Senate Bill 254: The Resilient Homes Initiative

Preparing Californians for the Next "Big One"

As Amended on April 1, 2019

SUMMARY

SB 254 (Hertzberg) directs significant and sustained investments to retrofit homes across California by restructuring the California Earthquake Authority's framework for paying claims following a catastrophic earthquake. In doing so, SB 254 helps prepare California homes for the next major earthquake and ensures the long-term financial sustainability of the California Earthquake Authority as California's primary earthquake insurance provider.

ISSUE

In the last 50 years, California has experienced 43 earthquakes with a magnitude of 5.0 or greater that together caused billions of dollars in damage and injured thousands of people. Today, California is home to two-thirds of the nation's earthquake risk, and most Californians live within 30 miles of one of the state's 500 active faults. The best science holds that there is more than a 99% chance that a 6.7 magnitude or greater earthquake will hit California sometime between today and 30 years from now.

Following the 1994 Northridge earthquake, the Legislature created the California Earthquake Authority (CEA), a publicly managed, privately funded nonprofit tasked with protecting homeowners from the financial risks associated with regular seismic events. In recent years, the CEA's role has expanded to include more proactive mitigation efforts, such as the Brace-and-Bolt Program, which has provided over 7,700 retrofit grants since 2014. These resiliency efforts have assumed a larger share of CEA's overall mission, as studies have shown that every dollar spent on mitigation can save at least four dollars in post-event disaster-related costs.

However, these recent mitigation efforts have only just scratched the surface of overall need, which grows more urgent by the day. Across the state, as many as 1.2 million single-family homes and countless more multi-family residential buildings are vulnerable to damage in even a moderate quake, and building codes need updating to ensure effective and adequate retrofits.

Currently, in the event of a major earthquake, the CEA would pay insurance claims using several distinct financing layers – a "layer cake" – that are each activated only when the previous layer's funding is exhausted. While the CEA is financially strong and prepared to cover all claims from the next major earthquake, current law does not provide the mechanisms to ensure CEA's long-term sustainability in the event of multiple major earthquakes.

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SB 254 (Hertzberg)

SB 254 strengthens the CEA's claim-paying capacity while also freeing up funding for mitigation efforts and multiple earthquake events by doing several things:

- Enhances CEA's existing claim-paying capacity by adding a new, lower cost alternative to reinsurance and other existing tools. With reinsurance premiums and other costs reduced, the CEA will be required to make annual payments of between $70 to $100 million to dramatically expand the existing Brace & Bolt program, and develop new pre-earthquake mitigation projects.

- Given that restructured financing, the CEA would then be allowed to, *in the event of a catastrophic earthquake*, establish a small, temporary assessment on property and casualty insurance policies in "High Seismic Risk Zones." Because this funding source would only be available following an earthquake of unprecedented magnitude, and after all other financing layers have been exhausted, it is known as *contingent capital.*
    - As noted, CEA will make annual payments in exchange for this new capacity, with the funds being devoted to pre-earthquake retrofit and mitigation programs in the *same* "High Seismic Risk Zones."

- Allows the CEA, in the event of a catastrophic earthquake, to shift financing capacity from the existing "layer cake" into a "subsequent event tower," ensuring the CEA's immediate readiness for another disastrous seismic event.
    - The resources in this subsequent event claim-paying fund would come from reinsurance, an insurance industry assessment liability, and a "protected operating capital" account.

August 2014, after M 6.0 South Napa Earthquake

Unretrofitted and *Uninhabitable* Retrofitted and *Habitable*

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