

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Thursday, August 28, 2014  
1:00 P.M.**

Location: CALSTRS Headquarters Building  
Board Room – Lobby, E-124  
100 Waterfront Place  
West Sacramento, California

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Board Chair Governor Jerry Brown  
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 Darrell Steinberg  
George Wiley, designee of Speaker of the Assembly Toni G. Atkins

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer  
Todd Coombes, Chief Information Officer  
Chris Nance, Chief Communications Officer  
Tim Richison, Chief Financial Officer  
Bob Stewart, Chief Operations Officer  
Joe Zuber, Senior Staff Counsel  
Marc Keller, Governing Board Liaison  
Danny Marshall, General Counsel

Also present:

Mark R. Johnson, Branch Chief – CalOES (Earthquake and Tsunami Program)  
Sheri Aguirre, Managing Director, California Residential Mitigation Program

- 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 May 15, 2014, Governing Board meeting.**

**MOTION:** Mr. Boyken moved approval of the May 15, 2014, Governing Board meeting minutes; seconded by Mr. Shultz. 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 reported on the CEA's response to the South Napa earthquake of August 24, 2014.
  - More modern houses fared well, but more vulnerable, older houses experienced a number of problems.
  - CEA staff arrived in Napa as early as 7:00 a.m. on August 24 to begin observing and gathering information. They encountered a disaster scene, with power outages, sirens, broken water mains, and toppled chimneys and damaged foundations.
  - The response infrastructure—CalOES, city and county leadership, and the Red Cross—set up quickly. Some CEA participating insurers arrived and established a visible presence.
  - The amount of insured loss caused by the earthquake is relatively low—with the low earthquake-insurance take-up rate (about 6%) in the region, most residential damage will be uninsured.
  - As of August 28 the CEA had received 278 claims, which adjusters are evaluating. Most of these claims are likely to include emergency repairs.
- Mr. Nance reported on the communication strategy in response to the event.
  - Media Relations Specialist D'Anne Ousley received and ably addressed all media inquiries, upwards of three dozen.
  - Broadcast news reporters are showing interest in about the CEA.
  - Earthquake insurance is now being publicized in the media, including an August 27 front-page story in The Sacramento Bee.
- Mr. Pomeroy addressed increased earthquake-insurance interest.
  - There was a great surge in visits to the CEA website.
  - The CEA's policy count has increased by about 13,000 policies in 2014—about 70% of the increase occurred in the two months after the March (2014) La Habra earthquake. Mr. Pomeroy said the South Napa earthquake will likely result in a further increase.
  - The CEA should focus on bringing consumers more information about currently available coverage choices.
  - Throughout the week in Napa, Mr. Pomeroy had heard concern about the high deductible associated with some CEA policies. But there is misunderstanding among consumers about the deductible, and he explained to the Board how the deductible works.

- Consumers can add contents coverage with a separate, contents-only deductible that is generally easier to meet in a moderate event than a combined structure/contents deductible.
- The CEA needs to publicize its “Homeowners Choice” product in a more pronounced way that gets people’s attention.

Mr. Ghilarducci asked if the CEA supplies an accessible fact sheet for staff to use when responding to the media. Mr. Nance replied that one is in development.

Mr. Pomeroy noted that, historically, advances in public policy with respect to earthquake preparedness happen after earthquakes occur. Mr. Stroeh observed that engineering standards also change after earthquakes—they become stronger, or in essence, more conservative.

Mr. Pomeroy described the difference he had seen between two houses, situated side by side: One had been retrofitted and appeared essentially undamaged, while the other—not retrofitted—had toppled off its foundation in the earthquake.

Mr. Shultz asked about what he called inaccuracies that had been reported. Mr. Nance replied that media were primarily focused on CEA-policy cost and deductible, with inaccuracies about the latter often caused by confusion about how a CEA deductible works and whether a policyholder must cut a check to access coverage.

Mr. Pomeroy said that the CEA understands that reporters are busy and not insurance professionals; it is important for the CEA to work to support and improve the media’s state of knowledge.

Mr. Ghilarducci encouraged the CEA to keep in mind the post-event time window regarding general interest in disaster preparedness.

- Mr. Pomeroy moved to the topic of legislation.
  - Mandatory-offer reform: AB 2064 (Cooley) was passed by both houses of the Legislature and is heading to the Governor’s desk.
  - Under AB 2064, participating insurers will send once each year, in addition to the improved mandatory-offer itself, a piece designed by the CEA—the CEA estimates that eight to nine million pieces will go out to policyholders in addition to the mandatory offer.
  - The legislation would also clarify the CEA’s statutory spending cap. The bill initially as introduced would have simply increased the cap, from 3% to 5%. But Assembly Insurance Committee staff suggested an approach that would provide the Board additional clarity, by defining categories of expense not subject to a cap.

Mr. Pomeroy presented the bill language. It is generally expected the Governor will sign the bill.

- Mr. Pomeroy discussed a rate-filing that staff plans to bring to the Board for review, approval, and eventual submission to the Insurance Commissioner.
  - A moderate rate reduction will be proposed.
  - The mitigation discount would increase from 5% to as high as 20%, depending on the type of retrofit and the house's year of construction. In addition, a planned RFQ will result in the CEA's launch of extensive technical research into determining the maximum premium-discount potential.
  - Current CEA deductibles generally are offered as one of two options: 10 percent and 15 percent. With the new rate filing, consumers could choose lower (5 percent) or higher (20 and 25 percent) deductibles.
  - New, optional contents limits would be offered: \$150,000 and \$200,000.
  - There would be more limit options for additional-living-expense coverage.
  - The chimney sublimit would increase.
  - There would be new options to cover glass breakage and collectibles.
- The CEA received an award from the Western States Seismic Policy Council, in recognition of its close partnership with the council in education, loss-mitigation, and research activities.

Mr. Stroeh mentioned that the California Department of Insurance also had staff on the ground after the South Napa earthquake, and reports he had heard were "incredibly positive" regarding the CEA's efforts there and in coordination with various agencies.

**4. The Governor's designee to the CEA Governing Board Mark Ghilarducci (Director, Governor's Office of Emergency Services (CalOES)), joined by Mark R. Johnson (Branch Chief, CalOES Earthquake and Tsunami Program), will brief the Board on California's proposed earthquake-early-warning system.**

- For over 20 years, scientific and academic communities have worked with emergency services to develop earthquake-early-warning capabilities.
- The California Integrated Seismic Network ("CISN") has been developing technology to sense the primary wave ("P-wave") of energy emitted when an earthquake occurs. That wave goes out before the S-wave, which represents the real "shaking part" of the earthquake. The technology examines the time gap between the P-wave and the S-wave—the goal is to warn of impending earthquake shaking via smartphones, computers, and audible/visible alerts.

- In 2013, Senator Alex Padilla introduced SB 135, naming CalOES to lead early-warning-system development; the Governor signed it into law.
- Mr. Ghilarducci gave an overview of accomplishments to date and the governance setup.
  - It is a public-private initiative, where the private sector helps saturate the state with appropriate sensors, which are plugged into the government backbone that will continue to operate under CISN.
  - With that comes a significant public-education piece: People need to know what to do upon receiving the warning.
  - The system can be automated, with manufacturing lines turned off, gas lines and water lines shut down, and trains slowed or stopped. Hospitals could postpone surgical procedures.
  - The warning is life-saving and a hazard reduction for industry, with benefits in both life-safety and economic recovery.
  - Pilot projects are underway at the U.S. Geological Survey (USGS) and UC Berkeley. Private-sector organizations are installing sensors in the Imperial Valley that could tie into the government system.

Mr. Johnson added:

- January 1, 2016, is the deadline to identify funding for SB 135; that is also the date for an implementation plan with partners.
- High-speed rail could help automate the process. BART has had some success with the system.
- California's many fault lines cause limitations—also, there could be blind zones, missed events, false alarms. And with very large earthquakes (magnitude 8 or greater), the ground moves for several seconds, which complicates the early warning.
- Earthquake early warning systems are under development in Italy, Greece, and India. Operational systems are in place in Romania, Turkey, Taiwan, Japan, and Mexico.
- The working group consists mostly of people from CISN.
- The working group, through committees, will look at five areas.
  - The model where the public and private sectors interact—existing private-sector models should work with the system the working group develops.
  - System administration.
  - Performance standards.
  - Outreach requirements.

- Funding to move the project forward.
- A Stakeholder Liaison Group will represent interested parties not directly involved with the committees.
- The project will build on CISN and ShakeAlert.
- The project still must identify system scope: features/functions, performance requirements, management, maintenance, and funding.
- Mr. Johnson showed sensor and telemetry requirements and seismic networks already in place compared to California's population distribution.
- User-delivery systems could be telephone, computer, TV, radio, and dedicated devices.
- Detailed cost factors were named.

Mr. Boyken asked about the cost. Mr. Ghilarducci estimated \$25-26 million to build and \$10-15 million per year to maintain.

Mr. Wiley asked whether other countries' systems are private, public-private, or government-run. Mr. Johnson responded that many but not all are government-driven.

Mr. Pomeroy introduced a possible early-warning-funding source. It could also permit CEA to benefit from ease of post-event borrowing, to relieve some costs associated with risk-transfer. It would be a state-government guarantee. The CEA could savings of \$30-60 million per year over the cost of risk-transfer and put the savings to good use by making CEA insurance more affordable.

Mr. Pomeroy explained that the state's guarantee of CEA's post-event borrowing would come at a cost (fee) of roughly \$5 million a year, and that amount could help fund early-warning.

Mr. Boyken felt the concept was worth exploring. Mr. Shultz responded that the Department of Insurance was "intrigued," and he encouraged the CEA to move forward to determine interest.

Mr. Wiley asked about the federal option Mr. Pomeroy had mentioned. Mr. Pomeroy said that the CEA would also continue to look at and work toward a federal solution.

Mr. Stroeh suggested that the fee be used toward the recurring operation costs early-warning. Mr. Ghilarducci agreed.

The Board determined that the CEA should continue to pursue the concept.

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

- As of June 30, CEA available capital exceeds \$5 billion.

- Before South Napa, annual gross written premiums were getting close to \$600 million per year—with South Napa, the CEA might reach or surpass that number, depending on take-up, post-event.
- The insurance-services budget is on target for the end of 2014.
- The mitigation budget is lagging behind the initial budgeted amount, but spending will probably pick up in the second half of 2014.
- Claim-paying capacity was just over \$10.5 billion at the end of June 2014.
- Staff will bring to the Board in October 2014 a proposal to issue additional pre-event revenue bonds, in order to establish a pre-event-debt program.

**6. Chief Communications Officer Chris Nance will provide a marketing update to the Board on a new pilot campaign to promote renters insurance, in cooperation with the nonprofit organization *United Policyholders*, the City of Oakland, and the City and County of San Francisco.**

- A new renters-insurance campaign will work through local governments to publicize the CEA. Staff has worked with United Policyholders, the City and County of San Francisco, and the City of Oakland to develop Bay-Area-specific pilot programming.
  - The September program promotes buying renters insurance in neighborhoods with high percentages of renters.
  - It is comprehensive: transit, outdoor, TV, and radio, aiming to deliver 42 million impressions.
  - TV host Mario Lopez is available at no cost to help with communications (video clip shown). Renters will be directed to the consumer-focused United Policyholders website.
- The CEA website is being redone to supply both pre- and post-event abilities.
- Staff also is preparing a “digital press kit,” talking points for agents, and a social-media capability that could prevent misinformation in the press—descriptions will cover CEA finances, policies, and role in preparedness.
  - Other important, upcoming project staff is working on include a 30-minute special with KGO-TV (San Francisco) and a substantial insert for the San Francisco Examiner to distribute to newspaper-group subscribers in October.

Mr. Ghilarducci mentioned the “international resiliency program” of which San Francisco and Oakland are a part. Mr. Nance stated that staff is contemplating some earned-media strategies with that program to complement the renters campaign.

Mr. Shultz commented that despite the Bay Area's large number of renters, the earthquake-insurance penetration rate is very low; he said increasing take up appears to be a marketing issue.

**7. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA mitigation program's "Pre-Standard Project" and other earthquake-loss-mitigation-related research.**

CRMP Managing Director Sheri Aguirre gave the update in Ms. Maffei's absence.

She stated that CEA mitigation is focused on developing a continuum of programs – "end-to-end mitigation".

- FEMA P-50, the first step, is a tool to rate expected performance on a variety of vulnerabilities, such as chimneys.
- ATC-110 will provide specific solutions for mitigating the vulnerabilities identified in FEMA P-50.
- CRMP's EB+B will provide the financial incentive.

Research is an important piece of the continuum. Staff used available modeling to recommend increased mitigation discounts for the next CEA rate filing.

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

- Ms. Aguirre showed a clip of Ms. Maffei speaking on KPIX.
- The initial pilot of the Earthquake Brace + Bolt program was completed in March 2014. The CEMP board has approved expanding in 2015 to Oakland and Los Angeles and four other cities.
- A comprehensive evaluation of the pilot program was done by CRMP contractor Saberi and Associates. Saberi reported that the website performed well, and marketing information increased interest in the program and registration. Program participants appreciated quick receipt of reimbursement checks.
- Saberi recommended continuing local outreach, to city councils and local building inspectors, and providing more technical information to homeowners so they can better understand whether they qualify for program benefits.
- The geographic areas for program expansion were assigned according the density of older houses overlaid on areas of likely severe shaking in the next 30 years.

- Staff hopes EB+B will accommodate between 500 and 575 houses in 2015, in the four original ZIP Codes and new ones in San Francisco, San Leandro, Santa Monica, and Pasadena.
- In September, staff will begin outreach to contractors, building departments, and city councils.
- Homeowner marketing will begin in December.
- Registration for new program slots will begin in January 2015.

Mr. Shultz asked about the bolting-only (not bracing) portion of the program. Ms. Aguirre replied that it would be in the third phase, possibly 2016, in San Diego.

Mr. Stroeh asked if the initial work went well. Ms. Aguirre replied that it had gone very well, although they would like to have had more participants. The call-center support (two staff members) was deemed excellent, and contractors performed well, too. The program will push to get more contractors on the EB+B list.

Mr. Pomeroy said that staff is focusing on identifying new financing sources, including for assisting homeowners with cash flow through a new, voluntary program:

- Homeowners could obtain 100% financing for a single or possibly multi-family residential mitigation project.
- No money down would be required.
- A long-term repayment mechanism would be made available with easy debt-service terms.
- Once the loan is made and the home retrofitted, a repayment obligation would be collected as a special assessment, with property taxes, and remains with the property upon transfer or sale.
- There are precedents for this type of program: community-infrastructure capabilities such as energy-efficiency programs.

Mr. Stroeh noted that this type of program is being used in Sonoma County for energy.

The Board expressed enthusiasm for this “creative thinking.”

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

- The IT-project portfolio is dynamic. Staff has been making changes, adding and removing projects.
- 56% of active and planned projects are tracking according to the schedule.
- 35% of the portfolio is active; 32% is completed; 12% is in planning; 18% has been cancelled; 3% is on hold.

- External resources are on-board and fully engaged. Staff has moved to an onsite/offsite-type schedule to deal with the number of resources involved.
- Four projects were cancelled in the last quarter; five were completed. Five projects had planned completion date adjustments. Nine projects had expenditures.
- With additional external resources, 14% of the 2014 portfolio budget has been spent. Spending rate is expected to increase but will not exceed the portfolio's budget allocation.
- Risk assessment: IT development methodology has changed from the "Waterfall" approach to the "Agile" approach.
- The IT report in the Governing Board binder includes a new column for tracking changes to the original plan.

**10. Mr. Coombes will update the Board on the CEA's IT infrastructure upgrade and present the results of, and staff recommendations regarding, a recent RFP for IT-hardware provision and a recent RFQ for data-center colocation.**

Mr. Coombes reported that he had split the managed service approach into four components, each addressed in a separate procurement.

The IT team had identified procurement opportunities for data-center colocation and hardware and had decided to perform the other two parts of managed services, data-communications management and technical-resources management.

Mr. Coombes and IT-team members visited the three primary data centers of the RFQ respondents, analyzing all three with standardized scoring. Their selection was RagingWire Data Centers, which has a primary location in the Natomas area of Sacramento. Raging Wire has a 100% up-time guarantee and a very favorable reputation in the industry. A contract with RagingWire is ready to sign upon Board approval.

Of the two qualified hardware respondents, CDW Corporation was the selected vendor, due primarily to pricing—the CEA had stated a detailed and specific list of hardware in the RFP—but lease and other terms were also key. CDW and IBM Corporation (CDW's lease agent) put together a plan and contract, which is also ready to sign, pending Board approval.

The cost is much less than the earlier managed-service arrangement proposed. Monthly colocation fees are about \$10,000 per month, plus some up-front expenditures.

Total hardware and data-center-colocation expenditures for the next three years will be about \$1.6 million, which will require a budget augmentation for the portion that will be incurred in 2014: \$273,465.62.

Mr. Coombes asked that Mr. Pomeroy be authorized to sign the contracts on behalf of the CEA.

With Board approvals today, transition will begin in September and may finish by the end of 2014.

Mr. Ghilarducci asked if RagingWire is located in a flood plain. Mr. Coombes responded that the firm is hardened for flood and earthquake in their Natomas location. And a secondary RagingWire backup site is in Ashburn, Virginia, housing a true duplicate environment.

Mr. Ghilarducci asked about hardware-leasing versus procurement (purchase). Mr. Coombes explained that leasing was a sort of convenience for 2014 budgeting, and the budget process may be different for 2015 to accommodate impending legislative changes in the mandatory earthquake-insurance offer and expense cap.

Over time, the difference in price between leasing and buying is not large. Leasing gives the CEA flexibility in spreading out the spend over the lease term. After three years, a zero-dollar buy-out is built in, so that the CEA will own the equipment.

**MOTION:** Mr. Boyken moved approval of entering into the agreement between the CEA and RagingWire for the data-center colocation services and the agreement between the CEA and CDW for IT hardware; to authorize CEO Glenn Pomeroy to execute the agreements on behalf of the CEA; and to approve the \$273,000-plus augmentation. Seconded by Mr. Shultz. Motion passed unanimously.

**11. Chief Operations Officer Bob Stewart will present to the Board for its consideration and approval materials in support of the application of Hyundai Marine and Fire Insurance to become a participating insurer of the CEA.**

Mr. Stewart referred the Board to the resolution, which provides a description of Hyundai Marine and Fire Insurance and its history and plans, as they relate to the CEA.

He provided additional relevant details:

- He stated that the company ask the California Department of Insurance’s approval to begin writing homeowners insurance in California in 2015. The company would offer CEA products to meetthe statutory earthquake-insurance-offer duty.
- Mr. Stewart noted that, because Hyundai has never had a California residential-property-insurance market share and does not bring existing earthquake exposure to the CEA, its participation will not require a capital contribution.
- He defined the term “risk-capital surcharge.” He explained that, because Hyundai does not bring existing exposure to the CEA but will be placing

exposure over time, staff recommends completing an earthquake-insurance risk profile at the end of Hyundai's first year of CEA participation.

Mr. Boyken asked if the CEA ever finds some participating insurers riskier than others. Mr. Stewart responded that the CEA is always interested in where participating insurers are writing insurance business, and that's especially important when Mr. Richison and team place reinsurance.

Mr. Richison stated that risk distribution among participating insurers is not even, having to do with the different markets they work in.

Mr. Marshall noted that it is prudent for the CEA to take a look at the risk that the company presents in the manner suggested; staff cannot practicably do that at the outset of participation, but it will be valuable after a year has gone by. The law put in place in 2009 will provide a suitable model, and applying the law in that manner is clearly within the Board's authority and power. With regard to those legal matters, he recommended approval of the written resolution that the Board had received.

Mr. Ghilarducci commented that no downside appears for the CEA's bringing on the new company, that it could add to CEA's ability to sell more policies. Mr. Stewart agreed.

**MOTION:** Mr. Shultz moved approval of Hyundai Marine and Fire's application, and authorization of CEO Glenn Pomeroy and the CEA General Counsel to negotiate and execute an Insurer Participation Agreement with this insurer. Mr. Boyken added the need to approve the resolution before the Board; it was accepted by Mr. Shultz. Motion passed unanimously.

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

The CEA is in contract finalization with Dr. Lindle Hatton of California State University, Sacramento, to work with the CEA in developing metrics and facilitating their implementation.

By the end of 2014, staff intends to have at least a first pass of the organizational metrics for Board review. By July 2015, staff intends to have departmental metrics developed, which should complete the Hatton project.

**13. Mr. Pomeroy and Mr. Stewart, building on a 2012 Board-approved office-expansion framework, will request Board approval of an updated and restructured approach to the needed expansion of the CEA's office space.**

Mr. Pomeroy stated that the CEA continues to grow and consequently needs more office- and work-space. The request is to proceed with lease negotiations with the building owner, to secure somewhat less than the 9700 square feet already approved by the Board in 2012.

Most of the additional space is needed for IT-related activities and personnel.

Mr. Ghilarducci asked about current CEA staffing numbers. Mr. Pomeroy replied that the agency number totals 82 or 83.

Mr. Ghilarducci then indicated Board agreement that staff move forward with the negotiations on the basis stated.

**14. CEA Senior Counsel Joe Zuber will brief the Board on the renewal of the CEA's Directors and Officers and Employment Practices Liability Insurance coverages and request the Board's approval to renew the policy and pay the annual policy premium.**

Mr. Zuber stated that the CEA purchases annually a policy of Directors and Officers and Employment Practices Liability insurance covering Board members, CEA employees, and the CEA as an organization.

For this year, premium has increased by about 15%, bringing it to \$131,130. Policy limits would remain at \$10 million for the Directors and Officers coverage and \$5 million for the Employment Practices Liability coverage. The broker team obtained quotes from other carriers, which were much higher than this 15% increase.

Mr. Zuber asked for Board authorization to pay the quoted premium to renew the coverage.

Mr. Ghilarducci noted that the Governing Board is the Governor and other public officials; and asked whether Board members have liability accounted for as part of their positions and responsibilities. Mr. Zuber replied that the CEA operates in a business environment, despite being a public instrumentality, and does not have sovereign immunity.

Mr. Boyken added that certain state statutes could protect government employees, but there might be some differences for contract employees.

**MOTION:** Mr. Boyken moved approval of the staff recommendation; seconded by Mr. Shultz. Motion passed unanimously.

**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 into closed session at 3:15 p.m.

They reconvened into open session at 3:32 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 was no public comment.

**17. Adjournment.**

**MOTION:** Mr. Shultz moved to adjourn the meeting; seconded by Mr. Boyken.

The Governing Board meeting was adjourned at 3:33 p.m.