

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, April 30, 2009
1:08 p.m.**

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

Members of the CEA Governing Board in attendance:

J. Clark Kelso, designee of Governor Arnold Schwarzenegger, Chairperson
Anne Sheehan, designee of Governor Arnold Schwarzenegger
Bruce Patton, designee of Insurance Commissioner Steve Poizner
Reid McClaran, designee of Insurance Commissioner Steve Poizner
Katie Carroll, designee of State Treasurer Bill Lockyer
Grant Boyken, designee of State Treasurer Bill Lockyer
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 of Communications and External Affairs
Mark Dawson, Assistant Chief Financial Officer
Susan Pitton, Governing Board and Advisory Panel Liaison
Joe Zuber, Senior Counsel

- 1. The meeting was called to order at 1:08 p.m. A quorum was established.**
- 2. Consideration and approval of the minutes of the February 5, 2009, and February 26, 2009, Governing Board meetings.**
 - Mr. Patton noted that the February 26, 2009, Board minutes, under Agenda Item 11, page 6, noted that Mr. Patton had “designated” his superior at the Department to conduct the appraisal of Mr. Pomeroy. Mr. Patton said the minutes should reflect that Mr. Patton informed the Board that Insurance Commissioner Steve Poizner, and not Mr. Patton, had designated Reid McClaran to conduct the performance review on Mr. Poizner’s behalf.

MOTION: Mr. Patton moved approval of the February 5, 2009, Governing Board minutes, and the February 26, 2009, Governing Board minutes as amended; Ms. Carroll seconded the motion. Motion carried unanimously.

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

- Mr. Pomeroy began by stating that this marks the first anniversary of his first Board meeting. He expressed his appreciation to the Board for its support of the mission of the organization, and for its leadership. He also thanked the CEA staff for their hard work.
- Mr. Pomeroy said he would report primarily on ongoing efforts to provide greater flexibility in the CEA's financial structure, to allow the CEA to make meaningful headway on its mission and goals, including its goal of getting more Californians insured against earthquake risk. Mr. Pomeroy and staff have formulated a concept that he hoped the Board would endorse as a key to ensuring the CEA's continued health and viability.
- In 2008 CEA collected more than \$500 million in premium from policyholders. Operating expenses were approximately \$100 million; approximately \$250 million was redeployed into capital to bolster the financial underpinning of the Authority; and approximately \$185 million was paid in reinsurance premiums to reinsurers around the world.
- In 2008 there were no major losses; thus, no recoveries were obtained from the CEA's reinsurers. Since its inception, the CEA has collected approximately \$5.4 billion in premium from policyholders, and has allocated approximately \$1 billion to operating expenses and another \$2 billion to grow the capital base. About 40 percent of the premium collected has been paid to reinsurers as reinsurance premium.
- Over the past several months, staff has been working to identify methods of reducing the CEA's reliance on reinsurance and shifting towards a structure that allows for the purchase of claim-paying resources for catastrophic earthquakes post-event—only when such earthquakes happen—rather than purchasing claim-paying resources in advance in years in which major losses ultimately do not occur, thereby paying money for risk transfer products that never pay claims.
- At the request of the CEA and other state catastrophe-insurance organizations working with the CEA, U.S. Senator Bill Nelson of Florida has introduced federal legislation, S.866, which would authorize state-government catastrophe-insurance entities, such as the CEA, to obtain a federal guarantee for their post-event borrowing. The federal guarantee would provide added security to potential lenders (bond buyers) and would allow the CEA to access post-event debt at attractive rates and on attractive terms. CEA staff feels the concepts in the bill represent good policy. If enacted, S.886 could result in significant risk-financing cost-savings to the CEA and would enable the CEA to reduce dramatically the rates it charges consumers. Currently, the average CEA policy has a premium of

\$920, but with the enactment of S.866 the rate for the same policy could fall to as low as \$500.

- The CEA has conducted stress tests to determine what would happen if the proposed federal legislation became law and a series of catastrophic earthquakes occurred in California: Even a series of earthquakes of magnitudes that have never happened in modern human history in California would leave the CEA solvent and in a position to continue to offer earthquake insurance at rates similar to or lower than current rates.
- In addition to allowing the CEA to reduce its rates, the federal legislation could allow the CEA to introduce expanded and more flexible coverages. Staff is in process of developing more flexible product offerings that would allow consumers to insure their dwellings to 50 percent of structure value, which would reduce their deductible by 50 percent, and to select other coverages that best fit each insured's needs. Implementation of the federal legislation would make it much more feasible for the CEA to offer such coverage options.
- To recap: the post-event borrowing concept would allow CEA to dramatically lower the premium it charges policyholders; to dramatically increase the value contained within the policy; and to remain financially strong and manage events as they develop.
- This concept recognizes the success of the CEA's first 12 years and can build on that with the capital it now has, the greater experience it now has, and the greater knowledge it has for earthquake risk; and it allows this Board to take this organization to the next level.
- Mr. Pomeroy asked the Board to endorse the concepts embodied in the proposed federal legislation. Although a bill has been introduced—S.886—it is still early in the process, and different versions are likely to be introduced; therefore, there is no need at this time to endorse a specific bill. Mr. Pomeroy also asked the Board to authorize staff to continue working with Congress and other persons and entities to achieve these objectives.

MOTION: Mr. Patton moved that the Board generally support the concepts embodied in S.886 and specifically endorse the creation of a federal guarantee for natural catastrophe post-event debt issued by qualified public entities; and secondly, that the Board authorize CEA staff to continue working with Congress, as well as with public entities of other states, to pass federal legislation that supports these objectives. Ms. Carroll seconded the motion. Motion carried unanimously.

Mr. Pomeroy also updated the Board on California legislation.

- AB 43 (Blakeslee) had its first hearing and is in process of being amended to remove the statutory cap of 25 CEA employees subject to civil service provisions. It also would create a new CEA contract-executive position of Chief Mitigation

Officer and enumerates some duties of that position. The measure received no votes in opposition at its first hearing.

- A second bill, AB 280, has been moved to the suspense file.

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

- Mr. Richison reported that CEA had in excess of \$3.6 billion in cash and investments at the end of 2008, with \$3.2 billion of that available to pay claims. Total year-end-2008 claim-paying capacity was in excess of \$9.4 billion
- Eleven reinsurance contracts make up the 2009 CEA reinsurance program, totaling \$3.1 billion in cover. The \$3.1 billion in reinsurance purchased for 2009 was most reinsurance ever purchased by the CEA—the CEA will likely purchase a similar amount for 2010.
- CEA's net income for 2008 was approximately \$285 million. Net investment income was approximately \$82 million, which was about a three-percent return. The return fell dramatically in the last four months of the year, as was expected, given financial-market conditions.
- The CEA's aggregate exposures have gone from \$173 billion in 2002 to \$261 billion at the end of 2008.
- In 2006 CEA issued revenue bonds in the amount of \$315 million. \$31.5 million of this debt is retired each July; \$252 million was outstanding as of year-end 2008. Fitch Ratings, a rating agency that rates CEA revenue bonds, has reaffirmed the CEA's revenue-bond rating at "A" with a stable outlook.

5. Assistant Chief Financial Officer Mark Dawson will request Board approval of a new schedule of participating-insurer contingent-capital-assessment levels.

- Mr. Dawson provided the calculation of the assessment levels and communicated the staff's recommendation that the Board adopt the assessment levels on the provided *Attachment A* and authorize staff to notify the individual participating insurers of their assessment levels.

MOTION: Ms. Carroll moved approval of the assessment levels and to authorize of staff to notify the individual participating insurers of those levels. Mr. Patton seconded the motion. Motion carried unanimously.

6. Chief Operations Officer Bob Stewart will present for Board consideration and approval a proposed revision to the CEA Earthquake Insurance Application and a new premium-discount notification form.

- As a result of a findings arising from a rating and underwriting examination being completed by the Department of Insurance, Mr. Stewart sought the Board's approval to implement two operational changes:
 1. A revision to the CEA Earthquake Insurance Application to clarify that a basement counts as a story for CEA rating purposes when rating a dwelling risk; and
 2. Introduction of a new form to notify applicants and policyholders of earthquake retrofitting discounts that might apply to CEA policies.

MOTION: Ms. Carroll moved approval of the implementation of the proposed revisions. Mr. Patton seconded the motion. Motion carried unanimously.

7. Director of Communications and External Affairs Chris Nance will report on the CEA-sponsored Mitigation Scoping Session held on March 16, 2009.

- Mr. Nance reported that 26 of the 29 invitees attended. The agenda examined mitigation programs; assessed regional fault proximities, construction times, and rebuilding times; updated knowledge on availability of pre-and post-disaster government funding; looked into the CEA's role in renewal of the 2010 state hazard mitigation plan; and considered other mitigation-related ideas, such as rebates, loans, incentives and similar programs.
- There will be an update on the draft after-action report at the next Board meeting. The final after-action report should be ready at the end of August.

8. Mr. Nance will present a recommendation for Board consideration and approval to participate in a public education program produced by California Public Television.

- Mr. Nance briefed the Board on a California-based PBS program that will use stories people tell to describe what happens when earthquake disasters occur. The program is intended as a kick-off to a multifaceted education campaign over the next two years. The total cost of the programming will be approximately \$1.7 million.
- The California Emergency Management Agency and the California Seismic Safety Commission have committed funds to support the PBS programming. Mr. Nance sought the Board's approval to spend \$250,000 of CEA funds to support the program. The money represents 15 percent of the total programming expense, and would be split equally for CEA budgeting purposes between CEA Communications and External Affairs and CEA Mitigation Program budgets.
- Mr. Patton noted that Capital Public Television was told that the CEA doesn't want to produce only a good TV shows; it also wants to produce an ongoing program that will motivate people to take mitigation activities that do preparedness. CEA also wants them to emphasize social media, like Twitter and

Facebook, and other forms of communication, to reach out and communicate to different audiences.

MOTION: Mr. Patton moved approval to authorize the \$250,000 expenditure, an augmentation of \$50,000 for marketing services to the communications budget, and \$125,000 for marketing services to the mitigation budget. Ms. Carroll seconded the motion. Motion carried unanimously.

9. 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 2:23 p.m. and resumed its proceedings in open session at 3:03 p.m. Mr. Kelso stated that there was nothing to report publicly from the closed session.

10. 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.

11. Adjournment.

- The meeting was adjourned at 3:08 p.m.