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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 the current version of 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 version of the 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.

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 amended to restore its original language.

Testimony of Gerald Peters
and The Hawaii Lumber Products Association (HLPA)

(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 Gerald Peters. I am testifying on behalf of The Hawaii Lumber Products Association, as well as myself as an individual, in **very strong opposition** to this legislation. In my opinion, this bill as written, will without doubt, derail 13 years of Legislative, State and County Civil Defense, and private sector work on loss mitigation.

Furthermore, just as the 2008 hurricane and election season begins, this Ins Div initiative, as proposed/written in SD1, stands to come back to haunt not the Administration, but rather the Legislature. You will be accused of abandoning disaster preparedness and stealing the whole hurricane relief fund and interest, despite the statutory requirement for loss mitigation and all your years of debate and action and offering the public financial incentive to take action on their own. You will be accused of derailing the State Civil Defense initiative for Safe rooms to address our 100,000 statewide shortage of disaster sheltering facilities, particularly for special needs.

The reason for a bill at this time is because your original Act 179, Disaster Emergency Preparedness Act of 2005 override (Jul 05, 3 years to spend $2 million HHRF corpus/$4million HHRF annual interest) is running out. Yet the program is only in its infancy because half the current 30 months since the override has been spent in setting it up, and, virtually no meaningful public awareness has been undertaken despite being authorized under Act 179 (only two ads in total), plus authorized funding has not been released to satisfy grants being fulfilled in a timely fashion last summer, nor to fund promised advertising being undertaken.

Had this Admin bill been proposed as a refundable tax credit, we would not be as absolutely in opposition. However, under the non refundable approach taken by the Tax Dept, the seniors, retirees, the average and poorer elders of our society will be economically singled out and punished. They essentially will be opted out of the state incentive for their tiny, but public safety important share of the relief fund annual interest. This non refundable tax credit may be ok for the conservatives, more financially fortunate in our society, but not for the vast majority of home owners. This bill as written economically politicizes public safety.

Why? Because the average age of those investing in mitigation, it can be proven statistically, is 65. We are told by accountants that these folks mostly have little or no state tax credits to offset, due to the non state taxable nature of social security, and public and private pensions and retirement plans. Seniors, retirees, veterans, are the ones who invested and left between $3500 and $6500 each in the relief fund from 1993-2001, and now are being shut out in favor of the younger, and the wealthier. They paid off their houses, have been dropping the now expensive ($1000-$1700 single wall) annual hurricane insurance coverage, and now lose their relief fund incentive to the rich? They don't know about the program and options to strengthen their homes, particularly weak older single wall homes. Hawaii can have our very own Katrina debacle of casualties, fatalities, blue tarps and homeless with destroyed homes to our seniors.

Therefore, please in defense of the public interest, consider how this bill should and can be amended, or held. There are three good choices, we believe :

(1and 2) PROVIDE (1) BOTH A GRANT AND A REFUNDABLE TAX CREDIT OR (2) PROVIDE CHOICE OF EITHER GRANT OR A REFUNDABLE TAX CREDIT: make a technical amendment to remove six words inserted by the CPH committee staff by mistake ----- (At the end of section 2...delete ***"until the tax credit becomes available "***), which would, as CPH, I believe intended, give homeowners a choice of the current grants, and the tax credits in order to spur more takers and economic activity; additionally remove the words non-condominium from paragraph two.;

PLUS change Section 2 from funding of $500,000. This section should re-appropriate at least the same amount as the original bill (Act 179), but at a minimum $2,000,000 from the relief fund interest which goes into the General Fund and then into the Loss Mitigation fund. Plus, include a mandate for a professional public awareness program of at least 25% of the appropriation, and wording to authorize $150,000 per year needed by the UH School of Civil Engineering to operate the Hawaii Safe room and Loss Mitigation Testing Facility joint venture at Diamond Head Crater with State Civil Defense, SEAOH (Structural Engineers Assn of Hawaii), HLPA, BIA-Hawaii, Simpson, Weyerhauser, and many other private sector companies. Please note that approximately $500,000 has been awarded in grants or spent on program engineering set-up from the original HHRF corpus ($2 million) and HHRF annual interest ($4 million) appropriation of Act 179,and subsequent appropriations, leaving $5.5 million unspent. This requested appropriation is not new spending; Include earthquake loss mitigation devices when available (see SB2783SD1 for this wording); Raise incentives to either 50% or caps to $5000 to allow for realistic higher investments by home, condo and business/commercial owners for Safe Rooms, Window and Door Glass protection, and for Earthquake wall to foundation protection, which also helps wind resistiveness.

(3)) HOLD THE BILL in favor of the simple re-authorization bill, SB2783, SD1, Relating to Loss Mitigation, which just passed out of CPH, and is referred to WAM.

The bill's non refundable, no condo or commercial/business eligibility is a almost unbelievable to us and our colleagues in the disaster preparedness and civil defense communities. Homeowners, condo owners, and businesses all paid premiums and fees into what would be about $260 million now in the hurricane fund, and the condo and business people should not be opted out on a bureaucrat's whim.

Florida has a $250 million, 50% not 35% matching grant program modeled after ours, but even better for the poorer people, and much more realistic for the caps (50% with $5000 cap instead of our 35% $2100cap, and up to $5000 with no match required for people within a certain low economic group). We all, including the Commissioner, realize the caps are too low relative to the higher cost of items like the Safe room, window and door glass protection, and the soon-to-be-released earthquake mitigation recommendation by UH, the Structural Engineers of Hawaii, and the $863 million sales Simpson Strong-Tie Company, which, by the way, spent over $100,000 in 2007 testing and developing products specifically for Hawaii's single wall houses and the grant program, but which now would all end under SB3013SD1.

Another fact to consider: It was proven in Kauai with their tax credit for safe rooms that **Hawaii homeowners do not respond to tax credits for disaster preparedness investment**...only two or three people I am told took advantage of the credit program there in several years.

This bill threatens to scuttle and waste the $450,000 being spent as we speak to launch the Pacific Basin's first and only disaster preparedness safe room testing facility at Diamond Head Crater, which could become an economic generator for Hawaii throughout the State and throughout Pacific Region and Asia, as have those facilities at Texas Tech and Clemson, and elsewhere on the mainland.

Rewriting all the technical and administrative rules from scratch under the tax department means another long and arduous delay. It is well known that people in general have "Disaster Amnesia" between storms, earthquakes, and other mother nature or hurricane or flood insurance debacles in the news. And, if a hurricane hits this election year, right in the middle of trying to kick this program from DCCA to the Tax Division, then 1)unlike currently, the state will not be able to gear up; 2)there is no telling what the revenue impact will be; and, 3)the media and the public will be asking why oh why was this done?

We should not play risky unnecessary musical chairs with the public safety and moreover with the public's money. The hurricane relief fund and its millions of dollars of annual interest is the public's–not the State's.

The subject of disaster preparation and loss mitigation and public safety requires a sustained 20 year and more effort, as you Madame Chair, Vice Chair, and members have been trying to do for a decade already.

Thank you for your patience and consideration of this testimony.

SIMPSON Strong-Tie™

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Senate Committee on Economic Development and Taxation (EDT)
Tuesday, February 12, 2008
1:15 P.M. Room 224
RE: SENATE BILL 3013, SD1 -- RELATING TO LOSS MITIGATION

Testimony of Timothy J. Waite, P.E., Sales Engineer for the Simpson Strong-Tie Company
Attention: Chair Fukunaga, Vice Chair Espero, and Members of the Senate Committee on Economic Development and Taxation (EDT)

I am Timothy Waite, Sales Engineer and Product Manager for the Simpson Strong-Tie Company. Simpson Strong-Tie is an $863 million sales international manufacturing company specializing in hurricane and earthquake devices. Simpson Strong-Tie Company has manufactured wood-to-wood and wood-to-concrete connectors since 1956. Our company is recognized by architects, engineers and homebuilders as the leading manufacturer of structural connectors. My responsibilities include Hawaii and the South Pacific. Simpson Strong-Tie Company has gone on record supporting the Loss Mitigation Grant program.

The Simpson Strong-Tie Company 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.
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.
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.
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. Simpson Strong-Tie recommends increasing the limit to $5,000.

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

Timothy J. Waite

Timothy J. Waite, P.E.
February 11, 2008