

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, December 13, 2007
1:07 p.m.**

Location: Cal/EPA Headquarters Building
1001 I Street
Sierra Hearing Room, 2nd Floor
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
Paul Rosenstiel, designee of State Treasurer Bill Lockyer
Pedro Reyes, designee of Speaker of the Assembly Fabian Núñez
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Don Perata

Members of the CEA staff in attendance:

Tim Richison, Chief Financial Officer and Acting Chief Executive Officer
Bob Stewart, Operations Manager
Rolf Erickson, Mitigation Program Coordinator
Michael Melavic, Information Services Manager
Susan Pitton, Governing Board and Advisory Panel Liaison
Danny Marshall, General Counsel

Also present:

Allen D. Martin, Ph.D., Advisory Panel Member
Sara Rubalcava-Beck, Advisory Panel Member
Michael Wright, Managing Partner, The Results Group

- 1. The meeting was called to order at 1:07 p.m. A quorum was established.**
- 2. Consideration and approval of the minutes of the October 25, 2007 Governing Board meeting.**

MOTION: Mr. Rosenstiel moved adoption of the October 25, 2007, CEA Governing Board minutes; Mr. Patton seconded the motion. Motion carried unanimously.

- 3. CEA executive staff will present an executive update, including a financial report.**
 - Mr. Richison reported that the CEA total policy count is up to 770,000.
 - Thirty thousand persons have chosen to buy additional building code upgrade coverage.

- CEA staff recommends that the compliance and investigative unit of PricewaterhouseCoopers conduct a review of the CEA's investment policy and related procedures and review the CEA investment portfolio. Such a review is needed because just over \$60 million of the CEA's \$3.2 billion investment portfolio was invested in asset-backed commercial paper that has deteriorated in value. The review would also inquire into all circumstances concerning the purchase transaction for that commercial paper as well as the procedures used by CEA's asset managers and the CEA in investment transactions.
- A CEA-sponsored research project to establish a Uniform California Earthquake Rupture Forecast model will enhance the "best available science" the CEA is required by law to use—the UCERF results will be incorporated into the CEA's ratemaking process. A uniform forecast will provide an understanding of the entire state's seismic activity, resulting in science of the same "vintage" in both Northern and Southern California. Maps based on UCERF should be out in January or February 2008.
- The UCERF platform can be replicated in other parts of the United States. The USGS has committed to fund and conduct maintenance of the model.
- Staff is creating both consumer and agent surveys and anticipates having initial results and analysis for the Board at its February 2008 meeting.
- The number of agents trained in-person in 2007 was twice that of 2006, and the goal for 2008 is to double the 2007 total again.
- Mr. Kelso asked if the 5.6 earthquake on November 30th increased phone calls to the CEA. Mr. Richison replied that CEA participating insurers reported calls resulting from the event, but the CEA did not experience more calls.
- In a financial update, Mr. Richison reported that as of the end of September 2007, cash and investments are a little over \$2.3 billion; the investment yield is 4.8%. The amount of net income on a 12-month basis will hit the \$150 million mark before the end of the year.
- Supplemental-program cash and investments are over \$80 million.

4. CEA Advisory Panel Member Allen D. Martin will provide a summary of the proceedings at the November 29, 2007, Panel meeting.

- There has been a steady increase in policy uptake, particularly in the supplemental policy.
- More than 3,400 agents and adjusters were trained this year.
- There have been over 350,000 hits on the Web site this year.
- In terms of financial stability, the CEA retains its A.M. Best rating of A-minus, (Excellent).
- The Panel discussed the importance of marketing and consumer education in enacting any kind of change in consumer decisions, such as purchasing earthquake insurance, and it supports additional resources.
- Advisory Panel member Rodrigo Garcia reported on his meeting with EQE, the CEA's earthquake modeler.

- There is some outreach of the CEA to other similar entities in the country, such as flood and wind insurance agencies, to avoid reinventing the wheel.
- Mr. Kelso suggested that Dr. Martin might engage some of his CSU Northridge students to provide research in marketing and consumer behavior, and at the same time benefiting from an “unusual” case study.
- Dr. Martin noted that marketing earthquake insurance is complicated and since it is not a mandated insurance, the educational component is essential.

5. CEA Information Services Manager Michael Melavic will brief the Board on the CEA’s new insurance data vendor, selected after a competitive bidding process, and seek Board authorization for CEA staff to execute the multi-year contract that has been negotiated between the vendor and the CEA.

- Approximately three years ago the CEA began a review of its projected insurance-policy-data needs. The findings indicated a need to fully upgrade the existing data system. A Request For Proposals was issued, based on the review.
- Five proposals that met the RFP minimum requirements were received. The evaluation panel unanimously selected the proposal submitted by Natoma Technologies. This proposal offers increased data access, increased system control, and increased system flexibility, and it will ensure CEA’s ability to meet its future information needs.
- The system created by Natoma would replace the current system, now administered by Computer Sciences Corporation, and will be administered jointly by Natoma Technologies and the CEA. The annual cost to maintain the system, including off-site hosting, will be about \$500,000 a year. Overall, however, this project provides an annual savings of one million dollars compared to the current maintenance expenses.
- Development costs are estimated to be approximately \$2 million, which would be recouped by the end of year two of the five-year contract.
- Mr. Patton suggested that a committee, which would include participating insurers, could help decide what kind of information the system could collect to better serve CEA policyholders and fulfill the CEA’s mission.

MOTION: Mr. Rosenstiel moved to authorize the acting CEO to execute the contract with Natoma Technologies, Inc., for development and implementation of a new CEA Insurance Information Data System; seconded by Mr. Patton. Motion carried and approved unanimously.

6. Chief Financial Officer and Acting Chief Executive Officer Tim Richison will present the proposed 2008 CEA Business Implementation Plan (BIP) for Board consideration and approval.

- The 2008 BIP is based on the existing strategic plan and will be in effect until there is a new strategic plan. It may be subject to revision if the new CEO recommends such and the Board approves.

- One of the BIP highlights is a marketing proposal that will go out to selected customers of CEA's participating insurers who do not have CEA coverage. This is the only marketing proposal in the business plan, and the associated budget for this is very healthy, with 7 million notifications. Once the marketing surveys are completed, a marketing plan based on the survey findings and strategic planning will be developed that may be more timely and efficient.

MOTION: Mr. Patton moved to approve the 2008 CEA Business Implementation Plan as presented; seconded by Mr. Rosenstiel. Motion carried and approved unanimously.

7. Mr. Richison and staff will present the proposed 2008 CEA budget for Board consideration and approval.

- The majority of cost differences are related to the implementation of the new data structure and the large expense for marketing.
- The proposal is under the 3 percent statutory cap placed on the CEA.
- The cap exceeds the budget by approximately \$200,000.
- Mr. Patton pointed out that the data purchase could be amortized over several years.
- Mr. Rosenstiel commented that by adopting the budget, bonds were being approved. Mr. Richison said that approving the budget, however, does not mean that bonds would be issued unless and until the Board so approved.
- The mitigation budget is centered on the large number of projects planned for next year. In 2007, the CEA was not able to achieve the pilot plans that were anticipated. Several of these are under risk management review, which will be completed in the first part of 2008.

MOTION: Mr. Rosenstiel moved to approve the 2008 budget for the CEA and the 2008 Earthquake Loss Mitigation Fund budget; seconded by Mr. Patton. Motion carried and approved unanimously.

8. CEA Mitigation Coordinator Rolf Erickson will update the Board on CEA marketing programs.

- Mr. Erickson review the September media buy. It was purchased to associate with National Preparedness Month as defined by FEMA. The September media buy consisted of about \$550,000, with \$300,000 coming from the mitigation budget and about \$192,000 from the marketing budget.
- The southern California media buy was in the *Dare to Prepare* campaign, which is run by the Earthquake Country Alliance and headed by the Southern California Earthquake Center. The goal is to hit southern California with a consistent and repeated message about the need to prepare. SCEC says it has experienced large increases to the SCEC Web site and requests for the *Putting Down Roots* booklet. Mark Benthien,

Communications Outreach Director for SCEC, reports that the media buys are an incredible part of their campaign to have people get ready.

- The northern California message ran in support of the American Red Cross Bay Area Chapter's *Prepare Bay Area* campaign. They also report increased hits to their Web site.
- The CEA did not see a spike in calls or visits to the Web site, but a larger percentage of calls came from non-policyholders, and the unique number of visitors to the site was up.
- Mr. Kelso asked if a mixed message campaign is viewed by the marketing world as a most direct approach to generating consumer demand, as opposed to a single message.
- Mr. Erickson responded that behavior change is not a snap decision. Even after the hurricane there were dramatic uptakes in flood insurance, but the drop-off rates a year later were just as dramatic because people were not married to the idea. Many people are apparently not aware that their homeowners policy does not cover earthquakes. People need to have information to help them make informed decisions about purchasing earthquake insurance.
- Ms. Rubalcava-Beck said that marketing dollars are very important in getting out a strong message out. Agent training is also good.
- Mega events like Katrina seem to prompt people to make phone calls to the CEA.
- Dr. Martin described these as teachable moments that provide a window of opportunity; he feels it is very important to continue with the marketing and mitigation education.
- Ms. Rubalcava-Beck added that CEA should identify spokespersons for the media, including multi-lingual, who can get out there as experts whenever there is an earthquake.
- Mr. Rosenstiel asked if research had been done on the message that went out to the media. Mr. Richison said that several groups participated in the research and their input was used to craft the message. He said that part of the plan is to try a different approach in the future. The plan is to get all of the messages down to one central message that can be used throughout the state: there is earthquake risk *anywhere* you live in California.
- Many people in California have never experienced an earthquake. It is difficult to get them to recognize the risk, and it is difficult to sell a product if the consumer does not see a need.
- The consumer and agent research the CEA is currently planning will be used to craft future messages.
- The CEA has been attempting to make consumers aware that there is a risk. The *Putting Down Roots* series promotes a standard message of the "seven steps to earthquake safety," a step-by-step plan of what is needed to prepare for and survive an earthquake. CEA also consistently uses the trademarked tagline, "Every day is earthquake season in California," in messages like the September media buys.
- Mr. Marshall pointed out another problem: the difficulty people have adding CEA coverage if they wish to add it before the HO renewal cycle.

9. Mr. Erickson will provide an update on the CEA's Mitigation Program efforts.

- When the CEA was established, the mitigation fund was established to support outreach to Californians.
- Michael Wright spoke of the early residential retrofit efforts of the CEA, the program was eventually renamed "SAFER." The essence of that program was a structural engineer performing a seismic-risk assessment on a house at no cost to the owner. The assumption was that if houses needed to be retrofitted, homeowners would take care of it. Only 31 consumers reported taking action on retrofitting their homes on account of the SAFER program.
- In 2003, under the direction of a new CEO, the CEA surveyed over 1,000 people from organizations that claimed to do mitigation-program work—education, retrofitting, and the like. About 520 of them responded that they had done something in the past or were currently doing it. After talking to those people, only 52 had "viable" programs.
- No follow-up or evaluation of the two mitigation programs was accomplished.
- The determination was made that consumers go through several stages in becoming prepared. Education, outreach, and media-type activities will lead to preparedness and lead to decisions about necessary retrofitting.
- Mr. Erickson said that based on this research, the CEA found no existing models appropriate for the CEA. A four-phase plan for the mitigation program was therefore launched.
 - The first phase focused on consumer education. Since then, consumer education initiatives have included support of the creation, printing, and distribution of over 8 million copies of the *Putting Down Roots in Earthquake Country* series of handbooks; earthquake awareness and preparedness videos; an *Every day is earthquake season in California—are you prepared?* billboard campaign; support of events related to the centennial commemoration of the 1906 earthquake; and support of the *Prepare Bay Area* and *Dare to Prepare* campaigns in northern and southern California.
 - The second phase was to evaluate the consumer-education efforts and launch a series of pilot project to identify effective program models. The CEA released three Requests for Proposals, has concluded four pilots, has one currently underway, and an additional five are under consideration. The last are being evaluated for risk.
- Panels consisting of members from a wide variety of backgrounds reviewed the proposals.
- The first four pilots were small and did not provide scientifically valid outcomes, but did provide indications that in-person training and

providing samples of preparedness materials motivated individuals to take action.

- The pilot currently being conducted by the Bay Area Chapter of the American Red Cross and Ready America, Inc., includes an aggressive post-program evaluation, including control-group surveys, pre-test surveys, post-test surveys, and follow-up surveys. To date 342 participants have been contacted for follow-ups by a research organization under contract with the CEA. Findings will be reported to the Board.
- One challenge in working with a population of voluntary participants is obtaining contact information for follow-ups used to determine program effectiveness.
- Mr. Patton asked if people want to get benefits for retrofitting and CEA pays for it, could CEA condition their accepting those benefits by providing feedback. Mr. Richison said he would be hesitant to put a program in place that would deprive people of the information simply because they would not provide their contact information, especially with identity theft so common. He hopes to learn from the American Red Cross *Ready America* model how better to incentivize people to provide contact information.

10. The Board will be asked to approve a resolution that supports an extension of authority of Mr. Richison to act as chief executive officer of the CEA pending the hiring of a permanent CEO.

MOTION: Mr. Patton moved that Mr. Richison remain as acting CEO pending hiring of a permanent CEO; seconded by Mr. Rosenstiel. Motion conformed to the written resolution presented to the Board on this date, and was carried and approved unanimously.

11. Board Chairman J. Clark Kelso will present the results of his appraisal of Mr. Richison's performance under the CEA executive performance-evaluation plan.

Mr. Kelso reported that he had completed an annual review of Mr. Richison's performance, which has been excellent, noting that particularly during the part of the year he was doing double duty as Acting CEO. He outlined certain proposed employment-contract terms for the 2008 contract year:

- Accept a COLA to his salary in the amount of 2.5% plus a 4.5% merit salary increase.

There were no questions or comments from the public.

MOTION: Mr. Patton moved to approve the compensation-related contract modification to Mr. Richison's employment agreement, as described, and to approve the execution on behalf of the Board; seconded by Mr. Kelso. Motion

carried on a 2-0 vote, with one abstention (ayes, Governor and Insurance Commissioner; abstain, Treasurer).

12. The Board will meet in closed session to discuss personnel matters, as permitted by California Government Code Section 11126, subdivision (a), and litigation matters, as permitted by California Government Code Section 11126, subdivision (e).

- The Board entered closed session at 2:40 p.m. and resumed open session at 3:04 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 3:05 p.m.