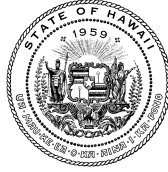


DAVID Y. IGE
GOVERNOR



CURT T. OTAGURO
COMPTROLLER
AUDREY HIDANO
DEPUTY COMPTROLLER

STATE OF HAWAII
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES

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

TESTIMONY
OF
CURT T. OTAGURO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE
HOUSE COMMITTEE ON PUBLIC SAFETY, VETERANS AND MILITARY AFFAIRS

JANUARY 30, 2019

RELATING TO NATURAL DISASTER PROTECTION

Chair Takayama, and members of the Committee, thank you for the opportunity to submit written testimony on H.B. 714. The Department of Accounting and General Services (DAGS) supports the intent of H.B. 714 (the measure) but would like to offer our comments.

The measure proposes to establish a 3-year parametric disaster insurance pilot program within DAGS, administered by the Risk Management Office (Office), to be funded by the interest from the Hurricane Reserve Trust Fund (HRTF); purchase parametric disaster insurance for the State; and receive and distribute moneys in the Parametric Disaster Insurance Special Fund (Fund) to be established under the measure. We support the intent of this measure provided the elimination of the transfer of interest earned on the principal in the HRTF to the general fund does not have a negative impact on the administration's executive supplemental budget and initiatives submitted for fiscal year 2020.

We appreciate that the pilot program will provide DAGS the opportunity to research into parametric insurance, which 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. Analysis can be done regarding different combinations of measurable 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 or any other combination thereof. 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.

However, the research was already done by the Office in the past and currently for the upcoming property policy renewal in December of 2019. Additionally, since the mission of the Office is to provide risk management solutions covering property and liability exposures for State agencies, the measure should contain language that specifies that parametric policies purchased during the pilot period will insure only State property. An additional scope beyond State property will require much more resources to administer and address this coverage than the current staff of only four (4) employees.

If the measure is to advance, we suggest the following additions for clarity:

1. Clearly define the role of the Social Science Research Institute of the University of Hawaii (the Institute) in the pilot program.
2. In addition to purchase of parametric disaster insurance for the State, allowable expenditures from the Fund to include fees (fixed fee or commission) 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 additional overhead costs incurred by the Office for the administration of the pilot program.
3. Identification of where the remaining funds in the special fund will be transferred to on June 30, 2022 if the Fund is abolished.
4. Establishment of protocols if proceeds from the HRTF is insufficient to purchase parametric policies in amounts advantageous to the State of Hawaii.

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

HB-714

Submitted on: 1/29/2019 10:13:13 AM

Testimony for PVM on 1/30/2019 10:30:00 AM

Submitted By	Organization	Testifier Position	Present at Hearing
Melodie Aduja	O`ahu County Committee on Legislative Priorities of the Democratic Party of Hawai`i	Support	No

Comments:

DAVID Y. IGE
GOVERNOR

LATE



RODERICK K. BECKER
DIRECTOR

ROBERT YU
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)

WRITTEN ONLY

TESTIMONY BY RODERICK K. BECKER
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE HOUSE COMMITTEE ON PUBLIC SAFETY, VETERANS
AND MILITARY AFFAIRS
ON
HOUSE BILL NO. 714

**January 30, 2019
10:30 a.m.
Room 430**

RELATING TO NATURAL DISASTER PROTECTION

House Bill (H.B.) No. 714 establishes a three-year parametric disaster insurance pilot program and a Parametric Disaster Insurance Special Fund (PDISF). Parametric, or index-based, insurance solutions settle claims on the characteristics of a disaster, as opposed to the loss sustained from the disaster. The bill authorizes the following funds to be deposited into the PDISF: 1) interest earned from the principal in the Hurricane Reserve Trust Fund (HRTF), as provided under Section 431P-16; 2) moneys received from the payout of a parametric disaster insurance policy; and 3) appropriations made by the Legislature to the fund. Moneys in the PDISF are to be used to purchase parametric disaster insurance for the State. Under this bill, the Department of Accounting and General Services will administer and expend moneys from the PDISF.

In addition, as a matter of general policy, the Department of Budget and Finance does not support the creation of any special fund which does not meet the requirements of Section 37-52.3, 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 H.B. No. 714, it is difficult to determine whether the proposed special fund would be self-sustaining for the three-year pilot program.

It should be noted that the HRTF experienced decreases in both FY 17 and FY 18 due to unrealized investment losses which negatively impacted fund balances. With this volatility, a secure source of revenue for the PDISF is questionable.

Thank you for your consideration of our comments.

LATE

Ala Wai
Watershed
Collaboration



Testimony Submitted to the House Committee on Finance
House Bill 714
January 30, 2019, 10:30am, Room 430 Submitted by
Michael Hamnett
Co-Chair, Ala Wai Watershed Collaboration

Chair Takayama, Vice Chair Gates, 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 Co-Chair of the Ala Wai Watershed Collaboration.

I strongly support HB 714 as do members of the Ala Wai Watershed Collaboration.

The Ala Wai Watershed Collaboration (previously named 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 State and City & County of Honolulu. The AWWC has since then been endorsed and supported by the Legislature through HCR61 in 2016. (<http://alawai.hawaii greengrowth.org>)

This Army Corps project is intended by mitigate catastrophic flood that would put 4 feet of water in Waikiki and have major impacts in Makiki, Palolo, Mānoa, Mo'ili'ili 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 714.

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 designs for the Army Corps Ala Wai Flood Mitigation project have not been finalized yet, and the project will not be completed until years from now. 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.

Michael P. Hamnett
Social Science Research Institute University of Hawaii
Saunders Hall, 719
2424 Maile Way
Honolulu, Hawaii
808-292-2838 hamnett@hawaii.edu

Testimony of The Nature Conservancy of Hawai'i
Supporting HB 714 Relating to Disaster Protection
Committee on Public Safety, Veterans, and Military Affairs
Wednesday, January 30, 2019, 10:30 AM, Room 430

The Nature Conservancy supports HB 714 to establish a parametric disaster insurance pilot program in Hawai'i. **We also recommend that the pilot program investigate applying private risk transfer mechanisms to natural infrastructure, which plays a significant role in reducing impacts and losses from natural disasters. As such, we suggest the following **addition** to the bill:**

§41D-B Parametric disaster insurance pilot program. (a) There is established the parametric disaster insurance pilot program within the department for administrative purposes. The pilot program shall be administered by the risk management office within the department.

(b) As part of the pilot program, the risk management office, in collaboration with the social science research institute at the University of Hawaii at Manoa, shall:

- (1) Explore parametric disaster insurance policies for the State **'s built and natural infrastructure**;
- (2) Purchase parametric disaster insurance for the State; and
- (3) Receive and distribute moneys in the parametric disaster insurance special fund.

Hawai'i has increasing exposure to climate change related risks and disaster events. However, the islands also have environmental resources such as forests, wetlands, coral reefs, and other natural infrastructure that – if healthy, well-managed, and functioning – can help reduce emissions as well as mitigate the risks and related loss and damages from climate change.

For example, a team from The Nature Conservancy, University of California at Santa Cruz, Stanford University, and the US Geological Survey has developed biophysical models showing that coral reefs can provide an effective first line of defense for coastal flood reduction. These scientists have demonstrated that **healthy reefs can absorb up to 97% of wave energy**, protecting coastal properties from the power of the sea. Conversely, the loss of just one meter of reef could result in a doubling of the cost of damage.¹

As such, it is important to invest in nature-based infrastructure to protect built infrastructure and property. And, insurance companies are beginning to apply parametric insurance products to natural infrastructure.

The Nature Conservancy has been working on one such pilot for a parametric insurance policy for the coral reef fronting resort areas on Mexico's Caribbean coast near Cancún. While reefs mitigate the effects of hurricanes, the storms also damage the reefs. Damage increases beach erosion and decreases the reefs' capacity to protect the coast in future storm events. But damage can be reduced by immediate post-storm clean up and restoration actions and that's where parametric insurance comes into play. A dedicated insurance solution to cover the restoration cost for the reef is an essential step if the full protective value of the reef is to be reinstated.

Thank you for the opportunity to testify and offer an amendment to this bill.

¹ Ferrario, Filippo, Michael W. Beck, et al. "The effectiveness of coral reefs for coastal hazard risk reduction and adaptation." *Nature Communications* volume5, Article number: 3794 (2014) www.nature.com/articles/ncomms4794