

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, June 15, 2016
1:00 p.m.**

Location: California Department of Food and Agriculture
1220 N Street (Auditorium)
Sacramento, California

Members of the Governing Board in attendance:

Christina Elliott, designee of State Treasurer John Chiang, Acting Board Chair
Chris Shultz, designee of Insurance Commissioner Dave Jones
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Kevin de León
George Wiley, designee of Speaker of the Assembly Anthony Rendon

Members of the CEA Staff in attendance:

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

Also present:

Andrew Rouse, Senior Manager, Plante Moran, PLLC

1. Call to order and member roll call.

The meeting was called to order at 1:06 p.m. A quorum was achieved.

2. Consideration and approval of the minutes of the March 16, 2016, CEA Governing Board meeting.

MOTION: Ms. Elliott moved approval of the March 16, 2016, California Earthquake Authority Governing Board meeting minutes, as presented. Mr. Shultz seconded. Motion carried unanimously.

3. Executive Report by Chief Executive Officer Glenn Pomeroy, which will include an update to the Board on legislative activities of interest to the CEA.

Chief Executive Officer Glenn Pomeroy presented his report:

- Assemblymember Adrin Nazarian’s measure to add \$3 million to the state budget to retrofit an additional 1,000 houses through CEA funding is moving through the legislative process. The next retrofit cycle using non-CEA state money will begin as soon as funds are received.
- The CEA messaging campaign for 2016 is about the wide range of insurance choices available to meet needs and budgets of Californians.
- Mr. Pomeroy has made presentations to a number of public and civic organizations regarding the new policy offerings now available through the CEA. These groups have included rotary clubs, chambers of commerce, realtor organizations and insurance agent groups. He thanked Farmers Insurance Company for the opportunity to meet its agents, to share with them new opportunities for PIs.
- A transition plan is underway for a new CEA internal structure.
 - Chief Operating Officer Bob Stewart will retire January 31, 2017.
 - Insurance Program Director Trudy Moore resigned last week.
 - The CEA will consolidate technology and operations functions, with Chief Information Officer Todd Coombes taking the lead. Consolidating operations and technology is the next logical step in CEA’s evolution.
 - Research Director Bruce Patton will retire soon. Chief Mitigation Officer Janiele Maffei will take the lead in that area, while the CEA advertises for a new Research Director, who will report to Ms. Maffei.

4. Mr. Pomeroy will request the Board's support for new federal legislation, which would provide that receipt by homeowners of CEA/CRMP Earthquake Brace + Bolt grants, incentive payments, and related benefits are exempt from federal income tax.

Mr. Pomeroy spoke in favor of exempting mitigation grants from federal income taxation and said Representative Mike Thompson is working with the CEA to write the legislation. He asked the Board’s support for this effort.

MOTION: Ms. Elliott moved approval of pursuing legislation exempting CEA mitigation grants from federal income tax. Mr. Shultz seconded. Motion carried unanimously.

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

CFO Tim Richison provided an overview of CEA financial information as of April 30, 2016:

- The claim-paying capacity at the end of April [2016] was just over \$12 billion, a new high.
- The Earthquake Brace + Bolt (EBB) program is now incorporated into the Insurance Services budget, and EBB expenditures will be tracked in that budget.
- Investment income has increased 69 percent over last year and is anticipated to continue growing. More investment income means more capability to transfer money to the mitigation fund.

6. Mr. Richison will propose, for Board approval, to negotiate and contract with the investment management firms competitively selected to manage the CEA Primary Fund.

Mr. Richison said a Request for Qualifications (RFQ) was issued in February for additional investment managers for the CEA Primary Fund (invested solely in US Treasuries) to replace (or renew) the managers operating under the two contracts due to end in 2016. CEA received 13 proposals.

Mr. Richison described the investment firms that now manage CEA funds, and the background, analysis, selection process, and top four respondents for the additional Primary Fund investment-manager contracts. Staff plans to leave the RFQ open, to further explore an additional proposer identified during the selection process.

Recommendation:

Staff recommends that the Board:

- Authorize CEA staff to negotiate for investment-management services with:
 - Income Research + Management
 - Payden & Rygel Investment Management
 - PFM Asset Management LLP
 - Smith Graham & Co. Investment Advisors, L.P.
- Authorize CEO Glenn Pomeroy to execute the resulting contracts on behalf of the CEA.

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

7. Mr. Richison will propose to the Board a pre-event bond program, which would permit the CEA to organize, plan, and regularly issue pre-earthquake debt within the program structure.

Mr. Richison discussed the background, purpose, goals, strategies, analysis, benefits, and structure of the proposed pre-event bond program.

The plan would be to access the debt-capital markets more consistently and develop a programmatic issuance strategy. Mr. Richison said a benefit to this approach is assuring that CEA's debt-issuance needs fit into the State Treasurer's Office schedule without putting undue burden on that office.

A debt program will help CEA achieve several goals: becoming a consistent issuer, expanding awareness of the CEA's revenue-bond credit, and adding claim-paying capacity.

Mr. Richison said that, upon Board approval, staff would draft guidelines that provide a clear process for issuing Board-approved debt.

Mr. Shultz spoke in support of this effort on behalf of the Insurance Commissioner.

Ms. Elliott spoke in support of this effort on behalf of the State Treasurer's Office. She offered Grant Boyken and herself as resources to help develop the draft guidelines.

8. Mr. Richison will recommend to the Board transferring money from the CEA's Earthquake Loss Mitigation Fund to the California Residential Mitigation Program (CRMP), a joint powers authority whose members are the California Governor's Office of Emergency Services and the CEA.

Mr. Richison provided an overview of the background, purpose, and current funding status of the CRMP EBB program: CRMP requires an additional \$1 million from the CEA Loss Mitigation Fund to continue to execute the 2016 EBB program.

Recommendation:

Staff recommends that the Board approve a transfer to CRMP of funds from the CEA Earthquake Loss Mitigation Fund in the amount of \$1 million to fund and expand the CRMP EBB program in 2016, as described.

Ms. Elliott asked about the need anticipated over the next 12 months.

Mr. Richison said the amount is based on the budget, to be presented at the December 2016 Board meeting—final assessment of EBB program funding will occur at that time.

Mr. Stroeh stated the importance of the EBB program in reducing insurance costs in the long run. He spoke in support of the funds transfer.

MOTION: Mr. Shultz moved approval of the staff recommendation; Ms. Elliott seconded. Motion passed unanimously.

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

Andrew Rouse, Senior Manager at Plante Moran, PLLC, provided an overview, accompanied by slides, of the background, analysis, audit process, and timeline of the 2015 audited financial statements.

He told the Board that there were no significant findings or issues, and Plante Moran would issue a clean, unmodified opinion of the 2015 financial statements as of June 8, 2016.

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

Mr. Richison provided an overview of the annual set-aside for the CEA Earthquake Loss Mitigation Fund.

He said staff's proposal had been reviewed by Shawna Ackerman, the CEA's Chief Actuary, as required by law: Ms. Ackerman concluded the proposed set-aside is actuarially sound.

Recommendation:

Staff recommends that the Board authorize a set-aside of \$2,140,441 to the CEA Earthquake Loss Mitigation Fund.

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

11. Mr. Pomeroy will propose for Board approval the creation of a Chief Risk Officer position as a member of the CEA executive team.

Mr. Pomeroy proposed that the CEA create a risk-management program to be led ultimately at the executive level by a Chief Risk Officer. Upon approval, the following will be implemented:

- Establish a charter for Board approval.
- Develop an internal risk committee to tap the expertise of functional leaders.
- Review industry best practices, the NAIC ORSA initiative.
- Develop a job description for a Chief Risk Officer, a member of the CEA executive team, who will have the primary responsibility for overseeing this work and providing quarterly reports and internal assessment reviews of the risks facing the CEA.
- Plan to approach the Legislature in 2017 to seek authorization for a full-time Chief Risk Officer position.

Mr. Wiley asked for clarification on what Mr. Pomeroy means by the term “risk” and whether the risk is associated with management objectives, programmatic objectives, or financial investments.

Mr. Pomeroy stated it is all of them.

12. Chief Communications Officer Chris Nance will brief the Governing Board on advertising and marketing contract initiatives now underway, and seek Board ratification of certain interim 2016 advertising-related contracts.

CCO Chris Nance provided background, analysis, and a description of proposed interim contracts in advertising and marketing. He said that budget and programming would not change, but the contracts supporting those efforts will. The four proposed interim contracts will ensure that vital services remain uninterrupted and programming ongoing.

Recommendation:

Staff recommends that the Board ratify contracts through 2016 for creative services from Ben Fruehauf, general media-buying from U.S. International Media, and printing services from ZOOM Cross-Media, as well as direct contracting for ethnic media buying through New American Media.

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

13. Chief Mitigation Officer Janiele Maffei will update the Board on CEA-mitigation-program projects.

CMO Janiele Maffei provided background and analysis of four mitigation-program “non-incentive” projects.

- Guidelines development is on budget and on time.
- Five FEMA P-50 training sessions are scheduled for this year, with the goal of training 200 home inspectors by the end of 2016.
- The South Napa FEMA P-50 earthquake research evaluation report on the 40 Phase 2 site surveys will be completed by September.
- End-to-End Mitigation is an interactive website for homeowners, contractors, engineers, building officials, real estate agents, and insurance agents, with information about single-family-dwelling mitigation.

14. Ms. Maffei will update the Board on the CRMP’s incentive program (called Earthquake Brace + Bolt).

Ms. Maffei provided background, analysis, 2016 funding, and future funding of the four mitigation program incentive projects.

- The CRMP EBB program is underway with an estimated retrofit of 1600 homes

- The Napa EBB program is in the beginning stages, with an estimated 100 retrofits planned.
- CEA has submitted a FEMA grant application for Humboldt County and Santa Barbara County, with a proposed 600 retrofits planned.
- CEA EBB will begin in 2016, with a proposed 3,400 retrofits planned for selected CEA policyholders.

15. Mr. Pomeroy will update the Board on progress of the “CEA Earthquake Brace + Bolt” initiative, formerly known as the risk-reduction program.

Ms. Maffei provided background and analysis of the CEA EBB initiative, a new program for CEA policyholders to be piloted starting in fall 2016. It will resemble the CRMP EBB program, but with additional requirements. An example: the house must be owner-occupied and have been CEA-insured for at least three years. The CEA also meets with PIs to invite their participation in promoting this effort.

Mr. Pomeroy said Roy Wright, Director of Mitigation for FEMA, was so impressed with this program that he suggested this program as a potential model for the nation.

Mr. Shultz asked for clarification on the loop from the homeowner who completes a retrofit and now qualifies for a discount of up to 20 percent on their earthquake insurance to the insurance agent and the discount on their CEA insurance policy.

Ms. Maffei stated the advantage with the CEA EBB is the verification form is in the homeowner packet. When the contractor finishes the project, s/he signs and sends the form to the homeowner’s PI agent to obtain the CEA hazard-reduction discount.

16. Chief Information Officer Todd Coombes will report to the Board regarding 2016 CEA information technology (IT) initiatives and the IT Project Portfolio.

CIO Todd Coombes described progress, changes, and expenditures in support of the 2016 CEA IT Project Portfolio. Of the 17 approved projects scheduled to be completed this year, 14 are active, two will begin this year, and one has been canceled.

17. Mr. Coombes will update the Board on progress toward centralizing processing of CEA insurance policies.

Mr. Coombes described progress made on the Centralized Policy Processing (CPP) initiative. He said this voluntary initiative is being offered to all PIs in the hope that all PIs will choose to take part. PIs have shown interest in learning more about the initiative and being a part of it. It is expected that future CEA policy-form changes will increase interest even more because CPP participation

significantly reduces time and expense for PIs to make CEA policy changes on their systems.

Mr. Coombes said the CEA is also implementing the “Diamond” system, an administration and claim system with capabilities to print and mail PIs’ annual mandatory marketing documents (MMD). The Diamond system also allows 85 different billing and collection options.

Mr. Coombes stated the CEA will host a two-day CPP Summit in Southern California in October on CPP, the first of a series of events for PIs.

Mr. Shultz said he hoped that CEA would link back to government-relations staff. He also asked if public-policy work is needed with mortgage companies on impounding CEA payments.

Mr. Richison said several mortgage lenders do impound CEA premiums, which is the simplest way to handle monthly payments of CEA premium.

General Counsel Danny Marshall said that when the CEA started, the Legislature soon moved to require that PIs that offer an installment-payment option for homeowners insurance also offer that option for CEA premium payments. A legal requirement to impound is worth a discussion.

18. Mr. Pomeroy will present to the Board the creation of a CEA Stakeholders Outreach program.

Mr. Pomeroy said CEA has a large and ongoing communication flow with its constituents. But PIs’ Sacramento-based government-affairs staff is often not included, and communication with them suffers. He said communication flow with all CEA stakeholders should be treated as a project, and based on a best-practice review, staff will develop a strategic-outreach program and will report on it in fall 2016.

Ms. Elliott said the State Treasurer would be very interested in hearing what other stakeholders are saying regarding various aspects of the CEA.

Mr. Shultz encouraged staff to find a way to allow representatives to survey their peers and represent all of their interests in one consolidated report.

19. Mr. Pomeroy will update the Board on progress in data collection and reporting that support the Metrics Project.

Mr. Pomeroy said a metrics report would be part of quarterly presentations.

Ms. Elliott suggested including project-goal dates in future meeting materials.

20. Mr. Pomeroy will update the Board on the CEA's office space, now under lease (on the floor immediately above the CEA's main office), which will accommodate CEA staff and operations.

CAO Kellie Schneider said CEA is seeking bids from three contractors for the project to remodel (and expand) CEA office space on the 10th and 11th floors at 801 K Street, Sacramento. The estimated completion date for the remodel should be late August or early September.

21. The Board will meet in closed session to discuss personnel matters and litigation matters, as permitted by California Government Code section 11126, subdivisions (a) and (e), respectively.

There was no closed session.

22. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.

There was no public comment.

23. Adjournment.

There being no further business, the meeting was adjourned at 2:56 p.m.