

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Thursday, February 26, 2009  
1:00 p.m.**

Location: State Board of Equalization  
450 N Street, Board Room  
Sacramento, California

Members of the CEA Governing Board in attendance:

J. Clark Kelso, designee of Governor Arnold Schwarzenegger, Chairperson  
Bruce Patton, designee of Insurance Commissioner Steve Poizner  
Reid McClaran, designee of Insurance Commissioner Steve Poizner  
Katie Carroll, designee of State Treasurer Bill Lockyer  
Grant Boyken, designee of State Treasurer Bill Lockyer  
Pedro Reyes, designee of Speaker of the Assembly Karen Bass  
Dietrich Stroeh, as designee of Chair of the Senate Rules Committee Darrell Steinberg

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer  
Tim Richison, Chief Financial Officer  
Bob Stewart, Chief Operations Officer  
Chris Nance, Director of Communications and External Affairs  
Mark Dawson, Assistant Chief Financial Officer  
Susan Pitton, Governing Board and Advisory Panel Liaison  
Danny Marshall, General Counsel

Also present:

John Forney, Raymond James & Associates

**1. The meeting was called to order at 1:00 p.m. A quorum was established.**

- Mr. Kelso welcomed Katie Carroll, new designee for State Treasurer Bill Lockyer.

**2. Consideration and approval of the Minutes of the December 11, 2008 Governing Board meeting.**

**MOTION:** Mr. Patton moved adoption of the December 11, 2008, CEA Governing Board minutes; Ms. Carroll seconded the motion. Motion carried unanimously.

**3. Chief Executive Officer Glenn Pomeroy will present an executive report.**

- Mr. Pomeroy stated that he and the CEA staff are absolutely committed to determining and bringing to the Board a way to increase the value of the CEA's products.
- Discussion continues regarding increasing the value by lowering the deductible. Currently, the product is structured and priced in such a way that it assumes full coverage and carries a very high deductible, yet in 99 percent of all projected losses, damage to a structure is going to be less than 50 percent of the structure's value.
- The CEA is developing a product called Homeowner's Select that will allow the policyholder to choose to insure 50 percent of the structure value instead of 100 percent, thus paring the structure deductible to 50 percent of what it is today. Consumer groups have responded favorably to the idea.
- The CEA is equally committed to finding a way to lower the cost of the products and to achieving lower cost and increased value while maintaining the financial strength of the organization.
- The key to offering a more affordable product may be in the form of some sort of federal legislation, which will be discussed later in this meeting.
- Mr. Pomeroy stated that the CEA has made progress in the area of mitigation activities throughout the state. Mr. Nance will report on CEA mitigation plans for 2009 later in this meeting.

**4. Chief Financial Officer Tim Richison will present a financial report.**

- Mr. Richison presented the CEA financial update as of the end of November. For the Base Program, roughly \$3.2 to \$3.3 billion of funds is currently available to pay claims if an earthquake were to occur today. At the next Board meeting the financial structure will combine the Base and Supplemental Programs.
- The CEA is still earning a reasonable interest rate, although the rate has dropped during the present economic downturn.
- Safeco joined the CEA and began offering CEA policies effective December 1, 2008.
- Mr. Richison predicted an interesting and difficult time ahead in obtaining the claim-paying capacity the CEA will require for 2010. He said there is two-thirds the amount of reinsurance capacity today compared to a year ago, and the CEA's demand for reinsurance remains high. The reinsurance demand for the 2009 CEA reinsurance program was \$3.1 billion.

- The CEA plans to present the 2010 financial structure to the Board at its June 2009 meeting. The hope is that by that date, economic conditions will have steadied somewhat. Meantime, staff has more opportunity to continue exploration of new CEA product development and analyze how new products will affect the CEA's capacity needs into 2010.

**5. Mr. Pomeroy will provide the Board with an update on federal and state legislation initiatives that may affect or be of interest to the CEA.**

- Mr. Pomeroy noted that the CEA is unique, publicly managed and privately financed—not a state agency, not funded through the general fund or any special fund. It is basically a nonprofit insurance entity governed by public officials that collects premiums and offers insurance policies; and it will be there to pay the claims when they occur.
- He stated that California Assemblymember Sam Blakeslee has introduced two bills, AB 43 and AB 280. One bill would increase the number of full-time CEA civil service positions from 25 to 50. Another would facilitate augmentations to CEA mitigation activities by establishing the CEA as a recipient of federal stimulus dollars that might be targeted toward mitigation activities.
- Mr. Pomeroy asked if the Board wanted CEA staff to continue working with Assemblymember Blakeslee's office, to fashion the most appropriate and potentially successful method for dealing with the two bills and the concepts in the bills. Board members expressed their mutual sense that Mr. Pomeroy and staff should continue their activities as suggested.
- Mr. Pomeroy asked the Board to consider asking the Legislature to authorize the CEA to employ a Chief Mitigation Officer to provide needed in-house mitigation expertise.
- The CEA is taking a targeted approach to federal legislation, asking Congress to consider extending a federal guarantee of CEA debt after a truly big event. In essence, the CEA would borrow money if other resources were exhausted. With that mechanism, the CEA could dramatically reduce premium rates for policyholders; if a truly large earthquake occurred, however, some increases would be required.
- Mr. Pomeroy introduced John Forney of Raymond James, the firm recently selected as independent financial advisor to the CEA, to answer the key question of how does the CEA know whether a federal guarantee would provide debt-market access when needed.
- Mr. Forney said he deals primarily with tax-exempt entities around the country. Raymond James helps states analyze and fund programs to deal with the insurance of natural catastrophe risk.

- Mr. Forney explained how a funding guarantee might work and stated that, if properly structured, it would allow the CEA to get a triple-A credit rating immediately and enable the CEA to access the markets, at appropriate rates, and fulfill the goals expressed earlier (i.e., increasing the value of the product while lowering its cost).
- Mr. Richison stated that he and his staff and consultants are performing financial analyses and stress tests of the debt-guarantee program as it might pertain to the CEA. Results will be presented to the Board at or before its June 2009 meeting.

**6. Chief Operations Officer Bob Stewart will present, for Board consideration and funding approval, research projects to benefit the CEA that are targeted for commencement in 2009.**

- Agenda item postponed.

**7. General Counsel Danny Marshall will present, for Board consideration and approval, the intended final consensus draft of the CEA Insurer Participation Agreement.**

- Mr. Marshall began by noting that the Insurer Participation Agreement for the CEA is the basic contract document, executed by and among CEA participating insurers, the CEA, and the Insurance Commissioner.
- For the past several months, CEA staff have negotiated a new draft of the agreement with representatives of participating insurers and their trade groups. The result of those discussions is presented to the Board today.
- He concluded his presentation by stating staff's recommendation that the Board accept and approve the draft.

**MOTION:** Ms. Carroll moved to approve the draft CEA Insurer Participation Agreement; Mr. Kelso seconded the motion. Motion carried on a 2-0 vote, with the Insurance Commissioner abstaining, whose designee noted that since the agreement next would be presented to the Insurance Commissioner *qua* Commissioner for his execution, the Commissioner's abstaining on this Board vote was called for (ayes, Governor and Treasurer; abstain, Insurance Commissioner).

**8. Assistant Chief Financial Officer Mark Dawson will propose, for Board consideration and approval, an amendment to the Authority's existing contract with SunGard, which provides the CEA with investment accounting software and related services. The amended agreement will provide enhanced query and reporting functionality, expanded reporting periods, and full training on new features for CEA personnel.**

- Mr. Dawson began by stating that staff has used the SunGard investment accounting system since 2002. In 2008, Sungard introduced an upgrade at a cost of \$29,950.
- He concluded by stating staff's recommendation to approve the purchase of the amended agreement.

**MOTION:** Mr. Patton moved approval of the amended agreement; Ms. Carroll seconded the motion. Motion carried unanimously.

**9. Mr. Stewart will present, for Board consideration and approval, proposed updates to the CEA's Claims Manual. Mr. Stewart will also seek Board authorization to send the approved, updated CEA Claims Manual to the California Department of Insurance and request its review and approval.**

- Chief Operations Officer Stewart presented for Board approval four additions to the Manual, which he said constituted refinements that will clarify certain Manual provisions.
- Mr. Patton commented that the changes now presented are changes that he and Department staff had requested.

**MOTION:** Ms. Carroll moved that the changes be approved by the CEA Board and then forwarded to the Department of Insurance for further approval; Mr. Kelso seconded the motion. Motion carried on a 2-0 vote, with one abstention (ayes, Governor and Treasurer; abstain, Insurance Commissioner).

**10. Director of Communications and External Affairs Chris Nance will update the Board on proposed communications strategies for the CEA's mitigation programs and may present a proposed agreement with a vendor selected to assist the CEA in refocusing and then expanding its mitigation programming.**

- Mr. Nance said he was excited about the new programming concepts that are coming in the structural retrofitting arena. He said that James Lee Witt Associates, a firm uniquely qualified in this area, has been retained to partner with the CEA in its planning and implementation of future mitigation programming efforts.
- As part of Phase 1 of these efforts, Mr. Witt will facilitate a day-long residential earthquake retrofitting scoping session in Sacramento on March 16<sup>th</sup>. Attendees will include geology experts, structural engineering experts, and regional government and consumer representatives.
- After discussion is completed, an after-action report will be drafted, which will appropriately recognize the contributions from all the participants.

- In Phase 2, the after-action report will be rolled into subsequent discussions in the Los Angeles and Bay Area regions, where ideas developed at the state level could be contemplated for implementation at regional levels. These subsequent discussions will likely occur in summer 2009.
- The resulting programming concepts will potentially pre-qualify the CEA for FEMA pre- and post-disaster funding, which could expand the number of residences retrofitted under CEA auspices. The process and its results also could inform the legislative efforts that Mr. Pomeroy referred to earlier, at both state and federal levels.
- Mr. Nance asked the Board to endorse the scope of the mitigation programming and the activities discussed.
- Mr. Pomeroy remarked that he and staff are excited about this initiative; Mr. Patton and Mr. Stroeh may attend the scoping session. Mr. Nance added that two members of the CEA Advisory Panel have also been invited to attend.

**MOTION:** Ms. Carroll moved approval of the mitigation programming and the activities discussed; Mr. Patton seconded the motion. Motion carried unanimously.

**11. Mr. Pomeroy will ask the Board to designate one of its members to conduct, on behalf of the Board, the annual performance appraisal of the Chief Executive Officer.**

- Mr. Patton informed the Board that Insurance Commissioner Steve Poizner has designated Reid McClaran, to conduct the performance review on Mr. Poizner's behalf.

**MOTION:** The Board appointed Reid McClaran as an advisory subcommittee of one, to conduct appraisal activities, bringing results to the Board for final disposition and decisions, per the Bagley-Keene Open Meeting Act.

**12. The Board will meet in closed session to discuss litigation matters, as permitted by California Government Code Section 11126, subdivision (e).**

- The Board entered closed session at 2:05 p.m. and resumed its proceedings in open session at 2:29 p.m.

**13. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.**

- There were no questions or comments from the public.

**14. Adjournment.**

- The meeting was adjourned at 2:31 p.m.