

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, April 29, 2010
1:00 p.m.**

Location: Joe Serna, Jr. Cal/EPA Headquarters Building
1001 I Street, Sierra Hearing Room
Sacramento, California

Members of the Governing Board in attendance:

J. Clark Kelso, designee of Governor Arnold Schwarzenegger, Chairperson
Grant Boyken, designee of State Treasurer Bill Lockyer
Bruce Patton, designee of Insurance Commissioner Steve Poizner
Reid McClaren, designee of Insurance Commissioner Steve Poizner
Deborah Doty, designee of Speaker of the Assembly John Pérez
Dietrich Stroeh, 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, Communications and External Affairs
Susan Pitton, Governing Board and Advisory Panel Liaison
Danny Marshall, General Counsel

- 1. The meeting was called to order at 1:01 p.m. A quorum was established.**
- 2. Consideration and approval of the Minutes of the February 25, 2010, and March 23, 2010 Governing Board meetings.**
 - Mr. Patton moved to amend the February 25, 2010, minutes to clarify that, at the top of page 4, the last sentence in the incomplete paragraph, “\$10.5 million” refers to the CEA operating budget, not the entire budget for the CEA’s Insurance Services operation.

MOTION: Mr. Patton moved approval of the February 25, 2010, and March 23, 2010, Governing Board minutes, as amended above; seconded by Mr. Boyken. Motion passed unanimously.

3. Chief Executive Officer Glenn Pomeroy will present his Executive Report, and request certain modifications to the Board's resolution delegating management authority to the CEO. 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, including a request for the Board to consider provisions of AB 2746 (Blakeslee) that provide support for CEA mitigation-program activities.

- Mr. Pomeroy said this has been a notable year so far in terms of seismic activity around the world. Earthquakes began in January in northern California just offshore; then the horrific tragedy in Haiti struck. In February a large earthquake struck Japan, followed by a much more massive earthquake in Chile. March brought the Solomon Islands earthquake. April brought a series of sizable earthquakes around the world, including the one close to home in the Mexican state of Baja California. These events have the world taking greater note of potential earthquakes.
- As a country, the United States doesn't have earthquake risk well figured out. A *Congressional Research Service* report released in March drew this conclusion, finding that the penetration of earthquake insurance is low, and the federal government, through disaster relief assistance, continues to serve as the predominant bearer of earthquake/catastrophe risk. It supports the arguments the CEA has been making in Washington, D.C., to pass federal legislation to provide a committed federal guarantee for the CEA's (and other program's) private-market debt.
- A year ago the CEA led a group consisting of other states' cat-insurance programs to come up with a legislative concept that would solve this problem. The result was the Catastrophe Obligation Guarantee Act (COGA). It was introduced in the Senate; then a companion measure was introduced in the House to accomplish the same thing. A bigger, broader House bill takes the CEA (COGA) plan as that bills Title II – this is H.R.2555.
- A senator from Louisiana has joined the Senate sponsors of the bill, demonstrating that this is not just a one-state or a two-state issue. And House sponsorship has more than doubled since the last CEA Board meeting in February 2010.
- In March, a House committee heard H.R.2555, and the CEA was present to testify. The committee approved the bill—with COGA as its Title 2—and the bill was then sent to the floor of the House. The CEA hopes to see similar momentum develop on the Senate side.
- The CEA relies heavily on reinsurance to provide much of its substantial claim-paying capacity—but the cost of that reinsurance consumes two-thirds of CEA's expenses while providing less than one-third of the CEA's claim-

paying capacity. COGA would enable the CEA to use, with certainty of market access, post-event borrowing in the private capital markets for substantial parts of its capacity—this would allow CEA to replace a portion of its expensive reinsurance.

- Five years after COGA passes, this new capacity-financing would allow the CEA to double the take-up rate of earthquake insurance, while still growing its capital base. Clearly, this would have the effect of growing back up the need for reinsurance cover, as well as reducing participating-insurer assessment layers. Combined with the CEA's post-event borrowing capability under COGA, it's a win-win proposition.
- On the state side, a bill has been introduced to require CEA to make information available in electronic format. Another bill has been (re)introduced by Assemblyman Sam Blakeslee, focusing on establishing a chief mitigation officer position for the CEA and providing flexibility for the Authority to receive outside funds for mitigation-related activities. The Blakeslee bill is on its way to the Assembly floor.
- On the Tuesday following the Easter Sunday M7.2 earthquake in Baja California, Mr. Pomeroy joined a group (which included personnel from the Alfred E. Alquist California Seismic Safety Commission) for a firsthand look at the post-quake situation. In El Centro there were serious water problems, and damage to hospitals and schools. Calexico had broad commercial-property damage. The group also made connections with local leaders. Interestingly, a local State Farm agent stressed how beneficial it would be if CEA earthquake coverage were more affordable.
- CEO Pomeroy closed with the good news that in the month of March 2010, CEA issued 5400 new policies—this growth was new, organic growth, as opposed to taking in a new participating insurer that brings exposure. Total CEA policies now well exceed 800,000, evidence that awareness of earthquakes continues to grow and gain momentum.

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

- Mr. Richison stated that at close of business on March 31, 2010, the CEA has funds under investment exceeding \$4.1 billion.
- At the end of the first quarter 2010, capital available for payment of claims is \$3.6 billion.
- After its most recent reduction, the “New Industry Assessment Layer” is down to \$1.095 billion, but total CEA claim-paying capacity is well over \$9.7 billion.

- The budget category “Contracted Marketing and Outreach Services” is \$25,000 over its original allocation. In June 2010 Mr. Richison will recommend moving money from other subcategories to address the deficit.
- The number of CEA policyholders had peaked in 2000, but then began to decline sharply. The decline then slowed and stopped, and in 2008-09 the number had begun to grow again. Mr. Richison reported the good news that the first quarter 2010 saw a sizable increase of 7,000 CEA policyholders.

5. In support of the portions of the 2010 CEA Business Implementation Plan that pertain to CEA mitigation-program activities, Mr. Pomeroy and Mr. Richison will present for Board consideration and approval a proposed 2010 budget for the CEA Loss Mitigation Fund.

- Mr. Richison noted that CEA Finance staff had applied the same approach to the Earthquake Loss Mitigation budget as it had to the Insurance Services Operation budget: that the proposed budget – just \$300,000 – contains only the amount actually spent in the CEA’s 2009 budget year.
- As mitigation-related items are brought forward by Mr. Nance, the CEA will likely ask the Board for budget modifications; this means the \$300,000 budget level is a placeholder.

MOTION: Mr. Boyken moved approval of the 2010 Earthquake Loss Mitigation Fund budget; seconded by Mr. Patton. Motion passed unanimously.

6. CEA Advisory Panel member Bruce Johnson will provide a summary of the proceedings at the March 25, 2010, Panel meeting.

- Mr. Johnson presented this overview of the meeting:
 - Mr. Pomeroy presented his Executive Report, emphasizing federal and state legislative activities (particularly the COGA bill).
 - Mr. Dawson gave a financial report, including an update on policy count and some of the other financials, in addition to the \$10 billion claim-payment capacity.
 - Compliance Manager Niel Hall discussed the CEA’s Conflict of Interest Code and the requirement of annually filing a Statement of Economic Interests.
 - Senior Counsel Joe Zuber discussed the Bagley-Keene Open Meeting Act.
 - Mr. Nance gave an update on media buys and the CEA branding study.
 - The majority of the meeting was spent discussing the CEA’s 2010 Business Implementation Plan.

7. Chief Operations Officer Bob Stewart will present for Board consideration and approval the application of the *Nationwide Group* to become a CEA participating insurer.

- Mr. Stewart reported that Nationwide Group wishes to become a CEA participating insurer and, in that regard, plans to discontinue writing its own residential earthquake insurance coverage for California-residential-property risks by October 2011.
- Staff has been working with Nationwide to ensure that all the prerequisites for CEA participation will be met by October 2011, including operational, infrastructure, legal, and capital-contribution requirements.
- Under the CEA law, Nationwide's participation in the CEA requires that it make a capital contribution; CEA will determine that amount at year-end 2010.
- As required by law, CEA staff and CEA's consulting actuary analyzed Nationwide's existing earthquake risk to determine if Nationwide's participation would bring CEA business that is more likely to produce losses, or likely to produce greater losses, than the CEA's existing book of business. As a result, staff will recommend to the Board that it impose a risk capital surcharge as a condition to Nationwide's CEA participation.

MOTION: Mr. Patton moved that the Board adopt as its action the form of written resolution presented to the Board for this agenda item on this date; seconded by Mr. Boyken. Motion passed unanimously.

8. Director of Communications and External Affairs Chris Nance will seek Board approval of a project budget to redesign the CEA Web site and printed brochures, and produce paid-media marketing materials.

- Mr. Nance reported that the CEA has commissioned a branding study, which produced findings that CEA strengths are based primarily on its claim-paying capacity and the breadth of its participating insurers' expertise. Mr. Nance outlined three branding opportunities:
 1. For execution of new branding, materials need to be updated – CEA brochures in their copywriting and graphic design, and the CEA Web site in its architecture.
 2. CEA is also considering redoing its radio online and print advertising and preparing a generic-brand campaign.
 3. CEA plans to communicate with customers and the public in three languages: English, Spanish, and Chinese.

- Mr. Nance asked the Board to authorize an expenditure of up to \$231,000 to update marketing materials in a manner that tracks the new branding opportunities. He also requested a budgeted-funds transfers: (1) \$17,000 from Insurance Operations to Brochures and Information Products; and (2) \$80,000 from Other Information Products to Marketing Services.

MOTION: Mr. Patton moved approval of the expenditure of the \$231,000 and the transfers; seconded by Mr. Boyken. Motion passed unanimously.

9. Mr. Nance will provide an update on mitigation-program activities.

- Mr. Nance's emphasis was on structural mitigation. His update was a reflection of last year's scoping sessions throughout the state.
- Currently California is without a statewide residential-retrofitting building code. Building codes exist in many local jurisdictions, but those are not applicable statewide.
- CEA scoping-session participants suggested that the CEA should create financial incentives for consumers and that the CEA needs a regional standardized plan-set to retrofit correctly. The CEA later determined, however, that a statewide standardized plan-set is not feasible because there are too many variations in construction types and there are different building codes in different regions.
- The CEA then changed its focus to statewide retrofitting building codes, learning there was no such building code in place.
- As a result of the CEA and other entities working together, the first-ever statewide retrofitting building code will be up for adoption by the Building Standards Commission in August 2010. This has been accomplished in just six months – quite a feat! And in so doing, the CEA tapped expertise in the Department of Housing and Community Development, the Alfred E. Alquist California Seismic Safety Commission, and the Office of the Governor.
- Mr. Nance said this is a first, all-important step toward establishing building codes that work for all structures in California.
- CEA now seeks to identify a relevant industry partner. Ideal qualifications would include an entity that currently oversees a home-building constituency, is savvy on building codes, operates a statewide infrastructure, understands the residential-retrofitting needs, and has experience in administering these incentives and training statewide.

- CEA is also now exploring the prospect of creating a joint powers authority with the California Emergency Management Agency that could receive and administer funds from FEMA and other entities external to the CEA.

10. Mr. Nance will update the Board on recent CEA media buys.

- Mr. Nance stated that from an earned-media perspective, CEA is now in the business of producing 30-minute news interviews.
- From a paid-media perspective, after the Board approved spending \$200,000, staff negotiated an added value of \$151,000, giving the total buy about \$351,000 in value.
- From a Baja California event, post-event media-buy perspective, the Board approved the expenditure of about \$75,000. Staff used both earned media and paid media, accessing radio interviews, newspaper interviews, and public affairs shows. With these steps, staff generated an additional \$30,000 in added value, giving CEA in excess of a \$100,000 buy value.
- A budget perspective shows \$75,000 for marketing, combined with other expenditures related to the post-event outreach and otherwise efforts, adding up to about \$100,850.
- From a headlines perspective, CEA is up against reporters announcing, “People still reluctant to buy quake insurance” or “Earthquake insurance, worth the cost?”
- Online sponsorship includes news outlet Web sites that offer links to CEA stories.
- Outdoor advertising includes three dozen billboards in the greater Los Angeles area, made available for free as a result of CEA negotiations with the paid-media entities.
- Other media tools are online Web banners, Spanish-language advertising, and radio spots.
- Combined with the ShakeOut advertising from fall of 2009, in the last six months CEA has exceeded 75 million impressions for availability of earthquake insurance throughout the state of California.

11. Mr. Richison will present and seek Board approval for revisions to the CEA contracted-employees retirement plan.

- Mr. Richison told the Board that the CEA has a separate retirement plan for the contracted employees, who at present are the three executive officers. He

presented a restated CEA Retirement Plan for contract employees, developed by attorney Ken Ruthenberg of Chang, Ruthenberg & Long, an employee-benefits law firm.

- The restatement is an incorporation of the amendments previously approved by the Board, now in a format that comports with existing IRS requirements.
- Mr. Ruthenberg affirmed that the restatement is a document produced by a local third party administrator, in a form that is preapproved by the IRS.

MOTION: Mr. Boyken moved approval of the resolution authorizing restatement of the Authority's qualified executive retirement plan; seconded by Mr. Patton. Motion passed unanimously.

12. 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 2:20 p.m. and resumed its proceedings in open session at 2:45 p.m. Mr. Kelso reported that the Board exercised its full discretion under paragraph 2.3 of the CEO's contract, and endorsed a motion to adopt the performance management review of Mr. Pomeroy for this contract year.

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 2:47 p.m.