

DRAFT

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, June 24, 2010
1:05 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:

Anne Sheehan, designee of Governor Arnold Schwarzenegger, Chairperson
Grant Boyken, designee of State Treasurer Bill Lockyer
Bruce Patton, designee of Insurance Commissioner Steve Poizner
Pedro Reyes, designee of the 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
Bob Stewart, Chief Operations Officer
Tim Richison, Chief Financial Officer
Chris Nance, Director, Communications and External Affairs
Susan Pitton, Governing Board and Advisory Panel Liaison
Danny Marshall, General Counsel

Also Present:

Wayne Coulon, Chair, CEA Advisory Panel

- 1. The meeting was called to order at 1:05 p.m. A quorum was established.**
- 2. Consideration and approval of the Minutes of the April 29, 2010, Governing Board Meeting.**

MOTION: Mr. Boyken moved approval of the April 29, 2010, Governing Board minutes; seconded by Mr. Patton. 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 federal and state legislative activities of interest to the CEA.

- Mr. Pomeroy commented that H.R.2555, which includes CEA's COGA concept as its Title 2, was passed by the House Financial Services Committee. He said he hopes the House will have a floor vote on it some time in July.
- The CEA has approximately \$9.7 billion available to pay over 800,000 policyholders. This year has seen historic growth in CEA policyholder count.
- The CEA continues to depend heavily on reinsurance, which provides about one-third of the CEA's claim-paying capacity.
- By reducing the CEA's reliance on reinsurance through COGA, participating-insurer exposure could move downward in the CEA financial structure somewhat, but not significantly.
- By reducing expenses, lowering policyholder premiums, decreasing deductibles, and increasing coverage options, CEA gets more people covered.
- Insurer-assessments are in two layers: the 2nd IAL and the New IAL. With passage of COGA, the New IAL goes away altogether after just a few years of sustained policyholder growth. The enactment of COGA would be good, not only for the insurance consumers in California, but also for CEA participating insurers.
- On the state-legislative side, there is a spot bill moving through the Legislature that would affect responses to requests for CEA records held electronically.
- The CEA is grateful to Assembly Member Sam Blakeslee who, once again, introduced a bill this year to create within the CEA a Chief Mitigation Officer position.

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

- Mr. Richison stated that the amount of capital available to pay policyholder claims is \$3.6 billion.
- CEA's claim-paying capacity is approximately \$9.7 billion.
- Current level of reinsurance purchased stands at \$3.123 billion.

5. Mr. Richison will present and request Board approval of (a) revisions to the CEA's Guidelines for Sources of Claim-Paying Capacity and (b) a proposed CEA financial structure for 2011.

- The CEA has an A.M. Best Co. rating of "A-Minus ('Excellent')."

- Three commercial earthquake-loss models are being used to determine level of claim-paying capacity the CEA must attain to represent a 1-in-500-year level.
- A group of expert, CEA-retained actuaries have developed a process to encompass all three models' output, a new and better approach for CEA to determine claim-paying capacity.
- Mr. Richison proposed a 2011 financial structure to the Board based on the outputs of all three models, adjusted appropriately for exposure growth, demand surge, and loss-adjustment expenses—the recommended reinsurance-program capacity produced using that system was \$2.85 billion for January 1, 2011.
- Transformer reinsurance is being explored, but is not ready to bring to the Board. Mr. Richison said a traditional-reinsurance purchase of \$2.85 for January 1, 2011, could accommodate a transformer-reinsurance placement.
- Last year the CEA changed its guidelines for purchasing claim-paying capacity, to align with Lloyd's of London's capital-security conditions. The guidelines now accurately reflect Lloyd's of London's different capital-security levels, as in Attachments A and B.
- Mr. Patton said he had concerns that, after a first event, how would CEA continue operating – all CEA capital is used before tapping other sources of claim-paying capacity. Ms. Sheehan commented that the Board may not today have all the answers to its various questions on CEA sustainability.
- Mr. Richison stated that staff looked forward to further discussions with the Board on scenarios, options, and possible outcomes under various methods to promote sustainability.
- Mr. Pomeroy stated that, from his perspective, there is much thought within CEA about challenges of what happens after a large earthquake, in which all or most of the Authority's capital is exhausted—he noted that solutions are extremely difficult with the structure the CEA operates under today.
- Ms. Sheehan commented that the Board is comfortable with staff's coming back in October for further discussions on the matter.
- Mr. Pomeroy thanked the consulting actuaries who constituted the project team—Steve Goldberg, Marty Simons, and Shawna Ackerman—for their hard work on the project.

MOTION: Mr. Patton moved approval of the proposed 2011 reinsurance program as outlined in the Board briefing memo, approval of the revisions to the CEA's guidelines for sources of claim-paying capacity, and that staff bring to the Board the

final reinsurance-purchase recommendation at the August Board meeting; seconded by Mr. Boyken. Motion passed unanimously.

6. CEA Advisory Panel Chair Wayne Coulon will provide a summary of the proceedings at the May 20, 2010 Panel meeting.

- Mr. Coulon stated that the Advisory Panel's role is to serve as a resource to the CEA staff, which individual Panel members also do by working in business categories identified in the CEA's annual Business Implementation Plan.
- Currently about 12 percent of Californians have earthquake insurance, and CEA's goal is to double its share of earthquake take-up that in the next five years.
- Ms. Sheehan thanked the Panel for its continued support of CEA.

7. Director of Communications and External Affairs Chris Nance will seek Board approval of the expenditure of budgeted funds to conduct policyholder-related research.

- Mr. Nance report that approximately 5,400 new CEA policies were sold in March 2010 and about 7,000 policies were sold in April; the CEA would like to learn more about why policyholders sought CEA coverage.
- Mr. Nance asked for Board approval of \$41,650 to pay the costs of a survey of new policyholders.

MOTION: Mr. Boyken moved approval of conducting the policyholder survey and the augmentation by \$41,650 to the insurance-operations budget subcategory "marketing services" to pay the survey costs; seconded by Mr. Patton. The motion passed unanimously.

8. Director of Communications and External Affairs Chris Nance will brief the Board on the upcoming statewide ShakeOut drill and the rollout of new CEA branding; there will be a related funding request.

- Mr. Nance reported that 12.3 million people statewide participated in the last two ShakeOut drills.
- The CEA was a major factor in helping drive the level of success to 76 million impressions, statewide.
- The categories of costs that CEA would incur in its 2010 ShakeOut participation are:
 1. Paid-media
 2. Printing
 3. Postage
 4. Consulting fees

- The three objectives for this year's statewide ShakeOut are:
 1. Increasing demand for CEA earthquake policies.
 2. Establishing positioning for the new CEA brand.
 3. Promoting consumer participation in the ShakeOut drill.

- Mr. Nance's two recommendations to, and requests of, the Board were:
 1. Authorize CEA to spend \$265,000 of existing funds from the 2010 insurance operations budget subcategory "marketing services" and \$300,000 from the 2010 mitigation budget subcategory "marketing services."

 2. To approve an augmentation of \$1,103,622 to the 2010 insurance operations budget subcategory marketing services for a direct-mail campaign, which will include printing, postage, fulfillment, and consulting fees.

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

9. Mr. Nance will request Board approval to pursue a joint powers agreement with the California Emergency Management Agency (CalEMA) to enhance eligibility for federal funding in support of hazard-mitigation activities.

- Mr. Nance stated that the CEA has, by law, set aside in the CEA Mitigation Fund up to \$5 million annually for mitigation purposes, and the Fund balance has grown to \$20 million.

- It is estimated that before 1960, 1.5 million houses were built without benefit of seismic-related building codes in place. Assuming a certain distribution of available CEA funds, the \$20 million in hand gets to just one percent of the need.

- Under the JPA that is being contemplated, two things must be in place.
 1. Establishing a mechanism that can accept federal mitigation funds.
 2. Funding sources are to be processed through the JPA via voluntary advances, contributions or grants.

- Mr. Nance asked Board approval for CEA staff to work with CalEMA to craft a JPA agreement to bring back to the Board for its consideration.

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

10. Mr. Nance will update the Board on the Public Broadcasting System programming partnership with CalEMA and the Alfred E. Alquist Seismic Safety Commission.

- The funding arrangements for the PBS collaboration has become a difficult process to navigate through, due to the complex funding, programming, and contracting considerations.
- Mr. Nance had recommended that if PBS-related contract negotiations were completed by the June 2010 Governing Board meeting and the contract could be presented by staff to the Board, that the Board accept and approve the contract. If the contract were not completed, staff recommends that the Board authorize appropriate CEA staff to continue contract negotiations; upon completed contract-term negotiation on terms that CEA executive staff finds appropriate and within the allocated budget, to allow the contracting to go forward and that the contracted work to proceed in a timely manner. The Board may reserve, if it desires, an opportunity to ratify the contract at its August 2010 meeting.
- Mr. Boyken wanted to get the CEA General Counsel's opinion on the sole source, to make sure it meets the CEA's guidelines for sole-source contracts.
- Mr. Marshall stated that it did meet the CEA's sole-source guidelines.

MOTION: Mr. Boyken moved approval of recommendation; seconded by Mr. Patton. Motion passed unanimously.

11. Mr. Richison will request Board acceptance of staff's recommendation, in accordance with the results of a competitive procurement to secure the services of an independent financial advisor and Board approval of a proposed contract for services which was negotiated by CEA legal and finance staff and the organization proposed to provide the services.

- Mr. Richison reported that six responses were received in response to an RFP for an independent financial advisor. After review of the responses, the selection panel recommended to the executive staff that the CEA select Raymond James and Associates.

MOTION: Mr. Boyken moved approval of staff recommendation of Raymond James and Associates as CEA's independent financial advisor; approval of the financial advisory contract that is Attachment A; and that the Board authorize CEO Glenn Pomeroy to execute the contract on behalf of the CEA; seconded by Mr. Patton. Motion passed unanimously.

12. Mr. Pomeroy will request the Board's support and authorization to select and hire a qualified Chief Actuary and execute on behalf of CEA an employment agreement that embodies terms to be provided to the Board.

- Mr. Pomeroy stated that the CEA's need for actuary consulting services continues to grow and that the CEA needs a full-time actuary.

MOTION: Mr. Boyken moved that the Governing Board authorize CEO Glenn Pomeroy, in collaboration with other members of CEA executive management, to search and advertise to (1) select a qualified candidate as CEA Chief Actuary; (2) extend an offer of CEA employment as CEA Chief Actuary to a qualified candidate; (3) negotiate and execute the related employment agreement on behalf of the CEA, and; (4) do all of the things necessary and proper to document, effect, manage, and complete the hiring of the qualified candidate; seconded by Mr. Patton. Motion passed unanimously.

13. Mr. Pomeroy will present and seek Board approval of his appraisal of Mr. Stewart's performance under Mr. Stewart's performance-management plan and may seek a minor amendment to Mr. Stewart's CEA employment contract.

- Mr. Pomeroy presented a favorable performance review for Chief Operating Officer Bob Stewart and requested Board approval of a five percent merit-based salary adjustment.
- Mr. Pomeroy explained a record-keeping error regarding Mr. Stewart's accumulation rate for vacation leave, and asked the Board to approve modifying Mr. Stewart's employment contract to include four weeks of annual vacation leave rather than three weeks and that this rate be retroactive to July 1, 2008.
- In response to a call for Board-member questions by Chairperson Sheehan, Mr. Patton praised Mr. Stewart for doing an outstanding job for the CEA and for interpersonal skills such as team-building; Mr. Patton added that any vote (on behalf of the Insurance Commissioner) by Mr. Patton on the proposed salary increase should not be taken as any reflection on the quality of Mr. Stewart's work or what people at the Department of Insurance think of Mr. Stewart.
- In response to a question from Chairperson Sheehan, Mr. Pomeroy also stated that the proposed Chief Actuary position would be reporting directly to Mr. Stewart.

MOTION: Mr. Boyken moved that the Board accept the performance appraisal, continued contract, COLA calculation, accept and approve the recommended compensation adjustment and the execution on behalf of the Board of a contract modification letter agreement that embodies these modifications and delegate that execution on behalf of the Board to the Board Chair or any Board member; seconded by Mr. Patton. Motion passed unanimously.

MOTION: Mr. Boyken moved that the Board approve a five percent salary adjustment for Chief Operating Officer Bob Stewart; seconded by Ms. Sheehan. Motion carried on a 2-1 vote. (ayes, Governor and Treasurer; no, Insurance Commissioner).

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

- The Board met in closed session, where it gave direction to counsel on litigation matters. No action was taken on personnel matters.

15. Adjournment.

- The meeting was adjourned at 4:13 p.m.