

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
DIRECTOR

GLORIA CHANG
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 CRAIG K. HIRAI
DIRECTOR, DEPARTMENT OF BUDGET AND FINANCE
TO THE SENATE COMMITTEES ON COMMERCE AND CONSUMER PROTECTION
AND JUDICIARY
ON
HOUSE BILL NO. 1830, H.D. 1

March 22, 2022
10:00 a.m.
Room 229 and Videoconference

RELATING TO STATE SELF-INSURANCE AGAINST PROPERTY AND CASUALTY
RISKS

The Department of Budget and Finance (B&F) offers comments on House Bill (H.B.) No. 1830, H.D. 1.

H.B. No. 1830, H.D. 1, establishes the State Self-Insurance Against Property and Casualty Risks Special Fund (SIAPCRSF) to be administered by the Comptroller, through the Risk Manager, to provide the State with self-insurance against the State's property and casualty risks. The bill appropriates unspecified general funds in FY 23 to the Department of Accounting and General Services to be deposited into this newly established special fund and appropriates out of this special fund unspecified funds in FY 23 for the purposes of this measure. Also, to ensure that the special fund is operated on an actuarially sound basis, the measure states that the Governor shall authorize the annual transfer of unspecified general funds to the SIAPCRSF.

B&F has serious concerns with converting completely to self-insurance for casualty and property risks. B&F strongly recommends that before the State converts to a self-insurance system, as proposed in this measure, that a comprehensive actuarial

study be completed which identifies and addresses the potential risks and costs of converting the State to a completely self-insured system. B&F believes it is critical that such an actuarial study be completed first to assess whether having the State self-insure against property and casualty risks is both viable and cost effective. Additionally, B&F needs to point out that the Legislature must appropriate annually general funds to support the SIAPCRSF because the State Constitution does not permit standing appropriations.

B&F also notes that, with respect to the general fund appropriation in this bill, the federal Coronavirus Response and Relief Supplemental Appropriations Act requires that states receiving Elementary and Secondary School Emergency Relief (ESSER) II funds and Governor's Emergency Education Relief II funds must maintain state support for:

- Elementary and secondary education in FY 22 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

Further, the federal American Rescue Plan (ARP) Act requires that states receiving ARP ESSER funds must maintain state support for:

- Elementary and secondary education in FY 22 and FY 23 at least at the proportional level of the state's support for elementary and secondary education relative to the state's overall spending, averaged over FYs 17, 18 and 19; and
- Higher education in FY 22 and FY 23 at least at the proportional level of the state's support for higher education relative to the state's overall spending, averaged over FYs 17, 18 and 19.

The U.S. Department of Education has issued rules governing how these maintenance of effort (MOE) requirements are to be administered. B&F will be working with the money committees of the Legislature to ensure that the State of Hawai'i complies with these ESSER MOE requirements.

Finally, regarding the establishment of the SIAPCRSF, as a matter of general policy, B&F does not support the creation of special funds which do 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 regard to H.B. No. 1830, H.D. 1, the special fund will not be self-sufficient.

Thank you for your consideration of our comments.

HB-1830-HD-1

Submitted on: 3/18/2022 2:56:55 PM

Testimony for CPN on 3/22/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
Tracy Kitaoka	Testifying for Department of Accounting and General Services	Comments	In Person

Comments:

I am available for comments.

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

WRITTEN TESTIMONY
OF
CURT T. OTAGURO, COMPTROLLER
DEPARTMENT OF ACCOUNTING AND GENERAL SERVICES
TO THE

SENATE COMMITTEES ON COMMERCE AND CONSUMER PROTECTION
AND JUDICIARY

H.B. 1830, H.D. 1

MARCH 22, 2022, 10:00AM
CONFERENCE ROOM 229 AND VIA VIDEOCONFERENCE, STATE CAPITOL
RELATING TO STATE SELF-INSURANCE AGAINST PROPERTY AND CASUALTY
RISKS.

Chairs Baker and Rhodes, Vice Chairs Chang and Keohokalole and Members of the Committee, thank you for the opportunity to testify on H.B. 1830, H.D. 1.

The Department of Accounting and General Services (“Department”) appreciates the intent of this measure but has serious concerns with immediately implementing a statewide self-insurance program to cover all lines of insurance coverages and eliminating the Comptroller’s discretion to purchase casualty and property insurance.

The proposed measure 1) adds a new section to chapter 41D, Hawaii Revised Statutes (“HRS”), to establish a special fund for the State to self-insure against property and casualty risks, 2) authorizes the Governor to transfer an undetermined amount of general funds to the special fund on an annual basis to address payment of any losses for State of Hawaii property and casualty risks, 3) provides for the Comptroller to establish deductibles for the state agencies

for certain perils or classes of property or casualty risks, and 4) provides for the Comptroller to request that the Governor authorize an advance to the special fund of sufficient sums of money from other funds in the state when the fund balance is insufficient to keep the special fund actuarially sound and pay claims; advance to be repaid within ten years with interest, including the option to assess state agencies for the repayment as needed. The measure also removes language from the current statute completely eliminating the discretion for the Comptroller to purchase casualty and property insurance, and instead provides for self-insurance coverage against casualty and property risks.

The Department appreciates the general intent to save the State the cost of its annual insurance premiums by establishing and administering self-insurance coverage but has serious and grave concerns with the immediate conversion to a fully self-insured program as proposed in this measure. Without a formal and comprehensive study on the risks and costs involved with such an undertaking, we may be compromising the state's ability to manage risk exposure.

The current statute allows for both insurance purchases and self-insurance as options, depending on insurance market conditions. It would be prudent to preserve the options in protecting the State against catastrophic losses and to minimize the total cost of insuring risk, as well as the ability to meet other insurance requirements and risk management considerations such as those related to FEMA reimbursement, procurement/financing agreements and credit rating agencies analysis on governance practices.

In summary, the Department appreciates the intent of this bill for total self-insurance as a cost-saving measure but has serious concerns regarding the risks and costs to the State without the benefit of further analysis and consultation.

Thank you for the opportunity to testify on this matter.

HB-1830-HD-1

Submitted on: 3/19/2022 10:04:13 AM

Testimony for CPN on 3/22/2022 10:00:00 AM

Submitted By	Organization	Testifier Position	Testify
John Bickel	Individual	Support	Written Testimony Only

Comments:

I believe self insurance can save money.