



Personal Insurance Federation of California

California's Personal Lines Trade Association

REPRESENTING THE LEADING AUTOMOBILE AND HOMEOWNERS INSURERS

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FLOOR ALERT

Date: August 29, 2005

To: Members, California State Senate

From: Dan C. Dunmoyer, President
Rex D. Frazier, Vice President of Legislative and Regulatory Affairs
Michael A. Gunning, Senior Legislative Advocate
Michael A. Paiva, Senior Legislative Advocate

RE: AB 1374 (Liu) – Seismic Safety
Amended: August 15, 2005

PIFC Position: Oppose

The Personal Insurance Federation of California, representing insurers who write over 50% of all personal lines insurance sold in the state, **opposes AB 1374 by Assembly Member Liu.** AB 1374 extends, until July 1, 2013, the sunset date on the Seismic Safety Account (Account), thereby further obligating the Insurance Fund as the source of funding for the California Seismic Safety Commission (CSSC).

PIFC asserts that if the Legislature and the Governor believe that the mission of the CSSC is of benefit to all Californians it should be funded out of the General Fund, as was the practice from 1974 until 2003, rather than out of the Insurance Fund. Using the Insurance Fund as the funding source allows for the continuation of a potentially unfair tax and fails to utilize court settlement funds that could possibly be earmarked for the operations of the CSSC. Finally, PIFC proposes that, at a minimum, the bill should become a two-year bill in order to allow the author and sponsor an opportunity to address the issue of the court settlement money given the fact that the current funding source is protected in statute until July 1, 2007.

Unfair tax. PIFC asserts that the CSSC has no regulatory authority or responsibility in regulating the insurance industry and that the mission of the CSSC is to provide benefits to the state as a whole and not just to commercial and residential property insurance policyholders. Thus, the assessment does not fall within the guidelines of a valid fee and is really a tax. As such the "tax" would need to be approved by a 2/3 vote of the Legislature.

General Fund. PIFC asserts that the function of the CSSC is to provide a benefit to all Californians. The Seismic Safety Act begins by noting that "different agencies at various levels of government have substantial responsibilities in the fields of earthquake preparedness and seismic safety" (Government Code Section 8870) and then goes on to enumerate the many ways that the CSSC can assist state and local agencies coordinate earthquake preparedness efforts. PIFC notes that the Act specifies that the 15 members of the CSSC shall come from a broad range of backgrounds including architecture, planning, fire protection, public utilities, engineering, geology, seismology, local government, social service, and

emergency services. Insurance is listed as an area of expertise that is sought by the CSSC, but it is just one among a field of many. Breadth of experience was clearly sought by the CSSC. Thus, imposing a tax on commercial and homeowner property insurance policy holders seems out of step with the mission of the CSSC.

CRAF Settlement Money. It has recently come to the attention of PIFC that the CSSC has been designated as a recipient of a “gift” originating from the liquidation of the California Research and Assistance Fund (CRAF). Unfortunately, the “gift” has strings attached. The CRAF court order specifies that the settlement money must be used by the CSSC “solely for research related to earthquake risk reduction.” As a result of this specific language, the CSSC has maintained that the money cannot fund the “operations” of the CSSC.

PIFC suggests that the CSSC should thoroughly explore whether anything can be done to clarify that the CRAF money can be used by the CSSC to fund their basic operations, which are primarily research-based. PIFC has already engaged in conversations with the court-appointed receiver and with the Attorney General’s office in an attempt to clarify if the CRAF money can be used to fund the operations of the CSSC since the mission of the CSSC is so closely associated with “research.” Unfortunately, to date, PIFC has been unable to resolve this issue.

Two-year Bill. PIFC notes that the sunset on the existing funding source does not expire until July 1, 2007. Given this fact, PIFC suggests that the Legislature should be given the opportunity to fully research whether the CRAF money can be used by the CSSC to fund its operations.

For all these reasons, **PIFC is opposed to AB 1374 and urges a no vote on this bill.** If you have any questions, please do not hesitate to contact Michael A. Paiva at (916) 442-6646.

cc: Assembly Member Liu, Author
John Decker, Senate Appropriations Committee
Tim Conaghan, Senate Republican Caucus
Cynthia Bryant, Governor’s Office
Scott Reid, Office of the Insurance Advisor
Senate Floor Analysis

4. AB 1374SenFI05