



1050 17th Street, N.W.
Suite 1150
Washington, DC 20036
202.525.5717

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Assemblyman Maienschein
Chair, Assembly Committee on Local Government
California State Assembly

July 15, 2015

Re. S.B. 602 (Monning) - Seismic safety: California Earthquake Authority

R Street Position: **Support**

Chairman Maienschein:

The R Street Institute is a nonprofit think tank headquartered in Washington. Our mission is to engage in policy research and outreach to promote free markets and limited, effective government. What's more, we maintain the largest insurance-focused project of any non-industry think tank. In California, our focus has been in the area of property insurance reform, with an eye toward the California Earthquake Authority, in particular.

In terms of a population's exposure to high intensity and severity events, nowhere is the risk of a major earthquake greater than in California. In March 2015, the U.S. Geological Survey released its Third Uniform Earthquake Rupture Forecast. The study revised upward the odds of an 8.0 magnitude event occurring in California within the next 30 years from 4.7 percent to 7 percent. Less profound earthquakes are even more likely.

In our January 2015 study, "Insuring a Way Out: Modernizing the California Earthquake Authority," we suggested the Legislature adopt an earthquake-retrofit equivalent of the "Property Assessed Clean Energy" financing program. We favor such an approach because it is a free-market and fiscally conservative approach to increasing the state's seismic resilience:

"The PACE model overcomes two of the biggest hurdles to widespread adoption of major property upgrades: the high upfront cost and property owners' uncertainty about when they might sell their property. Investors also are protected, because their obligation becomes attached to the property itself."

S.B. 602 (Monning) is PACE for earthquakes made real – but, by another name. The "Property Secured Mitigation Program" combines the scale and reach of government without warping the private price signals necessary to transmit a full understanding of risk.

Concerns about the impact of PACE-like programs have been expressed by federal lending authorities in the past. Their concerns, centered on the seniority of PACE liens, have proven to be illusory. PACE lending has successfully allowed Californians to outfit their homes with solar systems without encumbering the status or alienability of their mortgages or their properties.

In spite of objections from institutional lenders and the broker community, PACE-financing programs exist across the nation. To date, 31 states have enabled PACE programs and California's approach has been a terrific success. Applying a similar principle to seismic retrofitting would be both a national first and a step toward addressing California's urgent vulnerability to earthquakes.

For these reasons, the R Street Institute is an enthusiastic supporter of S.B. 602 (Monning) and urges a "yes" vote. If you have any questions, please contact Ian Adams at (916)761-5269.

Ian Adams
Western Region Director
R Street Institute

Cc: Assemblywoman Lorena Gonzales, Vice Chair
Senator Bill Monning, Author
Debbie Michel, Chief Consultant, Assembly Committee on Local Government
William Weber, Consultant, Assembly Republican Office of Policy