



April 15, 2019

The Honorable Susan Rubio, Chair
Senate Insurance Committee
State Capitol, Room 2195
Sacramento, CA 95814

Re: SPONSORSHIP & SUPPORT FOR SB 254 (Hertzberg) As Amended April 1, 2019
The California Resilient Homes Initiative

Dear Senator Rubio,

I am proud to report that the California Earthquake Authority (CEA) Governing Board recently voted to formally appear as the **Sponsor** of SB 254, the *California Resilient Homes Initiative*, introduced by Senator Hertzberg. In doing so, CEA is empowered to take the lead – and establish a path for other insurers and stakeholders to follow – on addressing the urgent need to get California households ready for the next big earthquake. To put it bluntly, California is simply not ready. CEA’s research indicates that there are more than 5 million vulnerable homes located in high seismic risk areas of the state. The need to retrofit those homes is urgent and enormous. SB 254 will enable CEA to start subsidizing that urgent need with more than \$70 million per year in non-taxpayer funds. CEA joins with many other stakeholders in strongly supporting passage of SB 254.

SB 254 has two major interdependent components –strengthening CEA’s long-term sustainability as a not-for-profit, publicly managed earthquake insurer and enhanced funding for earthquake mitigation and home resiliency.

Sustainability of CEA

Under existing law, CEA relies on multiple layers of claim-paying capacity. As of year-end 2019, CEA is projected to have approximately \$17.6 billion in claim-paying capacity. The estimated cost to CEA of procuring the \$8.4 billion in reinsurance for 2019 is expected to be well over \$360 million (the cost of CEA’s 2018 reinsurance program was approximately \$366 million). In aggregate over the past 20 years, CEA has spent more than \$5 billion of policyholder premium and capital on procuring reinsurance.

SB 254 will add a new, lower-cost alternative form of claim-paying capacity to CEA's existing options. This new form of capacity – referred to as “contingent capital” – consists of the capacity to issue post-earthquake debt to pay claims, with repayment of the debt secured by the ability to impose and collect a temporary (5% maximum) assessment on certain property and casualty policies sold in “High Seismic Risk Zones” but only if necessary following an unprecedented and catastrophic earthquake. Contingent capital is a tried and true form of claim playing capacity that has been in use by similar statutorily-created catastrophe insurers in a number states where homes are exposed to natural catastrophes like hurricanes (e.g., Florida, North Carolina, South Carolina, Mississippi, Louisiana).

SB 254 makes a number of other technical changes to CEA's statute to authorize the structure for a “subsequent event” tower of claim-paying capacity, so that CEA can remain in a position after a major earthquake to continue writing earthquake policies to protect California homes. In short, while CEA is financially strong, the State needs CEA to remain strong even after the next large earthquake, and SB 254 does that.

Dramatically increased funding for earthquake mitigation

The second major component of SB 254 is to increase CEA's funding of earthquake-mitigation programs to help meet the urgent need for preparing California houses for the next damaging earthquake. In exchange for the new contingent capital capacity described above, CEA will make annual payments in the amount of 2% of the contingent capital claim-paying capacity that the Board determines CEA should rely upon in a given year, with those funds being devoted to pre-earthquake retrofit and mitigation programs in the same “High Seismic Risk Zones” that are subject to assessments. The *Resilient Homes Initiative* creates a strong and clear match between the locations where CEA's large annual pre-earthquake mitigation subsidy programs will be deployed, and the areas where some insurance policyholders might see a small, temporary assessment after an unprecedentedly large earthquake (the statistical probability of the 5% assessment be required is extremely remote – only about ¼ of 1% chance of it being required).

Since its inception in 1996, the Legislature has given CEA a mandate to help protect California homes from earthquake damage. Existing law requires CEA to set aside annually 5% of its accrued investment income, up to a \$5 million maximum per year, into CEA's Loss Mitigation Fund. These funds are administered by CEA and used to supply grants and loans to homeowners to seismically retrofit their houses. **The new SB 254 contingent capital authority would allow CEA to increase its annual mitigation funding to approximately \$75 million per year.**

Broad Support for SB 254

CEA has spent more than two years discussing the principles that are now imbedded in SB 254 with a wide array of stakeholders. As a result, the *Resilient Homes Initiative* is earning broad-based support from local governments, insurance industry participants, and disaster relief and life-safety organizations. Some supporters are already on record (City of Los Angeles - Mayor Garcetti, the Personal Insurance Federation of California (PIFC), American Red Cross, Earthquake Engineering Research Institute (EERI), CSAA Insurance Group), and other support has been promised and should soon be on record. This broad support shows that SB 254 is exceptionally sound public policy. These dollars will go towards making communities more resilient. In addition to families that live in areas of future mitigation, every business in higher seismic regions in California will benefit from these communities – in which their workforce and customers live – becoming more resilient. But don't take our word for it, FEMA estimates that for every \$1 spent on mitigation projects, society saves an average of \$4 in the long run.

Narrow Insurance Industry Opposition

Although SB 254 has garnered strong support from the insurance industry, a narrow cross section of the insurance industry is opposing SB 254, but for stated reasons that do not entirely corollate with the actual principles of the *Resilient Homes Initiative* or the text of SB 254. CEA looks forward to continuing to work with any opponents to explain CEA's history and mission, and the strong benefits that SB 254 will confer on the policyholders of the opposing companies and the state.

For those reasons, we respectfully request that the Senate Insurance Committee support passage of SB 254. If you have any questions regarding our position please contact Susie Hernandez, CEA's Legislative Director (shernandez@calquake.com).

Sincerely,



Glenn Pomeroy
Chief Executive Officer
California Earthquake Authority

cc: Senator Hertzberg
Senate Insurance Committee Members
Hugh Slayden, Principal Consultant, Senate Insurance Committee