



CITY OF MARTINEZ

**CITY COUNCIL AGENDA
July 11, 2012**

TO: Mayor and City Council
FROM: Lara DeLaney, Councilmember
SUBJECT: Earthquake Insurance Affordability Act (EIAA)
DATE: July 3, 2012

RECOMMENDATION:

Direct staff to send letters of City support for H.R. 3125 to Congressman John Campbell and U.S. Senator Diane Feinstein.

BACKGROUND:

Eighty percent of Californians live on or near an earthquake fault, yet fewer than ten percent of the households are covered by earthquake insurance. In California, the public, nonprofit California Earthquake Authority (CEA) is the state's largest earthquake insurer. Its premiums are driven by the high cost of reinsurance.

Across the nation, people live near faults and fail to have earthquake insurance. Overall consumers believe that earthquake insurance is simply too expensive. However, after an earthquake, as in other major disasters, there is pressure on the federal government to bailout families, communities, and states. Without affordable earthquake insurance, federal bailout or taxpayer subsidy is certain.

H.R. 3125, the Earthquake Affordability act, would authorize the Secretary of the Treasury to guarantee holders of debt against loss of principal or interest, or both, on debt issued by eligible state programs designed to: (1) promote the availability of private capital to provide liquidity and capacity to state earthquake (specifically, residential property) insurance programs, and (2) expedite the payment of claims under such programs and better assist financial recovery from significant earthquakes. The EIAA is simply a debt guarantee, extended only to highly qualified borrowers. It is not a loan and would not cost the taxpayer anything. It would provide a committed, but strictly limited, federal guarantee of private-market, post-event debt. Thus, through the EIAA more homeowners could afford earthquake insurance and more communities could recover more quickly with less federal assistance.

FISCAL IMPACT:

None

ACTION:

Motion to direct staff to send letters of support for H.R.3125: Earthquake Insurance Affordability Act (EIAA) to Congressman John Campbell and U.S. Senator Diane Feinstein.

INSERT DATE

The Honorable John Campbell
U.S. House of Representatives
Washington, DC 20515

RE: Support for the Earthquake Insurance Affordability Act (H.R. 3125)

Dear Congressman Campbell:

I am pleased to inform you of the City of Martinez' support of H.R. 3125, the Earthquake Insurance Affordability Act (EIAA).

Like many California cities, ours is particularly vulnerable to devastating earthquakes. It is of great concern to know that less than 10 percent of California households are properly covered although 80percent of its residents currently live on or near a fault. It is clear that Californians need greater access to affordable earthquake insurance.

Increasing the number of insured homeowners could not only reduce the risk to all taxpayers, but also protect local communities, like ours, left vulnerable after a catastrophic natural disaster as they struggle to rebuild. Having insurance is key to a faster recovery.

The EIAA is a fiscally sound solution that empowers homeowners and protects taxpayers. It provides a limited guarantee that would significantly reduce insurance premiums by as much as 20 percent and allow more homeowners to afford earthquake insurance in California. Preliminary estimates by the nonpartisan Congressional Budget Office (CBO) the EIAA cost to the federal government and taxpayers is zero.

Thank you for your leadership on this critical issue.

Sincerely,

Rob Schroder,
Mayor

c: Glenn Pomeroy, Chief Executive Officer, California Earthquake Authority

INSERT DATE

The Honorable Dianne Feinstein
United States Senate
Washington, DC 20510

RE: Support for the Earthquake Insurance Affordability Act (S. 637)

Dear Senator Feinstein:

I am pleased to inform you of the City of City of Martinez' support of H.R. 3125, the Earthquake Insurance Affordability Act (EIAA).

Like many California cities, ours is particularly vulnerable to devastating earthquakes. It is of great concern to know that less than 10 percent of California households are properly covered although 80percent of its residents currently live on or near a fault. It is clear that Californians need greater access to affordable earthquake insurance.

Increasing the number of insured homeowners could not only reduce the risk to all taxpayers, but also protect local communities, like ours, left vulnerable after a catastrophic natural disaster as they struggle to rebuild. Having insurance is key to a faster recovery.

The EIAA is a fiscally sound solution that empowers homeowners and protects taxpayers. It provides a limited guarantee that would significantly reduce insurance premiums by as much as 20 percent and allow more homeowners to afford earthquake insurance in California.

Preliminary estimates by the nonpartisan Congressional Budget Office (CBO) the EIAA cost to the federal government and taxpayers is zero.

Thank you for your leadership on this critical issue.

Sincerely,

Rob Schroder,
Mayor

c: Glenn Pomeroy, Chief Executive Officer, California Earthquake Authority

The Earthquake Insurance Affordability Act (EIAA)

Empowering Homeowners / Protecting Taxpayers



The summer of 2011 saw our nation hit by tornadoes, earthquakes, and massive storms—they took lives and damaged homes and businesses across the nation.

And in a profound show of Nature's power, even the iconic Washington Monument was cracked by the East Coast earthquake in August—it was an event lasting less than a minute but created severe damage to the structure that compelled the U.S. Parks Service to hang a “closed to visitors” sign on the Monument entrance.

For more than 150 years now the Monument has been an eloquent symbol of our great nation's strength. But so damaged, it's a different kind of reminder: a visual one, which in our view symbolizes cracks in our country's readiness to recover after disasters strike. The recent passionate debate in Congress about disaster-relief funding further revealed just how deep those cracks run.

Without doubt, completing the disaster-relief and recovery-funding puzzle will require hard work and many different pieces. While the two of us may respectfully differ on the design and shape of many puzzle pieces, there is one on which we totally agree — the need for private-sector solutions to make homeowners' earthquake insurance more affordable and accessible again.

EIAA is an important part of fixing the cracks.

FACT: According to the U.S. Geological Survey, earthquakes pose a significant risk to 75 million Americans in 39 states.

FACT: Despite the imminent threat posed by a catastrophic earthquake, only about ten percent of homeowners have earthquake insurance. It is simply too expensive.

We can't prevent earthquakes, so we must increase access to affordable earthquake insurance – to help residents recover and rebuild without a federal bailout and without any kind of taxpayer subsidy.

That is where the Earthquake Insurance Affordability Act comes in.

SUMMARY OF THE LEGISLATION

At no cost to the federal government or federal taxpayers, EIAA would create a limited, committed federal guarantee to support post-earthquake bonds of highly qualified, actuarially sound state programs that offer residential earthquake insurance.

- EIAA supports families' voluntary access to fairly priced earthquake insurance.
- Qualified state programs could replace some (but by no means all) expensive reinsurance and fully maintain their existing capacity and financial strength.

Getting more homes insured cuts earthquake-recovery costs, which are huge.

After major natural disasters, there's pressure on the federal government to bail out families, communities, and states.

- Eighty percent of Californians live on or near a fault. Yet they're not ready for an earthquake—fewer than 10 percent of California households are covered by earthquake insurance.
- Across the nation more than 75 million people live in earthquake-vulnerable regions, but earthquake insurance for those homes is less available and more expensive every day.
- Most consumers believe earthquake insurance is simply too expensive.
- But earthquakes are expensive, too:
 - Federal taxpayers were on the hook for more than \$9 billion after the 1994 Northridge quake, while California's taxpayers chipped in more than half a billion dollars more.
 - It would have been much more expensive for taxpayers had not so many households in 1994 had earthquake insurance for their homes. It was over 25% then—now it's 10%.

Lower-cost earthquake insurance will reduce federal taxpayers' risk.

- Without **affordable** earthquake insurance, federal bailout or taxpayer subsidy is certain.
- In California, the public, nonprofit California Earthquake Authority (CEA) is the state's largest earthquake insurer.
 - Its premiums are driven by the high cost of reinsurance.
 - CEA must spend 40 cents of every premium dollar to buy reinsurance.
 - Since it opened in 1996, the CEA has paid reinsurers \$2.9 billion—reinsurers have paid CEA \$250,000 for claims.

EIAA protects Federal taxpayers to speed recovery after the "big one" strikes.

- EIAA is simply a debt guarantee, extended only to highly qualified borrowers. It's not a loan. It's not a federal backstop.
- EIAA provides one thing: a committed, but strictly limited, federal guarantee of private-market, post-event debt.
- Bottom line—more homeowners will be able to afford earthquake insurance and more communities will recover more quickly—and with less federal assistance.

The EIAA will cost taxpayers zero: All fees and costs—without exception—are borne by the qualified state program. "The Congressional Budget Office has estimated that [EIAA] comes at no cost to the taxpayer." (Senator Dianne Feinstein, Congressional Record – March 17, 2011)

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Earthquake Insurance Affordability Act Coalition List

LEGISLATIVE AUTHORS & CO-AUTHORS

Senator Dianne Feinstein
Senator Barbara Boxer
Congressman John Campbell
Congresswoman Karen Bass
Congressman Howard Berman
Congressman Brian Bilbray
Congresswoman Mary Bono Mack
Congressman Ken Calvert
Congresswoman Lois Capps
Congressman Dennis Cardoza
Congresswoman Judy Chu
Congressman Jim Costa
Congressman Elton Gallegly
Congressman John Garamendi
Congressman Mike Honda
Congresswoman Barbara Lee
Congressman Jerry Lewis
Congresswoman Zoe Lofgren
Congressman Dan Lungren
Congresswoman Doris Matsui
Congressman Jerry McNerney
Congresswoman Loretta Sanchez
Congressman Adam B. Schiff
Congresswoman Jackie Speier
Congressman Mike Thompson

BUSINESS GROUPS

Antelope Valley Chambers of Commerce
Baldy View Chapter, Building Industry Association of
Southern California
Bay Area Council
Building Industry Association of Southern California
California Asian Chamber of Commerce
California Association of REALTORS®
California Building Industry Association (CBIA)
California Chamber of Commerce
Calexico Chamber of Commerce
Cathedral City Chamber of Commerce
Desert Valleys Builders Association
Greater Riverside Chambers of Commerce
Hispanic 100
Irvine Chamber of Commerce
Los Angeles Area Chamber of Commerce

Los Angeles/Ventura Chapter, Building Industry
Association of Southern California
Orange Chamber of Commerce
Orange County Association of REALTORS®
Orange County Building Industry Association
Orange County Business Council
Orange County Taxpayers Association
Palm Desert Chamber of Commerce
Rancho Mirage Chamber of Commerce
Riverside County Building Industry Association
Sacramento Metro Chamber
San Francisco Chamber of Commerce
Santa Ana Chamber of Commerce
South Orange County Regional Chamber of
Commerce
Valley Industry and Commerce Association (VICA)
Vietnamese American Chamber of Commerce

STAKEHOLDERS

Automobile Club of Southern California
Blue Cod Technologies
Mercury Insurance

LOCAL GOVERNMENT

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Mayor Edwin M. Lee, City of San Francisco
Mayor Chuck Reed, City of San Jose
Mayor Jerry Sanders, City of San Diego
Mayor Jean Quan, City of Oakland
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Supervisor Greg Cox, San Diego County
Supervisor Bruce Gibson, San Luis Obispo County
Supervisor Mike McGowan, Yolo County
Supervisor John Tavaglione, Riverside County
Supervisor Shirlee Zane, Sonoma County
City of Costa Mesa
City of Desert Hot Springs
City of Laguna Woods
City of San Clemente



Earthquake Insurance Affordability Act Coalition List

City of Rancho Mirage
County of Del Norte
County of Marin
California State Association of Counties (CSAC)
League of California Cities

NON-PROFIT ORGANIZATIONS

American Red Cross

CONSUMER GROUPS

Consumer Watchdog
United Policyholders

OTHER

Governing Board, California Earthquake Authority
Alfred E. Alquist Seismic Safety Commission