

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Thursday, August 27, 2009  
1:03 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  
Bruce Patton, designee of Insurance Commissioner Steve Poizner  
Reid McClaran, designee of Insurance Commissioner Steve Poizner  
Katie Carroll, 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  
Danny Marshall, General Counsel

- 1. The meeting was called to order at 1:03 p.m. A quorum was established.**
- 2. Consideration and approval of the Minutes of the June 25, 2009 meeting.**
  - Mr. Patton noted that the second bullet point on page two, which references the Klein bill should be further clarified to include mention of H.R.2555.

**MOTION:** Ms. Carroll moved approval of the June 25, 2009, CEA Governing Board minutes as amended; Mr. Patton seconded the motion. Motion carried 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 began by telling the Board that the CEA reinsurance program for 2010 will see a 14% increase in premium over what the CEA paid for 2009—he concluded that CEA must find access to more efficient capital to allow it to grow. The CEA is paying about \$200 million for the reinsurance coverage in force for 2009.
- CEA has spent about \$2.5 billion on reinsurance premium over the life of the CEA reinsurance program; CEA has been “repaid” – as reinsurance claims paid – about \$250,000.
- The 14% cost increase for 2010 clearly underscores the need for Congress to act to help CEA access capital that’s more efficient in the form of federally guaranteed post-event borrowing.
- CEA will be participating in the *Great California ShakeOut*, the state’s first-ever statewide earthquake drill.
- Senate Bill 886 (S.886) is awaiting the process known as scoring, a process in which the Congressional Budget Office determines, if the legislation were to pass, what would be the likely cost to federal taxpayers? CEA expects that scoring to be very favorable.
- SB 886 would allow CEA to borrow to pay claims, post-event, with the benefit of a federal debt guarantee—of course it will be obligated to repay that debt, and in order to receive the guarantee commitment, it must demonstrate its ability to repay what it wishes to borrow. It is anticipated that the scoring process will be completed shortly.
- On the House side is H.R.2555, sponsored by Representative Ron Klein from Florida. Passage of that bill, with minor adjustments, would be as helpful to the CEA as passage of SB 886.
- Assembly Bill 43, authored by Assembly Member Sam Blakeslee, unanimously passed the California Assembly and is moving through the State Senate. The bill would remove the CEA’s 25-civil-servant staffing cap, and allow the CEA Governing Board the flexibility to staff the organization as it deems appropriate, while remaining within the existing 3%-of-premium spending cap. It would also create a position of Chief Mitigation Officer.

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

- Mr. Richison reported that the CEA investment portfolio remains invested in very conservative instruments, but the return is still fairly favorable, in large part because of some of the longer-term investments CEA made in U.S. Treasuries before the market decline.

- The third principal payment was made on the 2006 revenue series bonds on July 1, 2009; just over \$221 million is outstanding. Seven more annual principal payments will be made through 2016.

**5. Mr. Richison will present and seek Board approval of a CEA financial structure and reinsurance program for 2010.**

- Mr. Richison indicated that earthquake modelers have been the main issue for much of the discussions the CEA has had regarding its 2010 reinsurance program. The new AIR and RMS models show huge reductions in CEA losses. This effect is related to how they incorporate new research into their models. The results obtained from AIR and RMS are in line with CEA primary modeler EQECAT, although each models differently. The problem the CEA faced in the marketplace is that the reinsurers are still using the older models and have told CEA they are evaluating the new versions of models.
- The new Industry Assessment Layer is projected to be reduced in 2010 by \$405 million. If that projection holds, the proposed new Industry Assessment Layer as of April 1, 2010, is projected to be \$1.7 billion.
- CEA has purchased a little over \$2.9 billion of reinsurance. The pricing, as mentioned earlier, showed about a 14 % increase. This translates to an additional \$14 million in expenditure.
- Mr. Patton acknowledged the large amount of work the CEA and its intermediaries have put into the reinsurance-purchasing process, given the size of the reinsurance pool.
- General Counsel Danny Marshall acknowledged that some of the unique features of our contracts are due to the fine work and expertise of CEA Senior Counsel Joe Zuber.
- Mr. Marshall then went through the recommended Board resolutions in details, with two revisions.

**MOTION:** Mr. Patton moved approval of the resolution supporting revised CEA risk-transfer-purchasing guidelines, which had been presented to the Board. Ms. Carroll seconded the motion. Motion carried unanimously.

**MOTION:** Ms. Carroll moved approval of the reinsurance-program-purchase resolution. Mr. Patton seconded the motion; motion carried unanimously.

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**6. Assistant Chief Financial Officer Mark Dawson will brief the Board on the completed CEA fiscal-year 2008 audit by the CEA's independent auditors, Larson & Rosenberger, LLP; representatives of that firm will address the Board to elaborate on the written audit report.**

- Mr. Dawson told the Board that Larson & Rosenberger, LLC, had completed the CEA's 2008 independent audit and concluded that the CEA's financial statements were fairly presented.
- Bill Rosenberger, engagement partner, and James Dougherty, senior audit manager, Larson & Rosenberger, LLP, presented specifics of the audit results, which included an "unqualified" opinion, meaning that the auditors did not take exception to anything reported in the CEA's financial statements. Further, he stated that no difficulties were encountered during the audit.

**7. Mr. Dawson will present to the Board for its consideration and approval the annual transfer to the CEA Mitigation Fund of a statutory portion of monies attributable to CEA Investment income earned.**

**MOTION:** Mr. Patton moved approval of the request for authorization to transfer to the Mitigation Fund the sum specified in the staff's Governing Board memorandum. Ms. Carroll seconded the motion. Motion carried unanimously.

**8. Director of Communications and External Affairs Chris Nance will present to the Board an after-action report, written to follow up on recent activities and meetings in support of CEA's residential earthquake retrofit program activities.**

- Mr. Nance began by noting that CEA's public-service mission includes mitigation, and including the annual transfer approved by the Board in Agenda Item 7, the CEA Mitigation Fund balance is now approximately \$20 million. The monies are dedicated to research and development, consumer education, contents mitigation, and structural retrofitting.
- Some of the mitigation funding will be dedicated to residential retrofitting: bolting foundations, shearing cripple walls, and bracing soft stories.
- The statewide input received as part of the report focused on the many single family residences throughout the state that need retrofitting. Central to that problem is people's limited personal finances; in addition, complicated applications people have historically been asked to complete to apply for loans have discouraged them from seeking that financing. Availability of financial incentives could make a big difference.
- Quality control for retrofitting remains an issue.

- CEA should be working at the regional level to implement programming, recognizing that different geographic regions present different challenges.
- Existing regional programs can be complemented by CEA.
- Californians will need to know that their homes have been retrofitted correctly. Retrofit costs will vary between flat and sloped ground. A focus is needed on sustainable mitigation-program funding.
- Next steps include working with the groups in Los Angeles and the Bay Area to produce a shared, standardized plan set, and in doing so, to seek to develop a linkage between structural-mitigation efforts and earthquake-insurance-premium relief.
- The CEA retrofit program will seek FEMA funding and support, through CalEMA, for specialized training.
- CEA will also work to analyze the viability of retrofit loans repaid through the same mechanism localities use to collect assessments and property taxes, an idea received from the Association of Bay Area Governments.

**9. Mr. Nance will report to the Board on a message-research partnership the CEA is contemplating with the California Emergency Management Agency (CalEMA).**

- Mr. Nance said that any messages sent to the public must be believable and understandable, in addition to being usable by multiple stakeholders. Also, a transition must occur from telling people “what to do” to prepare for earthquakes, to a place where CEA can communicate value-based messages that it knows will motivate people to act.
- Through its relationship with CalEMA, CEA has sought and received a commitment for \$150,000 in FEMA funding. He concluded by recommending that the Board authorize the CEA to spend a matching \$150,000 from the communications budget, which will be allocated for consulting services for message researching.

**MOTION:** Mr. Patton moved approval of the expenditure. Ms. Carroll seconded the motion. Motion carried unanimously.

**10. Mr. Nance will brief the Board on a proposed marketing program, and seek authorization of related funding, to support the CEA’s participation in the First Annual Statewide ShakeOut earthquake drill.**

- Mr. Nance remarked that the goals of the ShakeOut Program are to partner with, promote, and attract 10 million participants, as well as to increase demand for earthquake-insurance policies.

- He concluded with recommendation to authorize CEA to spend \$565,000 of existing funds from the 2009 communications budget for ShakeOut marketing and outreach as described.

**MOTION:** Mr. Patton moved approval of the authorization of \$565,000 for ShakeOut. Ms. Carroll seconded the motion. Motion carried unanimously.

**11. General Counsel Danny Marshall will join Mr. Richison in seeking Board ratification of certain required amendments to the CEA's executive retirement plan.**

- Mr. Marshall referred to and briefly explained two highly technical, IRS-required amendments to the executive retirement plan.

**MOTION:** Ms. Carroll moved approval of the resolution to amend the executive retirement plan. Mr. Patton seconded the motion. Motion carried 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 2:23 p.m. and resumed its proceedings in open session at 3:18 p.m.

**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 3:22 p.m.