



Date of Notice: Friday, December 4, 2015

## 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:** California Department of Food and Agriculture  
Auditorium  
1220 N Street  
Sacramento, California

**DATE:** Wednesday, December 16, 2015

**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*

2. Consideration and approval of the minutes of the August 26, 2015, CEA Governing Board meeting.
3. Executive Report by Chief Executive Officer Glenn Pomeroy and members of the CEA executive staff. Mr. Pomeroy's report will include an update for the Board on legislative activities of interest to the CEA.
4. Chief Financial Officer Tim Richison will present to the Board the CEA financial report.
5. Mr. Richison will present to the Board the CEA's 2016 Risk-Transfer Strategy.
6. Mr. Richison and Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc.—the CEA's independent financial advisor—will propose an amendment to the CEA's Investment Policies and Guidelines to permit longer average durations in certain investment classes.
7. Mr. Richison will propose, for Board approval, investment management firms selected to manage two CEA Claim-Paying Fund(s).
8. Chief Mitigation Officer Janiele Maffei will update the Board on CEA mitigation-program projects.
9. Ms. Maffei will update the Board on the California Residential Mitigation Program incentive program ("Earthquake Brace + Bolt"), operated by a joint power authority whose members are the California Governor's Office of Emergency Services and the CEA.
10. Mr. Pomeroy will update the Board on progress toward developing a pilot risk-reduction program, which could provide financial incentives for CEA policyholders who live in vulnerable houses in high risk areas to perform retrofits.
11. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2015 CEA information technology (IT) initiatives and Project Portfolio.
12. Mr. Coombes will seek Board approval for planned 2016 CEA IT initiatives and for the corresponding 2016 IT Project Portfolio.
13. Mr. Coombes will update the Board on progress toward the concept of centralizing the processing of CEA insurance policies.
14. Chief Actuary Shawna Ackerman will request Board approval to renew and extend the CEA's existing contract with earthquake-risk-modeling firm, Risk Management Services.
15. Chief Communications Officer Chris Nance will present a recap of the 2015 Great California ShakeOut in October, including CEA's participation, and a preview of CEA's 2016 advertising campaign.
16. Mr. Pomeroy and Mr. Richison will present the 2016 CEA insurance-services budget for Board consideration and approval.
17. Ms. Maffei and Mr. Richison will present the 2016 CEA mitigation-program budget for Board consideration and approval.
18. Mr. Pomeroy will present the 2016 CEA Business Implementation Plan for Board consideration and approval.
19. Mr. Pomeroy will update the Board on progress in data collection and reporting that support the Metrics Project.

20. Mr. Pomeroy will update the Board on progress in obtaining additional office space on the floor immediately above the CEA's main office, to accommodate CEA staff and related operations.
21. Mr. Pomeroy will present for Board consideration and approval the 2016 Governing Board meeting calendar.
22. 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.
23. Public comment on matters that do not appear on this agenda and requests by the public that those matters be placed on a future agenda.
24. Adjournment.

For further information about this notice or its contents:

**General Information:**

Carlos Martinez  
(916) 661-5549 (Direct)  
Toll free: (877) 797-4300

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

**Media Contact:**

Chris Nance  
Chief Communications Officer  
(916) 661-5521 (Direct)  
[nancec@calquake.com](mailto:nancec@calquake.com)

**To view this notice on the CEA website or to learn more about the CEA, please visit [www.EarthquakeAuthority.com](http://www.EarthquakeAuthority.com)**

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**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 Carlos Martinez by telephone, toll free, at (877) 797-4300 or by email at [carlos\\_martinez@calquake.com](mailto:carlos_martinez@calquake.com). We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.**

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**NOTE: You might have received this notice because your name, or that of your organization, appears on a public-notice list maintained by the California Earthquake Authority. If in the future you do not wish to receive public notices pertaining to the California Earthquake Authority, please send your request by email to [carlos\\_martinez@calquake.com](mailto:carlos_martinez@calquake.com).**



Draft Meeting Minutes are not available.

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

## **Governing Board Memorandum**

December 16, 2015

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

Recommended Action:        No action required—information only

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Chief Executive Officer Glenn Pomeroy will present his Executive Report to the Board.



# FINANCIAL REPORT

**October 31, 2015**

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Note: See Fact Sheets for Policies In Force, Written Premiums, and Exposures.

# **Financial Statements & Budgets**

**California Earthquake Authority**  
**Balance Sheet**  
**as of October 31, 2015**

**Assets**

Cash and investments:	
Cash and cash equivalents	\$ 97,120,910
Restricted cash and equivalents	23,603,570
Restricted investments	348,424,097
Investments	5,394,476,714
Total cash and investments	5,863,625,291
Premiums receivable, net of allowance for doubtful accounts of \$7,604,350	44,774,583
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	18,962,534
Securities receivable	31,499,514
Restricted securities receivable	2,981,534
Prepaid reinsurance premium	19,965,416
Transformer reinsurance premium deposit	-
Prepaid transformer maintenance premium	2,029,571
Equipment, net	364,019
Other assets	25,261
Total assets	\$ 5,984,227,723

**Liabilities and Net Position**

Unearned premiums	\$ 334,937,184
Accounts payable and accrued expenses	3,775,343
Payable to California Residential Mitigation Program	-
Accrued reinsurance premium expense	-
Loss and loss adjustment expense reserves	780,624
Securities payable	25,608,552
Revenue bond payable	350,000,000
Revenue bond interest payable	2,861,500
Total liabilities	717,963,203

Net position:

Restricted, expendable	28,538,275
Unrestricted, participating insurer contributed capital	777,384,796
Unrestricted, State of California contributed capital	222,751,433
Unrestricted, all other remaining	4,237,590,016
Total net position	5,266,264,520
Total liabilities and net position	\$ 5,984,227,723

**California Earthquake Authority**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year-To-Date October 31, 2015**

Underwriting income:	
Premiums written	\$ 533,794,149
Less premiums ceded - reinsurance	(159,112,445)
Less risk capital surcharge	-
	<hr/>
Net premiums written	374,681,704
	<hr/>
Change in unearned premiums	(24,091,294)
	<hr/>
Net premiums earned	350,590,410
	<hr/>
Expenses:	
Losses and loss adjustment expenses	1,714,903
Participating Insurer commissions	53,395,855
Participating Insurer operating costs	16,482,992
Reinsurance broker commissions	3,477,778
Pro forma premium taxes equivalent	12,552,014
Other underwriting expenses	25,018,238
	<hr/>
Total expenses	112,641,780
	<hr/>
Underwriting profit	237,948,630
Net investment income	40,927,095
Other income	335,131
Grant Revenue	3,000,000
Financing expenses, net	(5,187,666)
Earthquake Loss Mitigation Fund expenses	(1,181,105)
Participating Insurer Contributed Capital	-
State of California premium tax contribution equivalent	12,552,014
	<hr/>
Increase in net position	288,394,099
Net position, beginning of year	4,977,870,421
	<hr/>
Net position, end of year to date	\$ 5,266,264,520
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**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Budgeted and Actual Expenditures**  
**2015 Budget Year**  
**as of October 31, 2015**

	Approved 2015 Budget 1/1/2015	Adjustments <sup>A</sup>	Augmentations	2015 Budget after Augmentations and Adjustments	Actual Expenditures	Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)	Percentage used of Augmented & Adjusted Approved 2015 Budget
Human Resources:							
Compensation and Benefits <sup>3</sup>	\$ 16,670,520	\$ 51,624	\$ 232,000	\$ 16,954,144	\$ 13,064,514	\$ 3,889,630	77.06%
Travel	472,338	(96,475)	-	375,863	220,695	155,168	58.72%
Other	1,094,827	(406,266)	-	688,561	298,022	390,539	43.28%
Board Meeting	33,000	(16,571)	-	16,429	7,269	9,160	44.24%
Administration & Office	1,198,429	(369,367)	-	829,062	618,346	210,716	74.58%
EDP Hardware	115,270	43,000	-	158,270	153,699	4,571	97.11%
EDP Software	1,204,490	(110,500)	-	1,093,990	932,244	161,746	85.22%
Information Technology <sup>3</sup>	1,255,830	218,593	1,100,000	2,574,423	1,405,123	1,169,300	54.58%
Telecommunications	241,714	4,483	-	246,197	173,608	72,589	70.52%
Rent/Lease	876,749	(50,425)	-	826,324	555,262	271,062	67.20%
Compliance	10,000	(10,000)	-	-	4,669	(4,669)	> 100.00%
Government Affairs	298,000	(122,000)	-	176,000	36,000	140,000	20.45%
Insurance	189,138	30,862	-	220,000	118,739	101,261	53.97%
Internal Audit	50,000	15,000	-	65,000	312	64,688	0.48%
Intervener Fees	-	-	-	-	-	-	0.00%
Other	3,000	30,231	-	33,231	16,445	16,786	49.49%
Regulatory Expenses	150,000	75,000	-	225,000	214,397	10,603	95.29%
<b>Total Statutory Expenditures</b>	<b>\$ 23,863,305</b>	<b>\$ (712,811)</b>	<b>\$ 1,332,000</b>	<b>\$ 24,482,494</b>	<b>\$ 17,819,344</b>	<b>\$ 6,663,150</b>	<b>72.78%</b>
Audit Services	109,000	-	-	109,000	109,000	-	100.00%
Capital Market	9,400,500	(2,700)	-	9,397,800	7,655,574	1,742,226	81.46%
Claims	10,000	239,620	-	249,620	187,261	62,359	75.02%
Loans	-	-	-	-	-	-	0.00%
Grants	-	-	-	-	-	-	0.00%
Investment Services	3,174,856	(73,000)	-	3,101,856	2,380,548	721,308	76.75%
Legal Services	6,967,920	(4,033,500)	-	2,934,420	1,610,765	1,323,655	54.89%
Loss-Modeling	961,500	34,000	-	995,500	753,250	242,250	75.67%
Marketing Services <sup>1</sup>	11,179,355	(705,265)	290,400	10,764,490	3,112,415	7,652,075	28.91%
Producer Compensation	61,684,374	115,626	-	61,800,000	53,395,855	8,404,145	86.40%
Participating Insurer Operating Costs <sup>2&amp;4</sup>	19,060,471	35,729	1,209,650	20,305,850	16,485,878	3,819,972	81.19%
Seismic Related Research	100,000	(100,000)	-	-	-	-	0.00%
Engineering Related Research	250,000	100,000	-	350,000	-	350,000	0.00%
Risk Transfer	210,213,580	(200,000)	-	210,013,580	162,590,223	47,423,357	77.42%
<b>Total Non-Statutory Expenditures</b>	<b>\$ 323,111,556</b>	<b>\$ (4,589,490)</b>	<b>\$ 1,500,050</b>	<b>\$ 320,022,116</b>	<b>\$ 248,280,769</b>	<b>\$ 71,741,347</b>	<b>77.58%</b>
<b>Total Budget Expenditures</b>	<b>\$ 346,974,861</b>	<b>\$ (5,302,301)</b>	<b>\$ 2,832,050</b>	<b>\$ 344,504,610</b>	<b>\$ 266,100,113</b>	<b>\$ 78,404,497</b>	<b>77.24%</b>

<sup>1</sup>Augmentation to fund an additional marketing project in the 2015 IT project portfolio from February 19, 2015 Governing Board Meeting Agenda Item 12.

<sup>2</sup>Augmentation to cover immediate research and creative costs to directly support marketing-document development from February 19, 2015 Governing Board Meeting Agenda Item 6.

<sup>3</sup>Augmentation for expenses for administration and claim system software and vendor services (CPP Project) from the August 26, 2015 Governing Board meeting Agenda items 15 and 20.

<sup>4</sup>Augmentation for the expenses for the production and distribution of new marketing-documents from the August 26, 2015 Governing Board meeting Agenda item 9.

<sup>A</sup>Adjustment to meet insurance services end-of-year projections.

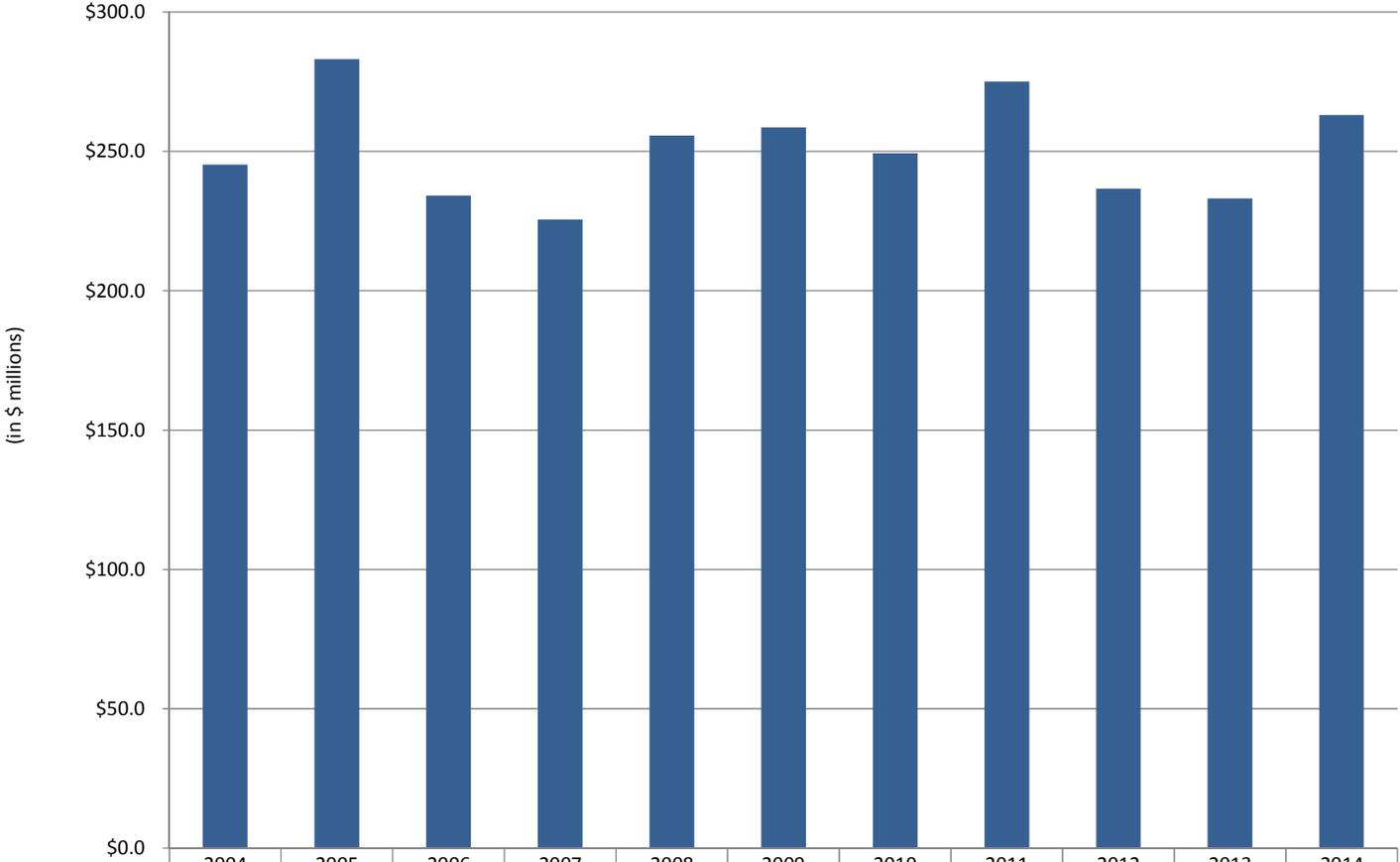
**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Budgeted Expenditures and Actual Expenditures**  
**2015 Budget Year**  
**as of October 31, 2015**

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	<u>Approved 2015 Budget 1/1/2015</u>	<u>Adjustments</u>	<u>Augmentations</u>	<u>2015 Budget after Augmentations and Adjustments</u>	<u>Actual Expenditures</u>	<u>Augmented &amp; Adjusted Approved Budget (d) vs. Actual Expenditures (e)</u>	<u>Percentage used of Augmented &amp; Adjusted Approved 2015 Budget</u>
Human Resources:							
Compensation and Benefits	\$ 1,219,169	\$ -	\$ -	\$ 1,219,169	\$ 886,310	\$ 332,859	72.70%
Travel	47,500	-	-	47,500	23,694	23,806	49.88%
Other	19,000	-	-	19,000	6,392	12,608	33.64%
Administration & Office	69,600	-	-	69,600	12,433	57,167	17.86%
Information Technology	-	-	-	-	214	(214)	>100.00%
Telecommunications	1,500	-	-	1,500	10,001	(8,501)	>100.00%
Rent/Lease	700	-	-	700	37,502	(36,802)	>100.00%
<b>Total Operating Expenditures</b>	<b>\$ 1,357,469</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,357,469</b>	<b>\$ 976,546</b>	<b>\$ 380,923</b>	<b>71.94%</b>
Investment Services	28,400	-	-	28,400	11,410	16,990	40.18%
Legal Services	50,000	-	-	50,000	3,900	46,100	7.80%
Marketing <sup>1</sup>	38,000	38,000	48,675	124,675	73,601	51,074	59.03%
Seismic - Related	19,000	(19,000)	-	-	-	-	0.00%
Engineering - Related <sup>2</sup>	1,019,000	(19,000)	20,000	1,020,000	129,880	890,120	12.73%
<b>Total Other Expenditures</b>	<b>\$ 1,154,400</b>	<b>\$ -</b>	<b>\$ 68,675</b>	<b>\$ 1,223,075</b>	<b>\$ 218,791</b>	<b>\$ 1,004,284</b>	<b>17.89%</b>
<b>Total Expenditures</b>	<b>\$ 2,511,869</b>	<b>\$ -</b>	<b>\$ 68,675</b>	<b>\$ 2,580,544</b>	<b>\$ 1,195,337</b>	<b>\$ 1,385,207</b>	<b>46.32%</b>

<sup>1</sup>Augmentation to cover research fees, a house-inspector focus group, and report development/publication from May 15, 2015 Governing Board Meeting Agenda Item 14

<sup>2</sup>Augmentation to cover home inspectors conducting inspections in Phase II from May 15, 2015 Governing Board Meeting Agenda Item 14

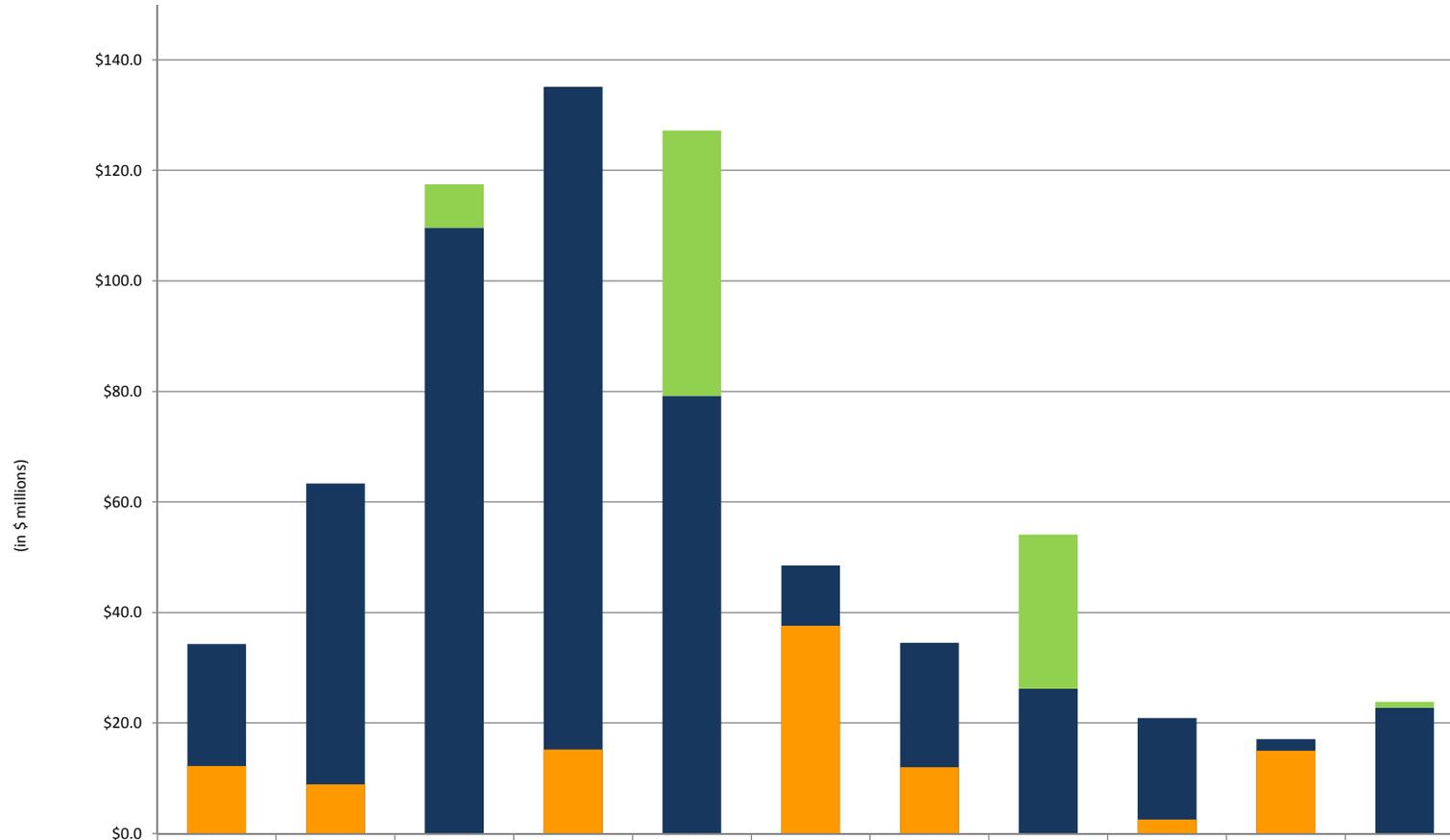
**California Earthquake Authority  
Annual Capital Accumulated from Premium  
as of December 31, 2014**



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Capital Accumulated from Premium	\$245.2	\$283.1	\$234.1	\$225.5	\$255.7	\$258.6	\$249.3	\$275.0	\$236.7	\$233.1	\$263.0

# **Investments**

**California Earthquake Authority  
Annual Investment Income  
as of December 31, 2014**

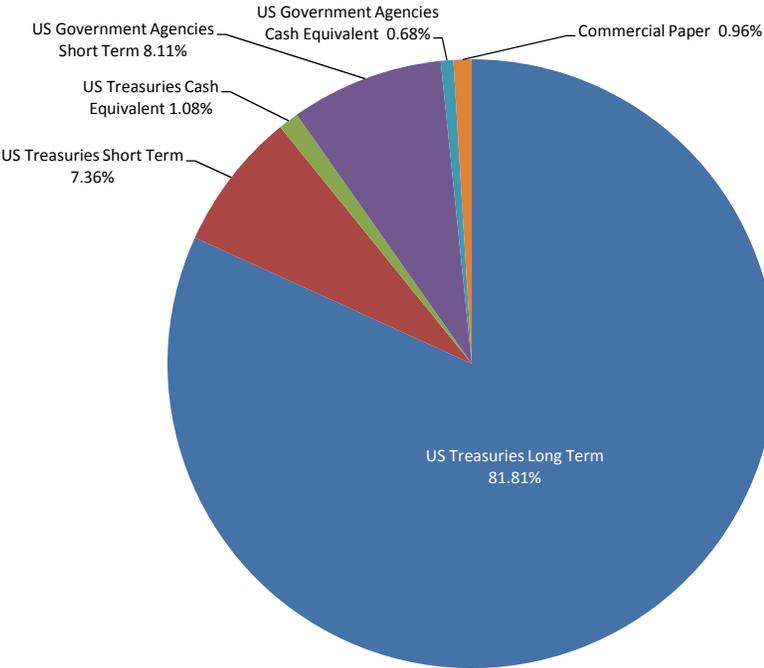


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Investment Income*	\$22.1	\$54.4	\$117.5	\$119.9	\$127.2	\$10.9	\$22.5	\$54.1	\$18.4	\$2.1	\$23.8
Change Unrealized Gain	\$0	\$0	\$7.9	\$0	\$48.0	\$0	\$0	\$27.9	\$0	\$0	\$1.0
Investment Income	\$34.3	\$63.3	\$109.6	\$135.1	\$79.2	\$48.5	\$34.5	\$26.2	\$20.9	\$17.1	\$22.8
Change Unrealized Loss	\$12.2	\$8.9	\$0	\$15.2	\$0	\$37.6	\$12.0	\$0	\$2.5	\$15.0	\$0

\*Net Investment Income is investment income net of unrealized gain or unrealized loss and ties to the financial statements.

**California Earthquake Authority  
Investment Portfolio Distribution at Market Value  
as of October 31, 2015**

<b>CEA Liquidity &amp; Primary Funds:</b>	<b>\$5,196,694,626</b>
US Treasuries Long Term	81.81%
US Treasuries Short Term	7.36%
US Treasuries Cash Equivalent	1.08%
US Government Agencies Short Term	8.11%
US Government Agencies Cash Equivalent	0.68%
Commercial Paper	0.96%
<b>Total:</b>	<b>100.0%</b>

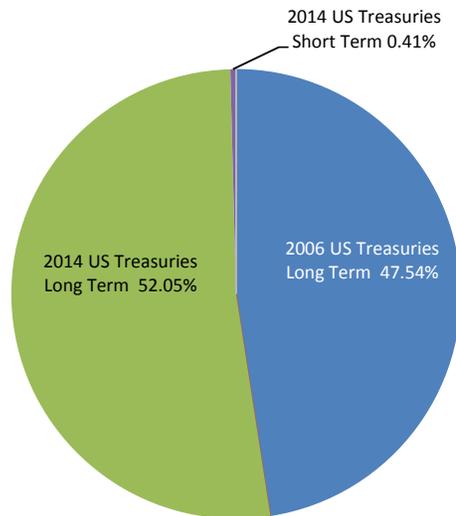


**California Earthquake Authority  
Investment Portfolio Distribution at Market Value  
as of October 31, 2015**

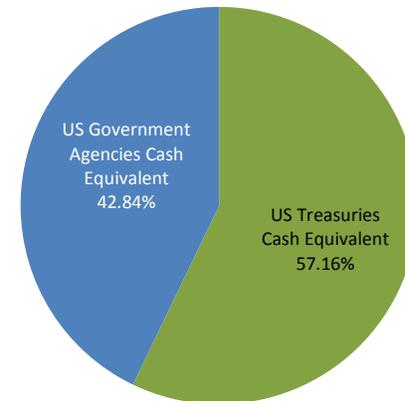
<b>Claim(s)-Paying Funds:</b>	<b>\$669,456,652</b>
2006 US Treasuries Long Term	47.54%
2014 US Treasuries Long Term	52.05%
2014 US Treasuries Short Term	0.41%
<b>Total:</b>	<b>100.00%</b>

<b>Mitigation Fund:</b>	<b>\$20,541,725</b>
US Treasuries Cash Equivalent	57.16%
US Government Agencies Cash Equivalent	42.84%
<b>Total:</b>	<b>100.0%</b>

**Claim(s)-Paying Funds**



**Mitigation Fund**



# Debt

**California Earthquake Authority  
Schedule of Outstanding Debt - Defeased**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2006 Revenue Bonds <sup>1</sup>	\$ 315,000,000	6.169%	\$ 310,829,067	\$ 31,500,000	31-Oct-2015	A3 Outlook Stable	A Outlook Stable

<sup>1</sup>As of November 6, 2014, interest and principal are fully funded in escrow for remaining interest and principal payments.

**DEBT-SERVICE SCHEDULE**

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

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-16	\$31,500,000	\$0	\$971,618	\$971,618	
1-Jul-16	\$0	\$31,500,000.00	\$971,618	\$32,471,618	
2016					\$33,443,236

\*Moody's rating since September 2014.

\*\*Fitch rating affirmed October 2015.

**California Earthquake Authority  
Schedule of Outstanding Debt**

<b>DEBT</b>	<b>ISSUANCE AMOUNT</b>	<b>INTEREST RATE</b>	<b>NET PROCEEDS</b>	<b>OUTSTANDING PRINCIPAL</b>	<b>AS OF DATE</b>	<b>MOODY'S RATING*</b>	<b>FITCH RATING**</b>
Series 2014 Revenue Bonds 2 year bond CUSIP 13017HAC0	\$ 40,000,000	1.194%	\$ 39,665,642	\$ 40,000,000	31-Oct-2015	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

The table below shows the annual-debt-service requirements for the Series 2014 Bonds.

<b>Payment Date</b>	<b>Outstanding Principal</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Annual Debt Service</b>
1-Jan-16	\$40,000,000	\$0	\$238,800	\$238,800	
1-Jul-16	\$0	\$40,000,000	\$238,800	\$40,238,800	
2016					\$40,477,600

\*Moody's rating since September 2014.

\*\*Fitch rating affirmed October 2015.

**California Earthquake Authority  
Schedule of Outstanding Debt**

<b>DEBT</b>	<b>ISSUANCE AMOUNT</b>	<b>INTEREST RATE</b>	<b>NET PROCEEDS</b>	<b>OUTSTANDING PRINCIPAL</b>	<b>AS OF DATE</b>	<b>MOODY'S RATING*</b>	<b>FITCH RATING**</b>
Series 2014 Revenue Bonds 3 year bond CUSIP 13017HAD8	\$ 60,000,000	1.824%	\$ 59,498,463	\$ 60,000,000	31-Oct-2015	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

The table below shows the annual-debt-service requirements for the Series 2014 Bonds.

<b>Payment Date</b>	<b>Outstanding Principal</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Annual Debt Service</b>
1-Jan-16	\$60,000,000	\$0	\$547,200	\$547,200	
1-Jul-16	\$60,000,000	\$0	\$547,200	\$547,200	
2016					\$1,094,400
1-Jan-17	\$60,000,000	\$0	\$547,200	\$547,200	
1-Jul-17	\$0	\$60,000,000	\$547,200	\$60,547,200	
2017					\$61,094,400

\*Moody's rating since September 2014.

\*\*Fitch rating affirmed October 2015.

**California Earthquake Authority  
Schedule of Outstanding Debt**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2014 Revenue Bonds 5 year bond CUSIP 13017HAE6	\$ 250,000,000	2.805%	\$ 247,910,261	\$ 250,000,000	31-Oct-2015	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

The table below shows the annual-debt-service requirements for the Series 2014 Bonds.

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-16	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
1-Jul-16	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
2016					\$7,012,500
1-Jan-17	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
1-Jul-17	\$210,000,000	\$40,000,000	\$3,506,250	\$43,506,250	
2017					\$47,012,500
1-Jan-18	\$210,000,000	\$0	\$2,945,250	\$2,945,250	
1-Jul-18	\$105,000,000	\$105,000,000	\$2,945,250	\$107,945,250	
2018					\$110,890,500
1-Jan-19	\$105,000,000	\$0	\$1,472,625	\$1,472,625	
1-Jul-19	\$0	\$105,000,000	\$1,472,625	\$106,472,625	
2019					\$107,945,250

\*Moody's rating since September 2014.

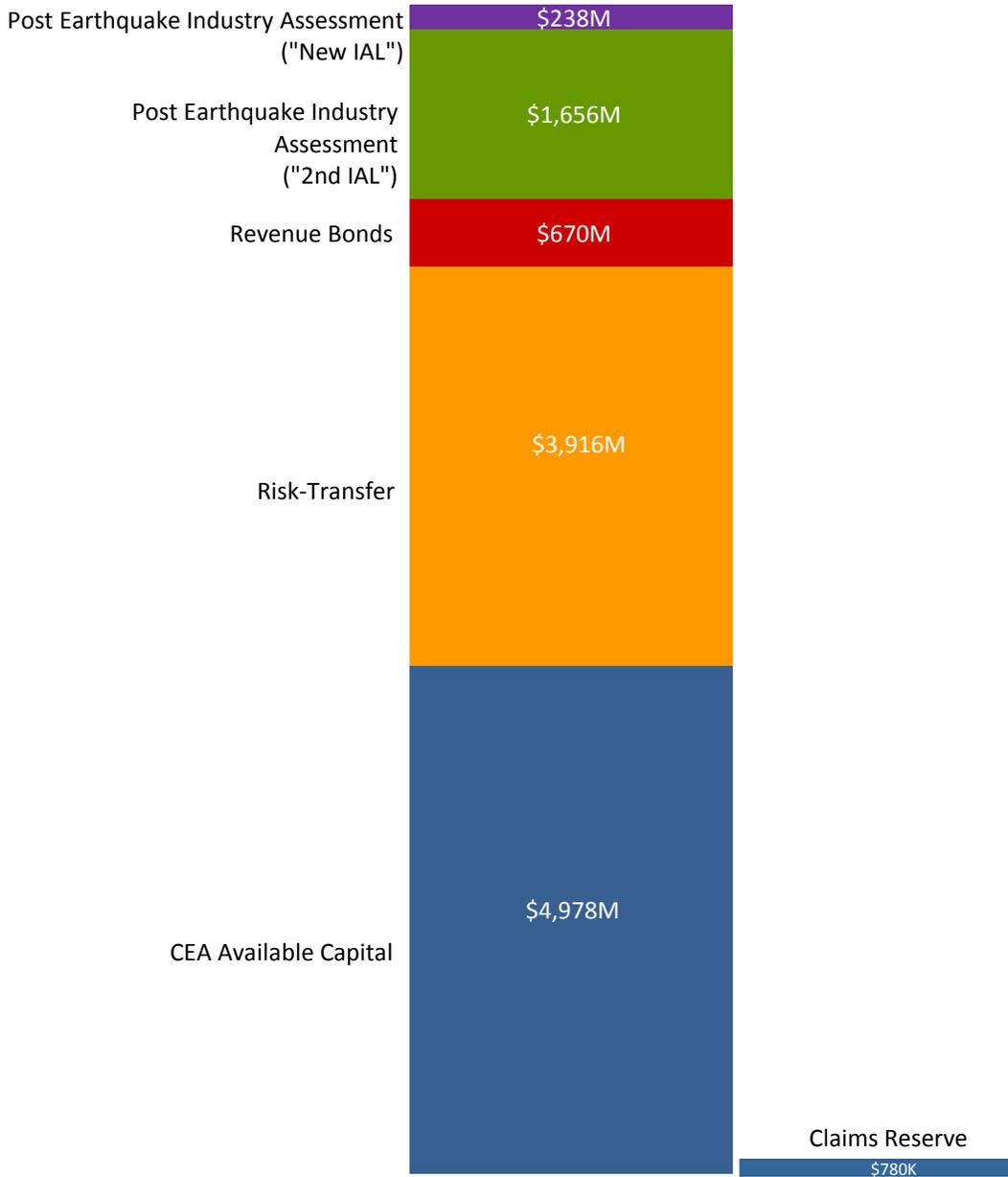
\*\*Fitch rating affirmed October 2015.

# **Claim-Paying Capacity**

**California Earthquake Authority  
Available Capital Report  
as of October 31, 2015**

Cash & Investments (includes capital contributions and premiums)	\$ 5,863,625,291
Earthquake Loss Mitigation Fund Cash and Investments	\$ (23,591,459)
Interest, Securities & Restricted Securities Receivable	\$ 53,443,582
Premium Receivable	\$ 44,774,583
Risk Capital Surcharge & Capital Contributions Receivable	\$ -
Other Assets	\$ 25,261
Revenue Bonds	\$ (669,901,165)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	\$ (16,194,833)
Unearned Premium Collected	\$ (244,238,121)
Accrued Reinsurance Premium Expense	\$ -
Accounts and Securities Payable, and Accrued Expenses	\$ (29,383,895)
Loss Reserves	\$ (780,624)
CEA Available Capital	<b><u><u>\$ 4,977,778,620</u></u></b>

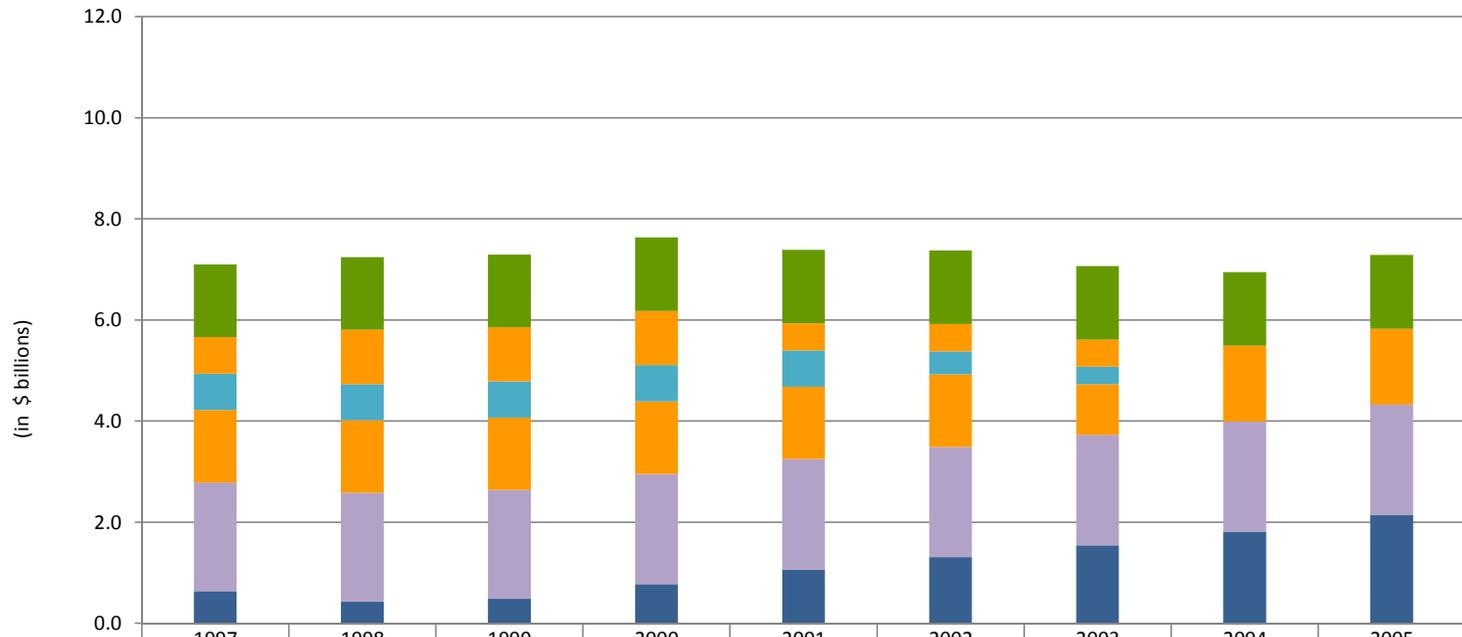
**California Earthquake Authority  
Claim-Paying Capacity  
as of October 31, 2015**



**Total Capacity \$11,458M**

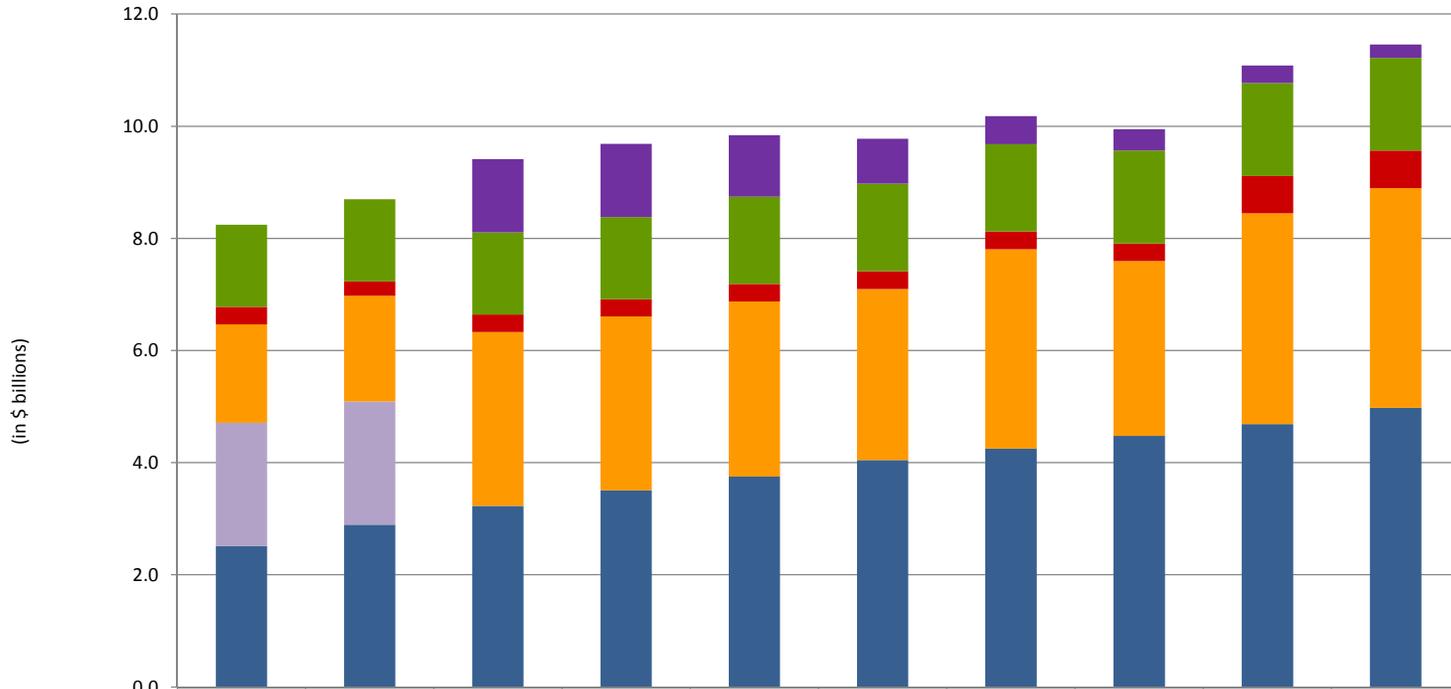
Note: Not drawn to scale

**California Earthquake Authority  
Historical Claim-Paying Capacity (CPC)  
December 31, 1997 through December 31, 2005**



	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total CPC	\$7.095	\$7.240	\$7.293	\$7.635	\$7.390	\$7.373	\$7.069	\$6.948	\$7.284
New Industry Assessment	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2nd Industry Assessment	\$1.434	\$1.434	\$1.434	\$1.456	\$1.456	\$1.456	\$1.456	\$1.456	\$1.456
Revenue Bonds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Risk-Transfer, 2nd Layer	\$0.727	\$1.075	\$1.075	\$1.075	\$0.538	\$0.538	\$0.538	\$0	\$0
Line of Credit	\$0.716	\$0.716	\$0.716	\$0.716	\$0.716	\$0.456	\$0.348	\$0	\$0
Risk Transfer, 1st Layer	\$1.433	\$1.433	\$1.433	\$1.433	\$1.433	\$1.433	\$1.000	\$1.500	\$1.500
1st Industry Assessment	\$2.150	\$2.150	\$2.150	\$2.183	\$2.183	\$2.183	\$2.183	\$2.183	\$2.183
CEA Available Capital	\$0.635	\$0.432	\$0.485	\$0.772	\$1.064	\$1.307	\$1.544	\$1.809	\$2.145

**California Earthquake Authority  
Historical Claim-Paying Capacity (CPC)  
December 31, 2006 through October 31, 2015**



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Total CPC	\$8.244	\$8.695	\$9.411	\$9.685	\$9.840	\$9.777	\$10.179	\$9.949	\$11.081	\$11.458
New Industry Assessment	\$0	\$0	\$1.304	\$1.304	\$1.095	\$0.804	\$0.500	\$0.385	\$0.312	\$0.238
2nd Industry Assessment	\$1.465	\$1.465	\$1.465	\$1.465	\$1.558	\$1.558	\$1.558	\$1.656	\$1.656	\$1.656
Revenue Bonds	\$0.311	\$0.254	\$0.311	\$0.311	\$0.311	\$0.317	\$0.314	\$0.314	\$0.664	\$0.670
Risk-Transfer, 2nd Layer	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Line of Credit	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Risk Transfer, 1st Layer	\$1.756	\$1.885	\$3.100	\$3.100	\$3.123	\$3.050	\$3.557	\$3.115	\$3.759	\$3.916
1st Industry Assessment	\$2.197	\$2.197	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
CEA Available Capital	\$2.515	\$2.894	\$3.231	\$3.505	\$3.753	\$4.048	\$4.250	\$4.478	\$4.689	\$4.978

\*as of October 31, 2015

# **Risk-Transfer Programs**

**California Earthquake Authority  
Risk-Transfer Program Summary  
as of October 31, 2015**

<b>Traditional Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>	<b>12-Month Rate-on-Line</b>	<b>12-Month Premium</b>
2015 January Program Contract 1	January 1, 2015 - December 31, 2015	315,491,770	4.50%	14,197,130
2015 January Program Contract 2	January 1, 2015 - December 31, 2015	178,387,500	3.25%	5,797,594
2015 January Program Contract 3	January 1, 2015 - December 31, 2015	99,999,960	6.00%	5,999,998
2015-2016 January Program Contract 1	January 1, 2015 - December 31, 2016	156,431,990	4.55%	7,117,656
2015-2016 January Program Contract 2	January 1, 2015 - December 31, 2016	146,871,900	3.30%	4,846,773
2015-2016 January Program Contract 3	January 1, 2015 - December 31, 2016	24,999,990	5.40%	1,349,999
2014-2015 January Program Contract 1	January 1, 2014 - December 31, 2015	454,227,620	5.50%	24,982,519
2014-2015 January Program Contract 2	January 1, 2014 - December 31, 2015	49,999,996	6.45%	3,225,000
2015-2016 April Program Contract 1	April 1, 2015 - March 31, 2016	624,992,490	3.00%	18,749,775
2014-2016 April Program Contract 1	April 1, 2014 - March 31, 2016	253,099,320	3.85%	9,744,324
2014-2016 April Program Contract 2	April 1, 2014 - March 31, 2016	122,499,960	3.75%	4,593,749
2015-2016 August Program Contract 1	August 1, 2015 - July 31, 2016	187,500,000	5.50%	10,312,500
2015-2017 August Program Contract 1	August 1, 2015 - July 31, 2017	93,750,000	5.60%	5,250,000
2015-2017 August Program Contract 2	August 1, 2015 - July 31, 2017	139,000,000	4.50%	6,255,000
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.80%	5,437,500
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	200,000,000	4.20%	8,400,000
2013-2016 May Program	May 1, 2013 - April 30, 2016	100,000,000	5.60%	5,600,000
2015-2016 June Program	June 1, 2015 - May 31, 2016	25,000,000	3.60%	900,000
<b>Total Traditional Reinsurance</b>		<b>\$ 3,266,002,496</b>		

<b>Transformer Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>	<b>12-Month Rate-on-Line</b>	<b>12-Month Premium</b>
2014-2017 Transformer Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%	10,100,000
2014-2017 Transformer Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%	7,070,000
2015-2018 Transformer Contract 1	September 16, 2015 - September 15, 2018	250,000,000	5.05%	12,625,000
<b>Total Transformer Reinsurance</b>		<b>650,000,000</b>		

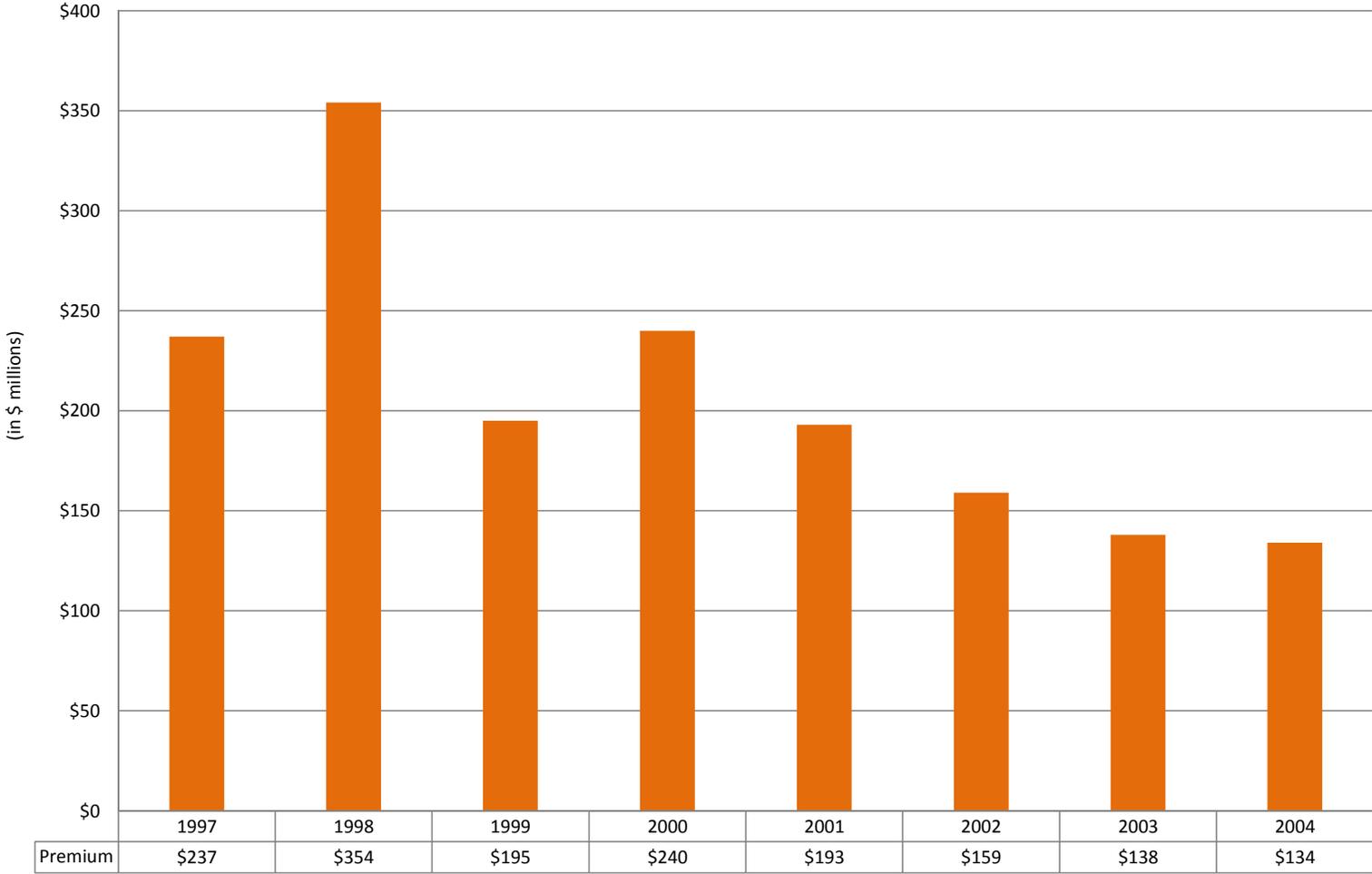
<b>Total Risk-Transfer Program</b>	<b>\$ 3,916,002,496</b>
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**California Earthquake Authority**  
**2015 Total Premium Risk-Transfer Program**  
**as of October 31, 2015**

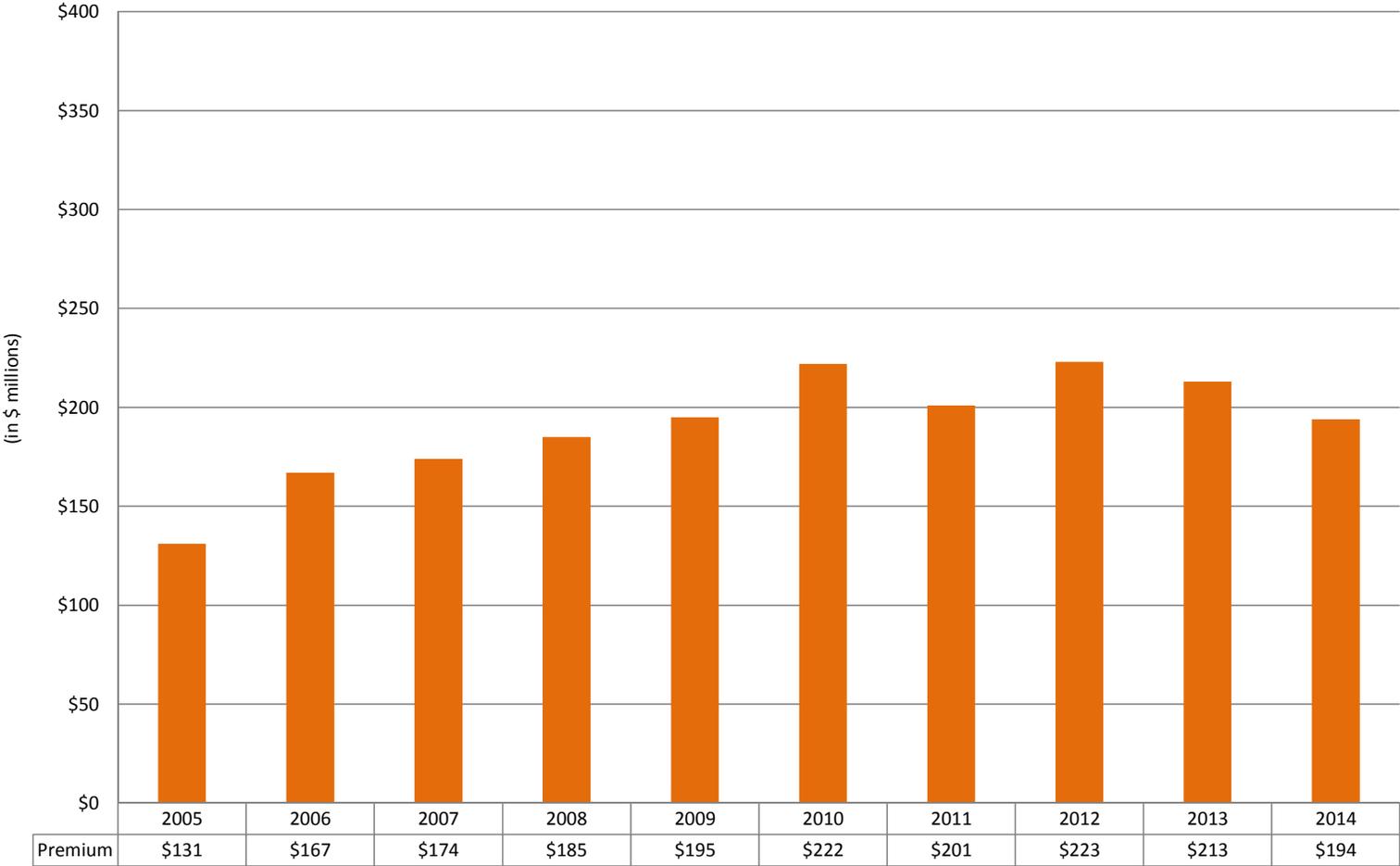
<b>Traditional Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>	<b>12-Month Rate-on-Line</b>	<b>2015 Premium</b>
2015 January Program Contract 1	January 1, 2015 - December 31, 2015	315,491,770	4.50%	14,197,130
2015 January Program Contract 2	January 1, 2015 - December 31, 2015	178,387,500	3.25%	5,797,594
2015 January Program Contract 3	January 1, 2015 - December 31, 2015	99,999,960	6.00%	5,999,998
2015-2016 January Program Contract 1	January 1, 2015 - December 31, 2016	156,431,990	4.55%	7,117,656
2015-2016 January Program Contract 2	January 1, 2014 - December 31, 2016	146,871,900	3.30%	4,846,773
2015-2016 January Program Contract 3	January 1, 2014 - December 31, 2016	24,999,990	5.40%	1,349,999
2014-2015 January Program Contract 1	January 1, 2014 - December 31, 2015	454,227,620	5.50%	24,982,519
2014-2015 January Program Contract 2	January 1, 2014 - December 31, 2015	49,999,995	6.45%	3,225,000
2015-2016 April Program Contract 1	April 1, 2015 - March 31, 2016	624,992,490	3.00%	14,062,331
2013-2015 April Program Contract 2	April 1, 2013 - March 31, 2015	84,999,960	5.30%	1,126,249
2014-2015 April Program Contract 1	April 1, 2014 - March 31, 2015	518,583,000	3.70%	4,796,893
2014-2015 April Program Contract 1 ADDL	October 1, 2014 - March 31, 2015	202,999,440	3.70%	1,877,745
2014-2016 April Program Contract 1	April 1, 2014 - March 31, 2016	253,099,320	3.85%	9,744,324
2014-2016 April Program Contract 2	April 1, 2014 - March 31, 2016	122,499,960	3.75%	4,593,749
2012-2015 September Program	September 1, 2012 - August 31, 2015	100,000,000	5.70%	3,800,000
2015-2016 June Program	June 1, 2015 - May 31, 2016	25,000,000	3.60%	525,000
2013-2015 August Program Contract 3	August 1, 2013 - July 31, 2015	250,000,000	5.90%	8,604,167
2013-2016 May Program	May 1, 2013 - April 30, 2016	100,000,000	5.60%	5,600,000
2013-2015 June Program	June 1, 2013 - May 31, 2015	50,000,000	5.65%	1,177,083
2014-2015 August Program Contract 1	August 1, 2014 - July 31, 2015	187,500,000	4.80%	5,250,000
2014-2015 August Program Contract 2	August 1, 2014 - July 31, 2015	187,500,000	6.00%	6,562,500
2014-2015 August Program Contract 3	August 1, 2014 - July 31, 2015	136,500,000	4.50%	3,583,125
2015-2016 August Program Contract 1	August 1, 2015 - July 31, 2016	187,500,000	5.50%	4,296,875
2015-2017 August Program Contract 1	August 1, 2015 - July 31, 2017	93,750,000	5.60%	2,187,500
2015-2017 August Program Contract 2	August 1, 2015 - July 31, 2017	200,000,000	4.50%	3,750,000
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.80%	2,265,625
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000	4.20%	2,432,500
<b>Total Traditional Reinsurance Premium</b>				<b>153,752,335</b>
<b>Transformer Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>	<b>12-Month Rate-on-Line</b>	<b>2015 Premium</b>
Transformer Contract 2 (2012 - I)	February 7, 2012 - February 13, 2015	300,000,000	7.45%	2,815,956
Transformer Contract 3 (2012 - II)	August 1, 2012 - August 7, 2015	300,000,000	5.05%	11,333,614
2014-2017 Transformer Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%	10,120,791
2014-2017 Transformer Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%	7,084,554
2015-2018 Transformer Contract 2	September 16, 2015 - September 15, 2018	250,000,000	5.05%	5,233,642
<b>Total Transformer Reinsurance Premium</b>				<b>36,588,557</b>
<b>Total Risk-Transfer Program Premium</b>				<b>190,340,892</b>

Note: Additional risk-transfer program contracts expected in 2015

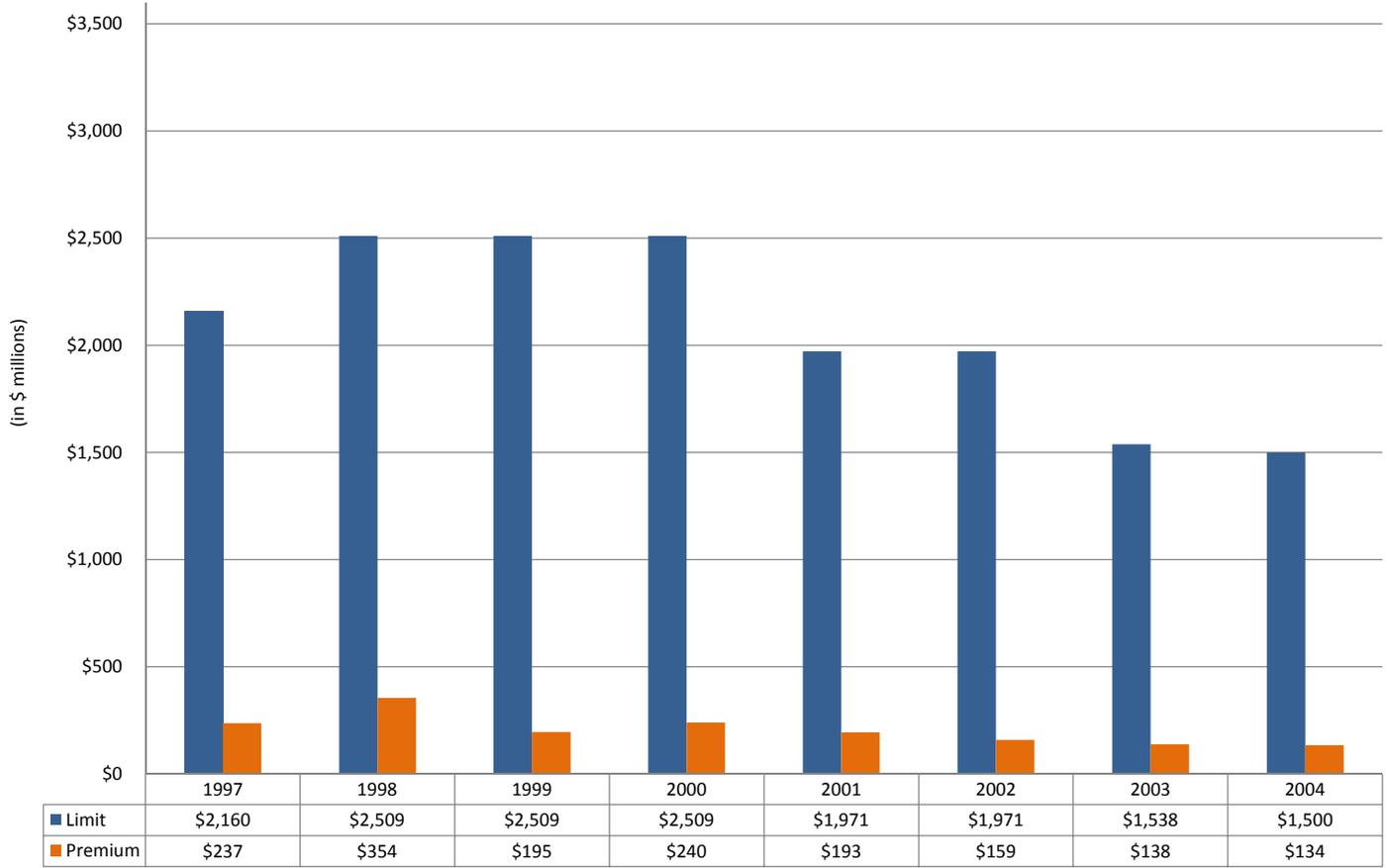
**California Earthquake Authority  
Annual Risk-Transfer Premium  
December 31, 1997 - December 31, 2004**



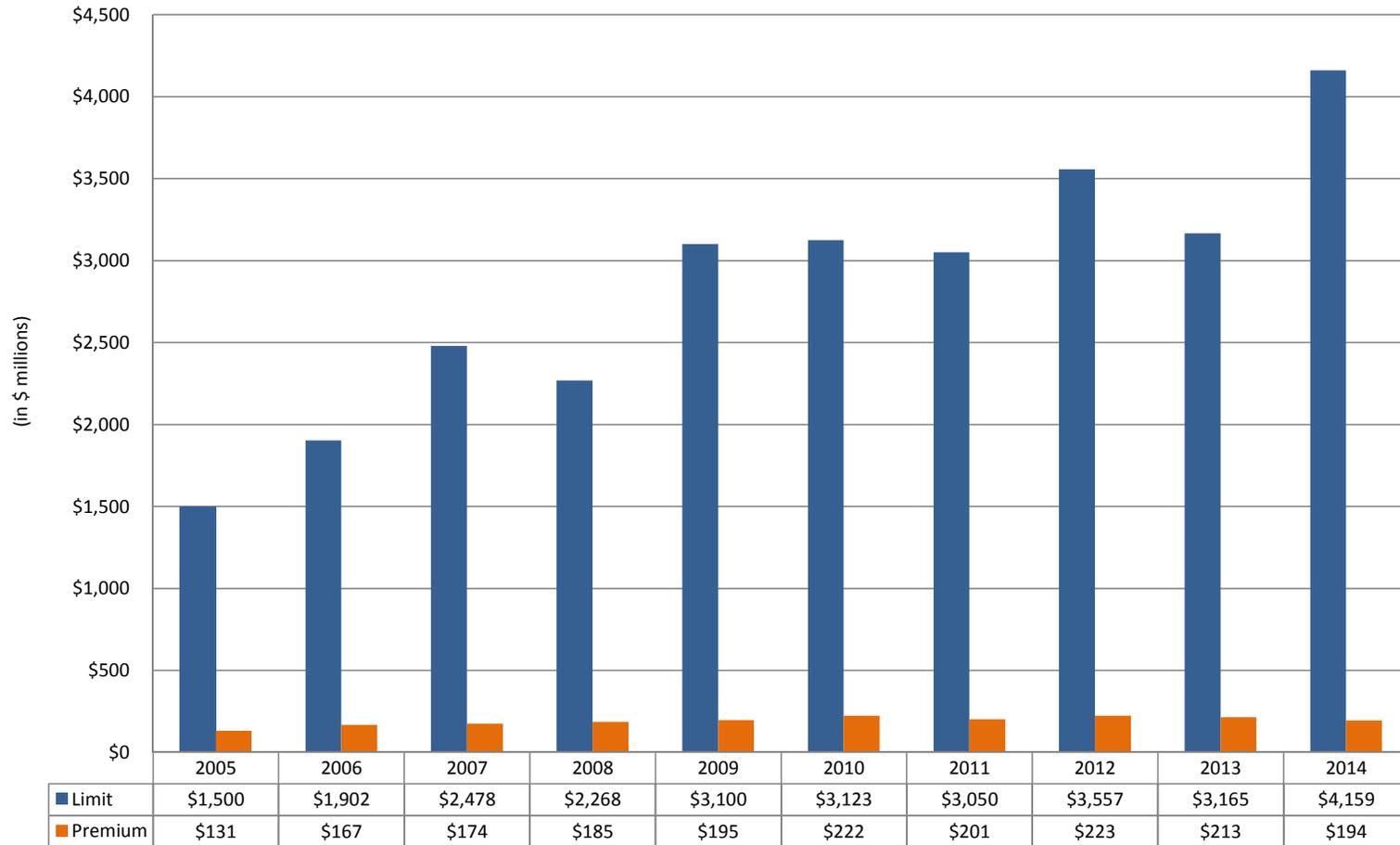
**California Earthquake Authority  
Annual Risk-Transfer Premium  
December 31, 2005 -December 31, 2014**



**California Earthquake Authority  
Annual Risk-Transfer Premium and Limit  
December 31, 1997 - December 31, 2004**



**California Earthquake Authority  
Annual Risk-Transfer Premium and Limit  
December 31, 2005 - December 31, 2014**



# Governing Board Memorandum

December 16, 2015

Agenda Item 5: Proposed 12-month CEA Risk-Transfer Strategy for 2016

Recommended Action: Approve proposed 12-month CEA Risk-Transfer Strategy for 2016

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## Background:

At the December 13, 2012, Governing Board meeting, CEA staff proposed to the Board new guidelines for procuring risk transfer and claim-paying capacity, including traditional reinsurance and alternative risk-transfer methods. At the same meeting, the Board approved a resolution adopting *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer* (the *Guidelines*) which was revised and approved by the Board on December 17, 2014.

In accordance with the *Guidelines*, CEA staff must provide the Board for review and approval, on at least an annual basis, a comprehensive risk-transfer strategy that sets forth the CEA's basic risk-transfer goals and benchmarks for the following year.

In its search for optimal sources of claim-paying capacity, staff has balanced the following objectives:

1. The CEA must remain financially sound, by securing and maintaining claim-paying capacity sufficient for policyholder claims in the event of an earthquake while retaining essential financial-strength and credit ratings.
2. The CEA must honor its value proposition with its customers, by establishing a financial structure that makes CEA insurance as affordable as possible and while supporting the claim-paying capacity necessary to provide earthquake coverage to more Californians.
3. Generate stability and longevity for the Authority, through a financial structure that ensures the CEA's continuation and enhances its ability to serve policyholders after a significant earthquake or series of earthquakes.

The staff analysis and recommendations below focus on these priorities.

## Analysis:

Historically, the CEA has relied on reinsurance—predominantly, traditional reinsurance—for about a third of its total claim-paying capacity. The cost of CEA's risk-transfer purchases (both traditional and transformer reinsurance) that are required to meet the CEA's capacity needs is, and has been for years, a significant recurring expense that compels high premium rates for CEA

policyholders—but at the same time most of the CEA’s risk-transfer premiums pass directly to offshore reinsurers.

Available capacity and price are subject to wide swings due to market conditions, global catastrophes, and other factors beyond CEA’s control. During 2013 and 2014, reinsurance market capacity has increased, resulting in market pressure for lower pricing. Multi-year reinsurance contracts (such as those provided through the CEA’s transformer-reinsurance transactions) relieve CEA of some year-to-year uncertainty, but there remain significant risks. While staff believes the risk-transfer limits CEA is likely to require for the next 12 months should be obtainable on acceptable terms, there is no guarantee that the capacity the CEA requires in the future will be available at CEA’s desired pricing and on CEA’s desired terms.

Because CEA has a fairly rigid financial structure that depends heavily on risk-transfer, any potential limits on traditional and transformer reinsurance-market capacity will affect, and may constrain, the overall claim-paying capacity of the CEA—and that can hinder CEA’s ability to provide affordable earthquake coverage to Californians.

With three highly successful transformer-reinsurance transactions completed in 2011 and 2012 and another, recent transaction just a few months ago in 2015, the CEA has well established access to the capital markets for risk-transfer, which means the CEA can access additional, strong sources of claim-paying capacity and risk-transfer, going forward.

As has been discussed frequently and at length with the Board in connection with its approvals of past risk-transfer proposals and transactions, the risk-transfer market is dynamic: Coordinating CEA’s risk-transfer needs with current market conditions is crucial, meaning the CEA must be positioned to execute risk-transfer transactions efficiently and effectively, when market conditions in the reinsurance and capital markets are, in the judgment of CEA financial staff and CEA’s retained professional financial, legal, reinsurance, and risk-transfer experts, likely to be receptive to the CEA’s participation and unique requirements.

The Board has recognized these needs by taking action: On December 13, 2012, it authorized CEA staff to accomplish these ends in a flexible, yet prudent, manner, to allow CEA to act quickly when market conditions are favorable to meet the tight time limits and deadlines inherent in highly time-sensitive risk-transfer transactions, in amounts and at pricing according to the staff’s discretion, while in full compliance with the Guidelines and under documented conditions.

### **Results of the 2015 Risk-Transfer Strategy (Board-Approved in 2014)**

During 2015, the CEA was able to obtain sufficient capacity to maintain the approved minimum claim-paying capacity of a 1-in-450-year level. Reinsurance capacity in both the traditional markets and capital markets remains strong and well capitalized allowing CEA the ability to reduce pricing for its risk-transfer program in obtaining the desired capacity level.

The 2015 program, as of December 1, 2015, is listed below with the pricing CEA was able to obtain for the programs:

Risk-Transfer Contracts as of 12/1/2015	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	2015 Premium
2015 January Program Contract 1	January 1, 2015 - December 31, 2015	315,491,770	4.50%	14,197,130
2015 January Program Contract 2	January 1, 2015 - December 31, 2015	178,387,500	3.25%	5,797,594
2015 January Program Contract 3	January 1, 2015 - December 31, 2015	99,999,960	6.00%	5,999,998
2015-2016 January Program Contract 1	January 1, 2015 - December 31, 2016	156,431,990	4.55%	7,117,656
2015-2016 January Program Contract 2	January 1, 2015 - December 31, 2016	146,871,900	3.30%	4,846,773
2015-2016 January Program Contract 3	January 1, 2015 - December 31, 2016	24,999,990	5.40%	1,349,999
2014-2015 January Program Contract 1	January 1, 2014 - December 31, 2015	454,227,620	5.50%	24,982,519
2014-2015 January Program Contract 2	January 1, 2014 - December 31, 2015	49,999,996	6.45%	3,225,000
2015-2016 April Program Contract 1	April 1, 2015 - March 31, 2016	624,992,490	3.00%	14,062,331
2014-2016 April Program Contract 1	April 1, 2014 - March 31, 2016	253,099,320	3.85%	9,744,324
2014-2016 April Program Contract 2	April 1, 2014 - March 31, 2016	122,499,960	3.75%	4,593,749
2015-2017 August Program Contract 2	August 1, 2015 - July 31, 2017	200,000,000	4.50%	3,750,000
2015-2016 August Program Contract 1	August 1, 2015 - July 31, 2016	187,500,000	5.50%	4,296,875
2015-2017 August Program Contract 1	August 1, 2015 - July 31, 2017	93,750,000	5.60%	2,187,500
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.80%	2,265,625
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000	4.20%	2,432,500
2015-2017 December Program Contract 1	December 1, 2015 - November 30, 2017	124,999,981	5.50%	572,917
2015-2017 December Program Contract 2	December 1, 2015 - November 30, 2017	49,999,950	5.60%	233,333
2015-2016 June Program	June 1, 2015 - May 31, 2016	25,000,000	3.60%	525,000
2013-2016 May Program	May 1, 2013 - April 30, 2016	100,000,000	5.60%	5,600,000
2014 - 2017 Transformer Reinsurance Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%	10,120,791
2014 - 2017 Transformer Reinsurance Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%	7,084,554
2015 - 2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 16, 2018	250,000,000	5.05%	5,233,642
<b>Total Transformer Reinsurance</b>		<b>4,091,002,427</b>		
New contracts inception in 2015				

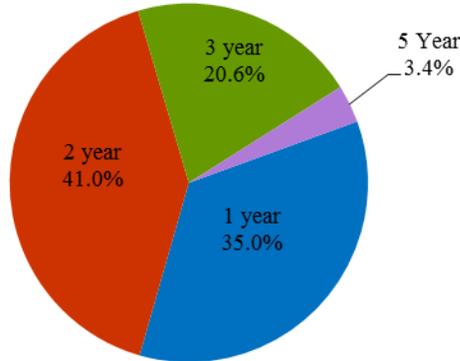
The table above shows the CEA's purchased risk-transfer contracts throughout the year, and the resulting program diversity minimizes the risk of adverse economic conditions having a negative effect on pricing. And because it buys throughout the year, the CEA can better match its need for risk-transfer to changes in exposures that in turn require capacity adjustments.

In 2015, the CEA continued to diversify its risk-transfer program by executing several multi-year reinsurance contracts, which together provide the CEA with uninterrupted long-term financing at lower prices. Multi-year contracts reduce the risk of a single year's market conditions preventing the CEA from obtaining risk-transfer capacity at suitable pricing, on favorable terms.

CEA entered into 16 new risk-transfer contracts in 2015, of which 10 were multi-year, including CEA's first five-year contract.

CEA returned to the capital markets in 2015 with a \$250,000,000 transformer reinsurance contract with Ursa Re Ltd.

**Total Participation by Contract Terms  
Based on Contracts in Effect on December 1, 2015**



**12-Month Risk-Transfer Strategy**

Staff proposes a 12-month risk-transfer strategy that will include risk-transfer programs of both traditional and transformer reinsurance, contributing appropriately and efficiently to a total claim-paying capacity of (at a minimum) a 1-in-450-year level and (at a maximum) a 1-in-550-year level.

CEA staff will strive in all transactions to obtain lower pricing and multi-year contracts with world-wide reinsurers and risk-transfer capital markets.

In keeping with past practices and Board preferences, staff will report the details of all transactions to the Board at the first Board meeting following the effective date of each transaction.

**Recommendation:**

Staff recommends the Board approve the proposed 12-month Risk-Transfer Strategy that is described above.

## Governing Board Memorandum

December 16, 2015

Agenda Item 6: Proposed change to CEA Investment Policies and Guidelines

Recommended Action: Approve change to CEA's Investment Policies and Guidelines

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### Background:

The CEA's Investment Policies and Guidelines (with associated memoranda (Attachment A)) was first written and adopted by the CEA Governing Board in 1997. At that time, total CEA claim-paying capacity was \$7.1 billion, which included just \$600 million of capital. The original Policies and Guidelines stated that the combined modified maximum duration of all securities in CEA's investments, across all funds, will not exceed 1.75 years—that duration guidance is still in place today.

### Analysis:

Since 1997, however, market and economic conditions have significantly changed, while the duration requirement has remained the same. Recent analysis has revealed an opportunity to re-examine the existing CEA investment policy pertaining to maximum duration of securities combined across all CEA's invested assets.

CEA's independent financial advisor, Raymond James, Inc., has reviewed the CEA duration requirement and has concluded that a reasonable increase in the maximum average duration across all invested assets in all funds, as embodied in the policy, could increase total investment income without increasing credit risk. Although mark-to-market risk would rise if interest rates rise day-to-day portfolio valuation as affected by mark-to-market accounting principles are not a central concern of the CEA—the CEA holds its investments to maturity and has ample risk-transfer contracts in place to meet liquidity needs after a large earthquake. See Attachment B, *Investment Policy and Portfolio Analysis*, for the result of that analysis.

### Conclusion:

Changes in the economy and market conditions, and growth in and strengthening of the CEA's capital structure, since 1997 have made the CEA's longstanding maximum portfolio duration of 1.75 years outdated. It should be modified to reflect current market, economic, and portfolio conditions.

Attachment C is a redlined version of the proposed change to the modified duration (see page three of the Investment Policies and Guidelines).

Recommendation:

Staff recommends that the Governing Board approve, consistent with the recommendation of the CEA's independent financial advisor, amending the CEA's Investment Policies and Guidelines to increase the combined maximum modified duration of CEA's investment portfolio from 1.75 years to 3.00 years.



INVESTMENT POLICIES AND GUIDELINES  
(with associated memorandum)

Current Version

# California Earthquake Authority

## Investment Policies and Guidelines

### INVESTMENTS

**Revised:** 12/31/02 (change for expatriate investments approved 12/19/02)  
Adopted: 08/01/02  
Revised: 06/20/02  
Revised: 10/28/99  
Revised: 05/28/98  
Revised: 10/09/97  
Revised: 11/01/96  
Adopted: 10/07/96

### **PHILOSOPHY**

The California Earthquake Authority (CEA) operates in a complex social-economic milieu, providing substantial disclosure of operations and investment activity, which places the CEA in a position where the integrity of investment activities should be above that of the private sector in socially responsible activities. The CEA has the social and ethical obligation to require that corporations in which securities are held meet a high standard of conduct in their operations. The act of investment in the securities of a corporation predominantly reflects a judgment that the ownership will produce a rate of return that will make it an attractive investment. Investments will not be made in companies that meet the criteria for expatriate companies. Expatriate companies are U.S. corporations that relocate, on paper, to offshore tax havens.

### **PRINCIPLES**

The preservation of principal and maximization of income will clearly be the primary and underlying criteria for the selection and retention of securities. Non-economic factors will supplement profit factors in making investment decisions. Non-economic factors are defined as those considerations not directly related to the maximization of income and preservation of principal. The consideration of non-economic factors is for the purpose of ensuring that the CEA, either through action or inaction, does not promote, condone, or facilitate social injury.

Social injury will be said to exist when the activities of a corporation serve to undermine basic human rights and dignities. Social injury may also be said to exist when the CEA perceives the practices of a corporation result in undesirable side effects for others, and

that the side effects are grave in nature. Side effects that may be deemed grave in nature shall include, but are not limited to the following.

- A. Practices which are known to endanger the environment, subject to current federal, state, and local law, including:
  - 1) Unsafe nuclear waste disposal;
  - 2) Ineffective or inadequate pollution control;
  - 3) Improper use of chemicals and contaminants; and
  - 4) Any practice which directly or indirectly endangers human health or the environment.
  
- B. Practices which result in the suppression of human rights including:
  - 1) The sale of weapons and technology to governments known to engage in the systematic suppression of human rights; and
  - 2) The sale or purchase of goods from countries known to employ forced labor.
  
- C. Practices which endanger human health including:
  - 1) Sale and distribution of known contaminated products;
  - 2) Sale and distribution of dangerous drugs; and
  - 3) Purchasing goods from or selling goods to companies known to disregard worker safety.

Investments shall not be selected or rejected based solely on social responsibilities. In general, social criteria, to the extent available, should be considered after all financial criteria have been satisfied.

The CEA portfolio consists of two funds, Liquidity Fund and Primary Reserve Fund. The following details the investment policy for each fund. The investments made in the two funds will have a combined maximum modified duration of 1.75 years.

## **LIQUIDITY FUND INVESTMENT POLICY**

### **FOREWORD**

The “Liquidity Fund” will consist of \$750 million in funds that will be utilized to pay the operating expenses and initial claims from an earthquake of the California Earthquake Authority (CEA).

### **GOAL I. PORTFOLIO SAFETY/DIVERSIFICATION**

The pool will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

**OBJECTIVE:** In addition to the safety provided by investing in high quality securities, the safety of the portfolio is enhanced three ways by maintaining a prudent mix (i.e., diversity) of investments: 1) Spreading investments over different investment types minimizes the impact any one industry/investment class can have on the portfolio; 2) Spreading investments over multiple credits/issuers within an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and 3) Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

**POLICY:** The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Approved investments are only those specifically authorized in this policy. All trades except direct issue commercial paper, bankers’ acceptances, certificates of deposit and bank notes will be conducted through “primary dealers”. Direct issue commercial paper, bankers’ acceptances, certificates of deposit and bank notes may be purchased directly from the issuer as long as these instruments otherwise meet the investment criteria outlined in the appropriate sections of this policy.

### **GOAL II. LIQUIDITY**

The pool will be managed to ensure that normal cash needs, as well as scheduled extraordinary cash needs can be met. Further, adequate liquidity shall be maintained to meet any unforeseen cash needs, whether ordinary or extraordinary.

**OBJECTIVE:** The “Liquidity Fund” will be managed so that 100% of the principal value of the Fund will be available within 181 days at par. This Fund consists of the monies that are utilized to pay the expenses of the California Earthquake Authority.

**POLICY:** First priority is given to maintaining specific calendar liquidity. While operating expenses can be reasonably forecast, this Fund may also be used for other purposes. Therefore, the portfolio should have laddered maturities to mitigate the necessity of liquidating securities before their maturity.

### **GOAL III. RATE OF RETURN**

Investments shall be made in such a way as to realize the maximum return consistent with safe and prudent treasury management.

**OBJECTIVE:** The rate of return will be maintained on a consistent level representative of current market yield direction.

**POLICY:** Sales gains/losses will not be incurred to the point of radically altering the final income from the portfolio. Significant sales gains will be offset for restructuring purposes to maintain consistent current return, as well as maximizing future portfolio performance. This portfolio is to be managed as a “par” portfolio. It is not expected that sales will generate significant gains or losses.

### **CONFORMANCE**

All of the foregoing goals, objective and policies shall be observed by the Investment Advisor, and will be monitored and reviewed continually by the Chief Financial Officer.

## **LIQUIDITY FUND MANAGEMENT GUIDELINES**

The California Earthquake Authority has set forth a general declaration of portfolio goals, objectives and policies. Following are various guidelines necessary to the good faith observance of these policies.

### **I. GUIDELINES FOR MAINTAINING SAFETY/DIVERSIFICATION**

There are few statutory limitations placed on individual categories of authorized investments. However, this does not entitle the Investment Advisor to “carte blanche” participation in these security types. In the absence of direct statutory limitations, the “prudent person rule” shall be utilized by the investment staff. As market conditions change altering credit risk, marketability, yield spreads, and securities availability, application of this rule shall govern any investment decision.

Compliance with investment policy should be measured on the date a security is purchased. If market fluctuation or reduction in portfolio size cause existing investments to exceed concentration limits, the portfolios should be returned to compliance when new investments are made. Following are various considerations/limitations as they pertain to specific investment types:

#### **A. \_\_\_\_\_ U.S. Treasury Securities**

- 1) Maximum maturity: Statutory: 30 years.  
Policy: 181 days
- 2) Maximum par value, total portfolio: None.
- 3) Maximum par value per name: None.
- 4) Maximum par value per maturity: None.
- 5) Credit: Full faith and credit of the Federal Government.

#### **B. \_\_\_\_\_ Federal Agency Securities**

- 1) Maximum maturity: Statutory: 30 years.  
Policy: 181 days
- 2) Maximum par value, total portfolio: 50%.

- 3) Maximum par value per name: 25%.
- 4) Maximum par value per maturity: None.
- 5) Credit: Despite the implied government guarantee, prudent investment practice necessitates constant credit analysis of certain issuing agencies. Market perception often limits the liquidity of these issues.

**C. Bankers Acceptances (BA)-Domestic/Foreign**

- 1) Maximum maturity: Statutory: None.  
Policy: 181 days
- 2) Maximum par value, total portfolio: 25%.
- 3) Maximum par value per name: 5%.
- 4) Maximum par value per maturity: None.
- 5) Credit:
  - a) The history of the acceptance market is spotless on “Failures to redeem.” This was true even through the years of WW II.
  - b) Geopolitical location is of prime concern when considering potential candidates. Internal, as well as border political and economic stability of the host country is of prime concern.
  - c) Liquidity as far as both credit risk and marketability in the secondary level are addressed.
  - d) The issuer of the BA will be rated in the highest rating category by all rating agencies that rate the issuer.

**D. Certificates of Deposits (CDs)**

- 1) Maximum maturity: Statutory: None.  
Policy: 181 days
- 2) Maximum par value, total portfolio: 25%.
- 3) Maximum par value per name: 5%.
- 4) Maximum par value per maturity: None.

- 5) Credit:
  - a) Criteria concerning loan make-up, Less Developed Countries (LDC) exposure, geographic location, market perceptions, and financial condition all serve to eliminate lesser names.
  - b) Liquidity as far as both credit risk and marketability in the secondary level are addressed. There must be a market for the name in which at least three major dealers will bid or offer at a given moment.
  - c) The issuer will be rated in the top short-term rating category by all rating agencies that rate the issuer.

#### **E. Commercial Paper (CP)**

- 1) Maximum maturity:
 

Statutory:	180 days.
Policy:	180 days.
- 2) Maximum par value, total portfolio:
 

Statutory:	30% of the current portfolio.
Policy:	25%.

  - a) If over 15% of the portfolio is invested in commercial paper, the dollar-weighted average maturity of the entire portfolio amount cannot exceed 31 days. Dollar-weighted average maturity means the sum of the amount of each outstanding commercial paper investment multiplied by the days to maturity, divided by the total amount of outstanding commercial paper.
- 3) Maximum par value per name:
 

Statutory:	10% of outstanding.
Policy:	5%.
- 4) Maximum par value per maturity:
 

	None.
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- 5) Credit:
  - a) Rated A1/P1 or equivalent quality as defined by a nationally recognized organization that rates such securities.
  - b) Organized and operating with the United States.
  - c) Have total assets in excess of five hundred million dollars (\$500,000,000).

#### **F. Corporate Bonds/Notes**

- 1) Maximum maturity: Statutory: None.  
Policy: 181 days
- 2) Maximum par value, total portfolio: 25%.
- 3) Maximum par value per name: 5%.
- 4) Maximum par value per maturity: None.
- 5) Credit: Securities eligible for investment under this subdivision must be issued by corporation (including banks) organized and operating within the United States and shall be within the top three ratings of a nationally recognized rating service.

#### **G. Repurchases (RP)**

- 1) Maximum maturity: Statutory: None.  
Policy: 181 days
- 2) Maximum par value, total portfolio: Statutory: None.  
Policy: 50%.  
Exception: Substantial cash disbursements may require the amount in overnight repurchase agreements to exceed the maximum par value. This exception may be in effect for no more than 10 days.
- 3) Maximum par value per counterparty: 10%.
- 4) Maximum par value per term maturity: 10%.
- 5) Credit:
  - a) Must have on file a signed Public Securities Association (PSA) Agreement.
  - b) Acceptable collateral includes Governments, Agencies (including Agency Mortgage-Backed Security (MBS), AAA-rate Asset Backed Securities (ABS), investment grade corporates and A1/P1 money market securities.
  - c) Acceptable collateral must be equal to 105% of the securities value (U.S. Treasuries are 102% collateralized).

#### **H. Reverse Repurchase Agreements (RRP)**

Reverse Repurchase Agreements are prohibited.

#### **I. Money Market Mutual Funds**

Shares of beneficial interest issued by diversified management companies, otherwise known as mutual funds, as defined in Section 23701(m) of the Revenue and Taxation Code. Mutual funds must consist of securities and obligations of the U.S. government authorized by Section 53601 of the California Government Code as amended. Said companies shall either:

- 1) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or
- 2) Have an investment adviser registered with the Securities and Exchange Commission with not less than five year's experience investing in the securities and obligations as authorized above, and with assets under management in excess of \$ 500,000,000. The price of shares of beneficial interest (mutual funds) shall not include any commission that these companies may charge at the time of purchase or redemption. No more than 15% of the fund may be invested in mutual funds except when large expense payments are anticipated (i.e., reinsurance premium payments).
- 3) Mutual Fund investments will be limited to Money Market Mutual Funds with a par value of \$1.00.

## **II. GUIDELINES FOR MAINTAINING LIQUIDITY**

The "Liquidity Fund" contains the Funds that will be utilized to pay ongoing operating and financing expenses. However, this Fund may be used to fund other purposes. Therefore, the portfolio must be managed so that all Funds can be converted to cash within 181 days. Maturities should be laddered within the 181 days allowed as the maximum investment. At least 10% of the Fund must be kept in cash or cash equivalents. A minimum of 25% of the portfolio will be invested in securities that mature overnight.

## **III. GUIDELINES FOR MAINTAINING RATE OF RETURN**

Safety of principal and adequate liquidity will be the overriding principles guiding the management of the Fund. After these two goals are met, rate of return can be considered. Trading for gains in the portfolio is not permitted. Securities in the Fund may be sold to furnish liquidity, because of a deterioration in credit quality of an issuer, or to purchase a security that better fits the current needs of the Fund.

Issued securities may be purchased only to the extent that there is adequate cash, maturities, or pending sales to fund the purchase. Short positions will not be taken at any time.

#### **IV. REPORTING**

The Investment Advisor will provide a monthly report on the portfolio to the Chief Financial Officer. The report as a minimum will include:

- 1) All securities currently held by the Fund with their book and market values.
- 2) All securities bought and sold by the Fund for the reporting period.
- 3) The average maturity and modified duration of the portfolio.
- 4) The credit rating of each security.
- 5) The book and market yield of each security.
- 6) Other information as requested by the Chief Financial Officer.

## **PRIMARY RESERVE FUND INVESTMENT POLICY**

### **FOREWORD**

The “Primary Reserve Fund” will consist of funds in excess of the Liquidity Fund maximum up to a combined \$2 billion, which represents the entire CEA portfolio. These funds will be utilized to pay claims following an earthquake. As such, the Primary Reserve Fund will not be managed like a normal insurance reserve fund. It will be managed as a short-term, liquidity Fund.

### **GOAL I. PORTFOLIO SAFETY/DIVERSIFICATION**

The pool will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

**OBJECTIVE:** In addition to the safety provided by investing in high quality securities, the safety of the portfolio is enhanced three ways by maintaining a prudent mix (i.e., diversity) of investments: 1) Spreading investments over different investment types minimizes the impact any one industry/investment class can have on the portfolio; 2) Spreading investments over multiple credits/issuers within an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and 3) Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

**POLICY:** The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Approved investments are only those specifically authorized in this policy. All trades, except direct issue commercial paper, bankers’ acceptances, certificates of deposit and bank notes will be conducted through “primary dealers”. Direct issue commercial paper, bankers’ acceptances, certificates of deposit and bank notes may be purchased directly from the issuer as long as these instruments otherwise meet the investment criteria outlined in the appropriate sections of this policy.

### **GOAL II. LIQUIDITY**

The pool will be managed to ensure that normal cash needs, as well as scheduled extraordinary cash needs can be met. Further, adequate liquidity shall be maintained to meet any unforeseen cash needs, whether ordinary or extraordinary.

**OBJECTIVE:** The “Primary Reserve Fund” will be managed so that 100% of the principal value of the Fund will be available when necessary after an earthquake. This Fund consists of the monies that are in the first payout position in the event of an earthquake.

**POLICY:** First priority is given to maintaining specific calendar liquidity. Claims when they occur will be paid out rapidly. Therefore, the portfolio should have laddered maturities to mitigate the necessity of liquidating securities before their maturity.

### **GOAL III. RATE OF RETURN**

Investments shall be made in such a way as to realize the maximum return consistent with safe and prudent treasury management.

**OBJECTIVE:** The rate of return will be maintained on a consistent level representative of current market yield direction.

**POLICY:** Sales will not be incurred to the point of radically altering the final income due to gain/loss from the portfolio. Significant sales gains will be offset for restructuring purposes to maintain consistent current return, as well as maximizing future portfolio performance. This portfolio is to be managed as a “par” portfolio. It is not expected that sales will generate significant gains or losses.

### **CONFORMANCE**

All of the foregoing goals, objective and policies shall be observed by the Investment Advisor or Asset Managers, and will be monitored and reviewed continually by the Chief Financial Officer.

## **PRIMARY RESERVE FUND MANAGEMENT GUIDELINES**

The California Earthquake Authority has set forth a general declaration of portfolio goals, objectives and policies. Following are various guidelines necessary to the good faith observance of these policies.

### **I. GUIDELINES FOR MAINTAINING SAFETY/DIVERSIFICATION**

There are few statutory limitations placed on individual categories of authorized investments. However, this does not entitle the Investment Advisor or Asset Managers to “carte blanche” participation in these security types. In the absence of direct statutory limitations, the “prudent person rule” shall be utilized by the investment staff. As market conditions change altering credit risk, marketability, yield spreads, and securities availability, application of this rule shall govern any investment decision.

Compliance with investment policy should be measured on the date a security is purchased. If market fluctuation or reduction in portfolio size cause existing investments to exceed concentration limits, the portfolios should be returned to compliance when new investments are made. Following are various considerations/limitations as they pertain to specific investment types:

#### **A. U.S. Treasury Securities**

- 1) Maximum maturity: Statutory: 30 years.  
Policy: 5 years
- 2) Maximum par value, total portfolio: None.
- 3) Maximum par value per name: None.
- 4) Maximum par value per maturity: None.
- 5) Credit: Full faith and credit of the Federal Government.

#### **B. Money Market Mutual Funds**

Shares of beneficial interest issued by diversified management companies, otherwise known as mutual funds, as defined in Section 23701(m) of the Revenue and Taxation Code. Mutual funds must consist of securities and obligations of the

U.S. government authorized by Section 53601 of the California Government Code as amended. Said mutuals shall either:

- 1) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or
- 2) Have an investment adviser registered with the Securities and Exchange Commission with not less than five year's experience investing in the securities and obligations as authorized above, and with assets under management in excess of \$ 500,000,000. The price of shares of beneficial interest (mutual funds) shall not include any commission that these companies may charge at the time of purchase or redemption. No more than 15% of the CEA portfolio may be invested in mutual funds. Exceptions to the 15% limitation are when the Primary Fund Asset Managers receive periodic funding for investments or are liquidating investments for claims payments.
- 3) Mutual Fund investments will be limited to Money Market Mutual Funds with a par value of \$1.00.

**C. Reverse Repurchase Agreements (RRP)**

Reverse Repurchase Agreements are prohibited.

**D. Federal Agency Securities**

Federal Agency Securities are not permitted.

**C. Bankers Acceptances (BA)-Domestic/Foreign**

Bankers Acceptances are not permitted.

**E. Certificates of Deposits (CDs)**

Certificates of Deposits are not permitted.

**F. Commercial Paper (CP)**

Commercial Paper is not permitted.

**G. Corporate Bonds/Notes**

Corporate Bonds/Notes are not permitted.

**H. Repurchases (RP)**

Repurchases are not permitted.

**II. GUIDELINES FOR MAINTAINING LIQUIDITY**

The “Primary Reserve Fund” contains the funds that will be paid out first in the event of earthquake claims. Therefore, the portfolio must be managed so that all Funds can be converted to cash when necessary after an earthquake. Maturities should be laddered, not exceed 5 years, so that funds will be available when necessary after an earthquake. Claims could be required to be paid as early as 6 (six) days after a catastrophic event.

**III. GUIDELINES FOR MAINTAINING RATE OF RETURN**

Safety of principal and adequate liquidity will be the overriding principles guiding the management of the Fund. After these two goals are met, rate of return can be considered. Trading for gains in the portfolio is not permitted. Securities in the Fund may be sold to furnish liquidity, because of deterioration in the credit quality of an issuer, or to purchase a security that better fits the then current needs of the Fund.

Issued securities may be purchased only to the extent that there is adequate cash, maturities or pending sales to fund the purchase. Short positions will not be taken at any time.

**IV. REPORTING**

The Investment Advisor or Asset Managers will provide a monthly report on the portfolio to the Chief Financial Officer. The report as a minimum will include:

- 1) All securities currently held by the Fund with their book and market values.
- 2) All securities bought and sold by the Fund for the reporting period.
- 3) The average maturity and modified duration of the portfolio.
- 4) The credit rating of each security.
- 5) The book and market yield of each security.
- 6) Other information as requested by the Chief Financial Officer.

## **MITIGATION FUND INVESTMENT POLICY**

### **FOREWORD**

The “Mitigation Fund” will consist of funds allocated in an amount up to 5% of the investment income on the CEA’s invested funds each calendar year or five million dollars, whichever is less. The funds will be utilized for the mitigation program and associated expenses.

### **GOAL I. PORTFOLIO SAFETY/DIVERSIFICATION**

The pool will be managed to insure the safety of the portfolio by investing in high quality securities and by maintaining a mix of securities that will provide reasonable assurance that no single investment or class of investments will have a disproportionate impact on the total portfolio.

**OBJECTIVE:** In addition to the safety provided by investing in high quality securities, the safety of the portfolio is enhanced three ways by maintaining a prudent mix (i.e., diversity) of investments: 1) Spreading investments over different investment types minimizes the impact any one industry/investment class can have on the portfolio; 2) Spreading investments over multiple credits/issuers within an investment type minimizes the credit exposure of the portfolio to any single firm/institution; and 3) Spreading investments over various maturities minimizes the risk of portfolio depreciation due to a rise in interest rates.

**POLICY:** The portfolio shall contain a sufficient number and diversity of marketable securities so that a reasonable portion of the portfolio can be readily converted to cash without causing a material change in the value of the portfolio. Approved investments are only those specifically authorized in this policy. All trades except direct issue commercial paper, bankers’ acceptances, certificates of deposit and bank notes will be conducted through “primary dealers”. Direct issue commercial paper, bankers’ acceptances, certificates of deposit and bank notes may be purchased directly from the issuer as long as these instruments otherwise meet the investment criteria outlined in the appropriate sections of this policy.

### **GOAL II. LIQUIDITY**

The pool will be managed to ensure that normal cash needs, as well as scheduled extraordinary cash needs can be met. Further, adequate liquidity shall be maintained to meet any unforeseen cash needs, whether ordinary or extraordinary.

**OBJECTIVE:** The “Mitigation Fund” will be managed so that 100% of the principal value of the Fund will be available within 91 days at par. This Fund consists of the monies that are utilized for the mitigation program and associated expenses.

**POLICY:** First priority is given to maintaining specific calendar liquidity. While operating expenses can be reasonably forecast, this Fund will also be used for other purposes. Therefore, the portfolio should have laddered maturities to mitigate the necessity of liquidating securities before their maturity.

### **GOAL III. RATE OF RETURN**

Investments shall be made in such a way as to realize the maximum return consistent with safe and prudent treasury management.

**OBJECTIVE:** The rate of return will be maintained on a consistent level representative of current market yield direction.

**POLICY:** Sales gains/losses will not be incurred to the point of radically altering the final income from the portfolio. Significant sales gains will be offset for restructuring purposes to maintain consistent current return, as well as maximizing future portfolio performance. This portfolio is to be managed as a “par” portfolio. It is not expected that sales will generate significant gains or losses.

### **CONFORMANCE**

All of the foregoing goals, objective and policies shall be observed by the Investment Advisor, and will be monitored and reviewed continually by the Chief Financial Officer.

## MITIGATION FUND MANAGEMENT GUIDELINES

The California Earthquake Authority has set forth a general declaration of portfolio goals, objectives and policies. Following are various guidelines necessary to the good faith observance of these policies.

### **I. GUIDELINES FOR MAINTAINING SAFETY/DIVERSIFICATION**

There are few statutory limitations placed on individual categories of authorized investments. However, this does not entitle the Investment Advisor to “carte blanche” participation in these security types. In the absence of direct statutory limitations, the “prudent person rule” shall be utilized by the investment staff. As market conditions change altering credit risk, marketability, yield spreads, and securities availability, application of this rule shall govern any investment decision.

Compliance with investment policy should be measured on the date a security is purchased. If market fluctuation or reduction in portfolio size cause existing investments to exceed concentration limits, the portfolios should be returned to compliance when new investments are made. Following are various considerations/limitations as they pertain to specific investment types:

#### **A. U.S. Treasury Securities**

- 1) Maximum maturity: Statutory: 30 years.  
Policy: 91 days.
- 2) Maximum par value, total portfolio: None.
- 3) Maximum par value per name: None.
- 4) Maximum par value per maturity: None.
- 5) Credit: Full faith and credit of the Federal Government.

#### **B. Federal Agency Securities**

- 1) Maximum maturity: Statutory: 30 years.  
Policy: 91 days.
- 2) Maximum par value, total portfolio: 50%.
- 3) Maximum par value per name: 25%.

- 4) Maximum par value per maturity: None.
- 5) Credit: Despite the implied government guarantee, prudent investment practice necessitates constant credit analysis of certain issuing agencies. Market perception often limits the liquidity of these issues.

**C. Bankers Acceptances (BA) -Domestic/Foreign**

- 1) Maximum maturity: Statutory: None.  
Policy: 91 days.
- 2) Maximum par value, total portfolio: 25%.
- 3) Maximum par value per name: 5%.
- 4) Maximum par value per maturity: None.
- 5) Credit:
  - a) The history of the acceptance market is spotless on “Failures to redeem.” This was true even through the years of WW II.
  - b) Geopolitical location is of prime concern when considering potential candidates. Internal, as well as border political and economic stability of the host country are of prime concern.
  - c) Liquidity as far as both credit risk and marketability in the secondary level are addressed.
  - d) The issuer of the BA will be rated in the highest rating category by all rating agencies that rate the issuer.

**D. Certificates of Deposits (CDs)**

- 1) Maximum maturity: Statutory: None.  
Policy: 91 days.
- 2) Maximum par value, total portfolio: 25%.
- 3) Maximum par value per name: 5%.
- 4) Maximum par value per maturity: None.
- 5) Credit:

- a) Criteria concerning loan make-up, Less Developed Countries (LDC) exposure, geographic location, market perceptions, and financial condition all serve to eliminate lesser names.
- b) Liquidity as far as both credit risk and marketability in the secondary level are addressed. There must be a market for the name in which at least three major dealers will bid or offer at a given moment.
- c) The issuer will be rated in the top short-term rating category by all rating agencies that rate the issuer.

#### **E. Commercial Paper (CP)**

- 1) Maximum maturity: Statutory: 180 days.  
Policy: 91 days.
- 2) Maximum par value, total portfolio: Statutory: 30% of the current portfolio.  
Policy: 25%.
  - a) If over 15% of the portfolio is invested in commercial paper, the dollar-weighted average maturity of the entire portfolio amount cannot exceed 31 days. Dollar-weighted average maturity means the sum of the amount of each outstanding commercial paper investment multiplied by the days to maturity, divided by the total amount of outstanding commercial paper.
- 3) Maximum par value per name: Statutory: 10% of outstanding.  
Policy: 5%.
- 4) Maximum par value per maturity: None.
- 5) Credit:
  - a) Rated A1/P1 or equivalent quality as defined by a nationally recognized organization which rates such securities.
  - b) Organized and operating with the United States.
  - c) Have total assets in excess of five hundred million dollars (\$500,000,000).

#### **F. Corporate Bonds/Notes**

- 1) Maximum maturity: Statutory: None.

Policy: 91 days.

- 2) Maximum par value, total portfolio: 25%.
- 3) Maximum par value per name: 5%.
- 4) Maximum par value per maturity: None.
- 5) Credit: Securities eligible for investment under this subdivision must be issued by corporation (including banks) organized and operating within the United States and shall be within the top three ratings of a nationally recognized rating service.

#### **G. Repurchases (RP)**

- 1) Maximum maturity: Statutory: None.  
Policy: 91 days.
- 2) Maximum par value, total portfolio: Statutory: None.  
Policy: 50%.  
Exception: Substantial cash disbursements may require the amount in overnight repurchase agreements to exceed the maximum par value. This exception may be in effect for no more than 10 days.
- 3) Maximum par value per counterparty: 10%.
- 4) Maximum par value per term maturity: 10%.
- 5) Credit:
  - a) Must have on file a signed Public Securities Association (PSA) Agreement.
  - b) Acceptable collateral includes Governments, Agencies (including Agency Mortgage-Backed Security (MBS), AAA-rate Asset Backed Securities (ABS), investment grade corporates and A1/P1 money market securities.
  - c) Acceptable collateral must be equal to 105% of the securities value (U.S. Treasuries are 102% collateralized).

#### **H. Reverse Repurchase Agreements (RRP)**

Reverse Repurchase Agreements are prohibited.

#### **I. Money Market Mutual Funds**

Shares of beneficial interest issued by diversified management companies, otherwise known as mutual funds, as defined in Section 23701(m) of the Revenue and Taxation Code. Mutual funds must consist of securities and obligations of the U.S. government authorized by Section 53601 of the California Government Code as amended. Said companies shall either:

- 1) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or
- 2) Have an investment adviser registered with the Securities and Exchange Commission with not less than five year's experience investing in the securities and obligations as authorized above, and with assets under management in excess of \$ 500,000,000. The price of shares of beneficial interest (mutual funds) shall not include any commission that these companies may charge at the time of purchase or redemption.
- 3) Mutual Fund investments will be limited to Money Market Mutual Funds with a par value of \$1.00.

## **II. GUIDELINES FOR MAINTAINING LIQUIDITY**

The "Mitigation Fund" contains the Funds that will be utilized for the mitigation program and associated expenses. The portfolio must be managed so that all Funds can be converted to cash within 90 days. Maturities should be laddered within the 91 days allowed as the maximum investment. At least 10% of the Fund must be kept in cash or cash equivalents.

## **III. GUIDELINES FOR MAINTAINING RATE OF RETURN**

Safety of principal and adequate liquidity will be the overriding principles guiding the management of the Fund. After these two goals are met, rate of return can be considered. Trading for gains in the portfolio is not permitted. Securities in the Fund may be sold to furnish liquidity, because of deterioration in the credit quality of an issuer, or to purchase a security that better fits the current needs of the Fund.

Issued securities may be purchased only to the extent that there is adequate cash, maturities, or pending sales to fund the purchase. Short positions will not be taken at any time.

## **IV. REPORTING**

The Investment Advisor will provide a monthly report on the portfolio to the Chief Financial Officer. The report as a minimum will include:

- 1) All securities currently held by the Fund with their book and market values.
- 2) All securities bought and sold by the Fund for the reporting period.
- 3) The average maturity and modified duration of the portfolio.
- 4) The credit rating of each security.
- 5) The book and market yield of each security.
- 6) Other information as requested by the Chief Finance Officer.

## **SUPPLEMENTAL ACCOUNT INVESTMENT POLICY**

### **FOREWORD**

The “Supplemental Account” will consist of premiums collected from supplemental coverage to the CEA basic earthquake policy. These funds will be paid to the reinsurers as premium for supplemental earthquake coverage. The premium for each month will be collected in the fund and then paid within 60 days.

### **GOAL I. PORTFOLIO SAFETY**

The pool will be managed to insure the safety of the portfolio by investing in high quality money market mutual funds.

### **GOAL II. LIQUIDITY**

The pool will be managed to ensure that timely premium payments can be made to the reinsurers. The “Supplemental Account” will be managed so that 100% of the principal value of the account will be available.

### **GOAL III. RATE OF RETURN**

Investments shall be made in such a way as to realize the maximum return consistent with safe and prudent treasury management. The rate of return will be maintained on a consistent level representative of current market yield direction.

### **CONFORMANCE**

All of the foregoing goals, objective and policies shall be observed by the Investment Advisor, and will be monitored and reviewed continually by the Chief Financial Officer.

## **SUPPLEMENTAL ACCOUNT MANAGEMENT GUIDELINES**

### **I. GUIDELINES FOR MAINTAINING SAFETY**

#### **Money Market Mutual Funds**

Shares of beneficial interest issued by diversified management companies, otherwise known as mutual funds, as defined in Section 23701(m) of the Revenue and Taxation Code. Mutual funds must consist of securities and obligations of the U.S. government authorized by Section 53601 of the California Government Code as amended. Said companies shall either:

- 1) Attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services; or
- 2) Have an investment adviser registered with the Securities and Exchange Commission with not less than five year's experience investing in the securities and obligations as authorized above, and with assets under management in excess of \$ 500,000,000. The price of shares of beneficial interest (mutual funds) shall not include any commission that these companies may charge at the time of purchase or redemption. 100% of the fund must be invested in mutual funds.
- 3) Mutual Fund investments will be limited to Money Market Mutual Funds with a par value of \$1.00.

### **II. GUIDELINES FOR MAINTAINING LIQUIDITY**

The "Supplemental Account" contains funds that will be paid to the reinsurers as premium for supplemental earthquake coverage. The premium for each month will be collected in the fund and then paid within 60 days. The portfolio must be managed so that all funds are available for disbursements.

### **III. GUIDELINES FOR MAINTAINING RATE OF RETURN**

Safety of principal and adequate liquidity will be the overriding principles guiding the management of the Account. After these two goals are met, rate of return can be considered.

#### **IV. REPORTING**

The Investment Advisor will provide a monthly report on the portfolio to the Chief Financial Officer. The report as a minimum will include:

- 1) All money market funds currently held by the Account with their book and market values.
- 2) All money market funds bought and sold by the Account for the reporting period.
- 3) Other information as requested by the Chief Financial Officer.

**CEA Investment Policies and Guidelines****Investments****(Continued)****Interpretative Memoranda**

Listed here for reference; attached in following pages

<b>Date</b>	<b>Document</b>	<b>Subject</b>
Dec. 31, 2002	Memorandum	Investment in Expatriate Companies
Jan. 30, 2008	E-mail Instruction	Divest CEA Money Market Funds
Mar. 14, 2008	Memorandum of Instructions	CEA Investment Portfolio - Re-purchase Agreements
Mar. 28, 2008	Memorandum of Instructions	CEA Liquidity Fund – Remaining Re-purchase Agreements
May 21, 2008	Memorandum of Instructions	Cash Balances in Investment Funds
Nov. 12, 2008	Memorandum of Instruction	Advance Purchases of U.S. Treasuries
June 18, 2009	Memorandum of Clarification	Calculation of Three-Month Average Ending Balance for Invoices
Aug. 21, 2009	Memorandum of Clarification	Clarification of the Maximum Days-to-Maturity Limit in the CEA's Investment Policies and Guidelines
Nov. 23, 2009	Memorandum of Instruction	Permissible Investments in Commercial Paper
Dec. 27, 2010	Memorandum	Primary Reserve Fund Clarification of Investment Guidelines
Dec. 30, 2010	Memorandum	Mitigation Fund Clarification of Investment Guidelines
Dec. 30, 2010	Memorandum	Liquidity Fund Clarification of Investment Guidelines
Dec. 30, 2010	Memorandum	Claims Paying Fund Clarification of Investment Guidelines
Sep. 8, 2011	Memorandum of Instruction	Securities in Broker/Dealers' Inventory
July 23, 2012	Memorandum	Negative Short-Term U.S. Treasury Yields
Aug. 21, 2012	Memorandum of Instruction	Maximum Modified Duration – Primary Funds
Sep. 10, 2012	Memorandum of Instruction	Federal Home Loan Bank Discount Notes
Oct. 22, 2012	Memorandum of Instruction	Maximum Average Modified Duration – Liquidity Funds
Feb 4, 2013	Memorandum of Instruction	Trade Costs Breakeven Analysis

**MEMORANDUM**

DATE: December 31, 2002  
TO: Asset Managers  
FROM: Mark Dawson  
RE: Investment in Expatriate Companies

The CEA Board of Directors, at the request of the California State Treasurer, approved a policy to preclude the CEA from investing in expatriate companies. The Treasurer defines expatriate companies as U.S. corporations that relocate, on paper, to offshore tax havens. Attached is a letter from the Treasurer to the CEA Board of Directors Chairman that further explains his position concerning CEA investments in expatriate companies.

Therefore, please do not invest in any companies that meet the expatriate criteria explained above. Also attached is an updated version of the CEA Investment Policies that includes the new policy in the Philosophy section on page 1.

Please call if you have any questions.

## E-MAIL INSTRUCTION

**From:** Mark Dawson  
**Sent:** Wednesday, January 30, 2008 9:34 AM  
**To:** Asset Managers  
**Cc:** Tim Richison; Trudi Miller  
**Subject:** Divest CEA Money Market Funds

CEA Investment Managers,

Effective immediately, please divest any CEA holdings in money market mutual funds. For those investment managers that use the SSgA U.S. Government Money Market Fund, the CEA has notified State Street Bank to discontinue the use of the automatic sweep into that fund. Until further instruction from the CEA, please retain the proceeds from the money market funds as cash until you are able to invest them in securities allowed by the CEA's investment policies for the portfolio in which you are responsible.

Please call if you have any questions or need further information.

Regards,

Mark



Mark R. Dawson, CPA  
Controller & Assistant CFO  
California Earthquake Authority  
801 K Street, 10th Floor  
Sacramento, CA 95814  
(916) 325-3865  
fax (916) 327-8270

## MEMORANDUM OF INSTRUCTION

DATE: March 14, 2008  
TO: Asset Managers  
FROM: Tim Richison, CFO  
CC: Mark Dawson; Trudi Miller – CEA  
RE: CEA Investment Portfolio - Re-purchase Agreements

CEA currently holds re-purchase agreements with several institutions. In reviewing the overall portfolio investments, we have determined that a change is in order. Please make the following investment changes effective on Monday March 17, 2008.

### Liquidity Fund

1. Reduce the amount of re-purchase agreements held in the Liquidity fund to only one holding - Deutsche Bank Securities Inc Repo in the amount of \$70 million.
2. Invest the monies from the other three holdings - Banc of America Securities LLC Repo (\$47.5 million), BNP Paribas Securities Repo (\$70 million), and Morgan Stanley & Co., Inc. Repo (\$35 million) – in short-term maturity Treasury Bills.

### CEA Claims Fund

1. Eliminate re-purchase agreements in the Claims fund entirely.
2. Invest the monies from the four holdings - Banc of America Securities LLC Repo (\$24.75 million), Deutsche Bank Securities Inc Repo (\$26 million), BNP Paribas Securities Repo (\$26 million), and Merrill Lynch Pierce Fenner & Smith, Inc. Repo (\$26 million) – in short-term maturity Treasury Bills.

We will be eliminating re-purchase agreements entirely from CEA's investment portfolio in the next week or two and implementing a new cash management strategy. We will setup a phone call to go over the new strategy when we have it complete.

If you have any questions about these instructions or their implementation, please contact me immediately.

## MEMORANDUM OF INSTRUCTION

DATE: March 28, 2008  
TO: Asset Managers  
FROM: Tim Richison, CFO  
CC: Mark Dawson; Trudi Miller – CEA  
RE: CEA Liquidity Fund – Remaining Re-purchase Agreements

The CEA's Liquidity Fund currently holds re-purchase agreement with Deutsche Bank Securities Inc Repo in the amount of \$70 million. Please make the following investment changes effective Monday, March 31, 2008:

1. Eliminate the remaining re-purchase agreement for the Liquidity Fund.
2. Retain \$50 million of the proceeds from the Deutsche Bank Securities Inc re-purchase agreement as cash in the Liquidity Fund to finance the CEA's second quarter reinsurance premiums. CEA will transfer the monies for the reinsurance premium on Tuesday, April 1<sup>st</sup>.
3. Invest the remaining \$20 million of the proceeds from the Deutsche Bank Securities Inc re-purchase agreement in short-term maturity Treasury Bills.

If you have any questions about these instructions or their implementation, please contact me immediately.

## MEMORANDUM OF INSTRUCTION

DATE: May 21, 2008  
 TO: Asset Managers  
 FROM: Tim Richison, CFO  
 CC: Danny Marshall; Mark Dawson; Trudi Miller – CEA  
 RE: Cash Balances in Investment Funds

The cash balances in our investment funds should be maintained at a low level. The current CEA Investment Policies Guidelines for Maintaining Liquidity indicate that “A minimum of 25% of the portfolio will be invested in securities that mature overnight.” This guideline is suspended until further notice for all of CEA’s investment funds.

Please invest the cash balances in the CEA Claims Paying and Supplemental Claims Paying funds in securities approved by the CEA.

Please invest the monies in the Loss Mitigation Fund in the following securities that are described in the Mitigation Fund investment policies.

- U. S. Treasury Securities
- Federal Agency Securities
- Bankers Acceptances (BA) -Domestic/Foreign
- Certificates of Deposits (CDs)
- Commercial Paper (CP)
  - Please be sure to follow CEA’s instructions regarding the purchase of commercial paper that were issued on January
- Corporate Bonds/Notes

Do not invest Mitigation Fund monies in the following securities listed in the Mitigation Fund investment policies.

- Repurchases (RP)
- Reverse Repurchase Agreements (RRP)
- Money Market Mutual Funds

The average length of maturity for securities in the Mitigation Fund should be in accordance with the Liquidity Objective stated in the Mitigation Investment policies – “The “Mitigation Fund” will be managed so that 100% of the principal value of the Fund will be available within 91 days at par.”

CEA will monitor the maturities of securities in the Mitigation Fund so that periodic needs for cash for expenses are met. We will prepare a schedule of cash needs and notify you of any deviations.

If you have any questions regarding these instructions, please contact me immediately.

## MEMORANDUM OF INSTRUCTION

**DATE:** November 12, 2008  
**TO:** Asset Managers  
**FROM:** Mark Dawson  
**CC:** Tim Richison, Trudi Miller - CEA  
**RE:** Advance Purchases of U.S. Treasuries

Effective immediately, and until further notice from the CEA, investment managers may purchase U.S. Treasuries up to two days in advance of their corresponding settlement date. In addition, the settlement date may coincide with maturity of other U.S. Treasuries that will be used to fund the purchase. For example, if a \$1 million Treasury matures on a Thursday, then the investment manager may purchase a \$1 million Treasury on the proceeding Tuesday with a settlement date on Thursday.

This procedure applies to only U.S. Treasuries within the same portfolio.

## MEMORANDUM OF CLARIFICATION

**DATE:** June 18, 2009  
**TO:** Asset Managers  
**FROM:** Mark Dawson  
**CC:** Tim Richison, Trudi Miller - CEA  
**RE:** Calculation of Three-Month Average Ending Balance for Invoices

Currently, the investment manager contracts describe the calculation of the quarterly investment management fees as follows:

1. Summing the fair market value of the aggregate assets under management at the close-of-business on the last day of each month of the calendar quarter and dividing by three to determine an “average monthly aggregate asset balance.”
2. Multiplying the average monthly aggregate asset balance by  $\frac{1}{4}$  of a certain number of annual basis points that serve as annual compensation for investment management services.

During the recent investment manager meeting held at the CEA’s office on May 19, 2009, the investment managers and the CEA discussed the definition of fair market value in relation to calculating of the quarterly investment manager fees. The question of pertinence was whether or not fair market value included accrued interest.

After the investment manager meeting, CEA Finance staff discussed the issue internally and determined that the definition of fair market value used to calculate the investment manager fees should include accrued interest. The decision was based on definition of fair market value provided by the United States Supreme Court decision in the *Cartwright* case<sup>1</sup> that states in pertinent part:

*“The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts”.*

Since the buyer of a security would have to pay for any accrued interest at the time of purchase, the price, and hence, the fair market value, would include the accrued interest.

Therefore, effective as of the date of this memorandum, CEA investment managers will interpret the “average monthly aggregate asset balance” used to calculate their quarterly fee as follows:

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<sup>1</sup> *United States v. Cartwright*, 411 U.S. 546, 93 S. Ct. 1713, 1716-17, 36 L. Ed. 2d 528, 73-1 U.S. Tax Cas. (CCH) ¶ 12,926 (1973)

*The sum of the fair-market-value, including accrued interest, of the aggregate assets under management at the close-of-business on the last day of each month of the calendar quarter and dividing by three.*

Please use this memo's interpretation of the "average monthly aggregate asset balance" to calculate quarterly fees for the three-months ended June 30, 2009 and forward. The CEA will begin the process of drafting an addendum to the investment manager contract to clarify the calculation. In the mean time, please contact me at (916) 325-3865 if you have any questions.

## MEMORANDUM OF CLARIFICATION

**DATE:** August 21, 2009  
**TO:** Asset Managers  
**FROM:** Mark Dawson  
**CC:** Tim Richison, Trudi Miller - CEA  
**RE:** Clarification of the Maximum Days-to-Maturity Limit in the CEA's Investment Policies and Guidelines

Currently, the CEA's Investment Policies and Guidelines (the Policies) set forth maximum days-to-maturity limits for the security types in each of the CEA's investment portfolios. The language describing the maximum days-to-maturity limits reads as follows, using the Liquidity Fund as an example:

*"The "Liquidity Fund" will be managed so that 100% of the principal value of the Fund will be available within 181 days at par."*

Furthermore, the Policies express a maximum days-to-maturity limit for each security type as follows (once again using the Liquidity Fund as an example):

*Maximum maturity: Statutory: 30 years*  
*Policy: 181 days*

However, the term "within 181 days" may be subject to the following two interpretations:

1. The maximum days-to-maturity limit is inclusive of the 181<sup>st</sup> day, or
2. The maximum days-to maturity limit does not include the 181<sup>st</sup> day.

Therefore, this memorandum is to clarify that the term "within 181 days" means the security must mature before the 181<sup>st</sup> day, or in other words, the security must mature in 180 days or less. The same interpretation applies to all maximum days-to-maturity limits in the Policies whether they be "within 91 days", as is the case for the Loss Mitigation Fund, or "within 5 years", as is the case with the Primary Funds.

In addition to the clarification above, this memo also sets forth the calculation of the number of days to maturity as starting on the Trade Date the security was purchased up to, but not including, the date the security matures or is sold. The reason for this calculation is two-fold:

- 1) The CEA contractually owns the security, and is at risk for the security, on the day it was purchased (Trade Date) even though the CEA doesn't take possession of the security, transfer funds, or accrue interest until Settlement Date, and
- 2) Since the CEA receives total remuneration for the security on the date of maturity or the sale date, the CEA is not considered to have owned the security for that day.

This memorandum of clarification is effective immediately. If you have any questions regarding this memorandum, please direct them to Mark Dawson at (916) 325-3865 or Tim Richison at (916) 325-3813.

**MEMORANDUM OF INSTRUCTION**

**DATE:** November 23, 2009  
**TO:** Asset Managers  
**FROM:** Mark Dawson  
**CC:** Tim Richison, Trudi Miller - CEA  
**RE:** Permissible Investments in Commercial Paper

This Memorandum is to reiterate on behalf of CEA the following CEA Investment Policy considerations regarding commercial-paper securities.

1. Consistent with California Insurance Code section 10089.6, subdivision (b), and California Government Code section 16430, subdivision (f), eligible commercial paper for the CEA's Liquidity, Claims Paying, and Mitigation Funds is limited to commercial paper from issuing corporations, trusts, and limited liability companies expressly approved by the State of California's Pooled Money Investment Board ("PMIB") and expressly designated by PMIB as an "Active Issuer." The CEA will use reasonable efforts to continue to provide updated PMIB-approval lists, as updates are made available by the PMIB and the California State Treasurer's Office ("STO") on their website at <http://www.treasurer.ca.gov/pmia-laif/investments/cp.pdf>, to all CEA investment managers responsible for managing commercial-paper assets in one of the CEA's funds referenced above. Please be advised, however, that a prime responsibility of the CEA investment managers is, and continues to be, to assure that commercial paper investments made on behalf of CEA fall within all relevant statutes and guidelines, including the guidelines noted immediately above—if for whatever reason CEA should happen in the future not to furnish a list of PMIB-approved commercial-paper issuers to investment managers, that prime responsibility remains in place and is not thereby diminished or changed.
2. In determining on behalf of CEA whether to invest, or not to invest, in eligible commercial paper from PMIB-approved "Active Issuers," investment managers are directed to exercise utmost discretion and care based on the investment managers' own credit analyses and sound professional judgment.

**MEMORANDUM**

DATE: December 27, 2010  
TO: Asset Managers  
FROM: Tim Richison  
CC: Mark Dawson, Trudi Miller, Tracy Palombo, Kyle Koelbel - California Earthquake Authority (CEA)  
RE: Primary Reserve Fund Clarification of Investment Guidelines.

This memorandum is to clarify instructions and eligible investments for the investment management of the California Earthquake Authority Primary Reserve Fund. We are all aware that in recent years the global financial markets have experienced a period of extreme volatility and uncertainty. Due to the increased volatility in the market the CEA has at times instructed to investment managers to shorten duration in order to reduce fluctuations in portfolio market value. The CEA recognizes that we may still experience times of uncertainty both now and in the future, but wanted to clarify that the duration mandate no longer applies. I feel it is in the best interest of the CEA to allow our investment managers to exercise their best professional judgment to manage their portion of the portfolio. This allows the CEA to maximize the benefit from the diverse views and experiences of our investment managers. As stated in the investment policy the combined portfolio duration of all CEA assets may not exceed 1.75 (this includes assets of the Liquidity Fund, Claims Paying Fund, Loss Mitigation Fund, and Primary Reserve Fund). The CEA will continue to monitor this and communicate to investment managers if the combined portfolio duration approaches the 1.75.

The fund structure of the CEA has evolved since the investment policy was originally written. The Liquidity Fund has grown to a size such that it can accommodate pay out of the first claims in the event of an earthquake. Therefore the guideline for maintaining liquidity for the Primary Reserve Fund should be to ensure funds will be available when necessary after an earthquake.

In addition, I would like to reiterate the eligible securities for the Primary Fund based on the interpretation of The State of California Government Code 16430. Currently only Treasury Bills and Notes with maturities of less than 5 years are allowed. Therefore money market mutual funds, Treasury Inflation-Protected Securities (TIPS), and Agency Securities are not currently allowed.

If you have any questions regarding the clarification laid out above please contact me immediately for further clarification. Otherwise, please respond with your acknowledgement of having received this memo and your understanding of the guidelines.

**MEMORANDUM**

DATE: December 30, 2010  
TO: Asset Managers  
FROM: Tim Richison  
CC: Mark Dawson, Trudi Miller, Tracy Palombo, Kyle Koelbel - California Earthquake Authority (CEA)  
RE: Mitigation Fund Clarification of Investments Guidelines.

This memorandum is to clarify instructions and eligible investments for the investment management of the California Earthquake Authority Mitigation Fund. We are all aware that in recent years the global financial markets have experienced a period of extreme volatility and uncertainty. Due to the increased volatility in the market the CEA has issued various memos to investment managers regarding eligible investments and guidelines. Some of these memos may contradict what is in the current investment policy and I would like to clarify the investment and liquidity guidelines for the Mitigation Fund.

The fund structure of the CEA has evolved since the investment policy was originally written. The portfolio should be managed to ensure all funds can be converted into cash within 91 days commensurate with the maximum maturity allowed. Further, adequate liquidity shall be maintained to meet any unforeseen cash needs.

In addition, I would like to reiterate the eligible securities for the Mitigation Fund based on the interpretation of The State of California Government Code 16430. Currently only Treasury Securities, Federal Agency Securities, Bankers Acceptances, Certificates of Deposits, Commercial Paper, and Corporate Bonds/Notes are allowed. Therefore money market mutual funds, Treasury Inflation-Protected Securities (TIPS), Repurchases, and Reverse Repurchase Agreements are not currently allowed. The credit, maturity, and concentration restrictions in the investment policy still apply to each allowable investment type.

**If you have any questions regarding the clarification laid out above please contact me immediately for further clarification. Otherwise, please respond with your acknowledgement of having received this memo and your understanding of the guidelines.**

**MEMORANDUM**

DATE: December 30, 2010  
TO: Asset Managers  
FROM: Tim Richison  
CC: Mark Dawson, Trudi Miller, Tracy Palombo, Kyle Koelbel – California Earthquake Authority (CEA)  
RE: Liquidity Fund Clarification of Investment Guidelines.

This memorandum is to clarify instructions and eligible investments for the investment management of the California Earthquake Authority Liquidity Fund. We are all aware that in recent years the global financial markets have experienced a period of extreme volatility and uncertainty. Due to the increased volatility in the market the CEA has issued various memos to investment managers regarding eligible investments and guidelines. Some of these memos may contradict what is in the current investment policy and I would like to clarify the investment and liquidity guidelines for the Liquidity Fund

The fund structure of the CEA has evolved since the investment policy was originally written. The CEA no longer requires that 25% of the portfolio be invested in securities that mature overnight. Cash and liquidated/matured securities will be utilized to pay the operating expenses and initial claims from an earthquake to California Earthquake Authority (CEA) policyholders. The portfolio should be managed to ensure that normal cash needs can be met. Further, adequate liquidity shall be maintained to *meet any* unforeseen cash needs.

In addition, I would like to reiterate the eligible securities for the Liquidity Fund based on the interpretation of The State of California Government Code 16430. Currently only Treasury Securities, Federal Agency Securities, Bankers Acceptances, Certificates of Deposits, Commercial Paper, and Corporate Bonds/Notes are allowed. Therefore money market mutual funds, Treasury Inflation-Protected Securities (TIPS), Repurchases, and Reverse Repurchase Agreements are not currently allowed. The credit, maturity, and concentration restrictions in the investment policy still apply to each allowable investment type.

**If you have any questions regarding the clarification laid out above please contact me immediately for further clarification. Otherwise, please respond with your acknowledgement of having received this memo and your understanding of the guidelines.**

**MEMORANDUM**

DATE: December 30, 2010  
TO: Asset Managers  
FROM: Tim Richison  
CC: Mark Dawson, Trudi Miller, Tracy Palombo, Kyle Koelbel – California Earthquake Authority (CEA)  
RE: Claims Paying Fund Clarification of Investment Guidelines.

This memorandum is to clarify instructions and eligible investments for the investment management of the California Earthquake Authority Claims Paying Fund. We are all aware that in recent years the global financial markets have experienced a period of extreme volatility and uncertainty. Due to the increased volatility in the market the CEA has at times instructed to investment managers to shorten duration in order to reduce fluctuations in portfolio market value. The CEA recognizes that we may still experience times of uncertainty both now and in the future. I feel it is in the best interest of the CEA to allow our investment managers to exercise their best professional judgment to manage the portfolio. This allows the CEA to maximize the benefit from the diverse views and experiences of our investment managers. As stated in the investment policy the combined portfolio duration of all CEA assets may not exceed 1.75 (this includes assets of the Liquidity Fund, Claims Paying Fund, Loss Mitigation Fund, and Primary Reserve Fund). The CEA will continue to monitor this and communicate to investment managers if the combined portfolio duration approaches 1.75.

The fund structure of the CEA has evolved since the investment policy was originally written. Cash and liquidated/matured securities will be utilized to pay the operating expenses and claims from an earthquake to California Earthquake Authority (CEA) policyholders. The portfolio should be managed to ensure that normal cash needs can be met. Further, adequate liquidity shall be maintained to meet any unforeseen cash needs.

In addition, I would like to reiterate the eligible securities for the Claims Paying Fund based on the interpretation of The State of California Government Code 16430. Currently only Treasury Securities, Federal Agency Securities, Bankers Acceptances, Certificates of Deposits, Commercial Paper, and Corporate Bonds/Notes are allowed. Therefore money market mutual funds, Treasury Inflation-Protected Securities (TIPS), Repurchases, and Reverse Repurchase Agreements are not currently allowed. The credit, maturity, and concentration restrictions in the investment policy still apply to each allowable investment type.

**If you have any questions regarding the clarification laid out above please contact me immediately for further clarification. Otherwise, please respond with your acknowledgement of having received this memo and your understanding of the guidelines.**

**MEMORANDUM OF INSTRUCTION**

DATE: September 8, 2011  
TO: Asset Managers  
FROM: Mark Dawson  
CC: Tim Richison, Trudi Miller, Tracy Palombo - CEA  
John Forney, Kapil Bhatia - Raymond James  
RE: Securities in Broker/Dealers' Inventory

This memorandum is to reinforce and to expand upon the Memorandum of Instruction regarding the advance purchase of Treasuries that was dated and distributed to the CEA investment managers on November 11, 2008. The intent of the 2008 memorandum was to permit the investment managers to purchase U.S. Treasuries two-days in advance of settlement date and thus allow the broker/dealers sufficient time to receive the security into their inventory and to successfully deliver the security to the CEA on time. The goal was to avoid failed trades at a time when U.S. Treasuries were in high demand and short supply.

In addition to the written memorandum regarding the advance purchase of Treasuries, the CEA, during conference calls and on-site visits, strongly encouraged its investment managers to inquire of the broker/dealers as to whether or not the dealer had a security in its inventory before executing a trade order. Again, the goal was to assure timely delivery of the security to the CEA and avoid failed trades.

Therefore, this memorandum serves to formally encourage your firm to enquire as to whether or not a broker/dealer has a security in its inventory before executing a trade order. If you have any questions relating to the memorandum, please do not hesitate to call Tim Richison or me at (916) 325-3800.

Attachment: Copy of Memo - Advance Purchase of Treasuries 11-12-08.pdf

**MEMORANDUM**

DATE: July 23, 2012  
TO: Asset Managers  
FROM: Mark Dawson  
RE: Negative Short-Term U.S. Treasury Yields

This memorandum is to put into writing CEA's current stance on securities with negative yields, as discussed during the conference call between the CEA and the CEA's investment managers on July 23, 2012. Given the increasing level of volatility and uncertainty in the global economy, CEA has recognized the possibility of short-term Treasury securities to exhibit negative yields in the near future.

Should short-term U.S. Treasury yields be negative, and the CEA investment managers are not able to locate any suitable securities that are in compliance with the CEA's Investment Policies and Guidelines and California Government Code Section 16430, the investment managers have the CEA's permission to hold any invested or matured funds and income in the CEA's custodian cash account at State Street Bank until a suitable security presents itself or until the CEA provides further instructions.

**MEMORANDUM OF INSTRUCTION**

DATE: August 21, 2012  
TO: Asset Managers  
FROM: Mark Dawson  
RE: Maximum Modified Duration – Primary Funds

The CEA's Investment Policies and Guidelines state that its combined portfolios (comprised of the Primary Fund, the Liquidity Fund, the Earthquake Loss Mitigation Fund, and the Claims Paying Account) must not exceed a maximum modified duration of 1.75 years. During the past couple years of economic downturn, CEA's Primary Fund managers have been gradually extending the duration of their portfolios to pick up conservative basis points in an environment of historically low interest rates. As a result of the increasing duration in CEA's Primary Fund portfolios, CEA's combined portfolio is now approaching the maximum modified duration years.

To help prevent CEA's combined portfolio from exceeding the maximum modified duration of 1.75, CEA hereby instructs the Primary Fund managers to maintain a modified duration of 2.0 years or less for their respective Primary Fund portfolios. Please note that the new modified duration limit is an average and does not apply to specific trades or securities. Therefore, the investment managers may hold or purchase securities with durations of greater than 2.0 years, as long as the average modified duration of the Primary Fund manager's portfolio is equal to or less than 2.0 years before and after the trade. In addition, the maximum security maturity of 5 years or less still applies to all individual securities in the Primary Fund portfolios.

## MEMORANDUM OF INSTRUCTION

DATE: September 10, 2012  
TO: Asset Managers  
FROM: Mark Dawson  
RE: Federal Home Loan Bank Discount Notes

After a careful and conservative examination of California Government Code Section 16430, the California Earthquake Authority (CEA) has deemed that Federal Home Loan Bank (FHLB) discount notes are not an eligible security for CEA's investment portfolios. Section 16430(e)(3) states, in pertinent part, that eligible securities shall be

*“Bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act (12 U.S.C. Sec. 1421 et seq.).”*

Furthermore, the Federal Home Loan Bank Act (12 U.S.C Sec. 1443) enumerates the forms of bank stock and obligations as being stock, debentures, bonds, notes, or other obligations, of which only bonds and debentures are referenced in California Government Code Section 16430.

As of September 7, 2012, CEA's Liquidity Fund (account #10696540), Liquidity-A Fund (account #10066579), and Loss Mitigation Fund (account #10696656) hold FHLB discount notes. Therefore, CEA requires that your firm submit immediately a plan to CEA outlining the divestiture of these securities in a manner that does not result in a realized loss to the CEA, either in a net transaction or in an individual security or lot-level transaction.

Please notify CEA when you have your plan to resolve this issue so CEA can review and approve your intended actions.

If you have any questions, please contact me immediately.

**MEMORANDUM OF INSTRUCTION**

DATE: October 22, 2012  
TO: Asset Managers  
FROM: Mark Dawson  
RE: Maximum Average Modified Duration - Liquidity Funds

The CEA's Investment Policies and Guidelines state that its combined portfolios (comprised of the Primary Fund, the Liquidity Fund, the Earthquake Loss Mitigation Fund, and the Claims Paying Account) must not exceed a maximum modified duration of 1.75 years. In order to prevent CEA's combined portfolio from exceeding the maximum modified duration of 1.75 years, CEA hereby instructs the Liquidity Fund managers to maintain an average modified duration of 0.2 years or less for the respective Liquidity Fund portfolios. Please note that the new modified duration limit is an average and does not apply to specific trades or securities. Therefore, the investment managers may hold or purchase securities with durations of greater than 0.2 years, as long as the average modified duration of the Liquidity Fund manager's portfolio is equal to or less than 0.2 years before and after the trade. In addition, the maximum maturity for individual securities is still subject to CEA's Liquidity Fund Investment Policies and Guidelines, California Government Code 16430, and any interpretative memoranda issued by the CEA.

If you have any questions regarding the new Liquidity Fund modified duration limit stated above, please contact me immediately. Otherwise, please respond with your acknowledgement of having received this memorandum and your understanding of the guidelines contained herein.

## MEMORANDUM OF INSTRUCTION

DATE: February 4, 2013  
TO: Asset Managers  
FROM: Mark Dawson  
CC: Raymond James – Kapil Bhatia, Sasha Stipanovich, Rick Patterson  
CEA Finance  
RE: Trade Costs Breakeven Analysis

CEA has analyzed the banking costs associated with executing trades in its portfolios. In general, and under current market conditions, trades for securities with durations of less than 0.5 years and for amounts less than \$1 million will cost more than the estimated returns on the investments.

Therefore, investment managers are encouraged to avoid these low-dollar short-duration trades and, instead, hold cash until an investment opportunity of a larger amount or longer duration can be achieved.

# Investment Policy Analysis

Prepared for:



December 2015

**RAYMOND JAMES**

## CEA INVESTMENT PORTFOLIO SUMMARY

- The CEA's investment policy was created in 1997 and that time total claims-paying capacity was \$7.1 billion with \$600 million of capital – the total maximum duration\* was 1.75 years with a maximum maturity of 5 years for Treasury securities
- Since 1997, market and economic conditions have significantly changed with Treasury rates decreasing by approximately 5%, or from 6.30% in 1997 to the current rate of 1.64% for 5-year Treasuries
- CEA's capital structure is significantly stronger today with claims-paying capacity of \$11.6 billion with \$4.9 billion of capital, or an increase of 714% in capital
- As a result of the changes in market conditions and the CEA's capital structure since 1997, the CEA's maximum duration is obsolete and we propose an increase of duration from 1.75 years to 3.00 years
  - An increase in duration does not increase credit risk and only has a marginal impact on mark-to-market risk

*\* Duration is defined as an approximate measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Modified duration reflects changes in the value of a security subject to a change in interest rates.*

## CEA INVESTMENT POLICIES AND PORTFOLIO OVERVIEW

- CEA's investment portfolio totals over \$5.8 billion with an effective duration of 1.69 years and is comprised of four funds:

- Liquidity,
- Primary,
- Claims-paying and
- Mitigation funds

CEA Investment Portfolio Statistics					
Fund	Market Value (\$MM)	Composition (% of Mkt. Value)	12-Month Total Return	12-Month Income Return	Effective Duration (Years)
Liquidity	\$946	16.1%	0.09%	0.01%	0.19
Primary	\$4,221	72.1%	0.92%	1.37%	1.97
Claims-Paying	\$669	11.4%	1.01%	1.44%	2.14
Mitigation	\$22	0.4%	0.09%	0.54%	0.10
<b>Total</b>	<b>\$5,858</b>	<b>100.0%</b>	<b>0.79%</b>	<b>1.16%</b>	<b>1.69</b>
<b>Primary and Liquidity Combined</b>	<b>\$5,167</b>	<b>88.2%</b>	<b>0.77%</b>	<b>1.12%</b>	<b>1.64</b>
<b>Primary, Liquidity, and Claims-Paying Combined</b>	<b>\$5,836</b>	<b>99.6%</b>	<b>0.80%</b>	<b>1.16%</b>	<b>1.70</b>

Market value and duration data as of November 25, 2015.

Return data as of October 31, 2015.

- All four funds are managed pursuant to their own investment policies
- The maximum effective duration pursuant to the investment policy for the total portfolio is 1.75 years since CEA's inception
- CEA can only invest in securities eligible under California Government Code section 16430
- The California Government Code section 16430 is very strong in credit
- The CEA Investment Policies are even more conservative and specify additional guidelines than California Government Code section 16430, including:
  - Maximum effective duration,
  - Defines minimum criteria for securities and the maturity limits, and
  - Maximum values each security type can represent as a percentage of the entire portfolio

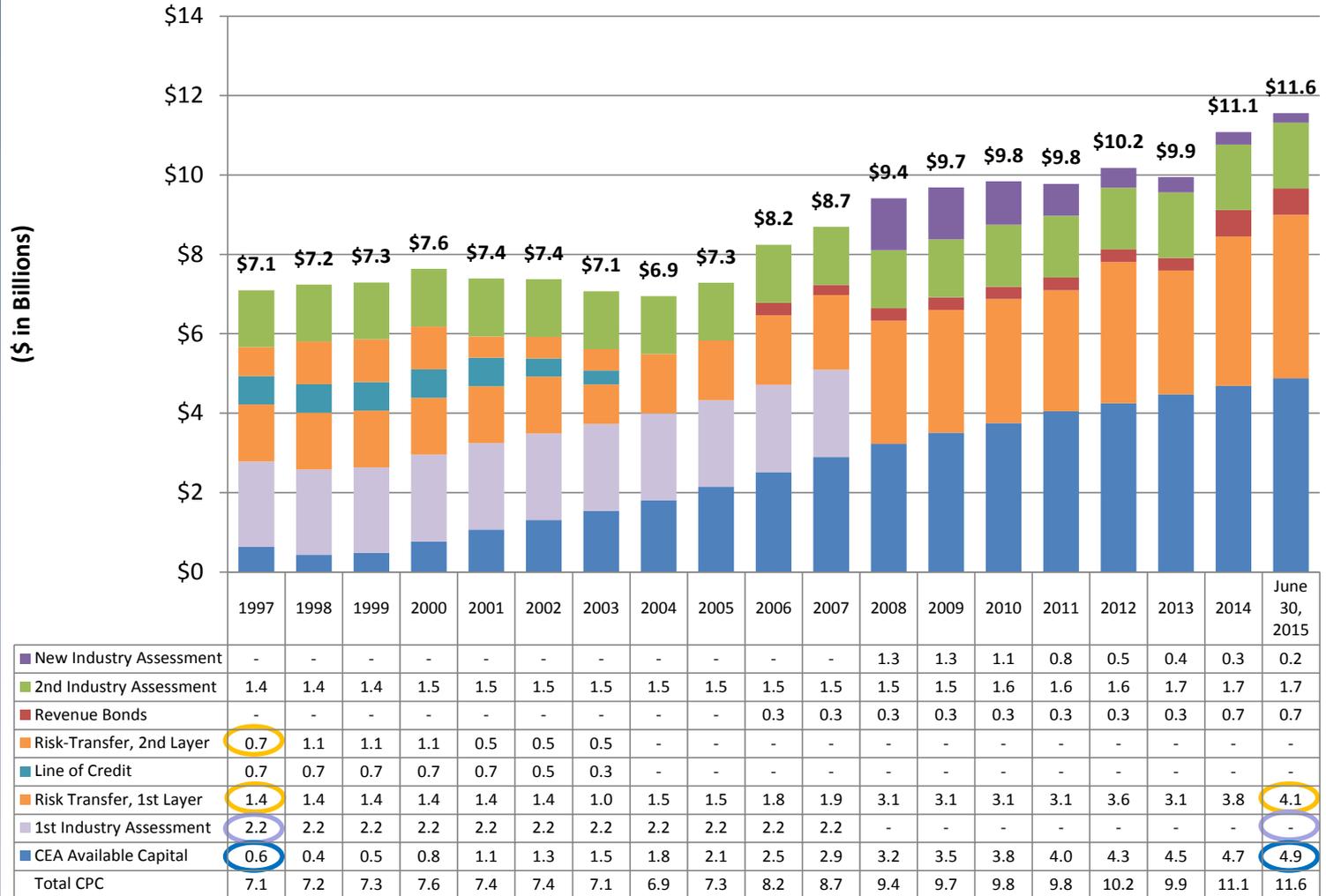
- CEA's investment portfolio is comprised of four funds: liquidity, primary, claims-paying and mitigation funds

- The Liquidity Fund has a maximum maturity of 181 days and the Mitigation Fund has a maximum maturity of 91 days

- The CEA currently has a diversified portfolio managed by 13 investment managers

## CEA CAPITAL STRUCTURE – 1997-2015

### CEA Historical Claims-Paying Capacity (1997 - June 30, 2015)



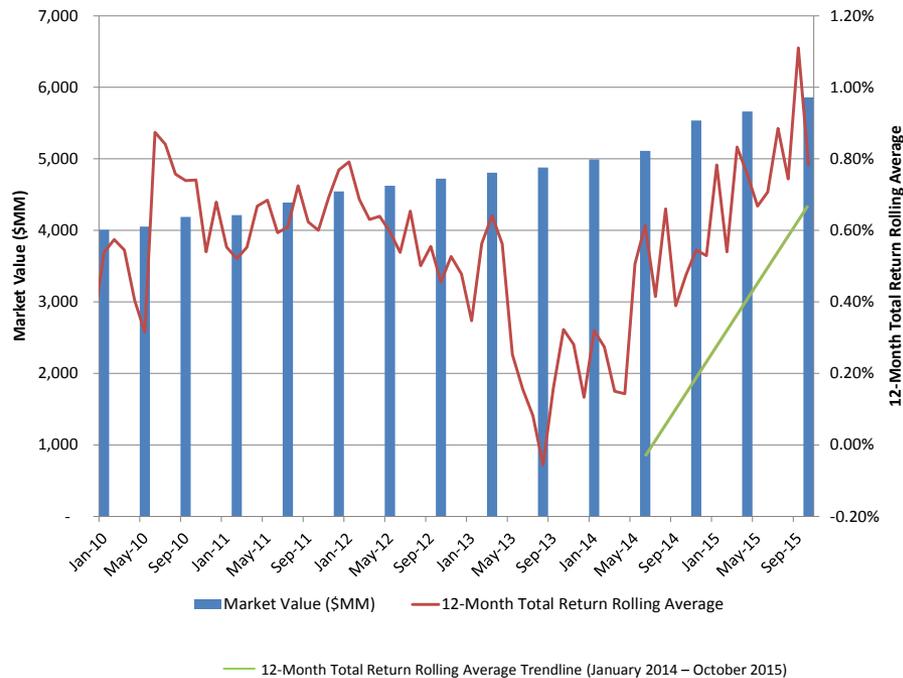
- CEA’s capital structure is significantly stronger today
- CEA’s investment policy is based on total modified duration – CEA’s 1.75 year duration limit is obsolete
- CEA’s risk transfer program is much stronger today as it has increased from \$2.2 billion in 1997 to \$4.1 billion as of June 30, 2015
- The claims-paying fund is not used until after the risk transfer program is exhausted – the claims-paying fund is an integral and growing part of the CEA’s capital structure as an additional claims-paying resource since 2006, but has moved up in the capital structure



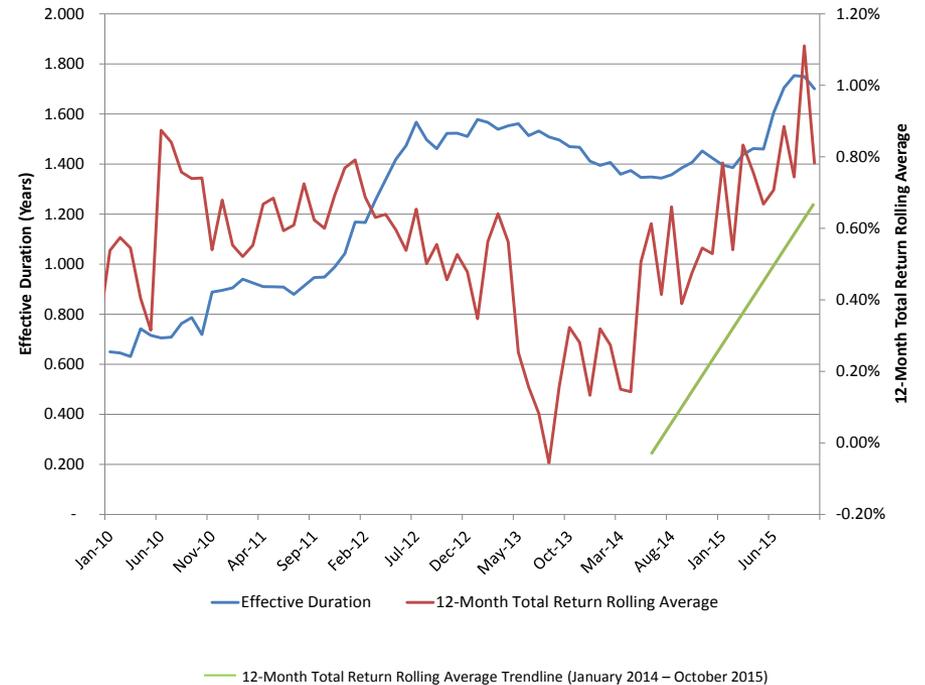
## CEA INVESTMENT PORTFOLIO HISTORY (2010-2015) – TOTAL

- The CEA’s total investment portfolio market value has grown from \$4.0 billion in January 2010 with a 12-month total return rolling average of 0.54% and an effective duration of 0.65 years to over \$5.8 billion in October 2015 with a 12-month total return rolling average of 0.78% and an effective duration of 1.70 years

CEA Investment Portfolio History - Total Funds

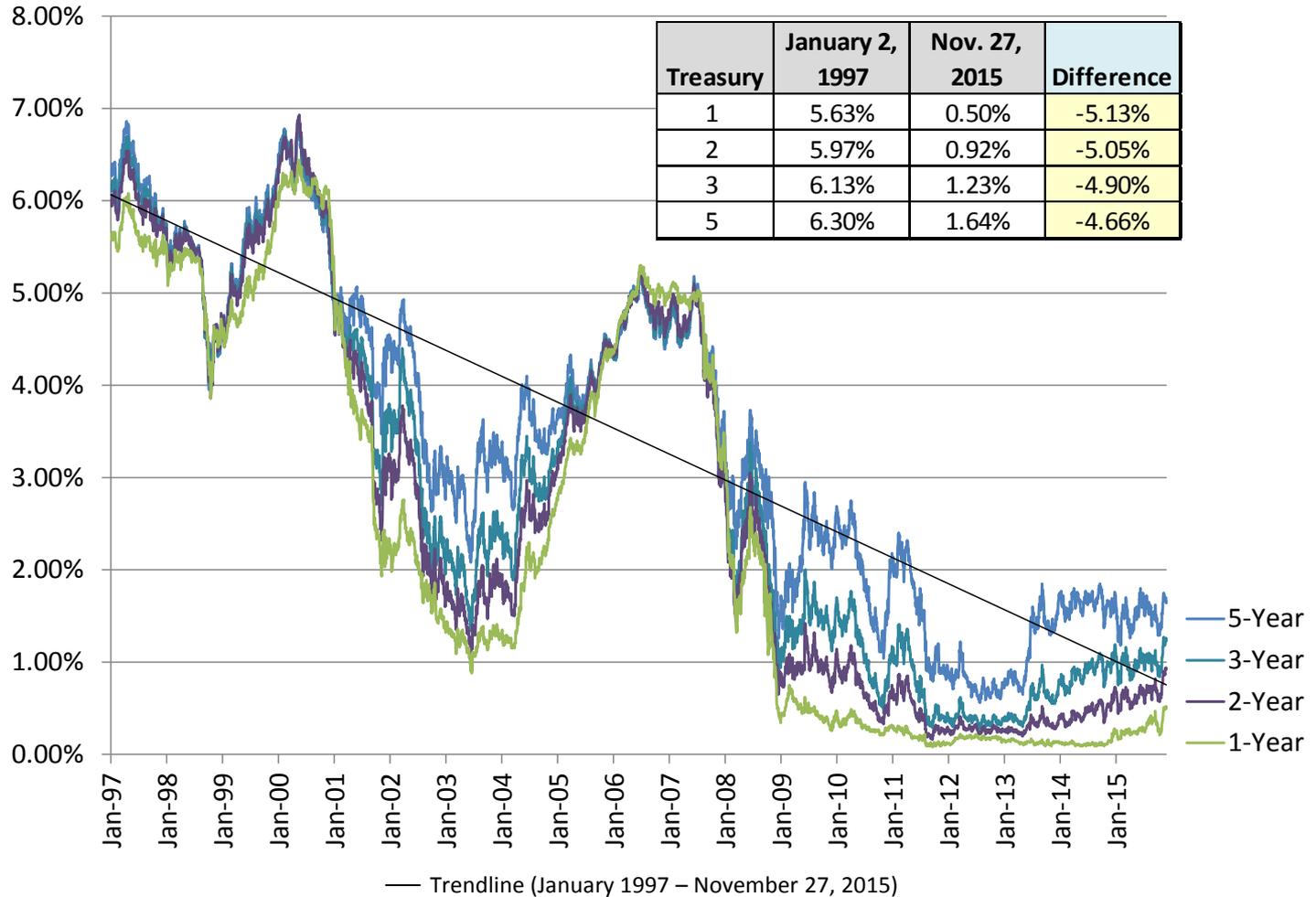


CEA Investment Portfolio History - Total Funds



## HISTORICAL TREASURY RATES – 1997-2015

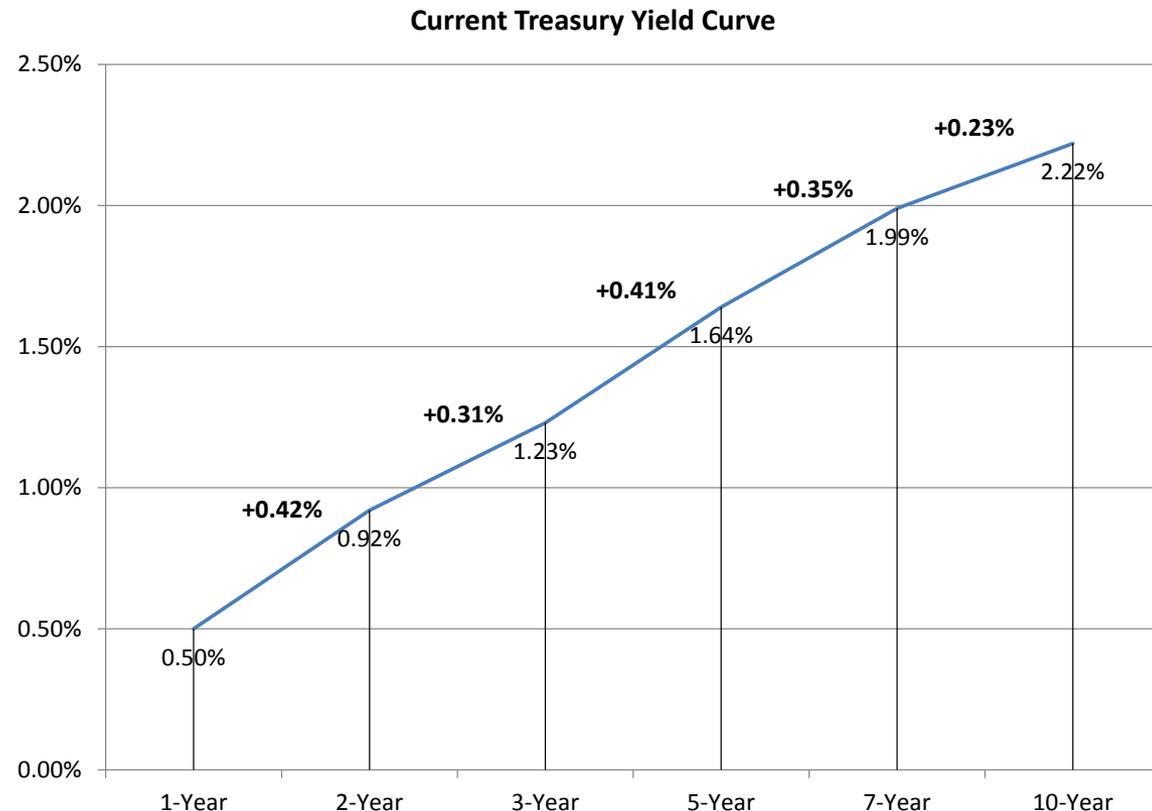
### Treasury Rates (1997-2015)



- In January 1997, the 1-year Treasury was 5.63% and is now 0.50%, which is a decrease of 5.13%
- In January 1997, the 3-year Treasury was 6.13% and is now 1.23%, which is a decrease of 4.90%
- In January 1997, the 5-year Treasury was 6.30% and is now 1.64%, which is a decrease of 4.66%

## HISTORICAL TREASURY AND LIBOR RATES – 2010-2015

- Treasury rates are above their historical lows but still below their 5 and 10-year historical averages
- The difference in the interpolated 1.75-year and 3.00-year Treasury rates has averaged 0.34% over the past five years and is currently 0.42%



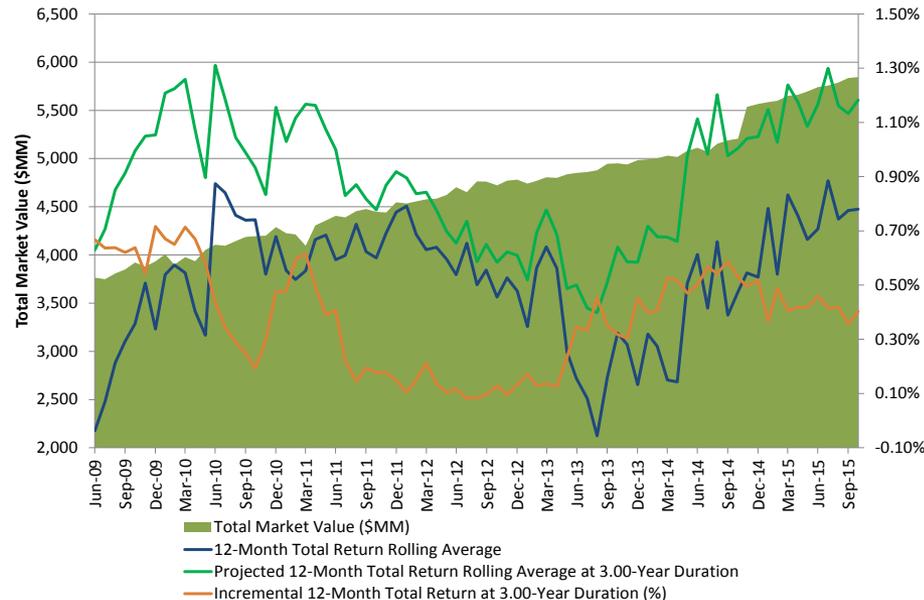
- The yield curve is steep as investors are expecting the Federal Reserve to raise interest rates in December 2015, or early 2016
- The Federal Reserve can increase the short-term rates, but long-term rates reflect global economic conditions and are not expected to increase

**DURATION RECOMMENDATION – INCREASE OF 1.25 YEARS FROM 1.75 TO 3.00 YEARS**

As interest rates are expected to rise beginning in late 2015, CEA can take advantage of the yield curve by increasing its portfolio’s duration by 1.25 years or from 1.75 years to 3.00 years

- If the CEA had an investment portfolio duration of 3.00 years starting in 2010 based on an average of 80% of the total investment portfolio, or \$3.8 billion, the portfolio would have an incremental total return of approximately \$79 million, or an incremental 12-month total return rolling average of 0.35%
- If the CEA had an investment portfolio duration of 3.00 years starting in 2010 based on an average total market value of approximately \$4.8 billion, the total investment portfolio would have an incremental total return of approximately \$98 million, or an incremental 12-month total return rolling average of 0.35%

**CEA Total Investment Portfolio Analysis - Incremental Total Return at 3.00-Year Duration**



- CEA can take significant advantage of the yield curve steepness by increasing the duration of the portfolio by 1.25 years to 3.00 years
- By increasing the duration of the portfolio but not changing anything else, the CEA would not take on any additional risk except a marginal increase in duration risk
- However, this risk is partially mitigated as the CEA fund balance has significantly increased since the 1.75 year duration limit was implemented; the market value in July 2009 was \$3.8 billion and is now over \$5.8 billion, or an increase of 54%

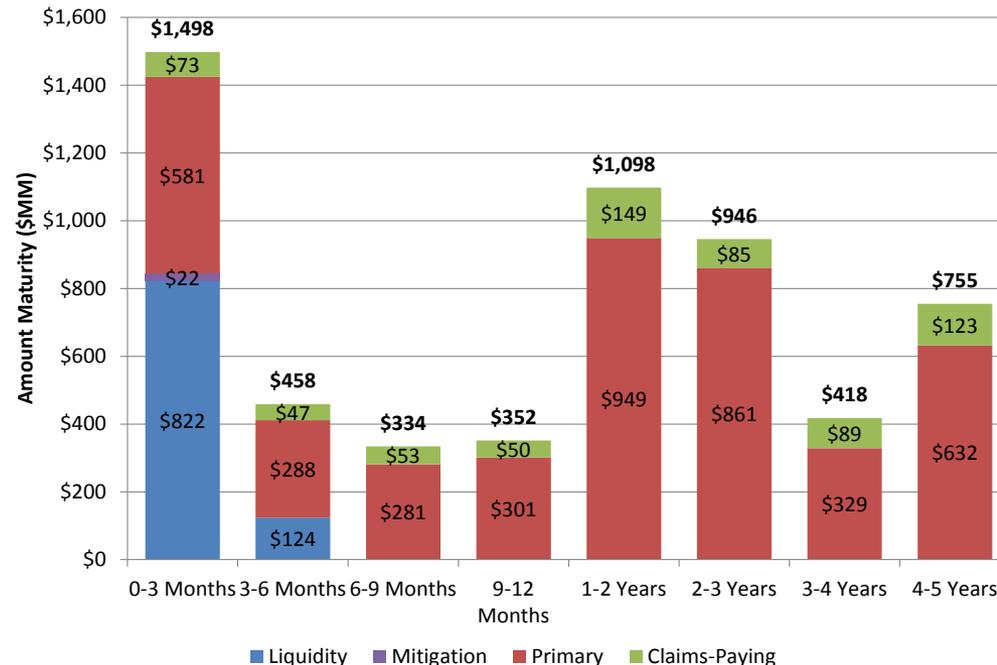


## CEA CURRENT MATURITY DISTRIBUTION – NOVEMBER 2015

CEA Investment Portfolio - Current Portfolio Maturity Distribution (\$MM)									
Fund	Market Value	0-3 Months	3-6 Months	6-9 Months	9-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years
Claims-Paying	669	73	47	53	50	149	85	89	123
Liquidity	946	822	124	-	-	-	-	-	-
Mitigation	22	22	-	-	-	-	-	-	-
Primary	4,221	581	288	281	301	949	861	329	632
<b>Total</b>	<b>5,858</b>	<b>1,498</b>	<b>458</b>	<b>334</b>	<b>352</b>	<b>1,098</b>	<b>946</b>	<b>418</b>	<b>755</b>
<b>% of Total</b>		<b>26%</b>	<b>8%</b>	<b>6%</b>	<b>6%</b>	<b>19%</b>	<b>16%</b>	<b>7%</b>	<b>13%</b>

Current market value and maturity schedule as of November 25, 2015.

### CEA Investment Portfolio - Current Maturity Distribution



- As of November 25, 2015, the market value of the portfolio is over \$5.8 billion with a total effective duration of 1.70 years
- The CEA currently has \$2.0 billion of maturities in the next six months, or 33% of the portfolio, and \$2.6 billion of maturities in the next year, or 45% of the portfolio
- The CEA currently has \$2.0 billion of maturities in 1-3 years, or 35% of the portfolio, and \$1.2 billion of maturities in 3-5 years, or 20% of the portfolio

## CEA PROJECTED MATURITY DISTRIBUTION – JUNE 2016

CEA Investment Portfolio - Projected June 2016 Portfolio Maturity Distribution (\$MM)									
Fund	Market Value	0-3 Months	3-6 Months	6-9 Months	9-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years
Claims-Paying	669	66	47	48	29	89	85	136	168
Liquidity	946	490	456	-	-	-	-	-	-
Mitigation	22	22	-	-	-	-	-	-	-
Primary	4,221	389	266	304	207	878	405	679	1,093
<b>Total</b>	<b>5,858</b>	<b>967</b>	<b>770</b>	<b>352</b>	<b>237</b>	<b>967</b>	<b>490</b>	<b>815</b>	<b>1,262</b>
<b>% of Total</b>		<b>17%</b>	<b>13%</b>	<b>6%</b>	<b>4%</b>	<b>17%</b>	<b>8%</b>	<b>14%</b>	<b>22%</b>

*Current market value and duration as of November 25, 2015.*

*Maturing Claims-Paying and Primary Funds are assumed to be reinvested with a maturity of 5 years.*

*Maturing Mitigation Funds are assumed to be reinvested with a maturity of 90 days.*

*Maturing Liquidity Funds are assumed to be reinvested with a maturity of 180 days.*

- The projected maturity distribution assumes the Claims-Paying and Primary Funds are reinvested with a maturity of 5 years

- As of June 2016, the CEA may potentially have \$2.1 billion of maturities from 3-5 years (a \$904 million increase compared to the current portfolio), or 35% of the portfolio (a 15% increase compared to the current portfolio)

CEA Investment Portfolio - Projected Maturity Distribution as of June 2016



## PROS AND CONS OF INCREASED DURATION

### Pros

- No additional credit risk
- Incremental investment earnings
- Duration diversification – minimizes roll-over risk
- Improved liquidity
- Will reflect the current market and economic conditions
- Will reflect the improved and stronger capital structure

### Cons

- Mark-to-market risk
  - For each \$1 billion, if interest rates increase by 0.25%, the increase in mark-to-market is approximately \$2.3 million and if interest rates increase by 0.50%, the increase in mark-to-market is \$4.7 million

Calculated Mark-to-Market		
	\$1 Billion Invested	
(\$MM)	1.75 Year Duration	3.00 Year Duration
+ 25 basis points	(3.2)	(5.5)
<i>Increase vs. 1.75-Year Duration</i>		2.3
+ 50 basis points	(6.6)	(11.2)
<i>Increase vs. 1.75-Year Duration</i>		4.7

- **Mark-to-market is not very relevant for CEA as it holds securities until maturity and has significant risk transfer in place to meet its liquidity needs even after a large event**

- While the CEA will take on additional marginal mark-to-market risk, it can manage its risk within the entire portfolio and increase its return

- As the need for liquidity has decreased due to the increase in its total portfolio value, the proposed changes will ensure that CEA has a stronger portfolio and will allow the CEA to increase its investment earnings

## CONCLUSION

- As interest rates are expected to rise in 2016, we recommend that CEA take advantage of the market and economic conditions and its strong capital structure by increasing its portfolio's duration by 1.25 years or from 1.75 years to 3.00 years, which under the current market conditions would increase the total \$5.8 billion portfolio's potential annual return by over \$20 million, or 0.40%
- By increasing the duration of the portfolio but not changing anything else, the CEA would not take on any additional risk except a marginal increase in duration risk
- The increase in additional investment earnings will also provide additional funds for mitigation and other CEA programs

- **The CEA's portfolio has grown from \$3.8 billion in July 2009 to over \$5.8 billion as of November 2015 and the duration has increased from 0.65 years as of January 2010 to 1.70 years as of November 2015**
- **Duration is an important element for CEA's portfolio as the capital structure is stronger and the portfolio should not be managed like a money market fund**

## DISCLAIMER

The information contained herein is solely intended to facilitate discussion of potentially applicable applications.

The analysis or information presented herein is based upon projections and have limitations. No representation is made that it is accurate or complete or that any results indicated will be achieved. In no way is past performance indicative of future results. Changes to any prices, levels, or assumptions contained herein may have a material impact on results. Any estimates or assumptions contained herein are based on historical data.

that the side effects are grave in nature. Side effects that may be deemed grave in nature shall include, but are not limited to the following.

- A. Practices which are known to endanger the environment, subject to current federal, state, and local law, including:
  - 1) Unsafe nuclear waste disposal;
  - 2) Ineffective or inadequate pollution control;
  - 3) Improper use of chemicals and contaminants; and
  - 4) Any practice which directly or indirectly endangers human health or the environment.
  
- B. Practices which result in the suppression of human rights including:
  - 1) The sale of weapons and technology to governments known to engage in the systematic suppression of human rights; and
  - 2) The sale or purchase of goods from countries known to employ forced labor.
  
- C. Practices which endanger human health including:
  - 1) Sale and distribution of known contaminated products;
  - 2) Sale and distribution of dangerous drugs; and
  - 3) Purchasing goods from or selling goods to companies known to disregard worker safety.

Investments shall not be selected or rejected based solely on social responsibilities. In general, social criteria, to the extent available, should be considered after all financial criteria have been satisfied.

The CEA portfolio consists of two funds, Liquidity Fund and Primary Reserve Fund. The following details the investment policy for each fund. The investments made in the two funds will have a combined maximum modified duration of 3.00.

## Governing Board Memorandum

December 16, 2015

Agenda Item 7: Contract for services of additional investment managers  
(CEA procurement: RFQ #06-14)

Recommended Action: Approve staff recommendation to hire additional  
investment managers for the CEA Claim-Paying Fund

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### Background:

In May 2015, the CEA began a formal process of seeking additional Claim-Paying Fund investment managers. This memorandum describes those processes, as well as the decisions and results.

### Analysis:

CEA staff identified the need, from a best-practices standpoint, to obtain Claim-Paying Fund investment managers to invest funds in CEA's growing investment portfolio from debt proceeds.

On May 11, 2015, the CEA issued a Request for Qualifications ("RFQ") seeking Claim-Paying Fund investment-manager services.

The RFQ was advertised on the websites of the following media:

*The Wall Street Journal*  
*Pensions & Investments*

The CEA received responses from five investment manager firms.

The RFQ responses were evaluated by a selection panel consisting of:

Tim Richison: CEA Chief Financial Officer (CFO)  
Trudi Miller: CEA Accounting Manager  
Jeff Appel: CEA Associate Accounting Analyst  
Paolo Gonzalez: CEA Investment Analyst  
Kapil Bhatia: Raymond James & Associates, Inc. (CEA's independent financial advisor)

The selection panel ranked the firms that responded to the RFQ based on their proposals and then conducted site visits of those firms receiving the highest scores.

Site visits were conducted by the CEA's CFO, Accounting Manager, and Investment Analyst to the following firms:

- Asset Allocation and Management LLC (Chicago, Illinois)
- Deutsche Asset & Wealth Management (New York, New York)
- Franklin Templeton Institutional (New York, New York)
- U.S. Bancorp Asset Management, Inc. (Minneapolis, Minnesota)

Through the site visits, staff was able to confirm that three of the four firms would meet the CEA's stringent requirements set forth in the RFQ, displaying particularly satisfactory systems for trading, compliance, reporting, and recovery. In addition, the RFQ panel was comfortable with the demonstrable expertise and depth of experience of the team members who would be assigned to the CEA's account from those three firms.

After the site visits, the selection panel prepared final rankings of the firms based both on their written proposals in response to the CEA's RFQ and the site visits, identifying the top firms: (1) Franklin Templeton Institutional and (2) Asset Allocation and Management LLC.

Those two firms are now recommended by the staff to the Board, and if the Board approves the staff recommendation, each firm will be invited to negotiate a contract with the CEA.

Staff is also recommending a third firm be denoted, in the event the CEA is not able to negotiate a contract with one of the two firms above—that third firm is Deutsche Asset & Wealth Management.

#### Investment Managers: Duties and Compensation

Below is a summary of key investment-manager duties, under contract:

- Contract term: Five years, with an option by CEA to extend for two additional years.
- Services to be performed:
  - Invest funds according to law, in a manner compliant with California Government Code section 16430 and CEA's investment policies and guidelines as they may exist from time to time.
  - Conduct thorough investment analysis and provide advice on market conditions, including both positive and negative trends.
  - Analyze the fixed-income financial markets.
  - Monitor the performance of investments in the relevant CEA portfolio.
  - Provide a *Daily Holdings Report*.
  - Retain in their systems sufficient data in appropriate electronic format(s) to allow the CEA to verify historical investment transactions and balances and to measure historical portfolio performance.

- The maximum annual contractual compensation for each manager, as stipulated in the RFQ, was four basis points of CEA investments under management. The recommended firms all proposed fees at four basis points.

Recommendation:

Staff recommends that the Board:

Authorize CEA staff to:

1. Negotiate for investment-management services with Franklin Templeton Institutional and Asset Allocation and Management LLC, as well as with Deutsche Asset & Wealth Management in the event the CEA is unable to negotiate a contract successfully with either of those two firms.
2. Authorize CEO Glenn Pomeroy to execute the resulting contracts on behalf of the CEA.

# Governing Board Memorandum

December 16, 2015

Agenda Item 8: CEA Mitigation Program: Projects

Recommended Actions: No action required—information only

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## Background and Analysis:

The CEA Mitigation Department currently manages multiple projects focused on expanding mitigation resources to homeowners and technical professionals, as well as collecting data to further mitigation efforts.

## Guidelines Development

The earthquake-guidelines-development project will create statewide retrofit standards that can be used to reduce earthquake damage in single-family dwellings.

When complete and adopted, the guidelines will extend Chapter A3 of the International Building Code, currently adopted (by reference) into the California Building Code, and which provide the current limited standards for retrofitting cripple-wall dwellings.

In addition to uniform standards for homeowners, contractors, and engineers, the new guidelines will help the CEA and others establish and expand (1) incentive programs to encourage seismic retrofits, such as that of the California Residential Mitigation Program, and (2) enhance the CEA's ability to develop and provide suitable mitigation discounts for CEA-insured homeowners.

The CEA is funding the project, and CEA chief mitigation officer Janiele Maffei and Mike Mahoney of FEMA are managing the project jointly.

The entity chosen to contract for management of the guidelines project is the Applied Technology Council ("ATC"). The program technical committee, managed by ATC, will meet in January 2016 to finalize the schedule and budget for the second year of the project.

## FEMA P-50 and P-50-1 Training

FEMA developed the *Simplified Seismic Assessment Form for Detached, Single-Family, Wood-Framed Dwellings* (FEMA P-50) a simple, standard assessment form to evaluate a house's resistance to earthquake damage based on:

- Structural attributes
- How close a house is to earthquake hazards

This assessment form, and the accompanying FEMA P-50-1, helps homeowners identify how to

- Strengthen their houses
- Lower earthquake risk

The CEA was a contributing funder to the FEMA P-50 development. While the tool has been available for use by inspection professionals, it has not been widely distributed or used.

CEA has taken the initiative to bring the evaluation tool and training on its use to California home inspectors. The tool has three purposes:

1. To provide a resource for a homeowner interested in completing a retrofit, to learn what risks and vulnerabilities need to be addressed
2. To provide homeowners information at time of sale of potential risks and vulnerabilities
3. To provide an additional inspection resource for the Hazard Reduction Discount

To assist in creating a market for this tool, CEA coordinated six FEMA P-50 and P-50-1 trainings, with primary focus on home inspectors, although other parties expressed interest in the training (engineers, contractors, and municipal building inspectors and officials). A total of 214 individuals participated.

The goal of training home inspectors is to assist them in offering a new product, a seismic evaluation available to homeowners:

- at the time of sale,
- upon consideration of a seismic retrofit, or
- for insurance verification.

Other participants stated their reasons for attending were:

- interest in the topic,
- desire to add services to their portfolio, and
- the opportunity to earn professional development hours towards their Continuing Education requirements.

The six 2015 training sessions were held in collaboration with the California Real Estate Inspection Association (CREIA), FEMA, ATC, CalOES, and Simpson Strong-Tie. CEA took the lead in coordinating the sessions held in Santa Clara, Stockton, Riverside, Norwalk, and Mather/Sacramento.

A proposal to CalOES is in process, requesting NEHRP (National Earthquake Hazards Reduction Program) funding for six training sessions in 2016.

The goal is to create a resource of 200 trained home inspectors throughout the state by the end of 2016.

### **'End to End' Mitigation Website**

In the course of operating the Earthquake Brace & Bolt program and through public outreach by the CEA Mitigation Department, a gap was identified in bringing earthquake-hazard, mitigation, and preparedness information to California homeowners. While several organizations and

websites offer information on identifying geological hazards, structural vulnerabilities, and insurance options, the information does not appear in a single source for homeowners.

In the coming year CEA staff plans to embark on an information-finding mission to identify existing and missing resources, with a goal of incorporating them into a single website, where homeowners can find information on a multitude of issues.

This will be the “E2E”—End to End—website, which can provide access to these resources:

- 1. Hazard identification and dwelling vulnerability.** *“What hazards threaten my house?”* (Liquefaction, landslide, earthquake-rupture zone, faults.) Resources exist for identifying this information.
- 2. Identify dwelling vulnerability.** *“How is my house vulnerable to damage from these hazards? What are my risks?”* (House inspectors, FEMA P-50 inspections, contractors, engineers.)
- 3. Mitigation/retrofit solution.** *“What type of retrofit do I need, prescriptive or engineered?”* (Chapter A3, Plan Set A, LA Standard Plan Set, engineered solution, costs, timetables, cost/benefit analysis.)
- 4. Professional resources.** (Contractors, engineers, home inspectors, financial planners, real estate agents/brokers, financial institutions.)
- 5. Financial resources.** *“Now that I know what I need to do and who to hire to do it, how do I pay for it? Is there financial assistance?”* (CEA Hazard Reduction Discount, EBB, banks and financial institutions, CEA programs.)
- 6. Insurance.** *“Mitigate your known vulnerabilities; insure the unknown ones.”*

## CEA Governing Board Memorandum

December 16, 2015

Agenda Item 9: Earthquake Brace + Bolt update

Recommended Action: No action required—information only

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### Background:

Homeowners in Earthquake Brace + Bolt (EBB) program ZIP Codes are eligible for an incentive payment of up to \$3,000 to help pay costs associated with seismically retrofitting their houses. (EBB is operated by the California Residential Mitigation Program, a joint powers authority whose members are the California Governor's Office of Emergency Services and the CEA.)

### Analysis:

In 2015, EBB was available in 28 ZIP Codes in seven cities: Oakland, San Francisco, San Leandro, Los Angeles, Pasadena, Santa Monica, and Napa. The program goal was to complete 600 retrofits in 2015.

As of December 1, 2015, the expanded EBB project saw 366 retrofits completed and 226 retrofits with building permits issued, for a total of 593. The breakdown:

	<b>Completed</b>	<b>Permit Issued</b>	<b>Total</b>
Oakland	48	46	<b>94</b>
San Francisco	16	3	<b>19</b>
San Leandro	35	25	<b>60</b>
Napa	25	9	<b>34</b>
Los Angeles	129	77	<b>206</b>
Pasadena	119	51	<b>170</b>
Santa Monica	8	2	<b>10</b>
<b>TOTAL</b>	<b>380</b>	<b>213</b>	<b>593</b>

### **2015 Additional Funding: State of California (2015 state budget legislation)**

In 2015, the Legislature and Governor included in the state budget a grant of \$3 million to the California Department of Insurance, with instructions that the Department grant that money to the CEA, which would then contribute the funds to the CRMP's EBB program. The CEA has now contracted with the Department to secure that grant and funds have been transferred, which through EBB and commencing in 2016 will provide up to 1,000 additional retrofits for California homeowners.

### **2016 Additional Funding: FEMA Hazard Mitigation Grant Program**

FEMA has approved the CEA's Hazard Mitigation Grant Program application, which sought funds made available by FEMA in the aftermath of the damaging August 2014 earthquake that affected Napa. The funds, supported by a partial funding match by the CEA, will provide EBB retrofit grants for 100 houses.

### **Outreach for 2016 EBB getting underway**

In 2016 EBB plans to expand to 16 California cities and more than 170 ZIP Codes.

- EBB will open homeowner registration for the expanded program on January 20, 2016, and registration will remain open for 30 days.
- EBB continues to encourage contractors to take the free online FEMA training (available through [www.earthquakebracebolt.com](http://www.earthquakebracebolt.com)) in order to be included in the EBB Contractor Directory.
- EBB is also producing collateral material and finalizing homeowner-outreach plans, continuing its successful marketing approach: a strategic combination of direct-mail, email, media outreach, and newspaper "Post-It<sup>®</sup>" advertising.
- In addition, before homeowner registration opens, EBB staff meets with each city's building inspection department and city officials.

### Recommendation:

No recommendation—information only.

## Governing Board Memorandum

December 16, 2015

Agenda Item 10: Update on progress to develop pilot risk-reduction program to provide retrofit incentives to selected CEA policyholders

Recommended Action: Approve development of a pilot CEA risk-reduction program, targeting a mid-2016 launch

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### Background:

Beginning January 1, 2016, the CEA will begin offering a 20% hazard-reduction premium discount to qualifying policyholders who live in wood-frame houses that were built before 1940 on a raised foundation (called in this memo, “target houses”).

The 20% discount—some four times larger than the statutory 5% minimum retrofit discount the CEA has offered for many years—recognizes that retrofitting older houses in accordance with the California Building Code significantly reduces expected losses, and policyholders who have retrofitted their houses should be rewarded.

The 20% discount should also provide a clear-cut incentive to policyholders who have not yet retrofitted their older houses to undertake retrofitting measures.

Based on the success of the pilot California Residential Mitigation Program (CRMP) and its Earthquake Brace + Bolt (EBB) program, CEA staff sees a concrete opportunity to advocate and support mitigation within its policyholder base: This proposal would provide a cash incentive from the CEA paid to tenured policyholders in higher-risk areas who live in target houses.

This initiative has a sound financial basis—retrofitting sufficient numbers of houses reduces the CEA’s need for, and therefore its cost of, risk-transfer. And when the retrofitted houses are in higher-risk areas where CEA exposure is concentrated, savings on risk-transfer costs can, over time, offset the cost of the retrofit incentives.

CEA staff first presented this concept to the Governing Board in its August 26, 2015, meeting and has worked since to develop program details and initial recommendations.

### Analysis:

#### An Improved CEA Risk Profile Reduces Costs

Staff’s initial analysis shows that retrofitting target houses in high-risk and high-exposure ZIP Codes produces the greatest reduction in CEA’s risk-transfer needs.

When these retrofits improve the CEA's risk profile, then risk transfer can be reduced.

In order to maintain a stable, improved risk profile, the CEA proposes a three-year tenure requirement (three years as a CEA policyholder), which both (1) increases the likelihood that the owners of the retrofitted houses will remain CEA policyholders and (2) reduce the likelihood that the CEA's portfolio would experience an influx of brand-new applicants whose higher-risk houses could otherwise qualify for retrofit grants.

In addition, paying the financial incentive to the policyholder over time might encourage owners of retrofitted houses to remain CEA policyholders. But based on CRMP/EBB experience, staff recommends providing a \$3,000 incentive upon retrofit completion.

### Initial Program Locations

There are 10 ZIP Codes—five in Northern and five in Southern California—in which the CEA has a high concentration of target houses. Providing \$3,000 retrofit grants to the approximately 3,400 target houses in those ZIP Codes translates to a program cost of \$10 million, assuming full participation.

- CRMP's EBB program is available to the public without regard to CEA-policyholder status finds that about 50% of houses accepted into the program follow through to a completed retrofit. It is reasonable to expect, then, that fewer than 100% of the selected CEA policyholders would participate.
- Funding for the program could come from a set-aside of some investment income or another CEA revenue or capital source as determined by the Board.

The new CEA-policyholder program would leverage successful CRMP/EBB techniques by use of a similar approach, including a gradual roll-out of the program, with appropriate communication to potentially eligible policyholders and dedicated staff to guide homeowners through the retrofitting process. To best prepare for a successful CEA pilot-program roll-out, staff recommends hiring a policyholder-retrofit liaison in first quarter 2016, to work on program rules and prepare for policyholder questions.

Finally, the potential success of the CEA risk reduction program must be a measured success: CEA staff has begun identifying program-success metrics, which could include:

- The number of policyholders who register for the program after receiving notice that they own a target house.
- The number of policyholders that secure a permit to perform the retrofit work.
- Program participants' respective tenure (this would be a longer-term measure of whether the policyholder remained a CEA policyholder, post-retrofit).
- Cost per retrofit.

Recommendation:

Approve further development of the CEA (pilot) risk-reduction program, with a goal of commencing implementation by third quarter 2016:

- Support eligibility parameters for policyholders:
  - with three or more years tenure with the CEA;
  - residing in pre-1940 wood-frame construction on a raised foundation, lacking adequate bolting or bracing (or lacking both); and
  - located in higher-risk areas in which the CEA has a concentration of exposure, so that mitigating the target houses will appreciably reduce CEA risk-transfer needs and therefore reduce CEA risk-transfer costs.
- Direct staff to develop an implementation plan and produce draft program rules, all to be reported to the Board.
- Direct staff to hire a policyholder-retrofit liaison in first quarter 2016.
- Consider allocating up to \$10 million from CEA investment income, or any other identified CEA revenue or capital source, to fund the first full year of the program.

## **Governing Board Memorandum**

December 16, 2015

Agenda Item 11:                   Progress Report on the 2015 CEA IT Project Portfolio

Recommended Action:       No action required—information only

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Chief Information Officer Todd Coombes will present an update on the 2015 CEA IT Project Portfolio including progress, changes, expenditures, and accomplishments.

# Governing Board Memorandum

December 16, 2015

Agenda Item 12: 2016 CEA IT Project Portfolio

Recommended Action: Approve funding of the 2016 CEA IT Project Portfolio not to exceed \$1,309,000

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## Background:

The CEA Enterprise Project Management Office (EPMO) met with CEA department leaders and executives and identified 16 technology-related projects to include in the proposed 2016 IT Project Portfolio. The projects selected included those with the highest priority for each of the CEA departments, taking into account projected internal and external IT capacity available in 2016.

Initial labor estimates and corresponding resource and delivery schedules were prepared by the EPMO for each of the 16 Portfolio projects. Some of CEA IT's internal development capacity will be used to support existing CEA systems, but a significant amount of internal capacity will be dedicated to the 2016 IT Project Portfolio, as well.

In order to accomplish all of the work associated with the 16 Portfolio projects, the EPMO determined that additional IT development labor must come from external contractors. The estimated 2016 Portfolio expense for external contract labor is \$1,309,000.

## Analysis:

Project Number	Project Name	External Cost
2016-01	CEA Mobile App: Risk & Insurance Information	
2016-02	Centralize Agent Training & Registration	\$ 140,000
2016-03	Combine Agent Databases - Phase 1	
2016-04	CPP Insuresoft Implementation	
2016-05	CPP Data Warehouse & Reporting	
2016-06	Customer Relationship Management (CRM) Phase 2	
2016-07	Customer Relationship Management (CRM) Phase 3	
2016-08	Enterprise Content Management (ECM) Phase 2	\$ 300,000
2016-09	Enterprise Content Management (ECM) Phase 3	\$ 300,000
2016-10	Migrate Earthquake Authority & MVP Websites to the New Platform	\$ 200,000
2016-11	Operations Reports - Claims	\$ 200,000
2016-12	Operations Reports - Business	
2016-13	Premium Write-offs After 1/1/2009	
2016-14	Premium Write-offs Before 12/31/2008	
2016-15	Mobile App: Seismic-Vulnerability Inspection	\$ 169,000
2016-16	Single ZIP Code Data Source	
		\$ 1,309,000

- Work estimates for each of the 16 Portfolio projects were established based on scope and effort projections for each internal and external resource included in the development process.
- Schedules were planned based on a combination of business needs and resource availability, including both IT resources and business subject matter experts.
- External cost estimates were based on planned external contractor hours and projected market rates.
- Some 2016 Portfolio projects continue projects from 2015. Any 2016 projects that continue into 2017 will become a part of the 2017 IT Project Portfolio.

In order to successfully complete the 2016 IT Project Portfolio as planned, external contract labor will be required. To the extent Board does not approve the 2016 Portfolio expense for external contract labor, the EPMO will work with CEA leadership and staff to reduce and reprioritize the Portfolio to fit within the CEA's available capacity.

Recommendation:

Approve funding for the non-statutory expense of external contract labor for the 2016 CEA IT Project Portfolio, in accordance with the 2016 budget, in an amount not to exceed \$1,309,000.

## **Governing Board Memorandum**

December 16, 2015

Agenda Item 13:                    Centralized Policy Processing Update

Recommended Action:        No action required—information only

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Chief Information Officer Todd Coombes will present an update on the Centralized Policy Processing (CPP) initiative.

## Governing Board Memorandum

December 16, 2015

Agenda Item 14:                   RMS—earthquake loss modeling—contract renewal

Recommended Action:         Approve renewal of the RMS contract

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### Background:

There are three widely recognized commercial earthquake models/modelers: AIR Worldwide Corporation (AIR), CoreLogic (EQECAT), and Risk Management Solutions (RMS).

Since 2004, and with the Governing Board’s support and approval, the CEA has worked uninterruptedly and under individual contracts, with all three of those firms. By use of that arrangement, the CEA can feel confident that its earthquake-loss modeling is always provided by widely used, tested models at their highest level of development—a critical factor for support and acceptance of CEA’s sophisticated operational and financial needs.

### Analysis:

In part because of its collaboration with the three widely recognized earthquake modelers, the CEA broadens its understanding of California earthquake risk and the various, but similarly purposed, modeling methodologies. This CEA-centric collaboration enables the CEA to view the broadest range of modeling results, for planning purposes and project and product development. For example, RMS model output is a key component of the CEA’s capacity calculation, which informs the CEA Governing Board and management of the level of risk-financing needed to achieve target claim-paying capacity throughout each year.

In addition, regulations of the California Insurance Commissioner require the CEA to estimate and project losses within seven days following a major earthquake. With the Board’s approval, the CEA has historically contracted with Exponent (<http://www.exponent.com/>) and has established its CEA-proprietary “EARLE” (for Earthquake Loss Estimation) system to enable the CEA to meet this regulatory requirement. All three contracted modelers now serve as key contributors to the EARLE system, providing CEA with timely delivery of post-event loss estimations.

Staff has negotiated a three-year contract renewal with RMS, to take effect January 1, 2016. Under the renewed contract, RMS will continue to provide the same services as under the current contract, will provide additional output to support CEA risk-transfer analysis needs, and will provide CEA with analytical support for research.

The annual fee payable to RMS under the proposed contract renewal—\$305,000—is in the 2016 CEA budget and comprises compensation for three components:

- Two full earthquake-loss analyses of the CEA’s insured-risk portfolio.
- Services, as needed, in support of the CEA EARLE system which includes RMS’s participation in CEA’s twice-annual tests of the entire EARLE system.
- An analytical-service support bank, which provides CEA with 100 hours of analytical support for research, sensitivity analysis, and other activities that quantify risk from California earthquakes.

Additional notes on the renewed contract:

- The agreed fees charged for the corresponding two components in the present, expiring contract total \$250,000. Those amounts had remained flat from January 1, 2013, through December 31, 2015.
- The CEA’s new product offerings, effective January 1, 2016, which expand the number of limits and deductibles available to policyholders, increases the complexity and number of required outputs from any modeled loss-analysis, including that available through RMS.
- The CEA has added additional output requirements to support CEA risk-transfer analyses, which are designed to help the CEA identify and select optimal risk-transfer opportunities.

Recommendation:

Staff recommends that the Governing Board approve CEA’s renewal of the contract with RMS for a three-year term, as described, and authorize CEO Glenn Pomeroy to execute that contract renewal on the CEA’s behalf.

## **Governing Board Memorandum**

December 16, 2015

Agenda Item 15: Recap of 2015 Great California ShakeOut and preview of 2016 advertising campaign

Recommended Action: No action required—information only

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CEA Communications & External Affairs fulfilled dual roles throughout the second half of 2015: First was promoting participation in the Great California ShakeOut. And second was creating a new advertising campaign to support the rollout of new CEA policy features and rates available starting January 1, 2016.

### ShakeOut Background:

The 8<sup>th</sup> Annual Great California ShakeOut earthquake drill on October 15 involved more than 10.5 million Californians who simultaneously practiced “Drop, Cover and Hold On,” which is the earthquake safety protocol recommended by experts as essential to avoiding injury, and even death, during earthquakes.

In addition, millions of people in 45 other states, five U.S. territories, and the District of Columbia participated in their own ShakeOut drills, along with participants in Canada, New Zealand, and more than 60 other countries. In total, more than 22 million people worldwide participated in the ShakeOut on October 15 this year.

### ShakeOut Analysis:

The CEA is the primary promoter of participation in the Great California ShakeOut through advertising and media relations. This year, the CEA:

- Produced and placed television and radio Public Service Announcements as a portion of CEA’s paid-media plan underway at the same time.
- Also promoted participation through timely delivery of direct mail to both non-CEA-policyholders and CEA policyholders.
- Distributed a news release statewide that called attention to earthquake preparedness, as well as the important role CEA plays in residential recovery from earthquake damage.
- Participated in press availabilities and press conferences in Los Angeles and Oakland.

CEA also previewed select elements of its 2016 advertising campaign during the same time it was promoting participation in the Great California ShakeOut.

### 2016 Advertising Campaign Background:

CEA's recent concept-testing research confirmed that California residents generally believe the risk for a damaging earthquake is real, but acknowledge a sense of denial about whether they'll ever be personally affected, and they recognize their knowledge of earthquake insurance may be out-of-date.

As a result, CEA identified an opportunity to create its new "Straight Talk" campaign, featuring cautionary forewarnings of the risk of earthquake damage alongside descriptions of newly available earthquake insurance options.

Specifically, CEA's 2016 advertising campaign messaging acknowledges that:

- Promoting an increased understanding of risk for residential earthquake damage provides a compelling opportunity to update awareness of the benefits of earthquake insurance;
- People have a general awareness that the risk for earthquake damage is real but feel a need to be "shaken up."

As a result, CEA will deliver what research respondents said they want, which is awareness of risk alongside new, affordable earthquake insurance options that put them more in control of their recovery.

CEA's new campaign for 2016 will feature three different advertising executions that call attention to risk for earthquake damage, combined with a fourth execution that focuses on the significant policy enhancements and lower rates that become available in 2016

### Preliminary 2016 Advertising Campaign Analysis:

CEA offered members of the Earthquake Country Alliance (ECA) an opportunity to review 2016 advertising concepts before television spots were finalized. Helpful input was received and taken up in final production. In addition, in response to agent suggestions, CEA will be producing television advertising for the first time in Spanish and Chinese, in addition to English.

CEA seeks to deliver advertising messages to consumers generally through television, radio, print, online and direct mail, as well as through agent recommendations. Those messages are focused on prompting consumers and agents alike to move from merely hearing or seeing CEA ads, to visiting the CEA website to learn more, and finally to calculate a premium estimate.

To that end, since early October when consumers were introduced to limited elements of CEA's new "Straight Talk" campaign, the click-through rate from online advertising to CEA's website is up 28 percent, and the year-over-year rate at which CEA website visitors have engaged in the premium calculator is up 14 percent.

### Recommendation:

No action required—information only.

# Governing Board Memorandum

December 16, 2015

Agenda Item 16: 2016 CEA Budget: Insurance Services

Recommended Action: Approve 2016 Insurance Services Budget

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## Background:

Each year, the CEA staff prepares and submits to the Governing Board a proposed annual budget, based on all anticipated expenses for the next calendar year.<sup>1</sup> This year, the annual budget is presented in association with the proposed, new 2016 CEA Business Implementation Plan.

## Analysis:

### **2016 Insurance Services Budget**

Staff has prepared three attachments to assist the Board in comparing and analyzing the 2015 and 2016 budgets for insurance services.

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2015 Budget Year**
  - This attachment shows:
    - a. The December (2014) Board-approved Budget for 2015;
    - b. 2015 budget adjustments throughout the year;
    - c. 2015 budget augmentations throughout the year;
    - d. augmented/adjusted approved 2015 budget;
    - e. actual expenses through October 31, 2015;
    - f. projected expenses for the months of November and December 2015;
    - g. actual and projected expenses at December 31, 2015;
    - h. comparison of augmented, adjusted, approved budget to actual and projected expenses at December 31, 2015; and
    - i. percentage of used augmented and adjusted approved 2015 budget.
- **Attachment B: Proposed 2016 Insurance Services Budget**
  - Attachment B shows the proposed 2016 insurance services budget, constructed to support the 2016 CEA Business Implementation Plan.

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<sup>1</sup> The CEA fiscal year is the calendar year.

- **Attachment C: Approved 2015 Insurance Services Budget after Augmentations and Adjustment Compared to Proposed 2016 Budget**
  - Attachment C compares the 2015 Insurance Services Budget after Augmentations and Adjustments to the proposed 2016 Budget

<b>Summary of Proposed 2016 CEA Operating Expenses/Expense Cap [projected operating expense compared to projected statutory cap]</b>	
The projected operating-expense portion of the proposed 2016 budget is \$29,875,941, which is less than the projected 6% cap of \$39,600,000:	
Projected 2016 written premium:	\$ 603,000,000
Statutory operating-expense cap 2016 (percentage)	6%
Statutory operating-expense cap 2016 (dollars)	\$ 36,180,000
Proposed 2016 operating expense budget	\$ 29,875,941
Amount by which 6% cap exceeds proposed budget	\$ 6,304,059

Recommendation:

Staff recommends the following Board actions:

- Approve the proposed 2016 Insurance Services budget; and
- Direct staff to operate CEA business operations within the total approved budget amounts.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Budgeted Expenditures and Actual Expenditures**  
**2015 Budget Year**

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
				(d=a+b+c)			(g=e+f)	(h=d-g)	(i=g/d)
							<b>Augmented &amp; Adjusted</b>		
							<b>Approved Budget (d) vs.</b>		
							<b>Actual &amp; Projected</b>		<b>Percentage used of</b>
							<b>Expenses (g)</b>		<b>Augmented &amp; Adjusted</b>
							<b>at 12/31/15</b>		<b>Approved 2015 Budget</b>
	<b>Approved</b>	<b>Adjustments <sup>A</sup></b>	<b>Augmentations</b>	<b>Augmentations</b>	<b>Actual</b>	<b>Projected</b>	<b>Actual and Projected</b>		
	<b>2015 Budget</b>	<b>thru 12/31/2015</b>	<b>thru 12/31/2015</b>	<b>and Adjustments</b>	<b>Expenditures</b>	<b>Expenditures</b>	<b>Expenses</b>		
	<b>1/1/2015</b>	<b>thru 12/31/2015</b>	<b>thru 12/31/2015</b>	<b>and Adjustments</b>	<b>as of 10/31/15</b>	<b>11/1/2015 to 12/31/2015</b>	<b>at 12/31/15</b>		
Human Resources:									
Compensation and Benefits <sup>3</sup>	\$ 16,670,520	\$ 51,624	\$ 232,000	\$ 16,954,144	\$ 13,064,514	\$ 4,479,658	\$ 17,544,172	\$ (590,028)	> 100.00%
Travel	472,338	(96,475)	-	375,863	220,695	89,108	309,803	66,060	82.42%
Other	1,094,827	(406,266)	-	688,561	298,022	211,489	509,511	179,050	74.00%
Board Meetings	33,000	(16,571)	-	16,429	7,269	9,160	16,429	-	100.00%
Administration & Office	1,198,429	(369,367)	-	829,062	612,699	127,430	740,129	88,933	89.27%
EDP Hardware	115,270	43,000	-	158,270	153,699	4,571	158,270	-	100.00%
EDP Software	1,204,490	(110,500)	-	1,093,990	932,244	161,746	1,093,990	-	100.00%
Information Technology <sup>3</sup>	1,255,830	218,593	1,100,000	2,574,423	1,405,123	1,166,300	2,571,423	3,000	99.88%
Telecommunications	241,714	4,483	-	246,197	161,084	84,753	245,837	360	99.85%
Rent/Lease	876,749	(50,425)	-	826,324	472,886	297,088	769,974	56,350	93.18%
Compliance	10,000	(10,000)	-	-	4,669	10,331	15,000	(15,000)	> 100.00%
Government Affairs	298,000	(122,000)	-	176,000	36,000	12,000	48,000	128,000	27.27%
Insurance	189,138	30,862	-	220,000	118,739	31,261	150,000	70,000	68.18%
Internal Audit	50,000	15,000	-	65,000	312	10,688	11,000	54,000	16.92%
Intervenor Fees	-	-	-	-	-	-	-	-	0.00%
Other	3,000	30,231	-	33,231	16,445	-	16,445	16,786	49.49%
Regulatory Expenses	150,000	75,000	-	225,000	214,397	10,603	225,000	-	100.00%
<b>Total Statutory Expenditures</b>	<b>23,863,305</b>	<b>(712,811)</b>	<b>1,332,000</b>	<b>24,482,494</b>	<b>17,718,797</b>	<b>6,706,186</b>	<b>24,424,983</b>	<b>57,511</b>	<b>99.77%</b>
Audit Services	109,000	-	-	109,000	109,000	-	109,000	-	100.00%
Capital Market	9,400,500	(2,700)	-	9,397,800	7,616,118	1,781,682	9,397,800	-	100.00%
Claims	10,000	239,620	-	249,620	187,261	67,455	254,716	(5,096)	> 100.00%
Loans	-	-	-	-	-	-	-	-	0.00%
Grants	-	-	-	-	-	-	-	-	0.00%
Investment Services	3,174,856	(73,000)	-	3,101,856	2,171,090	710,766	2,881,856	220,000	92.91%
Legal Services	6,967,920	(4,033,500)	-	2,934,420	1,610,765	1,355,464	2,966,229	(31,809)	> 100.00%
Loss-Modeling	961,500	34,000	-	995,500	753,250	242,250	995,500	-	100.00%
Marketing Services <sup>1</sup>	11,179,355	(705,265)	290,400	10,764,490	3,112,415	7,652,892	10,765,307	(817)	100.01%
Producer Compensation	61,684,374	115,626	-	61,800,000	53,395,855	10,604,145	64,000,000	(2,200,000)	> 100.00%
Participating Insurer Operating Costs <sup>2&amp;4</sup>	19,060,471	35,729	1,209,650	20,305,850	16,485,878	4,499,772	20,985,650	(679,800)	> 100.00%
Seismic-Related Research	100,000	(100,000)	-	-	-	-	-	-	0.00%
Engineering-Related Research	250,000	100,000	-	350,000	-	50,000	50,000	300,000	14.29%
Risk Transfer	210,213,580	(200,000)	-	210,013,580	162,590,223	33,349,598	195,939,821	14,073,759	93.30%
<b>Total Budget Expenditures</b>	<b>\$ 346,974,861</b>	<b>\$ (5,302,301)</b>	<b>\$ 2,832,050</b>	<b>\$ 344,504,610</b>	<b>\$ 265,750,652</b>	<b>\$ 67,020,210</b>	<b>\$ 332,770,862</b>	<b>\$ 11,733,748</b>	<b>96.59%</b>

<sup>1</sup>Augmentation to fund an additional marketing project in the 2015 IT project portfolio: from February 19, 2015, Governing Board meeting, Agenda Item 12.

<sup>2</sup>Augmentation to cover immediate research and creative costs to directly support marketing-document development: from February 19, 2015, Governing Board meeting, Agenda Item 6.

<sup>3</sup>Augmentation for expenses for administration and claim system software and vendor services (CPP Project): from the August 26, 2015, Governing Board meeting, Agenda items 15 and 20.

<sup>4</sup>Augmentation for the expenses for the production and distribution of new marketing-documents from the August 26, 2015 Governing Board meeting, Agenda Item 9.

<sup>A</sup>Adjustment to meet insurance services end-of-year projections.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Proposed 2016 Budget**

	<b>2016 Insurance Services Budget</b>
<b>Statutory Expenses</b>	
Human Resources:	
Compensation and Benefits	\$ 21,323,214
Travel	623,466
Other	953,620
Board Meetings	24,100
Administration & Office	1,325,506
EDP Hardware	325,300
EDP Software	1,260,516
Information Technology	1,802,155
Telecommunications	265,364
Rent/Lease	1,288,700
Compliance	115,000
Government Affairs	126,000
Insurance	160,000
Internal Audit	120,000
Intervenor Fees	-
Other	53,000
Regulatory Expenses	110,000
	<b>29,875,941</b>
<b>Total Statutory Expenses</b>	<b>29,875,941</b>
Audit Services	112,500
Capital Market	9,277,995
Claims	337,000
Loans	-
Grants	-
Investment Services	3,078,493
Legal Services	7,790,420
Loss-Modeling	1,039,500
Marketing Services	13,710,200
Producer Compensation	60,300,000
Participating Insurer Operating Costs	22,897,500
Seismic-Related Research	100,000
Engineering-Related Research	1,000,000
Risk Transfer	193,464,800
	<b>193,464,800</b>
<b>Total Budgeted Expenditures</b>	<b>\$ 342,984,349</b>

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Budget Comparison**  
**2015 Budget to 2016 Budget**

	(a)	(b)	(c)	(d)
	Budget after Augmentations and Adjustments <u>2015</u>	Proposed Budget <u>2016</u>	(c=b-a)  <u>Difference</u>	(d=c/a)  <u>% Change</u>
<b>Statutory Expenses</b>				
Human Resources:				
Compensation and Benefits	\$ 16,954,144	\$ 21,323,214	\$ 4,369,070	25.77%
Travel	375,863	623,466	247,603	65.88%
Other	688,561	953,620	265,059	38.49%
Board Meetings	16,429	24,100	7,671	46.69%
Administration & Office	829,062	1,325,506	496,444	59.88%
EDP Hardware	158,270	325,300	167,030	> 100.00%
EDP Software	1,093,990	1,260,516	166,526	15.22%
Information Technology	2,574,423	1,802,155	(772,268)	(30.00%)
Telecommunications	246,197	265,364	19,167	7.79%
Rent/Lease	826,324	1,288,700	462,376	55.96%
Compliance	-	115,000	115,000	0.00%
Government Affairs	176,000	126,000	(50,000)	(28.41%)
Insurance	220,000	160,000	(60,000)	(27.27%)
Internal Audit	65,000	120,000	55,000	84.62%
Intervenor Fees	-	-	-	0.00%
Other	33,231	53,000	19,769	59.49%
Regulatory Expenses	225,000	110,000	(115,000)	(51.11%)
<b>Total Statutory Expenses</b>	<b>24,482,494</b>	<b>29,875,941</b>	<b>5,393,447</b>	<b>22.03%</b>
Audit Services	109,000	112,500	3,500	3.21%
Capital Market	9,397,800	9,277,995	(119,805)	(1.27%)
Claims	249,620	337,000	87,380	35.01%
Loans	-	-	-	0.00%
Grants	-	-	-	0.00%
Investment Services	3,101,856	3,078,493	(23,363)	(0.75%)
Legal Services	2,934,420	7,790,420	4,856,000	> 100.00%
Loss-Modeling	995,500	1,039,500	44,000	4.42%
Marketing Services	10,764,490	13,710,200	2,945,710	27.37%
Producer Compensation	61,800,000	60,300,000	(1,500,000)	(2.43%)
Participating Insurer Operating Costs	20,305,850	22,897,500	2,591,650	12.76%
Seismic-Related Research	-	100,000	100,000	0.00%
Engineering-Related Research	350,000	1,000,000	650,000	> 100.00%
Risk Transfer	210,013,580	193,464,800	(16,548,780)	(7.88%)
<b>Total Budgeted Expenditures</b>	<b>\$ 344,504,610</b>	<b>\$ 342,984,349</b>	<b>\$ (1,520,261)</b>	<b>-0.44%</b>

# Governing Board Memorandum

December 16, 2015

Agenda Item 17: 2016 CEA Budget: Mitigation Program

Recommended Action: Approve 2016 Mitigation Program Budget

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## Background:

The CEA staff has prepared and now submits to the Governing Board the annual CEA mitigation budget, based on all anticipated mitigation-related expenses for the 2016 calendar year<sup>1</sup>—the document is associated with the proposed 2016 CEA Business Implementation Plan.

## Analysis:

### **2016 Mitigation Budget**

Staff has prepared three attachments to assist the Board in analyzing the 2016 mitigation budget and comparing it to the 2015 mitigation budget:

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2015 Budget Year**
  - This attachment shows:
    - a. the December 2014 Board-approved Budget for calendar year 2015;
    - b. 2015-budget adjustments during the year;
    - c. 2015-budget augmentations during the year;
    - d. the 2015 mitigation budget, as adjusted and approved;
    - e. actual 2015 mitigation expenses (through October 31, 2015 (latest available figures));
    - f. projected expenses for November and December 2015;
    - g. total actual and projected expenses at December 31, 2015;
    - h. comparison of augmented, adjusted approved budget to actual and projected expenses at December 31, 2015; and
    - i. percentages of augmented, adjusted approved 2015 budget spent.
- **Attachment B: Proposed 2016 Mitigation Budget**
  - This attachment shows the proposed 2016 mitigation budget, constructed as necessary to fulfill mitigation-related business responsibilities and operations.

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<sup>1</sup> The CEA fiscal year is the calendar year.

- **Attachment C: Approved 2015 Mitigation Budget Expenses Compared to Proposed 2016 Mitigation Budget**
  - This attachment shows the approved 2015 Mitigation Budget after Augmentations and Adjustments and compares it to the proposed 2016 budget.

Recommendation:

Staff recommends that the Board take the following actions:

- Approve the proposed 2016 mitigation budget.
- Direct staff to operate the CEA's mitigation-related business activities within the approved budget amounts.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Budgeted Expenditures and Actual Expenditures**  
**2015 Budget Year**

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f)	(g) (g=e+f)	(h) (h=d-g)	(i) (i=g/d)
	<u>Approved 2015 Budget 1/1/2015</u>	<u>Adjustments<sup>3</sup> thru 12/31/2015</u>	<u>Augmentations thru 12/31/2015</u>	<u>2015 Budget after Augmentations and Adjustments</u>	<u>Actual Expenditures as of 10/31/15</u>	<u>Projected Expenditures 11/1/2015 to 12/31/2015</u>	<u>Actual and Projected Expenses at 12/31/15</u>	<u>Augmented &amp; Adjusted Approved Budget (d) vs. Actual &amp; Projected Expenses (g) at 12/31/15</u>	<u>Percentage used of Augmented &amp; Adjusted Approved 2015 Budget</u>
<b>Operating Expenses</b>									
Human Resources:									
Compensation and Benefits	\$ 1,219,169	\$ (61,750)	\$ -	\$ 1,157,419	\$ 886,310	\$ 185,309	\$ 1,071,619	\$ 85,800	92.59%
Travel	47,500	-	-	47,500	23,694	2,506	26,200	21,300	55.16%
Other	19,000	-	-	19,000	5,997	7,003	13,000	6,000	68.42%
Administration & Office	69,600	-	-	69,600	12,008	39,942	51,950	17,650	74.64%
Information Technology	-	250	-	250	214	36	250	-	0.00%
Telecommunications	1,500	10,700	-	12,200	9,058	3,142	12,200	-	0.00%
Rent/Lease	700	50,800	-	51,500	31,303	20,197	51,500	-	0.00%
<b>Total Operating Expenses</b>	<b>1,357,469</b>	<b>-</b>	<b>-</b>	<b>1,357,469</b>	<b>968,584</b>	<b>258,135</b>	<b>1,226,719</b>	<b>130,750</b>	<b>90.37%</b>
Investment Services	28,400	-	-	28,400	10,723	3,777	14,500	13,900	51.06%
Legal Services	50,000	-	-	50,000	3,900	4,100	8,000	42,000	16.00%
Marketing <sup>1</sup>	38,000	38,000	48,675	124,675	73,601	51,074	124,675	-	100.00%
Seismic - Related	19,000	(19,000)	-	-	-	-	-	-	0.00%
Engineering - Related <sup>2</sup>	1,019,000	(19,000)	20,000	1,020,000	129,880	370,120	500,000	520,000	49.02%
<b>Total Expenditures</b>	<b>\$ 2,511,869</b>	<b>\$ -</b>	<b>\$ 68,675</b>	<b>\$ 2,580,544</b>	<b>\$ 1,186,688</b>	<b>\$ 687,206</b>	<b>\$ 1,873,894</b>	<b>\$ 706,650</b>	<b>72.62%</b>

<sup>1</sup>Augmentation to cover research fees, a house-inspector focus group, and report development/publication: from May 15, 2015, Governing Board meeting, Agenda Item 14

<sup>2</sup>Augmentation to cover home-inspector inspections in Phase II: from May 15, 2015, Governing Board meeting, Agenda Item 14

<sup>3</sup>Adjustments made to expenses for Marketing, Seismic-Related, and Engineering-Related were made in August 2015, and all other adjustments were made December 2015.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Proposed 2016 Budget**

	<b>2016 Mitigation Budget</b>
<b>Operating Expenses</b>	
Human Resources:	
Compensation and Benefits	\$ 1,039,631
Travel	47,900
Other	29,850
Administration & Office	102,100
Information Technology	700
Telecommunications	14,000
Rent/Lease	77,700
	1,311,881
<b>Total Operating Expenses</b>	<b>1,311,881</b>
Investment Services	11,400
Legal Services	10,000
Marketing Services	575,000
Seismic-Related Research	-
Engineering-Related Research	1,500,000
	1,500,000
<b>Total Budgeted Expenditures</b>	<b>\$ 3,408,281</b>

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Budget Comparison**  
**2015 Budget to 2016 Budget**

Attachment C

	(a)	(b)	(c) (c=b-a)	(d) (d=c/a)
	<b>Budget after Augmentations and Adjustments <u>2015</u></b>	<b>Proposed Budget <u>2016</u></b>	<b><u>Difference</u></b>	<b><u>% Change</u></b>
<b>Operating Expenses</b>				
Human Resources:				
Compensation and Benefits	\$ 1,157,419	\$ 1,039,631	\$ (117,788)	(10.18%)
Travel	47,500	47,900	400	0.84%
Other	19,000	29,850	10,850	57.11%
Administration & Office	69,600	102,100	32,500	46.70%
Information Technology	250	700	450	> 100.00%
Telecommunications	12,200	14,000	1,800	14.75%
Rent/Lease	51,500	77,700	26,200	50.87%
<b>Total Operating Expenses</b>	<b>1,357,469</b>	<b>1,311,881</b>	<b>(45,588)</b>	<b>(3.36%)</b>
Investment Services	28,400	11,400	(17,000)	(59.86%)
Legal Services	50,000	10,000	(40,000)	(80.00%)
Marketing Servies	124,675	575,000	450,325	> 100.00%
Seismic-Related Research	-	-	-	0.00%
Engineering-Related Research	1,020,000	1,500,000	480,000	47.06%
<b>Total Expenditures</b>	<b>\$ 2,580,544</b>	<b>\$ 3,408,281</b>	<b>\$ 827,737</b>	<b>32.08%</b>

# California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<h2>Execute Strategic Mission</h2> <p>The California Earthquake Authority is California’s not-for-profit, public provider of residential earthquake insurance—publicly managed and privately funded, with programs to encourage and support effective action to reduce the risk of earthquake damage and loss.</p>				
<p><b>GOAL ONE: Educate.</b> <i>Help Californians learn about their seismic risks in order to prepare for, survive, and recover from damaging earthquakes.</i></p>				
<p><b>PRIORITY: Innovation.</b> Develop new ways to help Californians understand their earthquake risks, the value of earthquake-risk mitigation, and the financial-preparedness features of CEA earthquake-insurance products.</p>				
<p>1. <b>Expand beyond CEA the use of results from CEA-sponsored message-research study.</b></p>	Ongoing	CEA will seek 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	Advisory Panel Department of Insurance Cal OES SCEC
<p>2. <b>Roll-out new “Straight Talk” campaign; train more PI agents to sell CEA policies; register more agents in the Marketing Value Program (MVP); distribute Mandatory Marketing Document to help motivate more residents to contact their home insurer to purchase a CEA policy:</b></p> <ul style="list-style-type: none"> <li>• Update CEA website and agent portal with new CEA policy features and rates; offer responsive design features.</li> <li>• Promote need for digital pathway between CEA and PI websites so residents can find information on how to buy CEA policies through their home insurers.</li> <li>• Effectively encourage consideration of CEA policies via advertising campaign (broadcast, online, print, direct mail); promote CEA policy purchases through PIs.</li> </ul>	2015	CEA will seek input from Governing Board, Advisory Panel, and participating insurers.	Chris Nance	Marketing and Strategic Communications Contractor Advisory Panel

# California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<ul style="list-style-type: none"> <li>• Introduce social media policy/strategy.</li> <li>• Update post-event communications plan.</li> <li>• Promote CEA-policyholder retention through two rounds of direct mail.</li> <li>• Streamline "Joined Forces" programming with earth-sciences partner through annual statewide auction in April and annual "Great California ShakeOut" in October.</li> <li>• Integrate other earthquake preparedness stakeholders, as appropriate.</li> <li>• Manage programming budgets that separate marketing and mitigation funds.</li> <li>• Integrate expansion of Earthquake Brace + Bolt program (CRMP).</li> </ul>				
<p><b>PRIORITY: Research.</b> Enhance CEA insurance products and strengthen risk-awareness programs with the depth and knowledge gained from CEA's support of quality, publicly available research in seismic sciences, and engineering.</p>				
<p>1. Establish and maintain <b>communication and response protocols</b> to coordinate CEA involvement in local-area assistance centers.</p>	Ongoing	Support local-area assistance centers.	Mitch Ziemer Annde Ewertsen	FEMA/Cal OES CDI
<p>2. Conduct and support <b>research</b> related to CEA insurance products, risk-awareness, and seismic science and engineering.</p>	Ongoing	Make CEA-supported studies (UCERF3 and NGA West2) more accessible to the public; support and sponsor seismic and engineering research helpful to CEA policyholders' understanding their risk, to the occurrence of earthquakes and to damage to home and contents.	Bruce Patton	CEA-MRT

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b>PRIORITY: Technology.</b> Use technology to present and explain CEA information and to prepare and permit the CEA to make a full and effective response to damaging earthquakes.				
1. CEA Mobile App: Risk and Insurance Information	December 2016	IT Project Portfolio 2016	Chris Nance Bob Stewart	EPMO, IT
2. Centralize Agent Training and Registration	June 2016	IT Project Portfolio 2016	Chris Nance	EPMO, IT
3. Combine Agent Databases Phase 1	December 2016	IT Project Portfolio 2016	Chris Nance	EPMO, IT
4. Customer Relationship Management Phase 2	June 2016	IT Project Portfolio 2016	Chris Nance	EPMO, IT
5. Customer Relationship Management Phase 3	December 2016	IT Project Portfolio 2016	Chris Nance	EPMO, IT
6. Migrate EQA and MVP Websites to New Platforms	September 2016	IT Project Portfolio 2016	Chris Nance	EPMO, IT

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b>GOAL TWO: Mitigate.</b> <i>Encourage Californians to take action by strengthening their homes and securing their belongings in order to reduce their risk of earthquake damage.</i>				
<b>PRIORITY: Innovation.</b> Lead program development to furnish incentives for residential retrofits and other mitigation measures, and sponsor and lead a building-code-related guideline-development project to extend code-based seismic retrofits to California's single-family houses.				
1. Complete analysis of <b>hazard reduction discount</b> . *Also see <b>Goal Two: Mitigate Priority: Research 1. below</b>	Ongoing	Continue re-evaluation of hazard reduction discount targeting a more robust mitigation discount.	Shawna Ackerman Janiele Maffei Bruce Patton	EQECAT PEER ATC
2. Work with earthquake mitigation stakeholders to earn their consideration of <b>earthquake insurance as a component of financial preparedness</b> .	Ongoing	Continue relationships in support of mitigation program roll-out	Janiele Maffei Chris Nance	Advisory Panel Engineering groups Consumer groups
3. Continue roll-out of the residential <b>Earthquake Brace + Bolt</b> Project.	Ongoing	Complete expansion to 16 cities and 172 ZIP Codes. The goal is to initiate 1600 retrofits.	Janiele Maffei	CRMP Advisory Panel
4. Work with federal, state, and private organizations to obtain additional pre- and post-event <b>funding for earthquake-loss-mitigation programs</b> in order to grow its presence, acceptance, and effectiveness throughout California.	Ongoing	The CEA's Earthquake Brace + Bolt project is expressly referred to in the FEMA-approved State of California Multi-Hazard Mitigation Plan (which supports state and other eligibility for disaster recovery assistance and mitigation funding). Through FEMA's Hazard Mitigation Grant Program, EBB plans to retrofit 100 houses in Napa.	Janiele Maffei	Advisory Panel Participating insurers Other public & private sources
<b>PRIORITY: Research.</b> Through prudent, collaborative needs-assessment, support and commission original science and engineering research, to build among all relevant communities a richer and deeper understanding of expected earthquake damage to residential structures.				
1. Begin work of multidisciplinary research team to quantify damage reduction from selected retrofits to support CEA's rates and rating plan for policyholders who mitigate their houses through retrofitting.	Ongoing	The project is presently anticipated to be underway for 42 months.	Janiele Maffei Bruce Patton Shawna Ackerman	Program Contractor and team Badie Rowshandel, CGS, and CEA Advisory Panel Participating Insurers Reinsurers

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
2. Conduct contents-mitigation programs (to protect personal property such as TVs and furniture) that reinforce message-research results and complement residential <i>Earthquake Brace + Bolt</i> project.	Ongoing	CRMP pilot plan includes providing information about contents mitigation.	Janiele Maffei	CRMP

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
3. Explore joining forces with relevant private interests in offering financial products to support consumers participating in the CRMP Incentive Program	Ongoing	Current development of retrofit Pre-Standard, essential to securing additional financial products for mitigation.	Janiele Maffei	CEA Mitigation Program Contractors Advisory Panel
<b>PRIORITY: Technology.</b> Use technology to promote innovative residential earthquake-loss-mitigation measures, demonstrating their value in helping families secure their possessions and protect their homes.				
1. Mobile App: Seismic Vulnerability Inspection	September 2016	IT Project Portfolio 2016	Janiele Maffei	IT, Operations, Communications
2. "End-to-End Mitigation" Website	December 2016	Determine best approach and begin planning process	Janiele Maffei	Mitigation, Erin Waters
<b>GOAL THREE: Insure.</b> <i>Help Californians understand—and quantify and actively manage, using CEA insurance products—their risk of financial loss from damaging earthquakes.</i>				
<b>PRIORITY: Innovation.</b> Develop, create, and—collaboratively, with CEA participating insurers—implement and distribute programs and products that enhance the effectiveness of the CEA and its participating insurers in helping Californians understand and manage their earthquake risk.				
1. Explore <b>enhancements to CEA insurance products.</b>	Ongoing	CEA staff is continuously and actively reviewing CEA products—the review includes market research and analysis of policyholders' purchasing patterns, the results of which will guide and allow enhancement of future product designs.	Bob Stewart Mitch Ziemer Shawna Ackerman Trudy Moore	Participating insurers Advisory Panel
2. Continue to study and update <b>financial alternatives.</b> <ul style="list-style-type: none"> <li>• Investigate financial structures, instruments of domestic and international catastrophe programs.</li> <li>• Research and monitor global financial markets for new financing vehicles and techniques. Finalize drafting and implementation of robust compliance guidelines to assist CEA staff and Board in</li> </ul>	Ongoing	Staff to seek collaboration from outside financial experts and expert colleagues to find and develop financial alternatives for cost-effective claim-paying capacity.	Tim Richison Danny Marshall	CEA Financial Advisor Outside financial and legal experts

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
understanding, planning for, and working to mitigate financing and related risks.				
3. Pursue legislative activity on federal and state levels.	Ongoing	In California, pursue passage of legislation to help lower rates, increase coverage, and assist Californians who wish to mitigate their homes.	Glenn Pomeroy Danny Marshall Susie Hernandez Bruce Patton Janiele Maffei Shawna Ackerman Tim Richison	Co-sponsors Consultants/legal experts Research organizations
4. Outreach to participating Insurers, agents, and adjusters in support of policy sales and service, product development, and claim management.	Ongoing	Plans under development.	Bob Stewart Trudy Moore Mitch Ziemer	
<p><b>PRIORITY: Research.</b> Develop, advocate, and lead targeted research to enhance the effectiveness of the CEA and its business partners in helping Californians understand and manage their earthquake risk.</p>				
1. Complete <b>rate analysis for all products.</b>	Ongoing	Rate analysis is ongoing, with comprehensive analyses annually, at mid-year and year-end.	Shawna Ackerman	
2. Continue working with CEA chief actuary to <b>update CEA's Dynamic Financial Analysis Model and Financial Model</b> and reflect new financial alternatives and products.	Ongoing	Continue to enhance CEA's DFA model.	Tim Richison Shawna Ackerman	
3. Conduct <b>research on CEA-policyholder demographics</b> , to better understand the types of Californians who are purchasing earthquake insurance.	Ongoing	CEA will produce ongoing " <b>SWOT</b> " analyses – in an effort to recognize its <b>Strengths, Weaknesses, Opportunities, and Threats.</b>	Chris Nance	Advisory Panel
4. Monitor and assess updates to catastrophe-loss models.	Ongoing	Completion of CEA-sponsored research (UCERF <sub>3</sub> , NGA-West2, Cripple Wall Project) will result in loss-model updates in 2016 and 2017.	Shawna Ackerman	

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b>PRIORITY: Technology.</b> Implement and continuously improve CEA insurance solutions, to support and provide value to participating insurers, agents and producers, and policyholders.				
1. CPP Insuresoft Implementation	December 2016	IT Project Portfolio 2016	Bob Stewart Todd Coombes	EPMO, IT
2. CPP Data Warehouse and Reporting	December 2016	IT Project Portfolio 2016	Bob Stewart Todd Coombes	EPMO, IT
3. Enterprise Content Management Phase 2	June 2016	IT Project Portfolio 2016	Danny Marshall Tim Richison	EPMO, IT
4. Enterprise Content Management Phase 3	December 2016	IT Project Portfolio 2016	Danny Marshall Tim Richison	EPMO, IT
5. Operations Reports – Claims	June 2016	IT Project Portfolio 2016	Bob Stewart Mitch Ziemer	EPMO, IT
6. Operations Reports – Business	December 2016	IT Project Portfolio 2016	Bob Stewart Trudy Moore	EPMO, IT
7. Premium Write-Offs (after 1/1/2009)	December 2016	IT Project Portfolio 2016	Tim Richison	EPMO, IT
8. Premium Write-Offs (on/before 12/31/2008)	December 2016	IT Project Portfolio 2016	Tim Richison	EPMO, IT
9. Single ZIP Code Data Source	December 2016	IT Project Portfolio 2016	Bob Stewart	EPMO, IT
10. Monitor implementation of 2016 rate and form filing and related CEA participating insurer data-submission process.	Ongoing	Monitor implementation of 2016 changes as well as submission- and error-management processes.	Todd Coombes Bob Stewart Trudy Moore Mitch Ziemer	IT
11. New PI in EPICenter – Reinstate inactive PI and create placeholder for new PIs	Second Quarter	EPICenter Backlog	Bob Stewart Tim Richison Todd Coombes Trudy Moore	IT
12. Develop “Agent-centric” Premium Calculator	TBD	Premium Calculator Backlog	Bob Stewart Todd Coombes Trudy Moore	IT, Comms
13. High Volume Testing – Claims	TBD	Ensure high-claim-volume readiness and capacity since 2016 rate and form filing; consider and address systematic changes.	Bob Stewart Mitch Ziemer Todd Coombes	IT

# California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b>Governance and Departmental Effectiveness.</b>				
Organizational governance opportunities and departmental goals and initiatives to maximize CEA's mission-effectiveness.				
<b>Governance.</b>				
<b>Governing Board.</b>				
1. Collaborate with CEA Governing Board and stakeholders to <b>analyze and develop action plan for organizational and staffing analyses.</b>	Ongoing	Areas of focus will include building a new business model, augmenting CEA's HR capabilities, adding staff members who possess required functional expertise, recruiting and hiring a Chief Risk Officer, and other recommendations from the analysis.	Executive Staff	Governing Board Advisory Panel Participating Insurers
2. Establish and periodically report on <b>CEA performance metrics.</b>	Ongoing	Initial draft of performance metrics to be reviewed.	Executive Staff	Governing Board Advisory Panel
<b>Advisory Panel.</b>				
1. Collaborate with CEA Advisory Panel as it continues to work to optimize its appropriate role.	Process	Advisory Panel members periodically review the CEA Business Implementation Plan and respond to staff requests for Panel-member participation.	Danny Marshall	Advisory Panel
2. Update <b>Advisory Panel Handbook.</b>	Process (periodic)		Danny Marshall	
<b>Staff.</b>				
1. <b>Review/update CEA governing documents,</b> including Plan of Operations and the Procedures and Accounting Manual.	Process	Governance documents require periodic review and updating, to reflect legal and regulatory revisions, changes in operating procedures, and changes in business goals. The review will aid process improvements. Proposed updates to the Procedures and Accounting Manual are under final review.	Bob Stewart Danny Marshall Trudy Moore	All CEA department heads

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
2. <b>Inform external organizations and audiences</b> about CEA.	Ongoing		Executive Staff	Advisory Panel
3. Participate in and contribute to <b>conferences and events</b> that strengthen CEA's reputation and further CEA goals.	Ongoing		Executive Staff	
4. Continue to <b>strengthen communication with external stakeholders</b> (Legislative and Congressional members and staff; consumer groups; participating insurers; federal, state and regional agencies; and university resources).	Ongoing		Executive Staff	Advisory Panel

### Departmental Effectiveness.

#### Communications.

1. <b>Identify measures to track and gauge marketing effectiveness (metrics):</b> <ul style="list-style-type: none"> <li>• Refine year-round media plan: paid-media negotiations and earned-media outreach.</li> <li>• Use of media-buying and media-tracking software.</li> <li>• Develop integrated business-intelligence systems to target and track marketing and sales programming:               <ul style="list-style-type: none"> <li>-Marketing/sales funnel</li> <li>-Content management</li> <li>-Agent/consumer relations</li> </ul> </li> </ul>	Ongoing	CEA will use software and subscriptions to reconcile media buys, develop business-intelligence systems to facilitate marketing and sales decisions, and track number and characteristics of people considering earthquake-insurance purchase.	Chris Nance	Communications Plan Contractor Advisory Panel
2. <b>Expand and enhance CEA agent/producer relations:</b> <ul style="list-style-type: none"> <li>• Meet biannually with participating-insurers' marketing liaisons to share MVP updates.</li> </ul>	Ongoing	CEA will collect meaningful input from participating-insurers' marketing liaisons.	Chris Nance	Communications Plan Contractor Advisory Panel

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<ul style="list-style-type: none"> <li>• Coordinate agent-training through participating-insurer liaisons.</li> <li>• Use technology to deliver agent-training more efficiently.</li> <li>• Enhance premium-calculator options on CEA website.</li> <li>• Provide agents/producers with updated and refreshed product information, consistent with newest CEA-marketing-campaign themes.</li> <li>• Continuously evaluate participating insurers' use of CEA marketing materials.</li> </ul>				
3. <b>Further develop product-specific marketing strategies.</b>	Ongoing		Chris Nance Trudy Moore Shawna Ackerman	Advisory Panel
<b>Finance.</b>				
1. Propose and secure Board approval of <b>2017 CEA reinsurance and risk-transfer programs.</b>	December 2016	Work with CEA's external contracted reinsurance-intermediary team to plan and achieve required risk-transfer limits at lowest effective cost.	Tim Richison	CEA Independent Financial Advisor Reinsurance Intermediaries
2. Annual <b>rating-agency reviews</b> 3. Financial-strength review with A.M. Best 4. Bond-rating review with Moody's and Fitch.	Ongoing	Work with rating agencies to maintain CEA credit and financial-strength ratings, including present financial-strength rating from A.M. Best of "A-minus (Excellent)" and a bond (credit) rating of "A" from Fitch and "A3" from Moody's.	Tim Richison	CEA Independent Financial Advisor
5. Continue to evaluate and strengthen <b>CEA's program for sponsorship of catastrophe bonds</b> , to continually determine the use of cat bonds as a useful, alternative form of risk-transfer.	Ongoing	CEA's cat-bond team is a combination of internal and external talent, and is drawn from CEA staff, staff of the State Treasurer's Office, and other outside experts in cat bonds and capital markets. The CEA's independent financial advisor is also consulted.	Tim Richison CEA's (internal) Alternative Risk Transfer Subcommittee Joe Zuber	CEA Independent Financial Advisor CEA Cat-Bond Team

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
6. Evaluate effects on CEA of <b>NAIC's Model Audit Rule</b> .	Ongoing	Continue reviewing documentation and attending training to evaluate and decide on any changes necessary to comply with NAIC's Model Audit Rule.	Tim Richison	
7. Complete and continue with <b>investment compliance project</b> .	Ongoing	Procured investment-compliance software; internal team is working to enhance the software's automatic daily portfolio evaluation. Investment-Compliance Committee - Charter under management review; Committee has met and is discussing policy and charter provisions.	Danny Marshall Niel Hall Rick Contreras Tim Richison	Investment-Compliance Consultant CEA Financial Advisor
8. Implement NAIC's Model Audit Rule into CEA's financial and compliance systems.	December 2016	Develop implementation plan for transition, provide training for affected CEA personnel, and complete implementation of new accounting rules by year-end 2016.	Tim Richison	
<b>Information Technology.</b>				
1. Implement new <b>Customer Service system</b> for IT support and help desk.	April 2016	Replace previous ticket-tracking system with new technology that better serves stakeholders.	Todd Coombes	Governance Infrastructure Release Management
2. Roll-out <b>MyITRequests</b> to provide CEA business partners with single point of requesting and tracking IT work.	July 2016	MyITRequests expanded within Shockwave to provide extensive intake and visibility functions for all CEA stakeholders.	Todd Coombes	EPMO Release Management
3. Provide CEA business partners with recurring <b>IT-metrics-reporting package</b> .	September 2016	Produce IT-metrics-reporting package with both overall-CEA and CEA-department views, providing visibility into IT demand, planning, and execution.	Todd Coombes	IT Leadership Jill Feather
4. Successfully manage and complete <b>2016 IT Project Portfolio</b> .	December 2016	Proposed IT Project Portfolio ready for Governing Board approval.	Todd Coombes	EPMO Release Management

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b>Legal and Compliance.</b>				
1. Continue to implement <b>CEA records management and retention program.</b>	Ongoing	Implementation continuing, based on recommendations from expert consultant, beginning with review and appropriate disposition of departmental records; will progress to implementing automated system for records and retention management.	Danny Marshall Niel Hall Rick Contreras Todd Coombes	
2. <b>Complete review of CEA internal-audit program; re-establish internal audit program</b> (based on and responding to external and internal input).	Ongoing	CEA internal-audit program evaluation is ongoing.	Danny Marshall Rick Contreras	PwC, as needed
<b>Mitigation.</b>				
1. Ensure CEA mitigation programs are <b>evaluated for program- and cost-effectiveness.</b>	Ongoing	Current CRMP <i>Earthquake Brace + Bolt</i> roll-out includes detailed evaluation and quality-control processes.	Janiele Maffei	CRMP
2. Support roll-out of <b>CRMP mitigation program</b>	Ongoing	Support program and stakeholders to ensure successful roll-out.	Janiele Maffei	CRMP
3. <b>Participate in and fund conferences, seminars, and workshops to support collaborative mitigation efforts.</b>	Ongoing	Guideline, research, and mitigation workshops and conferences.	Janiele Maffei	CRMP FEMA
4. <b>Explore and establish relationships with other recognized natural-hazard mitigation opinion leaders and stakeholders.</b>	Ongoing	Collaboration with FEMA: FEMA P-50 completed and Retrofit Guidelines (Pre-standard) process started and underway.	Janiele Maffei Bruce Patton	Advisory Panel
<b>Operations.</b>				
1. <b>CEA Workforce Planning Project</b> - Collaborate with CEA Governing Board and other stakeholders to analyze and develop action plan for organizational structure and staffing.	Ongoing	Analysis is ongoing, and a final action plan is being prepared for Board consideration.	Glenn Pomeroy Bob Stewart Danny Marshall Todd Coombes Tim Richison	

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
			Chief Administrative Officer	
2. <b>Monitor implementation of California Department of Insurance approved rate and form filing.</b>	Ongoing	Monitor changes for policies effective on or after January 1, 2016.	Bob Stewart Todd Coombes Trudy Moore Mitch Ziemer	IT Participating Insurers
3. <b>Rate Analysis</b> - complete rate analysis for all products.	Mid-year and Year-end 2015	Rate analysis is a continuous process.	Bob Stewart Shawna Ackerman Mitch Ziemer	
4. <b>CEA insurance products</b> – explore enhancements, including development of new products.	Ongoing	CEA staff is continuously and actively reviewing CEA products—the review includes market research and analysis of policyholders’ purchasing patterns, the results of which will guide and support, and allow enhancements to, future product designs.	Bob Stewart Shawna Ackerman Mitch Ziemer Trudy Moore	
5. <b>Business requirements</b> - Support development of business requirements to support identification, development, and implementation of data-system fixes and enhancements.	Ongoing	CEA Insurance Operations and Information Technology staffs are collaborating to implement refinements to EPICenter to maximize system effectiveness and promote ease of doing business with the CEA.	Bob Stewart Todd Coombes Mitch Ziemer Trudy Moore	
6. <b>CEA participating insurer performance</b> - Conduct a semi-annual review of each CEA participating insurer’s performance: policy sales, retention, and other relevant measures.	Ongoing	CEA Insurance Operations staff to meet with appropriate staff of participating insurers to review CEA performance based on the insurer’s mid-year and year-end CEA Book of Business Report. Staff will also seek insight into insurer-specific initiatives that affect CEA operations, to ensure appropriate CEA planning and goal-setting.	Bob Stewart Mitch Ziemer Trudy Moore	
7. <b>New Participating Insurers</b> - Effectively collaborate with insurers who are evaluating	Ongoing	CEA Insurance Operations staff will support and provide interested insurers and new	Bob Stewart Mitch Ziemer	

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
becoming a CEA participating insurer – lead the implementation process for those who choose to participate.		applicants with information necessary to evaluate their potential CEA participation, and will seek information, including data, to enable the CEA to complete its own analysis of each applicant's participation.	Trudy Moore	
<b>8. Business Educators</b> – Train CEA staff and participating insurers based on insurance-industry expertise, related education, and CEA work experience.	Ongoing	CEA Insurance Operations staff will provide other CEA staff members with general insurance training to effectively support the CEA's overall operations; Staff will continue to provide participating-insurer staff (including adjusters) with CEA-specific training. Insurance Operations staff is represented on numerous cross-functional CEA work teams to support implementation of programming and initiatives. CEA Insurance Operations staff must have high-level experience in insurance-industry practices and procedures.	Bob Stewart Mitch Ziemer Trudy Moore	
<b>9. CEA earthquake-response procedures</b> - Review, compare, and update internal protocols for CEA earthquake-response procedures.	Ongoing	Support collaboration among CEA staff and conduct tabletop and other exercises to ensure response procedures are documented and current, and incorporate key resources such as the CEA's proprietary EARLE system.	Bob Stewart Mitch Ziemer	
<b>10. Office expansion.</b>	May 2016	Construction scheduled to begin in early 2016 with occupancy targeted for no later than May 1, 2016.	Bob Stewart Chief Administrative Officer	New building owner
<b>11. Claim Audit</b> Conduct claim file review of La Habra and Napa earthquakes.	Mid-Year 2016	CEA staff to select and review participating insurer claim files for compliance with legal/regulatory and CEA procedures.	Mitch Ziemer	
<b>12. California Department of Insurance (CDI) Rating and Underwriting Examination</b>	TBD	Submitted response to the Preliminary Notification of Examination	Bob Stewart Trudy Moore	

## California Earthquake Authority 2016 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
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### Abbreviations:

ATC	Applied Technology Council
Cal OES	California Governor's Office of Emergency Services
CDI	California Department of Insurance
CEA	California Earthquake Authority
CEA-MRT	California Earthquake Authority – Multidisciplinary Research Team
CGS	California Geological Survey
CRMP	California Residential Mitigation Program
EPICenter	CEA database
FEMA	Federal Emergency Management Agency
NAIC	National Association of Insurance Commissioners
NGA	Next-Generation Attenuation
NGA West <sup>2</sup>	Enhancement of Next Generation Attenuation Relationships for Western US
PEER	Pacific Earthquake Engineering Research Center
PwC	PricewaterhouseCoopers
SCEC	Southern California Earthquake Center
STO	California State Treasurer's Office
TBD	To be determined
UCERF	Uniform California Earthquake-Rupture Forecast
UCERF <sup>3</sup>	Uniform California Earthquake-Rupture Forecast Version 3

## Governing Board Memorandum

December 16, 2015

Agenda Item 19: Update on data collection and reporting that support the Metrics Project

Recommended Action: No action required—information only

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Chief Executive Officer Glenn Pomeroy will update the Board on the established CEA metrics, and plans to launch the corresponding data collection and reporting system on January 1, 2016.

## Governing Board Memorandum

December 16, 2015

Agenda Item 20: Update on obtaining additional office space to accommodate CEA staff and related operations

Recommended Action: No action required—information only

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Chief Executive Officer Glenn Pomeroy will update the Board on the progress in obtaining additional office space on the floor immediately above the CEA's main office, to accommodate CEA staff and related operations.

# Governing Board Memorandum

December 16, 2015

Agenda Item 21: (Proposed) 2016 Quarterly CEA Governing Board Meeting Schedule

Recommended Action: Approve (Proposed) 2016 Quarterly CEA Governing Board Meeting Schedule

Staff recommends approval of the following dates for the CEA Governing Board’s 2016 regular business meetings:

**All meetings are on a Wednesday and begin at 1:00 p.m.**

2016 MEETING DATES
<b>March 16</b>
<b>June 15</b>
<b>September 14</b>
<b>December 14</b>

2016																																																
<b>January</b>							<b>February</b>							<b>March</b>							<b>April</b>							<b>May</b>							<b>June</b>													
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**California Earthquake Authority**

**Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to October 31, 2015**

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	145,967.19	13,089.08	\$159,056.27
09320	Calexico	12/30/2009	5.9	22.7 mi SE of Calexico	1	275.88	24.83	\$300.71
	2009 Minor Quakes				2	8,627.67	776.49	\$9,404.16

## California Earthquake Authority

### Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to October 31, 2015 (continued)

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	3	23,901.50	2,151.13	\$26,052.63
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	17	81,066.58	7,296.00	\$88,362.58
	2010 Minor Quakes				1	225,000.00	0.00	\$225,000.00
12410	Brawley	8/26/2012	5.3	4 mi North of Brawley, CA	2	23,833.24	2,145.00	\$25,978.24
	2012 Minor Quakes				3	146,471.18	13,182.41	\$159,653.59
13430	Greenville	5/23/2013	5.7	7 mi WNW of Greenville, CA	1	1,500.00	135.00	\$1,635.00
14460	Westwood	3/17/2014	4.4	6mi NNW of Westwood, CA	6	67,989.89	6,119.09	\$74,108.98
14470	La Habra	3/28/2014	5.1	1mi S of La Habra, CA	84	418,980.16	37,708.22	\$456,688.38
14480	American Canyon	8/24/2014	6.0	4mi NW of American Canyon, CA	193	3,055,164.98	274,964.86	\$3,330,129.84
	2014 Minor Quakes				1	1,500.00	135.00	\$1,635.00
<b>Total</b>					<b>468</b>	<b>\$7,667,317.42</b>	<b>\$668,898.35</b>	<b>\$8,336,215.77</b>

## 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 11/23/2015 - Policies in Force on: 10/31/2015

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Homeowners</b>							
15% Total	565,997	64.6 %	272,844,955,502	77.2 %	468,400,418	74.7 %	828
10% Total	82,088	9.4 %	41,583,732,559	11.8 %	68,361,166	10.9 %	833
<b>Homeowners Total</b>	<b>648,085</b>	<b>74.0 %</b>	<b>314,428,688,061</b>	<b>89.0 %</b>	<b>536,761,584</b>	<b>85.6 %</b>	<b>828</b>
<b>Homeowners Choice</b>							
15% Total	22,611	2.6 %	13,734,116,226	3.9 %	24,563,507	3.9 %	1,086
10% Total	16,032	1.8 %	9,097,135,523	2.6 %	14,433,780	2.3 %	900
<b>Homeowners Choice Total</b>	<b>38,643</b>	<b>4.4 %</b>	<b>22,831,251,749</b>	<b>6.5 %</b>	<b>38,997,287</b>	<b>6.2 %</b>	<b>1,009</b>
<b>Manufactured Homes (Mobilehomes)-Homeowners</b>							
15% Total	21,612	2.5 %	2,448,715,374	0.7 %	2,562,472	0.4 %	119
10% Total	5,217	0.6 %	826,576,453	0.2 %	739,036	0.1 %	142
<b>Manufactured Homes (Mobilehomes)-Homeowners Total</b>	<b>26,829</b>	<b>3.1 %</b>	<b>3,275,291,827</b>	<b>0.9 %</b>	<b>3,301,509</b>	<b>0.5 %</b>	<b>123</b>
<b>Manufactured Homes (Mobilehomes)-Homeowners Choice</b>							
15% Total	365	0.0 %	59,416,605	0.0 %	69,666	0.0 %	191
10% Total	483	0.1 %	83,874,813	0.0 %	78,475	0.0 %	162
<b>Manufactured Homes (Mobilehomes)-Homeowners Choice Total</b>	<b>848</b>	<b>0.1 %</b>	<b>143,291,418</b>	<b>0.0 %</b>	<b>148,141</b>	<b>0.0 %</b>	<b>175</b>
<b>Condo Total</b>	<b>105,858</b>	<b>12.1 %</b>	<b>10,552,263,500</b>	<b>3.0 %</b>	<b>41,059,064</b>	<b>6.5 %</b>	<b>388</b>
<b>Renters Total</b>	<b>55,837</b>	<b>6.4 %</b>	<b>2,191,212,000</b>	<b>0.6 %</b>	<b>6,799,013</b>	<b>1.1 %</b>	<b>122</b>
<b>Grand Total</b>	<b>876,100</b>	<b>100.0 %</b>	<b>353,421,998,555</b>	<b>100.0 %</b>	<b>627,066,597</b>	<b>100.0 %</b>	<b>716</b>

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2015 - Policies in Force on: 10/31/2015

HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Deductible - 15%</b>							
CovA/C5k/D1.5k/BCU10k	565,997	87.3 %	264,384,076,002	84.1 %	436,671,423	81.4 %	772
BCU 20k	80,303	12.4 %	803,030,000	0.3 %	1,338,812	0.2 %	17
Coverage C 25k	34,857	5.4 %	697,140,000	0.2 %	5,098,610	0.9 %	146
Coverage C 50k	21,389	3.3 %	962,505,000	0.3 %	5,078,136	0.9 %	237
Coverage C 75k	8,908	1.4 %	623,560,000	0.2 %	2,659,977	0.5 %	299
Coverage C 100k	34,784	5.4 %	3,304,480,000	1.1 %	12,576,005	2.3 %	362
Coverage D 10k	38,664	6.0 %	328,644,000	0.1 %	973,609	0.2 %	25
Coverage D 15k	59,915	9.2 %	808,852,500	0.3 %	2,223,309	0.4 %	37
Coverage D 25k	39,688	6.1 %	932,668,000	0.3 %	1,780,535	0.3 %	45
<b>15% Total</b>	<b>565,997</b>	<b>87.3 %</b>	<b>272,844,955,502</b>	<b>86.8 %</b>	<b>468,400,418</b>	<b>87.3 %</b>	<b>828</b>
<b>Deductible - 10%</b>							
CovA/C5k/D1.5k/BCU10k	82,088	12.7 %	37,396,415,559	11.9 %	55,487,276	10.3 %	676
BCU 20k	27,579	4.3 %	275,790,000	0.1 %	366,238	0.1 %	13
Coverage C 25k	13,017	2.0 %	260,340,000	0.1 %	1,908,988	0.4 %	147
Coverage C 50k	9,115	1.4 %	410,175,000	0.1 %	1,818,129	0.3 %	199
Coverage C 75k	4,031	0.6 %	282,170,000	0.1 %	997,434	0.2 %	247
Coverage C 100k	21,645	3.3 %	2,056,275,000	0.7 %	6,379,688	1.2 %	295
Coverage D 10k	14,117	2.2 %	119,994,500	0.0 %	253,350	0.0 %	18
Coverage D 15k	21,559	3.3 %	291,046,500	0.1 %	561,351	0.1 %	26
Coverage D 25k	20,916	3.2 %	491,526,000	0.2 %	588,713	0.1 %	28
<b>10% Total</b>	<b>82,088</b>	<b>12.7 %</b>	<b>41,583,732,559</b>	<b>13.2 %</b>	<b>68,361,166</b>	<b>12.7 %</b>	<b>833</b>
<b>Homeowners Total</b>	<b>648,085</b>	<b>100.0 %</b>	<b>314,428,688,061</b>	<b>100.0 %</b>	<b>536,761,584</b>	<b>100.0 %</b>	<b>828</b>

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2015 - Policies in Force on: 10/31/2015

HOMEOWNERS CHOICE	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Deductible - 15%</b>							
CovA/C5k/D1.5k/BCU10k <sup>1</sup>	22,611	58.5 %	12,906,116,226	56.5 %	20,973,649	53.8 %	928
BCU 20k	9,100	23.5 %	91,000,000	0.4 %	171,234	0.4 %	19
Coverage C 25k	2,909	7.5 %	58,180,000	0.3 %	637,912	1.6 %	219
Coverage C 50k	2,163	5.6 %	97,335,000	0.4 %	604,497	1.6 %	279
Coverage C 75k	724	1.9 %	50,680,000	0.2 %	219,645	0.6 %	303
Coverage C 100k	2,992	7.7 %	284,240,000	1.2 %	1,159,974	3.0 %	388
Coverage D 10k	2,657	6.9 %	22,584,500	0.1 %	112,307	0.3 %	42
Coverage D 15k	1,391	3.6 %	18,778,500	0.1 %	76,024	0.2 %	55
Coverage D 25k	8,732	22.6 %	205,202,000	0.9 %	608,265	1.6 %	70
<b>15% Total</b>	<b>22,611</b>	<b>58.5 %</b>	<b>13,734,116,226</b>	<b>60.2 %</b>	<b>24,563,507</b>	<b>63.0 %</b>	<b>1,086</b>
<b>Deductible - 10%</b>							
CovA/C5k/D1.5k/BCU10k <sup>1</sup>	16,032	41.5 %	8,210,425,523	36.0 %	11,394,366	29.2 %	711
BCU 20k	7,245	18.7 %	72,450,000	0.3 %	107,570	0.3 %	15
Coverage C 25k	3,020	7.8 %	60,400,000	0.3 %	537,219	1.4 %	178
Coverage C 50k	2,516	6.5 %	113,220,000	0.5 %	544,188	1.4 %	216
Coverage C 75k	837	2.2 %	58,590,000	0.3 %	201,692	0.5 %	241
Coverage C 100k	3,851	10.0 %	365,845,000	1.6 %	1,184,530	3.0 %	308
Coverage D 10k	2,785	7.2 %	23,672,500	0.1 %	79,467	0.2 %	29
Coverage D 15k	1,274	3.3 %	17,199,000	0.1 %	46,256	0.1 %	36
Coverage D 25k	7,461	19.3 %	175,333,500	0.8 %	338,492	0.9 %	45
<b>10% Total</b>	<b>16,032</b>	<b>41.5 %</b>	<b>9,097,135,523</b>	<b>39.8 %</b>	<b>14,433,780</b>	<b>37.0 %</b>	<b>900</b>
<b>Homeowners Choice Total</b>	<b>38,643</b>	<b>100.0 %</b>	<b>22,831,251,749</b>	<b>100.0 %</b>	<b>38,997,287</b>	<b>100.0 %</b>	<b>1,009</b>

<sup>1</sup>Includes policies with Coverage A, C and D, Coverage A and C, Coverage A and D, and Coverage A only

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2015 - Policies in Force on: 10/31/2015

MANUFACTURED HOMES (MOBILEHOMES)- HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Deductible - 15%</b>							
CovA/C5k/D1.5k/BCU10k	21,612	80.6 %	2,249,916,374	68.7 %	2,440,389	73.9 %	113
Coverage C 25k	1,642	6.1 %	32,840,000	1.0 %	38,235	1.2 %	23
Coverage C 50k	1,040	3.9 %	46,800,000	1.4 %	34,826	1.1 %	33
Coverage C 75k	335	1.2 %	23,450,000	0.7 %	12,384	0.4 %	37
Coverage C 100k	501	1.9 %	47,595,000	1.5 %	21,194	0.6 %	42
Coverage D 10k	1,493	5.6 %	12,690,500	0.4 %	5,416	0.2 %	4
Coverage D 15k	1,160	4.3 %	15,660,000	0.5 %	5,262	0.2 %	5
Coverage D 25k	841	3.1 %	19,763,500	0.6 %	4,766	0.1 %	6
<b>15% Total</b>	<b>21,612</b>	<b>80.6 %</b>	<b>2,448,715,374</b>	<b>74.8 %</b>	<b>2,562,472</b>	<b>77.6 %</b>	<b>119</b>
<b>Deductible - 10%</b>							
CovA/C5k/D1.5k/BCU10k	5,217	19.4 %	586,327,953	17.9 %	634,057	19.2 %	122
Coverage C 25k	1,712	6.4 %	34,240,000	1.0 %	29,628	0.9 %	17
Coverage C 50k	1,219	4.5 %	54,855,000	1.7 %	28,185	0.9 %	23
Coverage C 75k	398	1.5 %	27,860,000	0.9 %	11,968	0.4 %	30
Coverage C 100k	651	2.4 %	61,845,000	1.9 %	21,778	0.7 %	33
Coverage D 10k	1,424	5.3 %	12,104,000	0.4 %	3,686	0.1 %	3
Coverage D 15k	1,192	4.4 %	16,092,000	0.5 %	3,910	0.1 %	3
Coverage D 25k	1,415	5.3 %	33,252,500	1.0 %	5,822	0.2 %	4
<b>10% Total</b>	<b>5,217</b>	<b>19.4 %</b>	<b>826,576,453</b>	<b>25.2 %</b>	<b>739,036</b>	<b>22.4 %</b>	<b>142</b>
<b>Manufactured Homes (Mobilehomes)-Homeowners Total</b>	<b>26,829</b>	<b>100.0 %</b>	<b>3,275,291,827</b>	<b>100.0 %</b>	<b>3,301,509</b>	<b>100.0 %</b>	<b>123</b>

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2015 - Policies in Force on: 10/31/2015

MANUFACTURED HOMES (MOBILEHOMES)- HOMEOWNERS CHOICE	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Deductible - 15%</b>							
CovA/C5k/D1.5k/BCU10k <sup>1</sup>	365	43.0 %	45,497,605	31.8 %	57,048	38.5 %	156
Coverage C 25k	80	9.4 %	1,600,000	1.1 %	3,046	2.1 %	38
Coverage C 50k	77	9.1 %	3,465,000	2.4 %	4,299	2.9 %	56
Coverage C 75k	25	2.9 %	1,750,000	1.2 %	1,256	0.8 %	50
Coverage C 100k	27	3.2 %	2,565,000	1.8 %	1,297	0.9 %	48
Coverage D 10k	48	5.7 %	408,000	0.3 %	465	0.3 %	10
Coverage D 15k	24	2.8 %	324,000	0.2 %	252	0.2 %	11
Coverage D 25k	162	19.1 %	3,807,000	2.7 %	2,004	1.4 %	12
<b>15% Total</b>	<b>365</b>	<b>43.0 %</b>	<b>59,416,605</b>	<b>41.5 %</b>	<b>69,666</b>	<b>47.0 %</b>	<b>191</b>
<b>Deductible - 10%</b>							
CovA/C5k/D1.5k/BCU10k <sup>1</sup>	483	57.0 %	59,353,313	41.4 %	64,090	43.3 %	133
Coverage C 25k	166	19.6 %	3,320,000	2.3 %	4,506	3.0 %	27
Coverage C 50k	115	13.6 %	5,175,000	3.6 %	3,482	2.4 %	30
Coverage C 75k	38	4.5 %	2,660,000	1.9 %	1,039	0.7 %	27
Coverage C 100k	60	7.1 %	5,700,000	4.0 %	2,130	1.4 %	35
Coverage D 10k	101	11.9 %	858,500	0.6 %	847	0.6 %	8
Coverage D 15k	43	5.1 %	580,500	0.4 %	307	0.2 %	7
Coverage D 25k	265	31.3 %	6,227,500	4.3 %	2,074	1.4 %	8
<b>10% Total</b>	<b>483</b>	<b>57.0 %</b>	<b>83,874,813</b>	<b>58.5 %</b>	<b>78,475</b>	<b>53.0 %</b>	<b>162</b>
<b>Manufactured Homes (Mobilehomes)-Homeowners Choice Total</b>	<b>848</b>	<b>100.0 %</b>	<b>143,291,418</b>	<b>100.0 %</b>	<b>148,141</b>	<b>100.0 %</b>	<b>175</b>

<sup>1</sup>Includes policies with Coverage A, C and D, Coverage A and C, Coverage A and D, and Coverage A only

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2015 - Policies in Force on: 10/31/2015

CONDO	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage A/BCU 10k	80,949	76.5 %	2,832,865,000	26.8 %	8,523,141	20.8 %	105
Coverage C 5k/D 1.5k	31,618	29.9 %	205,517,000	1.9 %	2,249,687	5.5 %	71
Coverage C 5k <sup>1</sup>	12,204	11.5 %	60,925,000	0.6 %	751,848	1.8 %	62
Coverage C 25k	16,644	15.7 %	416,100,000	3.9 %	1,877,280	4.6 %	113
Coverage C 50k	13,158	12.4 %	657,900,000	6.2 %	1,639,732	4.0 %	125
Coverage C 75k	5,545	5.2 %	415,875,000	3.9 %	737,073	1.8 %	133
Coverage C 100k	12,780	12.1 %	1,278,000,000	12.1 %	1,759,435	4.3 %	138
Coverage D 1.5k <sup>2</sup>	7,260	6.9 %	10,861,500	0.1 %	93,581	0.2 %	13
Coverage D 10k	14,076	13.3 %	140,760,000	1.3 %	358,632	0.9 %	25
Coverage D 15k	20,364	19.2 %	305,460,000	2.9 %	554,164	1.3 %	27
Coverage D 25k	18,631	17.6 %	465,775,000	4.4 %	518,851	1.3 %	28
Coverage E 25k	3,746	3.5 %	92,825,000	0.9 %	811,094	2.0 %	217
Coverage E 50k	58,466	55.2 %	2,923,300,000	27.7 %	17,326,062	42.2 %	296
Coverage E 75k	9,948	9.4 %	746,100,000	7.1 %	3,858,486	9.4 %	388
<b>Condo Total</b>	<b>105,858</b>	<b>100.0 %</b>	<b>10,552,263,500</b>	<b>100.0 %</b>	<b>41,059,064</b>	<b>100.0 %</b>	<b>388</b>

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

<sup>2</sup>Policies 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 11/23/2015 - Policies in Force on: 10/31/2015

RENTERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage C 5k/D 1.5k	20,982	37.6 %	136,383,000	6.2 %	1,508,181	22.2 %	72
Coverage C 5k <sup>1</sup>	4,228	7.6 %	21,140,000	1.0 %	299,810	4.4 %	71
Coverage C 25k	14,615	26.2 %	365,375,000	16.7 %	1,812,905	26.7 %	124
Coverage C 50k	8,231	14.7 %	411,550,000	18.8 %	1,120,103	16.5 %	136
Coverage C 75k	2,491	4.5 %	186,825,000	8.5 %	359,917	5.3 %	144
Coverage C 100k	5,290	9.5 %	529,000,000	24.1 %	754,734	11.1 %	143
Coverage D 1.5k <sup>2</sup>	5,286	9.5 %	7,929,000	0.4 %	71,779	1.1 %	14
Coverage D 10k	8,917	16.0 %	89,170,000	4.1 %	251,072	3.7 %	28
Coverage D 15k	7,246	13.0 %	108,690,000	5.0 %	215,091	3.2 %	30
Coverage D 25k	13,406	24.0 %	335,150,000	15.3 %	405,421	6.0 %	30
<b>Renters Total</b>	<b>55,837</b>	<b>100.0 %</b>	<b>2,191,212,000</b>	<b>100.0 %</b>	<b>6,799,013</b>	<b>100.0 %</b>	<b>122</b>

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

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



## CEA GOVERNING BOARD MEETING DATES - 2015

February 19, 2015 – Thursday

April 8, 2015 – Wednesday - **ADDED**

~~May 21, 2015 – Thursday~~ – **RESCHEDULED** for ~~May 28, 2015 - Thursday~~

~~August 27, 2015 – Thursday~~ – **RESCHEDULED** for ~~August 26, 2015 - Wednesday~~

~~December 17, 2015 – Thursday~~ – **RESCHEDULED** for ~~December 16, Wednesday~~

IMPORTANT NOTE: *This schedule is for future meetings that have been proposed and approved by the CEA Governing Board. Meeting dates, times, and locations are subject to change. The final dates, times, and locations will be announced on an official Public Notice, issued by the CEA 10 or more days before the date of the meeting. Public Notices are also posted on the CEA Web site [www.EarthquakeAuthority.com](http://www.EarthquakeAuthority.com)*