



Date of Notice: Monday, November 28, 2011

PUBLIC NOTICE

A PUBLIC MEETING OF THE GOVERNING BOARD OF THE CALIFORNIA EARTHQUAKE AUTHORITY

NOTICE IS HEREBY GIVEN that the Governing Board of the California Earthquake Authority (“CEA”) will meet in Sacramento, California. Pursuant to California Insurance Code §10089.7, subdivision (j), the Bagley-Keene Open Meeting Act applies generally to meetings of the Board, and the meeting is open to the public—public participation, comments, and questions will be welcome for each agenda item. All items are appropriate for action if the Governing Board wishes to take action. Agenda items may be taken out of order.

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

DATE: Thursday, December 8, 2011

TIME: 1:00 p.m.

AGENDA:

1. Call to order and member roll call:
 - Governor
 - Treasurer
 - Insurance Commissioner
 - Speaker of the Assembly
 - Chair of the Senate Rules Committee

Establishment of a quorum

This CEA Governing Board meeting will be broadcast live on the Internet. Please wait until the official start time of the meeting before clicking on either icon:

	
Audio	Video (with audio)

If you are unable to log into the meeting please call the CEA directly at (916) 325-3800 for further assistance.

2. Consideration and approval of the minutes of the October 27, 2011, Governing Board meeting.

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.
4. Chief Financial Officer Tim Richison will present a financial report.
5. Mr. Richison will present and seek Board approval of the proposed CEA risk-transfer program for 2012, which may include diversifying measures such as contracts for additional transformer reinsurance.
6. CEA Advisory Panel Chair Wayne Coulon will summarize the proceedings at the November 17, 2011, Panel meeting.
7. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA's mitigation programming, including its participation in the California Residential Mitigation Program.
8. Mr. Pomeroy will update the Board on the status of the CEA organization and staffing analysis, and following that update and discussion, will seek Board approval to begin to implement certain, identified provisions of the related consultant's report.
9. Mr. Pomeroy will request the Board's authorization to recruit and hire a Chief Information Officer ("CIO"), which process would begin with a competitive procurement to select an executive recruiting firm to assist in identifying qualified CIO candidates.
10. Mr. Pomeroy will request the Board's authorization to hire or engage the services of a Human Resources Executive, which process would begin with a competitive procurement to select a search firm to assist in identifying qualified candidates and/or firms.
11. Mr. Pomeroy, assisted by Information Services Director Michael Melavic, will present for Board review and approval plans to implement the next phase of the "CEA Information Services ("IS") Effectiveness Plan," which, as recommended by staff, would begin with contracting for the services of the consulting firm selected to lead the project following a competitive-procurement process.
12. Mr. Pomeroy will present the 2012 CEA Business Implementation Plan for Board consideration and approval.
13. In support of the 2012 CEA Business Implementation Plan, Mr. Pomeroy and Mr. Richison will present the 2012 CEA budget for Board consideration and approval.
14. 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.
15. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.
16. Adjournment.

For further information about this notice or its contents:

General Information:

Marc Keller
(916) 325-3800
Toll free (877) 797-4300

California Earthquake Authority
801 K Street, Suite 1000
Sacramento, CA 95814-3518
Toll free (877) 797-4300

Media Contact:

Chris Nance
Chief Communications Officer
(916) 325-3827 (Direct)
nancec@calquake.com

To view this notice on the CEA Web site or to learn more about the CEA, please visit
www.EarthquakeAuthority.com

Persons with disabilities may request special accommodations at this or any future Governing Board meeting or may request the accommodation necessary to receive agendas or materials the CEA prepares for its Board meetings.

Please contact Marc Keller by telephone, toll free, at (877) 797-4300 or by email at legislative-t1@calquake.com . We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.



Draft Meeting Minutes are not available.

Please see CEA Governing Board Meeting
[Approved Minutes.](#)

Governing Board Memorandum

December 8, 2011

Agenda Item 3: Executive Report by Chief Executive Officer Glenn Pomeroy

Recommended Action: No action required – information only

Chief Executive Officer Glenn Pomeroy will present his Executive Report to the Board; assisted by CEA executive staff, Mr. Pomeroy will update the Board on federal and state legislative activities of interest to the CEA.



FINANCIAL REPORT

**GOVERNING BOARD MEETING
THURSDAY, DECEMBER 8, 2011
1:00 P.M.**

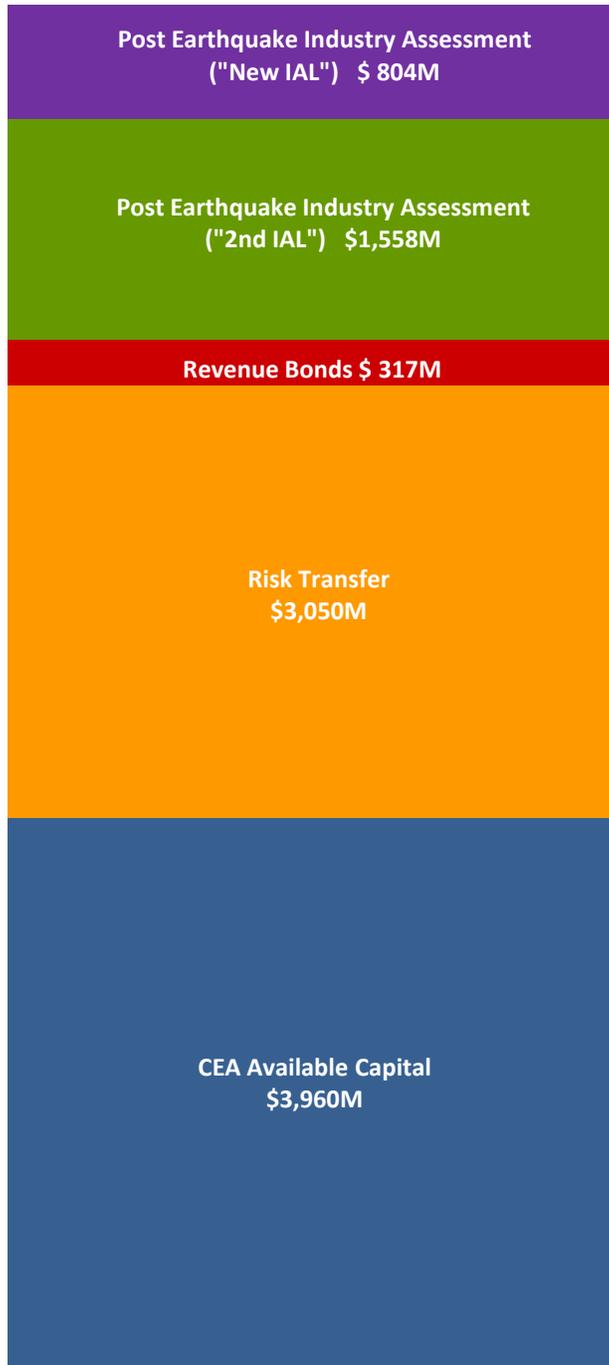
**California Earthquake Authority
Available Capital Report**

Capital as of September 30, 2011

Cash & Investments (includes capital contributions and premiums)	\$ 4,469,626,774 *
Investments from Revenue Bond Proceeds	(316,722,777)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	(14,715,837)
Interest Receivable	11,519,086
Securities Receivable	0
Premium Receivable	45,235,088
Risk Capital Surcharge Receivable	0
Capital Contributions Receivable	0
Other Cash-Related Assets	6,438
Unearned Premium Collected	(233,126,190)
Securities Payable	0
Accounts Payable & Accrued Expenses	(2,164,515)
CEA Available Capital	<u><u>\$ 3,959,658,067</u></u>

* Does not include mitigation cash and investments of \$24,260,798

**California Earthquake Authority
Claim-paying Capacity
as of September 30, 2011**



Total Capacity \$ 9,689M
1-in-583 years Recurrence Interval

**California Earthquake Authority
Risk Transfer Capacity
as of August 2, 2011**

Reinsurance Contract #4a - \$50M 4/1/2011 - 3/31/2012	5.50% ROL
Reinsurance Contract #4 - \$ 650M 1/1/2011 - 3/31/2012	5.50% ROL
Reinsurance Contract #3a - \$ 200M 1/1/2011 - 12/31/2011	6.00% ROL
Reinsurance Contract #3 - \$ 500M 1/1/2011 - 3/31/2012	6.20% ROL
Reinsurance Contract #2 - \$ 1,300M 1/1/2011 - 12/31/2011	7.50% ROL
Reinsurance Contract #1 - \$ 200M 1/1/2011 - 12/31/2011	8.15% ROL
Transformer Reinsurance Contract A - \$150M 8/2/2011 - 8/1/2014	7.78% ROL

Total \$3,050 Million

California Earthquake Authority
Balance Sheet
as of September 30, 2011

Assets

Cash and investments:

Cash and cash equivalents	233,043,945
Restricted cash & equivalents	38,977,830
Restricted investments	316,722,672
Investments	<u>3,905,143,125</u>

Total cash and investments 4,493,887,572

Premiums receivable, net of allowance for doubtful accounts of \$10,957,434	45,235,088
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	11,519,086
Securities receivable	-
Prepaid reinsurance premium	-
Transformer reinsurance premium deposit	5,029,836
Prepaid transformer maintenance premium	3,637,289
Equipment, net	731,866
Deferred policy acquisition costs	42,506,880
Other assets	<u>6,438</u>

Total assets \$ 4,602,554,055

Liabilities and Net Assets

Unearned premiums	\$ 318,506,925
Accounts payable and accrued expenses	2,164,515
Accrued reinsurance premium expense	1,676,612
Claim and claim expense reserves	-
Securities payable	-
Revenue bond payable	157,500,000
Revenue bond interest payable	<u>2,429,044</u>

Total liabilities 482,277,096

Net assets:

Restricted, expendable	195,582,488
Unrestricted *	<u>3,926,694,471</u>

Total net assets 4,122,276,959

Total liabilities and net assets \$ 4,604,554,055

* Includes Cumulative Participating Insurer Contributed Capital of \$756,612,796 and State of California Contributed Capital of \$163,780,551.

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Assets
for the Year-to-Date Ended September 30, 2011

Underwriting income:	
Premiums written	\$ 463,904,438
Less premiums ceded - reinsurance	(148,191,570)
Less risk capital surcharge	-
Net premiums written	<u>315,712,868</u>
Change in unearned premiums	<u>(13,644,704)</u>
Net unearned premiums	<u>(13,644,704)</u>
Net premiums earned	<u>302,068,164</u>
Expenses:	
Claim and claims expense	4,288
Participating Insurer commissions	45,059,140
Participating Insurer operating costs	15,454,146
Reinsurance broker commissions	3,600,000
Pro forma premium taxes	10,348,326
Financing expenses, net	5,782,383
Mitigation Fund expenses	227,496
Other underwriting expenses	<u>15,500,902</u>
Total expenses	<u>95,976,681</u>
Underwriting profit	206,091,483
Net investment income	23,559,700
Other income	338,845
Participating Insurer Contributed Capital	-
State of California premium tax contribution	<u>10,348,326</u>
Increase in net assets	240,338,354
Net assets, beginning of year	<u>3,881,938,605</u>
Net assets, end of year	<u><u>\$ 4,122,276,959</u></u>

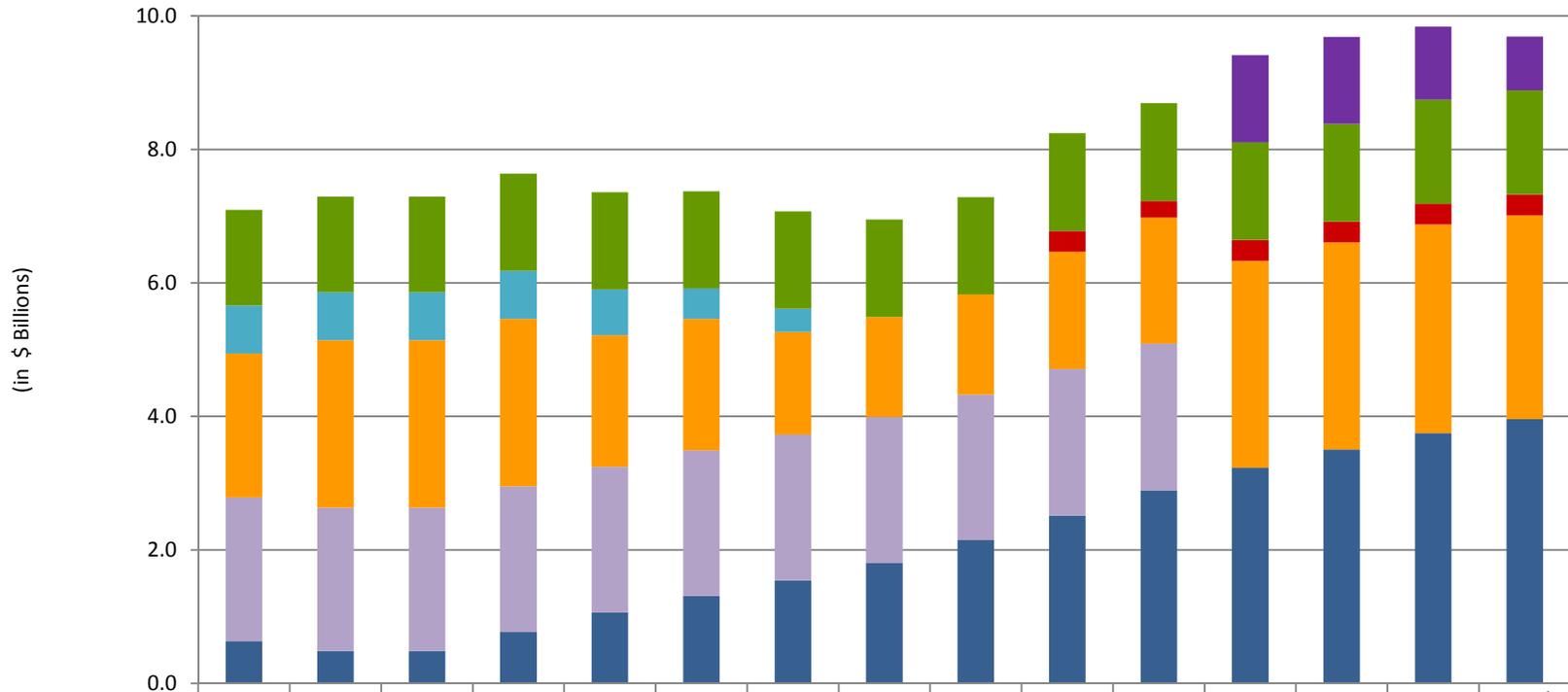
California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2011 Budget Year

	(a)	(b)	(c)	(d)	(e)	(f)
	<u>Approved 2011 Budget</u>	<u>Budget Augmentation September 2011</u>	(c=a+b) <u>Augmented Approved 2011 Budget</u>	<u>Actual Expenditures as of 9/30/11</u>	(e=c-d) <u>Remaining Augmented Approved Budget as of 9/30/11</u>	(f=d/c) <u>Percentage of Augmented Approved Budget Used</u>
Salaries & Benefits	\$ 8,383,706	\$ -	\$ 8,383,706	\$ 5,528,403	\$ 2,855,303	66%
Rent	699,880	-	699,880	471,948	227,932	67%
Travel	381,152	-	381,152	246,925	134,227	65%
Non-paid Consultant Travel	7,842	-	7,842	7,566	276	96%
Telecommunications	191,986	-	191,986	156,794	35,192	82%
Training	132,923	-	132,923	110,533	22,390	83%
Insurance	133,362	10,000	143,362	143,078	284	100%
Board/Panel Services	19,015	-	19,015	14,209	4,806	75%
Administration & Office (Software Maint & Support, Printing & Stationery, Postage)	918,718	-	918,718	565,673	353,045	62%
Administrative Contracted Services						
Data Mgmt Services	754,096	(10,000)	744,096	216,905	527,191	29%
Other Administrative Contracted	40,208	-	40,208	28,519	11,689	71%
Furniture/Equipment						
Under \$500	8,300	-	8,300	(93,558)	101,858	(1127%)
Over \$500	19,000	-	19,000	11,317	7,683	60%
EDP Hardware/Software						
Under \$500	26,238	-	26,238	24,629	1,609	94%
Over \$500	557,400	-	557,400	(56,757)	614,157	(10%)
Capital Lease Obligations	-	-	-	-	-	
Marketing & Outreach	-	-	-	-	-	
Legal Expenses - Intervenors' Fees	-	-	-	-	-	
Dept of Insurance Examination	55,000	-	55,000	24,128	30,872	44%
Total Operating Expenses	12,328,826	-	12,328,826	7,400,312	4,928,514	60%
Consulting Services						
Actuarial	25,000	-	25,000	-	25,000	0%
Claims	10,000	-	10,000	-	10,000	0%
Information Technology	50,000	-	50,000	5,000	45,000	10%
Information Tech. Security	-	-	-	-	-	0%
Financial Consulting	175,000	-	175,000	145,681	29,319	83%
Marketing Research	-	-	-	-	-	0%
Other Consulting Services	1,387,000	200,000	1,587,000	1,345,839	241,161	85%
Total Consulting Services	1,647,000	200,000	1,847,000	1,496,520	350,480	81%

**California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2011 Budget Year**

	(a)	(b)	(c)	(d)	(e)	(f)
	<u>Approved 2011 Budget</u>	<u>Budget Augmentation September 2011</u>	(c=a+b) <u>Augmented Approved 2011 Budget</u>	<u>Actual Expenditures as of 9/30/11</u>	(e=c-d) <u>Remaining Approved Budget as of 9/30/11</u>	(f=d/c) <u>Percentage of Augmented Approved Budget Used</u>
Research	1,018,000		1,018,000	818,000	200,000	80%
Contracted Services						
Agent Services	50,000	-	50,000	-	50,000	0%
Audit Service	125,000	-	125,000	125,000	-	100%
Brochure/Information Products	25,000	-	25,000	8,219	16,781	33%
Business System Development	-	-	-	-	-	0%
Communications	110,000	-	110,000	-	110,000	0%
Consumer Services	50,000	-	50,000	-	50,000	0%
Contracted Marketing & Outreach	390,000	-	390,000	348,065	41,935	89%
Dynamic Financial Analysis				-	-	0%
Investment Compliance	-	-	-	-	-	0%
Legal Services-Claims Counsel	200,000	-	200,000	-	200,000	0%
Legal Service - Non-Claims	2,707,690	(200,000)	2,507,690	1,451,216	1,056,474	58%
Modeling Service	1,451,000	-	1,451,000	417,892	1,033,108	29%
Marketing Services	5,288,360	-	5,288,360	1,959,839	3,328,521	37%
Web Development/Maintenance	30,975	-	30,975	-	30,975	0%
Other Contracted Services	1,199,900	-	1,199,900	258,965	940,935	22%
Total Contracted Services	11,627,925	(200,000)	11,427,925	4,569,196	6,858,729	40%
Investment Expenses	2,455,000	-	2,455,000	1,398,942	1,056,058	57%
Financing Expenses	10,999,793	-	10,999,793	8,517,765	2,482,028	77%
Catastrophe Bonds	-	-	-	-	-	0%
Reinsurance	225,555,000	-	225,555,000	151,791,570	73,763,430	67%
Total Expenditures	\$ 265,631,544	\$ -	\$ 265,631,544	\$ 175,992,305	\$ 89,639,239	66%

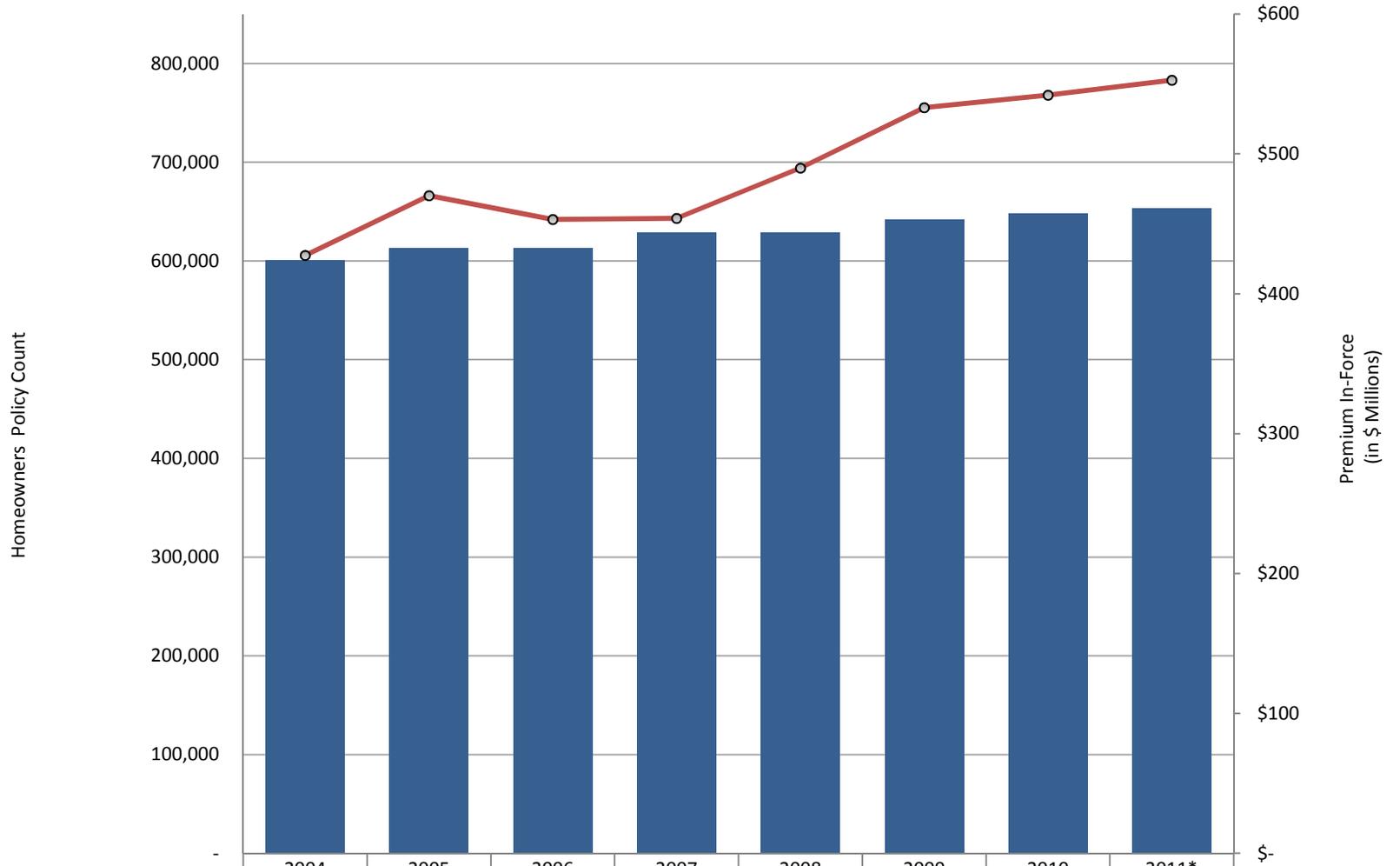
**California Earthquake Authority
Total Claim-paying Capacity (CPC)
*as of September 30, 2011**



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011*
Total CPC	\$7.095	\$7.293	\$7.293	\$7.635	\$7.360	\$7.373	\$7.069	\$6.948	\$7.284	\$8.244	\$8.695	\$9.411	\$9.685	\$9.840	\$9.689
New Industry Assessment	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.304	1.304	1.095	0.804
2nd Industry Assessment	1.434	1.434	1.434	1.456	1.456	1.456	1.456	1.456	1.456	1.465	1.465	1.465	1.465	1.558	1.558
Revenue Bonds	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.311	0.254	0.311	0.311	0.311	0.317
Line of Credit	0.716	0.715	0.715	0.715	0.686	0.456	0.348	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Risk Transfer	2.160	2.509	2.509	2.509	1.971	1.971	1.538	1.500	1.500	1.756	1.885	3.100	3.100	3.123	3.050
1st Industry Assessment	2.150	2.150	2.150	2.183	2.183	2.183	2.183	2.183	2.183	2.197	2.197	0.000	0.000	0.000	0.000
CEA Available Capital	0.635	0.485	0.485	0.772	1.064	1.307	1.544	1.809	2.145	2.515	2.894	3.231	3.505	3.753	3.960

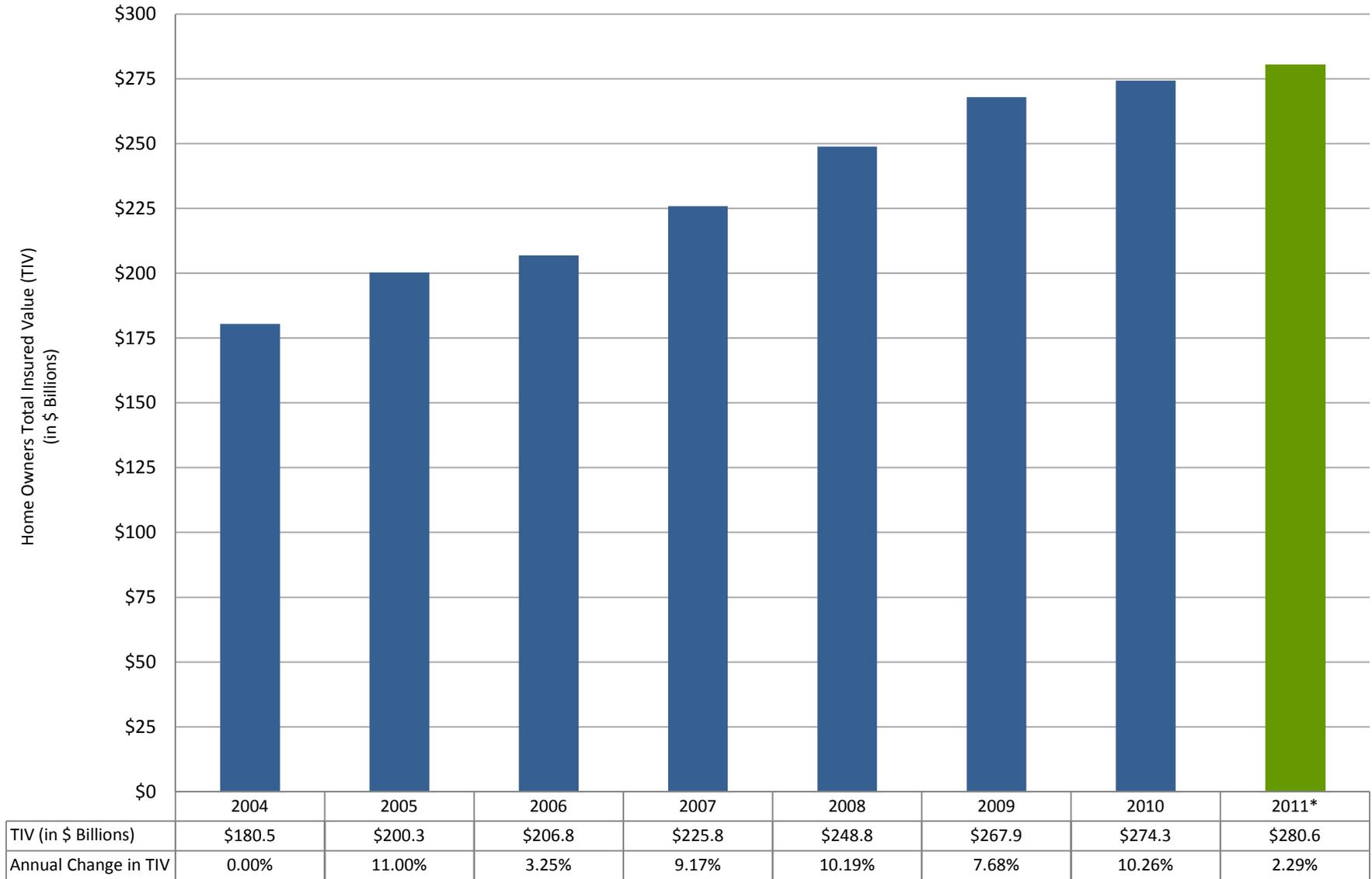
NOTE: In 2007 Revenue Bond proceeds were split between the Base and Supplement programs.

**California Earthquake Authority
Homeowners Policy Count and Premium In-Force
*as of September 30, 2011**

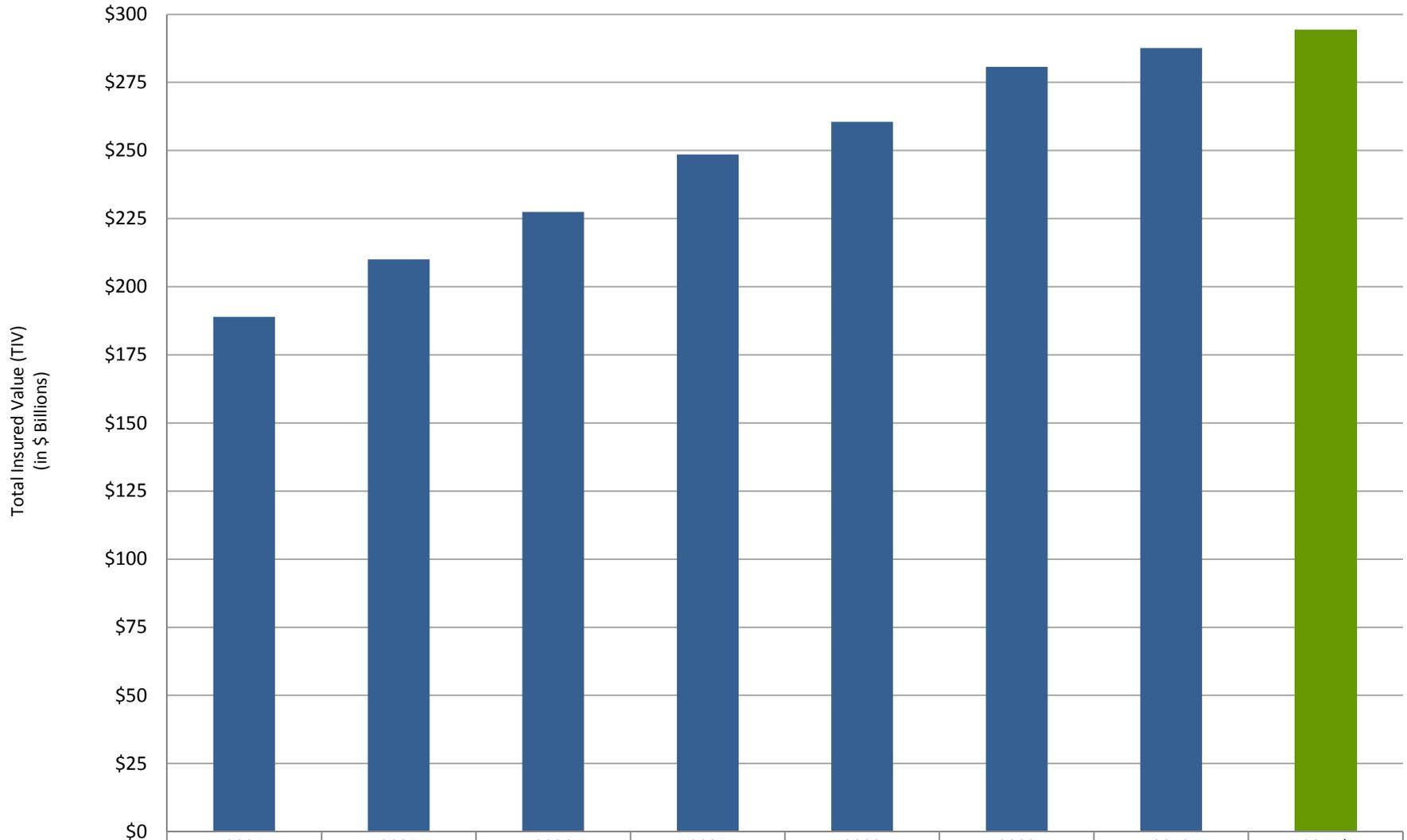


Homeowners Policy Count	600,673	613,266	612,941	628,802	629,138	642,174	647,947	653,799
Total Premium in Force (in \$ Millions)	\$427.5	\$470.2	\$453.2	\$454.0	\$489.9	\$533.1	\$542.1	\$552.7
Annual Change in Policy Count	0.0%	2.1%	-0.1%	2.6%	0.1%	2.1%	0.9%	0.9%
Annual Change in Premium	0.0%	10.0%	-3.6%	0.2%	7.9%	8.8%	1.7%	2.0%

**California Earthquake Authority
Homeowners Policy Total Insured Value (TIV)
*as of September 30, 2011**

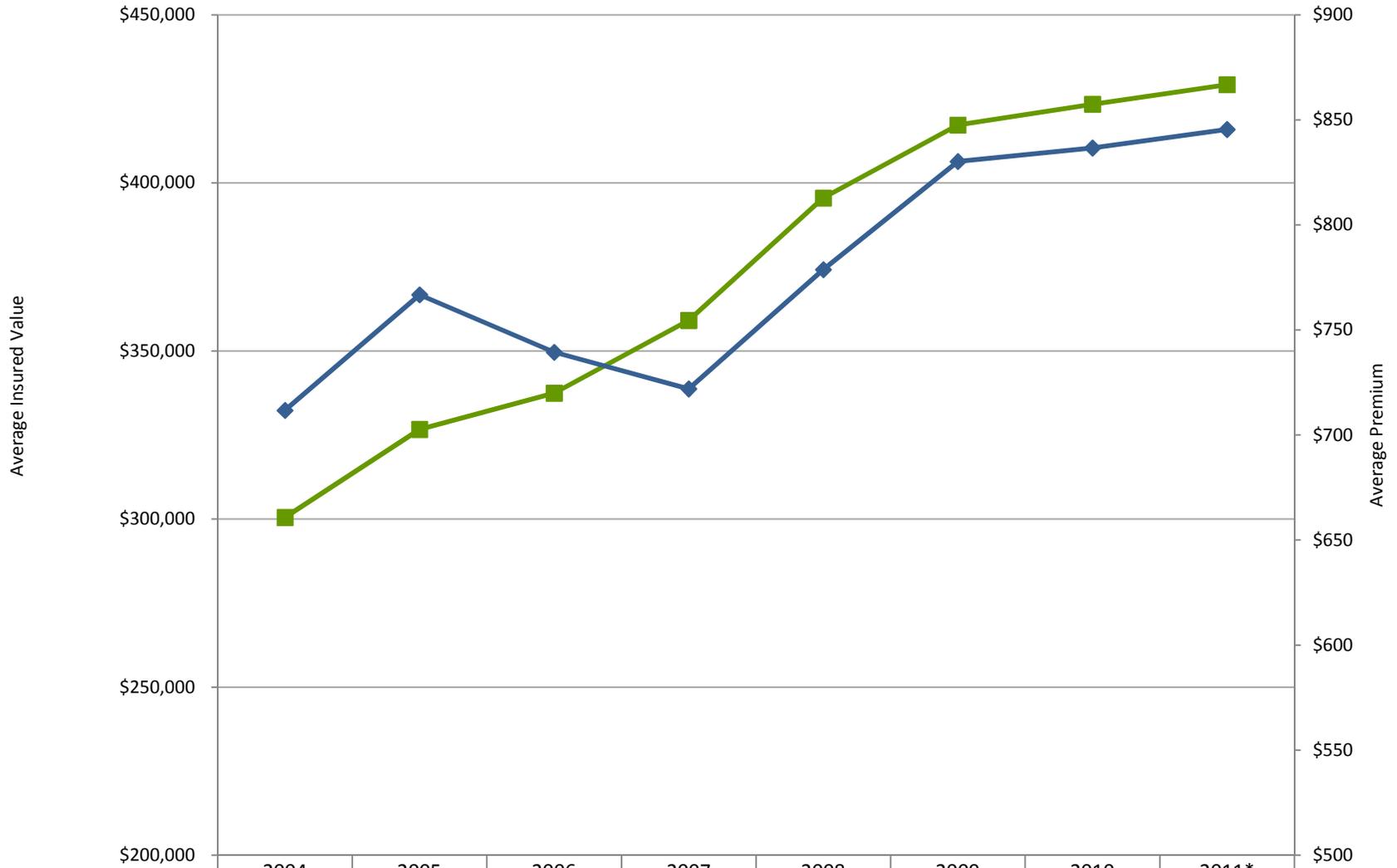


**California Earthquake Authority
Total Insured Value (TIV)
*as of September 30, 2011**



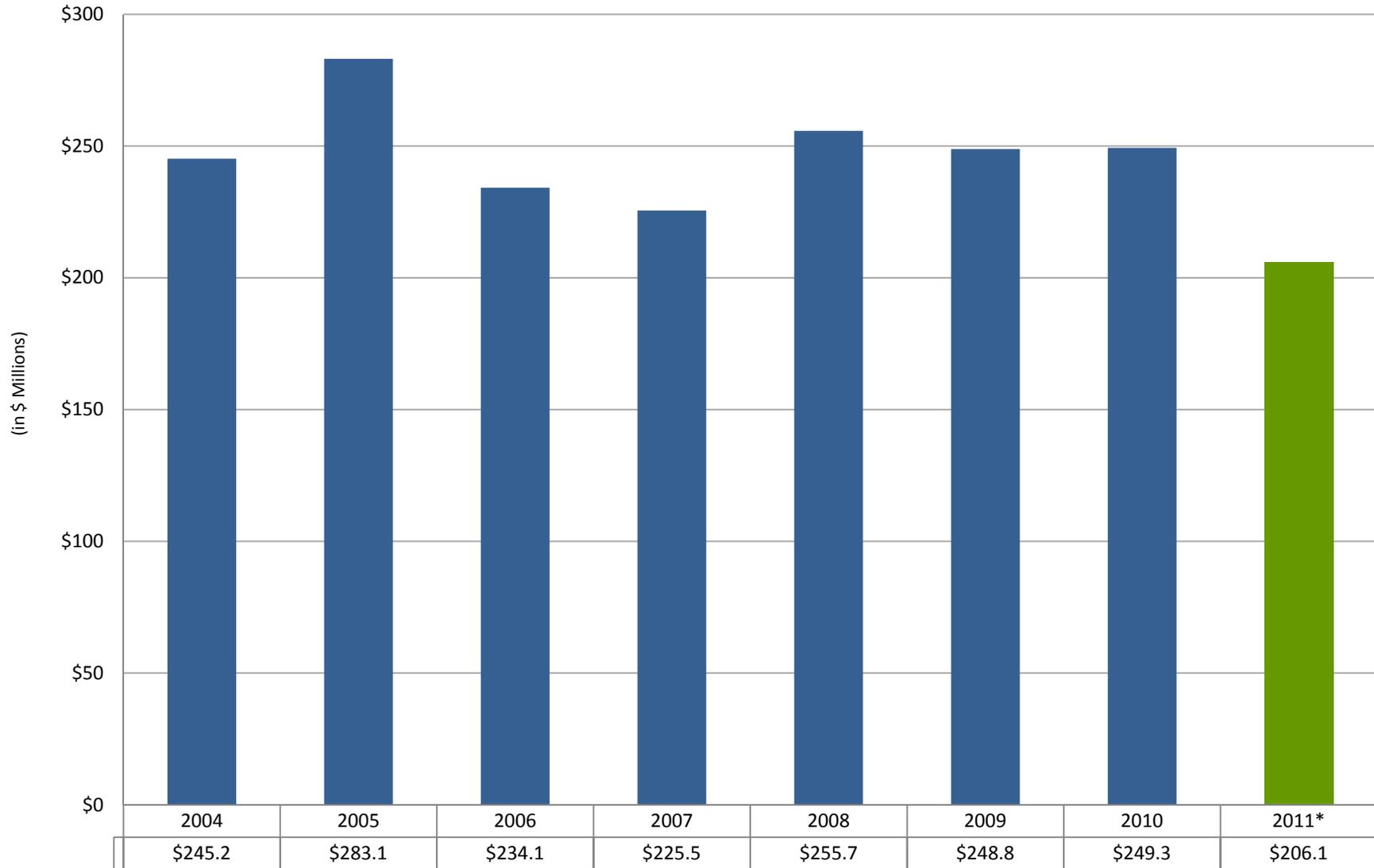
	2004	2005	2006	2007	2008	2009	2010	2011*
TIV (in \$ Billions)	\$188.9	\$210.0	\$227.4	\$248.6	\$260.5	\$280.7	\$287.6	\$294.3
Annual Change in TIV	9.6%	11.2%	8.3%	9.3%	4.8%	7.8%	10.4%	4.8%

**California Earthquake Authority
Average Homeowners Policy Premium and Insured Value
*as of September 30, 2011**



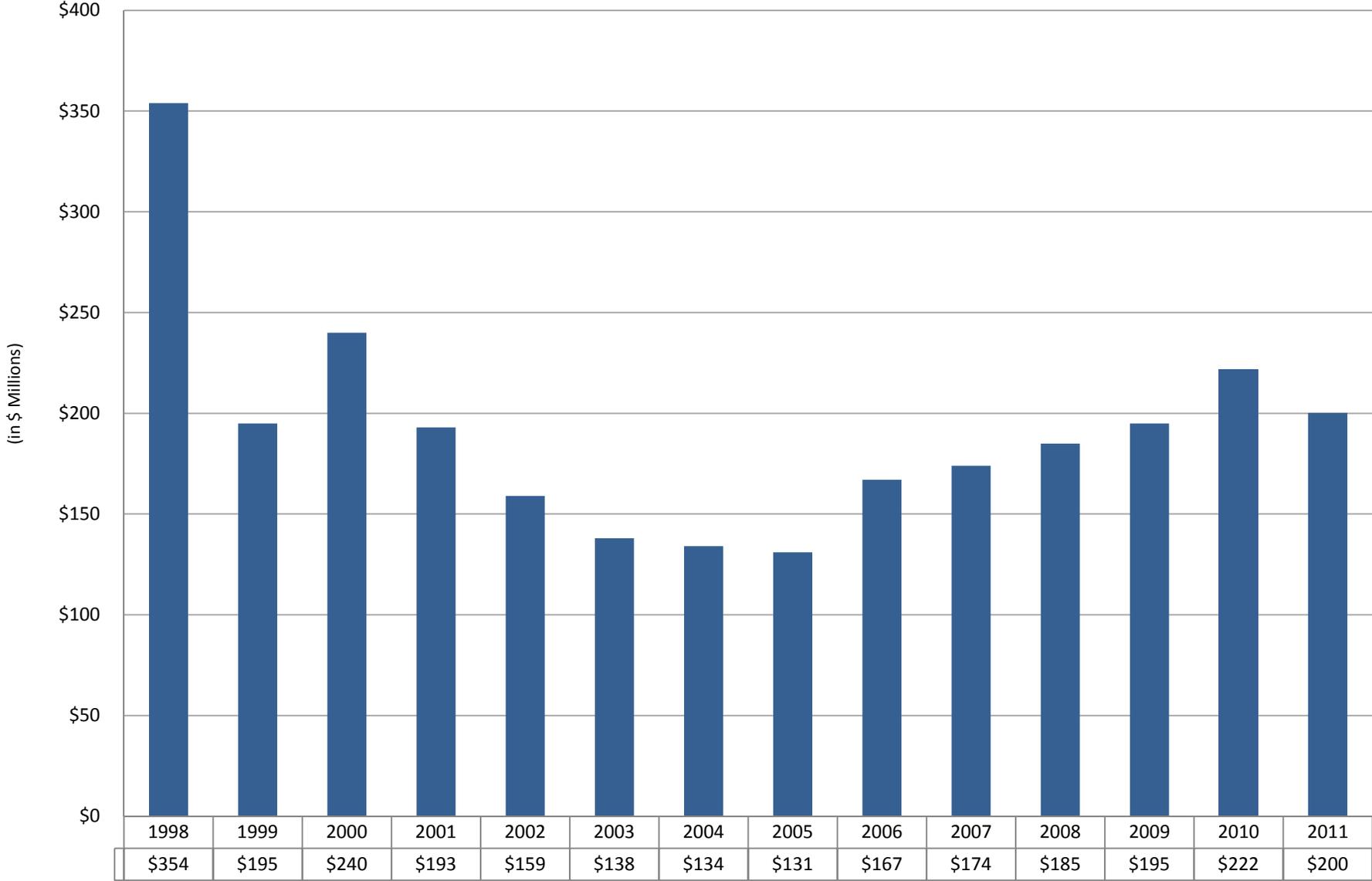
■ Average Insured Value	\$300,458	\$326,668	\$337,455	\$359,110	\$395,483	\$417,206	\$423,414	\$429,220
◆ Average Premium	\$712	\$767	\$739	\$722	\$779	\$830	\$837	\$845

**California Earthquake Authority
Annual Capital Accumulated from Premium
*as of September 30, 2011**

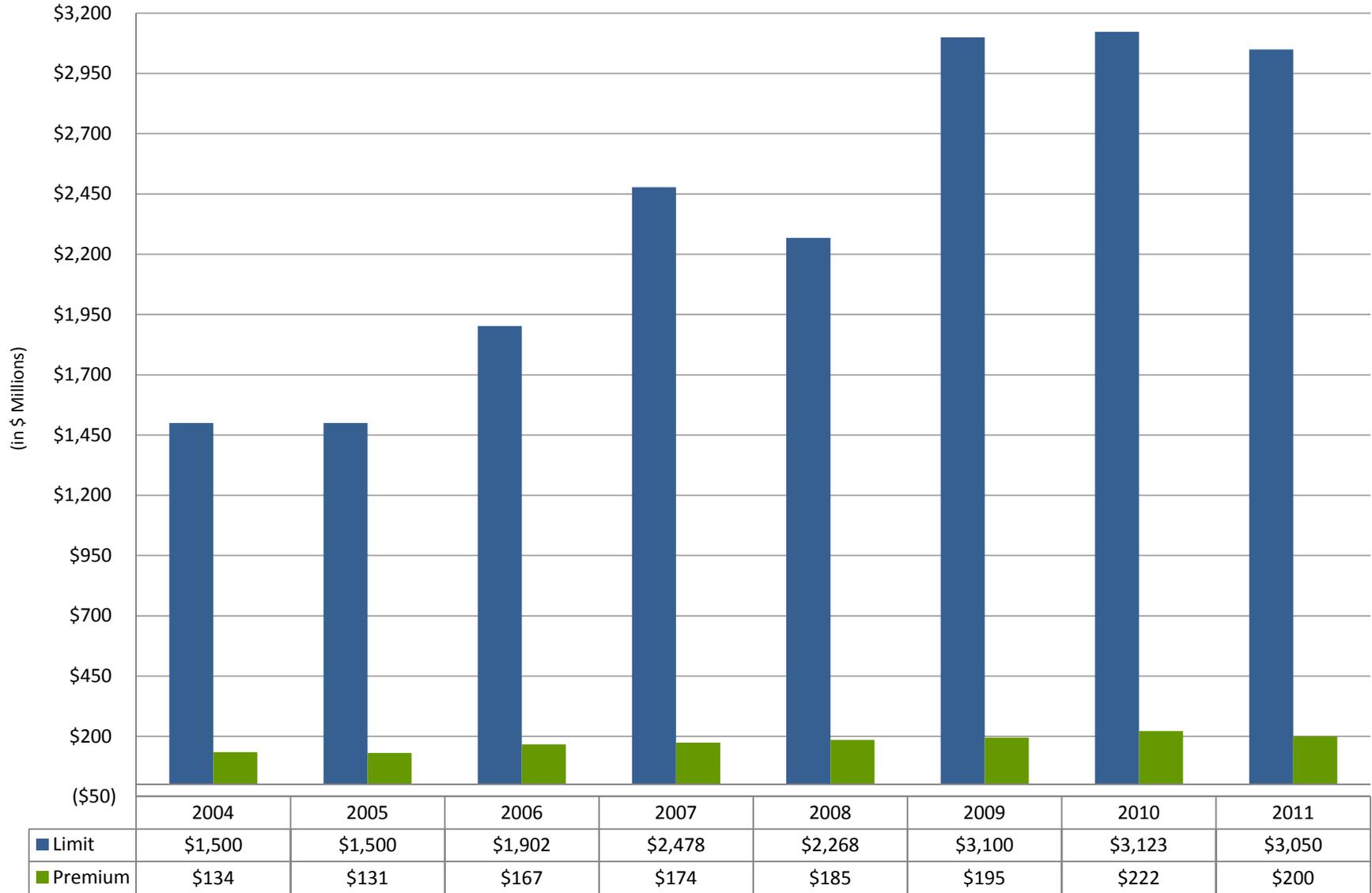


NOTE: From 2010 forward, figure is GASB underwriting profit. Prior to 2010, figure was FASB net premiums written minus total expenses.

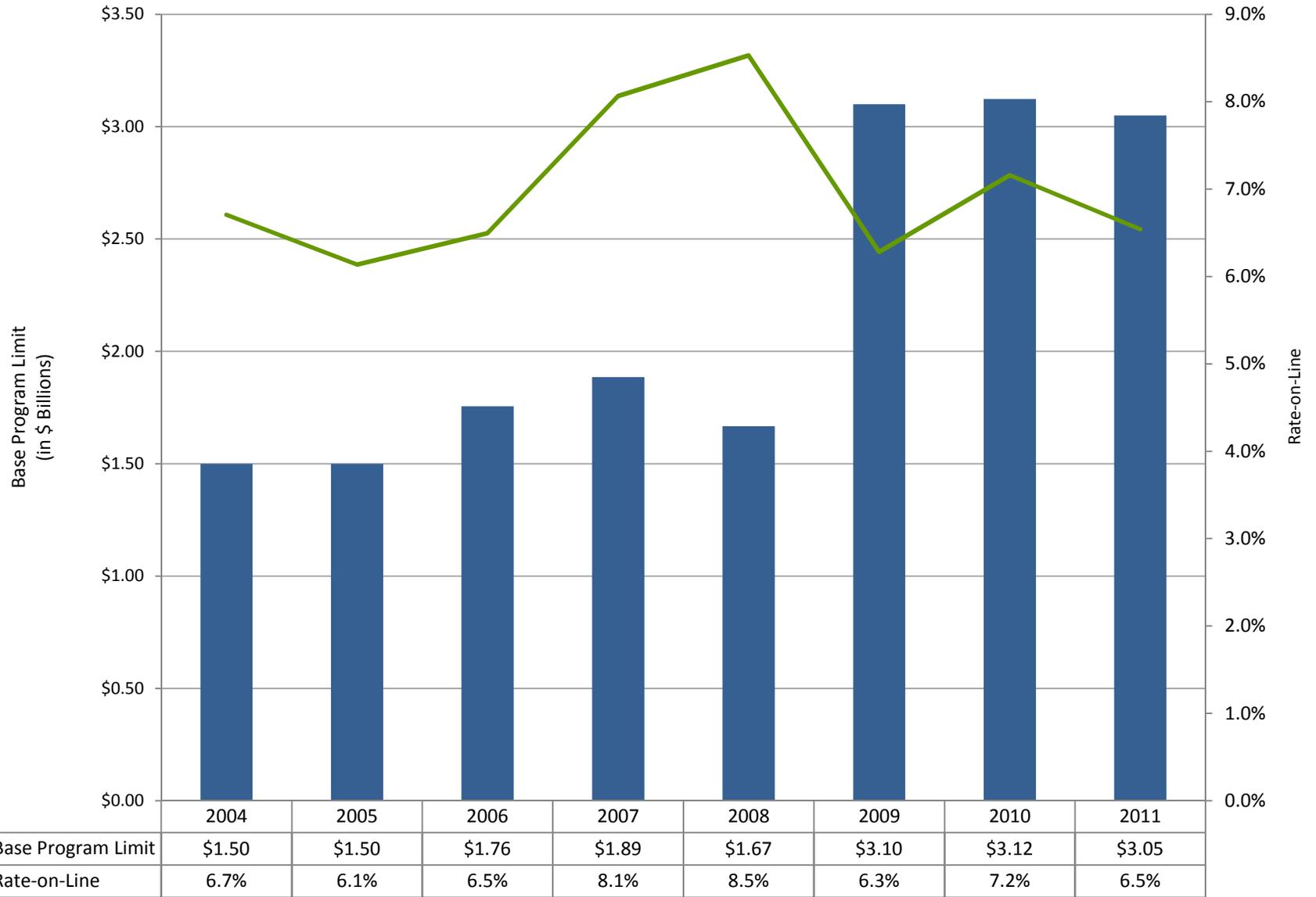
**California Earthquake Authority
Annual Risk Transfer Premium Expense**



California Earthquake Authority Annual Risk Transfer Premium and Limit

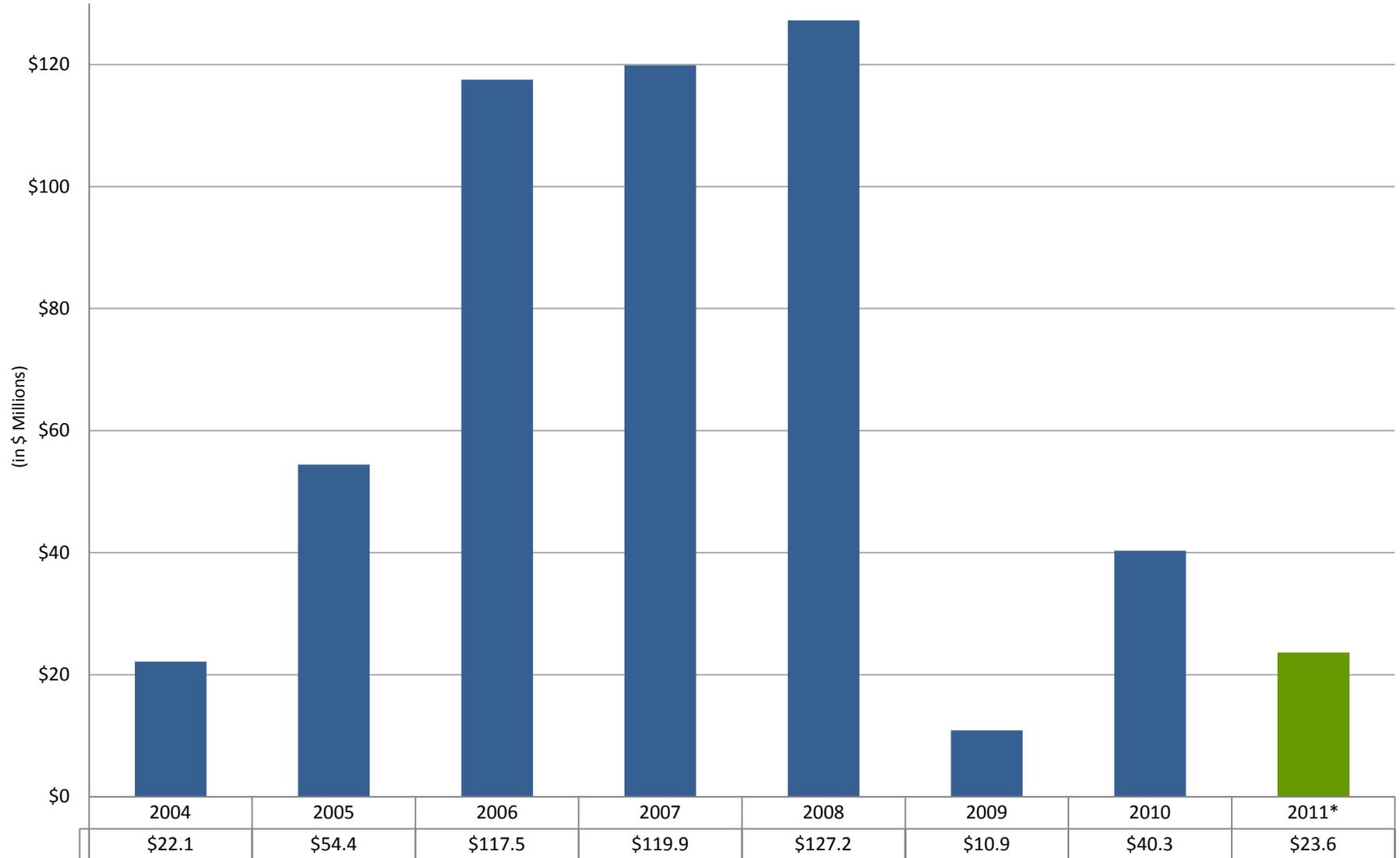


California Earthquake Authority Risk Transfer Base Program Limits and Rate-on-Line



NOTE: The Rate on Line is a weighted average of the individual layers and their respective rates.

**California Earthquake Authority
Annual Investment Income
*as of September 30, 2011**



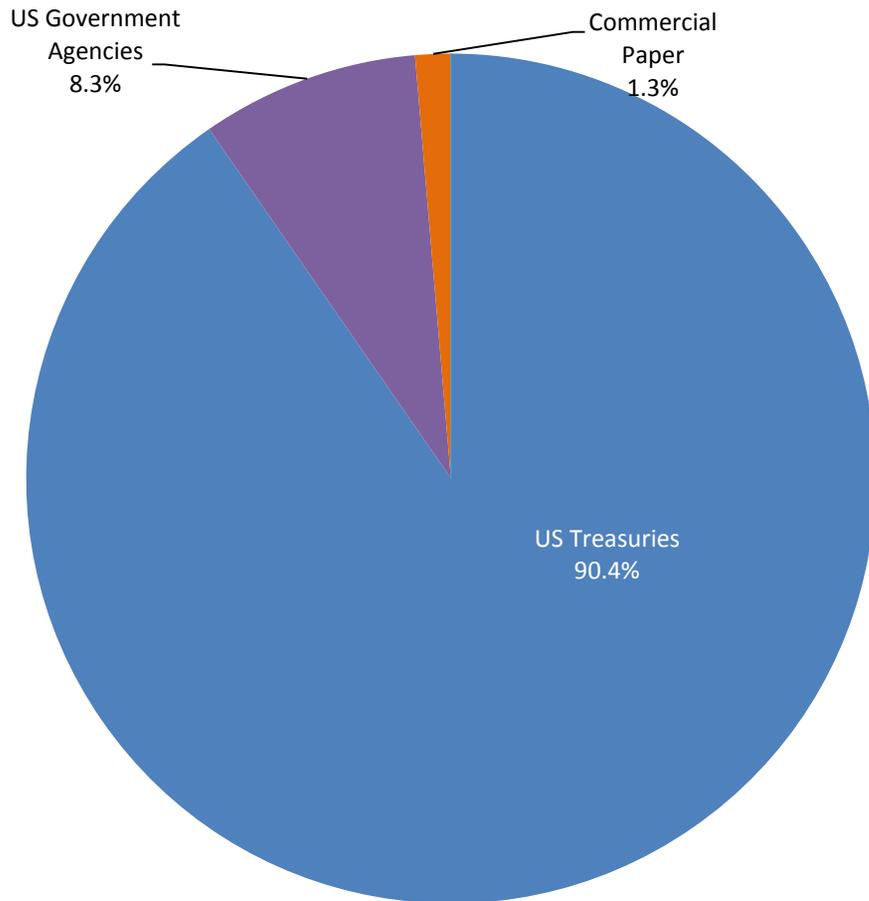
NOTE: Prior to 2011, investment income was reported from FASB financial statements which did not include unrealized gains or losses and net of manager fees.

**California Earthquake Authority
Investment Portfolio Distribution
as of September 30, 2011**

The CEA has three different investment funds. The current market values of each fund are:

CEA Liquidity and Primary Fund:	\$4,104,707,557
Claim-paying Fund:	\$316,722,777
Mitigation Fund:	\$24,260,356

The asset allocation of the three funds are as follows:

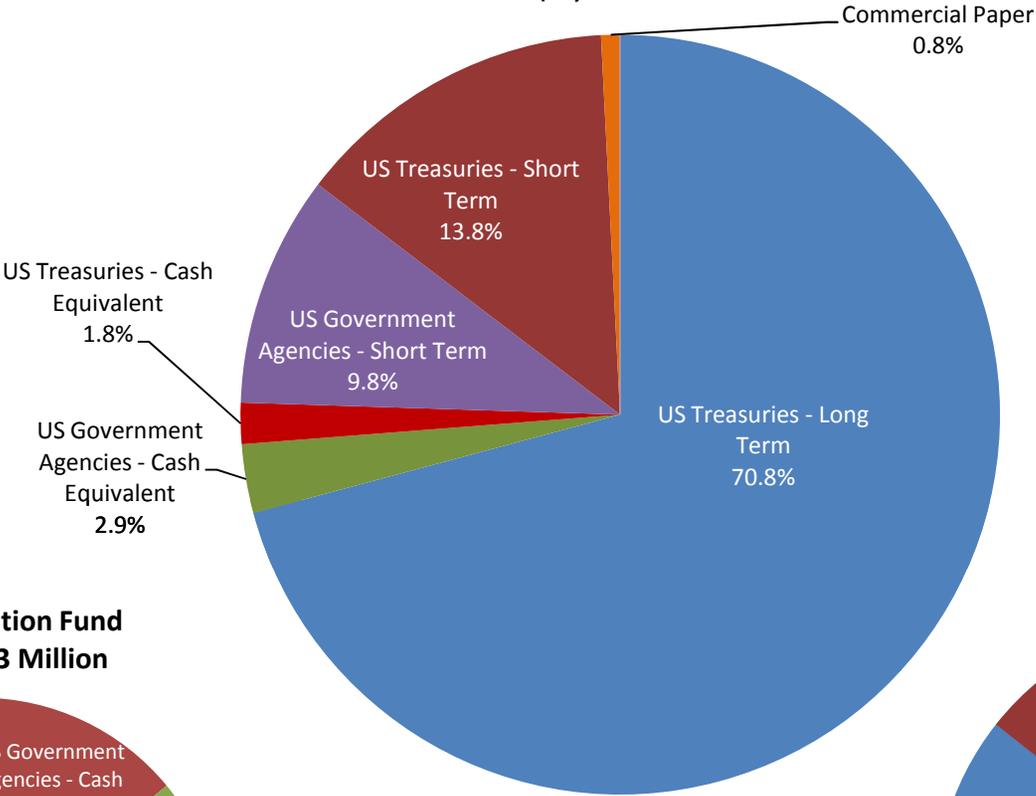


US Treasuries - Short Term	13.8%	14.4%	0.0%
US Treasuries - Long Term	70.8%	85.6%	0.0%
US Treasuries - Cash Equivalent	1.8%	0.0%	83.9%
US Government Agencies - Short Term	9.8%	0.0%	0.0%
US Government Agencies - Cash Equivalent	2.9%	0.0%	14.0%
Commercial Paper	0.8%	0.0%	
Cash	0.0%	0.0%	0.0%
Bankers Acceptance	0.0%	0.0%	0.0%
Totals	100%	100%	100%

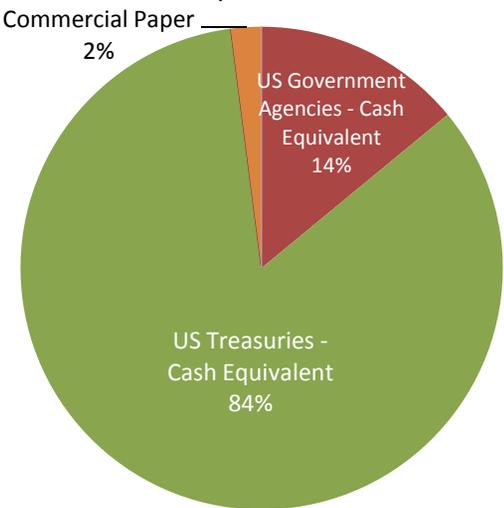
CEA	Liq. & Prim. Fund	Claim-paying Fund	Mitigation Fund
US Treasuries - Short Term	13.8%	14.4%	0.0%
US Treasuries - Long Term	70.8%	85.6%	0.0%
US Treasuries - Cash Equivalent	1.8%	0.0%	83.9%
US Government Agencies - Short Term	9.8%	0.0%	0.0%
US Government Agencies - Cash Equivalent	2.9%	0.0%	14.0%
Commercial Paper	0.8%	0.0%	
Cash	0.0%	0.0%	0.0%
Bankers Acceptance	0.0%	0.0%	0.0%
Totals	100%	100%	100%

**California Earthquake Authority
Investment Portfolio Distribution
as of September 30, 2011**

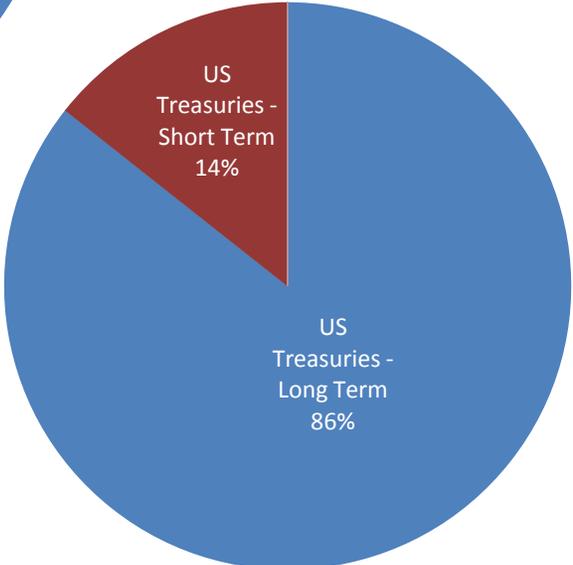
**CEA Liquidity & Primary Fund
\$ 4,104.7 Million**



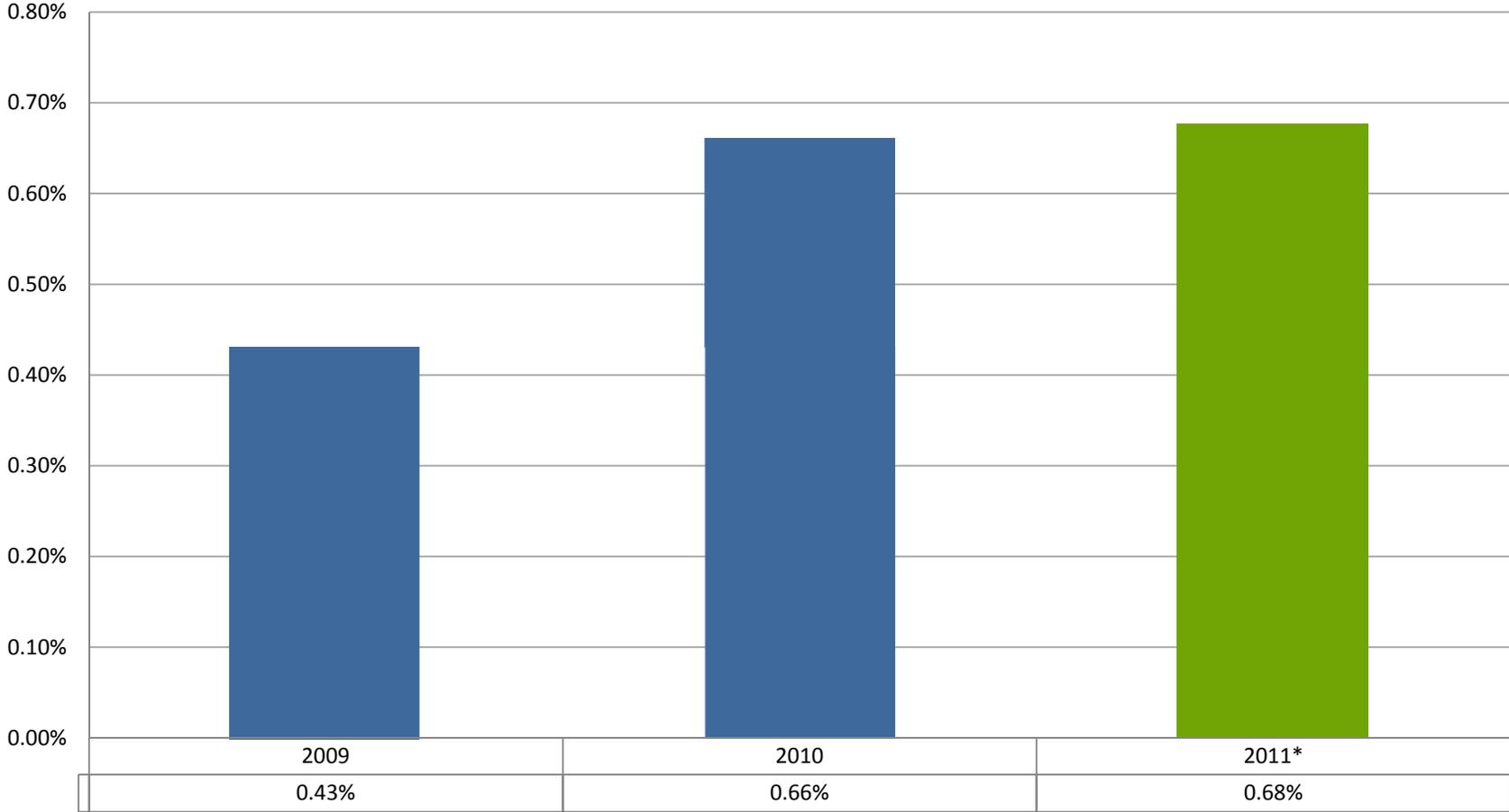
**Mitigation Fund
\$ 24.3 Million**



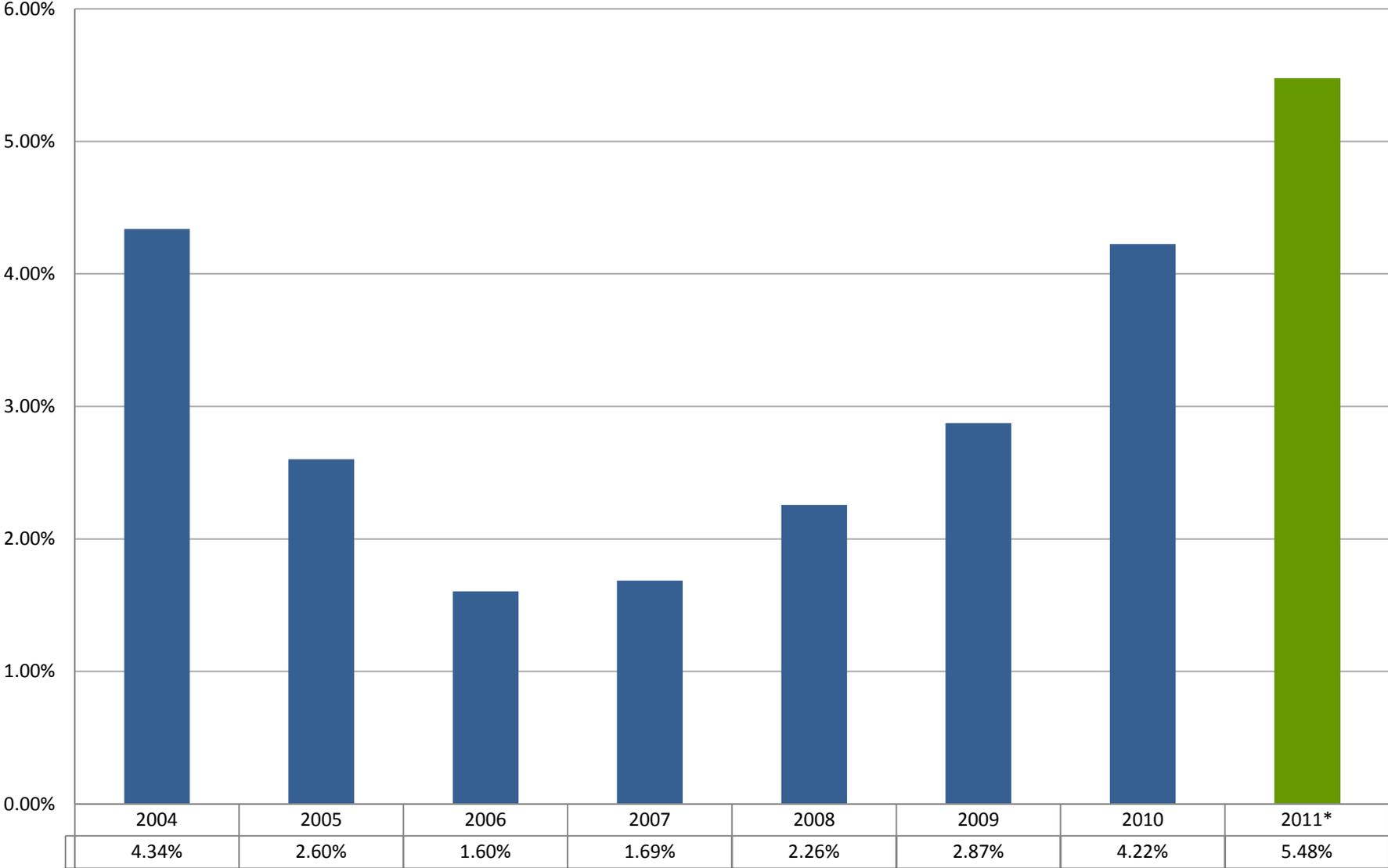
**Claim-Paying Fund
\$ 316.7 Million**



**California Earthquake Authority
12-Month Rolling Investment Return
*as of September 30, 2011**



California Earthquake Authority
Investment Manager Fees as a Percentage of Investment Income
***as of September 30, 2011**



**California Earthquake Authority
Schedule of Outstanding Debt**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE
Series 2006 Revenue Bonds	\$ 315,000,000	6.169%	\$ 310,829,067	\$ 157,500,000	30-Sep-2011

DEBT-SERVICE SCHEDULE

The table below shows the remaining annual-debt-service requirements for the Series 2006 Bonds.

Period Ending	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-11	\$189,000,000		\$5,829,705	\$5,829,705	
1-Jul-11	\$157,500,000	\$31,500,000	\$5,829,705	\$37,329,705	
2011					\$43,159,410
1-Jan-12	\$157,500,000		\$4,858,088	\$4,858,088	
1-Jul-12	\$126,000,000	\$31,500,000	\$4,858,088	\$36,358,088	
2012					\$41,216,175
1-Jan-13	\$126,000,000		\$3,886,470	\$3,886,470	
1-Jul-13	\$94,500,000	\$31,500,000	\$3,886,470	\$35,386,470	
2013					\$39,272,940
1-Jan-14	\$94,500,000		\$2,914,853	\$2,914,853	
1-Jul-14	\$63,000,000	\$31,500,000	\$2,914,853	\$34,414,853	
2014					\$37,329,705
1-Jan-15	\$63,000,000		\$1,943,235	\$1,943,235	
1-Jul-15	\$31,500,000	\$31,500,000	\$1,943,235	\$33,443,235	
2015					\$35,386,470
1-Jan-16	\$31,500,000		\$971,618	\$971,618	
1-Jul-16		\$31,500,000	\$971,618	\$32,471,618	
2016					\$33,443,235

Governing Board Memorandum

December 8, 2011

Agenda Item 5: 2012 CEA Risk-Transfer Program

Recommended Actions: Authorize reinsurance commitments for the 2012 CEA traditional reinsurance “Program B,” effective April 1, 2012, and approve up to \$300 million in transformer reinsurance

Background:

At its October 27, 2011, meeting, the Governing Board approved the 2012 CEA traditional reinsurance Program A, effective January 1, 2012. The Board directed CEA staff to bring to the Board at its December 2011 meeting a recommendation for the remaining CEA 2012 risk-transfer program, consisting of traditional and transformer reinsurance.

Analysis:

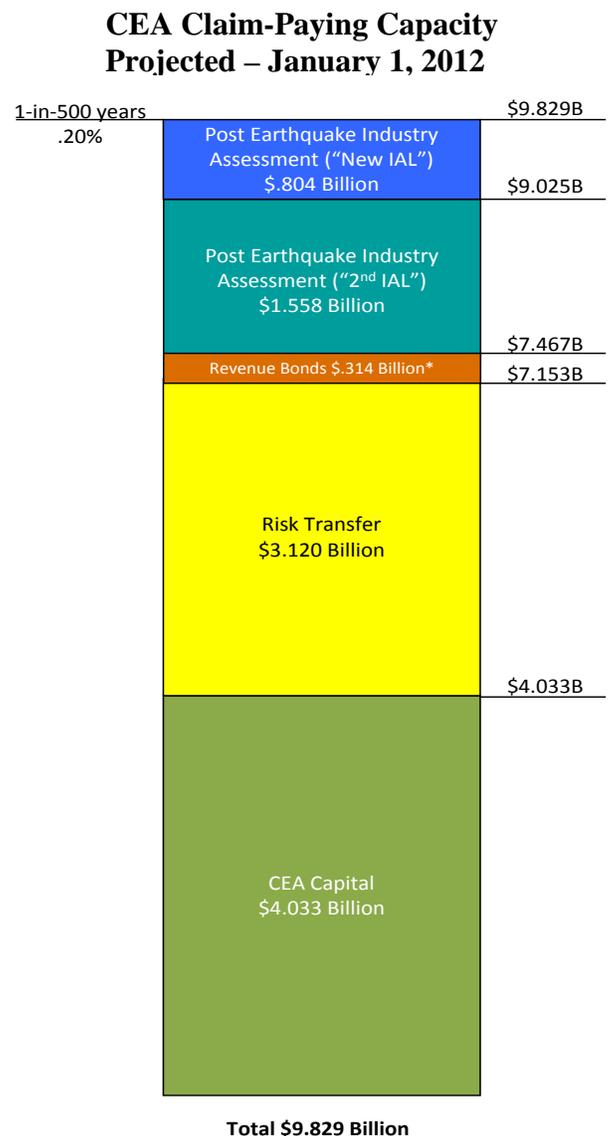
2012 CEA Financial Structure

Staff proposed the following 2012 CEA financial structure at the August 2011 Board meeting—that proposal included a layer of risk transfer (traditional and transformer), which, added to other financial layers, provides a total claim-paying capacity of, at minimum, a 1-in-500-year level.

Summary of Proposed 2012 CEA Risk-Transfer Program

Splitting the reinsurance program into two periods with separate contract-inception dates allows CEA to purchase reinsurance in two stages, reducing potentially negative effects of market swings on capacity and pricing.

- 2012 CEA Reinsurance “Program A”
 - Composed of four contracts, each of 12 months’ duration, with terms extending from January 1, 2012, through December 31, 2012.



- Program A was approved by the Board on October 28, 2011.
- 2012 CEA Reinsurance “Program B”
 - Composed of a single multi-reinsurer** contract of 12 months’ duration, with terms extending from April 1, 2012, through March 31, 2013.
 - **Reinsurers’ Program B authorizations are valid through December 9, 2011.
- Transformer Reinsurance
 - Currently there is a \$150 million transformer-reinsurance contract in effect from August 2, 2011, through August 1, 2014.
 - Staff proposes that CEA enter a second transformer-reinsurance contract in early January 2012, in an amount up to \$300 million—this cover would supplement CEA reinsurance Program A.

Summary of Traditional Reinsurers’ Written Commitments (by Contract)

Of 167 reinsurers contacted, 52 authorized Program B capacity for the 2012 CEA risk-transfer program.

The following table shows the CEA’s 2012 traditional-reinsurance program: reinsurers’ written commitments effective April 1, 2012, through March 31, 2013; 12-month-contract premium; and 12-month rate-on-line.

2012 Traditional Reinsurance Program B April 1, 2012 – March 31, 2013	Reinsurance Limit	12-Month Rate-on-Line	12-Month Contract Premium
Contract B	\$1,251,464,950	6.20%	\$77,590,827

Attachment A shows each proposed reinsurer, its policyholder surplus, and its allocated line.

Attachment B shows the financial strength of the reinsurers proposed for the 2012 CEA reinsurance Program B.

Contract Terms and Conditions for Proposed Traditional-Reinsurance Contract for Program B.

1. The contract retention may be eroded by losses occurring on and after January 1, 2012, through March 31, 2012, for Program B.
2. The CEA will become obligated to pay the 2012 reinsurance premiums upon binding these commitments, according to the premium-payment schedule stated in the contracts.
3. As in CEA reinsurance contracts for the past several years, reinsurer commitments and proposed reinsurance contracts do not provide for mandatory “reinstatement” of coverage or require of the CEA a corresponding reinstatement premium. (If a reinsurance contract has a reinstatement clause, when reinsurance coverage under a contract is reduced by loss from one occurrence, the reinsurance limit is *automatically* “reinstated.” The reinstatement term usually incepts at the date of the last loss and runs only through the

end of the original coverage period. An additional reinsurance premium is required for reinstating the reinsurance coverage that was reduced by reinsurance loss payment.)

4. The contract would provide that the reinsurance premium payable by CEA can adjust upward or downward by no more than 10%, based on stated, average, total CEA exposures of \$314,500,000,000 from April 1, 2012, through March 31, 2013.
5. When a reinsurer does not meet CEA's *Guidelines for Sources of Claim-Paying Capacity* but nonetheless wishes to participate in CEA's reinsurance program (and CEA is willing to accept that participation), that reinsurer must execute CEA's "Collateral Account Control Agreement," and, in conjunction with executing that Agreement, the reinsurer must deposit collateral *in an amount equal to 100% of the reinsurance limit* in the collateral account, held at a U.S. bank.

Details of Proposed January 2012 Transformer Reinsurance Contract

Staff proposes an additional transformer-reinsurance contract for early January 2012, in an amount up to \$300 million—this cover would supplement CEA risk-transfer Program A, which has a January 1, 2012, inception date. (Note: These details are the same as for the earlier transformer reinsurance contract and are supplied here for comparison and convenience.)

The following are the major details of the proposed transaction:

1. A collateral account control agreement between the CEA and the Special Purpose Reinsurance Vehicle (SPRV) that will provide financial security for the reinsurance contract.
2. The proposed collateral arrangement is similar to CEA's long-standing practice, that when a reinsurer does not meet the letter of the CEA's *Guidelines for Sources of Claim-Paying Capacity* but still wishes to participate in CEA's reinsurance program (and CEA is willing to accept that participation), that reinsurer must provide collateral, locked in place through a collateral agreement.
3. The CEA will require the SPRV to deposit collateral (*in an amount equal to 100% of the reinsurance limit*) in a trust account in a New York bank and execute a CEA-provided form of collateral account control agreement—this must be accomplished before the reinsurance contract is signed, to ensure that collateral is in place that fully supports the contract.
4. The three-year transformer reinsurance contract covers losses on an annual aggregate basis (as do all of the CEA's (primarily, one-year) reinsurance contracts) and has a "reset" provision for deductible and premium for the 2nd and 3rd years.
 - a. At each contract anniversary, the reset provision will allow the parties to redetermine both the dollar-value attachment point and the dollar-value exhaustion point, which together with the remaining available reinsurance limit

- (note that the limit can only be reduced by loss payments to CEA under the contract) will be used to determine the following year's reinsurance premium.
- b. The reinsurance contract attachment point "drops down" in CEA's financial structure when (1) the CEA has losses in a one-year period but (2) the one-year total loss is not sufficient to trigger a 100% loss to the reinsurance contract.
 - i. At the next anniversary of the reinsurance contract, the attachment point of the next year of the reinsurance contract is adjusted for any prior-year CEA losses.
 - ii. Reinsurers expect more premium if the risk of paying losses is higher—if there is a drop-down, the risk of paying losses in the drop-down year is higher than before the drop-down occurred, and therefore an adjustment would serve to increase premium payable by CEA.
5. A schedule will show the range of the potential drop-down and the associated increase in premium to the reinsurer; the annual reinsurance premium will still be less than what CEA would expect to pay for a traditional reinsurance contract at the same risk level.
 6. If CEA losses are below an established loss threshold, the reset provision will operate to place the probability of attachment for subsequent contract periods at the same level as for the initial contract period—i.e., the reinsurance premium would not change.
 7. The attachment point for subsequent contract periods can also move up or down, depending on changes in the CEA's policy-count and policy exposure, and new earthquake modeling.
 8. A modeling firm using the CEA's most current portfolio and its latest commercially available model will calculate the probability of attachment.

Notes on Contract Terms and Conditions for the Proposed January 2012 Transformer Reinsurance Contract

1. Because the binding and effective dates of this contract would be the same, there is no risk of erosion through losses (that is, if those dates were sequential, there would be a risk of limit erosion after the binding date and until the effective date).
2. The CEA would be obligated to pay transformer-reinsurance premium based on the contract limit for the first full year of coverage, but CEA would pay premium to account only for any remaining reinsurance limit in years two and three. The contract allows premiums for years two and three to be adjusted to account for certain increases in risk of loss to the contract.
3. As in CEA traditional-reinsurance contracts, the transformer-reinsurance contract would not provide for mandatory reinstatement of coverage (or require the CEA to pay a corresponding reinstatement premium) after a loss. (EXPLANATION: If a reinsurance contract has a reinstatement provision, when reinsurance coverage under a contract is reduced by loss from a covered event, the reinsurance provided is *automatically*

reinstated to the original limit—that reinstated limit then automatically entitles the reinsurer to an additional reinsurance premium. The reinstatement term usually begins at the date of the loss and runs only through the end of the original coverage period.)

4. The contract excludes from reinsurance coverage defined, higher levels of CEA policy growth:
 - If CEA’s policy count increases by 10% or less in a 12-month period, the contract simply covers any resulting additional exposure.
 - If, however, CEA’s policy count increases by more than 10% in a 12-month period, the increase above 10% would effectively reduce the reinsurance limit, and CEA would retain the portion above the 10% mark on a quota-share basis.

Conclusion

Below is a summary of the 2012 CEA Risk-Transfer Program, composed of traditional reinsurance (Program A) in the amount of \$1,505,220,000 (effective January 1, 2012); transformer reinsurance (having become effective August 2, 2011) in the amount of \$150,000,000; a proposed transformer-reinsurance transaction to supplement Program A in an amount up to \$300,000,000 (effective January 2012); and traditional reinsurance (Program B) in the amount of \$1,251,464,950 (effective April 1, 2012).

2012 Risk Transfer Program	Contract Period	Reinsurance Limit
Traditional Reinsurance – Program A	1/1/2012 – 12/31/2012	\$1,505,220,000
Transformer Reinsurance – Program A	8/2/2011 – 8/1/2014	\$150,000,000
Transformer Reinsurance – Program A – estimate	1/2012 – 1/2015	(up to) \$300,000,000
Traditional Reinsurance – Program B	4/1/2012 – 3/31/2013	\$1,251,464,950
Total Risk-Transfer Program		\$2,906,684,950 to \$3,206,684,950

Recommendations:

The proposal for the 2012 CEA reinsurance Program B fully reflects the Board’s continuing direction to seek the highest-quality financial products, at the best terms, and at the lowest possible cost. Approve of transformer reinsurance contract for an amount up to \$300 million.

Staff recommends that the Board:

1. Approve staff’s proposal for the 2012 CEA Reinsurance Program B, effective April 1, 2012, for Contract B in the total amount of \$1,251,464,950, on the terms and conditions stated above for the respective contracts and elaborated on in the written resolution presented to the Board on this date. Following Board approval, authorize staff to act immediately to bind the corresponding Program B reinsurance commitments from the reinsurers on *Attachment A*, on the terms and conditions described above and elaborated on in the resolution presented to the Board on this date.

2. Authorize staff, acting under the guidance of the written resolution presented to the Board on this date, to execute the reinsurance contract and related contract documents on behalf of the CEA for the transformer reinsurance contract and transaction (as described in this memorandum), in an amount up to \$300 million.

California Earthquake Authority

April 1, 2012 Reinsurance Program

Program B

Potential Final Lines

Reinsurer	Policyholders' Surplus	Potential Final Lines
Alterra Bermuda Limited	\$ 2,793,081,000	\$ 11,999,922
American Agricultural	\$ 446,000,000	\$ 1,919,998
American Standard of WI	\$ 4,500,000,000	\$ 14,999,934
Amlin AG	\$ 1,569,000,000	\$ 31,999,959
Ariel Reinsurance Company Ltd.	\$ 1,112,000,000	\$ 14,159,950
Aspen Ins. Ltd.	\$ 1,823,000,000	\$ 34,999,971
Flagstone Reassurance Suisse SA	\$ 1,216,000,000	\$ 18,699,890
Hannover Re (Bermuda)	\$ 1,229,132,256	\$ 39,999,948
Hannover Ruckversicherung AG	\$ 9,578,991,300	\$ 13,199,952
Horseshoe Re Limited	Collateralized	\$ 4,999,978
Hiscox Insurance Company (Bermuda) Limited	\$ 941,770,000	\$ 32,999,879
Houston Casualty Company	\$ 1,706,600,000	\$ 9,999,956
Lancashire Insurance Co	\$ 1,422,436,000	\$ 24,999,890
Lansforsakringar	\$ 281,828,800	\$ 1,499,881
Liberty Mutual Insurance	\$ 17,769,000,000	\$ 14,999,934
Lloyd's Synd. #0033 (Hiscox)	\$ 2,791,824,713	\$ 19,999,912
Lloyd's Synd. #0382 (Hardy)	\$ 451,565,294	\$ 4,199,916
Lloyd's Synd. #0609 (Atrium)	\$ 773,722,063	\$ 599,952
Lloyd's Synd. #1084 (Chaucer)	\$ 2,063,168,902	\$ 14,999,934
Lloyd's Synd. #1183 (Talbot)	\$ 1,547,205,460	\$ 9,999,956
Lloyd's Synd. #1225 (Aegis)	\$ 930,473,340	\$ 1,499,881
Lloyd's Synd. #1274 (Antares)	\$ 371,335,413	\$ 7,499,904
Lloyd's Synd. #1301 (Broadgate)	\$ 129,574,553	\$ 999,920
Lloyd's Synd. #1414 (Ascot)	\$ 1,650,611,909	\$ 49,999,904
Lloyd's Synd. #1458 (Ren Re)	\$ 166,255,140	\$ 4,987,588
Lloyd's Synd. #1955 (Barbican)	\$ 324,284,004	\$ 5,099,970
Lloyd's Synd. #2001 (Amlin)	\$ 3,804,814,017	\$ 19,999,912
Lloyd's Synd. #2007 (Novae)	\$ 1,435,821,360	\$ 7,499,904
Lloyd's Synd. #2010 (Cathedral)	\$ 630,740,741	\$ 2,999,887
Lloyd's Synd. #2623 (Beazley)	\$ 3,266,914,112	\$ 7,499,904
Lloyd's Synd. #2791 (MAP)	\$ 1,450,940,294	\$ 14,999,934
Lloyd's Synd. #3902 (ARK - #4020 sub synd.)	\$ 1,004,265,645	\$ 7,999,990
Lloyd's Synd. #4020 (ARK)	\$ 1,004,265,645	\$ 19,999,912
Lloyd's Synd. #4472 (Liberty)	\$ 3,895,641,762	\$ 9,599,988
Mapfre Re	\$ 1,190,000,000	\$ 11,999,922
Montpelier Re	\$ 1,940,000,000	\$ 15,599,886
MS Frontier	\$ 700,200,000	\$ 5,999,898
Munich Re America	\$ 4,523,000,000	\$ 49,999,904
Odyssey America Re	\$ 3,045,800,000	\$ 199,999,993
Partner Reinsurance Company Ltd.	\$ 3,446,500,000	\$ 28,000,777
Platinum Underwriters Bermuda Limited	\$ 1,695,710,000	\$ 2,999,887
Poseidon Re Ltd.	Collateralized	\$ 19,999,912
QBE Reinsurance Ltd.	\$ 830,876,000	\$ 4,799,994
SCOR Global P&C SE	\$ 2,514,100,000	\$ 54,999,882
Shelter Mutual Ins. Co.	\$ 1,290,000,000	\$ 6,299,875
Sompo Japan	\$ 8,538,143,400	\$ 29,999,993
Swiss Underwriters / SRA	\$ 5,039,300,000	\$ 174,999,978
Taiping Reinsurance Co.	\$ 355,300,000	\$ 1,799,982
Tokio Millennium Re Ltd.	\$ 1,048,471,574	\$ 49,999,904
Transatlantic Reinsurance Company	\$ 4,233,932,000	\$ 39,999,948
Validus Reinsurance Ltd.	\$ 3,400,000,000	\$ 23,999,969
XL Re Ltd.	\$ 4,741,679,000	\$ 47,999,938
TOTALS		\$ 1,251,464,950

California Earthquake Authority
April 1, 2012 Reinsurance Program
Program B
Reinsurer Participations by Rating

	NR *	A-	A	A+	A++	Total
A.M. Best	26,499,770	76,179,675	968,785,048	130,000,552	49,999,904	1,251,464,950
% of Total	2.12%	6.09%	77.41%	10.39%	4.00%	100.00%
	NR *	A- to A+	AA- to AA+	AAA	Total	
Standard & Poor's	99,919,465	737,345,253	414,200,233	0	1,251,464,950	
% of Total	7.98%	58.92%	33.10%	0.00%	100.00%	

* Reinsurers acceptable under the CEA's *Guidelines for Sources of Claim-Paying Capacity* may be rated by one or more rating agencies. The *Guidelines* appropriately require at least one suitable rating, so reinsurers providing capacity that is not rated by one agency ("NR"), above, are acceptably rated by the other.

Governing Board Memorandum

December 8, 2011

Agenda Item 6: CEA Advisory Panel update—Wayne Coulon

Recommended Action: No action required - information only

CEA Advisory Panel Chair Wayne Coulon will provide a summary of the proceedings from the November 17, 2011, Advisory Panel meeting.

Governing Board Memorandum

December 8, 2011

Agenda Item 7: Update on the CEA Mitigation Program

Recommended Action: No action required

Background and Analysis:

The board of the newly established California Residential Mitigation Program (the “CRMP”)—formed under a CEA-CalEMA Joint Powers Agreement (“JPA”)—held its first meeting on October 4, 2011, appointing CEA Chief Mitigation Officer Janiele Maffei as executive director.

The board authorized Ms. Maffei to negotiate a contract with the proposer that was tentatively selected through a competitive procurement as CRMP administrator—the administrator will manage the initial CRMP retrofit programming.

If negotiations are successful, Ms. Maffei will present the contract for approval to the JPA board at its next meeting in January 2012.

Ms. Maffei also confirmed locations in Northern California and Southern California for the pilot CRMP projects. She is in the process of coordinating the launch(es) of the pilot programs with municipal and commercial entities in the selected locations.

In addition, both as CEA’s CMO and as the CRMP executive director, Ms. Maffei continues to explore research opportunities to identify and analyze methods and effects of seismic mitigation.

Recommendation:

No action – information only.

Governing Board Memorandum

December 8, 2011

Agenda Item 8: CEA executive-management's request to address the CEA's statutory staffing cap, provide expanded HR capabilities, and hire a chief information officer.

Recommended Action: Board support and authorization to address the CEA's statutory staffing cap, provide expanded HR capabilities by contract, and hire a chief information officer; no further action requested concerning PwC recommendations.

Overview:

The CEA competitively selected the consulting firm PricewaterhouseCoopers in mid-2011 to study CEA operations, interview a broad swath of stakeholders, and draft a report, in which PwC consultants would recommend enhancements to CEA staffing and organizational attributes, both current case and under additional, what-if scenarios.

On October 14, 2011, PwC delivered its final report (the "PwC Report"), which contained its observations and recommendations for changing and improving the CEA's staffing and organizational structure. PwC intended by its report to suggest to CEA how it might achieve its core objective of insuring more California homes against earthquake risk—the Board has often made clear its dedication to that objective, and that a well-managed and dynamic CEA become an essential part of rebuilding California communities damaged by earthquake.

The PwC Report made a number of ambitious recommendations that will require more time to analyze before CEA can determine whether, to what extent, and how best to implement recommended changes. But the PwC Report also contains important recommendations for which there could be clear agreement on prompt implementation.

CEO Glenn Pomeroy, with staff assistance, will present to the Board the CEA executive staff's reactions to the PwC Report and will (1) recommend implementing several near-term, targeted enhancements to CEA's staffing and organization, based on PwC recommendations; and (2) discuss process and a potential timeline for further study of the more fundamental and significant proposed changes to CEA organization and staffing.

Background:

In June 2011 the Board accepted management's recommendation that CEA retain an independent, expert consulting firm to study CEA's longstanding organizational and staffing challenges. That recommendation arose primarily from two related, chronic concerns:

- **Earthquake-insurance take-up is too low.** Part of CEA's mission is to be part of rebuilding damaged California communities after major earthquakes—if CEA has not

accomplished that, the next big quake would immediately draw attention to CEA's having provided coverage for but a small percentage of at-risk homes. After that, many would pose legitimate questions of why CEA had not provided insurance for more homeowners in affected areas.

- The existing CEA operating model, which relies on the individual policy-administration systems of each of the CEA participating insurers, is outdated and inefficient. While the CEA has accomplished much in its first 15 years (for example: it's recognized as a worldwide thought leader in developing creative residential-earthquake products and related pricing strategies, setting standards for risk-transfer strategies, an influential supporter of earthquake research, for its leadership role in promoting awareness of the need for earthquake preparedness in California, and for developing a state-of-the-art residential mitigation program), the operating model has continued unchanged since 1996. The CEA's forced reliance on the participating insurers' multiple computer systems has presented difficulties and complications that are both labor-intensive and costly, and they inhibit the CEA's ability to effect needed change. To illustrate: In 2010 CEA began a project to increase take-up by lowering rates significantly and rolling out a more consumer-focused "Homeowners Choice" product. That rate reduction and new product rollout started in 2010 but will not be fully implemented until 2012. This delay is largely caused by the multiple participating-insurer computer systems that must be changed in order to administer the new products. A modern, centralized policy administration system would bring greater speed-to-market for future rate reductions and a variety of beneficial CEA programs.

The starting point to address these concerns was to be a top-to-bottom review of the CEA, which aimed to assess whether organizational and staffing changes could address those issues, strengthen CEA's sustainability, and, over time, cover more homes against earthquake. The PwC Report was to be the first step in that review process.

Initially, the CEA was widely considered a "single-event" mechanism, whose assets could be drained by a single major earthquake. Fortunately, there has been no major earthquake in California for over 15 years, and since inception, the CEA has acquired matchless experience in its field and built to nearly \$10 billion its claim-paying capacity, including \$3.8 billion in available capital. But while the CEA has evolved from a stopgap solution to a stable, well established and actuarially sound insurer, it still seeks *sustainability*—the ability to sustain multiple losses while still providing safe, economical coverage.

Despite its progress, many aspects of CEA's present-day structure are, by law, based on the original assumption of CEA as a single-event insurer. Limitations on CEA operations that seemed minor at its creation—such as law's cap on hiring no more than 25 civil-service employees—have for some time been widely seen as obstacles to the Authority's fulfilling its mandate to provide more earthquake insurance on a sustainable basis.

As the CEA's operational needs have grown, the CEA of necessity has built out its operations to accommodate staffing and other restrictions. But the CEA now has more staff from staffing agencies than permanent, civil-service employees—the Authority cannot properly operate, let alone effectively achieve its mission, with only 25 staff members.

The Authority's insurance policies, on the other hand, are administered by the participating insurer that issues the companion homeowners policy. Under the current system, CEA must implement improvements (rate reductions, new products) through the IT systems of 19 participating insurers, each of which has a unique structure for information technology, policy and claims administration, forms management, training, marketing, sales, and regulatory and legislative affairs.

This hyper-decentralized administration severely limits CEA's ability to conduct (and change) its operations and administer the pricing and features of its policies.

These inefficiencies were obvious in CEA's recent efforts to roll out a major rate reduction and its new Homeowner Choice product: That process took 18 months to achieve, and the delay frustrated participating insurers and disadvantaged consumers, illustrating clearly the difficulties presented by CEA's current structure and staffing.¹

So, CEA should *productively* explore ways to adapt more fully, and more permanently, to its role as California's pre-eminent provider of earthquake insurance. That is why, with the approval of the Governing Board, PwC was first retained as an independent expert—and now that PwC has completed its independent analysis and delivered its final report, that is why the CEA's program needs clearly support a clear analysis of the PwC recommendations to determine which, if any, to implement.

CEA executive management's review of PwC's recommendations

Overview. The CEA has made a significant investment in PwC's review and report, and executive staff believes that significant value can be realized from that process and product.

Some of PwC's recommendations reflect its broad, independent thinking about the CEA and how PwC believes CEA can best achieve its mission. Many recommendations are quite ambitious and challenging (e.g., Recommendation No. 1 – the creation or acquisition of a TPA to service certain back-office needs). Others are straightforward and relatively easy to implement, and address issues on which there is, or should be, basic agreement among stakeholders.

¹ In spite of these challenges, CEA has become an internationally recognized leader on earthquake insurance and risk financing (in PwC's words, a "center of excellence"). The most recent example of that came from the State of Oklahoma, which on November 6, 2011, was hit with a 5.6 earthquake that inflicted considerable damage on homeowners. Oklahoma has no "mandatory offer" statute, and homeowners purchase very little earthquake insurance. Shortly after that event, the state (through its insurance commissioner, John Doak) contacted CEA and advised that Oklahoma is considering a public-private earthquake insurer like CEA, and he inquired about CEA's ability to contract to administer a new Oklahoma earthquake authority.

Following its careful review of the PwC Report, CEA management recommends that (1) CEA implement several of the narrower recommendations that fall within areas of broad agreement (some reflecting issues already under consideration by management before PwC's work), and that (2) CEA continue to study and think through the more ambitious PwC recommendations over the next six months or so, to help the Board assess whether they can or should be implemented in some form.

Areas where executive management basically agrees with PwC:

1. **Address the 25-employee cap on the CEA's civil service staff.** The CEA's duties are too complex and too varied to be handled by only 25 permanent staff. The CEA's current solution of hiring a large number of staffing-agency personnel is expensive and inefficient, and it creates collateral legal and administrative issues.

- The PwC Report estimates that reducing the Authority's reliance on outside-agency staff could save CEA up to \$5.3 million over just five years.
- Eliminating the existing statutory cap on civil-service employees will require legislation.
- Further, the CEA will need to work with the Department of Personnel Administration to persuade that agency to create new, CEA-specific employee classifications that address CEA's unique staffing needs.

Recommended actions: Authorize CEA management (1) to seek legislative action to eliminate the current 25-person civil-service-employee cap and (2) to begin discussions with DPA regarding CEA-specific employee classifications.

2. **Acquire more robust human-resources capabilities.** With its current structure, the CEA is challenged in attracting and retaining employees, and as a result, pays a significant premium to secure staff through staffing agencies. An experienced HR consultant can help balance the needs and requirements of CEA's civil service and non-civil service staff, and would be essential to developing and implementing a new staffing structure, following DPA discussions and any legislation to address CEA staffing limits.

Recommended action: Authorize CEA management to initiate contracting for broader expertise in human-resources services.

3. **Hire a chief information officer.** CEA's recent and complex challenges with implementing a rate reduction and rolling out the Homeowner Choice product for consumers validate CEA's need for a chief information officer ("CIO"). An experienced CIO would not only make CEA's information-services tasks more efficient and better delivered, but would also will enhance communications and critical interactions with customers and participating insurers.

Recommended action: Authorize CEA management to conduct an executive search for, and retain, a qualified CIO.

Areas where management recommends further study and analysis:

The balance of PwC's recommendations should be discussed, and the most promising studied further, primarily to determine suitability for the CEA's needs but also to better understand their implications and map the implementation paths.

The PwC Report recommends substantial changes to the CEA's business model, claim and policy administration, hiring and retention, statutory authority, and governance structure. All reflect PwC's independent assessment of what is required to render CEA better able to insure more homes and support community recovery after damaging earthquakes. And PwC was clear that its proposed changes are intended to develop and enhance doing business with the CEA, which would benefit PIs and policyholders alike.

For those reasons, CEA management proposes to continue studying the PwC recommendations over the next six months, evaluating them to determine whether they would actually help CEA achieve goals that are consistent with CEA's mission and status. Management will share the results of its deliberations with the Board for discussion and possible future action.

Recommendations:

1. Staff asks that the Board authorize immediate action in the areas numbered 1 through 3, above, in accordance with any discussion or further instruction elicited during the Board meeting.
2. No further action requested at this time concerning PwC recommendations that are not within management's areas of agreement with the PwC Report, as noted, and the Board's deliberations during the Board meeting.

Governing Board Memorandum

December 8, 2011

Agenda Item 9: Staff asks that the Board authorize hiring a Chief Information Officer (CIO)

Recommended Action: Board authorization to hire a Chief Information Officer, including proceeding with a competitive procurement to select an executive-recruiting firm to assist in identifying qualified candidates

Background:

A key, best-practices-based recommendation from both the recent PricewaterhouseCoopers organizational and staffing analysis and the Information Services Effectiveness Project led by Protiviti over the past year is to expand CEA's executive management team to include a Chief Information Officer (CIO).

CEA executive management agrees with this recommendation and has come to recognize the importance, necessity, and value that this key strategic leadership role would bring to the CEA's daily operations, including a critical role in developing a more efficient and effective business model, in the following ways:

- As a member of the CEA's executive management team, the CIO would provide the technology vision and leadership to develop and implement information-technology initiatives aligned with organizational objectives and goals. In broad terms, a CIO directs and manages computing and information-technology strategic plans, policies, programs, and schedules for business and finance data processing, computer services, network communications, and management information services. Importantly for CEA's purposes, the role would extend to CEA's relationships with its vendors and participating-insurers.
- In addition, the CIO would be responsible for defining and building the appropriate infrastructure-melding technology—and the related human capital—to ensure technology services are deployed that effectively and efficiently support the CEA.
- The CIO would be accountable for directing the CEA's information and data integrity across all information-technology functions, and would lead the executive management team's efforts to monitor and validate the CEA's compliance with security policies and regulatory requirements.
- The CIO would be responsible for directing and managing information-technology initiatives in support of disaster recovery, governance, change management, security, and privacy, as well as IT policies, processes, controls, and portfolio and project management.

Analysis:

Since its inception, the CEA has been the leading provider of residential earthquake insurance in California, and it has become an organization of preeminent influence in the global earthquake and finance communities.

The CEA is broadly recognized as a worldwide thought leader in developing creative residential-earthquake products and related pricing structures; it has set the standard for residential earthquake risk-transfer strategies; the Authority is developing leadership roles for the marketing of residential earthquake insurance and loss-mitigation products; and the CEA has been an influential supporter of earthquake and earthquake-engineering research. During 2011, in fact, the CEA expanded its sphere of influence relating to earthquake-loss mitigation and preparedness with its unique hiring of a Chief Mitigation Officer.

While achieving much success in its core business segments, CEA's development of internal business processes—including information technology—has lagged behind because of the impact of statutory staffing limitations, which restrict the organization's ability to build a diverse skill bank. In addition, the CEA's current business model assigns (with unpredictable and varying degrees of success) its most complex and demanding technology-dependent business functions (i.e., policy issuance, billings, and notices) to its participating insurers.

In that regard, the CEA recently experienced numerous complications in its efforts to implement new, lower rates; revised policy forms; a new product; and related (and required) systems enhancements. Those experiences well illustrated the inefficiencies inherent and inescapable in the current operating structure, as some participating insurers' aged computer systems presented (and continue to present) difficulties that are labor-intensive and costly to remedy, inhibiting CEA's ability to effect timely, needed change.

Recognizing the importance and necessity of an organizational model that incorporates smart strategies and promotes optimal, mutually beneficial ease-of-doing-business, CEA executive staff competitively identified and selected a consulting firm specializing in property and casualty insurance operations. PricewaterhouseCoopers (PwC) was selected to complete an independent assessment of various elements of the organization, including structure, roles, and staffing levels. According to the PwC analysis, adding a CIO to the CEA executive staff is a key recommendation to accomplish all the worthwhile goals and objectives described above—CEA executive management agrees.

In addition, the CEA contracted with Protiviti in 2010 to help the CEA complete an Information Services (IS) Effectiveness Project (Larson & Rosenberger, the CEA's independent auditor, had identified a material weakness in CEA's internal controls, including material risks within CEA Information Services). Protiviti made a key recommendation: to add a CIO to the CEA executive management team, both to support ongoing IS development and to make CEA's information capabilities, overall, more effective.

Obtaining the services of a Chief Information Officer as a CEA employee derives from the authority granted the Board by California Insurance Code section 10089.7, subdivision (h), paragraph (1), as that provision relates to contracting for the services of a "computer firm," in

conjunction with, and supported by, Insurance Code section 10089.7, subdivision (g), as that provision relates to the Board's authority to employ "that staff and those professionals the board deems necessary for [the CEA's] efficient operation."

Recommended action:

CEA staff asks that the Board authorize the immediate recruitment and hiring of a Chief Information Officer, using a competitive procurement to select an executive-recruiting firm to assist in identifying qualified candidates, and that negotiating and contracting for the CIO's services be delegated to the Chief Executive Officer, with the assistance of the general counsel and subject to the Board's ultimate approval.

Governing Board Memorandum

December 8, 2011

Agenda Item 10: Contract with a human resources (HR) consulting firm to provide the services of a senior HR executive, in order to develop and broaden the CEA's HR efforts

Recommended Action: Board authorization to secure the contracted services of a senior HR executive by agreement with an HR consulting firm, selected using a competitive procurement process

Background:

A key observation of PricewaterhouseCoopers's recent organization and staffing analysis is that the CEA's business model—and therefore its staffing requirements—are unique and clearly require an expanded human-resources-management capability. An expanded HR capability would bring to the CEA desired expertise in all the HR basics: hiring, workforce productivity, employee development, compensation and benefit packages, workforce engagement, employee retention, and workforce alignment.

CEA executive management believes that, because the CEA's staff is a unique combination of civil service and non-civil-service staff and managers, this PwC recommendation is well supported and insightful—when implemented, it would supply an appropriately broad span of services and bring desirable capacity to the CEA's HR management. Because the HR role so closely supports the CEA's daily operations by building and developing “human capital,” these services are important support for an optimal and effective CEA business model.

The proposal before the Board today is to engage the regular (but non-employee) services of a senior HR executive by contracting with a firm that can provide such a qualified individual, who would in turn maintain a consistent, defined measure of regular attention to CEA's HR requirements.

The preferred individual would help provide the vision to develop and implement key HR initiatives. The role would also support CEA's executive management in developing and managing HR-related strategic plans, policies, and programs.

CEA's unique structure (blending civil service, contract, and temporary/seasonal staff) requires a full range of human-resource management. For that reason, the CEA's HR requirements exceed those particular to California state government alone (which are supported by the Department of Personnel Administration and State Personnel Board)—in other words, CEA human-resources needs engage the broadest range of HR responsibilities, in both civil-servant and non-civil-servant categories:

Employment and Recruiting

Interviewing, recruiting, testing, and temporary staffing

Training and Development

Orientation, performance management, and skills training

Compensation

Wage and salary administration, job descriptions, executive compensation, and job evaluation

Benefits

Insurance, vacation/leave administration, and retirement plans

Employee Services

Employee assistance programs and relocation services

Employee and Community Relations

Attitude surveys, labor relations, publications, state and federal labor-law compliance, discipline, and employee retention

Personnel Records

Information system records

Health and Safety

Safety inspections, drug testing, health, and wellness

Strategic Planning

Forecasting and planning

Analysis:

Since it opened its doors in 1996, the CEA has become the leading provider of residential earthquake insurance in California and an organization of influence in the global earthquake and finance communities.

The CEA is broadly recognized as a worldwide thought leader in developing creative residential-earthquake products and related pricing structures; has set the standard for residential earthquake risk-transfer strategies; is developing leadership roles for the marketing of residential earthquake insurance and loss mitigation products; and has been an influential supporter of earthquake-related research.

While achieving success in core business segments, including an expansive earthquake-loss-mitigation presence through a chief mitigation officer and developing superior communications efforts, HR capabilities have lagged, in part because of statutory staffing limitations, which affect the organization's ability to build a unique, diverse skill bank.

In addition, the CEA's original business model contemplated a staff composed primarily of civil servants, led by a limited number of contract executives who would bring the competencies needed to lead an insurance operation.

Over time, however, the CEA has grown extensively in the depth and breadth of the services it provides, requiring strategic additions of staff (in excess of the statutory limit on civil servants) who brought the deep skills and competencies unique to a singular residential earthquake insurance provider with a broad public mandate.

Recognizing the necessity of an optimal, ease-of-doing-business model, CEA executive staff received Board approval to competitively procure a consulting firm specializing in property and casualty insurance operations to conduct an independent assessment of the CEA's organizational structure and staffing. The consultant, PricewaterhouseCoopers (PwC), completed its analysis, recommending clearly that CEA augment its current HR capabilities.

As noted, CEA executive management fully agrees with PwC's recommendation in this area. Because the annual cost of the desired services may exceed the CEO's annual per-contract authority, staff seeks Board approval to procure the arrangements described above.

Recommendation:

CEA staff asks the Board's authorization to secure the contracted services of a senior HR executive by agreement with an HR consulting firm, selected using a competitive procurement process; negotiating and securing the services of the HR consulting firm would be delegated to the Chief Executive Officer, with the assistance of the general counsel and subject to the Board's ultimate approval.

Governing Board Memorandum

December 8, 2011

Agenda Item 11: Board consideration and approval to contract with a (competitively selected) consulting firm to develop a “portfolio- and project-management structure” to permit CEA Information Services to analyze and collectively manage current and proposed projects, based on key business characteristics.

Recommended Action: Approve the contract for development of a portfolio- and project-management structure; authorize CEO Glenn Pomeroy to negotiate and execute on behalf of the CEA a contract with the competitively selected consulting firm.

Background:

Responding to findings of the CEA’s independent financial auditors, and as an integral part of the evolution of the CEA’s IS Effectiveness Plan, CEA’s Information Services (or “IS,” a part of CEA Insurance Operations) is developing an effective and sustainable portfolio- and project-management structure. (“Portfolio- and project-management” is the analysis and collective management of a group of current or proposed projects, based on key business characteristics.)

A sound, effective, and sustainable means of portfolio and project management will allow the CEA to:

1. Determine the optimal mix and sequence of proposed projects—to best achieve overall business goals.
2. Develop a transparent IS operating model—by collecting and reporting to CEA staff and other stakeholders all relevant deadlines, milestones, priorities, resource-allocation, and return on investment (ROI).
3. Minimize the risks of cost overruns, missed deadlines, lost business opportunities, and underused resources.

The CEA IS staff is now prepared to retain consultants to assist in completing what will be Phase 3 of the three-phase CEA IS-Effectiveness Plan (the “Plan”).

Below is a summary of the IS Effectiveness Plan to date.

Summary of the CEA IS-Effectiveness Plan

Phase 1 - Developing the Plan

Prepare a roadmap to plot the CEA's IS-effectiveness requirements.

Status: Completed December 2010.

Phase 2 - Audit Readiness

Address the issues documented in the CEA's financial-statement audit for year-end 2009

Status: Completed November 2011.

Phase 3 - Portfolio and Project Management

Develop an effective, sustainable portfolio- and project-management structure, which will permit CEA Information Services to analyze and collectively manage current or proposed projects, based on key business characteristics.

Status: Scheduled to begin January 2012.

Analysis:

The final phase—Phase 3—will build on Phase 2 by developing and implementing an effective, sustainable portfolio- and project-management structure. In addition to cost overruns, missed deadlines, and lost business opportunities, other potential liabilities for CEA would include:

- Inability to communicate and work effectively with its critical business partners;
- Inability to support new (or changing) CEA business initiatives/objectives; and
- A negative perception of the CEA by its participating insurers and other stakeholders.

The CEA's reliance on information and information systems has grown dramatically, making it critical that the CEA address IS-project management to prevent these negative consequences.

To recognize these critical needs, CEA staff initiated a new competitive process and released *Request for Qualifications and Proposals – RFQ #04-11*, to identify and invite consultants with demonstrated expertise and success in developing effective and sustainable portfolio- and project-management systems to submit qualifications and a proposal. *Attachment A* is a copy of RFQ #04-11.

Through the resulting competitive process, the CEA received three proposals. A panel of three IS professionals, two from within the CEA and one from the Department of Finance, reviewed and scored the proposals. Two proposals were unanimously selected to be the best and interviews were scheduled and conducted to determine the winning proposal. The interview panel consisted of the COO, the Insurance Director, the CEA IS Director, and the CEA IS Project Manager. As a result of the interview process, CEA staff has determined that Protiviti,

Inc. will be offered the opportunity to negotiate a contract with the CEA to implement Phase 3 of the Plan.

Protiviti, Inc. will provide all services identified in RFQ 04-11, including, but not limited to:

1. Identifying deficiencies in CEA's current policies, processes, and controls.
2. Identifying opportunities to improve controls and efficiencies in current policies and processes and recommend improvements through gap analysis, roadmaps, implementation schedules, and reviews.
3. Supply the tools to support a Portfolio and Project Management Office (PPMO), which would integrate the CEA IS portfolio and individually defined projects, and manage the software development lifecycle (SDLC).

The total cost of this contract shall not exceed \$750,000. Although the CEA expects all solutions to be implemented by December 1, 2012, the CEA also recognizes that the results of the initial analysis and the timing of hiring IS resources may alter this date. Any modification to the project schedule will be reported to the Board as part of this project's status update.

Recommendation:

1. Approve staff's proposal to continue implementing the CEA IS-Effectiveness Plan by retaining Protiviti, Inc. to help CEA develop and implement a suitable portfolio- and project-management structure.
2. Authorize CEO Glenn Pomeroy to negotiate and execute on behalf of the CEA a contract with Protiviti, Inc., the firm selected through the competitive process; and authorize the CEO, advised by and together with the CEA General Counsel, to perform any and all additional acts that are within the scope of the executed contract and this grant of authority to direct, further, and finalize these consulting services.

GB Agenda Item 11 – Attachment A



**Request for
Qualification and Proposals**

IS Effectiveness Improvement

RFQ #04-11

Date: October 3, 2011

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I. Summary of Key Dates

The following schedule is subject to modification by the California Earthquake Authority (“CEA”). Questions must be submitted in the manner described in Section III.

- | | |
|---|---|
| 1. Date of issue | October 3, 2011 |
| 2. Deadline for submitting questions | October 21, 2011 |
| 3. Final date for the CEA to post addenda for which proposers are responsible | October 28, 2011 |
| 4. Final proposal submission date | November 9, 2011 |
| 5. Proposal evaluation | November 22, 2011 |
| 6. Finalists’ presentations (optional) in Sacramento, California | December 5 th – 9 th , 2011 |
| 7. Award of opportunity to negotiate contract | December 12, 2011 |
| 8. Commencement date | January 1, 2012 |

II. Background of the California Earthquake Authority and Purpose of the IS Effectiveness Improvement

Following the unprecedented losses from the 1994 Northridge Earthquake, many California insurers either stopped or severely restricted selling new homeowners insurance policies. This was largely due to state law that required insurers to offer earthquake insurance when selling residential property insurance. A California Department of Insurance study released in May 1995 found that insurers representing 93 percent of the voluntary insurance market were either restricting or refusing to sell new policies.

In 1995, the California Legislature approved legislation to create the California Earthquake Authority (CEA). In 1996, the Legislature passed three additional bills that permitted the CEA to become operational when certain conditions were met. These bills were codified in California Insurance Code, sections 10089.5 through 10089.54 and will be referred to as the CEA Act. In November 1996, the Insurance Commissioner certified the conditions had been met. The CEA began writing earthquake policies effective December 1, 1996.

The CEA is administered by a Governing Board composed of five elected public officials. California's Governor, Treasurer, and Insurance Commissioner serve as voting members, while the Speaker of the Assembly and the President Pro-Tempore of the Senate serve as non-voting members. The Governing Board is advised by an 11-member Advisory Panel.

The CEA is currently financed with approximately \$9 billion in CEA capital, \$316 million in revenue bond proceeds, \$2.9 billion in third-party reinsurance, and \$2.4 billion in participating-insurer assessments. Operating under a uniform written contract, participating insurers sell and service CEA policies and adjust CEA claims. By law, the State of California has no liability for claims, costs, or liabilities arising from CEA operations.

The CEA's business is residential earthquake insurance and the provision of earthquake-loss-mitigation services and related educational outreach. The CEA offers basic residential earthquake insurance to owners of dwellings, mobilehomes, and condominiums as well as to renters. Policies cover damage to structure and contents and expenses incurred when a home is uninhabitable. CEA rates are actuarially sound, based on the best available science, and approved by the California Insurance Commissioner.

The CEA seeks a consulting firm specializing in IS effectiveness improvement. The next phase of the IS effectiveness improvement process is to:

1. Develop and implement consistent portfolio and project management principles and practices, including the Internal Audit & Financial Controls, in a sustainable and efficient manner.
2. Assess and develop improved Application Controls.

With this goal in mind, the CEA is looking for a consultant to help lead IS through the following items:

- Identify deficiencies within the current CEA defined policies, processes, and controls.
- Identify potential opportunities for improved controls and efficiencies within the current defined policies and processes. Provide recommendations for improvements including GAP analysis, roadmaps, implementation schedules, and reviews.
- Implement the necessary tools to support a Portfolio and Project Management Office (PPMO) which includes the integration of the CEA IS portfolio, individual defined projects, and the software development lifecycle (SDLC) management processes.

III. Submitting Questions

Questions are to be submitted by email only, and each proposer is solely responsible for following the timeframes in Section I. Submit all questions to:

RFQ04-11@calquake.com

The CEA will respond to questions as they are received. Answers will be posted on the CEA's Web site, www.EarthquakeAuthority.com, on the IS Effectiveness Improvement RFQ page.

IV. Proposer's Responsibilities Regarding Addenda

The CEA reserves the right in its sole discretion to modify any part of this RFQ by issuing a written addendum.

All addenda issued by the CEA after the final submission date for proposals will be posted solely to www.EarthquakeAuthority.com on the IS Effectiveness Improvement RFQ page.

Each proposer must continue to check the CEA Web site through the final submission date for further addenda.

Each proposer acknowledges and accepts the affirmative responsibility to inquire regarding, and seek clarification of, any part or provision of this RFQ that the proposer does not understand or believes is reasonably susceptible to more than one interpretation. If a proposer claims any ambiguity, conflict, discrepancy, omission, or other error in the RFQ, the proposer must immediately notify the CEA's RFQ contact person and request clarification. In its sole discretion, the CEA may issue clarifications in the form of written addenda to this RFQ and will post the written addenda to www.EarthquakeAuthority.com on the IS Effectiveness Improvement RFQ page.

In its sole discretion, the CEA may disregard any and all claims of ambiguity, conflict, discrepancy, omission, or other error received by the CEA after the final submission date for proposals.

No additional time to meet any deadline will be allowed, due to corrections or clarifications made by the CEA, after the final submission date for proposals.

The provisions of any addendum formally issued by the CEA are automatically incorporated into this RFQ, and in addition and as appropriate, may be made a part of or otherwise reflected in any contract awarded as a result of this RFQ.

Each proposer is required to acknowledge, as part of the proposer's cover letter (see [Submission Instructions](#) on page 14.), that proposer has reviewed the addenda posted one week or more before the final proposal submission date.

V. Submitting Proposal

Submit the original and four copies of the proposal in a sealed envelope or package. The original proposal must bear an original signature of the person who signed the cover letter and be marked “Original.”

- The proposer’s name and address must appear on the outside of the sealed proposal package/envelope.
- A proposal by a firm must be signed by a person authorized to bind the firm.
- All proposals must be sent or delivered to the following address:

**California Earthquake Authority
801 K Street, Suite 1000
Sacramento, California 95814
CONFIDENTIAL**

Response to Request for Qualifications and Proposals #04-11

- Proposals must be physically received by the CEA no later than 5 p.m. Pacific Time on Wednesday, November 9, 2011.
- Unless expressly and specifically requested by the CEA, proposals are not to be submitted, in whole or in part, by fax or by electronic or magnetic media.

Should a proposal contain information that the proposer considers confidential or proprietary, a statement to that effect must be included in the cover letter, and each and every page containing confidential or proprietary information must be so marked in the upper right-hand corner. The CEA will use reasonable efforts to keep such pages from public disclosure, except to the extent provided in any resulting contract or the extent required by law. The CEA makes no representations or warranties that its efforts will be successful. Proposers are reminded that many of the CEA’s records are subject to public disclosure under the California Public Records Act.

No proposal can be considered confidential or proprietary in its entirety.

If, before the submission deadline, a proposer wishes to make any change or augment a proposal it has already submitted to the CEA, the only method of correction or modification is to notify the CEA proposer is withdrawing its proposal and then submit the modified proposal before the proposal-submission deadline. Modification offered in any other manner, or after the proposal-submission deadline, will not be considered.

All proposals become the property of the CEA upon submission.

All costs to develop proposals and attend interviews regarding proposals are the sole responsibility of the proposer and cannot be charged to the CEA.

Please review all addenda posted on the CEA’s Web site before submitting proposals.

Record your company name and the RFQ number on each page of the proposal.

VI. Services to Be Provided

Introduction

The purpose of this Request for Qualifications and Proposal is to invite consultants and consulting firms with demonstrated expertise and success associated with the skills listed below to submit qualifications and a proposal to the CEA.

- The development and implementation of portfolio and project management principles and practices, including experience with Internal Audit & Financial Controls assessment services
- The development and implementation of Application Controls

The CEA's goal is to develop and maximize the organization's ability to make data-driven strategic and tactical decisions by analyzing the relative cost and business value of IS projects from both an independent and strategic perspective. Therefore, the CEA will view the implementation of a Portfolio and Project Management Office (PPMO) to be successful if the following conditions are met:

- The PPMO is fully integrated within CEA IS, is run by CEA IS, and is sustainable by CEA IS
- CEA IS projects are aligned with CEA strategies and priorities
- The CEA IS resource allocation methodology is optimized
- The gap between the executive decision-making process and CEA IS project execution is bridged
- There is transparency associated with the portfolio and project management used by CEA IS
- Implemented processes are sustainable
- The IS project management platform is simple and efficient

Working together with the CEA IS team, the successful consultant will provide recommendations, advice, and insights that will lead first to the design, then development, and finally implementation of a PPMO.

It is also essential that CEA IS have the appropriate application controls in place. The CEA's goal is to assure that the appropriate application controls are in place by September 1, 2012 to allow for a testing and remediation period.

After assessing the current state of CEA IS application controls, the consultant will work with CEA IS to fill gaps in the current application control environment and to improve the efficiency of existing controls.

Summary of Project Expectations

The CEA expects that this project will be executed in the following order:

1. Assessment
2. Develop project implementation plan
3. Implementation
4. Review

The following provides the CEA's expectations for each step.

Assessment

The assessment phase of this project will produce the following five deliverables:

1. Process and procedure documents describing both the current portfolio and project management office and application control environment.
2. Process and procedure documents describing the “ideal” portfolio and project management office and application control environment.
3. A needs assessment report defining all specific requirements for the CEA's Project and Portfolio Management Office.
4. GAP analysis listing all required application controls and non-existing controls.
5. Recommendations for both the current portfolio and project management office and application control environment.

The CEA expects the selected consultant to meet with the appropriate CEA staff as part of the development process required to meet the goals above.

Develop Project Implementation Plan

The project planning phase will produce the following two deliverables:

1. A project implementation plan that outlines the schedule and steps required to address the gaps identified in the assessment analysis for both portfolio and project management and application controls. The plan must include cost, impact analysis including impact on CEA IS resources, implementation timelines and associated milestones, and project scope. Additionally, a product comparison analysis report with recommendations is required for all software solutions (i.e. the portfolio and project management software solution).
2. The practical application training scope and schedule must be included.

The plan must have a final implementation date no later than December, 1, 2012. The project implementation plan must be approved by the CEA IS Steering Committee. The consultant will attend required meetings together with IS staff to assure an effective transfer of information and an efficient approval process.

Implementation

The implementation phase of this project will produce the following seven deliverables:

1. Status of the project progress. This will include weekly meetings with key CEA IS stakeholders.
2. Cost and schedule performance index (CPI and SPI) on a weekly basis.
3. Completion of all practical application training required for all recommended processes.
4. Implementation of portfolio and project management software solution.
5. Completion of fully operational project management office documentation repository. The repository must be integrated within the CEA environment.
6. The successful implementation of the Portfolio and Project Management Office with all required supporting processes, including practical application training during the transitional phase.
7. The successful implementation and testing of all necessary application controls.

The implementation schedule must address CEA IS resource availability and coordinate with existing CEA IS work schedules.

Review

The review phase of this project will produce the following three deliverables:

1. Project evaluation/report card.
2. Lessons learned report.
3. Recommended next steps.

A presentation will be made to the CEA IS Steering Committee highlighting the review deliverables.

Summary of Scope

This project's scope of work will at a minimum include:

1. Project Portfolio Management Office implementation:
 - Implementation of Portfolio and Project Management Office (PPMO) with use of a single platform for managing time, money, and people across all programs, projects, including operational & maintenance activities
 - Needs assessment, design, and implementation of project, portfolio and software development (SDLC) processes
 - Recommendation for Portfolio and Project Management software, applicable to the size and type of CEA's projects
 - Best practices recommendation on resource optimization
2. Gap analysis and implementation of audit controls for existing applications at CEA
 - Assessment of existing application audit controls
 - Identification of audit control gaps by providing a gap analysis report and an implementation plan for non-existing, but required controls
 - Perform preliminary audit (test) of newly implemented application controls

Details of Scope of Work

The following describes the minimum services the successful proposer will provide:

1. Conduct, complete, and report on an evidence-based assessment of the CEA’s current portfolio and project management processes, with recommendations on best practices and techniques for implementation of Portfolio and Project Management Office.

Recommendations must include practical application examples and training that use active and current CEA’s projects. The practical guidelines will provide specific details for processes on how to:

- Identify, prioritize and select new product development projects that are best aligned with CEA strategic direction, leveraging the tools available on the market today
- Drive the operational execution of CEA projects by ensuring that adequate budgeting, scheduling and resources are available to deliver the expected business results
- Implement projects via consistent approaches and improved dependency management
- Manage risk at a collective level
- Optimize resource utilization based on the selected project in project portfolio
- Enhance transparency, accountability and corporate governance
- Improve engagement and communication between senior management and staff

The consultant will schedule and conduct “Discovery Workshops” to collaborate with CEA’s IS resources resulting in better understanding of CEA’s Project and Portfolio management needs. At a minimum, these “Discovery Workshops” will include:

- Meetings with subject matter experts (SMEs) to acquire the necessary information
- Document discovery meetings findings, and send the document to SMEs for review and approval
- Submission of process maps and diagrams for review by CEA IS and approval by SMEs

2. Define and implement a Software Development Lifecycle Methodology (SDLC) based on types of software products being developed at CEA.

At a minimum, this methodology will include:

- Definition of a specific SDLC model (waterfall, RAD, Agile, etc)
- Definition and expectations of the Application Development Lifecycle Governance
- Description of how business case development process ties into the SDLC
- Description and the process maps of the Portfolio Management process alignment with Project Management process and SDLC

3. Deliver a written report (and make related oral presentations) to CEA executive management, IS Steering Committee, and certain other key stakeholders, providing results of the assessment and recommendations that define an appropriate Project and Portfolio Management framework to be used for:

- Evaluation, selection and prioritization of new projects
- Acceleration, de-commissioning or de-prioritization of existing projects

- Successful allocation and reallocation of resources to active projects
 - Managing schedule, cost, resources and project scope
4. Develop and deliver practical application training for Project and Portfolio Management processes and procedures included in the “Definition” cycle of Portfolio Management. At a minimum, the training will include:
- Options and recommendations to improve the understanding and usefulness of the portfolio scope including current change initiatives and recommended modifications
 - Options and recommendations to organize change initiatives into groups, segments, or sub-portfolios based on the strategic objectives or other groupings as applicable
 - Options and recommendations to rank the change initiatives within the portfolio (or portfolio segment) based on one or more agreed measures
 - Options and recommendations to ensure that the portfolio is balanced in terms of:
 - Timing
 - Contribution to strategic objectives
 - Business impact
 - Risk and resource
 - Options and recommendations to collate information from the portfolio definition cycle and create a portfolio strategy and delivery plan that can be published and understood by all relevant stakeholders
5. Develop and deliver practical application training for Project and Portfolio Management processes and procedures included in the “Portfolio Delivery” cycle of Portfolio Management. At a minimum, the training will include:
- How to “in practice” ensure that both individual and portfolio level decisions are made based on the portfolio delivery strategy and plan
 - Options and recommendations to clearly identify and manage the benefits being realized from the portfolio including the contribution to operational performance and the alignment to CEA strategic objectives
 - Options and recommendations to ensure that the portfolio management processes and decisions are aligned to the financial management cycle and that financial considerations form a key element in all decisions
 - Options and recommendations to ensure consistent and effective management of the portfolio’s exposure to risk at both the individual and collective level
 - Options and recommendations to ensure that the needs of the portfolio’s stakeholders (both internal and external stakeholders) are identified and managed effectively
 - Options and recommendations to ensure portfolio management governance is aligned with the wider organizational governance structure enabling a clear understanding of all decisions
 - Options and recommendations to put in place mechanisms to understand and manage the amount of resources required to deliver changes
6. Provide recommendations for a specific Portfolio and Project Management software tool to be used by the CEA that will allow the Portfolio and Project Management Office to attain its primary goal of helping CEA IS align its project workload to meet the CEA’s strategic goals in an effective and efficient manner.

Because portfolio management initiatives cover a broad spectrum of process areas, it is important that the consultant examines the interoperability of solutions being evaluated before providing a recommendation. It is the CEA's expectation that the recommended tool will be properly mapped to the implemented management processes and easily adopted by the stakeholders.

At a minimum, this tool will provide:

- A dashboard capability for reporting projects progress across the entire portfolio (i.e. the ability to create a “big picture” report/view that provides management level status information for the project collection)
- A resource management capability that can illustrate each resource allocation across the portfolio in an efficient and easily understood manner
- A capability to calculate and track budget status
- A capability to calculate and track cost and schedule performance index for (CPI &SPI) all projects
- A capability to track at least 3 re-based lined schedules for each project
- A forecasting capability for resources, schedule, and cost
- Allow for the sorting, adding, and removal of items from the project collection based upon their benefits, set criteria, and alignment with long-term strategies and goals
- A capability to import and export information from standard CEA file formats such as MS Project, MS Excel, MS Word, MS SQL, etc

The CEA has attached a list of Functional Requirements to this RFQ (Exhibit 5) that includes a breakdown of requirements for the recommended software tool. These requirements are labeled from “Essential (high)”, “Important (medium)”, to “Desirable (low)”. The recommended solution must meet all essential requirements and most important requirements. The ideal solution will meet all requirements.

7. Consulting staff will work onsite with CEA IS resources a minimum of 16 hours per week for the duration of the project. The resources assigned by the consultant can only be replaced with a prior approval from the CEA's IS Director.
8. The successful consultant will be required to report project progress and status per the following guidelines:
 - Illustrate project progress by leveraging a resource loaded project schedule with clearly defined project milestones and deliverables
 - Conduct weekly 30 minute project status meetings with CEA IS staff to discuss progress, issues and delays
 - Meetings with CEA staff will be scheduled at least 1 week in advance, for the purpose of planning
 - Documents for review that are related to active project tasks should be submitted to CEA at least 3 days before each meeting

VII. Minimum Qualifications

Proposer must meet, to the CEA's satisfaction, all of the following minimum qualifications to be considered for contract award. Proposer must affirmatively attest to each of the minimum qualifications in Proposer's cover letter. Failure to satisfy all minimum qualifications, in the CEA's sole judgment, will result in rejection of the proposal.

1. Have been in business for a minimum of 10 years specializing in IS effectiveness improvement, with demonstrable and successful consulting in the area of U.S. property and casualty insurance operations; if the firm has not been in business for at least 10 years or does not have 10 years' worth of relevant, required experience, the senior principals of the firm must have a least 15 years combined experience with consulting firms that concentrated their practice in the fields noted above; and,
2. Have two or more references validating the successful implementation of portfolio and project management office and application controls. Samples of the following documents are required:
 - Policy and process procedural templates
 - Training material
 - Flowcharts

Note: The CEA's contract form typically prohibits a contractor from replacing key personnel without CEA's prior permission.

VIII. Pricing

Proposal must include a clear and complete fee and expense structure. The CEA will pay negotiated fees and expenses in arrears, as may be agreed. If CEA is asked to accept a minimum periodic fee, proposal must include a clear and complete periodic-fee structure.

IX. Submission Instructions

The proposal and cover letter, exclusive of attachments, must not exceed 18 single-sided pages. Attachments must not exceed 16 single-sided pages. All proposals must include the following elements, in the following order:

1. Cover Letter

The cover letter must be signed by a person authorized to bind the proposer contractually. The CEA will reject any proposal that contains an unsigned cover letter. The cover letter must also contain all of the following:

- The proposing firm's name, address, telephone and fax numbers, and Web address
- The name, title or position, telephone number, and email address of the person signing the cover letter and any other persons authorized to make representations for the proposer regarding the RFQ
- A statement that the signature constitutes unrestricted authority to bind the proposer contractually
- A statement that the firm is willing to be bound by contract provisions such as those outlined in Exhibit 1
- A statement that the proposal is a valid, open proposal for at least 90 days after the submission date
- A statement affirming that the proposer satisfies each of the Minimum Qualifications.
- A statement that the proposer has reviewed all addenda posted through the final addenda posting date shown on the "Summary of Key Dates."
- A statement that each key professional and each responsible staff member working on the contract is willing to be subject to a background check

2. Firm Background and History

- Location of firm headquarters
- Number of years the firm has been in existence in the same or substantially the same form and under the same trade name
- Total number of offices and employees (provide a breakdown of the number of professional, managerial, and support staff, respectively)
- Describe the firm's ownership and ownership structure
- Identify any affiliated or subsidiary organization(s)
- Identify pending or contemplated changes in the firm's organizational structure.
- Describe the types of services the firm provides (including, but not limited to, the services described in this RFQ) and reasonable details of the fee arrangements that typically apply
- Describe the firm's experience providing IS effectiveness improvement consulting services to governmental and non-governmental clients
- Disclose litigation or other legal proceedings in the past three years that your firm, or any officer or principal of your firm, has been involved in related to your firm's business activities. Explain the nature of each such litigation or legal proceeding, even if the matter has been resolved

- Provide the applicable coverage amounts for the following:
 - Errors-and-omissions insurance, if applicable
 - Any other applicable insurance
- List every institutional client for which the firm provided any of the services described in Section VI (Services to be Provided) of this RFQ that terminated its relationship with the proposing firm during the past four years. Provide the following information:
 - The name of the client
 - A full explanation of the reason(s) for termination of the relationship

3. Work Plan

This should describe how your firm will perform the proposed contract. Be specific and avoid generalizing. The work plan should address, without limitation, the following components, and should be organized so that it is clear, comprehensive, and concise.

- Identify the primary contact for the contract
- Describe your firm’s understanding of the work to be performed under this RFQ including addressing all project deliverables
- Identify any RFQ requirements which your firm believes are unnecessary
- Propose any alternatives that conform to this RFQ’s intent, that would lead to a better result, but which may not satisfy specific RFQ requirements
- Identify any “value-added” services your firm would provide to the CEA
- Detail any conflict of interest, or apparent or potential conflict of interest that would be created by your firm’s contracting with the CEA. Propose how to address or resolve these conflicts of interest
- Describe your firm’s policy for ensuring the confidentiality of its clients’ matters
- Define “client service” as it relates to your firm and describe mechanisms that are in place to solicit and respond to client feedback. Include your methodology to meet the specific service requirements included in this RFQ
- Name the management consulting professionals who would be assigned to the CEA account and list their responsibilities. For each member of the team assigned to the CEA account, provide a brief résumé that outlines the person’s education and relevant experience; include relevant certifications or credentials, and the length of time each has been held
- If the firm intends to use subcontractors to deliver any of the services outlined in Section VI (Services to be Provided), provide the information in f., g., h., and I regarding the proposed subcontractor(s)

4. Pricing

Price each section of the proposed work plan separately. For each task, for each contract period, specify the expected number of hours, the hourly rates, and the overall cost. If expected number of hours is unknown, provide the hourly rates.

The CEA will use the following information to analyze the reasonableness of the fees. Information is intended for internal CEA use, but certain CEA records are subject to public disclosure under the California Public Records Act and production under the Bagley-Keene Open Meetings Act. The CEA makes no representations or warranties that its efforts to keep records confidential will be successful.

- Itemize the direct labor costs using the following categories:
 - Staff billing, by title (e.g., partner, project manager, associate, clerical)

- Rate per hour for each staff member
- Itemize consultant and subcontract labor costs
- Itemize maximum costs for travel, lodging, and meals. Costs must be billed in accordance with the CEA’s travel policies as provided in Exhibit 2
- State any additional costs not previously covered in this section or state that there are no additional costs
- Total of fees and costs

5. Equal Employment Opportunity (EEO)

Describe the firm’s policies and programs that ensure compliance with state and federal Equal Employment Opportunity requirements.

6. Required Attachments

- Proposed fees labeled as “Required Attachment A”
- Drug-Free Workplace Certification labeled as “Required Attachment B”
- (see Exhibit 3)
- References labeled as “Required Attachment C” (see Exhibit 4)

Additional Information

The CEA will not be bound by any oral interpretation of this RFQ by any of its representatives or employees, unless those oral interpretations are subsequently issued as a written addendum to this RFQ.

Each proposer must make those arrangements necessary to become fully informed in advance of commencing work regarding all conditions and matters that, during the contract term, could affect the performance of contracted work. Any failure to fully investigate the scope of work or the foregoing conditions will not relieve the proposer from responsibilities for properly estimating the difficulty or cost to successfully perform the work. The CEA may request additional clarifying information from any proposer after the initial evaluation of the proposals.

X. Proposal-Evaluation Criteria

The purpose of the proposal-evaluation process is to: 1) determine whether the proposals satisfied the minimum qualifications, content, and format requirements; and 2) identify the proposers most likely to satisfactorily perform the services described. The evaluation process will be conducted in a comprehensive and impartial manner.

Each proposal package will be date-and time-stamped when received. Proposals received after the submission date and time will be returned unopened. Each timely proposal will be reviewed to determine whether it satisfies the minimum qualifications specified in Section VII. Proposals that meet the minimum qualifications will be evaluated and scored. The highest possible score is 100 points.

In addition, the consulting company will be evaluated in meeting following requirements:

- Approach to implementation and proven ability to execute on plans (defined in the Work Plan)
- Quality of project and process documentation including practical application training options (provide examples from a past project)
- Proven track record for success in implementing recommended methodologies with a scope similar to CEA’s requirements, and on a similar scale
- Intent of focus and quality of service to be provided to CEA during the contract’s duration

- Examples of success in post-implementation customer partnerships/relationship.
- Financial stability and degree of established business presence of the consulting company in the portfolio and project management marketplace.

Finalist Interviews

The CEA may invite finalists to interview at its office in Sacramento, California. All costs and expenses associated with preparing and submitting this RFQ, along with all travel costs related to the interview and contract-negotiation processes are the sole responsibility of the proposer.

Proposal Evaluation

Criteria and maximum score for the proposal are noted below:

CRITERIA	MAXIMUM POINTS
Work Plan	40
Qualifications, Firm Background, and History	30
Fee	20
Interview	5
References	5
TOTAL SCORE POSSIBLE	100

XI. Award of Opportunity to Contract

If, at any time during or at the conclusion of the RFQ process, the CEA determines that the results or prospects of this RFQ process are unsatisfactory, the CEA reserves the right to discontinue this process and decline to award an opportunity to contract. The final award of the opportunity to contract will be determined by the CEA’s management.

The opportunity to contract will be awarded to the most qualified proposer, after price and other factors have been considered, provided that accepting the proposal is reasonable and in the best interests of the CEA. The CEA reserves the right to reject any or all proposals and to waive any irregularities in the proposals received.

XII. Commencement Date

The commencement date is to be determined.

XIII. Exhibits

Exhibit 1 – Contract Terms

Certain standard terms of the California Earthquake Authority's (CEA) contract with the (Contractor) are summarized below:

The contract will include, but will not be limited to, the following provisions:

1. Services to be Performed

The complete description of services is provided in Attachment A: Statement of Work.

The CEA's Chief Operations Officer, or a designee of either will manage and direct Contractor's activities.

2. Ambiguities Not Held Against Drafter

Because this Agreement has been freely and voluntarily negotiated by the parties, Contractor and CEA agree that ambiguous contractual provisions will not be construed against the drafter.

3. Amendments

This Agreement can be amended only by mutual consent of the parties. No change in any term will be valid unless the change is in writing and signed by both Contractor and the CEA. No verbal agreement or understanding will bind either party.

4. Assignment; Delegation

Contractor must not assign any of its rights or delegate any of its duties under this Agreement without first obtaining the CEA's written consent. Any purported assignment or delegation by Contractor, in whole or in part, in violation of this section, is voidable at the sole option of the CEA.

5. Attorney Fees and Costs

In the event of litigation between the parties to enforce or interpret this agreement, the non-prevailing party must pay the reasonable attorney fees, costs for in-house counsel services, and actual and taxable costs of the prevailing party. These expenses must be paid in addition to any other relief to which the prevailing party may be entitled.

6. Audits

Contractor is subject to examination and audit by the Bureau of State Audits, the CEA, and CEA's representatives during the term of this Agreement and for three years after the final payment under this Agreement. Any examination or audit would be confined to matters connected with the performance of the required services, including, but not limited to, the costs of administering this Agreement. Contractor must cooperate fully with the Bureau of State Audits, CEA, and CEA's authorized representatives in any examination or audit. All adjustments, payments, and reimbursements determined necessary through any examination or audit must be made promptly by the appropriate party to this Agreement.

7. Changes in Control, Organization or Key Personnel

- Contractor must notify CEA in writing within five calendar days:
 - if any of Contractor’s representations or warranties ceases to be true;
 - of any change in Contractor’s staff who exercise a significant administrative, policy, or consulting role, including the Key Personnel (Attachment __);
 - of any change in the majority ownership, control, or business structure of Contractor;
 - of any other material change in Contractor’s business organization.
- All Contractor’s written notices under this provision must contain adequate information to permit CEA to evaluate the changes within Contractor’s personnel or organization under the same criteria used by CEA in its original selection of Contractor. Contractor must provide any additional information the CEA might request in connection with such written notices.

8. Choice of Law

This Agreement will be construed and enforced according to California law (without regard to conflict-of-law provisions). A party may sue only in the state court sitting in Sacramento, California. Suit includes any action to compel arbitration or enforce an arbitration award. Each party waives any claim that Sacramento is an inconvenient or improper forum or venue. Each party agrees that the courts named above will have in personam jurisdiction over it.

9. Compensation

- CEA will compensate the Contractor in accordance with Attachment B (Schedule and Fees). The consideration will compensate Contractor for all expenses Contractor incurs in its performance of services, including travel and per diem.
- Contractor guarantees the fees will not increase during the term of this contract.
- Correspondence from Contractor to CEA regarding payments or any related compensation matters must be sent to:

*California Earthquake Authority
801 K Street, Suite 1000
Sacramento, California 95814
Attn: Chief Operations Officer*

- **Billing and Invoicing.** Contractor must submit itemized monthly invoices in arrears for services already performed. The CEA will make no payments in advance of services rendered. Invoices must include:
 - Contractor’s name, address and telephone number
 - an itemized description of services, including a detailed cost breakdown; and
 - total amount of the invoice.
 - project: “Organization and Staffing Analysis”

Invoices must be addressed to:

*CEA
Accounts Payable
801 K Street, Suite 1000
Sacramento, CA 95814*

- Payment will not be due until the invoiced work is performed, correctly identified on the invoice, and accepted by the CEA. CEA will pay Contractor’s invoices as promptly as fiscal procedures permit.

10. Compliance with Laws

- The Contractor must comply with all applicable laws, including those laws specifically applicable because of its relationship to the CEA. Any references to federal or state statutes or regulations are also references to any amendments or successor provisions to those sections.
- **Permits and Licenses.** At its sole expense, Contractor must procure and fully maintain any permits and licenses necessary to accomplish the required services.
- **Additional Documents.** Contractor will execute any additional documents and perform any additional acts as might be reasonable and necessary to carry out the provisions of this Agreement.

11. Confidentiality

- In the course of its duties, the Contractor will gain knowledge of investment, financial, personal, personally-identifiable, technical, accounting, and statistical information pertaining to the CEA, its Governing Board and Advisory Panel and their members, CEA employees, contractors, vendors, agents, and policyholders (collectively, “Restricted Information”). All Restricted Information is strictly confidential unless the CEA expressly designates particular Restricted Information as non-confidential. Contractor must not directly or indirectly disclose any Restricted Information, or use it publicly in any way that requires its disclosure, either during or following the term of this Agreement, without the CEA’s advance written, specific permission.
- Contractor will not produce, reproduce, publish, or disseminate Restricted Information for its or any other person’s personal gain. For purposes of this Section 11, “person” means any person, association, organization, partnership, business trust, limited liability company, or corporation.
- Contractor will only release Restricted Information to its employees, representatives, contractors, or subcontractors, or to any other persons, who have been officially notified in writing that they are expressly binding themselves to maintain confidentiality of the Restricted Information. To the best of its ability, Contractor must affirmatively protect all Restricted Information from unauthorized use or disclosure.
- The Contractor’s disclosure of Restricted Information in violation of this provision is a material breach of contract
- Contractor understands that CEA is a public instrumentality of the State of California and that CEA’s and Contractor’s records might be subject to public disclosure and production pursuant to various laws, including but not limited to the California Public Records Act (Chapter 3.5, commencing with Section 6250) of Division 7 of Title 1 of the California Government Code) and the Bagley-Keene Open Meeting Act (Article 9, commencing with Section 11120, of Chapter 1 of Part 1 of Division 3 of Title 2 of the California Government Code). The CEA will notify Contractor promptly after receiving a request for disclosure of any documents or materials Contractor has designated as proprietary and confidential in the CEA’s possession. CEA will reasonably cooperate with Contractor, within the statutory framework and limitations on CEA’s duties under the applicable law, and at Contractor’s sole cost and expense, in Contractor’s efforts to protect its trade secrets and confidential information.

12. Conflicts of Interest

- **Contractor’s Warranty.** By its signature on this Agreement, Contractor warrants to CEA that no claimed, apparent, or actual conflict of interest exists on its part, or on the part of any principal, employee, contractor, or subcontractor, that would influence its:
 - advice and recommendations to the CEA;
 - statements made about the CEA to any person or entity;
 - activities performed on behalf of the CEA; or
 - decisions taken or enacted on behalf of the CEA.
- **Contractor’s Affirmative Duties to Disclose and Address Conflicts of Interest.**

The parties mutually intend and agree that the duty to disclose a claimed, apparent, or actual conflict, is Contractor’s sole, affirmative duty. Contractor’s failure to identify and disclose such a conflict of interest is a material breach of this Agreement and a default justifying Agreement termination, as the term “default” is used in Subsection (Termination for Contractor’s Default). The CEA has sole authority and discretion to determine at any time the import and significance of Contractor’s failure to identify and disclose any conflict of interest. Contractor must abide in good faith by any protocols developed by CEA before or during the term of this Agreement to identify, disclose, and address potential, apparent, and actual conflicts of interest. Contractor promises to provide the CEA with any requested information, documentation, and assurances, in writing if so requested, concerning any claimed, apparent, or actual conflict of interest.
- **Fair Political Practices Laws.** Contractor must not directly or indirectly receive any personal benefit from information obtained from the CEA, or received or provided on behalf of CEA. Contractor must disclose to CEA any personal investment or economic interest that may be enhanced or made more valuable by any recommendation made to or activity undertaken on behalf of the CEA. Contractor acknowledges that the CEA is subject to the provisions of the Fair Political Practices laws of California (Government Code Section 81000, et seq., and the regulations adopted under that law), and Contractor must comply with the requirements of that law and those regulations. If requested by CEA, designated Contractor personnel will file with CEA a Statement of Economic Interests in compliance with CEA’s Conflict of Interest Code (California Code of Regulations, Title 5, Part III, Chapter 1, Section 22000, et seq.).
- Neither Contractor, nor any of its subsidiaries, officers, or directors, may submit a bid or be awarded a contract to provide services to CEA, procure goods or supplies for CEA, or perform any related action that is an outgrowth of the investment services or advice Contractor provides CEA under this Agreement

13. Cumulative Remedies

The rights and remedies provided in this Agreement are cumulative and are not exclusive of any rights or remedies any party might otherwise have at law or in equity.

14. Drug-Free Workplace

Contractor will execute and return the certification in Attachment E with the signed Agreement. CEA may terminate the Agreement if the Contractor fails to comply with these drug-free workplace requirements.

15. Force Majeure

Neither party is liable for damages that result from delayed or defective performance when the delays arise from an event that is beyond the control and without the fault or negligence of the offending party. Force majeure events include, but are not restricted to, acts of a public enemy, acts of the State in its sovereign capacity, disabling strikes, epidemics, and quarantine restrictions.

Contractor is not excused for any delays or interruption in performance caused by events such as fires, floods, earthquakes, power failures, or freight embargoes; CEA relies on Contractor's statements and assurances in the Disaster Recovery Plan (Attachment F) and expects continuity of service during such events.

16. Indemnification

- Contractor must indemnify, defend, and save harmless the CEA, the CEA Governing Board and Advisory Panel, and all CEA officers, agents, and employees, from and against any and all losses, costs, liabilities, damages or deficiencies, including interest, penalties and attorney fees, arising from any claims of:
 - Contractor's breach of its promises, warranties, or other obligations; or
 - Contractor's acts or omissions constituting bad faith, willful misfeasance, negligence, or reckless disregard of its duties under this Agreement
- For purposes of this section 20, and in reference to the provisions of section 5 (Assignment; Delegation), a subcontractor's or Contractor's consultant's act or omission to act, whether under Contractor's permitted or unpermitted delegation under this Agreement or unrelated to any delegation, is considered for all purposes the act or omission of Contractor

17. Insurance

Contractor warrants that it maintains, or will obtain before commencing work under this Agreement, adequate liability and other necessary insurance, including such workers' compensation insurance as required by law, and promises to maintain that insurance at levels acceptable to the CEA at all times during the term of this Agreement. Contractor agrees to:

- maintain a liability insurance policy with limits of no less than \$1,000,000 per person / \$3,000,000 per occurrence, providing coverage for all of Contractor's activities;
- make CEA an additional named-insured in that policy, with right to notice of nonpayment of premium or cancellation of the policy;
- maintain adequate Errors and Omissions insurance, with limits of no less than \$1,000,000; and
- provide satisfactory evidence of insurance coverage to the CEA on request

By its signature on this Agreement, Contractor acknowledges that CEA has no obligation to provide workers' compensation insurance or employee benefits of any nature for Contractor or Contractor's employees or subcontractors.

18. Key Personnel

- Attachment D (“Key Personnel”) lists each person exercising a significant administrative, policy, or consulting role under this Agreement. Those personnel are referred to in this Agreement as “Key Personnel.”
- Contractor may not substitute, replace, or reassign Key Personnel without CEA’s advance written approval. With CEA approval, the parties may document a change in the Key Personnel, and that writing will then become part of this Agreement. All Key Personnel are expressly subject to the provisions of Sections 7 (Changes in Control, Organization or Key Personnel) and 20 (Notices).
- In its sole discretion, CEA can terminate this Agreement immediately, on written notice from CEA to Contractor, if Contractor changes any of its Key Personnel without the CEA’s agreement or if any one or more of the Key Personnel depart Contractor’s staff

19. Notice of Proceedings

Contractor must promptly notify the CEA in writing of any investigation, examination, or other proceeding commenced by any regulatory agency and involving Contractor, its subcontractors, or any of its Key Personnel that is not conducted in the ordinary course of Contractor’s business.

20. Notices

Any notice required or permitted by this Agreement is deemed given:

- on the date of personal delivery;
- three days after the mailing date if deposited with the U. S. Postal Service; or
- on the date of receipt as shown by written (or, if the record is contained only on a computer storage device, stored) evidence of delivery when delivered by Express Mail or overnight delivery service

No notice is effective if given only by facsimile machine (fax). Notices are to be directed to all the following representatives:

For CEA:

*California Earthquake Authority or
 801 K Street, Suite 1000
 Sacramento, California 95814
 Attn: Chief Operations Officer*

*California Earthquake Authority
 801 K Street, Suite 1000
 Sacramento, California 95814
 Attn: General Counsel*

For Contractor: _____

21. Publicity

Contractor must not release any publicity or announcement concerning this Agreement without the advance written approval of the CEA.

22. Record-keeping; Record Retention

Contractor will keep accurate and appropriate records to accomplish and document the services performed.

- Contractor will use reasonable efforts to ensure that books and records of any permitted subcontractors are accurately maintained; all such books and records must be made available for inspection and copying by CEA or its representatives on reasonable prior notice and during normal business hours. Contractor must maintain its CEA-related records separate and distinct from the records pertaining to other clients.
- All information, data, reports, and records associated with the CEA are the property of CEA and must be returned if requested at any time, and on termination or expiration of the Agreement. Contractor is permitted to keep copies of all such information, data, reports, and records Contractor requires, for three years after final payment on the Agreement.

23. Relationship of the Parties

- This Agreement creates a relationship of independent contractor. CEA is interested only in the results to be achieved under this Agreement; the conduct of the work will lie solely with the Contractor. The work Contractor performs under this Agreement, however, must meet the general approval of the CEA and will be subject to the CEA's general right of inspection and supervision to secure its satisfactory completion.
- Contractor's principals, employees, and contractors are not and will not be considered employees of CEA and are not entitled to any benefits provided by the CEA, or by the State of California, to its employees.

24. Reports

In addition to project deliverables, Contractor must provide other material that the CEA reasonably requests. Contractor will provide oral or written progress reports to:

- determine if Contractor is performing satisfactorily and timely;
- communicate interim findings; and
- facilitate discussion and resolution of issues

25. Rights in Work

- Neither Contractor, any subcontractor or other consulting staff employed by Contractor, has or will have any rights in any reports, data, documents, systems, or concepts (collectively, "Products") produced by Contractor for CEA. Only CEA has ownership of the Products that result from services provided under this Agreement. CEA reserves the right to give or otherwise release the Products.
- Contractor reserves all rights to its intellectual property (IP) that predates the work performed for CEA, and to coincidental improvements to its IP made during the performance of the work under this Agreement, to the extent that such IP and coincidental improvements are exclusive of the Products.
- CEA may grant Contractor the rights to publish results of its work in professional journals or as presentations at professional conferences, as specified with CEA's written approval for each publication proposed by Contractor.
 - CEA will not unreasonably withhold or delay approval or non-approval.
- All Products are, and will be considered for all purposes, works-for-hire, including for purposes of interpretation under U.S. Copyright Law, 17 U.S.C. §101, et seq. To the extent that the

Products are not construed as works-for-hire, Contractor will assign, and hereby does assign to the CEA, perpetually and without further consideration, all right, title, and interest to the Products. All right, title, and interest in the Products, and any copyright, patent, trade secret, or other proprietary right in the Products, are and shall be the sole property of the CEA.

- Contractor grants to the CEA a perpetual, worldwide, royalty-free license or sublicense to use, copy, maintain, or modify, or to sublicense others to use, copy, maintain, or modify, intellectual property developed by Contractor before the date of the parties' initial agreement to develop the Products (before January 1, 2008) and used by Contractor in connection with the development and production of the Products.
- Contractor will place in a "Source Code Escrow" the source code, object code, and documentation for all software used in connection with the development of the Products, and developed by Contractor for CEA after the date of the parties' initial agreement to develop the Products (after January 1, 2008). The source code, object code, and documentation for that software will be released to the CEA if the Contractor:
 - is dissolved or adjudged bankrupt;
 - is acquired by or merged with another business entity;
 - is in material breach of this Agreement;
 - is terminated for any reason; or
 - has completed services for CEA

26. Subcontractors

- Contractor must perform the work contemplated under this Agreement with resources available within its own organization. Contractor must not subcontract any part of its work under this Agreement without the advance written permission of the CEA. The parties must agree in advance on any subcontractor.
- Contractor must require in writing of any subcontractor that it be bound by all provisions of this Agreement

27. Taxes

CEA is exempt from Federal excise taxes and will make no payment for or in connection with personal property taxes levied on Contractor or taxes levied on or in connection with Contractor's compensation.

28. Termination

This Agreement can be terminated as follows:

- **Termination at the Option of the CEA.** This Agreement may be terminated in whole or in part, for any reason including the convenience of the CEA, and at any time with 30 days written notice by CEA. Despite any termination, and at its sole option, CEA can maintain this Agreement in effect for those transactions pending on the effective date of termination until those transactions are completed. Additionally, Contractor must take all steps specified by CEA to dispose of or otherwise administer any investments entered into under this Agreement. Upon its receipt of a termination notice from CEA, Contractor must promptly discontinue all services affected unless the notice specifies otherwise. If CEA terminates all or any part of this Agreement, CEA will pay Contractor for satisfactory services rendered before the termination, but not more than the maximum amount payable under applicable compensation provisions of this Agreement.
- **Termination for Contractor's Default.** In addition to any other termination right, CEA is entitled, with two days written notice to Contractor and without any prejudice to its other remedies, to terminate this Agreement because of Contractor's failure to fulfill any of its Agreement obligations – any such failure is termed Contractor's Default. Upon its receipt of any notice from CEA terminating this Agreement for Contractor's Default, Contractor must

immediately discontinue all services affected, unless the notice directs otherwise. Following a two-day notice of termination, CEA will pay Contractor only the reasonable value of its services rendered. In CEA's sole discretion and on any terms it chooses, CEA may offer Contractor an opportunity to address any default or cure any breach.

- Termination for Insolvency. Contractor must notify CEA in writing immediately if Contractor or any principal of Contractor:
 - files or is placed under federal bankruptcy laws,
 - files or becomes the subject of a state receivership action,
 - is adjudged bankrupt,
 - has a receiver appointed who qualifies,
 - makes an assignment for the benefit of creditors, or
 - is the subject of criminal investigation, indictment, or conviction

If any of the foregoing events occurs, or if CEA receives notice of any of the foregoing events, or if CEA reasonably determines there is a substantial probability that Contractor will be unable (financially or otherwise) to continue its performance, CEA is entitled to terminate this Agreement and all further rights and obligations immediately upon two days written notice.

- **Convenience** - If CEA gives Contractor a notice of termination for failure to fulfill Agreement obligations and it is later determined that Contractor had not so failed, the termination will be considered to have been for the convenience of the CEA
- **Completion** - If CEA terminates this Agreement for Contractor's Default, CEA reserves the right to take over and complete Contractor's work by any means. Contractor will pay the CEA for any additional costs CEA incurs to complete the work, to the extent that those additional costs were incurred due to Contractor's Default.

29. Termination, Effect of

- All duties and obligations of CEA and Contractor will cease on termination of this Agreement, except:
 - Each party will remain liable for any rights, obligations, or liabilities that arose or may arise from its activities under this Agreement before it effectively terminated; and
 - Those clauses named in Subsection 33.7 (Survival)
- Within 15 days after the effective termination date, Contractor will deliver to the CEA all CEA records and deliverables, whether prepared by Contractor or received by Contractor from a third party. The records and Products include, but are not limited to:
 - due diligence reports;
 - reports and data prepared by Contractor, subcontractor or consultants;
 - financial statements, investment performance data, and related reports and data systems prepared in connection with investment monitoring services;
 - products, modified software, manuals, custom scripts, code, and processes

Together, Contractor and CEA will determine an effective method and form to transfer the records and Products, and Contractor will deliver all records and property in usable form. Contractor will cooperate fully to ensure an orderly termination process and orderly transfer of services.

- Upon expiration or termination of this Agreement, Contractor will provide all reasonable assistance to transition CEA's records, accounts, funds, required services to CEAs subsequent service provider, without additional costs to CEA

30. Time Is of the Essence

Time is of the essence for delivery of services under this Agreement.

31. Waivers

A party's delay in exercising any right or privilege is not a waiver of any Agreement provision. Neither party's waiver, or single or partial exercise of any right or privilege will preclude any other or further exercise of any other right or privilege under this Agreement.

32. Warranties

The Contractor warrants its compliance with the following requirements:

- **Employees**
 - **Americans with Disabilities Act.** Contractor warrants that it complies with the Americans with Disabilities Act of 1990 (42 U.S.C. 12101, et seq. – the “ADA”) and all regulations and guidelines issued under the ADA.
 - **Fair Employment and Housing Act.** Contractor and subcontractors will comply with the provisions of the Fair Employment and Housing Act (Government Code section 12900 et seq.) and the related regulations (California Code of Regulations, Title 2, Section 7285.0 et seq.). The regulations of the Fair Employment and Housing Commission that implement Government Code section 12990, subdivisions (a) through (f) (Chapter 5 of Division 4 of Title 2 of the California Code of Regulations) are by this reference made a part of this Agreement.
 - **Nondiscrimination.** During the performance of this Agreement, Contractor and its subcontractors, and their agents and employees, will not unlawfully discriminate against, harass or allow harassment of any employee or applicant for employment because of sex, race, color, ancestry, religious creed, national origin, physical disability (including HIV and AIDS), mental disability, medical condition (including health impairments related to a diagnosis of cancer for which a person has been rehabilitated or cured), age (40 or over), marital status, denial of family and medical care leave, or denial of pregnancy disability leave. Contractors and subcontractors, and their agents and employees, must ensure that the evaluation and treatment of their employees and applicants for employment are free from those types of discrimination and harassment.

Contractor must include the nondiscrimination and compliance provisions of this clause in all permitted subcontracts to perform work under this Agreement.

- **Labor**
 - **Collective Bargaining.** Contractor and its subcontractors must give written notice of their obligations under this clause to all labor organizations with which they have a collective bargaining or other agreement, if any.
 - **National Labor Relations Board Certification.** Contractor affirms, under penalty of perjury, that no more than one final, finding of contempt of a Federal Court has been issued against Contractor within the immediately preceding two-year period because of Contractor's failure to comply with a Federal court's order to comply with a National Labor Relations Board order.
- **Standard of Care.** The personnel or subcontractors responsible for discharging Contractor's duties under this Agreement are experienced in the performance of the duties contemplated and will meet the appropriate standard of care;
- **Signature Authorization**

The execution and performance of this Agreement will not:

 - violate any provision of any charter document of the Contractor;
 - violate any statute or any judgment, decree, order, regulation, or rule of any court or governmental authority applicable to Contractor; or
 - violate, conflict with, constitute a default under, permit the termination of, or require the consent of any person under, any agreement to which Contractor may be bound, the occurrence of which would have a material adverse effect on the properties, business, prospects, earnings, assets, liabilities or financial or other condition of Contractor
- The person signing the Agreement warrants that he or she is an agent of the Contractor and is duly authorized to enter into the Agreement on behalf of the Contractor
- Contractor represents and warrants that it has the power and authority to enter this Agreement and carry out its obligations under this Agreement and it has duly authorized the execution of this Agreement, and no additional act of Contractor is necessary to authorize this Agreement. Contractor has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents, and examinations any government or governmental authority may require for its acts contemplated by this Agreement.
- Contractor warrants that it will promptly notify the CEA of any changes in Contractor's compliance with the warranties stated here, and agrees to restore the warranties, as the CEA in its discretion may require, if a lapse occurs. If the Contractor does not provide notice to the CEA to the contrary, the CEA has the absolute right to rely on the ongoing effectiveness of each warranty stated here.

- **Term of Agreement**
This Agreement is effective on Month Date, 2011 and its term expires on Month Date, 2011, unless terminated sooner in accordance with the provisions of Sections 28 (Termination). The CEA may extend this Agreement for the second and third years, without any increase in the fees. The CEA may extend this Agreement for the fourth and fifth years, with the increase in fees provided in Attachment B (Schedule and Fees)
- Despite the completion or termination of services, other contractual obligations, including audit, confidentiality, indemnification, record-retention, rights in work, and warranties will continue

33. Entire Agreement

- **This Agreement** (A) states all representations of and the entire understanding between the parties with respect to the subject of this Agreement and (B) replaces any prior correspondence, memoranda, or agreements.
- **Binding Effect** - This Agreement, and any instrument or further agreement executed pursuant to this Agreement, will bind the parties, their successors, assignees, and legal representatives.
- **Counterparts.** This Agreement may be executed in counterparts. Each counterpart is an original; all counterparts together are one instrument.
- **Incorporated Documents.** This Agreement consists of the terms of this Agreement and all attached documents that are expressly incorporated. The following schedules and attachments are attached and incorporated into this Agreement:
 - Attachment A: Scope of Work
 - Attachment B: Schedule and Fees
 - Attachment C: Service Expectations
 - Attachment D: Key Personnel
 - Attachment E: Drug-Free Workplace Certification
- **Order of Precedence.** For any inconsistencies or ambiguities in the terms of this Agreement and incorporated documents, the following order of precedence will be used:
 1. applicable laws;
 2. the terms and conditions of this Agreement, including attachments;
 3. any other provisions, terms, or materials incorporated into this Agreement.
- **Severability.** Should any court hold any provision of this Agreement to be void or unenforceable, the remaining provisions will remain in effect if they are still capable of performance
- **Survival.** Certain contractual obligations will survive completion of the work or termination of services. These include, but are not limited to: prevailing party's attorney fees and costs, audit compliance, confidentiality requirements, fiduciary obligations, indemnification, publicity limitation, record retention, rights to work, and warranties.
- **Titles / Section Headings.** Titles and section headings are not part of this Agreement.

Exhibit 2 - Travel Reimbursement for Contractors¹

1. Policy

The CEA will reimburse for the Contractor's necessary actual expenses incurred by when traveling on official CEA business, if contractually agreed. Contractor's travel must be pre-approved by the CEA department manager.

2. Required Information

All reimbursement requests must be typed, properly itemized, and accompanied by the required receipts. Reimbursement requests must be approved by the appropriate CEA contract manager.

- Reimbursement requests must provide the required information:
- CEA department manager's prior approval
- Purpose of business trip
- Claimant's name and address
- All appropriate expenses (airfare, hotel)
- Dates and times when expenses occurred
- Location where expenses occurred
- Signatures of claimant
- Any additional justification required

3. Receipts

Receipts are required for: (a) lodging; and (b) airfare – with travel agency or reservation receipt and passenger receipt)

Original receipts must be provided. Receipts must be pre-printed with the name of the business. Lodging receipts must show transaction dates and payment made. Airfare receipts must include agreements, invoices, passenger receipts, and ticket stubs.

4. 50-Mile Rule

No expenses (lodging or airfare) is allowed at any location within 50 miles of the claimant's business address, or within 50 miles of a claimant's primary residence.

All reimbursement requests must document the claimant's starting point of travel - either the business address or primary residence address.

5. Lodging Reimbursement

Subject to CEA policies for non-employees, the cost of lodging may be claimed if travel is pre-approved.

6. Airfare Reimbursement

The CEA will reimburse for the *least expensive* mode of transportation available. Determination of the least expensive mode of transportation will include consideration of air, rail, and bus travel as well as the

¹ Contractor travel policies are subject to revision.

Exhibit 3 - Drug-Free Workplace Certification

The proposer named above hereby certifies that, if awarded a contract, it will comply with Government Code Section 8355 in matters relating to providing a drug-free workplace. The above named proposer will:

1. Publish a statement notifying employees that unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited and specifying actions to be taken against employees for violations, by Government Code Section 8355(a).
2. Establish a Drug-Free Awareness Program as required by Government Code Section 8355(b).
 - The dangers of drug abuse in the workplace,
 - The person's or organization's policy of maintaining a drug-free workplace,
 - Any available counseling, rehabilitation and employees assistance programs, and
 - Penalties that may be imposed upon employees for drug abuse violations
3. Provide as required by Government code Section 8355(c) that every employee who works on the proposed contract:
 - Will receive a copy of the company's drug-free statement, and
 - Will agree to abide by the terms of the company's statement as a condition of employment on the contract or grant

CERTIFICATION

I, the official named below, hereby swear that I am duly authorized legally to bind the proposer to the above described certification. I am fully aware that this certification, executed on the date and in the county below, is made under penalty of perjury under the laws of the State of California.

Proposer's Authorized Signature

Title:

Date Executed:

In the County of:

Federal Identification Number:

Exhibit 4 - References

The proposer must provide at least three references the CEA may contact that have been clients of the proposer within the past three years, including the name, address, and telephone number of the client, the name and title of the contact person, and a general description of the services provided to each client.

Name of Firm #1:

Address:

Contact Person:

Phone: ()

Date and Dollar Value of Project:

Brief Description of Project:

Name of Firm #2:

Address:

Contact Person:

Phone: ()

Date and Dollar Value of Project:

Brief Description of Project:

Name of Firm #3:

Address:

Contact Person:

Phone: ()

Date and Dollar Value of Project:

Brief Description of Project

Exhibit 5 – Functional Requirements for Portfolio Management Tool

Functional Requirement	Description	Priority
Project Planning	Simplify and automate, to the greatest extent possible, the planning of projects including the collection, validation and distribution of project plans and status information, including the capability to track and manage tasks, milestones, timeliness, issues, dependencies, and resources.	Essential
Task and Event Scheduling	The software must provide graphic display of project scheduling and progress status. This display should allow for the use of PERT, GANTT, Critical Path, Critical Chain and/or other best-practice scheduling methodologies. At a minimum, detail should be developed on a task and milestone basis.	Essential
Project Profile	IS formatted project profile including at a minimum: a concise description of the business problem being addressed, the project approach, the benefits to be derived, the client constituency, estimated project costs and resources, estimated timeline, cost benefit analysis, and project approval status.	Important
Project Costing	Detailed projection of project costs including human resources, hardware and supplies, and other costs. Costs should be defined by major task or milestone to provide sufficient granularity to manage cost to deliverables.	Desirable
Time Reporting	Simplified, automated time reporting for IS resources to report their daily expended hours.	Important
Cost Tracking	Detailed tracking of actual costs by element of cost and task/milestone, in sufficient detail to track percent of budget expended versus percent of project completed.	Important
Resource Management	Automated and interactive capability to find and assign resources consistent with project requirements, flag and alert issues of resource over commitment or underutilization. Easy-to-use tools for automating and specifying initial resource utilization (by time period, project phase, or entire project), and subsequent automated and manual reallocations. Capability to assign and track unique resources to multiple projects and tasks, and flexible assignment of multiple resources to particular tasks.	Essential
Interdependency Management	Identification and management of interdependent items and variables across multiple unique projects. Includes the capability to manage issues, resources and project/task status across multiple projects. Scheduling and resource changes in one project which impact another project should automatically be reflected in the affected project, and these subsequent changes should be readily traceable to their causes.	Essential

Issue Management	Interactive and collaborative identification, management and disposition of issues (delays, failures, change in plan, change in specifications, etc.) across multiple projects. Including definitive issue resolution closeout, identification of changing issue ownership throughout the resolution process, and automatic logging and display of issue history. We would like this to be available to project team members and selected project stakeholders through web interface.	Important
Plan Version Control	Classic version control for each project allowing generational history files reflecting prior state and baseline plan.	Important
Document Management	Full document storage and management including collaboration and document version control. These should also be accessible to project team members and other selected people through each project’s web interface.	Essential
Portfolio Management	Automated capability to align projects by overall initiative, organizational structure, department, , or any other natural grouping that IS might find useful. Includes the ability to consolidate results and metrics (budgets, performance, timeliness, etc. by entity or portfolio).	Essential
Modeling	Full “what if” capability for modeling changes in resource availability, actual results, and any other event that might affect the outcome of a particular project. Includes full use of cascading capability, resource planning, and interdependency tools.	Desirable
Cascading	Automated flow-through of project and task changes through interrelated and interdependent projects to determine the potential effect of delays and failures. Effects of schedule changes and resource allocations in one project on other projects should be readily traceable to their original causes.	Essential
Metrics	Full array of management, financial and resources allocation/utilization indices.	Desirable
Lessons Learned	Consolidated repository of lessons learned for use in training and skills enhancement.	
Accountability Management	Full assignment of tasks and milestones to specific team members with contact information and acknowledgment (explicit handoff and acceptance).	Essential
Skills Inventory	Full inventory of technical, management, and personal skills for use in planning and resource management.	Desirable
Collaboration	Interactive collaboration capability for all planning, issues management and conflict resolution. Fully integrated with all management capabilities and tools such as modeling, document management, and version control.	Essential
Reporting	Automated reporting of project, task, milestone, and deliverable status. Customizable formats and accessibility options. Interactive roll-up and drill-down capability.	Essential
Alerting	Automated alerting and management of project and task status, issues, interdependencies, resource conflicts,	Important

	delays, failures, and cost overruns.	
Access	Secure real-time access to project and task level status reports for authorized Project Managers, project team members, IS management, and end-users.	Essential
Task Status/Updating	Notification of project task status to project and task managers including one-click updating of task status.	Essential
Validation	Provision for one-click validation/approval of status updates.	Essential
Escalation Procedures	Automated notification of unresolved issues that may affect project completion or that reside in the critical path. The escalation should be dynamic and user definable.	Desirable

Governing Board Memorandum

December 8, 2011

Agenda Item 12: 2012 CEA Business Implementation Plan

Recommended Action: Approve the 2012 CEA Business Implementation Plan

Background:

The CEA prepares an annual Business Implementation Plan (BIP) and accompanying budget to describe, organize, and support the business activities of the Authority. The BIP is the core used in developing the CEA's annual budget.

Analysis:

This year's BIP (*please see Attachment A: 2012 CEA Business Implementation Plan*) follows the general rules set out as Background above.

CEA department directors, supported by staff analysis, have built the proposed 2012 BIP, after assessing and accounting for activities in the 2011 BIP. In addition to initiatives new for 2012, the proposed 2012 BIP generally accounts for elements of the 2011 BIP that on account of changing business priorities have had to be delayed or were changed, or are ongoing or expanded processes.

Throughout 2012, CEA staff will update the Board on the BIP-implementation process.

Recommendation:

Staff recommends the Governing Board approve the proposed 2012 CEA Business Implementation Plan.

California Earthquake Authority

2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
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GOAL ONE: Earthquake Response/Claim Payment. *Provide excellent customer service – process claims promptly, fairly, and consistently.*

STRATEGY A: Enhance the CEA’s claim-handling guidelines and procedures.

1. Claim-Adjuster Training • Adjuster training – Sacramento	January 2012	Host annual CEA Claim Manager Conference.	Mitch Ziemer Dan Dyce	
2. Business Activity – Claims system testing	October 2012	Conduct testing of claims system with participating insurers.	Mitch Ziemer Dan Dyce	

STRATEGY B: Coordinate with other earthquake-response entities.

1. Establish and maintain communication and response protocols to coordinate CEA involvement in local-area assistance centers.	Ongoing	Support local-area assistance centers.	Bob Stewart Mitch Ziemer Annde Ewertsen	FEMA/CalEMA CDI
2. Review and update internal protocols for CEA earthquake response procedures.	Ongoing	Support collaboration among CEA staff and conduct ‘table-top exercises’ to ensure response procedures are documented, up-to-date and incorporate key activities such as the EARLE system.	Mitch Ziemer Dan Dyce	

STRATEGY C: Research to determine best practices in evaluation and repair of earthquake damage.

1. CEA Research Plan • Implement Board-approved research plan.	Ongoing	Administer Board-approved research projects: UCERF3 targeted for completion June 2012 and NGA2-West targeted for completion September 2012.	Bruce Patton	CEA-MRT
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GOAL TWO: Financial Strength. *Maximize CEA ability to pay all covered claims – maintain sufficient resources to continue as viable entity.*

STRATEGY A: Continuously explore possible enhancements to the financial layer structure that would strengthen the viability of the CEA.

1. Propose 2013 CEA financial structure , using best choices to maintain financial strength.	August 2012	Working with Financial Advisor and Advisory Panel, derive cost-efficient financial structure.	Tim Richison	Financial Advisor Advisory Panel Mark Simmonds Wayne Coulon
2. Propose and secure Board approval of 2013 CEA reinsurance program.	August 2012	Work with CEA reinsurance intermediary team to plan and achieve required reinsurance limits at lowest effective cost.	Tim Richison	Financial Advisor Reinsurance Intermediaries
3. Annual rating agency reviews • Financial-strength review with A.M. Best	Ongoing	Work with rating agencies to maintain CEA bond ratings and financial-strength rating	Tim Richison	Financial Advisor

California Earthquake Authority 2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
<ul style="list-style-type: none"> Bond-rating review with Moody's and Fitch. 		from A.M. Best of "A-minus (Excellent)," and a bond rating of A from Fitch and A3 from Moody's.		
4. Continue to study and update financial alternatives . <ul style="list-style-type: none"> Investigate financial structures, instruments of domestic and international catastrophe programs Research and monitor global financial markets for new financing vehicles and techniques 	Ongoing	Staff to collaborate with outside financial experts to find and develop financial alternatives for cost-effective claim-paying capacity.	Tim Richison Danny Marshall Joe Zuber	CEA Financial Advisor Other financial experts TBD
5. Evaluate CEA issuing catastrophe bonds as alternative risk-transfer.	Ongoing	Cat bond team is drawn from STO and outside experts in cat bonds and capital markets; includes work with CEA financial advisor.	Tim Richison Danny Marshall Joe Zuber	CEA Financial Advisor CEA Cat Bond Team
6. Procure vendors: <ul style="list-style-type: none"> Cash Management and Custody Banking 	November 2012	Procure custody banking services.	Mark Dawson Trudi Miller	
7. Evaluate effects of NAIC Model Audit Rule on the CEA.	Ongoing	Continue reviewing documentation and attend training to evaluate changes necessary to comply with NAIC's Model Audit Rule.	Tim Richison Mark Dawson	
8. Complete investment compliance project .	Ongoing March 2012	Procured investment-compliance software and are working with the contractor to permit the software to automatically evaluate CEA investment portfolio daily. Investment-Compliance Committee Charter under management review; will establish basis for investment-compliance, going forward.	Danny Marshall Niel Hall Rick Contreras	Investment-Compliance Contractor
9. Implement NAIC Model Audit Rule, Insolvency II, IFRS, and Basel III into CEA's financial systems.	December 2015	Develop implementation plan for transition, provide training to affected CEA personnel, and complete implementation of new accounting systems by year end 2011.	Tim Richison	
10. Pursue legislative activity on federal and state levels.	Ongoing	On federal level, continue to work for passage of a catastrophe obligation guarantee act as best means to secure more efficient financial capacity for CEA and other public earthquake-insurance programs; on state level, explore	Glenn Pomeroy Danny Marshall Susie Hernandez	Co-sponsors Contracted consultants Research organizations

California Earthquake Authority 2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
		legislative options to provide CEA with financial flexibility to support enhanced second-event capability. In each case, CEA-supported studies, research, and reports will inform the CEA's efforts; accordingly, seek likely participants and co-sponsors and commission such studies, etc., as needed.		
STRATEGY B: Periodically re-evaluate residential earthquake insurance rates based on scientific data and CEA financial metrics.				
1. Complete analysis of mitigation discount .	Ongoing	Continue re-evaluation of hazard reduction discount targeting a more robust mitigation discount.	Bob Stewart Mitch Ziemer Janiele Maffei Shawna Ackerman	CEA-MRT EQECAT PEER ATC
2. Complete rate analysis for all products – develop action plan to present to Advisory Panel Rate Sub-Committee and Board.	Ongoing	Rate analysis is ongoing, with comprehensive analysis annually at mid-year and year-end.	Bob Stewart Shawna Ackerman	EQECAT Advisory Panel Brian Deephouse Wayne Coulon
3. Continue to work with CEA actuary to update CEA's Dynamic Financial Analysis Model and Financial Model . <ul style="list-style-type: none"> Reflect new financial alternatives and products. 	Ongoing	Continue to improve DFA model.	Tim Richison Shawna Ackerman	
4. Implement CEA Research Plan .	2012	Board-approved research projects: UCERF3 targeted for completion June 2012 and NGA2-West targeted for completion September 2012.	Bruce Patton	CEA-MRT SCEC PEER Other outside researchers

GOAL THREE: Earthquake Insurance Products. *Encourage Californians to make informed decisions on purchase of earthquake insurance.*

STRATEGY A: Continuously explore options to enhance CEA insurance products.

1. Explore enhancements to CEA insurance products .	Ongoing	CEA staff is actively reviewing CEA products – review includes market research, the results of which will guide and allow enhancement of future product design.	Bob Stewart Mitch Ziemer Shawna Ackerman	Participating insurers Advisory Panel Mark Simmonds Wayne Coulon
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California Earthquake Authority 2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
STRATEGY B: Market CEA earthquake insurance based on informed choice.				
1. Continuously evaluate products to identify product enhancements to increase marketability of CEA products.	Ongoing	CEA will support cross functional efforts to gather insight from participating insurers, agents, consumers, and others to guide ongoing product development.	Bob Stewart Mitch Ziemer Shawna Ackerman	Consumer Research Contractor Advisory Panel
2. Expand CEA Marketing Value Program (MVP) into annualized, year-round effort to sell policies and increase preparedness: <ul style="list-style-type: none"> • Apply business-to-business approach to reach consumers through participating-insurer agents and producers. • Emphasize existing policyholder retention and new policyholder sales. • Communicate consumer offer / benefit: <ul style="list-style-type: none"> -Catastrophe product, -Financially solid, and -Participating insurer service expertise. • Utilize social science branding, message, marketing and policyholder research. • Conduct previous policyholder research. • Integrate online marketing strategy. • Provide marketing incentives for each agent registered fir MVP participation: <ul style="list-style-type: none"> -First flight participation available with no program obligation to agents appointed by participating insurers, and -Second flight participation available only to agents appointed by participating insurers who also have been trained by the CEA to sell earthquake insurance. • Cap participation in SEA's 2012 MVP at 5,000 agents for each flight. • Engage participating insurers in development of two flights of execution. • Send four mailings to CEA policyholders. 	2012	Ongoing input from Governing Board, Advisory Panel, and participating insurers.	Chris Nance	Communications Plan Contractor Advisory Panel Wayne Coulon Mark Simmonds

California Earthquake Authority 2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
<ul style="list-style-type: none"> • Seek cooperative marketing agreements from participating insurers. • Execute regionally to establish brand, share messages, and contain costs. • Integrate other earthquake preparedness stakeholders as appropriate. • Manage programming budgets that separate marketing and mitigation funds. • Integrate rollout of California Residential Mitigation Program. 				
<p>3. Identify measures to track and gauge marketing effectiveness (metrics):</p> <ul style="list-style-type: none"> • Expand utilization of media-buying software purchased in 2011: <ul style="list-style-type: none"> -Integrate online marketing strategy, -Drive Web site analytics, and -Demonstrate return-on-investment. • Produce year-round media plan. • Develop information systems to target and track marketing programming. 	Ongoing	The CEA will utilize software and subscriptions to reconcile media buys and will develop information systems to track the number of new CEA policies sold by trained agents participating in the CEA's MVP.	Chris Nance	Communications Plan Contractor Advisory Panel Jeffrey McCarty Jonathan Leong-alternate
<p>4. Expand CEA agent/producer outreach efforts.</p> <ul style="list-style-type: none"> • Meet routinely with participating-insurer marketing liaisons to share MVP updates. • Coordinate agent training through participating-insurer liaisons. • Use technology to deliver agent training more efficiently. • Enhance premium calculator options on CEA's Web site. • Provide agents with CEA-updated product-information brochures. • Continuously evaluate participating-insurers' use of CEA marketing materials. 	Ongoing	To share updates and collect meaningful input from participating-insurer marketing liaisons.	Chris Nance	Communications Plan Contractor Advisory Panel Bruce Johnson Mark Simmonds
<p>5. Further integrate strategic planning efforts, as appropriate, into Public Broadcast System</p>	Ongoing	The CEA will work with programming partners to produce local earthquake-recovery/reality	Chris Nance	Communications Plan Contractor

California Earthquake Authority 2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
"Totally Unprepared" programming partnership; determine whether extending programming is warranted.		online content and television broadcasts developed and marketed to generate local, online conversation.		Advisory Panel Jonathan Leong Pius Lee - alternate CalEMA CSSC
STRATEGY C: Conduct research to support product enhancement and marketing.				
1. Expand utilization of results from branding study beyond CEA.	Ongoing	To motivate more people to prepare for California's next damaging earthquake, social science experts recommend being on message through everyone, everywhere, all the time.	Chris Nance	Branding Study Contractor Advisory Panel Wayne Coulon-alternate CalEMA SCEC
2. Further develop regionally specific marketing strategies.	Ongoing		Chris Nance Bob Stewart	Product Research Contractor Advisory Panel Brian Deephouse Jeff McCarty-alternate
3. Conduct research on marketing activities for other, comparable insurance products for which similar marketing challenges have been addressed (e.g., flood insurance).	Ongoing	This research activity contributes to CEA's ongoing "SWOT" analysis – recognizing its strengths, weaknesses, opportunities and threats.	Chris Nance	Communications Plan Contractor Advisory Panel Mark Simmonds Jeff McCarty Wayne Coulon-alternate
GOAL FOUR: Earthquake Preparedness and Loss Mitigation. <i>Protecting life and property through preparedness and mitigation.</i>				
STRATEGY A: Continuously explore options to enhance CEA insurance products.				
1. Ensure CEA mitigation programs are evaluated for program- and cost-effectiveness.	Ongoing		Janiele Maffei	Mitigation Contractor Advisory Panel Rod Garcia Jonathan Leong Jeffrey McCarty-alternate
2. Work with earthquake mitigation stakeholders to earn their consideration of earthquake insurance as a component of financial preparedness.	Ongoing		Janiele Maffei	Advisory Panel Engineering groups Consumer groups
3. Reinforce new CEA brand through continued support of printing and distribution of	Ongoing		Chris Nance	Advisory Panel Rod Garcia

California Earthquake Authority 2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
mitigation materials developed by respected mitigation stakeholders.				Jonathan Leong Pius Lee-alternate
4. Participate and fund conferences, seminars, and workshops to support collaborative mitigation efforts.	Ongoing		Janiele Maffei	
5. Explore relationships with other established natural-hazard mitigation opinion leaders and stakeholders.	Ongoing		Janiele Maffei	Advisory Panel Rod Garcia Jonathan Leong
STRATEGY B: Support research to evaluate and improve the effectiveness of earthquake preparedness and mitigation efforts.				
1. Engage engineering contractor to quantify damage reduction to support earthquake-insurance mitigation discount.	Ongoing	Ongoing input from Governing Board, Advisory Panel, experts, and participating insurers.	Janiele Maffei Bob Stewart Bruce Patton	Mitigation Program Contractor Advisory Panel Rod Garcia Jonathan Leong Jeffrey McCarty-alternate
2. Conduct contents-mitigation programs that reinforce message research results and complement Residential Brace and Bolt Project.	Ongoing	Ongoing email updates; requests for input.	Janiele Maffei	Mitigation Program Contractor Advisory Panel Rod Garcia Jonathan Leong
3. Explore partnerships with relevant corporate interests in offering financial products to support consumers participating in the Residential Brace and Bolt Project.	Ongoing	Ongoing input from Governing Board, Advisory Panel, experts, and participating insurers.	Janiele Maffei	Mitigation Program Contractor Advisory Panel Jonathan Leong Wayne Coulon-alternate
STRATEGY C: Pursue funding to support CEA's consumer-education and mitigation programs.				
1. Work with federal, state, and private organizations to obtain pre- and post-event funding for earthquake mitigation programs.	Ongoing	The Residential Brace and Bolt Project is referenced in California's State Multi-Hazard Mitigation Plan, which exists to help to obtain pre- and post-event mitigation funding.	Janiele Maffei	Advisory Panel Jonathan Leong Pius Lee Wayne Coulon-alternate Participating insurers Other Public & Private Sources

California Earthquake Authority

2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
GOAL FIVE: Governance and Organizational Effectiveness. <i>Structure Board, Panel, and staff to maximize CEA's mission effectiveness.</i>				
STRATEGY A: Review the configuration of the CEA Governing Board and consider options to maximize its effectiveness.				
STRATEGY B: Clarify the role of the Advisory Panel and maximize its contribution to the CEA.				
1. Work with the Advisory Panel as it optimizes its appropriate role.	Process	Panel members periodically review CEA Business Implementation Plan and respond to staff requests for Panel-member participation.	Danny Marshall Susan Pitton	Advisory Panel
2. Update Advisory Panel handbook	Process (periodic)		Danny Marshall Susan Pitton	
STRATEGY C: Assess CEA workload – design and acquire optimal staffing configuration.				
1. Collaborate with CEA Board and other stakeholders to analyze and develop action plan relating to organization and staffing analysis completed by PwC.	Ongoing	Areas of focus will include creation of a new business model, augmentation of HR capabilities, additional staff members possessing required functional expertise, addition of a Chief Information Officer (CIO) and Chief Risk Officer (CRO), and other recommendations resulting from the analysis.	Executive Staff	Governing Board Advisory Panel Participating Insurers
2. Legal internship	2012	Placement of a legal intern with experience in New Zealand (and Christchurch 2010) earthquake claims, to develop expertise in catastrophe planning, insuring and response, as well as the regulatory atmosphere and initiatives in California and nationally. Intern will work with directors of each department to acquire an in-depth understanding of CEA's organization and functions.	Danny Marshall	Council for Educational Travel USA
STRATEGY D: Continue maximizing organizational effectiveness.				
1. Establish records management and retention program. <ul style="list-style-type: none"> • Research, review, and recommend document retention best-practices standards 	In process 2011-2012	Consultant procurement in completion stages, with implementation to begin and proceed throughout early 2012.	Danny Marshall Niel Hall Rick Contreras	

California Earthquake Authority 2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
2. Review CEA governance documents , including Plan of Operations and the Procedures and Accounting Manuals, to ensure documents are up-to-date.	Process	CEA governance documents are in need of updating periodically, to reflect regulatory revisions and changes in operating procedures. The review will aid process improvements.	Bob Stewart Mike Melavic Danny Marshall Mitch Ziemer	All CEA department heads
3. Enhance IS effectiveness by developing and implementing portfolio and project management principles and practices, including internal audit and financial controls in a sustainable and efficient manner.	December 2012	Project will be led by a consulting firm specializing in IS effectiveness selected as a result of a competitive procurement.	Bob Stewart Mike Melavic	Consulting firm (TBD)
4. Identify, develop, and implement insurance data system fixes and enhancements , including any system modifications needed to meet the business requirements of a CEA rate filing.	Ongoing	CEA Information Services staff will identify opportunities to refine the EPICenter to maximize system effectiveness and promote the ease of doing business with the CEA.	Bob Stewart Mike Melavic	
5. Complete internal audit review and establish internal audit program (responding to independent audit finding).	Ongoing	PwC consultants have interviewed CEA employees at management and staff levels and are engaged in drafting a "right sized" internal audit program for the CEA, under the guidance of CEA's chief auditor; program will be operational in early 2012 and proceed.	Danny Marshall Rick Contreras	Consulting Firm
STRATEGY E: Collaborate with stakeholders and partners.				
1. Inform external organizations about CEA.	Ongoing		Executive Staff	Advisory Panel
2. Participate in conferences and events that further CEA goals.	Ongoing		Executive Staff	
3. Continue to strengthen communication with external stakeholders (such as Legislative and Congressional staff; consumer groups; participating insurers; federal, state and regional agencies; and university resources).	Ongoing		Executive Staff	Advisory Panel

California Earthquake Authority 2012 Business Implementation Plan

Business Activity	Date	Status/Comments	Leader	Outside Resources
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Abbreviations:

AIR	Applied Insurance Research
ATC	Applied Technology Council
CalEMA	California Emergency Management Agency (formerly OES (California Governor's Office of Emergency Services))
Cal-Tech	California Institute of Technology
CDC	California Department of Conservation
CDI	California Department of Insurance
CEA	California Earthquake Authority
CEA-MRT	California Earthquake Authority – Multidisciplinary Research Team
CGS	California Geological Survey
CMO	Chief Mitigation Officer (CEA position)
CSSC	Alfred E. Alquist California Seismic Safety Commission
CUREE	Consortium of Universities for Research in Earthquake Engineering
FEMA	Federal Emergency Management Agency
GIS	Geographic Information System
HSU	Humboldt State University
NAIC	National Association of Insurance Commissioners
NEIC	New Earthquake Information Center (CEA database)
NGA	Next-Generation Attenuation
PEER	Pacific Earthquake Engineering Research Center
RMS	Risk Management Solutions
SCEC	Southern California Earthquake Center
STO	California State Treasurer's Office
TBD	To be determined
UCERF	Uniform California Earthquake-Rupture Forecast
USGS	United States Geological Survey

Governing Board Memorandum

December 8, 2011

Agenda Item 13: 2012 CEA Budgets: Insurance Services

Recommended Action: Approve 2012 Insurance Services Budget

Background:

The CEA staff prepares and submits to the Governing Board an annual budget, based on all anticipated expenses for the next calendar year¹, that aligns with the Board's Strategic Plan and the associated year's Business Implementation Plan.

Analysis:

2012 Insurance Services Budget

Staff has prepared five attachments to assist the Board in comparing and analyzing the 2011 and 2012 budgets for insurance services.

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2011 Budget Year**
 - This attachment shows:
 - a. the December Board-approved 2011 Budget,
 - b. budget adjustments throughout the year,
 - c. budget augmentations throughout the year,
 - d. augmented/adjusted approved 2011 budget,
 - e. actual expenses through October 31, 2011,
 - f. projected expenses for the months of November and December, 2011,
 - g. actual and projected expenses at December 31, 2011,
 - h. a comparison of augmented, adjusted, approved budget to actual and projected expenses at December 31, 2011, and
 - i. percentage of used augmented and adjusted approved 2011 budget.
- **Attachment B: Proposed 2012 Insurance Services Budget**
 - This attachment shows the proposed 2012 insurance services budget, constructed as necessary to fulfill the CEA's 2012 Business Implementation Plan.
- **Attachment C: 2011 Actual and Projected Expenses Compared to Proposed 2012 Budget**
 - This attachment shows the actual and projected expenses for 2011 and compares them to the proposed 2012 budget.

¹ The CEA fiscal year is the calendar year.

- **Attachment C-1: 2012 Insurance Services Budget Analysis**
 - This attachment analyzes differences between the actual and projected expenses for 2011 and the proposed 2012 budget.

Operating Expenses: Comparison of projected expense to statutory cap²

The operating-expense portion of the proposed 2012 budget is \$11,406,204, which is less than the 3% of (projected) premium income cap, as detailed below:

Projected 2012 written premium:	\$ 685,731,000
Statutory operating-expense cap (percentage)	3%
Statutory operating-expense dollar cap for 2012	\$ 20,571,930
Proposed 2012 operating expense budget	\$ 11,406,204
Amount by which cap exceeds proposed budget	\$ 9,165,726

Recommendation:

Staff recommends that the Board take the following actions:

Approve the:

- proposed 2012 Insurance Services budget, and
- direct staff to operate CEA business within the total approved budget amounts.

² California statute 10089.2(c) requires that the CEA's operating-expenses are limited to 3% of premium income received.

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budgeted Expenditures and Actual Expenditures
2011 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f)	(g) (g=e+f)	(h) (h=d-g)	(i) (i=g/d)
	Approved 2011 Budget 12/9/2011	Adjustments thru 12/31/2011	Augmentations thru 12/31/2011	2011 Budget after Augmentations and adjustments	Actual Expenditures as of 10/31/11	Projected Expenditures 11/1/2011 to 12/31/2011	Actual and Projected Expenses at 12/31/11	Augmented & Adjusted Approved Budget (d) vs. Actual & Projected Expenses (g) at 12/31/11	Percentage used of Augmented & Adjusted Approved 2011 Budget
Salaries & Benefits	8,383,706	-	-	8,383,706	6,234,960	1,426,663	7,661,623	722,083	91.39%
Rent	699,880	-	-	699,880	529,661	105,932	635,593	64,287	90.81%
Travel	381,152	-	-	381,152	279,502	55,900	335,402	45,750	88.00%
Non-paid Consultant Travel	842	7,225	-	8,067	7,566	500	8,066	1	99.99%
Telecommunications	191,986	41,000	-	232,986	179,005	53,702	232,707	279	99.88%
Training	122,923	39,000	-	161,923	150,922	10,746	161,668	255	99.84%
Insurance	126,362	17,000	-	143,362	143,078	-	143,078	284	99.80%
Board/Panel Services	19,015	1,000	-	20,015	16,484	3,297	19,781	234	98.83%
Administration & Office (Software Maint & Support, Printing & Stationery, Postage)	918,718	-	-	918,718	751,534	139,618	891,152	27,566	97.00%
Administrative Contracted Services									
Data Mgmt Services	778,096	(105,225)	-	672,871	402,642	90,528	493,170	179,701	73.29%
Other Administrative Contracted Services	40,208	-	-	40,208	31,483	6,297	37,780	-	93.96%
Furniture/Equipment	27,300	14,000	-	41,300	25,004	16,001	41,005	295	99.29%
EDP Hardware/Software	583,638	(14,000)	-	569,638	82,114	33,557	115,671	453,967	20.31%
Dept of Insurance Examination	55,000	-	-	55,000	24,128	4,826	28,954	26,046	52.64%
Total Operating Expenses	12,328,826	-	-	12,328,826	8,858,083	1,947,567	10,805,650	1,520,748	87.65%
Consulting Services									
Actuarial	25,000	-	-	25,000	-	-	-	25,000	0.00%
Claims	10,000	-	-	10,000	-	-	-	10,000	0.00%
Information Technology	50,000	(32,721)	-	17,279	5,000	1,000	6,000	11,279	34.72%
Financial Consulting	175,000	125,615	-	300,615	202,596	98,019	300,615	-	100.00%
Other Consulting Services	1,387,000	107,106	-	1,494,106	1,220,088	274,018	1,494,106	-	100.00%
Total Consulting Services	1,647,000	200,000	-	1,847,000	1,427,684	373,037	1,800,721	46,279	97.49%
Research	1,018,000	-	-	1,018,000	1,018,000	-	1,018,000	-	100.00%
Contracted Services									
Agent Services	50,000	-	-	50,000	-	-	-	50,000	0.00%
Audit Services	125,000	-	-	125,000	125,000	35,000	160,000	(35,000)	128.00%
Brochure/Information Products	25,000	-	-	25,000	175	-	175	24,825	0.70%
Communications	110,000	-	-	110,000	-	-	-	110,000	0.00%
Consumer Services	50,000	-	-	50,000	-	-	-	50,000	0.00%
Contracted Marketing & Outreach	390,000	-	-	390,000	348,065	-	348,065	41,935	89.25%
Dynamic Financial Analysis	-	-	-	-	-	-	-	-	0.00%
Investment Compliance	200,000	-	-	200,000	-	-	-	200,000	0.00%
Legal Services-Claims Counsel	200,000	(200,000)	-	-	-	-	-	-	0.00%
Legal Services-Claims Counsel-PI	-	267,625	-	267,625	267,625	-	267,625	-	100.00%
Legal Service - Non-Claims	2,707,690	-	-	2,707,690	2,238,082	447,616	2,685,698	21,992	99.19%
Modeling Services	1,451,000	-	-	1,451,000	417,892	248,578	666,470	784,530	45.93%
Marketing Services	5,288,360	-	-	5,288,360	1,657,646	2,300,000	3,957,646	1,330,714	74.84%
Web Development/Maintenance	30,975	-	-	30,975	-	-	-	30,975	0.00%
Other Contracted Services	999,900	(267,625)	-	732,275	258,965	51,793	310,758	421,517	42.44%
Total Contracted Services	11,627,925	(200,000)	-	11,427,925	5,313,450	3,082,987	8,396,437	3,031,488	73.47%
Investment Expenses	2,455,000	(219,000)	-	2,236,000	1,559,519	336,904	1,896,423	339,577	84.81%
Financing Expenses	10,999,793	219,000	-	11,218,793	9,348,627	1,869,725	11,218,352	441	100.00%
Reinsurance	225,555,000	-	-	225,555,000	169,668,605	35,714,170	205,382,775	20,172,225	91.06%
Total Expenditures	265,631,544	-	-	265,631,544	197,193,968	43,324,390	240,518,358	25,113,186	90.55%

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Proposed 2012 Budget

	(a)	(b)	(c)	(d) (d=a+b+c)
	2012 Insurance Services Budget	2012 Approved Concepts Adjusted for full year	2012 Requested Budget Changes	2012 Adjusted Insurance Services Budget
Salaries & Benefits	\$ 7,661,623	\$ 200,000 154,000		\$ 8,015,623
Rent	635,593			635,593
Travel	335,402			335,402
Non-paid Consultant Travel	8,066			8,066
Telecommunications	232,707			232,707
Training	161,668			161,668
Insurance	143,078			143,078
Board/Panel Services	19,781			19,781
Administration & Office (Software Maint & Support, Printing & Stationery, Postage)	891,152		146,554	1,037,706
Administrative Contracted Services				
Data Mgmt Services	493,170			493,170
Other Administrative Contracted Services	37,780			37,780
Furniture/Equipment	41,005			41,005
EDP Hardware/Software	115,671		100,000	215,671
Dept of Insurance Examination	28,954			28,954
Total Operating Expenses	\$ 10,805,650	\$ 354,000	\$ 246,554	\$ 11,406,204
Consulting Services				
Actuarial	25,000			25,000
Claims	-			-
Information Technology	6,000		150,000 800,000	956,000
Financial Consulting	300,615			300,615
Other Consulting Services	1,494,106		70,000	1,564,106
Total Consulting Services	\$ 1,825,721	-	\$ 1,020,000	\$ 2,845,721
Research	1,018,000	-		1,018,000
Contracted Services				
Agent Services	-			-
Audit Services	160,000			160,000
Brochure/Information Products	175			175
Communications	-			-
Consumer Services	-			-
Contracted Marketing & Outreach	348,065			348,065
Investment Compliance	-			-
Legal Services-Claims Counsel	200,000			200,000
Legal Services-Claims Counsel-PI	-			-
Legal Service - Non-Claims	2,685,698			2,685,698
Modeling Services	666,470			666,470
Marketing Services	8,908,714		331,000	9,239,714
Media Services	137,000			137,000
Web Development/Maintenance	-			-
Other Contracted Services	310,758		365,000	675,758
Total Contracted Services	\$ 13,416,880	-	\$ 696,000.00	\$ 14,112,880.00
Commissions	68,573,084			68,573,084
PI Operating Costs	21,189,083			21,189,083
Investment Expenses	2,077,067			2,077,067
Financing Expenses	8,864,057			8,864,057
Risk Transfer	200,453,436			200,453,436
Total Expenditures	\$ 328,222,978	\$ 354,000	\$ 1,962,554	\$ 330,539,532

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Proposed 2012 Budget

	(a)	(b)	(c)	(d)
	2012 Insurance Services Budget	2012 Approved Concepts Adjusted for full year	2012 Requested Budget Changes	(d=a+b+c) 2012 Adjusted Insurance Services Budget
Salaries & Benefits	7,661,623	200,000 154,000		8,015,623
Rent	635,593			635,593
Travel	335,402			335,402
Non-paid Consultant Travel	8,066			8,066
Telecommunications	232,707			232,707
Training	161,668			161,668
Insurance	143,078			143,078
Board/Panel Services	19,781			19,781
Administration & Office (Software Maint & Support, Printing & Stationery, Postage)	837,706		200,000	1,037,706
Administrative Contracted Services				
Data Mgmt Services	493,170			493,170
Other Administrative Contracted Services	37,780			37,780
Furniture/Equipment	41,005			41,005
EDP Hardware/Software	115,671		100,000	215,671
Dept of Insurance Examination	28,954			28,954
Total Operating Expenses	10,752,204	354,000	300,000	11,406,204
Consulting Services				
Actuarial	25,000			25,000
Claims	-			-
Information Technology	6,000		150,000 800,000	956,000
Financial Consulting	300,615			300,615
Other Consulting Services	1,494,106		70,000	1,564,106
Total Consulting Services	1,825,721	-	1,020,000	2,845,721
Research	1,018,000	-		1,018,000
Contracted Services				
Agent Services	-			-
Audit Services	160,000			160,000
Brochure/Information Products	175			175
Communications	-			-
Consumer Services	-			-
Contracted Marketing & Outreach	348,065			348,065
Investment Compliance	-			-
Legal Services-Claims Counsel	200,000			200,000
Legal Services-Claims Counsel-PI	-			-
Legal Service - Non-Claims	2,685,698			2,685,698
Modeling Services	666,470			666,470
Marketing Services	8,908,714		331,000	9,239,714
Media Services	137,000			137,000
Web Development/Maintenance	-			-
Other Contracted Services	310,758		365,000	675,758
Total Contracted Services	13,416,880	-	696,000	14,112,880
Commissions	68,573,084			68,573,084
PI Operating Costs	21,189,083			21,189,083
Investment Expenses	2,077,067			2,077,067
Financing Expenses	8,864,057			8,864,057
Risk Transfer	200,453,436			200,453,436
Total Expenditures	\$ 328,169,532	\$ 354,000	\$ 2,016,000	\$ 330,539,532

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budget Comparison
2011 Actual and Projected Expenses to 2012 Budget

Attachment C

	Actual and Projected Expenses at 12/31/11	Proposed 2012 Budget	Difference	% Change
Salaries & Benefits	7,661,623	\$ 8,015,623	\$ 354,000	5%
Rent	635,593	635,593	-	0%
Travel	335,402	335,402	-	0%
Non-paid Consultant Travel	8,066	8,066	-	0%
Telecommunications	232,707	232,707	-	0%
Training	161,668	161,668	-	0%
Insurance	143,078	143,078	-	0%
Board/Panel Services	19,781	19,781	-	0%
Administration & Office (Software Maint & Support, Printing & Stationery, Postage)	891,152	1,037,706	146,554	16%
Administrative Contracted Services				
Data Mgmt Services	493,170	493,170	-	0%
Other Administrative Contracted Services	37,780	37,780	-	0%
Furniture/Equipment	41,005	41,005	-	0%
EDP Hardware/Software	115,671	215,671	100,000	86%
Dept of Insurance Examination	28,954	28,954	-	0%
Total Operating Expenses	10,805,650	11,406,204	600,554	6%
Consulting Services				
Actuarial	-	25,000	25,000	100%
Claims	-	-	-	100%
Information Technology	6,000	956,000	950,000	15833%
Financial Consulting	300,615	300,615	-	0%
Other Consulting Services	1,494,106	1,564,106	70,000	5%
Total Consulting Services	1,800,721	2,845,721	1,045,000	58%
Research	1,018,000	1,018,000	-	0%
Contracted Services				
Agent services	-	-	-	100%
Audit Services	160,000	160,000	-	0%
Brochure/Information Products	175	175	-	100%
Communications	-	-	-	100%
Consumer Services	-	-	-	100%
Contracted Marketing and Outreach	348,065	348,065	-	0%
Dynamic Financial Analysis	-	-	-	100%
Investment Compliance	-	-	-	100%
Legal Services-Claims Counsel	-	200,000	200,000	100%
Legal Services-Claims Counsel-PI	267,625	-	(267,625)	(100%)
Legal Service-Non-Claims	2,685,698	2,685,698	-	0%
Modeling Services	666,470	666,470	-	0%
Marketing Services	3,957,646	9,239,714	5,282,068	133%
Media Services	-	137,000	137,000	100%
Web Development/Maintenance	-	-	-	0%
Other Contracted Services	310,758	675,758	365,000	117%
Total Contracted Services	8,396,437	14,112,880	5,716,443	68%
Commissions	-	68,573,084	68,573,084	100%
PI Operating Costs	-	21,189,083	21,189,083	100%
Investment Expenses	1,896,423	2,077,067	180,644	10%
Financing Expenses	11,218,352	8,864,057	(2,354,295)	(21%)
Risk Transfer	205,382,775	200,453,436	(4,929,339)	(2%)
Total Expenditures	\$ 240,518,358	\$ 330,539,532	\$ 90,021,174	37%

California Earthquake Authority
Insurance Services
Proposed 2012 Budget

The 2012 Insurance Services budget proposes a spending level of \$330,539,532, which represents an increase of \$90,021,174 (37%) from the 2011 budget. The 2012 budget is comprised of projected and actual amount for 2011 in addition to items that received Board approval during a previous Board meeting and items staff is requesting additional budget funds.

The 2012 budget increase of \$90,021,174 is almost entirely the result of adding to the 2012 budget the categories of Commissions (\$ 68,573,084) and PI Operating Costs (\$ 21,189,083). These two categories have not previously been in the budget as the expenses were related to policy premiums from policies sold by Participating Insurers. Staff made a decision to have CEA's budget reflect all expenses of the entity which resulted in the inclusion of these two categories for 2012. The remaining \$259,007 budget increase is the product of lower reinsurance premiums, lower debt financing costs, and the additions indicated in the explanations below.

Several 2011 budget categories related to marketing have been combined into "Marketing Services" and "Media Services" for 2012. The remaining marketing related categories are still in the 2012 budget with no budget monies.

The following are explanations of additions to the budget categories for the 2012 insurance operations budgets (positive numbers in parentheses () indicate an expenditure decrease in the 2012 budget as compared to the 2011 budget):

Salaries and Benefits: \$354,000

The increase is related to the Insurance Director position and the Staff Counsel III position that were filled in November of 2011.

Administration & Office: \$146,554

New software, Litigation Hold provides a template for legal hold and tracking of litigation matters, maintenance of Statpro for 2012, Bloomberg (investment compliance software) to work with the current compliance software (Statpro) to give attributes of the investment portfolio.

EDP Hardware & Software: \$100,000

Purchasing the EQE modeling software will allow the CEA to test alternate product and rating structures on a less costly and more efficient basis. Additionally, the ability for in-house modeling will allow the CEA to monitor the effect of exposure growth and changes in the portfolio on a more frequent basis.

Consulting Services: \$1,045,000

The consulting services budget will increase for the following reasons:

Information Technology: \$950,000

CEA will utilize a consulting firm to lead the project for Information Services (“IS”) Effectiveness Plan. CEA IS will also improve its business model with the use of a pool of pre-approved development consultants.

Other Consulting Services: \$70,000

This increase is for marketing consulting for strategic consultation and concepts for marketing initiatives and activities prior to finalizing any projects and/or programs.

Contracted Services: \$5,716,443

The contracted services budget will increase for the following reasons:

Legal Services-Claims Counsel – PI: (\$267,625)

This category was new in 2011.

Marketing Services: \$5,282,068

The Board approved the rollover of unspent funds from the 2011 MVP, which are approximately \$1.3 million. The Board also approved \$7.715 million in funding for the 2012 MVP. There were several projects that were not completed in 2011 and a few contracts that will have expiration dates in 2012. Examples of projects not yet complete include the Digital Press kit, PDR snapshots, new brochures, online marketing planning and post-event creative for approximately \$178,000.

Media Services: \$137,000

This category is new for 2012 that will contain projects associated with earned media and public affairs programming. This category will contain rollover funding of \$137,000 from 2011 for the Totally Unprepared Project and EIAA programming that are continuing into 2012.

Other Contracted Services: \$365,000

Additional contracted services for compliance which will be a primary focus of the CEA Legal & Compliance Department throughout 2012. Records management and a hotline service are one of seven components of an effective Compliance Program as identified in the U.S. federal guidelines.

Commissions: \$68,573,084

This is a new category to the 2012 budget which represents the expense associated with the commissions paid to PI’s on CEA policies.

PI Operating Costs: \$21,189,083

This is a new category to the 2012 budget which represents the expense associated with the operating costs paid to PI's on CEA policies.

Investment Expenditures: \$180,664

These are the additional fees that will be needed to manage the additional income CEA will earn during 2012.

Financing Expenses: (\$2,354,295)

This decrease reflects the reduction in interest expense CEA is required to pay during 2012. The CEA makes a principle reduction payment each year on the CEA's Revenue Bonds which reduces the outstanding balance of the bonds and the amount the interest calculation is based on.

California Earthquake Authority
Insurance Services
Proposed 2012 Budget

The 2012 Insurance Services budget proposes a spending level of \$330,539,532, which represents an increase of \$90,021,174 (37%) from the 2011 budget. The 2012 budget is comprised of projected and actual amount for 2011 in addition to items that received Board approval during a previous Board meeting and items staff is requesting additional budget funds.

The following are explanations of additions to the budget categories for the 2012 insurance operations budgets (positive numbers in parentheses () indicate an expenditure decrease in the 2012 budget as compared to the 2011 budget):

Salaries and Benefits: \$345,000

The increase is related to a full year of salary and benefits for the Insurance Director position and the Staff Counsel III position that were filled in November of 2011.

Administration & Office: \$146,554

This amount is comprised of:

- New software, Litigation Hold provides a template for legal hold and tracking of litigation matters,
- maintenance of Statpro (investment compliance software) for 2012,
- Bloomberg (investment compliance software) to work with the current compliance software (Statpro) to give attributes of the investment portfolio.

EDP Hardware & Software: \$100,000

This increase is related to purchasing the EQE earthquake modeling software that will allow the CEA to test alternate product and rating structures on a less costly and more efficient basis. Additionally, the ability for in-house modeling will allow the CEA to monitor the effect of exposure growth and changes in the portfolio on a more frequent basis.

Consulting Services: \$1,045,000

The consulting services budget will increase for the following reasons:

Information Technology: \$950,000

CEA will utilize a consulting firm to lead the project for Information Services (“IS”) Effectiveness Plan. CEA IS will also improve its business model with the use of a pool of pre-approved development consultants.

Other Consulting Services: \$70,000

This increase is for marketing consulting for strategic consultation and concepts for marketing initiatives and activities prior to finalizing any projects and/or programs.

Contracted Services: \$5,716,443

The contracted services budget will increase for the following reasons:

Legal Services-Claims Counsel – PI: (\$267,625)

This category was new in 2011 and relates to legal expenses incurred by the Participating Insurers for CEA claims.

Marketing Services: \$5,282,068

The Board approved the rollover of unspent funds from the 2011 MVP, which are approximately \$1.3 million. The Board also approved \$7.715 million in funding for the 2012 MVP. There were several projects that were not completed in 2011 and a few contracts that will have expiration dates in 2012. Examples of projects not yet complete include the Digital Press kit, *Putting Down Roots* (PDR) snapshots, new brochures, online marketing planning and post-event creative.

Media Services: \$137,000

This category is new for 2012 that will contain projects associated with earned media and public affairs programming. This category will contain rollover funding of \$137,000 from 2011 for the Totally Unprepared Project and Earthquake Insurance Affordability Act programming that are continuing into 2012.

Other Contracted Services: \$365,000

Additional contracted services for compliance which will be a primary focus of the CEA Legal & Compliance Department throughout 2012. Records management and a hotline service are one of seven components of an effective Compliance Program as identified in the U.S. federal guidelines.

Commissions: \$68,573,084

This is a new category to the 2012 budget which represents the expense associated with the commissions paid to Participating Insurer's on CEA policies.

PI Operating Costs: \$21,189,083

This is a new category to the 2012 budget which represents the expense associated with the operating costs paid to Participating Insurer's on CEA policies.

Investment Expenditures: \$180,664

These are the additional fees that will be needed to manage the additional income CEA will earn during 2012.

Financing Expenses: (\$2,354,295)

This decrease reflects the reduction in interest expense for CEA's revenue bonds sold in 2006 which CEA is required to pay during 2012. The CEA makes a principle reduction payment each year on the CEA's Revenue Bonds which reduces the outstanding balance of the bonds and the amount the interest due.

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to September 30, 2011

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
98010	Chino	1/5/1998	4.3	3 mi. W of Chino	1	\$1,385.72	\$124.71	\$1,510.43
98050	San Juan Bautista	8/12/1998	5.3	7 mi. SSE of San Juan Bautista	1	161,204.93	13,643.13	\$174,848.06
98070	Redding	11/26/1998	5.2	3 mi. NNW of Redding	1	4,029.72	362.67	\$4,392.39
	1998 Minor Quakes				2	4,199.20	377.93	\$4,577.13
99050	Hector Mine	11/16/1999	7.0	28 mi. N of Joshua Tree (near Palm Springs)	25	137,361.81	12,362.47	\$149,724.28
	1999 Minor Quakes				1	4,037.26	363.35	\$4,400.61
00030	Napa	9/3/2000	5.2	17 mi. ESE of Santa Rosa; 6 mi. NNE of Sonoma; 3 mi. WSW of Yountville	15	278,130.07	25,031.71	\$303,161.78
01010	Ferndale	1/13/2001	5.4	53 mi. WNW of Ferndale	1	34,764.54	3,128.79	\$37,893.33
	2001 Minor Quakes				1	52,896.82	4,760.70	\$57,657.52
01040	West Hollywood	9/9/2001	4.2	West Hollywood	10	67,044.15	6,033.94	\$73,078.09
	2002 Minor Quakes				1	8,361.24	752.51	\$9,113.75
03090	San Simeon	12/22/2003	6.4	7 mi. NE of San Simeon	84	2,692,628.02	242,339.74	\$2,934,967.76
04120	Parkfield	9/28/2004	6.0	7 mi SSE of Parkfield	1	7,032.59	632.93	\$7,665.52
07240	Chatsworth	8/9/2007	4.5	4 mi NNW of Chatsworth	1	7,813.88	703.24	\$8,517.12
07250	Alum Rock	10/30/2007	5.6	5 mi NNE of Alum Rock	1	6,149.20	553.42	\$6,702.62
08280	Chino Hills	7/29/2008	5.4	5.5 mi SE of Diamond Bar	8	156,781.38	14,110.29	\$170,891.67
09320	Calexico	12/30/2009	5.9	22.7 mi SE of Calexico	1	275.88	24.83	\$300.71
	2009 Minor Quakes				1	4,839.51	435.56	\$5,275.07
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	2	22,153.62	1,993.83	\$24,147.45
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	15	46,166.44	4,109.25	\$50,275.69
	Total				173	\$3,697,255.98	\$331,845.00	\$4,029,100.98

Claims History Report Glossary

Event Code: A 5 digit code that the CEA assigns to all earthquakes expected to produce paid losses. This code is used to track statistics for a particular earthquake.

Event Name: This is generally the name given to the earthquake by the USGS (United States Geological Survey).

Date of Event: Date that the earthquake occurred.

Magnitude: Richter scale magnitude assigned by USGS.

Location: This is assigned by USGS and is usually a city close to the earthquake.

of Paid Claims: A numeric count of the claims that received a payment for damage caused by a particular earthquake.

Losses Paid: Total dollar amount of all claims paid to the policyholders for a particular earthquake.

LAE Paid: "LAE" stands for Loss Adjustment Expense which is always 9% of paid losses. This is the amount paid to the Participating Insurers for handling the claim.

Total Paid Losses and ALE: The sum of Losses Paid and LAE Paid.

Minor Quakes: Losses paid for damage from minor earthquakes that were initially not expected to generate a claim and therefore were not issued a CEA event code.

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2011 - Policies in Force on: 10/31/2011

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowner							
15% Total	592,225	72.1 %	252,391,023,327	85.6 %	489,760,998	81.0 %	827
10% Total	61,070	7.4 %	28,731,126,063	9.7 %	64,122,050	10.6 %	1,050
Homeowner Total	653,295	79.6 %	281,122,149,390	95.3 %	553,883,048	91.6 %	848
Manufactured Homes (Mobilehomes)							
15% Total	21,117	2.6 %	2,186,834,882	0.7 %	2,132,509	0.4 %	101
10% Total	3,980	0.5 %	583,949,336	0.2 %	510,537	0.1 %	128
Manufactured Homes (Mobilehomes) Total	25,097	3.1 %	2,770,784,218	0.9 %	2,643,046	0.4 %	105
Condo Total	102,170	12.4 %	9,493,020,000	3.2 %	41,010,770	6.8 %	401
Renter Total	40,631	4.9 %	1,475,515,000	0.5 %	7,079,342	1.2 %	174
Grand Total	821,193	100.0 %	294,861,468,608	100.0 %	604,616,206	100.0 %	736

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2011 - Policies in Force on: 10/31/2011

HOMEOWNER	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	592,225	90.7 %	244,942,403,827	87.1 %	452,586,528	81.7 %	764
BCU 20k	61,505	9.4 %	615,050,000	0.2 %	1,652,356	0.3 %	27
Coverage C 25k	30,813	4.7 %	616,260,000	0.2 %	5,367,461	1.0 %	174
Coverage C 50k	21,079	3.2 %	948,555,000	0.3 %	5,275,111	1.0 %	250
Coverage C 75k	10,251	1.6 %	717,570,000	0.3 %	3,238,686	0.6 %	316
Coverage C 100k	33,142	5.1 %	3,148,490,000	1.1 %	13,213,654	2.4 %	399
Coverage D 10k	38,836	5.9 %	330,106,000	0.1 %	2,018,338	0.4 %	52
Coverage D 15k	79,451	12.2 %	1,072,588,500	0.4 %	6,408,862	1.2 %	81
15% Total	592,225	90.7 %	252,391,023,327	89.8 %	489,760,998	88.4 %	827
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	61,070	9.3 %	25,643,161,063	9.1 %	51,333,291	9.3 %	841
BCU 20k	13,283	2.0 %	132,830,000	0.0 %	330,993	0.1 %	25
Coverage C 25k	9,928	1.5 %	198,560,000	0.1 %	1,642,437	0.3 %	165
Coverage C 50k	7,436	1.1 %	334,620,000	0.1 %	1,555,761	0.3 %	209
Coverage C 75k	4,273	0.7 %	299,110,000	0.1 %	1,077,541	0.2 %	252
Coverage C 100k	17,113	2.6 %	1,625,735,000	0.6 %	5,932,601	1.1 %	347
Coverage D 10k	13,465	2.1 %	114,452,500	0.0 %	535,832	0.1 %	40
Coverage D 15k	28,345	4.3 %	382,657,500	0.1 %	1,713,594	0.3 %	60
10% Total	61,070	9.3 %	28,731,126,063	10.2 %	64,122,050	11.6 %	1,050
Homeowner Total	653,295	100.0 %	281,122,149,390	100.0 %	553,883,048	100.0 %	848

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2011 - Policies in Force on: 10/31/2011

MANUFACTURED HOMES (MOBILEHOMES)	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	21,117	84.1 %	1,996,468,382	72.1 %	2,019,398	76.4 %	96
Coverage C 25k	1,662	6.6 %	33,240,000	1.2 %	22,459	0.8 %	14
Coverage C 50k	1,136	4.5 %	51,120,000	1.8 %	18,912	0.7 %	17
Coverage C 75k	347	1.4 %	24,290,000	0.9 %	6,653	0.3 %	19
Coverage C 100k	466	1.9 %	44,270,000	1.6 %	10,856	0.4 %	23
Coverage D 10k	1,769	7.0 %	15,036,500	0.5 %	23,629	0.9 %	13
Coverage D 15k	1,660	6.6 %	22,410,000	0.8 %	30,602	1.2 %	18
15% Total	21,117	84.1 %	2,186,834,882	78.9 %	2,132,509	80.7 %	101
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	3,980	15.9 %	419,434,836	15.1 %	442,862	16.8 %	111
Coverage C 25k	1,201	4.8 %	24,020,000	0.9 %	11,928	0.5 %	10
Coverage C 50k	989	3.9 %	44,505,000	1.6 %	12,463	0.5 %	13
Coverage C 75k	325	1.3 %	22,750,000	0.8 %	4,441	0.2 %	14
Coverage C 100k	430	1.7 %	40,850,000	1.5 %	7,366	0.3 %	17
Coverage D 10k	1,263	5.0 %	10,735,500	0.4 %	11,335	0.4 %	9
Coverage D 15k	1,604	6.4 %	21,654,000	0.8 %	20,142	0.8 %	13
10% Total	3,980	15.9 %	583,949,336	21.1 %	510,537	19.3 %	128
Manufactured Homes (Mobilehomes) Total	25,097	100.0 %	2,770,784,218	100.0 %	2,643,046	100.0 %	105

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2011 - Policies in Force on: 10/31/2011

CONDO	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage A/BCU 10k	72,114	70.6 %	2,523,990,000	26.6 %	6,383,707	15.6 %	89
Coverage C 5k/D 1.5k	36,043	35.3 %	234,279,500	2.5 %	3,271,028	8.0 %	91
Coverage C 5k ¹	7,844	7.7 %	39,220,000	0.4 %	738,899	1.8 %	94
Coverage C 25k	13,844	13.5 %	346,100,000	3.6 %	2,706,756	6.6 %	196
Coverage C 50k	11,972	11.7 %	598,600,000	6.3 %	2,656,650	6.5 %	222
Coverage C 75k	5,919	5.8 %	443,925,000	4.7 %	1,445,864	3.5 %	244
Coverage C 100k	11,469	11.2 %	1,146,900,000	12.1 %	2,890,693	7.0 %	252
Coverage D 1.5k ²	7,297	7.1 %	10,945,500	0.1 %	0	0.0 %	0
Coverage D 10k	14,876	14.6 %	148,760,000	1.6 %	196,621	0.5 %	13
Coverage D 15k	28,875	28.3 %	433,125,000	4.6 %	459,309	1.1 %	16
Coverage E 25k	2,953	2.9 %	73,825,000	0.8 %	719,061	1.8 %	244
Coverage E 50k	61,977	60.7 %	3,098,850,000	32.6 %	17,500,705	42.7 %	282
Coverage E 75k	5,260	5.1 %	394,500,000	4.2 %	2,041,476	5.0 %	388
Condo Total	102,170	100.0 %	9,493,020,000	100.0 %	41,010,770	100.0 %	401

¹Policies that have a Coverage C limit of 5k and a Coverage D limit >1.5k

²Policies that have a Coverage D limit of 1.5k and a Coverage C limit >5k

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2011 - Policies in Force on: 10/31/2011

RENTER	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage C 5k/D 1.5k	15,815	38.9 %	102,797,500	7.0 %	1,524,868	21.5 %	96
Coverage C 5k ¹	3,268	8.0 %	16,340,000	1.1 %	326,270	4.6 %	100
Coverage C 25k	9,339	23.0 %	233,475,000	15.8 %	1,941,398	27.4 %	208
Coverage C 50k	6,394	15.7 %	319,700,000	21.7 %	1,489,539	21.0 %	233
Coverage C 75k	2,039	5.0 %	152,925,000	10.4 %	531,094	7.5 %	260
Coverage C 100k	3,776	9.3 %	377,600,000	25.6 %	952,086	13.4 %	252
Coverage D 1.5k ²	4,785	11.8 %	7,177,500	0.5 %	8	0.0 %	0
Coverage D 10k	6,993	17.2 %	69,930,000	4.7 %	100,050	1.4 %	14
Coverage D 15k	13,038	32.1 %	195,570,000	13.3 %	214,029	3.0 %	16
Renter Total	40,631	100.0 %	1,475,515,000	100.0 %	7,079,342	100.0 %	174

¹Policies that have a Coverage C limit of 5k and a Coverage D limit >1.5k

²Policies that have a Coverage D limit of 1.5k and a Coverage C limit >5k

California Earthquake Authority

Historical Risk-Transfer Costs

Risk-Transfer Limits

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
Traditional Reinsurance					
2011	Contract #1 (1/1/2011 - 12/31/2011)	\$200,000,000 xs	\$3,300,000,000	8.1500%	\$16,300,000
	Contract #2 (1/1/2011 - 12/31/2011)	\$1,300,000,000 xs	\$3,500,000,000	7.5000%	\$97,500,000
	Contract #3 (1/1/2011 - 3/31/2012)	\$500,000,000 xs	\$4,500,000,000	6.2000%	\$31,000,000
	Contract #3a (1/1/2011 - 12/31/2011)	\$200,000,000 xs	\$4,500,000,000	6.0000%	\$12,000,000
	Contract #4 (65% placed) (1/1/2011 - 3/31/2012)	\$650,000,000 xs	\$5,000,000,000	5.5000%	\$35,750,000
	Contract #4a (5% placed) (4/1/2011 - 3/31/2012)	\$50,000,000 xs	\$5,000,000,000	5.5000%	\$2,062,500
	Total	\$2,900,000,000 xs	\$3,300,000,000	6.7108%	\$194,612,500
Percent Change from Previous Year		-7.13%		-6.24%	-12.92%
Transformer Reinsurance					
	Contract #1 (8/2/2011 - 8/8/2014)	\$150,000,000 xs	\$3,287,000,000	7.783%**	\$5,987,394 *
2010	Contract #1	\$202,500,000 xs	\$3,300,000,000	9.2500%	\$18,731,250
	Contract #2	\$1,000,000,000 xs	\$3,500,000,000	8.5500%	\$85,500,000
	Contract #3	\$275,000,000 xs	\$4,250,000,000	7.7000%	\$21,175,000
	Contract #4	\$300,000,000 xs	\$4,500,000,000	6.8000%	\$20,400,000
	Contract #5 (97.10% placed)	\$200,000,000 xs	\$4,800,000,000	6.5000%	\$12,623,000
	Contract #6 (94.05% placed)	\$250,000,000 xs	\$5,000,000,000	6.2500%	\$14,695,313
	Contract #7 (79.62619% placed)	\$1,150,000,000 xs	\$5,250,000,000	5.5000%	\$50,363,565
	Total	\$3,122,526,185 xs	\$3,300,000,000	7.1573%	\$223,488,128
Percent Change from Previous Year		0.73%		13.96%	14.79%
2009	Contract #1	\$500,000,000 xs	\$3,500,000,000	7.7500%	\$38,749,846
	Contract #2	\$500,000,000 xs	\$4,000,000,000	6.9999%	\$34,999,384
	Contract #3	\$200,000,000 xs	\$4,500,000,000	5.9600%	\$11,920,000
	Contract #4	\$100,000,000 xs	\$4,700,000,000	5.8000%	\$5,800,000
	Contract #5	\$200,000,000 xs	\$4,800,000,000	5.5400%	\$11,080,000
	Contract #6	\$200,000,000 xs	\$5,000,000,000	5.3100%	\$10,620,000
	Contract #7 Backup Reinsurance for Transformer	\$250,000,000 xs	\$5,160,000,000	6.9900%	\$17,475,000
	Contract #8	\$650,000,000 xs	\$5,410,000,000	4.9938%	\$32,460,000
	Contract #9 Backup Reinsurance for Transformer	\$400,000,000 xs	\$6,000,000,000	6.6500%	\$26,600,000
	Contract #10	\$100,000,000 xs	\$6,060,000,000	4.9938%	\$4,993,846
	Total	\$3,100,000,000 xs	\$3,500,000,000	6.2806%	\$194,698,076
Percent Change from Previous Year		85.96%		-26.36%	5.71%

(Combined base & Supplemental)

* 2011 premium is amortized for five months of 2011.

** Annualized rate-on-line for the 3-year period of the contract.

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
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Base-Limits

2008	Combined Reinsurance Contract #1	\$300,000,000	xs	\$3,600,000,000	9.8000%	\$29,400,000	
	Combined Reinsurance Contract #2	\$1,367,000,000	xs	\$3,900,000,000	8.2500%	\$112,777,500	
Total		\$1,667,000,000	xs	\$3,600,000,000	8.5289%	\$142,177,500	
Percent Change from Previous Year		-11.58%			5.77%	-6.48%	
2007	Collateralized Reinsurance Contract (2006-2007)	\$350,000,000	xs	\$3,600,000,000	6.9500%	\$24,325,000	
	Reinsurance Layer 1	\$150,000,000	xs	\$3,950,000,000	15.0000%	\$22,500,000	
	Reinsurance Layer 2	\$50,000,000	xs	\$4,100,000,000	12.5000%	\$6,250,000	
	Collateralized Reinsurance Contract (2007)	\$125,000,000	xs	\$4,150,000,000	11.5000%	\$14,375,000	
	Reinsurance Layer 3	\$20,000,000	xs	\$4,275,000,000	11.0000%	\$2,200,000	
	Reinsurance Layer 4 (79.45953% placed)	\$1,200,000,000	xs	\$4,300,000,000	7.1000%	\$0	
	Reinsurance Layer 5 (79.47738% placed)	\$298,000,000	xs	\$5,500,000,000	6.2000%	\$0	
Total		\$1,885,356,952	xs	\$3,600,000,000	8.0639%	\$152,033,760	
Percent Change from Previous Year		7.37%			24.19%	33.33%	
2006	Collateralized Reinsurance Contract (2005-2006)	\$300,000,000	xs	\$3,300,000,000	7.0000%	\$21,000,000	
	Collateralized Reinsurance Contract (2006-2007)	\$350,000,000	xs	\$3,600,000,000	6.9500%	\$24,325,000	
	Collateralized Reinsurance Contract	\$30,000,000	xs	\$3,950,000,000	6.8000%	\$2,040,000	
			\$680,000,000	xs	\$3,300,000,000	6.9654%	\$47,365,000
	Base-Limit Coverage Reinsurance Contract Insurance In Force Adjustment	\$1,076,000,000	xs	\$4,006,000,000	6.0000%	\$64,560,000 \$2,100,000	
Total		\$1,756,000,000	xs	\$3,300,000,000	6.4935%	\$114,025,000	
Percent Change from Previous Year		17.07%			5.83%	23.89%	

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium		
2005	Collateralized Reinsurance Contract (2005-2006)	\$300,000,000	xs	\$3,300,000,000	7.0000%	\$21,000,000	
	First Transformer Layer (2004-2005)	\$150,000,000	xs	\$3,600,000,000	7.2500%	\$10,875,000	
	MLCRC First Reinsurance Layer	\$550,000,000	xs	\$3,750,000,000	5.7500%	\$31,625,000	
		\$1,000,000,000	xs	\$3,300,000,000	6.3500%	\$63,500,000	
	Second Transformer Layer (2004-2005)	\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
	MLCRC Second Reinsurance Layer	\$300,000,000	xs	\$4,817,000,000	4.3500%	\$13,050,000	
		\$500,000,000	xs	\$4,617,000,000	4.8100%	\$24,050,000	
	Insurance In Force Adjustment ¹					\$4,484,662	
	Total		\$1,500,000,000	xs	\$3,300,000,000	6.1356%	\$92,034,662
	Percent Change from Previous Year		0.00%		-8.51%	-8.51%	
2004	MLCRC First Reinsurance Layer	\$700,000,000	xs	\$2,900,000,000	7.8500%	\$54,950,000	
	First Transformer Layer (2004-2005)	\$150,000,000	xs	\$3,600,000,000	7.2500%	\$10,875,000	
	MLCRC Second Reinsurance Layer	\$150,000,000	xs	\$3,750,000,000	6.3500%	\$9,525,000	
		\$1,000,000,000	xs	\$2,900,000,000	7.5350%	\$75,350,000	
	Second Transformer Layer (2004-2005)	\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
	MLCRC Third Reinsurance Layer	\$300,000,000	xs	\$4,817,000,000	4.7500%	\$14,250,000	
		\$500,000,000	xs	\$4,617,000,000	5.0500%	\$25,250,000	
	Total		\$1,500,000,000	xs	\$2,900,000,000	6.7067%	\$100,600,000
	Percent Change from Previous Year		-2.47%		-6.40%	-8.72%	
	2003	MLCRC Coverage A	\$600,000,000	xs	\$2,900,000,000	8.8000%	\$52,800,000
MLCRC Coverage B		\$400,000,000	xs	\$3,500,000,000	7.2500%	\$29,000,000	
		\$1,000,000,000	xs	\$2,900,000,000	8.1800%	\$81,800,000	
Transformer Layer		\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
MLCRC Coverage C		\$338,000,000	xs	\$4,817,000,000	5.1500%	\$17,407,000	
		\$538,000,000	xs	\$4,617,000,000	5.2801%	\$28,407,000	
Total			\$1,538,000,000	xs	\$2,900,000,000	7.1656%	\$110,207,000
Percent Change from Previous Year			-21.98%		6.99%	-16.53%	

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
2002	First Aggregate	\$1,433,620,000	xs \$3,436,000,000	7.2500%	\$82,187,450
	First Aggregate (\$200M part of)	\$1,433,620,000	xs \$3,436,000,000	7.1400%	\$14,280,000
	First Aggregate (\$100M part of)	\$1,433,620,000	xs \$3,436,000,000	5.9900%	\$5,990,000
		\$1,433,620,000	xs \$3,436,000,000	7.1468%	\$102,457,450
	Second Aggregate	\$537,607,500	xs \$5,326,000,000	5.5000%	\$29,568,413
	Total	\$1,971,227,500	xs \$3,436,000,000	6.6976%	\$132,025,863
	Percent Change from Previous Year	0.00%		-13.69%	-13.69%
2001	First Aggregate	\$1,433,620,000	xs \$3,130,000,000	8.5000%	\$96,357,700
	First Aggregate (\$200M part of)	\$1,433,620,000	xs \$3,130,000,000	7.5000%	\$15,000,000
	First Aggregate (\$100M part of)	\$1,433,620,000	xs \$3,130,000,000	5.9900%	\$5,990,000
		\$1,433,620,000	xs \$3,130,000,000	8.1854%	\$117,347,700
	Second Aggregate	\$537,607,500	xs \$5,281,000,000	6.6250%	\$35,616,497
	Total	\$1,971,227,500	xs \$3,130,000,000	7.7598%	\$152,964,197
	Percent Change from Previous Year	-21.43%		-17.31%	-35.03%
2000	First Aggregate	\$1,433,620,000	xs \$2,843,000,000	8.5000%	\$104,857,697
	First Aggregate (\$200M part of)	\$1,433,620,000	xs \$2,843,000,000	7.5000%	\$15,000,002
		\$1,433,620,000	xs \$2,843,000,000	8.3605%	\$119,857,699
	Second Aggregate	\$1,075,215,000	xs \$4,993,000,000	10.7500%	\$115,585,613
		Total	\$2,508,835,000	xs \$2,843,000,000	9.3846%
	Percent Change from Previous Year	0.00%		3.02%	3.02%
1999	First Aggregate	\$1,433,620,000	xs \$2,602,000,000	11.0000%	\$157,698,200
	No Claims Bonus Paid to CEA				(\$28,970,456)
	Exposure Adjustment				(\$15,769,820)
	Revised ROL and Premium	\$1,433,620,000	xs \$2,602,000,000	7.8792%	\$112,957,924
	Second Aggregate	\$1,075,215,000	xs \$4,753,000,000	10.7500%	\$115,585,613
	Total	\$2,508,835,000	xs \$2,602,000,000	9.1095%	\$228,543,537
	Percent Change from Previous Year	0.00%		-23.56%	-23.56%

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium	
1998	First Aggregate	\$1,433,620,000	xs	\$2,726,000,000	14.3750%	\$206,082,875
	No Claims Bonus Paid to CEA					(\$22,687,734)
	Revised ROL and Premium	\$1,433,620,000	xs	\$2,726,000,000	12.7925%	\$183,395,141
	Second Aggregate	\$1,075,215,000	xs	\$4,877,000,000	10.7500%	\$115,585,613
	Total	\$2,508,835,000	xs	\$2,726,000,000	11.9171%	\$298,980,754
Percent Change from Previous Year		16.13%		-4.19%	11.27%	
1997	First Aggregate	\$1,433,620,000	xs	\$2,850,000,000	14.3750%	\$206,082,875
	No Claims Bonus Paid to CEA					(\$14,430,600)
	Revised ROL and Premium	\$1,433,620,000	xs	\$2,850,000,000	13.3684%	\$191,652,275
	Second Aggregate (1/1/98 - 3/31/98)	\$1,075,215,000	xs	\$4,877,000,000	10.7500%	\$28,896,403
	Second Aggregate (7/1/97 - 12/31/97)	\$716,810,000	xs	\$4,815,000,000	10.7500%	\$38,528,538
	Second Aggregate (4/1/97 - 6/30/97)	\$358,405,000	xs	\$5,001,000,000	10.7500%	\$9,632,134
	Total	\$2,160,430,000	³xs	\$2,850,000,000	12.4378%	\$268,709,350

¹ Based on IIF of \$198,926,424,765 at 12/31/05

² Twelve month annualized amount

³ Includes average limit for Second Aggregate of \$716.810M

Note: Retentions based on CEA Capital and retained earnings calculated at the beginning of the calendar year
Retentions were variable between 1997 - 2002

California Earthquake Authority Historical Risk-Transfer Costs

Supplemental-Limits

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
2008	Combined Reinsurance Contract #1	\$150,000,000 xs	\$50,000,000	10.8500%	\$16,275,000
	Combined Reinsurance Contract #2	\$451,300,000 xs	\$200,000,000	5.7000%	\$25,725,000
	Total	\$601,300,000 xs	\$50,000,000	6.9849%	\$42,000,000
Percent Change from Previous Year		1.45%		-1.43%	0.00%
2007	Supplemental-Limits Excess (1st Layer)	\$50,000,000 xs	\$50,000,000	14.2500%	\$7,125,000
	Supplemental-Limits Excess (2nd Layer)	\$200,000,000 xs	\$100,000,000	8.7375%	\$17,475,000
	Supplemental-Limits Excess (3rd Layer)	\$342,715,221 xs	\$300,000,000	5.0771%	\$17,400,000
	Total	\$592,715,221 xs	\$50,000,000	7.0860%	\$42,000,000
Percent Change from Previous Year		306.36%		66.73%	577.53%
2006 ¹	Supplemental-Limits Excess	\$145,858,362 xs	\$450,000,000	4.2500%	\$6,198,980
	Total	\$145,858,362 xs	\$450,000,000	4.2500%	\$6,198,980

¹ 2006 included quota share limit of \$450M

Supplemental Quota Share

Begin	End	Written Premium	Ceding Commission	Losses
7/1/2006	12/31/2006	\$26,177,940	\$4,581,141	\$0
7/1/2005	6/30/2006	\$42,241,492	\$7,391,498	\$0
7/1/2004	6/30/2005	\$34,970,758	\$5,856,545	\$0
7/1/2003	6/30/2004	\$31,458,876	\$5,033,420	\$5,847,750
7/1/2002	6/30/2003	\$26,454,750	\$4,858,622	\$5,190,607
7/1/2001	6/30/2002	\$24,280,490	\$4,856,098	\$0
7/1/2000	6/30/2001	\$18,453,214	\$3,690,643	\$0
7/1/1999	6/30/2000	\$12,017,218	\$2,403,444	\$0
Unearned Premium Returned			\$19,914,409	