

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, December 17, 2014
1:00 p.m.**

Location: CalSTRS Headquarters Building
100 Waterfront Place
Boardroom – Lobby, E-124
West Sacramento, California

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Jerry Brown, Board Chair
Grant Boyken, designee of State Treasurer Bill Lockyer
Chris Shultz, designee of Insurance Commissioner Dave Jones
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Kevin de León
George Wiley, designee of Speaker of the Assembly Toni G. Atkins

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Todd Coombes, Chief Information Officer
Marc Keller, Governing Board Liaison
Janiele Maffei, Chief Mitigation Officer
Trudy Moore, Insurance Program Manager
Chris Nance, Chief Communications Officer
Bruce Patton, Director of Policy, Research, and Special Projects
Tim Richison, Chief Financial Officer
Bob Stewart, Chief Operations Officer
Danny Marshall, General Counsel

Also present:

Kapil Bhatia, Director of Public Finance, Raymond James and Associates, Inc.
Badie Rowshandel, Ph.D., California Geological Survey (CGS)
Mark Simmonds, Chair, California Earthquake Authority Advisory Panel

- 1. The meeting was called to order at 1:00 p.m. A quorum was achieved.**
- 2. Consideration and approval of the minutes of the August 28, 2014, and October 7, 2014, CEA Governing Board meetings.**

MOTION: Mr. Shultz moved approval of the August 28, 2014, and October 7, 2014, CEA Governing Board meetings minutes; seconded by Mr. Boyken. Motion passed 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 legislative activities of interest to the CEA.

Mr. Pomeroy highlighted a number of the CEA's 2014 accomplishments, relating them to the CEA's three strategic-plan cornerstones: Educate, Mitigate, and Insure:

- Educate
 - The Northridge 20th anniversary commemorative event in January
 - The Loma Prieta 25th anniversary commemorative event in October
 - The 30-minute newsreels throughout Los Angeles and the Bay Area
 - The 12-page newspaper insert distributed throughout the Bay Area
 - The new *California Rocks!* Campaign
 - The renters insurance campaign launched in the Bay Area
 - The post-South Napa earthquake proactive media outreach
 - Outreach to both consumers and media with letters and material
 - The "EQ Basics" package delivered to 23,000 insurance agents and over 700 newspaper reporters
 - The agent forum hosted in Napa
- Mitigate
 - The Earthquake Brace+Bolt (EB+B) pilot program was launched, completed, and evaluated, with Phase 1 of the expansion beginning in January 2015.
 - The ATC 110 pre-standard work, led by Janiele Maffei
 - The research project in Napa, led by Bruce Patton and Ms. Maffei
- Insure
 - The new and innovative risk-transfer diversification opportunities, led by Tim Richison
 - The successful mandatory-offer reform legislation
 - The CEA's newest rate-and-form application, which if approved will lower rates and introduce new CEA products and discounts

Mr. Pomeroy reviewed how the CEA policy coverage has evolved since 1984. He noted other CEA 2014 accomplishments:

- The ongoing commitment to cutting-edge research, led by Bruce Patton
 - The NGA West2 project
 - The UCERF3 project
- The new strength in IT leadership management and the new portfolio management infrastructure, led by Todd Coombes
- The development of a workforce plan to ensure the CEA's continuing access to and experienced and expert staffing.
- The development of new and updated performance metrics
- The development of legislative initiatives
 - Risk-transfer cost-savings initiative
 - Seismic retrofit financing alternatives initiative
 - Workforce planning initiative

Mr. Pomeroy stated the potential need for an additional meeting in January or February (2015) to discuss legislative issues.

Mr. Ghilarducci stated his support of the overall proposal as being sound and positive, moving forward.

Mr. Boyken agreed that the concepts laid out were worth exploring. He said that Treasurer Lockyer has seen the CEA's refusal to accept what is and that it is always looking for what could be. Mr. Boyken stated, on behalf of Treasurer Lockyer, his appreciation for all the CEA has done during his term as State Treasurer.

Mr. Pomeroy thanked Treasurer Lockyer and Mr. Boyken for so ably representing and supporting the CEA.

Mr. Stroeh noted how the CEA has matured during the past 17 years. He stated his support of including seismic-retrofit financing as part of the program.

Mr. Wiley agreed.

Mr. Shultz stated his support of the CEA's direction.

4. Mr. Pomeroy will present to the Board an update on the CEA's response to the August 24, 2014, South Napa earthquake.

Mr. Pomeroy commended the leadership of Dan Dyce in organizing the claim-paying structure and the administration of emergency repairs.

Mr. Pomeroy provided post-event updates on recent earthquakes:

- La Habra (Orange County) earthquake:
 - 454 claims; \$343,000 in claims paid

- 135 houses benefitted from emergency repair coverage, averaging \$996 per house
- South Napa earthquake
 - 478 claims; \$818,000 in claims paid
 - Fewer individuals had earthquake insurance
 - CEA staff held a December meeting with FEMA and SBA representatives to clear up possible misconceptions about federal disaster assistance and clarify how federal benefits interrelate with residential insurance coverage
 - The CEA mailed helpful information to policyholders gleaned from the FEMA meeting about eligibility and deadlines.

Mr. Ghilarducci suggested performing a cost-savings analysis of the total cost of the disaster to homeowners (what government disaster assistance provided and what insurance provided) to show why it can be important to have earthquake insurance.

Mr. Pomeroy agreed and stated the CEA commissioned the RAND Corporation in the past to identify potential the savings to the federal budget if more people were insured. RAND concluded that because few individuals in California have earthquake insurance and federal assistance is limited, an insurance cost-reduction would help only nominally.

5. Chief Financial Officer Tim Richison will present the CEA financial report.

- The CEA's total of cash and investments as of third quarter 2014 exceeded \$5.2 billion.
- Written premium for the first three quarters of 2015 was \$463 million, is on pace for achieving over \$600 million in written premium for the 2014 calendar year—the equivalent number for 2013 was \$570 million.
- The third quarter claim-paying capacity, the risk-transfer program, and two \$200 million Ursa Re (cat-bond supported) contracts put in place as of December 1, 2014, were highlighted.

Mr. Richison gave an update on what the Board approved in the October 2014 meeting regarding outstanding revenue-bond-related debt:

- Principal and interest payments attributable to the remaining 2006-incurred revenue-bond debt have been put into escrow, to be paid through 2016 by U.S. Bank, the trustee for this debt issuance.
- The new issuance of three revenue bonds are:
 - A two-year revenue bond in the amount of \$40 million at a 1.194 percent interest rate. The CEA plans to pay off the bond principal in July 2016.

- A three-year bond for \$60 million at a 1.824 percent interest rate. The CEA plans to pay off the bond principal in July 2017.
- A five-year bond for \$250 million at a 2.805 percent interest rate. The CEA will begin to pay principal in 2017, pay half of the remaining principal in 2018, and pay off the final bond principal in 2019.

Mr. Richison thanked Jeanne Trujillo and Amanda Johnson, of the State Treasurer's office, who were instrumental in ensuring the necessary documentation and overall transaction for the revenue bonds was accurate and successful.

6. As an annual, recurring item, Mr. Richison will present to the Board the CEA's 2015 Risk-Transfer Strategy.

Mr. Richison provided an overview of what occurred with the 2014 Risk-Transfer Strategy:

- 13 risk-transfer transactions occurred
- \$3.3 billion total risk-transfer was purchased
- \$1.2 billion of the purchased risk-transfer was in multi-year contracts
- \$400 million limit in the form of transformer reinsurance was secured effective December 1, 2014, for a three-year term

Mr. Richison provided the Board with a redlined version of proposed changes to the *Guidelines for Securing Risk-Transfer: Traditional Reinsurance and Alternative Risk-Transfer*, and stated the revisions will help the CEA select risk-transfer opportunities because they more accurately align the respective reinsurer ratings provided by Moody's, A.M. Best, and Standard and Poor's.

Mr. Richison reviewed the proposed 12-month CEA Risk-Transfer Strategy for 2015:

- The 2015 proposal is similar to the 2014 proposal
- Includes risk-transfer programs of traditional and transformer reinsurance
- Maintains a claim-paying capacity set, at a minimum, to a 1-in-450-year level and, at a maximum, to a 1-in-550-year level

MOTION: Mr. Boyken moved approval of the revised CEA *Guidelines for Securing Risk-Transfer: Traditional Reinsurance and Alternative Risk-Transfer* and approval of the proposed 12-month 2015 Risk-Transfer Strategy for 2015; seconded by Mr. Shultz. Motion passed unanimously.

7. Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc. – the CEA’s independent financial advisor – will present to the Governing Board the annual report on the state of the economy.

Mr. Bhatia provided an overview of the economy, the financial market, the risk-transfer market, and the CEA investment portfolio:

- The U.S. economy is recovering. Growth is stronger now than it was in the earlier part of 2014.
- There is still slack in the labor markets and capital markets.
- Interest rates are low and will probably remain low.
- The CEA has benefitted greatly from the current market environment, both in the risk-transfer market and the capital markets from revenue bonds as well as the investment side of it.
- The CEA can take advantage of the interest rates and yield curve as the interest rate starts to go up on its investment portfolio.

Mr. Wiley asked about the decline in home-ownership rates, stagnant wages, and increased household debt. Mr. Bhatia stated possible reasons for the decline are longer education periods while students wait for the economic conditions to recover and bank regulations that make it difficult to obtain a mortgage.

Mr. Boyken asked about capacity in the reinsurance industry and consolidation. Mr. Bhatia stated capacity is increasing and the return on capital is decreasing, so the consolidation that is happening results in more efficiency.

Mr. Ghilarducci asked what the strategies of the reinsurers will be to counter the decline in revenue. Mr. Bhatia stated there is no apparent strategy, which is why reinsurers are consolidating to more efficiently increase their return on capital. They are also looking at increased sales in third-world countries to expand the global reinsurance space and maximize income.

Mr. Ghilarducci stated consolidating for efficiency makes it harder to offer options, which can drive costs up from lack of choice. Mr. Bhatia agreed and stated the biggest competition for reinsurers is from the alternative capital markets or the alternative investors, but the CEA can benefit because it has enough diversification even taking into account reinsurers’ consolidation.

8. Chief Communications Officer Chris Nance will update the Board on participating-insurer engagement in communications programming.

- The Marketing Value Program (MVP)
 - In place since 2011
 - Custom direct mail, custom fulfilled in insurers’ names, produced and distributed at the CEA’s expense

- In 2014, the MVP is at the lowest level of participation by agents, but is maintaining a stable level of direct mail that is hitting the streets for consumers to consider the CEA's products
- In 2015, the MVP needs to be refreshed because consumers are accustomed to seeing it
- In 2015, an online MVP portal will be established
 - Offers year-round direct mail in multiple languages
 - Links to a mobile site to streamline premium estimates for agents
 - Delivers new content, including earthquake-insurance-sales tips, scripts, and talking points
- The Cooperative Marketing Venture (CMV)
 - Launched in 2014
 - Online advertising that links co-branded ads with information about how to purchase a CEA policy on participating-insurer websites
 - Five of 19 participating insurers are with the CMV: AAA South, AAA North, USAA, Liberty Mutual, and Allstate.
 - Three of the five participating insurers also participate in the advertising component
 - Two of the five participating insurers have established a “digital handshake” between the CEA premium calculator and the participating-insurer website, but they do not participate in the advertising.
 - Eleven of 19 participating insurers have placed information about the CEA on their corporate websites, eight have information about earthquake insurance on their websites, and four have information about both the CEA and earthquake insurance on their websites.
 - Additional participating insurers have expressed interest in the CMV but have not yet committed

Mr. Ghilarducci asked why the participating agents went from 4,000 in 2012 to 2,000 in 2014. Mr. Nance stated that timing for the introduction of new products and continuing education credits are incentives to participate, but that credit is available only every other year and there is only one agent-trainer available to work outside the Sacramento area.

9. CEA Advisory Panel Chair Mark Simmonds will provide a summary of the proceedings of the October 23, 2014, Panel meeting.

Mr. Simmonds stated the CEA Advisory Panel (Panel) and its Rate Subcommittee met to review the proposed changes to the earthquake insurance rating plan, policies, and coverage modifications.

The key areas of focus of the Panel are similar to the focus of the Governing Board: national legislation and post-event bonding through a variety of mechanisms at the state level, as well as mitigation financing. CEA leadership continues to pursue avenues to provide financing alternatives to reduce the dependence on reinsurance and ensure that the CEA has adequate capacity and competitive rates in the marketplace.

In addition, the Panel reviewed and discussed the proposed product rate-and-form coverage modifications. The Rate Subcommittee had reviewed it before the Panel meeting and provided additional comment to the Panel. The Panel supported the proposed changes.

As required by the California Insurance Code, the Panel approved the submission for proposed condominium-unit earthquake-loss-assessment rates.

Staff provided an update on the South Napa earthquake. Mr. Simmonds stated he was pleased at the CEA's efforts in response, claim-handling, communication, and marketing, both of the CEA and of the participating insurers responding to that catastrophe, and he looked forward to the modifications recommended for the CEA as a result of what was learned from that event.

Staff also provided updates on financing, budgeting, marketing, and the mitigation programs that have been successful over the last several years.

10. Members of the CEA Insurance Operations team will present to the Board proposed modifications to the CEA-earthquake-insurance rating plan and policy forms, including coverage modifications and enhancements.

Chief Operations Officer Bob Stewart related how the CEA's three strategic goals are represented in a new proposal to modify the CEA-earthquake-insurance rating plan and policy forms, including coverage modifications and enhancements.

Mr. Stewart gave an overview of the approval process, the recommendations, and, policyholder impacts. He highlighted the proposed introduction of an enhanced hazard-reduction premium discount; expanded coverages, limits, and deductible options; and new limitations.

Shawna Ackerman, the CEA's Chief Actuary, reviewed the process of rate development, rate indications, rate-change drivers, and policyholder impacts.

Mr. Stroeh asked why it is necessary to round numbers. Ms. Ackerman stated there is a rigorous process to ensure that premiums that policyholders are being charged through the participating insurers are accurate. There is a tolerance of only \$1.00. Hence, rounding is a controlled and necessary process.

Mr. Wiley asked if a marketing outreach is planned to announce the rate reductions. Mr. Pomeroy stated there would be outreach, but the announcement will be planned to occur closer to the implementation date of January 1, 2016.

MOTION: Mr. Boyken moved approval to support submission of the rate-and-form application to the Insurance Commissioner for regulatory review and approval; seconded by Mr. Ghilarducci. Motion passed unanimously with one abstention (Insurance Commissioner abstaining).

11. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA mitigation program’s “Pre-Standard Project” (conducted in conjunction with FEMA and the Applied Technology Council) and other earthquake-loss-mitigation-related research, including projected funding requirements.

Ms. Maffei reminded the Board about the end-to-end mitigation concept presented by Sheri Aguirre in the August meeting and the opportunity to provide information and services to consumers. She stated her presentation will offer solutions to bridge gaps in end-to-end-mitigation information.

Ms. Maffei provided an overview of the guidelines that are now called pre-standard; the ATC 110 as part of the California Building Code; the roles and responsibilities of the CEA, FEMA, and ATC; the Project Technical and Project Steering Committees; the pre-standard/ATC 110 schedule and table of contents; and recommendations for further study. She emphasized that completing the first four priorities in the table of contents would go a long way to fill the gaps in end-to-end-mitigation information needed for homeowners and for resiliency in California.

MOTION: Mr. Shultz moved approval to authorize funding and direct the CEA staff to continue to co-manage the tasks denominated Priority Levels 1 and 2, in accordance with recommendations in the ATC 110 Pre-standard Development Plan, and approval of the budgeted CEA expenditures for the next three years for tasks 1 and 2, at a level of \$1 million per year for a total over three years of \$3 million; seconded by Mr. Boyken. Motion passed unanimously.

Ms. Maffei gave an update on the CEA Survey and Research Program planned for Napa. She referred to the shake map put out by the USGS and noted that the South Napa earthquake was a “moderate” event, despite the level of damage and lives lost or disrupted. She showed photos of typical damage expected from moderate ground-shaking, such as chimney damage, cripple-wall damage and failure, and shifting that severs utility connections. She showed a photo of two houses, side-by-side, one retrofitted and the other not retrofitted, pointing out the substantial damage sustained to the non-retrofitted home.

Ms. Maffei stated the plan to solicit input from homeowners through online research to learn about the damage they sustained and give homeowners an option to allow interns to inspect their mitigated homes to see what mitigation is doing for homes in real-life-earthquake situations.

She thanked the Mayor of Napa and the City of Napa for their support.

12. Ms. Maffei will update the Board on the California Residential Mitigation Program incentive program, operated by a joint powers authority whose members are CalOES and the CEA.

Ms. Maffei provided an update on the CEA's mitigation programming, including its participation in the California Residential Mitigation Program (CRMP). The EB+B is part of the CRMP, jointly managed through a JPA formed with CalOES.

A great deal was learned from the pilot programs in Oakland and Los Angeles; and the EB+B expansion is already underway and will include over 600 residential retrofits in seven cities, including Napa.

Ms. Maffei reported on the marketing outreach:

- Outreach to contractors, FEMA-train them online, and list them on the CEA website
- Staff meets with building departments, mayor's staff, and council members in each city for best results.
- Community outreach through door hangers, direct mail, media relations, and advertising
- Customer service is essential and will be expanded.

13. Mr. Richison and Ms. Maffei will request Board approval to transfer funds from the 2014 CEA mitigation budget to the California Residential Mitigation Program for use in the CRMP incentive program.

Mr. Richison stated the EB+B pilot expansion programs and outreach will cost about \$3.3 million, with the goal of completing 750 retrofits. The CRMP governing board met earlier in December 2014 and approved the expansion. In order to carry out the 2015 program, CRMP will need additional funding of \$3 million that will come from the CEA Loss Mitigation Fund. Mr. Richison noted that there currently is \$24.8 million in that fund.

MOTION: Mr. Boyken moved approval of the proposed transfer to CRMP from the CEA Mitigation Fund in the Amount of \$3 million for the EB+B pilot expansion programs and outreach; seconded by Mr. Shultz. Motion passed unanimously.

14. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2014 CEA IT Project Portfolio.

Mr. Coombes summarized the portfolio progress and changes, the expenditures, and the 2014 portfolio closeout and value achieved, and reviewed the 24 completed

projects. He pointed out that the projects represent technology changes and additions that go throughout the CEA.

Danny Marshall, CEA General Counsel, added that the competitive procurement and contracting was a streamlined process that worked well using GSA standards as part of the CEA's selection process for prospective contractors.

Mr. Ghilarducci stated completing IT projects in an efficient manner is always hard. He commended Mr. Coombes for a job well done.

Mr. Boyken stated he was impressed with the discipline of projects prioritized and the comfort with the procurement process that is in place. He asked if the \$300,000 limit is hindering in any way or is something to consider changing. Mr. Coombes stated the 2014 projects fit well within that amount and their respective budgets do not require augmentation.

15. Mr. Coombes will seek Board approval for planned 2015 CEA IT initiatives and for the corresponding 2015 IT Project Portfolio.

Mr. Coombes reviewed the 17 proposed technology initiatives that were derived from a department-by-department review of IT needs and the value they are expected to achieve for 2015.

- The 2015 portfolio is smaller than the 2014 portfolio, when the foundation was laid.
- Each software product can be managed separately so fewer projects are required.
- Increased internal capacity will significantly reduce the external contractor expense to \$877,000.

MOTION: Mr. Boyken moved approval of the 2015 CEA IT Initiatives and Project Portfolio; seconded by Mr. Shultz. Motion passed unanimously.

16. Mr. Coombes will update the Board on progress made to date in security and reliability upgrades to the CEA's IT infrastructure.

Mr. Coombes announced that RagingWire Data Centers, Inc., was selected for data center co-location services and CDW Corporation was selected for hardware procurement. Mr. Coombes reviewed the implementation and transition to the upgraded IT infrastructure and new computing environments.

- RagingWire installed IT-network, server, data-storage, and related hardware in Sacramento and Ashburn, Virginia.
- High-speed data connections have been established between Sacramento and Ashburn.

- Production, test, and development computing environments were created and tested in both data centers.
- New disaster-recovery protocols between the data centers have been documented and tested.
- Transition to the upgraded IT infrastructure and new computing environments is scheduled for December 2014.

17. Mr. Coombes will present to the Board a concept for centralizing CEA insurance-policy processing.

Mr. Coombes reviewed the challenges of insurance policy processing and summarized the solution objectives for Centralized Policy Processing:

- One system for all CEA policies, across PIs
- Cost reduction through economies of scale
- Minimize impact of CEA policy changes
- Standard framework with configurable options
- Built-in data synchronization
- Information visibility and integration
- New technologies and best practices

Mr. Coombes gave an overview of the evaluation of solution alternatives, such as forming a work group, sending out a questionnaire and reviewing the feedback, and developing an RFP for each solution model. He noted that the RFPs will be sent out in January to industry providers and expected that a recommendation will be brought to the Board by February.

18. Director of Policy, Research, and Special Projects Bruce Patton will present and describe a planned Request for Qualifications and Proposals for conducting research to support CEA's ongoing effort to quantify the performance effects of cripple wall bracing and sill anchorage.

- There is little research on the cost savings from completing a retrofit for cripple walls, yet many losses are from this type of failure.
- It is important to learn the cost savings because it can reduce premiums, thus providing policyholder with incentives to retrofit in addition to giving information to all stakeholders on the economic value of retrofits.
- Mr. Patton introduced Badie Rowshandel, Ph.D., P.E., of the California Geological Survey and the CEA, highlighted his vast experience in this field, and stated the importance of getting the appropriate non-insurance experts, in

addition to insurance experts, to work on this project. Dr. Rowshandel wrote the RFQP and will be an instrumental participant in this project.

Mr. Boyken asked if this is funded from the mitigation budget. Mr. Patton stated it is funded from the research budget.

19. Mr. Pomeroy will present the 2015 CEA Business Implementation Plan for Board consideration and approval.

Mr. Pomeroy acknowledged retiring CEA employee Dan Dyce, the head of claims, who has overseen the build-up of the CEA infrastructure and built relationships with and provided training to participating insurers. Mr. Pomeroy thanked Mr. Dyce and wished him well in his retirement. Mr. Dyce will continue to be a member of the CRMP governing board, on behalf of the CEA.

Mr. Pomeroy stated the 2015 Business Implementation Plan is organized for an aggressive program around the three main goals: Educate, Mitigate, and Insure. He provided documentation to the Board summarizing the activities to be done in 2015 and emphasized the need for more education. He highlighted an increasing need to focus on establishing a workforce that is willing to keep these activities going and bring in additional resources to continue to make progress in all areas of the implementation plan.

MOTION: Mr. Boyken moved approval of the 2015 CEA Business Implementation Plan; seconded by Mr. Shultz. Motion passed unanimously.

20. Mr. Pomeroy and Mr. Richison will present the 2015 CEA insurance-services budget for Board consideration and approval.

The 2015 budget calls for slightly less spending overall when compared to 2014 expenditures:

- The projected CEA written premium for 2014 is \$608 million. The 2014 budget was established at \$353 million, and projected expenditures will be \$352.6 million.
- The projected premium for 2015 is \$616 million. The proposed budget for 2015 is \$347 million.

Mr. Pomeroy highlighted the categories that make up the majority of the expenditures in the proposed budget for 2015:

- Risk Transfer, at \$210 million, constitutes approximately 61 percent of the proposed budget. Since current market conditions will change, the CEA must continue to further diversify the sources of risk transfer.
- Agent Commissions, at \$62 million, constitute 18 percent of the proposed budget. Since its inception, the CEA has paid a 10 percent agent commission for new policy sales and for renewals.

- Statutory Expenses, at \$24 million, constitute seven percent of the proposed budget. This is a new category following the passage of AB 2064, which amended the legislative spending cap that has applied to the CEA since inception.
- Participating Insurer Administrative Fees, at \$19 million, constitute six percent of the proposed budget: The agreement with the PIs calls for a reimbursement by the CEA to offset the costs the PIs incur in producing CEA policies that they sell to CEA customers.
- Marketing Expenses, at \$11 million, constitute three percent of the proposed budget. Since earthquake insurance is voluntary, the CEA must help Californians understand that the risk of earthquakes is real and that they should consider becoming financially prepared.
- Capital Market Expenditures, at \$9 million, constitute three percent of the proposed budget. Most of this amount represents the interest expense on the newly issued revenue bonds and fees paid to rating agencies and investment advisors.
- Legal Services, at \$7 million, constitute two percent of the proposed budget. The CEA's small legal team is supported by a strong network of outside counsel.

Mr. Pomeroy compared the new "Statutory Expenses" category to the previous method:

- The former category, known as "Operating Expenses," capped operating expenses at three percent of premium.
- The new "Statutory Expenses" category has an increased spending cap of six percent, but also includes a new method for defining what those expenses are within the statute and greater specificity regarding what is not considered to be an operating expense that is subject to the new cap.
- CEA budget documents will refer to those items not considered to be a capped operating expense as "Non-Statutory Expenses."
- All other expense items not specifically listed in statute will be considered operating expenses and will be referred to as "Statutory Expenses," to avoid confusion with prior terminology.

Mr. Pomeroy said he had asked the finance and accounting staff to provide copies of the 2015 budget to the Board for this meeting, using both the previous method and the new method for comparison and clarity during this year of transition from one approach to another. He noted the differences in figures the two methods made.

Mr. Pomeroy answered possible Board member questions up front regarding how the 2015 budget compares to both the 2014 budget and to actual projections.

- The 2014 Operating Expense line is \$2 million under budget, because salaries and benefits were less than anticipated by \$1.3 million because of unfilled

positions and uncompleted contract negotiations for the planned CEA-office expansion. The funds set aside for the office expansion in 2014 will carry over to the 2015 budget.

- An increase in 2015 of almost \$4 million over 2014 actual expenditures is proposed, because the operating expenses will increase next year due to the planned staffing increase and office expansion.
- The old method: the operating expenses using the prior definition would be \$17.9 million, which still would have fallen below the old three percent cap of \$18.5 million. The CEA has lowered its rates 47 percent since inception and just filed to lower them again. Updating the arbitrary and outdated cap, which capped spending at a percentage of premium, was important.
- The new method: the projected premium for 2015 will be \$616 million, which produces a six percent spending cap of \$37 million. Under the new methodology, the proposed Statutory Expense budget is \$24 million, well below the new statutory cap.

Mr. Pomeroy stated the proposed 2015 budget will allow the CEA to continue its work:

- Devoting targeted resources towards helping educate Californians about the risk of earthquake and the need to be financially prepared
- Rolling out creative financial mitigation programs to help Californians make their homes safer and leading stakeholders to bring those programs to a wider array of housing types
- Innovating insurance coverages and lowering rates to help more Californians receive the benefit of a valuable, affordable insurance policy

Mr. Richison gave a report on the 2014 budget:

- Actual expenditures and projected expenses as of November and through December 2014 will total almost 89 percent of the Operating Expenses budget.
- The Participating Insurer Commissions and the Participating Insurer Operating Costs are well over budget because there was more written premium for the year than anticipated. When that effect is taken out, the remaining operating-expense level is reasonable.

Mr. Richison gave a report on the proposed 2015 budget:

- The overall budget expenditures is \$346.9 million using the new method.
- The Statutory Expenses are \$23.9 million using the new method.

Mr. Richison compared the 2014 budget with the proposed 2015 budget and explained increases and decreases in the categories.

Mr. Wiley asked why agent commissions and PI administrative fees are distinct categories. Mr. Richison stated agent commissions are for the selling of a policy and operating costs are for producing and servicing the policies.

Mr. Wiley asked how the percentages are determined. Mr. Marshall stated the agent commission percentage is set by a regulation of the Insurance Commissioner.

Mr. Richison stated the PI administrative fees are at 6 percent on gross premium. Every time the rate filing is done, the percent of written premium that is operating costs changes.

MOTION: Mr. Shultz moved approval of the proposed 2015 insurance services budget and to direct staff to operate the CEA business within the total approved budget amounts; seconded by Mr. Boyken. Motion passed unanimously.

21. Ms. Maffei and Mr. Richison will present the 2015 CEA mitigation-program budget for Board consideration and approval.

Mr. Richison gave examples of what comes out of the mitigation budget, such as the CRMP research and pilot programs. He noted the CRMP has no staff. The CEA donates the staff that works on CRMP business that is then paid out of the CEA Mitigation Fund.

Mr. Ghilarducci added that the mitigation program was designed so that the Mitigation Fund would pay the staff salaries. He asked if there was a limit to the number of staff that can be donated. Mr. Richison stated there is no limit.

Mr. Ghilarducci asked how many staff members work in mitigation. Ms. Maffei stated there are five: three mitigation team members and two people in IT who work on improvements to the EB+B website.

Mr. Shultz asked what will be done with the accumulated interest income in the mitigation account. Mr. Ghilarducci stated it funds the EB+B program and other mitigation efforts.

Mr. Richison added that it funds mitigation efforts, such as the pre-standard project and other earthquake-loss mitigation-related research projects.

Mr. Richison reviewed the budgeted to actual expenditures for the 2014 mitigation budget:

- Only 46 percent of what was approved by the Board for the mitigation budget in 2014 is expected to be expended.
- The mitigation budget will be more refined for 2015 because the budget is being made more accurate through experiences with the budgeted processes.

Mr. Richison reviewed the proposed 2015 mitigation budget:

- The mitigation budget structure follows the format for the insurance services budget, for simplification and clarity.

- A comparison between old and new formats for the mitigation budget was not done, but the mitigation budget has greater detail because there are fewer items associated with the mitigation effort.
- There have been additions to the “Other” category, such as investment services, marketing services, and legal expenses.

Mr. Richison reviewed the approved 2014 budget compared to the proposed 2015 mitigation budget and noted that the total budgeted expenditures for mitigation are \$2.5 million for 2015.

Mr. Ghilarducci asked where the funds for the EB+B program come from.

Mr. Richison stated the funds come out of the CRMP budget.

Mr. Ghilarducci asked what the engineering research under the mitigation budget is.

Ms. Maffei stated it is the ATC 110 pre-standard.

Mr. Ghilarducci asked if the ATC 110 is part of the approved \$3 million. Ms. Maffei stated it is for the first year.

Mr. Ghilarducci asked if the marketing services are part of the approved \$3 million.

Ms. Maffei stated the marketing services related to mitigation in general are. The educational marketing directs individuals to the website to give them mitigation information.

Mr. Ghilarducci agreed and stated the \$3 million is not just for the EB+B program, but it is to help individuals understand it and to facilitate their involvement.

MOTION: Mr. Boyken moved approval of the proposed 2015 mitigation budget and to direct staff to operate the CEA’s mitigation-related activities within the total approved budget amounts; seconded by Mr. Shultz. Motion passed unanimously.

22. Mr. Pomeroy will update the Board on the development of organizational and staff performance metrics for the CEA.

Mr. Pomeroy stated the CEA has contracted with Dr. Lindle Hatton to assist in developing organizational and functional metrics. Work is underway, and the interviews have begun, both individually and collectively. The target date for completion is in June 2015, with results to be presented to the Board at its August 2015 meeting.

23. Mr. Pomeroy will present for Board consideration and approval the 2015 Governing Board meeting calendar.

Mr. Pomeroy noted that all the meetings begin at 1:00 p.m. except for the February 19th Board Meeting, which will begin at 2:00 p.m.

MOTION: Mr. Boyken moved approval of the 2015 Governing Board meeting calendar; seconded by Mr. Shultz. Motion passed unanimously.

24. 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 adjourned into closed executive session. No action was taken.

25. 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.

26. Adjournment.

There being no further business, the meeting was adjourned at 5:34 p.m.