

TESTIMONY BY WESLEY K. MACHIDA
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON PUBLIC SAFETY
ON
HOUSE BILL NO. 737

February 5, 2015

RELATING TO PROPERTY INSURANCE

House Bill No. 737 amends Section 431:21-105, Subsection (b), Hawaii Revised Statutes (HRS), to authorize the Hawaii Property Insurance Association (HPIA) the power to utilize the Hawaii Hurricane Relief Fund (HHRF) to cover extraordinary losses that are incurred by the HPIA and caused by lava flow or other volcanic activity.

The Department of Budget and Finance has serious concerns regarding the authorization of the HPIA to use the HHRF to cover extraordinary losses caused by volcanic activity. While the HHRF was established to provide a hurricane insurance source for homeowners unable to find affordable policies after the market was deserted in the wake of Hurricane Iniki, the fund also serves as a de facto State reserve that has been utilized to help balance the budget in difficult economic times. Authorizing the HPIA to access the HHRF for losses due to volcanic activity could materially deplete the fund and leave the State without its de facto reserve. This could have adverse impacts on the State's credit rating and our ability to bridge temporary gaps in funding due to severe revenue shortfalls.

HAWAII HURRICANE RELIEF FUND

335 Merchant Street #213

Honolulu, HI 96813 (Phone: 586-2804)

To The House Committee on Public Safety

Twenty-Eighth Legislature
Regular Session of 2015

Thursday, February 5, 2015
9:00 a.m.

WRITTEN TESTIMONY ONLY

TESTIMONY ON HOUSE BILL NO. 737-RELATING TO PROPERTY
INSURANCE

TO THE HONORABLE GREGG TAKAYAMA, CHAIR, AND MEMBERS OF
THE COMMITTEE

My name is Lloyd Lim, acting executive director of the Hawaii Hurricane Relief Fund (“HHRF”). I am testifying on behalf of the HHRF Board of Directors.

HHRF opposes HB 737. HHRF believes that moneys collected for HHRF should be used solely for HHRF purposes.

HHRF is now operationally dormant, but the risk exposure faced by the HHRF if it becomes operational again will be very large. For example, if there is a severe hurricane striking Honolulu, the loss could be in the tens of billions of dollars. Therefore, it makes sense to maintain the HHRF reserve. Moneys in the hurricane reserve trust fund can be used for the restart of HHRF, the purchase of reinsurance, or claims payments at the time of loss.

We thank the Committee for the opportunity to present testimony on this matter.



Hawaii Independent Insurance Agents

ASSOCIATION

February 3, 2015

To: Representative Gregg Takayama, Chair
Representative Kyle T. Yamashita, Vice-Chair
And Committee on Public Safety

From: Sonia M. Leong, Executive Director
Hawaii Independent Insurance Agents Association

Re: HB 737 Relating to Property Insurance
Hearing: Thursday, February 05, 2015 9:00 am Conference Room 309

The Hawaii Independent Insurance Agents Association (HIIA) is submitting testimony in **opposition** to HB737 which would authorize the HPIA (Hawaii Property Insurance Association) to appropriate funds from the HHRF (Hawaii Hurricane Relief Fund) to pay for the “extraordinary losses caused by the flow of lava or other volcanic activity.”

While we empathize with our fellow citizens who are experiencing devastating losses, we strongly feel that the HHRF funds should remain for the purpose for which it was established. Again the purpose for establishing the “Fund” was to provide protection and relief from the catastrophic hurricane exposure. The “Funds” were collected from policyholders, from property & casualty insurers, and from mortgage recording fees. These “Funds” were collected from these sources for a specific purpose.

We are concerned that the diversion of the HHRF funds to pay for the lava flow claims would jeopardize our ability to respond to a catastrophic hurricane.

Thank you for this opportunity to present testimony.

February 2, 2015

Aloha,

I own property in lower Puna which I may be unable to sell due to significant price volatility resulting from the June 27th lava flow situation. My home in lower Puna is a significant part of my retirement plan.... so this situation is extremely concerning. I strongly support any proposals that a) requires insurers to maintain coverage of existing homes now b) removes the moratorium by HPIA on existing dwellings c) requires continued coverage under an existing policy upon a transfer in ownership of the property and d) authorizes the HPIA to spend funds in the Hawaii hurricane relief fund to pay for extraordinary losses caused by the flow of lava or other volcanic activity. Any measures that can assist with stabilizing property values in lower Puna would be greatly appreciated. Thank you.

Kim Murphy
12-7047 Wehelauniu Street
Pahoa, HI 96778
PO Box 68
Kurtistown, HI 96760

Hawaiian Shores Community Association

15-2793 S. HONU STREET PAHOA, HAWAII 96778

PHONE (808) 965-8140 FAX (808) 965-0802

EMAIL: hsc@hawaii.rr.com

Website: www.hawaiianshores.org



Date: Feb. 2, 2015

To: Representative Gregg Takayama, Chair
Representative Kyle Yamashita, Vice Chair
Members of the Committee on Public Safety

From: Hawaiian Shores Community Association
Board of Directors
M. Eileen O'Hara, President

RE: **HB737**– RELATING TO PROPERTY INSURANCE: Authorizes the Hawaii property insurance association to spend funds in the Hawaii hurricane relief fund to pay for extraordinary losses caused by the flow of lava or other volcanic activity.
Committee on Public Safety: 2/5/15: 9:00 AM, Rm #309

Dear Representative Takayama, Representative Yamashita, and Committee Members:

Please support the passage of HB737! The Board of Directors of **Hawaiian Shores Community Association (HSCA)** represents a subdivision with a well-based public water system (PWS-156) serving 1294 residential lots in lower Puna. We were hard hit by Tropical Storm Iselle on August 7, 2014; losing electricity for two weeks and water service for two days due to lines being damaged by toppled 150' Albizia trees. We are now being threatened by lava, although the initial finger of the June 27, 2014 flow that was marching directly towards our well and mauka portions of our subdivision fortunately stalled on Oct. 30, 2014. The current status of the active flow appears to be headed north of our subdivision, although may impact our community severely should it cross Highway 130. **We have already experienced great economic loss**, first from the hurricane, and now from the impacts of the lava flow.

To date, the June 27th lava flow has only burned one residence mauka of Paho town. Its current path does not directly threaten any of the densely populated subdivisions in lower Puna, yet the whole Puna District has suffered economic harm by being under a moratorium announced by HPIA after the emergency declaration was signed by the Governor on Sept. 4, 2014. The Puna District is larger than the island of Oahu. **The vast majority of the district is not under threat from lava inundation.**

As the moratorium has not been lifted and some residents are being denied renewal under existing insurance policies as there is no State law prohibiting insurers from non renewing customers in good standing, if the lava continues advancing, many property owners may lose their most major investment, their home, without being compensated through

insurance. Several residential owners in our community have received letters from their insurers, some who have been paying their premiums diligently for as long as 32 years, informing them their policies will not be renewed! **Allowing this situation to continue without government intervention spells economic death for the District of Puna** which is home to over **20,000 people**. Already, property owners, who need to leave the district due to health impacts from the VOG and air pollution caused by lava fueled fires, have had to sell their properties for less than 50% of the June 2014 value of those properties as without insurance options, only cash sales can occur. This kind of economic loss cannot be easily absorbed by the vast majority of Puna's population where the medium income is less than the State's average household income. Allowing this situation to continue amounts to an economic injustice of great proportion and the potential for litigation against the State or Hawaii.

It is the role of government to intervene in market failures such as this insurance crisis in Puna. **We urge you to do your duty as publically elected officials and instruct HPIA to lift the moratorium.** If these insurance issues are not addressed in this 2015 session, the Puna District will empty out faster than a full bucket of water with a hole in the bottom. That exodus will not be due to lava, but due to inaction by our State government and its inability to act smartly and quickly in response to natural disasters.

Please pass this bill and encourage the return of economic vitality to the Puna District on the Big Island!

Mahalo,

M. Eileen O'Hara, Ph.D.

M. Eileen O'Hara, Ph.D. (Natural Resource and Environmental Economics)
President, Board of Directors
Hawaiian Shores Community Assn.

yamashita1-Marianne

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 02, 2015 7:19 PM
To: pbstestimony
Cc: patriciasummers@live.com
Subject: Submitted testimony for HB737 on Feb 5, 2015 09:00AM

Follow Up Flag: Follow up
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HB737

Submitted on: 2/2/2015

Testimony for PBS on Feb 5, 2015 09:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Patricia Summers	Individual	Comments Only	No

Comments: Authorize the Hawaii property insurance association to spend funds in the Hawaii hurricane relief fund to pay for extraordinary losses caused by the flow of lava or other volcanic activity.

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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yamashita1-Marianne

From: mailinglist@capitol.hawaii.gov
Sent: Monday, February 02, 2015 2:57 PM
To: pbstestimony
Cc: gdencker@gmail.com
Subject: Submitted testimony for HB737 on Feb 5, 2015 09:00AM

HB737

Submitted on: 2/2/2015

Testimony for PBS on Feb 5, 2015 09:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Gregory Denckeeer	Individual	Support	No

Comments: Calif adopted an earthquake insurance program after Loma Prieta in 1989; you need to provide interim help to owners of property in Puna and to support sales and property exchanges by adopting this bill.

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yamashita1-Marianne

From: mailinglist@capitol.hawaii.gov
Sent: Tuesday, February 03, 2015 9:29 AM
To: pbstestimony
Cc: islandeyesvideo@yahoo.com
Subject: Submitted testimony for HB737 on Feb 5, 2015 09:00AM

HB737

Submitted on: 2/3/2015

Testimony for PBS on Feb 5, 2015 09:00AM in Conference Room 309

Submitted By	Organization	Testifier Position	Present at Hearing
Mary Marvin Porter	Individual	Support	No

Comments: Aloha, I am a home owner in Hawaiian Paradise Park and am testifying in support of HB737, introduced by our Representative San Buenaventura. Mortgages require insurance coverage for the properties, so if insurance companies refuse to renew policies because of potential lava flow, this would result in terrible economic problems, making our lifetime investment worthless. Please support this bill. Mahalo, Mary Marvin Porter Island Eyes Video

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Greetings, Honorable Legislators...

My name is Frances K. (Frankie) Stapleton and I have been a homeowner and resident of Puna, in Nanawale Estates subdivision for the past 35 years. I want to testify in support of HB737 as introduced by our Dist. 4 Rep. San Buenaventura.

When I bought my federal-govt subsidized home in Nanawale 35 years ago, there were no lava zones. I had no problem getting the required home insurance. The first mention of lava zones was in a 1978 USGS publication, not something the general public or business community was immediately aware of. It was when geologist Christina Heliker updated the lava zone study in 1990, with subsequent wide media coverage, that real estate lenders and insurance companies started using the lava zones for a basis of their business transactions.

It was only in the past few years that State Farm quit writing new policies for Lava zones 1 & 2 and thankfully, SF grandfathered in those of us who had been buying their home insurance for many years. This bill, HB737, puts teeth into that practice, to mandate the grandfathering in of such policies, their current "bill of business," I think is the term the insurance industry uses.

While the state insurance commissioner has stopped insurance companies from canceling policies in the Lava Zones 1 and 2 which covers much of lower Puna, there is nothing in state law that prohibits insurance companies from NOT RENEWING policies. And more than Zones 1 and 2 are being impacted by the eruptive activity now moving into NE Puna.

If insurance companies refuse to renew policies currently on their client list, financial institutions could call in our mortgages as the mortgages require insurance coverage for the properties. This would be catastrophic economically for family homeowners, Puna businesses and mortgage lenders!

Real estate brokers have testified before the Hawaii County Council that denying insurance coverage in lower Puna totally devalues approximately half a billion dollars' worth of real property. Those are our homes and businesses and they may be worthless to the outside world but many residents here are retirees and these homes represent our lifelong investment as well as being the only roof we've got over our heads! Puna also has a large Hawaiian population, some of whom have lived in Puna for generations and built their homes through self-help programs.

In time, other communities in Hawaii could be similarly affected as recent seismic activity reminds us that Mauna Loa has been docile since March 1984. There are potentially thousands in harm's way when Mauna Loa goes off again (no if about it!).

Banks require homeowners to have hurricane insurance in addition to fire insurance as part of their mortgage approval. The last hurricane to hit Hawaii was Iniki on Sept. 11, 1992. The category 4 hurricane caused major damage to Kauai and parts of Oahu with winds up to 160 mph. It took years for business to rebuild on Kauai.

After the storm in 1992 many insurance companies in Hawaii stopped writing hurricane insurance policies. Some insurance companies even declared bankruptcy. The state created the Hawaii Hurricane Relief Fund and in 2002, insurance companies began writing hurricane insurance policies again. The state stopped collecting funds for the HHRF at that time. But there is more than \$183 million in this fund and it has remained dormant, just sitting there.

So the state has set the precedent in stepping in to help where natural disasters have impacted the availability of insurance and the financial viability of a community. I'm sure the people of Kauai appreciated the state's remedy. And I think those who lose their home or business insurance due to being located in Lava Zones 1 and 2 should get similar relief. Maybe the Hawaii Hurricane Relief Fund should become the Hawaii Natural DisasterFund.

Insurance is based on sharing the liability of various risks. All of Hawaii residents face a wide variety of potentially dangerous natural events: hurricanes, lava flows, tsunamis, earthquakes. As we learned with the

inundation of Kalapana, eruptive activity can be a longterm disaster. If you've followed the news since last August when authorities started warning us about lava flows approaching Pahoia, predicting the precise path or timeframe of eruptive activity is inexact and hard to do.

Our state leaders need to create a safety net for our citizens facing the financial fallout of such natural disasters. The hurricane fund was a good first step. Being a statewide community built on volcanoes, with no continental shelf, the hurricane fund should be the template to create Hawaii's Natural Disaster Relief Fund. \$183 million from the hurricane fund would be a great start!

Please approve HB737. Mahalo for your attention to my comments and malama pono.

Frances K. (Frankie) Stapleton
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