Personal Insurance Federation of California
California's Personal Lines Trade Association
REPRESENTING THE LEADING AUTOMOBILE AND HOMEOWNERS INSURERS
State Farm • Farmers • 21st Century Insurance Group • SAFECO • Progressive

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MEMORANDUM

Date: May 27, 2003

To: The Honorable Jenny Oropeza, Chair
Members, Assembly Budget Committee

From: Dan C. Dunmoyer, President
G. Diane Colborn, Vice President of Legislative & Regulatory Affairs
Michael A. Gunning, Senior Legislative Advocate

Re: AB 1748 (Committee on Budget): Local and State Government
Assembly Budget Committee Hearing – May 27, 2003
PIFC Position: Oppose

The Personal Insurance Federation of California (PIFC), representing insurers selling over 53% of the earthquake insurance sold in California, including State Farm, Farmers, SAFECO, 21st Century Insurance Group and Progressive Insurance Company, opposes AB 1748 authored by the Budget Committee.

PIFC is opposed to the efforts undertaken by the bill to transfer the costs of the California Seismic Safety Commission from the General Fund to the Insurance Fund and funding the Commission with assessments on commercial and residential earthquake policyholders. We believe that the proposed mechanism of assessing insurers and then allowing them to pass the cost on to earthquake policyholders constitutes an illegal, unfair tax on one group of Californian taxpayers. There is no direct regulatory benefit nor does this seem to be a "Sinclair-type" fee.

It is also our belief that the language in AB 1748 may also jeopardize the California Earthquake Authority's (CEA) tax exempt status. AB 1748 creates a Seismic Safety Account within the Insurance Fund that would be funded by assessments imposed on insurers as a prorated percentage of premiums earned on both residential and commercial earthquake policies. The section further states that the insurers may recover the assessment from its insureds. We are concerned that this may be in violation of the original intent of the tax exempt status of the CEA and could thereby jeopardize its status. Insurers have always opposed legislation that would harm the CEA's tax exempt status because it will increase costs for consumers and decrease the financial stability of the CEA.

We believe that any changes to the CEA should first be completely scrutinized to determine what, if any, impact those changes will have on the availability and affordability of homeowners insurance in California or whether the changes will disrupt the important tax-exempt status of the CEA. It has come to our attention that the Department of Insurance opposes the language and is working with the CEA and the Seismic Safety Commission to try to resolve this issue. We have also offered to work with the Department on this critical issue.

If you have any questions regarding our opposition, please feel free to call Michael A. Gunning at (916) 442-6646.

cc: Ann Richardson, Governor's Office
Assembly Republican Caucus