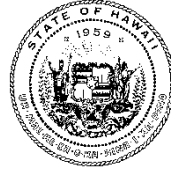


DAVID Y. IGE
GOVERNOR



DOUGLAS MURDOCK
Comptroller

AUDREY HIDANO
Deputy Comptroller

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

P.O. BOX 119, HONOLULU, HAWAII 96810-0119

TESTIMONY
OF
DOUGLAS MURDOCK, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE
ON
FINANCE
MARCH 2, 2016
H.B. 2576

RELATING TO NATURAL DISASTER PROTECTION

Chair Luke, and members of the Committee, thank you for the opportunity to submit written testimony on H.B. 2576. The Department of Accounting and General Services supports the intent of H.B. 2576 (the measure).

We support the intent of this measure provided the elimination of the transfer of interest earned on the principal in the hurricane reserve trust fund to the general fund does not have a negative impact on the administration's executive supplemental budget and initiatives submitted for fiscal year 2017.

Our reason for supporting the intent of the measure and the pilot program are as follows:

1. Allows the Risk Management Office (the Office) the opportunity to diversify the type of insurance coverages purchased without reducing the amount allocated for our current property insurance policy.
2. The parametric insurance policy could provide funding for disaster relief operations since payment is much quicker as it is based on measurable factors versus actual loss which requires time for loss assessment.
3. The pilot program provides the Office time to research and utilize different combinations of measureable factors while analyzing optimal relationships

between cost and coverage amount. A possible scenario could be to increase property insurance coverage while reducing premiums through increased deductible limits and offsetting the increased financial risk of higher deductibles with parametric insurance policies. In this scenario, the objective would be to reduce the total premium of both policies while increasing the coverage amount with no increased financial exposure on the deductible.

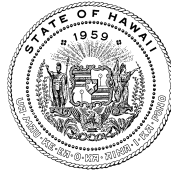
4. The three (3) year pilot program allows the Office to research, purchase and evaluate parametric insurance solutions.

We also suggest the following additions and clarifications to the measure.

1. The mission of the Office is to provide risk management solutions covering property and liability exposures for State agencies and has a staff of only four (4) employees. Therefore, the measure should contain language that specifies that parametric policies purchased during the pilot period will insure only State property.
2. The role of the Social Science Research Institute of the University of Hawaii (the Institute) should be clearly defined.
3. Allowable expenditures from the parametric disaster insurance special fund (the special fund) include fees paid to brokers to purchase parametric insurance policies, consultant fees to provide recommendations on measurable factors and coverage amounts, parametric insurance policy premiums, fees paid to the Institute, and overhead costs incurred by the Office for the administration of the pilot program.
4. Identification of where the remaining funds in the special fund will be transferred to on June 30, 2019 if the special fund is abolished.

Thank you for the opportunity to submit written testimony on this measure.

DAVID Y. IGE
GOVERNOR



WRITTEN ONLY

WESLEY K. MACHIDA
DIRECTOR

RODERICK K. BECKER
DEPUTY DIRECTOR

EMPLOYEES' RETIREMENT SYSTEM
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND
OFFICE OF THE PUBLIC DEFENDER

**STATE OF HAWAII
DEPARTMENT OF BUDGET AND FINANCE**

P.O. BOX 150
HONOLULU, HAWAII 96810-0150

ADMINISTRATIVE AND RESEARCH OFFICE
BUDGET, PROGRAM PLANNING AND
MANAGEMENT DIVISION
FINANCIAL ADMINISTRATION DIVISION
OFFICE OF FEDERAL AWARDS MANAGEMENT (OFAM)

**TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON FINANCE
ON
HOUSE BILL NO. 2576**

March 2, 2016
11:00 a.m.

RELATING TO NATURAL DISASTER PROTECTION

House Bill No. 2576 establishes the Parametric Disaster Insurance Pilot Program within the Department of Accounting and General Services for administrative purposes and the Parametric Disaster Insurance Special Fund within the State treasury. The bill authorizes the deposit of: interest earned from the principal in the Hurricane Reserve Trust Fund established pursuant to Section 431P-16 of the HRS; moneys received from the payout of a parametric disaster insurance policy; and appropriations made by the Legislature into the special fund. Moneys in the special fund shall be used to purchase parametric disaster insurance for the State.

The Department of Budget and Finance does not take any position on the Parametric Disaster Insurance Pilot Program; however, as a matter of general policy, the department does not support the creation of any special fund which does not meet the requirements of Section 37-52.3 of the HRS. Special funds should: 1) serve a need as demonstrated by the purpose, scope of work and an explanation why the program cannot be implemented successfully under the general fund appropriation process; 2) reflect a clear nexus between the benefits sought and charges made upon the users or beneficiaries or a clear link between the program and the sources of revenue; 3) provide an appropriate means of financing for the program or activity; and 4) demonstrate the capacity to be financially self-sustaining. In regards to House Bill No. 2576, it is uncertain if there is a clear link between the program and sources of revenue and if the special fund will be self-sustaining.

STATE OF HAWAII
DEPARTMENT OF DEFENSE

TESTIMONY ON HOUSE BILL 2576
A BILL RELATING TO NATURAL DISASTER PROTECTION

PRESENTATION TO
THE HOUSE COMMITTEE ON FINANCE

BY
MAJOR GENERAL ARTHUR J. LOGAN
ADJUTANT GENERAL
AND DIRECTOR OF THE HAWAII EMERGENCY MANAGEMENT AGENCY
March 2, 2016

Chair Luke, Vice Chair Nishimoto, and Members of the House Committee on Finance.

I am Major General Arthur J. Logan, State Adjutant General and the Director of the Hawaii Emergency Management Agency. I am testifying in support of the intent of House Bill 76.

The measure seek to establish a parametric disaster insurance program. This program would be a 3-year pilot program within the Department of Accounting and General Services. The insurance program would be funded by the interest from the Hurricane Reserve Trust Fund.

Parametric insurance could be a way to reduce the impact of a major disaster on Hawaii's economy. It is a potential solution that needs a complete review as to its applicability to Hawaii.

Thank you for allowing me to testify in support of the intent of House Bill 2576.



Testimony Submitted to the House Committee on
Finance
House Bill 2576
March 2, 2016 pm, Room 308
Submitted by
Michael Hamnett
Chair, Ala Wai Watershed Partnership

Chair Luke, Vice Chair Nishimoto, members of the Committee, my name is Michael Hamnett. I am a researcher in the Social Science Research Institute at the University of Hawaii and Chair of the Ala Wai Watershed Partnership.

I strongly support HB 2576 as do members of the Ala Wai Watershed Partnership.

The Ala Wai Watershed Partnership was established at conference of community leaders from the public and private sectors convened in January 2015 to discuss a catastrophic flood mitigation project being planned by the Army Corps of Engineers in partnership with the Department of Land and Natural Resources.

This Army Corps/DLNR project is intended by mitigate catastrophic flood that would put 4 feet of water in Waikiki and have major impacts in Makiki, Palolo, Manoa, Moilili and Kapuhulu. The impact of a 100-year storm in Waikīkī – which generates 8 percent of Hawaii's GDP, 7 percent of the state's employment, and 9 percent of state tax revenues – could cause an estimated \$30 billion in economic losses. Waikīkī is already experiencing localized flooding in streets and parks after rainstorms. In August 2015, heavy rains caused a major sewage spill, forcing the city to temporarily close beaches. Beyond Hawaii, Waikīkī is an iconic national landmark and globally recognized tourist destination.

Some of the economic losses to homes and business from a catastrophic flood in the Ala Wai Watershed will be covered by the National Flood Insurance Program, private property insurance, and business interruption insurance. FEMA will provide public assistance grants to replace or repair public facilities and infrastructure and individual and family assistance grants to tide people over. But none of these sources of relief will cover the loss of tax revenue to the state and county.

The January 2015 conference concluded that the flood mitigation project being developed by the Army Corps with DLNR needed to be broadened beyond a bare bones flood mitigation project. It needs to include environmental restoration, water quality improvements, community education and involvement, innovative financing, and partnerships with the private sector. It also needs to include the kind of parametric insurance called for in House Bill 2576.

This past hurricane season, a total of 15 named tropical storms and hurricanes passed near Hawaii. If one of those storms had struck Oahu, total losses could have been over \$30 billion.

The Ala Wai Flood Mitigation project will not be completed until 2022 and the state needs to do everything possible to reduce its financial risks. Parametric insurance appears to be a very cost effective way to reduce the financial risks to the state and we are prepared to work with the State Risk Management Office to develop and evaluate a pilot project.

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Hawai'i Green Growth is a public-private partnership that coordinates across government, non-governmental and cultural organizations, business, academia and philanthropy to achieve Hawai'i's Aloha+ Challenge 2030 sustainability goals.

Steering Committee

Deanna Spooner
June Matsumoto
Matt Lynch
Mark Fox
Mike Hamnett
Piia Aarma
Pono Shim
Scott Enright
Scott Seu
Ulalia Woodside
William J. Aila Jr.

Testimony of Hawai'i Green Growth In Support of HB2576 Relating to Natural Disaster Protection House Committee on Finance 2 March 2016, 11:00am, Room 308

Aloha Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

Hawai'i Green Growth (HGG) strongly supports HB2576 to establish a three-year pilot parametric disaster insurance program within the department of accounting and general services to be funded by the interest from the hurricane reserve trust fund.

Hawai'i is increasingly vulnerable to catastrophic natural disasters like hurricanes and floods, which could have devastating long-term economic impacts. The impact of a 100-year storm (Iniki- strength) in Waikiki – which generates 8 percent of Hawai'i's GDP, 7 percent of the state's employment, and 9 percent of state tax revenues – could cause an estimated \$30 billion in economic losses. This represents almost 50% percent of the state's GDP and over three years of total government spending. Hawai'i currently relies on federal funding from the Federal Emergency Management Agency and the National Flood Insurance Program to support disaster recovery. None of these sources will cover the loss of tax revenue to the state and county, and the majority of losses will fall on taxpayers. Parametric insurance is a cost effective way to reduce the financial risks to the state.

The Ala Wai Watershed Partnership formed in January 2015 to catalyze a high-level commitment to design, fund, build and maintain an integrated infrastructure system that improves the resilience of vulnerable communities and restores the ecosystem in the Ala Wai Watershed and Waikiki. The Ala Wai Watershed Partnership is prepared to work with the State Risk Management Office to develop and evaluate a pilot project on parametric insurance.

HGG public-private partners agreed HB2576 is an important shared legislative priority to reduce financial risks in the face of natural disasters, and advance the *Aloha+ Challenge* resilient infrastructure goals. The *Aloha+ Challenge* is a statewide commitment by the State Legislature (SCR 69), Governor, Mayors and Office of Hawaiian Affairs to achieve six sustainability goals for 2030 in the areas of clean energy, local food, natural resources, solid waste reduction, smart growth and climate resilience, and green jobs and education. Statewide HGG public-private partners are identifying shared measures to track progress and provide accountability with the online *Aloha+ Challenge* Dashboard, while developing an annual policy and action agenda to advance Hawai'i's shared 2030 sustainability goals.

The *Aloha+ Challenge* has been recognized nationally and internationally by the US State Department and Global Island Partnership as a model for locally appropriate implementation of UN Sustainable Development Goals. With the upcoming IUCN World Conservation Congress hosted by Hawai'i in September 2016, this legislative session is an important opportunity for Hawai'i to showcase leadership on sustainable development, conservation and resilience.

As a public-private partnership, Hawai'i Green Growth supports HB2576.

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, March 01, 2016 9:28 PM
To: FINTestimony
Cc: mjgonser@gmail.com
Subject: Submitted testimony for HB2576 on Mar 2, 2016 11:00AM

LATE

HB2576

Submitted on: 3/1/2016

Testimony for FIN on Mar 2, 2016 11:00AM in Conference Room 308

Submitted By	Organization	Testifier Position	Present at Hearing
Matthew Gonser	Individual	Support	No

Comments: The vulnerabilities presented by our geographic isolation and dependence on a few economic sectors is stark. This bill and pilot project provide a mechanism for risk hedging that has proven successful in other vulnerable island communities. In a quickly changing landscape of natural hazards risk, a pilot project offers the opportunity to experiment with risk reduction strategies appropriate for Hawai'i. Thank you for the chance to express my support.

Please note that testimony submitted less than 24 hours prior to the hearing, improperly identified, or directed to the incorrect office, may not be posted online or distributed to the committee prior to the convening of the public hearing.

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