

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, October 29, 2009
1:02 p.m.**

Location: State Capitol
Room 447
Sacramento, California

Members of the Governing Board in attendance:

J. Clark Kelso, designee of Governor Arnold Schwarzenegger, Chairperson
Bruce Patton, designee of Insurance Commissioner Steve Poizner
Grant Boyken, designee of State Treasurer Bill Lockyer
Pedro Reyes, designee of Speaker of the Assembly Karen Bass

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
Susan Pitton, Governing Board and Advisory Panel Liaison
Danny Marshall, General Counsel

Also Present:

Wayne Coulon, Chair, CEA Advisory Panel
Bruce Johnson, State Farm Insurance
Kevin Frederick, State Farm Insurance
Dr. Stephen Mahin, PEER Director, UC Berkeley
Dr. Yousef Bozorgnia, PEER Executive Director, UC Berkeley

- 1. The meeting was called to order at 1:02 p.m. A quorum was established.**
- 2. Consideration and approval of the Minutes of the August 27, 2009 meeting.**

MOTION: Mr. Boyken moved approval of the August 27, 2009, CEA Governing Board minutes; Mr. Patton seconded the motion. Motion carried unanimously.

- 3. Executive Report by Chief Executive Officer Glenn Pomeroy, assisted by CEA executive staff. Mr. Pomeroy's report will include an update for the Board on federal and state legislative activities of interest to the CEA.**

- Mr. Pomeroy began by stating that the organization continues to be in a very strong financial position, with some \$9.6 billion in claim-paying capacity.
 - A meeting with the participating insurance community is being scheduled for November 2009 to continue to review mutual plans, build on the input already received from them, develop a survey instrument – which will be out in the field probably in January 2010. The survey will gauge consumer interest and CEA products’ price elasticity, among other issues, with a focus on the new products under preliminary development, and to provide the data needed to move forward in strategic and business planning for 2010.
 - CEA continues to be interested in increasing its reach in the mitigation area.
 - CEA is committed to advancing earthquake-related research, particularly as it pertains to earthquake risk and the management of that risk from a financial perspective. COO Bob Stewart will discuss a research proposal related to these ideas later in this meeting.
 - Senate Bill 866 (S.866), introduced in the spring by Senator Bill Nelson of Florida, now has attracted Senators Dianne Feinstein and Barbara Boxer as co-sponsors. The Congressional Budget Office completed its analysis of SB 866 and estimates that the potential outlay for the federal government is (worst-case scenario) \$25 million over 10 years. This relatively small worst-case scenario gives CEA momentum as it moves into the legislative calendar.
 - H.R.2555, sponsored by Congressman Ron Klein, has been introduced with a part of the CEA’s federal-guarantee legislation included in it.
- 4. Presentation by CEA participating insurer State Farm Insurance in support of H.R.2555 (Klein), a bill introduced in Congress to provide financing alternatives for state programs (such as the CEA) that provide catastrophe insurance.**
- Mr. Pomeroy introduced Bruce Johnson and Kevin Frederick of State Farm Insurance. Mr. Pomeroy remarked that State Farm’s market share for all California residential insurance is 17 percent, and its market share of the CEA portfolio is 37 percent.
 - Mr. Johnson stated how proud State Farm is to be one of the original participants for the CEA, and State Farm looks forward to continuing that collaboration for years to come to help California homeowners have the means to recover from the unexpected.
 - Mr. Frederick noted that State Farm supported the CEA because it was a well-thought-out capitalization plan, because the State of California is not financially responsible for providing insurance and the CEA provides broader risk-spreading

alternatives and tax-free accumulation of capital; and because state involvement is limited, while the CEA relies on the private sector with respect to premium collection, underwriting, and claim adjusting, as appropriate, and these fundamentals remain intact.

- The CEA represents a thoughtful and carefully-structured approach of providing catastrophic risk capital that should be guarded from short-term political considerations that would undermine its financial integrity and threaten the ability of Californians to recover from an earthquake.
- Catastrophic natural perils are by their nature unpredictable, relatively infrequent, and can be financially disastrous. To deal effectively with this circumstance, State Farm believes that a comprehensive approach is required to maintain the solvency and the stability of the private market so that it can continue to provide needed overage.
- With respect to recovery financing, State Farm believes that effective financing of recovery from a natural disaster requires a partnership involving policyholders; their insurers, including reinsurers; the states; and the federal government. No one partner can handle the whole burden and no one partner can be left out of the solution.
- When it comes to mega-catastrophes, only the federal government has the capacity to deal with the timing uncertainty that is inherent with such large events.
- The federal backstop should be available only to states that have adopted and are effectively enforcing modern building codes.
- H.R.2555, the Homeowners Defense Act of 2009, creates a consortium to attract capital, to backstop natural disasters through the issuance of bonds and other means, authorizes federal loans to states to assist them in financial recovery following natural disasters, and allows state catastrophe funds to purchase reinsurance from the federal treasury.
- In order to ensure long-term success and avoid encouraging risky behavior, the catastrophe fund should be financed on an actuarially sound basis, rather than a politically expedient one. The role of government should be limited to circumstances where private reinsurance is unavailable or cost-prohibitive.
- The type of backstop set forth in H.R.2555 provides a rational and structured approach to financing a disaster recovery which State Farm believes is consistent with the goals of the CEA. It would maintain pricing discipline that is essential to the financial integrity of any disaster recovery program while expanding financing options to state catastrophe funds.

- Mr. Patton commented that it's interesting that there is a Congressional Budget Office score of \$25 million for S.886, and said it would be interesting if the federal government would analyze what potential the cost savings would be.
- Mr. Patton thanked State Farm for its efforts, which have resulted in more Californians now being protected from the financial risks of earthquakes.

5. Chief Financial Officer Tim Richison will present a financial report.

- Mr. Richison reported that the assets of the CEA through the end of August have reached another milestone: CEA now has over \$4 billion in total capital.

6. Mr. Richison will seek Board approval for an increase in reinsurance limits and expenditures for the 2010 CEA reinsurance program.

- Mr. Richison indicated that the reinsurance program approval would be for \$3.122 billion worth of reinsurance at a cost in 2010 of \$223 million.
- General Counsel Danny Marshall briefly highlighted portions of the Board resolution relating to the 2010 reinsurance program.

MOTION: Mr. Boyken moved approval of the resolution as written. Mr. Patton seconded the motion. Motion carried unanimously.

7. CEA Advisory Panel Chair Wayne Coulon will provide a summary of the proceedings at the September 24, 2009, Panel meeting.

- Mr. Coulon reported that major items discussed at the Panel meeting included the financial report; the 2010 reinsurance program; federal and state legislative activities of interest; the message research partnership with California Emergency Management Agency (which will be commented on later in this meeting); the Great ShakeOut; and the mitigation program.
- He remarked that the CEA needs to find ways to fund its claim-paying capacity without relying so heavily on reinsurance. Federal legislation that's been discussed is one solution, probably the best solution for meeting those needs, but can't really be relied on totally to solve the problem, either.
- Solutions to ensure CEA's continued success have to be found and supported, and the members of the Advisory Panel certainly stand ready. They have participated in some of the product discussions in other places where it can be useful to help achieve those solutions and will continue to do so.

8. Director of Communications and External Affairs Chris Nance will report on the recent statewide earthquake drill, the Great California ShakeOut.

- Mr. Nance began by noting that the First Annual Great California ShakeOut, which occurred on October 15 at 10:15 a.m., had 6.9 million participants from all

58 California counties – a great success, considering it's the first time the drill has been done statewide.

- The CEA worked to support the ShakeOut in two ways: through paid media and earned media support. There were three general objectives: first, increasing demand for CEA insurance policies; second, promoting consumer participation in the drill; and third, for the CEA to establish print and broadcast media relationships.
- Media relationships were established statewide with coordinated news releases, media advisories, public service announcements, a 60 second radio spot, and other news releases through like-minded interests, including CalEMA, USGS, CGS, the Red Cross, and numerous other organizations.
- Now that the ShakeOut has a footing statewide and the CEA has a leadership role in promoting the program in the future, staff is looking at working more closely with CEA's participating insurers and offering longer lead times for coordination and expanded research. Research results will be incorporated in ways that potentially could include some cooperative promotional opportunities that can be shared between CEA and its participating insurers.

9. Mr. Nance will update the Board on the CEA's mitigation program.

- Mr. Nance remarked that one of the takeaways from the program that needs addressing is the need for standardized plan sets and training and education for both consumers and contractors. CEA is considering funding production of a standardized plan set for use statewide and doing so in a way that will enable the CEA to identify the percentage of damage that can be reduced.
- The overall programming is taking shape, and to that end they are focused on correctly retrofitting the most houses in the shortest time—that timeframe will be known to them soon.

10. Chief Operations Officer Bob Stewart will present for Board consideration a proposed seismic-science-research project, *Improved Near-Source-Ground-Motion Characterization*, intended to provide both direct and indirect benefits to the CEA. Mr. Stewart will recommend Board approval of the project, which is targeted to begin in 2010.

- Mr. Stewart gave the staff recommendation that that CEA provide research funding for the 30-month project, which will be coordinated by the Pacific Earthquake Engineering Research Center (PEER) at UC Berkeley, with a total expenditure of \$1,554,000.
- The proposed project is a continuation of previous research on Next Generation Attenuation (NGA) models, which led to ground-motion prediction relations that were a significant advancement in developing ground motion predictions in

California and led to a significant reduction in the expected annualized loss to the CEA's portfolio, ranging from 15 to over 30 percent (depending on the commercial earthquake modeler).

- The project provides clear benefit to the CEA, its policyholders, and its various partners by substantially improving the loss modeling required for both ratemaking and financial analysis. All three commercial earthquake modelers strongly support the project.
- Dr. Stephen Mahin, PEER Director, remarked that PEER was put together 13 years ago and consists of nine major research universities throughout the western United States, eight of which are in California. PEER's programs are intended to look at very large, multi-disciplinary, societally oriented programs that an individual investigator who might normally do research cannot do on his or her own because they have to work as part of an integrative team of specialists.
- Dr. Yousef Borzorgnia, PEER Executive Director, summarized the technical work involved. PEER is proposing to update NGA models by taking advantage of numerous recent ground motion data in recent earthquakes, and to solve and resolve the inconsistencies in hazard estimation.

MOTION: Mr. Patton moved approval to provide the research funding of \$1.554 million; Mr. Boyken seconded the motion. Motion carried unanimously.

11. Mr. Stewart will present for Board consideration a renewal and extension of the CEA's contract with earthquake modeling firm AIR Worldwide Corporation.

MOTION: Mr. Boyken moved approval of the renewal and extension. Mr. Patton seconded the motion. Motion carried unanimously.

12. Mr. Stewart will present for Board consideration the proposed contract for the Board-approved, CEA-supported research project, Uniform California Earthquake Rupture Forecast (Version 3.0, generally known as "UCERF3").

MOTION: Mr. Patton moved approval of the contract for UCERF3 funding. Mr. Boyken seconded the motion. Motion carried unanimously.

13. Mr. Stewart will present for Board consideration an extension of the lease of the CEA's office space at 801 K Street, Sacramento, California.

- Mr. Stewart stated the staff recommendation that the Board approve and authorize execution of the lease amendment with Sacramento Equity's Real Estate Investment Trust Corporation that will include an early renewal of the CEA's office lease. The proposed new agreement would include a rent savings in 2010 of over \$155,000, as well as substantial allowances for tenant improvements and other items at the landlord's sole expense.

MOTION: Mr. Patton moved approval of the lease amendment. Mr. Boyken seconded the motion. Motion carried unanimously.

14. Staff will present for Board consideration and approval a proposed 2010 Governing Board meeting calendar.

- Chair Kelso stated that the Board will adopt the calendar for next year.

15. The Board will meet in closed session to discuss personnel matters and litigation matters, as permitted by California Government Code section 11126, subdivisions (a) and (e), respectively.

- The Board entered closed session at 2:41 p.m. and resumed its proceedings in open session at 3:43 p.m.

16. 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.

17. Adjournment.

- The meeting was adjourned at 3:44 p.m.