

STAND. COM. REP. NO. 3347

Honolulu, Hawaii

MAR 22 2024

RE: H.B. No. 2686
H.D. 1
S.D. 1

Honorable Ronald D. Kouchi
President of the Senate
Thirty-Second State Legislature
Regular Session of 2024
State of Hawaii

Sir:

Your Committees on Commerce and Consumer Protection and Energy, Economic Development, and Tourism, to which was referred H.B. No. 2686, H.D. 1, entitled:

"A BILL FOR AN ACT RELATING TO THE STABILIZATION OF PROPERTY INSURANCE,"

beg leave to report as follows:

The purpose and intent of this measure is to:

- (1) Amend the laws relating to the Hawaii Hurricane Relief Fund and Hawaii Property Insurance Association;
- (2) Expand the Hawaii Property Insurance Association's authority to include the issuance of property insurance other than fire insurance for certain real properties organized as a condominium;
- (3) Reinstate the special mortgage recording fee;
- (4) Explicitly authorize the Hawaii Property Insurance Association to issue property insurance policies to certain condominiums outside of areas designated for coverage by the Hawaii Property Insurance Association;



- (5) Mandate that the Hawaii Property Insurance Association member insurers recoup assessment costs; and
- (6) Amend specific coverage limits, fund capitalization amounts, and assessment percentages by deleting specified dollar amount percentages and authorize the Hawaii Hurricane Relief Fund and the Hawaii Property Insurance Association boards to recommend appropriate amounts and percentages to the Insurance Commissioner.

Your Committees received testimony in support of this measure from the Hawaii Green Infrastructure Authority; Hawaii Insurers Council; Hawai'i Association of REALTORS; Hawaii Credit Union League; Hawaii Bankers Association; First Insurance Company of Hawaii; Mortgage Bankers Association of Hawaii; Honolulu Tower AOA; Community Associations Institute; Hawaii First Realty LLC, Hawaii Financial Services Association; Zephyr Insurance Company, Inc.; and seventeen individuals.

Your Committees received testimony in opposition to this measure from one individual.

Your Committees received comments on this measure from the Insurance Division of the Department of Commerce and Consumer Affairs, Department of Taxation, State Farm Mutual Automobile Insurance Company, Tax Foundation of Hawaii, Land Use Research Foundation of Hawaii, and Maui Chamber of Commerce.

Your Committees find that the increasing risk of hurricanes due to climate change coupled with prior high-cost accumulated losses associated with failing water pipe systems, have caused many insurers that offer condominium building master insurance policies in Hawaii to significantly increase their premium rates or exit the local market entirely. This has left many associations faced with the difficult choice of either paying drastically higher premiums or allowing their condominium buildings to be under-insured. Your Committees find that temporary assistance is necessary to help stabilize the condominium property insurance market until market conditions improve and risks become more insurable, and therefore this measure expands the markets of last resort in the State by enabling the Hawaii Property Insurance Association and the Hawaii



Hurricane Relief Fund to underwrite certain insurance risks that no standard insurer is willing to underwrite.

Your Committees note that the new definition of "condominium", as proposed in this measure, imposes new requirements of "insurability", "remediation plans", and "timetables" on all condominium properties without defining the insurance benefits such properties would gain through the review process. Your Committees also note the concerns raised in testimony concerning the transient accommodations tax structure, the ability to ensure adequate liquidity of the Hawaii Hurricane Relief Fund, and the recoupment of assessment language for the Hawaii Property Insurance Association, proposed in this measure in its current form, and find that amendments to this measure are necessary to address these concerns.

Accordingly, your Committees have amended this measure by:

- (1) Deleting language that would have deposited certain percentages of the taxes levied, assessed, and collected with regard to the transient vacation rentals to various trust accounts and inserting language that, beginning January 1, 2026:
 - (A) Requires an unspecified percentage of tax revenues to be deposited quarterly into the Mass Transit Special Fund; and
 - (B) Requires unspecified dollar amounts to be allocated to trust accounts pursuant to sections 431:21-105 and 431P-16, Hawaii Revised Statutes, from the transient accommodations tax;
- (2) Inserting language to increase from 4.265 percent to 4.275 percent the tax on gross premiums charged against each authorized insurer pursuant to section 431:7-202(a), Hawaii Revised Statutes;
- (3) Amending certain reporting requirements to require the Hawaii Property Insurance Association and the Hawaii Hurricane Relief Fund to submit reports to the Insurance Commissioner and Legislature, rather than just the Insurance Commissioner, for transparency, and clarifying



the financial information that shall be included in the annual report;

- (4) Amending the recoupment of assessments language concerning the Hawaii Property Insurance Association and Hawaii Hurricane Relief Fund to clarify that member insurers and property and casualty insurers are authorized to use any excess recovery assessments as an offset to subsequent assessments, rather than require insurers to provide pro rata credits to policyholders' premiums;
- (5) Restoring language in existing law regarding the Hawaii Hurricane Relief Fund's powers to assess insurers following a loss from a covered event known as the second assessment, including language that:
 - (A) Allows the Fund to increase the rate of assessment to an amount not to exceed five percent, and to include the insurer's gross direct written premiums for motor vehicle insurance in this State;
 - (B) Requires the Fund to assess insurers that acted as servicing facilities during the twelve months ending at the start of the month preceding the month in which the covered event occurs at a rate of 1.5 percent of the total coverage provided by the Fund under its hurricane property insurance policies;
 - (C) Sets forth how the second assessment is administered; and
 - (D) Allows certain net accumulated moneys, commitments, and bonds to be used if losses from a covered event exceed the assessment pursuant to section 431P-5(b)(8)(B), Hawaii Revised Statutes, rather than section 431P-5(b)(8)(A), Hawaii Revised Statutes;
- (6) Deleting language that would have placed a cap on the surcharge levied by the Hawaii Hurricane Relief Fund at



two percent, and restoring language in existing law that places a cap of seven and one-half percent a year;

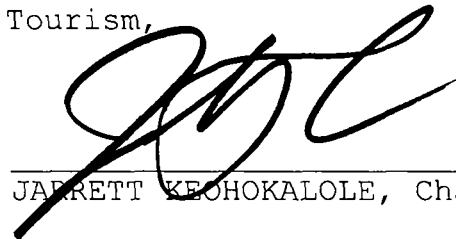
- (7) Inserting legislative findings and updating section 1 to reflect its amended purpose; and
- (8) Making technical, nonsubstantive amendments for the purposes of clarity and consistency.

As affirmed by the records of votes of the members of your Committees on Commerce and Consumer Protection and Energy, Economic Development, and Tourism that are attached to this report, your Committees are in accord with the intent and purpose of H.B. No. 2686, H.D. 1, as amended herein, and recommend that it pass Second Reading in the form attached hereto as H.B. No. 2686, H.D. 1, S.D. 1, and be referred to your Committees on Ways and Means and Judiciary.

Respectfully submitted on behalf of the members of the Committees on Commerce and Consumer Protection and Energy, Economic Development, and Tourism,



LYNN DECOITE, Chair




JARRETT KEOHOKALOLE, Chair



The Senate
 Thirty-Second Legislature
 State of Hawai'i

Record of Votes
Committee on Commerce and Consumer Protection
CPN

Bill / Resolution No.:* HB2686, HD1	Committee Referral: CPN/EET, WAM/JDC	Date: 3/21/24		
<input type="checkbox"/> The Committee is reconsidering its previous decision on this measure. If so, then the previous decision was to: _____				
The Recommendation is: <input type="checkbox"/> Pass, unamended 2312 <input checked="" type="checkbox"/> Pass, with amendments 2311 <input type="checkbox"/> Hold 2310 <input type="checkbox"/> Recommit 2313				
Members	Aye	Aye (WR)	Nay	Excused
KEOHOKALOLE, Jarrett (C)	✓			
FUKUNAGA, Carol (VC)	✓			
MCKELVEY, Angus L.K.				✓
RICHARDS, III, Herbert M. "Tim"	✓			
AWA, Brenton				✓
TOTAL	3			2
Recommendation: <input checked="" type="checkbox"/> Adopted <input type="checkbox"/> Not Adopted				
Chair's or Designee's Signature: 				
Distribution: Original Yellow Pink Goldenrod File with Committee Report Clerk's Office Drafting Agency Committee File Copy				

*Only one measure per Record of Votes

The Senate
 Thirty-Second Legislature
 State of Hawai'i

Record of Votes
Committee on Energy, Economic Development, and Tourism
EET

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The Recommendation is:

Pass, unamended 2312 Pass, with amendments 2311 Hold 2310 Recommit 2313

Members	Aye	Aye (WR)	Nay	Excused
DECOITE, Lynn (C)	✓	✓		
WAKAI, Glenn (VC)	✓	✓		
FUKUNAGA, Carol	✓	✓		
KIM, Donna Mercado		✓		
FEVELLA, Kurt		✓		
TOTAL	2	3	0	0

Recommendation: Adopted Not Adopted

Chair's or Designee's Signature:
Donna Mercado Kim

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