

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Wednesday, August 26, 2015  
1:00 p.m.**

Location: California Governor's Office Of Emergency Services  
Multipurpose Room 1  
3650 Schriever Avenue  
Mather, 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  
John Chiang, State Treasurer  
Chris Shultz, designee of Insurance Commissioner Dave Jones  
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Kevin de León  
George Wiley, designee of Speaker of the Assembly Toni G. Atkins

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer  
Shawna Ackerman, Chief Actuary  
Todd Coombes, Chief Information Officer  
Janiele Maffei, Chief Mitigation Officer  
Carlos Martinez, Governing Board Liaison  
Chris Nance, Chief Communications Officer  
Bruce Patton, Director of Policy, Research, and Special Projects  
Tim Richison, Chief Financial Officer  
Joe Zuber, Senior Staff Counsel  
Danny Marshall, General Counsel

Also present:

Mark Simmonds, Chair, CEA Advisory Panel  
Andrew Rouse, Senior Manager, Plante Moran, PLLC

- 1. The meeting was called to order at 12:58 p.m. A quorum was achieved.**

**2. Consideration and approval of the minutes of the May 28, 2015, CEA Governing Board meeting.**

**MOTION:** Mr. Boyken moved approval of the May 28, 2015, CEA Governing Board meeting minutes as presented. Mr. Shultz seconded. Motion passed unanimously.

**3. Executive Report by Chief Executive Officer Glenn Pomeroy and members of the CEA Executive staff. Mr. Pomeroy's report will include an update for the Board on legislative activities of interest to the CEA.**

Chief Executive Officer Glenn Pomeroy provided a brief overview of legislative accomplishments of the CEA over the past several years, noting his thanks to the CEA Governing Board. For example, the CEA has acquired mitigation leadership necessary to develop innovative programs, and set up the Loss Mitigation Fund to receive additional sources of funding. Eliminating the original statutory staffing cap, reconfiguring the original statutory spending cap, have removed handcuffs that have been in place since inception of the organization. Important changes were made last year to the mandatory offer law in California, updating the mandated offering that every California homeowner must receive and requiring an additional piece to be provided to consumers who are insured with companies participating in the CEA.

\$3 Million Appropriation

The Legislature has provided a \$3 million appropriation for the ultimate benefit of the CRMP mitigation program Earthquake Brace + Bolt that will allow another one thousand homes to be retrofitted. In a related matter, for taxpayers whose tax years begin on and after July 1, 2015, receipt of an EBB grant is not taxable as income at the state level.

Senate Bill (SB) 602

Federal banking regulators and local trade organizations representing the banking and mortgage lending industries have opposed the bill. This bill is now a two-year bill, allowing time for efforts to try to create another financing mechanism in support of retrofits that organizations can support.

Workforce Planning

Since the lift of the staffing cap two years ago, 45 new positions have been identified within the civil service umbrella that will provide a more comprehensive and efficient way of staffing the CEA.

Mobile Application Development

The mobile app is still in the planning stages; a live demonstration is planned for the Board in the December meeting.

**4. CEA Advisory Panel member Mark Simmonds will provide a summary of the proceedings of the July 23, 2015, Panel meeting.**

Mark Simmonds, the Chairman of the CEA Advisory Panel, stated the Panel:

- Reviewed state and federal legislative updates
- Reviewed research and mitigation programs
- Reviewed IT initiatives, document management, data sharing, and claims and payment systems
- Reviewed a proposed Loyalty Mitigation Program
- Discussed ways to make the Advisory Panel more effective:
  - Change the meeting sequence so the Advisory Panel will meet before Governing Board meetings, to provide more input in advance of the meetings and to provide skills, experience, and perspectives more effectively to management and the Board.
  - The Advisory Panel representative in attendance at Governing Board meetings will be available to answer questions and provide perspectives from the Advisory Panel to offer more effective support to the management team and Governing Board, going forward.

Board Member Shultz asked how to engage the participating insurers up-front before making the IT-change decisions for the January rollout so they can better prepare and line the changes up with their business needs.

Mr. Simmonds stated management does a good job of providing lead time in anticipation of proposed rate changes or for program changes. The challenge is that the time from approval of the changes to their implementation is relatively short.

[Mr. Shultz stated Mark Ghilarducci, designee of the Chair of the CEA Governing Board, was just called away on urgent business and has left the Governing Board meeting.]

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

Chief Financial Officer Tim Richison stated the format of the Available Capital Report was changed to more prominently display the Loss Mitigation Fund amount. Available capital to pay claims as of June 30, 2015, was \$4.8 billion. The Loss Reserves were \$1.5 million for the August 2014 Napa earthquake. Total CEA claim-paying capacity as of June 30, 2015, was over \$11.5 billion, a record high.

#### **6. Mr. Richison will seek the Board's approval of staff's proposed selection of new risk-transfer intermediaries, pursuant to a competitive procurement.**

Mr. Richison stated risk-transfer is a large component of the CEA's total claim-paying capacity. One of the ways to purchase risk-transfer is through the assistance and facilitation of reinsurance intermediaries, otherwise known as reinsurance brokers. The CEA has always had access to intermediaries in support of its risk-transfer program. The last procurement for those services was in 2008, with Guy Carpenter, Willis Re, and Aon Benfield having been selected.

Staff recently completed a new procurement for reinsurance intermediaries, seeking two reinsurance intermediaries with global capabilities but based in the US and one Lloyd's/London Market reinsurance intermediary based in London. A Request for Qualifications (RFQ) was posted on the CEA website on June 1, 2015, and advertised for six weeks through relevant publications *Carrier Management*, *Financial Times*, and *Insurance Insider*.

Three proposals were received in response to the RFQ for the worldwide intermediaries and three for the London intermediary. After the Ranking Panel deliberated over the proposals, the final selections were: Guy Carpenter and Willis Re for the worldwide intermediaries and JLT Re for the Lloyd's intermediary.

Staff also determined that hiring a consultant for risk-transfer would benefit the risk-transfer program and selected Aon Benfield for this role.

The annual compensation for the whole intermediary team, across all intermediary firms, is capped at a \$3 million—this was based on information secured through the prevailing responses and is down from the \$5 million maximum proposed in the RFQ. This means that once all the contractors are in place, the reinsurance intermediary fees thus will have been reduced by \$1.8 million a year.

The CEA staff resolution:

1. Consistent with the descriptions of the RFQ and related processes above:
  - a. Approve awarding to Guy Carpenter & Company, LLC, and Willis Re, Inc., the opportunity to negotiate with the CEA for the worldwide intermediary contract.
  - b. Approve awarding to JLT Re the opportunity to negotiate with the CEA for the Lloyd's intermediary contract.
2. Approve awarding to Aon Benfield the opportunity to negotiate with the CEA for contract to provide reinsurance-consultant services, on terms and conditions the CEA finds appropriate.
3. Approve the written Board resolution presented this day, authorizing CEO Glenn Pomeroy, CFO Tim Richison, General Counsel Danny Marshall, and CEA staff to negotiate the above contracts, incorporating all necessary and appropriate terms and conditions and taking into account any additional material presented to the Board or present in the written resolution of this date.
4. Authorize Mr. Pomeroy to execute the final, negotiated contracts.

**MOTION:** Mr. Boyken moved approval of the staff resolution; seconded by Mr. Shultz. Motion passed unanimously.

**7. Mr. Richison will present to the Board the California Department of Insurance “Audit Report of Examination” of the CEA.**

Mr. Richison stated the California Department of Insurance (CDI) audits the CEA financial information and risk analysis every four years. The CDI report is in the Board's meeting packet. The three findings are in the process of being corrected.

**8. CEA independent financial auditor Plante Moran will present to the Board the results of its most recent audit of the CEA, conducted pursuant to standards of the Governmental Accounting Standards Board (GASB).**

Mr. Richison stated Plante Moran, the independent financial auditor of the CEA, audited the financial statements for the year ended December 31, 2014. Its report is in the Board's meeting packet and will be posted online.

Andrew Rouse, the Senior Manager at Plante Moran, PLLC, stated Plante Moran has rendered a clean, unqualified opinion with no proposed adjustments, no management comments, and no significant internal control deficiencies or material weaknesses in internal control. Plante Moran has written these findings in a letter to the Governing Board.

Mr. Rouse, by way of a PowerPoint presentation, reviewed the audit process, outlined the responsibilities of performing the audit and the responsibilities of the CEA management, and summarized the audit results.

Board Member Wiley asked Mr. Rouse to elaborate on the IT portion of the audit in terms of the cyber and security measures in place. Mr. Rouse stated Plante Moran is required to ensure that general computer controls, such as password protection types of practices, and the proper segregation of systems between individuals in different job functions are in place.

**9. Chief Communications Officer Chris Nance will propose to the Board a service-program budget and describe reimbursement protocols for the new Mandatory Marketing Document.**

Chief Communications Officer Chris Nance stated the Legislature mandated a year ago that all participating insurers must provide each of its residential property insureds, each year, with marketing documents about the CEA. These are referred to as the mandatory marketing documents (MMD), and the new law stipulates that the MMDs are to be at the CEA's expense. The MMD must be mailed 60 days in advance of home insurance renewals.

Mr. Nance, by PowerPoint presentation, reviewed the budget rates, protocols, and costs for printing and mailing approximately 2.3 million two-page MMDs in the fourth quarter of 2015 for insurance-renewal dates in the first quarter 2016. The MMD will be distributed either by the CEA or by the participating insurance companies.

Mr. Pomeroy, speaking on behalf of the California Earthquake Authority, welcomed State Treasurer John Chiang to the meeting. Board Member Chiang asked for a quick history of the CEA marketing efforts.

Mr. Pomeroy provided the history of the CEA since 2008:

- The creation of an internal marketing team and a marketing budget
- The mandatory offer law and its ineffectiveness
- The new consumer-friendly marketing offer that goes out when a homeowners insurance policy is sold
- The MMD that will kick off later this year for policies that will be renewed in 2016
  - 8 to 9 million pieces of mail will be going out annually that have never gone out before

Mr. Chiang asked what the measure versus success was. Mr. Shultz stated the Insurance Department is excited about this because homeowners, condo owners, and renters who have PI home insurance policies but have yet to purchase earthquake insurance will be part of the MMD direct mailing.

The CEA staff recommendation:

Approve spending \$1,028,000 within the CEA budget sub-category “Statutory Market Support and Promotion” under “Participating Insurer Operating Costs,” for production and distribution of an MMD and accompanying cover letter to policyholders with residential policies renewing during the first quarter 2016.

**MOTION:** Mr. Shultz moved approval of the staff recommendation; seconded by Mr. Chiang. Motion passed unanimously.

**10. Mr. Richison will seek the Board’s approval for the annual set-aside of a statutory portion of CEA investment income for transfer into the CEA Mitigation Fund.**

Mr. Richison stated Insurance Code Section 10089.37 mandates that the Board must set aside each in calendar year an amount equal to 5 percent of the investment income of the CEA or \$5 million, whichever is less, and the set-aside must be termed actuarially sound. Chief Actuary Shawna Ackerman has opined that staff’s recommended amount, if set aside for mitigation purposes, would not impair the CEA’s finances and is therefore actuarially sound. The CEA’s total investment income in 2014 was approximately \$25 million.

The CEA staff recommendation:

Staff recommends the Board authorize a 2015 set-aside of \$1,268,767 into the CEA Loss Mitigation Fund.

**MOTION:** Mr. Chiang moved approval of the staff recommendation; seconded by Mr. Shultz. Motion passed unanimously.

**11. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA mitigation program's projects.**

Chief Mitigation Officer Janiele Maffei provided an update, by PowerPoint presentation, of the mitigation activities of the CEA outside of the California Residential Mitigation Program:

- The ATC 110 Prestandard Guidelines
  - To address key gaps in knowledge
  - To investigate behavior of existing construction details
  - To evaluate the expected seismic performance
  - To develop a simplified assessment methodology
  - To develop prescriptive retrofitting techniques that can be applied by non-engineers

Three General Vulnerabilities:

- Classic cripple wall
- Living space over a garage
- Hillside
- The CEA Mitigation Research Project
- The FEMA P-50 and FEMA P 50-1 Training
- The South Napa Earthquake Survey
  - Phase 1 has been completed with over 600 participants
  - Phase 2 is planned for fall of 2015 and will include site visits

Mr. Chiang asked about the work in Napa, the nature of the funding provided by the CEA, and how much funding is provided. Ms. Maffei stated home inspectors look at single family homes, check off the condition of the wood and its location, and check if cripple walls are braced and if there are anchor bolts or openings in the walls.

Mr. Pomeroy stated the CEA has paid approximately \$3 million in claims for the Napa event. A low percentage of homes had earthquake insurance.

Mr. Chiang asked about the increase in earthquake insurance in the Napa region since the event. Chief Operations Officer Stewart stated there has been very little overall, approximately 500.

Mr. Chiang asked if cost studies have been done in the Napa region. Mr. Pomeroy stated qualitative and quantitative studies have been done generally, but none in the Napa region since the event.

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

The Earthquake Brace+Bolt (EBB) Incentive Program

- The EBB Program is one year into the first major expansion.
- The program provides up to \$3,000 for qualifying homes for cripple wall bracing and bolting.
- There is a 600-retrofit goal for 2015; 192 retrofits have been completed to date.
- There are 1,600 retrofits planned for 2016.
- The website was updated this year to make it easier for homeowners to use.
- The \$300,000 FEMA Hazard Mitigation Grant application to retrofit an additional 100 homes in Napa has been accepted.

**13. Mr. Pomeroy and Chief Actuary Shawna Ackerman will describe and propose the concept of a “CEA Loyalty Mitigation Program” to the Board.**

Chief Actuary Shawna Ackerman distinguished the EBB program, available to all Californians, from the proposed Loyalty Mitigation Program, which would be limited to CEA policyholders.

There are two direct potential benefits to the CEA by funding retrofits for CEA policyholders: reducing the CEA’s overall expected loss and, as a result, reducing CEA claim-paying capacity levels. Savings from lower risk-transfer needs could fund the investment in retrofitting.

Ms. Ackerman identified the most vulnerable homes as pre-1940s, on raised foundations, and not currently claiming a hazard-reduction discount. She identified approximately 5,000 policyholders in the top twenty ZIP Codes that, if retrofitted, would provide the largest reduction in risk-transfer needs.

Ms. Ackerman concluded that it is worth pursuing this idea, but many questions still need to be answered, such as what the funding source will be.

Mr. Pomeroy stated staff plans to present a proposal for this program at the December Board meeting.

**14. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2015 CEA IT initiative and project portfolio.**

- 88 percent overall achievement
  - 25 percent active
  - 30 percent complete

- 15 percent pending
- 20 percent cancelled
- 10 percent on hold
- Rate and Form Filing is the current CEA priority
- Actual expenditures are at 59 percent of the annual project portfolio budget
- Risk assessment
  - The CEA Rate and Form Filing is scheduled for production roll-out in October
  - Other projects to be completed by the end of the year

Mr. Wiley stated asked what steps the CEA has taken to protect policyholder information.

Mr. Coombes stated the CEA maintains policyholder information from CEA policies only. The CEA will also access some information from participating insurers and will have agreements in place for privacy and security. All CEA databases are encrypted. Last year, the CEA engaged with one of the departments in the State of California to perform a vulnerability assessment of the computing environment and will work to lower cyber-security vulnerability as data use increases.

Mr. Chiang asked when the CEA last updated the disaster recovery plan. Mr. Coombes stated the plan was significantly updated at the end of last year as all information-processing technology was transferred.

Mr. Chiang asked how the CEA has addressed the areas that were identified as high-risk. Mr. Coombes stated the CEA has corrected the few high-risk vulnerabilities and continues to correct remaining medium- and low-risk vulnerabilities.

**15. Mr. Coombes will update the Board on progress toward the concept of centralizing CEA insurance-policy processing and request approval for associated contracting and contracted expenditures for policy-administration and claim-system software and vendor services.**

Mr. Coombes provided an overview, by PowerPoint Presentation, of the variety of systems and processes used by participating insurance companies, the solution objectives, foundational efforts, and recommendations on how to move forward, and next steps of the CEA Centralized Policy Processing.

The CEA staff recommendation:

Approve and authorize finalizing the Insuresoft *Diamond Suite* software and services contracts, execution of those agreements by CEO Glenn Pomeroy, and the related expenditure of \$1,600,000.

Mr. Shultz asked how the other carriers feel about this proposed change. Mr. Simmonds stated there is general support for the approach.

Mr. Shultz asked what line item the CPP will be added to. Mr. Richison stated it is in the Information Technology line item.

**MOTION:** Mr. Shultz moved approval of the staff recommendation; seconded by Mr. Chiang. Motion passed unanimously.

**16. Director of Research and Special Projects Bruce Patton will present to the Board the results of a competitive procurement which sought teams to engage on the CEA's Cripple Wall Performance Effects Research Project; Mr. Patton will request approval for contract funding.**

Director of Research and Special Projects Bruce Patton provided an overview of the history, meaning, importance, next steps, and reason the Board should fund the contract to research the performance effects of cripple-wall and sill-anchorage retrofits. He stated Ms. Ackerman has been able to increase the past mitigation discount from existing research but further study would be helpful in refining what the discount should be and that the contract provides for that rigorous engineering and scientific research to quantify the value of that mitigation. Through the RQP process, the Pacific Earthquake Engineering Research Center (PEER) at the University of California, Berkeley, was identified to conduct the research. The final contract is still in negotiation.

- Some of the research projects include:
  - Conducting a literature review
  - Identifying the indexed homes representative of the CEA's business and taking in to account meaningful variances in performance
  - Studying the performance of retrofitted and non-retrofitted cripple walls on a shake table
  - Running numerical modeling to predict how buildings perform
  - Writing reports for both lay and technical audiences, highlighting the importance of mitigation
  - Including these modification factors in the rating and loss modeling to calculate savings

The CEA staff recommendation:

Authorize CEO Glenn Pomeroy, with the assistance of CEA staff, to negotiate and finalize the 42-month, \$3.4 million contract with PEER on behalf of the CEA, and define the research on the performance effects of the cripple wall and sill-anchorage retrofits.

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

**17. Mr. Pomeroy will request Board approval to acquire limited additional office space on the floor immediately above the CEA's main office, to accommodate CEA staff and related operations.**

Mr. Pomeroy provided an overview, by PowerPoint presentation, of the background and analysis of the proposed office expansion.

The CEA staff recommendation:

Staff recommends that the Board (1) approve the plan to acquire limited additional office space, consistent with the descriptions in the Board memorandum, and (2) authorize CEO Glenn Pomeroy to negotiate and execute an amendment to the CEA's lease.

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

**18. Mr. Pomeroy will update the Board on the completion of the Metrics Project and the commencement of data collection and reporting.**

Mr. Pomeroy provided an update, by PowerPoint presentation, of the CEA Performance Metrics and the scorecard template for 2016 that will be used to track the metrics. He stated Organization Health has been added to the Educate, Mitigate, and Insure metrics. He thanked Dr. Lindle Hatton for his work on this project.

**19. If required, CEA Senior Counsel Joe Zuber will brief the Board on the CEA's Directors and Officers and Employment Practices Liability Insurance coverage and request the Board's approval to renew the policy and pay the annual premium.**

Mr. Marshall stated the CEA either has placed, or will place quite soon, Directors and Officers and Employment Practices Liability insurance, with limits of \$5 million each per year. The premium is less than \$100,000 for the upcoming year.

**20. Mr. Richison will present for Board approval 2015-budget-mid-year revisions, which will take account of budget augmentation approved in the course of today's Board meeting as well as those approved in prior 2015 meetings.**

Mr. Richison stated the CEA is in the process of putting together the 2016 budget. He provided a mid-year review of the 2015 Budget Augmentations and Adjustment sheet.

The CEA staff recommendations:

- Approve the proposed mid-year 2015 Insurance Services budget with the revisions described by staff, including augmentation needed to pursue a policy-administration and claim-system, as approved by the Board.
- Direct staff to operate CEA business operations within the total approved, revised budget amounts.

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

**21. 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.

**22. 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.

**23. Adjournment.**

There being no further business, the meeting was adjourned at 4:12 p.m.