

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: 06/11/2019
POSITION: Oppose

BILL NUMBER: SB 290
AUTHOR: Dodd, Bill

BILL SUMMARY: Natural disasters: insurance and related alternative risk-transfer products.

This bill allows the Governor to purchase insurance, reinsurance, or other risk-transfer products to help mitigate state costs resulting from mudslides, wildfires, or floods. The bill also allows specified entities to work with the State Treasurer and the Insurance Commissioner to determine the appropriate product(s) to purchase, and allows the Director of Finance to allocate funds from the Special Fund for Economic Uncertainties (SFEU) for this purpose.

FISCAL SUMMARY

The Department of Insurance, the State Treasurer, and the Governor's Office of Emergency Services (OES) anticipate minor and absorbable costs to implement this bill.

Finance notes the costs for the state to purchase insurance, and the claims that would be paid by insurance in any given year, are unknown but likely significant.

COMMENTS

Finance is opposed to this bill because the Governor already has broad authority under the California Emergency Services Act to make expenditures from any fund legally available "...to deal with actual or threatened conditions of a state of war emergency, state of emergency, or local emergency...and do other such acts and things as may be necessary..." Additionally, the Emergency Services Act makes OES responsible for the state's emergency and disaster response services for natural and other disasters, and gives OES clear authority to take actions *before* an emergency, not just after.

This bill:

- Allows the Governor to purchase insurance, reinsurance, insurance linked securities, or other related alternative risk-transfer products to help the state mitigate against costs incurred in response to a mudslide, wildfire, or flood;
- Directs OES, or another agency designated by the Governor, to work with the Treasurer and the Insurance Commissioner to determine the appropriate product(s) the state should purchase; and
- Permits the Director of Finance to allocate funds from the SFEU to the Governor for these purposes.

Existing law allows the Insurance Commissioner to assemble a working group to identify, assess, and recommend risk transfer market mechanisms that promote investment in natural infrastructure to reduce the risks of climate change related to catastrophic events. Existing law also establishes the SFEU in the State Treasury.

The bill identifies the SFEU as a potential funding source for purchasing insurance product(s). Finance notes this fund was created to meet General Fund obligations in the event of declining revenues or

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Governor's Office:	By:	Date:	Position Approved _____ Position Disapproved _____
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Dodd, Bill

06/11/2019

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COMMENTS (continued)

unanticipated expenditures (such as natural disasters, in particular), and is a key piece of the Administration's budget resiliency package.

The SFEU is considered part of the General Fund for budget purposes, and is a discretionary reserve with funds continuously appropriated to it for disaster relief purposes. All monies are to be returned to the SFEU when they are no longer needed.

Given the Budget Act of 2019 point-in-time SFEU balance of approximately \$1.4 billion, and the recent wildfire seasons the state has experienced, it is Finance's opinion that the SFEU is not likely to be in a position to provide any resources for the purpose authorized in the bill. Further, insurance premium payments are a regular and ongoing expense that would not be refunded to the SFEU, which would be in violation of the spirit of the fund.

The author's office notes SB 290 is intended to reduce or eliminate any need to draw upon critical reserves or rainy-day funds by allowing California to "deploy practical fiscal tools to better stabilize mitigation funding, reduce fiscal volatility, and boost our financial resiliency in the wake of natural disasters such as wildfires." The author's office further notes that in 2018, "California spent \$947 million on wildland firefighting through emergency funds, over \$450 million more than budgeted."

Although this bill simply authorizes the use of financial products, and the actual determination of whether or not to purchase a product would be made separately, Finance expects insurers will be wary of the wildfire risk in California and the premiums would likely be high and financially unsustainable for the state.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)						Fund Code
	LA	(Dollars in Thousands)						
	CO	PROP						
	RV	98	FC	2020-2021	FC	2021-2022	FC	2022-2023
0845/Insurance	SO	No		----	No/Minor Fiscal Impact	----		0217
0950/St Treasurer	SO	No		----	No/Minor Fiscal Impact	----		0001
0690/OES	SO	No		----	No/Minor Fiscal Impact	----		0001
<u>Fund Code</u>					<u>Title</u>			
0001					General Fund			
0217					Insurance Fund			