Assembly Joint Resolution No. 6

Adopted in Assembly April 13, 2015

Chief Clerk of the Assembly

Adopted in Senate June 22, 2015

Secretary of the Senate

This resolution was received by the Secretary of State this ______ day of ________________, 2015, at ______ o'clock ____M.

Deputy Secretary of State

RESOLUTION CHAPTER ________

Assembly Joint Resolution No. 6—Relative to earthquake insurance.

LEGISLATIVE COUNSEL'S DIGEST

AJR 6, Cooley. California Earthquake Authority: postearthquake financing.

This measure would recognize a need for federal legislation that would establish guarantees of postearthquake financing for prequalified, actuarially sound state earthquake insurance programs, including the California Earthquake Authority, and would urge the President and Congress of the United States to enact that legislation.

WHEREAS, Over the last 30 years, California has experienced 1,451 earthquakes of magnitude 4.0 or greater, ranging from 16 to 168 per year; and

WHEREAS, Most Californians live within 20 miles of a major earthquake fault capable of producing damaging earthquakes; and

WHEREAS, On the morning of August 24, 2014, many residents of Napa discovered they lived closer to such a fault than they believed. A magnitude 6.0 earthquake struck American Canyon, south of Napa, at 3:20 a.m., leading to one death and many injuries. The earthquake seriously damaged nearly 100 homes, as well as many historic downtown buildings. It cost local wineries millions of dollars in spilled wine and damaged equipment, and numerous people were injured. The overall damage and effects of the earthquake demonstrated how even a moderate-sized earthquake can have a large impact on a community; and

WHEREAS, In June 2014, the Los Angeles Times reported that the first five months of the year were marked by five earthquakes larger than magnitude 4.0, after what had been a relatively quiet period of seismic activity for the Los Angeles area. That number of earthquakes at that magnitude had not occurred in a year since 1994, the year of the Northridge earthquake; and

WHEREAS, Faced with the certainty of its peril from earthquakes, over the last three decades California has repeatedly shown that smart public policy choices can help Californians prepare for a catastrophic earthquake. Milestone innovations across this era include the following:

(a) In the year following the 1983 Coalinga earthquake, California passed the Earthquake Insurance Act, requiring residential property insurers to offer homeowners earthquake coverage, to ensure homeowners considered the possibility of protecting their home from earthquake damage.

(b) In the year after the 1989 Loma Prieta earthquake, California began examining how a state-based financial pool might be constructed to improve protection for homeowners. This effort, the California Residential Earthquake Recovery Fund (CRERF), was intended to cover the cost of earthquake insurance deductibles. While this plan was repealed in 1992 as potentially actuarially unsound, it pointed the way to further innovations.

(c) Since 1996, the multipart funding mechanism of the California Earthquake Authority (CEA), a public instrumentality of the State of California, has succeeded as the primary source of earthquake insurance for California homeowners seeking to protect their homes from earthquakes; and

WHEREAS, Despite the growing successes of the CEA since its 1996 formation, how it can be improved has become clear. Almost every news story about California earthquake insurance and the CEA notes that residential earthquake insurance is costly for homeowners and the deductibles are high. The high cost and high deductibles are seen as a key factor behind why only 12 percent of Californians who buy homeowners' insurance also buy earthquake insurance; and

WHEREAS, There is no better way to prepare California for the inevitability of disastrous earthquakes than to make earthquake insurance work better for its residents. The limitations of the existing system are well-known. Now is the time for the next key step in policy innovation to make the state's earthquake insurance system work better for renters and homeowners; and

WHEREAS, As the CEA approaches two decades of operation, it has become clear that the CEA has pushed the envelope on how a single state-based pool can materially assist in catastrophe readiness. But by law, the CEA's rates must be actuarially sound and based on the best available scientific information for assessing earthquake frequency, severity, and loss; these sensible conditions also temper the CEA's ability to cut the cost of earthquake insurance; and

WHEREAS, As a public instrumentality of the state, the CEA must cover all its risks, including the possibility that at any time, a truly catastrophic earthquake might hit the state; and

WHEREAS, The CEA's need, as a stand-alone, risk-bearing public instrumentality of the state, to always have a plan to cover the chance of a catastrophic earthquake is what, under the current system, keeps the price of earthquake insurance high. For the level of total exposure the policies represent, the rates yield sufficient premiums to pay for a backstop of reinsurance sufficient to offset expected CEA losses in all but the most catastrophic earthquake; and

WHEREAS, A federal policy of certain access to federal debt guarantees for postevent financing would strengthen the risk-bearing capacity of actuarially sound state-based disaster programs like the CEA and reduce the preevent expense of providing that insurance. In recent sessions of the United States Congress, a proposed federal partnership limited to prequalified, actuarially sound state earthquake insurance programs has been estimated to expose the federal government to a 10-year cost of only $25 million; and

WHEREAS, A state and federal partnership to enhance the ability of prequalified, actuarially sound state earthquake funds to access postdisaster borrowing would enable California and other states using actuarially sound programs to manage risk with a dramatically better tool; and

WHEREAS, The CEA's certain access to a federal guarantee of its postearthquake borrowing would ensure access to the private capital markets at reasonable rates, enhancing the claims-paying capacity for a catastrophic earthquake. That lower-cost capacity, in turn, would permit the CEA to adjust its annual purchase of earthquake reinsurance and lower expenses, thus speeding long-term capital accumulation to help CEA modulate its cost of providing basic earthquake insurance across the state; now, therefore, be it

Resolved by the Assembly and the Senate of the State of California, jointly, That the Legislature urges the President and the Congress of the United States to enact legislation to establish guarantees by the federal government to support the responsible sale of postearthquake bonds by financially sound residential-earthquake-insurance programs operated by any of the several states on an actuarially sound basis; and be it further

Resolved, That the Chief Clerk of the Assembly transmit copies of this resolution to the President and Vice President of the United States, to the Speaker of the House of Representatives, to the Majority Leader of the Senate, and to each Senator and Representative from the State of California in the Congress of the United States.

Attest:

Secretary of State