

**REPORT OF THE  
CHIEF LEGISLATIVE ANALYST**

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DATE: February 19, 2014

TO: Honorable Members of the Rules, Elections, and Intergovernmental Relations  
Committee

FROM: Gerry F. Miller *KKL*  
Chief Legislative Analyst *for*

Council File No: 14-0002-S5  
Assignment No: 14-01-0033

SUBJECT: Resolution (Englander - Martinez) to SUPPORT S. 1813 to establish a program to provide guarantees for debt issued by or on behalf of State catastrophic insurance programs to assist in earthquakes.

CLA RECOMMENDATION: Adopt the Resolution (Englander-Martinez) to include in the City's 2013-2014 Federal Legislative Program, SUPPORT for S. 1813 (Feinstein), The Earthquake Insurance Affordability Act of 2013, which would establish a program to provide guarantees for debt issued by or on behalf of State catastrophic insurance programs to assist in the financial recovery from earthquakes and earthquake-related events.

SUMMARY

On January 14, 2014, a Resolution (Englander – Martinez) was introduced to support the Earthquake Insurance Affordability Act of 2013 (Act), which would establish a program to provide guarantees for debt issued by or on behalf of State catastrophic insurance programs to assist in the financial recovery from an earthquake. The Resolution indicates that California is historically susceptible to large earthquakes due to its location on the Pacific Ocean's ring of fire. The Resolution further adds that although Californians are aware of a pending large earthquake, few homeowners have insurance as it is too expensive. In addition, without earthquake insurance, many homeowners whose homes sustain earthquake damage may lose their homes because it would also be too costly to rebuild without an insurance payout.

The Resolution further states that S. 1813 seeks to establish a program that would allow non-profit state catastrophic insurance programs, such as the California Earthquake Authority, to access federal loan guarantees in order to provide financial assistance to homeowners following a disaster. The Resolution adds that such non-profit state catastrophic insurance programs would be able to provide lower cost insurance policies for homeowners and would enable faster recovery from natural disasters by expanding access to earthquake insurance to more homeowners.

The Resolution, therefore requests that the City support S. 1813 which would establish a program to provide guarantees for debt issued by or on behalf of State catastrophic insurance programs to assist in earthquakes.

## BACKGROUND

The United States and in particular California are susceptible to earthquakes. The U.S. Geological Survey predicts that there is a 99.7% chance that a major earthquake of 6.7 in scale will strike California in the next 30 years. California lies along the Pacific's Ring of Fire making residential homes susceptible to significant earthquake damage. Recent statistics (August 2013) from the California Department of Insurance indicate that only 10.7 percent of residential homeowners have earthquake insurance coverage. According to S. 1813, the purchasing of earthquake insurance coverage can be costly, create economic hardship, and increase risk of mortgage and other credit defaults potentially negatively impacting the banking system. The bill states that it is the proper role of the Federal Government to prepare and protect its citizens from catastrophes such as earthquakes and to facilitate consumer protection.

Senator Feinstein introduced S. 1813 to address the issue of the lack of capital for earthquake insurance coverage programs. As proposed, S. 1813 establishes a program to provide guarantees for debt issued by or on behalf of State catastrophe insurance programs to assist in the financial recovery from earthquakes and earthquake-related events. It will promote the availability of private capital to provide liquidity and capacity to State earthquake insurance programs by authorizing the Secretary of Treasury to guarantee holders of debt against loss of principal or interest, or both on any debt issued by eligible State programs for the purpose of this Act. In addition, the bill proposes to expedite the payment of claims under State earthquake insurance programs and better assist the financial recovery from significant earthquakes by authorizing the Secretary of the Treasury to guarantee debt for such purposes. With these actions, State eligible programs will have the resources to provide insurance coverage and have any debt issued supported by the Federal Government.

The bill provides financial assistance to State eligible programs, including the State of California's Earthquake Authority (CEA). Under the bill, state programs shall be established and authorized by State law as earthquake insurance programs that offer residential property coverage which include insured losses to property, contents and additional living expenses. S. 1813 also establishes a limit on the aggregate amount of debt guaranteed by Secretary of Treasury (\$3 billion) for all eligible State programs.

We recommend support for S. 1813 inasmuch as it is consistent with previous Council actions to support basic affordable residential earthquake insurance and matters regarding earthquake preparedness and recovery.

The Housing and Community Investment Department (HCID) also supports S. 1813.

## DEPARTMENTS NOTIFIED

HCID

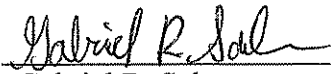
## BILL STATUS

12/12/2013

Bill introduced

12/12/2013

Referred to the Senate Committee on Banking, Housing, and Urban Affairs.



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Gabriel R. Salazar  
Analyst

GFM:grs  
Attachment: Resolution

14-0002-55

RULES, ELECTIONS & INTERGOVERNMENTAL RELATIONS

RESOLUTION JAN 1 4 2014

WHEREAS, any official position of the City of Los Angeles with respect to legislation, rules, regulations or policies proposed to or pending before a local, state or federal governmental body or agency must have first been adopted in the form of a Resolution by the City Council with the concurrence of the Mayor; and

WHEREAS, California is historically susceptible to large earthquakes, as it sits on the Pacific Ocean's ring of fire; and

WHEREAS, while Californians are aware that a large earthquake will occur in the state in the future, few people have earthquake insurance for their homes, as it is often too expensive; and

WHEREAS, without earthquake insurance, homeowners whose property sustains damage during an earthquake may lose their homes because it would be too costly to rebuild without an insurance payout; and

WHEREAS, S. 1813 (Feinstein) seeks to address this by establishing a program that would allow non-profit state catastrophic insurance programs, such as the California Earthquake Authority, to access federal loan guarantees in order to provide financial assistance to homeowners following a disaster; and

WHEREAS, non-profit state catastrophic insurance programs would be able to provide lower cost insurance policies for homeowners; and

WHEREAS, S. 1813 would enable faster recovery from natural disasters by expanding access to earthquake insurance to more homeowners;

NOW, THEREFORE, BE IT RESOLVED, with the concurrence of the Mayor, that by the adoption of this Resolution, the City of Los Angeles hereby includes in its 2013 - 2014 Federal Legislative Program SUPPORT of S. 1813 (Feinstein), which would establish a program to provide guarantees for debt issued by or on behalf of State catastrophic insurance programs to assist in the financial recovery from an earthquake.

PRESENTED BY   
MITCHELL ENGLANDER  
Councilmember, 12<sup>th</sup> District

SECONDED BY 

jwd

JAN 1 4 2014

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