

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, May 28, 2015
9:00 a.m.**

Location: CalSTRS Headquarters Building
Boardroom – Lobby, E-124
100 Waterfront Place
West Sacramento, California

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Jerry Brown, Board Chair
Grant Boyken, designee of State Treasurer John Chiang
Dave Jones, Insurance Commissioner
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Kevin de León

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Todd Coombes, Chief Information Officer
Janiele Maffei, Chief Mitigation Officer
Trudy Moore, Insurance Program Manager
Chris Nance, Chief Communications Officer
Bruce Patton, Director of Policy, Research and Special Projects
Tim Richison, Chief Financial Officer
Carlos Martinez, Governing Board Liaison
Erin Waters, Assistant to Mr. Pomeroy
Niki Wehling, Graphic Design and Production Specialist
Danny Marshall, General Counsel

Also present:

Russina Sgoureira, CEA Advisory Panel
Charles Waite, YP Solutions

1. The meeting was called to order at 9:11 a.m. A quorum was achieved.

MOTION: Mr. Boyken moved to elect Insurance Commission Dave Jones as temporary chair of the CEA Governing Board until the arrival of the designee of the duly elected Board chair. Mr. Jones seconded. Motion passed unanimously.

2. Consideration and approval of the minutes of the February 19, 2015, and April 8, 2015, CEA Governing Board meetings.

MOTION: Mr. Boyken moved approval of the February 19, 2015, and April 8, 2015, CEA Governing Board meetings minutes, as presented. Mr. Jones seconded. 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 played a two-minute trailer for the movie *San Andreas*, opening in theaters Friday. Experts were concerned about Hollywood's over-dramatizing earthquakes; although the science is incorrect, it is a good movie that emphasizes the need to prepare, respond, and come together in a time of disaster.

Mr. Pomeroy played a PSA produced by Dwayne "The Rock" Johnson with the theme Drop, Cover, and Hold On.

Mr. Pomeroy summarized several bills staff has been tracking and stated Senate Bill (SB) 602 will be discussed later in the agenda.

On January 1, 2016, new CEA policy options roll out, making coverage more valuable and more attractive. A mitigation discount is available up to 20 percent. The options will allow consumers to take more control over the structure and price of their coverage. To ensure consumers are aware of their choices, the CEA is developing an app for both consumers and agents.

4. Mr. Glenn Pomeroy, assisted by CEA executive staff, will ask the Governing Board to adopt a resolution of sponsorship and support of a bill that has been introduced in the California State Senate (SB 602 (Monning)). The Bill would enable the CEA to establish itself as a "statewide assessment district" to facilitate and fund assessment-based loan financing for seismic retrofits.

Mr. Pomeroy summarized SB 602:

- Authored by Senator Bill Monning
- Takes existing law to authorize property-assessed financing for seismic retrofits and expands it by deeming the CEA as a qualified financing district, operating statewide
- Offers 100% financing
- Repayment through property tax bill
- Loan stays with the property upon sale or transfer
- Participation in the program is voluntary

- Requires no money down
- Available statewide

Mr. Ghilarducci asked if the authorization for loans would come out of the mitigation or general funds. Mr. Pomeroy stated a portion of capital could be set aside for the loans. The loan repayments would be put into the bond markets to generate more money coming in to create a revolving loan fund.

The CEA staff recommended that the Governing Board:

- Adopt the resolution in support of SB 602 that has been provided for this meeting; and
- Authorize Mr. Pomeroy, assisted by CEA staff, to publicize the CEA's support and advocate for SB 602.

MOTION: Mr. Jones moved approval of the staff recommendation. Mr. Boyken seconded. Motion passed unanimously.

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

Mr. Richison presented the 2014 year-end report. He showed comparisons among 2012, 2013, and 2014 financial statements and noted that CEA's capital has been increasing over the last three years, as well as its liabilities. The CEA has enjoyed steady financial growth over the last three years.

Mr. Richison reviewed the 2014 budget statements and noted that 92 percent of the budget was expended for 2014, and mitigation only expended 39 percent of its budget; both under-utilizations were due to salary and benefits savings. In the case of the mitigation budget, the low expenditure was because the second phase of the pilot program did not roll out in 2014, as had been expected.

Mr. Richison reviewed the March 31, 2015, financial statements:

- \$5.6 billion in total cash and investments
- \$141 million in premiums were written in the first quarter
- \$23 million in the Loss Mitigation Fund at the end of the first quarter
- Almost \$4.8 billion in available capital to pay claims at the end of the first quarter
- \$4.3 billion in risk-transfer contracts in place
- \$11.754 billion of total capacity to pay claims, which includes proceeds from two revenue-bond sales

6. CEA Advisory Panel Member Russina Sgoureira will provide a summary of the proceedings of the April 23, 2015, Panel meeting.

Russina Sgoureira reported the following:

Glenn Pomeroy provided an update of the current CEA policy counts and take-up rate. Over the past 10 years, there has been a 19 percent increase in the policy counts for the CEA.

Key components of the January 1, 2016, rate change:

- 10 percent rate reduction
- Addition of deductible options of 5 percent, 20 percent, and 25 percent
- Addition of increased personal property and loss of use limits
- Deepened mitigation discount

Regarding Senate Bill 602, the California Seismic Resiliency Act:

- The bill provides homeowners with more incentives to finance the installation of seismic strengthening improvements
- The Panel unanimously voted to support this bill and recommends that the Governing Board pass the resolution

The Panel elected Mark Simmonds and Henry Williams as Chair and Vice Chair, respectively, for a two-year term beginning July 1, 2015, and ending on June 30, 2017.

Panel Members agreed to make themselves available to support the 2015 CEA Business Implementation Plan and the corresponding work groups.

CEA Panel Member Pius Lee shared his suggestions on ways to offer commercial earthquake coverage through the CEA. There are questions about that, because the CEA is not designed to cover commercial properties, but he wanted the Panel to hear his suggestions. He also suggested alternatives to reinsurance and creative ways to increase the take-up rate of the CEA in California.

7. Mr. Richison will ask the Board to approve a revised version of the Contingent Liability Assessment Layer calculations; an earlier version was approved by the Board at its February 19, 2015, meeting.

Mr. Richison stated there was a calculation error in the presented materials in the February Board meeting. He asked the Board to adopt the revised version with the corrected calculations for the industry assessment contingent liability for the PIs.

Staff recommends that:

- The Board adopt the revised CEA market-share percentages shown in Attachment A, to be used to determine the maximum earthquake loss funding assessment levels for CEA PIs, effective April 30, 2015

- The Board authorize and direct CEA staff to notify the two PIs of their revised, respective, April 30, 2015, maximum earthquake loss funding assessment level responsibility

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

8. Insurance Program Manager Trudy Moore will present for Board consideration and approval materials in support of the application of Progressive Insurance to become a participating insurer of the CEA.

- Progressive Insurance has applied to become a CEA participating insurer.
- Progressive became a majority owner of American Strategic Insurance (ASI) in April of 2015.
- Progressive was founded in 1937; ASI was founded in 1997.
- Progressive reports that it is dedicated to providing innovative approaches to auto insurance; ASI is a multi-state insurer. They offer personal residential property insurance as well as commercial, umbrella, and primary and excess flood insurance.
- Progressive is currently one of the largest auto insurance groups in the US.
- Progressive headquarters is in Mayfield Village, Ohio; ASI headquarters is in St. Petersburg, Florida.
- ASI will be the primary servicing carrier for Progressive's California residential policyholders
- Progressive maintains an A.M. Best A+ rating; ASI has an A.M. Best rating of A.
- Progressive plans to enter the California residential property insurance market in July 2015.
- Both Progressive and ASI have active and approved filings with the Department of Insurance, and they intend to begin writing homeowners, dwelling fire, condominium, and renters policies beginning in July 2015.
- Progressive and ASI will use CEA products to fulfill the mandatory earthquake-insurance offer requirement.
- Progressive has no California residential property insurance market share and brings no existing earthquake exposure to the CEA.

Since Progressive brings no existing earthquake insurance book of business to the CEA, staff recommends that the Board approve Progressive's participation with the condition of compiling Progressive's "earthquake insurance risk profile" at the end of Progressive's first year of CEA participation, in the manner described in California Insurance Code 10089.16, subdivision (d).

Ms. Moore stated, in accordance with the written resolution presented to the Board on this date, CEA staff recommends that the Governing Board (1) approve Progressive Insurance Group's application and (2) authorize CEO Glenn Pomeroy, assisted by the CEA general counsel, to negotiate and execute on the Authority's behalf an Insurer Participation Agreement with Progressive Insurance Group that meets the description and requirements above, and to take any and all additional, related, and necessary steps to accomplish the related and supporting acts contemplated and described above.

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

9. Chief Communications Officer Chris Nance will update the Board on the value of reimbursement proposed to CEA participating insurers for their distribution of the mandatory marketing document, both currently and in the future.

Mr. Pomeroy provided the background, objectives, cost estimates, and next steps of the mandated production and distribution of Mandatory Marketing Documents (MMD). It is appropriate that the CEA cover this cost, which will create a new way for Californians to learn about the opportunity to buy more affordable earthquake insurance with more coverage and options.

PIs will be offered a choice:

The CEA will produce, print, and mail the MMDs.

The CEA will produce the MMDs, and the PIs will print and mail them; their costs will be reimbursed by the CEA through a reimbursement mechanism established for this purpose.

Staff will request a budget augmentation in the August meeting to cover the costs of producing and distributing the MMDs and, as part of next year's budget, will request an additional \$3.6 million to accomplish this ongoing statutory obligation.

10. Mr. Nance will present, and seek Board approval of, the 2016 CEA advertising budget.

Mr. Nance provided the background, barriers to purchasing earthquake insurance, foundational research, marketing mix of product, price, promotion, and place, and digital infrastructure of CEA communications. He summarized the goal, objectives, strategies, and business-to-business, business-to-consumer, and business-to-stakeholder tactics of the CEA communications strategy.

The 2016 CEA research-based advertising campaign:

- The CEA will roll out numerous new policy options
 - Average statewide rates will be reduced

- A new mitigation discount will incentivize new retrofits and lower the rates for past ones
- The CEA will roll out a new campaign to complement first-time distribution of the MMD to nine million residents
- Digital infrastructure and software is now in place to evaluate the effectiveness of the marketing partnership between the CEA and PIs

Staff's recommendation is that the Board approve up to \$11,348,700 to implement the CEA's proposed 2016 advertising budget.

Mr. Boyken asked what was meant by "Out-of-Home." Mr. Nance stated it is localized transit advertising and billboards.

Mr. Jones asked Ms. Sgoureira to share her thoughts about the budget. Ms. Sgoureira stated her approval of the shift to digital marketing as it is an effective marketing tactic.

Mr. Ghilarducci asked how different languages and cultures will be addressed. Mr. Nance stated it will be addressed through the direct mail program, agents, and the Staying Safe publication.

Mr. Ghilarducci suggested working with the Controller and including an insert with the 300,000 state employees' paychecks as a way of outreach, or partnering with state agencies that focus on risk mitigation, emergency preparedness, or seismic issues to get the word out.

Public Comment

Charles Waite, of YP Solutions, asked if the digital component includes mobile phones. Mr. Nance stated it does.

Mr. Waite stated he likes the Ostrow Model. He cautioned that few people watch or listen to commercials or read advertisements. The next generation does not use that form of advertising when they have cell phones. He suggested putting digital fences around every Cineplex out there so everyone that sees that movie gets an ad.

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

11. Chief Financial Officer Tim Richison will seek Governing Board approval for reviewing the licensing agreement with EQECAT, Inc., for in-house use by the CEA of EQECAT's earthquake-loss-modeling software.

Mr. Richison stated, since 2004, the CEA has worked with the three most prominent commercial earthquake modeling firms. EQECAT has provided secure, detailed rate development and product development analyses since CEA's inception, and all CEA rate filings have been based on the EQECAT model.

CEA brought in-house the EQECAT software, and its use by CEA staff provides the following benefits:

- Allows staff to run the various scenarios as part of the product creation process
- Allows for more flexibility to develop and offer innovative products
- Allows for a deeper understanding of how the modeled loss affects claim-paying capacity
- Allows the CEA to design and maintain an optimal financial structure

The three-year software license agreement with EQECAT is up for renewal and includes a \$10,000 annual increase over the expiring contract fee. All three commercial modelers are going through a platform change and implementing new science that has come from recent research changes. As a result, staff believes that the price increase is reasonable.

The CEA staff recommends that the Governing Board approve the CEA's renewing the EQECAT licensing agreement, as described, and authorize CEO Glenn Pomeroy to execute the renewal on the CEA's behalf.

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

12. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA mitigation program's "Pre-Standard Project" (conducted in conjunction with FEMA and the Applied Technology Council) and other earthquake-loss-mitigation-related research.

Pre-Standard Project (ATC 110)

The questions that homeowners ask before coming to a complete mitigation solution appropriate for them to make their home safe and to have financial stability in the event of an earthquake have been identified.

The ATC 110 is the pre-standard that is being managed by the Applied Technology Council (ATC) and jointly supported by the Federal Emergency Management Agency (FEMA). It is the plan for the development of a pre-standard for evaluation and retrofit of wood light-frame dwellings. This is a pre-standard that will give homeowners and contractors the ability to do retrofit solutions without expensive engineering. The engineering is going to be done for them beforehand.

The scope is comprehensive:

- General requirements
- Classic cripple wall
- Living space over a garage
- Hillside

FEMA P50

- It is a verification project and an assessment tool for CEA's Hazard Reduction Discount rolling out beginning in January 2015
- It gives a checklist to home inspectors at the transfer of property
- It is funded in part by the CEA
- Home inspectors will be trained in this process to provide cost-effective verification

Mr. Jones stated the FEMA document will be completed in three years. He asked how much longer it will take before it is in the code. Ms. Maffei stated it will go through a consensus process and will take an additional year to be added to the code. She added, however, that there are examples of FEMA documents used by the earthquake-engineering profession before code adoption through a "consensus process."

Mr. Jones asked Ms. Maffei to provide the critical-path document that identifies to the Board the steps associated with this project.

Mr. Ghilarducci asked if Ms. Maffei is working with the Building Standards Commission and the ICC to find a way to accelerate the process. Ms. Maffei stated there have been informational meetings, but the main work is with code experts.

13. Ms. Maffei will update the Board on the California Residential Mitigation Program incentive program, operated by a joint powers authority whose members are the California Governor's Office of Emergency Services and the CEA.

Ms. Maffei provided an overview of the background and makeup of the CRMP and the incentive programs it is carrying out to move homeowners through the process of understanding and acting on potential vulnerabilities of their home.

The Earthquake Brace+Bolt (EBB) Incentive Program

- Provides financial incentives to homeowners who retrofit their homes.
- Provides a 229-name FEMA-trained statewide Contractor Directory, which is posted on the CRMP website.
- Provides up to \$3,000 for cripple wall bracing and bolting.
- The first expansion launched in January in 26 ZIP Codes, with plans to retrofit 575 homes; 60 retrofits have been completed to date.
- The second expansion launched in March in two ZIP Codes in Napa.
- The third expansion will launch in August to include new participants from the Expansion 1 waiting list.

- The fourth expansion includes obtaining a \$300,000 FEMA Hazard Mitigation Grant to retrofit an additional 100 homes. The application will be submitted by May 30th.

Ms. Maffei thanked CalOES for their assistance in writing the grant application.

14. Ms. Maffei will update the Board on the Napa Earthquake Research Program.

Despite a tragic death and a number of injuries, the August 24, 2014, Napa earthquake could be considered a “nine-square-mile shake table test” that affords opportunities for research to inform the mitigation department and insurance programs at the CEA.

South Napa Earthquake Research Project

- Outreach beginning February 24, 2015
 - Door hangers
 - Media interview with the mayor of the city of Napa
 - Media sent in the two Zip Codes of Napa with older Napa homes
 - Newspapers
 - Online Survey Instrument with a goal of 500 responses
 - 633 homeowners filled out the online survey with 200 volunteering to be a part of Phase II.
- Two Phases of Research
 - Phase I – Online survey. Anonymous participation. Participants receive a \$25 gift card.
 - The results of Phase I information will be put into a report to inform many aspects of earthquake engineering.
 - Phase II – Opt-in for house inspection. Smaller subset to provide their address and, if the house was mitigated, to agree to have the CRMP correlate the mitigation to the damage. Participants receive a \$50 gift card.

Due to the exceptional response and the richness of the data received, staff recommends that the Board authorize additional 2015 funding of \$68,750 for Phase II of the South Napa Earthquake Survey Project.

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

15. Director of Research and Special Projects Bruce Patton will seek Governing Board approval and ratification of a consulting-services contract with the California Geological Survey.

Dr. Badie Rowshandel is a California Geological Survey (CGS) employee, but, for the past seven years, he has worked part-time with the CEA under a loan agreement between the CEA and the CGS. Effective January of this year the CGS determined that, since the CEA is not a state agency, there cannot be a loan agreement between the organizations. The CEA then negotiated a six-month interim consulting contract with CGS that runs through June 30, 2015. The CEA proposes to make that change to consulting status permanent, with an additional 30-month consulting-services contract with the same terms as currently.

CEA staff recommends that the Governing Board authorize CEO Glenn Pomeroy to negotiate and execute, on behalf of the CEA, an agreement with the California Geological Survey for consulting services for the term July 1, 2015, through December 31, 2017.

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

16. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2015 CEA IT Initiative and Project Portfolio.

Project Tracking

- The 19 IT projects are being tracked with a focus on the Rate and Form Filing project
 - 42 percent are active
 - 11 percent are completed
 - 47 percent are in the planning stages
- The expenditures are being tracked
 - 37 percent actual to budget currently

17. Mr. Coombes will update the Board on the progress of the concept of centralizing CEA insurance-policy processing and will request approval of a contract and contract-supported expenditure for HP *ExStream* software.

The CEA has 20 participating insurers:

- Each is responsible for the administration of the policies that the CEA underwrites and the claims that are associated with those policies
- Each has a different set of processes and systems to do that administration
- Each must update their systems and processes to match every change in policy the CEA makes, which is a burden in time and money for the PIs.

The CEA proposed taking on the administration of the policies and the tracking and general processing of the claims for the PIs. The PIs will continue to do their own claim adjusting. The CEA engaged with the PIs in working groups in late 2014 to discuss the possibility, then followed up with phone calls and an in-depth questionnaire about how each PI processes the policy. All gathered information was put into an RFP to see what might be possible in terms of centralizing policy processing for three different solution models.

- A services model
 - The CEA will contract with outside firms to provide services to the PIs, such as answering telephones, software necessary to do the policy tracking, being able to do the different types of endorsements that they do, and doing new business policies
- A software-only approach model
 - A licensed software approach where the CEA will not centralize the services but the systems being used
- A build-a-system model
 - No responses were submitted for a build-a-system model

The CEA received 12 vendor responses to the RFP, which were evaluated and scored based on the criteria specified in the RFP and came up with a three-part recommendation:

- A licensed software system, HP ExStream, to do customer communications management
- A licensed software approach to policy administration and claims
- A data agreement that the CEA would put in place between the CEA and each PI to specify the terms and purposes of use of the data being shared between organizations

CEA staff requests Governing Board approval of the execution of the HP ExStream software agreement by CEO Glenn Pomeroy and approval of a related 2015 expenditure in the amount of \$307,959.

Mr. Boyken asked Ms. Sgoureva for her thoughts on the recommendations as a representative of a PI. Ms. Sgoureva stated the varying sizes, processes, and systems of the PIs are a challenge. As a member of working group, she helped catalog the needs and the levels of automation within the PIs. There is a need for PIs to develop a new data interface with the CEA as a result of this effort and the CEA will make it as cost-effective as possible. She stated the hope that the open dialogue between PIs and the CEA will continue.

Mr. Jones asked if there is confidence that the CEA will enter into a sufficient number of data-sharing agreements to justify the authorization of entering into the licensing agreement. Mr. Coombes stated PIs have varying levels of concern. A data-

use agreement will be created that would allow for the full spectrum of PIs and their different views on how to use data to engage with the CEA in a confident and appropriate way with security, privacy, and encryption.

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

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

Mr. Pomeroy stated progress has been made with performance metric development. He introduced Dr. Lindle Hatton, who has been very helpful in terms of leading this work.

The metrics, based on the three main goals of the CEA, are in near-final form. They will be finalized by the August Board meeting.

19. Mr. Pomeroy will provide an update to the Board on the CEA's Workforce Planning Project.

Mr. Pomeroy stated the organization was created in such a way that imposed a staffing cap: twenty-five civil service positions were allocated with a cap of the positions being available to contract, such as the executive team. A couple of years ago, the Legislature lifted that cap, and the CEA has been working diligently to source more of the workforce from civil service.

Since the cap was lifted, an additional 38 civil service positions have been identified. Six have been filled, seven are in the process of active recruitment, and 25 are in job-specification development.

Mr. Ghilarducci asked about assistance from Cooperative Personnel Services (CPS). Mr. Pomeroy stated that CPS is under contract with the CEA and its consultants have been very helpful to CEA staff. A couple of retired annuitants in particular have brought their expertise. The CEA will need more HR going forward as civil service positions are filled.

Mr. Marshall recognized Marc Keller, Board Liaison, who has secured a civil service position with the Department of Health Care Services; and Erin Waters, who has lent her expertise and energy to Board preparation; and Carlos Martinez, new Board Liaison and Panel Liaison.

20. 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 adjourned into closed executive session. No action was taken.

21. 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.

22. Adjournment.

There being no further business, the meeting was adjourned at 12:02 p.m.