxes.

I also strongly support a very aggressive public education and awareness conducted by the Insurance Division would greatly enhance the cost effectiveness of the loss mitigation grant program. Such a program would have undoubtedly resulted in much greater participation in the existing grant program. The appropriation authorized through this bill should include adequate funds for such an effort.

Funds authorized through this legislation should also be allocated for operating money for the hurricane protective devices testing facility, as a joint venture between State Civil Defense and the University of Hawaii and previously funded by the legislature.

Thank you for the opportunity to provide our testimony.

Michael P. Hamnett

testimony

From: Ian Robertson [ianrob@hawaii.edu]
Sent: Monday, February 11, 2008 11:59 AM
To: testimony
Cc: Sen. Carol Fukunaga; Sen. Will Espero
Subject: Testimony on SB3013, SD1, hearing before EDT, Feb 12, 2008

TO: Senate Committee on Economic Development and Taxation

FROM: Ian Robertson, President of the Structural Engineers' Association of Hawaii, SEAOH

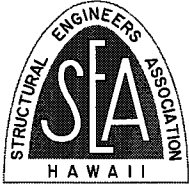
RE: Testimony on SB3013 SD1 at EDT hearing on February 12, 2008.

The attached written testimony is submitted on behalf of the Structural Engineerings Association of Hawaii regarding the Senate Bill SB3013 SD1 hearing on Feb. 12, 2008.

I will also be present to provide oral testimony on behalf of SEAOH.

Regards
Ian Robertson

Ian N. Robertson, Ph.D., S.E.
Professor
Dept. of Civil and Environmental Engineering University of Hawaii at Manoa 2540 Dole
Street, Holmes Hall 383 Honolulu, Hawaii 96822
email: ianrob@hawaii.edu
Phone: (808) 956-6536
Fax: (808) 956-5014



STRUCTURAL ENGINEERS ASSOCIATION OF HAWAII

P.O. Box 3348, Honolulu, Hawaii 96801

www.seaoh.org

February 12, 2008

TO: State of Hawaii – Senate
Committee on Economic Development and Taxation (EDT)
State Capitol, Conference Room 224

SUBJECT: **SB3013, SD1 - Relating to Loss Mitigation**
Hearing Date: Tuesday, February 12, 2008, 1:15 PM.

ATTENTION: Chair Fukunaga, Vice Chair Espero, and Members of the Senate Committee on Economic Development and Taxation (EDT)

The Structural Engineers Association of Hawaii (SEAOH) has an ongoing role in the development of improvements to building codes relating to seismic and hurricane resistant design of new structures. Most existing Hawaii residences, including a predominant proportion of those built prior to 1995, lack adequate resistance to hurricanes and earthquakes. The Loss Mitigation Grant Program has only been in effect for two years, and it is finally gaining momentum among homeowners on all islands. SEAOH has supported the Loss Mitigation Grant program, and in the aftermath of the 2006 Kiholo Bay earthquake we also support SB2783 "Relating to Loss Mitigation", which proposes the addition of Earthquake Resistive devices to the grant program. Ian Robertson, President of SEAOH, also serves as chair of the Hawaii State Earthquake Advisory Committee (HSEAC) of State Civil Defense.

SEAOH opposes SB3013 SD1 in its current draft, which proposes a tax credit in addition to the Loss Mitigation grant, unless the following flaws can be addressed in an amended bill:

1. Changing the program at this stage should not add bureaucratic complexity and conflicting responsibilities. SB 3013 SD1 would require the director of taxation to solely determine and issue technical specifications for the wind resistive devices, while HRS 431:22 requires the insurance commissioner to solely determine and issue the technical specifications for wind resistive devices in the Loss Mitigation Grant Program. There should only be the one set of technical specifications developed and issued by the insurance commissioner. A grant approval by the insurance division should be necessary and sufficient to qualify for the tax credit. We note that the 2007 Legislature added residential safe rooms to the Loss Mitigation Grant Program administered by the insurance commissioner, and the 2008 Legislature should not hastily shift the development of technical specifications from department to department.
2. The exclusion of condominiums from the tax credit program conflicts with the Loss Mitigation Grant Program that has encouraged retrofits at condominiums. People living in condominium residential units are equally at risk as those in individual residences and should also be encouraged to mitigate against natural disasters.
3. A tax credit program by itself may unintentionally discriminate against fixed-income elderly and lower income homeowners who would not immediately benefit as much as others. These are also the individuals more likely to occupy older homes requiring mitigation against natural disasters. The grant program should be continued, since a grant program provides financial relief to the homeowner immediately after paying for the mitigation work, as opposed to the delayed relief offered by a tax credit. The grant program also provides technical support to public inquiries about wind retrofits, which the tax credit would certainly lack.
4. Under the Loss Mitigation Grant Program, the Department of Commerce and Consumer Affairs is allowed expenditures to promote the grant program to the public. These activities are not included in what can be expended for the proposed tax credit program. It is crucial for the success of this loss mitigation effort that a coordinated public education effort be maintained on a long-term basis. SEAOH members have spent numerous volunteer hours in organizing a series of Hurricane and Earthquake Mitigation Workshops offered free to the public on Oahu and the Big Island, but we cannot be expected to be the sole means of publicizing this program.
5. The proposed tax credit does not include the Earthquake Resistive Devices proposed for inclusion in the Loss Mitigation Grant program by SB2783, SD1.
6. The limit of \$2,100 placed on both the current Loss Mitigation Grant Program, and the proposed tax credit, is too low to encourage complete hurricane mitigation of a typical residence, or addition of a residential saferoom. SEAOH recommends increasing the limit to \$5,000.

Thank you very much for an opportunity to express our opinion on this bill.

For the Structural Engineers Association of Hawaii:

Ian Robertson, P.E., Ph.D.

SEAOH 2008 President 956-6536