SB 1270

WRITTEN ONLY

TESTIMONY BY KALBERT K. YOUNG
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE SENATE COMMITTEE ON WAYS AND MEANS
ON
SENATE BILL NO. 1270, S.D. 1

February 24, 2011

RELATING TO THE HAWAII HURRICANE RELIEF FUND

Senate Bill No. 1270, S.D. 1, 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 $10 million 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. However, we prefer that the bill be amended to its original form to provide the maximum flexibility in its use should it be deemed necessary.

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STATE OF HAWAII
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ON
SENATE BILL NO. 1426, S.D. 1

February 24, 2011

RELATING TO PUBLIC FUNDS

Senate Bill No. 1426, S.D. 1, proposes to have the City and County of Honolulu return a portion of the moneys transferred to it pursuant to Sections 46-16.8 and 248-2.6, HRS, to meet the current and future financial needs of the State. Section 46-16.8 authorized the City to impose a county surcharge on general excise and use taxes attributable to activity derived in the City for the purpose of operating or capital costs of a locally preferred alternative for a mass transit project. Section 248-2.6 specifies the process for distributing the proceeds of the county surcharge imposed under Section 46-16.8 from the State to the City.

The bill specifically: (1) requires the City to return to the State $200 million of the county surcharge revenues; (2) authorizes the Director of Finance to issue up to $300 million of general obligation bonds for the purpose of replacing the county surcharge revenues that are returned to the State by the City; (3) extends the sunset date of the county surcharge by an additional two years from 2022 to 2024; and (4) authorizes the Director of Finance to substitute other available sources including general obligation bonds to make payments to the City for the amount of county surcharge revenues due each quarter. The bill restricts the issuance of general obligation bonds until the State receives affirmative advice from the State's bond counsel on the suitability of using general obligation bond proceeds for the purpose of replacing county surcharge revenues from the City.

Governor Abercrombie is open to ideas for utilizing the county surcharge funds to create jobs and stimulate the economy if those funds will otherwise remain idle. He believes it is important to put all available public funds to good use especially in the midst of the economic slowdown that the State is currently experiencing. But the Governor is not inclined to use those funds merely to plug the short-term budget shortfall in a way that creates long-term liabilities for the State. Any plans for utilizing the county surcharge funds need to be related to immediate job creation.

The question raised with the approach proposed in Senate Bill No. 1426, S.D. 1, is that it may be only a short-term solution that does not address the State's long-term fiscal requirements. The concept as proposed could be considered deficit borrowing and therefore the issue of credit rating implications needs to be explored.

Further, the City must be a willing participant in the proposed replacement of county surcharge revenues with general obligation bond funds because it is our belief that by terms of the process embodied in this bill, the State cannot unilaterally require the City to return $200 million of county surcharge revenues. The State, through enactment of Section 46-16.8,a uthorizes the City the option to impose the county surcharge – the City (alone among the four counties) took action on its own to impose the county surcharge. At a minimum,we need to work with the City on any plan or arrangement using the surcharge revenue, or surcharge authorization so as not to jeopardize the viability of the transit project.

Furthermore, in the current financial market environment, and considering the investment returns opportunities available to the City, the terms being proposed in Senate Bill No. 1426, S.D. 1, could be considered to be overly generous to the City. The City is being given $3 dollars in general obligation bond funds for every $2 dollars in county surcharge revenues it returns as well as having the county surcharge being extended for two additional years. Given that current county surcharge revenue collections average about $163 million per year,it is conservatively estimated that the additional two years will yield the City,a t least, $326 million more in county surcharge revenues.

It should be noted that the provision allowing the Director of Finance to substitute other available sources in place of county surcharge revenues in making payments to the City would most likely result in the return of the $200 million taking more than a year to complete. Based on average surcharge revenue collections of $163 million per year, the transfer could take five quarters to complete. Thus, if the bill was effective July 1, 2011 and the substitution provision was used, the $200 million transfer could stretch out to the first quarter's payment of FY 2013.

Finally, regarding the technical issue of whether general obligation bond proceeds can be used as contemplated in Senate Bill No. 1426, S.D. 1, bond counsel indicates that taxable general obligation bonds, as opposed to lower cost tax-exempt general obligation bonds, would need to be used for this purpose.

NEIL ABERCROMBIE
GOVERNOR

BRIAN SCHATZ
LT. GOVERNOR

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TO THE SENATE COMMITTEE ON WAYS AND MEANS

TWENTY-SIXTH LEGISLATURE
Regular Session of 2011

Thursday, February 24, 2011
9 a.m.

WRITTEN TESTIMONY ONLY

TESTIMONY ON SENATE BILL NO. 1270, S.D. 1 - RELATING TO THE HAWAII HURRICANE RELIEF FUND

TO THE HONORABLE DAVID Y. IGE 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, we wish to make the following observations.

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 SENATE COMMITTEE ON
WAYS AND MEANS

Thursday, February 24, 2011

Conference Room 221, 9:00 a.m.

To the Honorable Chair David Y. Ige 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 1, 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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February 24, 2011

The Honorable David Y. Ige, Chair
Senate Committee on Ways and Means
State Capitol, Room 211
Honolulu, Hawaii 96813

RE: S.B. 1270, S.D.1, Relating to the Hawai'i Hurricane Relief Fund

DECISION MAKING: Thursday, 24, 2011 at 9:00 a.m.

Aloha Chair Ige, Vice Chair Kidani 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. 1, which appropriates funds from the Hawai'i Hurricane Relief Fund ("HHRF") into the State general fund.

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.

As such, HAR would ask this committee to amend Section 2 of S.B. 1270, S.D. 1, to retain a balance of at least $70,000,000, if any appropriation is made from the HHRF.

Mahalo for the opportunity to submit comments.

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