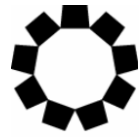


ASSOCIATION OF BAY AREA GOVERNMENTS

Representing City and County Governments of the San Francisco Bay Area



ABAG

Agenda Item 4c

TO: ABAG Legislation Committee

DATE: April 8, 2019

FR: Executive Director

W. I. 1114

RE: SB 254 (Hertzberg): The Resilient Homes Initiative

Background

Senate Bill 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 while also ensuring the long-term financial sustainability of the California Earthquake Authority as California's primary earthquake insurance provider.

Recommendation

The ABAG Legislation Committee is requested to recommend that the Executive Board take a support and seek amendments position on SB 254.

Discussion

As noted previously, in a major San Andreas earthquake, ABAG estimates that nearly 70,000 residential buildings across the Bay Area would be significantly damaged, displacing almost 200,000 households. Nearly all of this damage will occur in older, vulnerable buildings. Faults across the region could cause significant damage in every Bay Area city and county. ABAG has long advocated for funding tools to support home and building owners retrofit existing dangerous buildings.

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, due to very limited funding available, recent mitigation efforts have barely scratched the surface of overall need, which grows more urgent by the day. In the Bay Area, many older single-family homes built above a crawl space or above a garage are vulnerable to damage in even a moderate earthquake, as are many multi-family buildings with large ground floor openings (soft-story buildings).

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

SB 254 would have a two-fold benefit of strengthening the CEA's claim-paying capacity and freeing up funding for mitigation efforts by making two modifications to current law, as follows:

- The bill would authorize the CEA, in the event of a catastrophic earthquake, to subsequently establish a small, temporary assessment on property and casualty insurance policies in "high seismic risk zones." Because this charge would only apply following an earthquake of unprecedented magnitude, after all other financing layers have been exhausted, it is known as "contingent capital." This structure has been used in Florida for decades to structure their hurricane policies.
- By adding this contingent capital option, the bill would reduce the amount of reinsurance required to cover claims for an initial major quake, which would then free up \$70 to \$100 million annually to dramatically expand the state's existing Brace & Bolt program and help pay for new pre-earthquake mitigation projects in high seismic risk zones.

Staff believes this innovative approach suggested in SB 254 makes good sense but believes the bill would be improved by amendments that would require a portion of the new funding to be specifically directed to:

- seismically vulnerable *multi-family* buildings;
- buildings that house low-income residents; and
- jurisdictions with mandatory seismic retrofit programs as a reward for the development of such programs.

Staff seeks the committee's support for the bill while also working with the author's office to develop specific amendments along these lines that can be incorporated into the bill.

Known Positions

Support

Personal Insurance Federation of California

Oppose

None on file



Therese W. McMillan

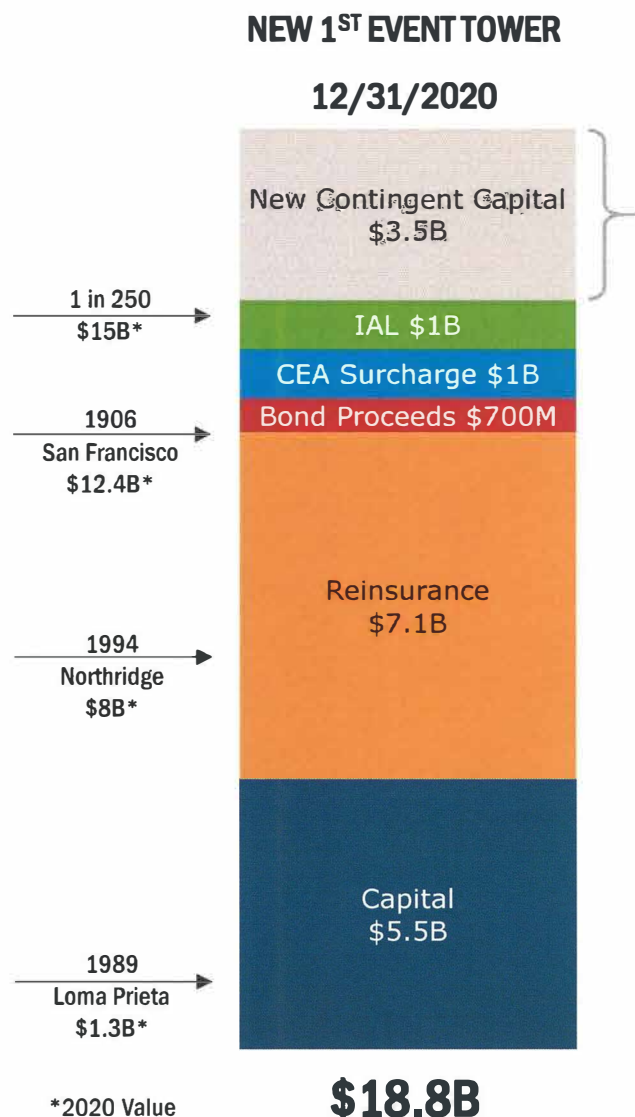
Attachment:

- Attachment A: Reinsurance Cost Savings to Fund Mitigation

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Reinsurance Cost Savings to Fund Mitigation



Authorize CEA Governing Board to establish – **but ONLY if necessary, following an unprecedented and catastrophic earthquake** – a temporary assessment* on certain property and casualty lines.**

This assessment will only be applicable in High Seismic Zones.

An amount equal to 2% of the Contingent Capital layer will be dedicated to fund earthquake mitigation in High Seismic Zones.

For example: 2% of \$3.5B = \$70M for Mitigation

* Maximum assessment: 5% for no more than 10 years for each catastrophic earthquake

** Assessable Lines: P&C insurance excluding certain specified lines such as Med Mal, Work Comp, EQ, Renters, and Auto