

**Senate Joint Resolution No. 28**

**RESOLUTION CHAPTER 92**

Senate Joint Resolution No. 28—Relative to earthquake insurance.

[Filed with Secretary of State July 9, 2014.]

LEGISLATIVE COUNSEL'S DIGEST

SJR 28, Monning. Earthquake insurance: affordability.

This measure would memorialize the President of the United States and the Congress of the United States to enact the Earthquake Insurance Affordability Act.

WHEREAS, The magnitude 6.7 Northridge Earthquake in 1994 was the costliest natural disaster in the history of the State of California to date, with more than \$25 billion in property damage, and \$49 billion in economic losses to the region and the state; and

WHEREAS, A major earthquake in the San Francisco Bay area or in southern California could have an even greater impact than Hurricane Katrina had in Louisiana and Mississippi; and

WHEREAS, Risk Management Solutions, Inc., estimated the potential cost of a repeat of the 1906 San Francisco earthquake at \$260 billion, and a magnitude 7.0 earthquake rupturing the southern and northern Hayward Fault between \$210 and \$235 billion; and

WHEREAS, The seven southern California counties that would be most affected by an earthquake on the southern San Andreas Fault are home to 621,000 businesses, 6.3 million employees, and an annual payroll of \$303.3 billion; and

WHEREAS, A magnitude 7.8 southern California earthquake modeled by the United States Geological Survey and the Southern California Earthquake Center at the University of Southern California in 2008 found that such an earthquake could cause more than \$213 billion in damage, and affect roughly 1 out of every 15 workers in the United States, and that the nationwide toll on unemployment and lost productivity could be severe; and

WHEREAS, Risks from flood and earthquake are generally not included in homeowners' insurance and must be purchased separately, but few homeowners purchase earthquake insurance for many reasons, including its high cost; and

WHEREAS, The National Flood Insurance Program makes federally backed flood insurance available to homeowners, renters, and business owners in exchange for state and community floodplain management regulations that reduce future flood damages; and

WHEREAS, Unlike flood insurance, there is no requirement at the federal or state level to obtain earthquake insurance for purposes of securing financing for real property located in high risk areas, leaving the mortgage industry, including Fannie Mae and Freddie Mac, effectively the insurer of last resort; and

WHEREAS, Under current federal law, earthquake insurance premiums that are collected and not used for claims arising within the year of collection are taxed and there is no ability to reserve profits or accumulate capital for future losses, leading to the need for higher premiums; and

WHEREAS, California Senators Dianne Feinstein and Barbara Boxer have introduced the Earthquake Insurance Affordability Act (EIAA) that would authorize a federal guarantee of limited postearthquake borrowing by actuarially sound state residential earthquake insurance programs; and

WHEREAS, The EIAA would lower the cost of earthquake insurance for homeowners who buy coverage from nonprofit, state earthquake insurance programs and direct funding to effective seismic-mitigation measures; and

WHEREAS, The EIAA would allow the California Earthquake Authority to sell postevent bonds in the private capital market, reducing the need to purchase reinsurance preevent and resulting in rate reductions and lower deductibles; and

WHEREAS, With more Californians insured, postevent disaster assistance would cost less to both the state and the federal government, and communities could recover more quickly; and

WHEREAS, A Congressional Budget Office analysis of a similar bill introduced in 2007 estimated that the cost to the federal government for loan guarantees and postdisaster loans would be negligible; now, therefore, be it

*Resolved by the Senate and the Assembly of the State of California, jointly,* That the Legislature memorializes the President and the Congress of the United States to enact the Earthquake Insurance Affordability Act; and be it further

*Resolved,* That the Secretary of the Senate 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, to each Senator and Representative from California in the Congress of the United States, and to the author for appropriate distribution.