WELCOME

The CEA Governing Board Meeting will begin shortly
Thursday
January 30th
2020

CEA Governing Board Meeting
California Earthquake Authority
Main Conference Room
801 K Street, Suite 1000
9:00 a.m.
WELCOME

☐ Please silence your cell phones
☐ The restrooms are through the lobby to your right
☐ In case we are evacuated, please make your way to the staircase
ITEM 1

Meeting Call to Order

• Governor
• Treasurer
• Insurance Commissioner
• Speaker of the Assembly
• Chair of the Senate Rules Committee

Establishment of a quorum
ITEM 2

Approval of Minutes

Consideration and approval of the minutes of the November 18th, 2019, CEA Governing Board meeting.
ITEM 3

Executive Report

Executive Report by Chief Executive Officer Glenn Pomeroy, which will include among other things a report on state and federal legislation activities.
ITEM 3 • Executive Report
Earthquake Brace + Bolt: 2020 Program Launches February 19th

Retrofits to date:
Completed: 9,200
In Process: 2,310

2020 Goal: 4,400
Assembly Districts: 48
Senate Districts: 30
ITEM 3 • Executive Report
CEA Outreach to Legislators

Meetings to date:
- Assemblymember Calderon
- Assemblymember Rodriguez
- Assemblymember Lackey
- Assemblymember Bloom
- Assemblymember Reyes
- Assemblymember Stone
- Assemblymember Quirk
- Assemblymember Obernolte
- Assemblymember Levine
- Assemblymember Nazarian
- Assemblymember Friedman

Senator Glazer
Senator Wieckowski
Senator Durazo
Senator Durazo
Senator Hill
Senator Jackson

2020 EBB Program
- Homeowner registration will be open February 19th through March 19th; visit EarthquakeBraceBolt.com to register.
- To date, the EBB program has completed 1138 retrofits in Senate District 24, and over 9,000 retrofits throughout the state.
- Once registration ends, a total of 4,400 California homeowners will be selected via a random drawing.
ITEM 3 • Executive Report
Legislator Outreach to their Constituents

Email to go out February 19th

Is Your House Earthquake Ready?

$3,000 GRANTS AVAILABLE TO HELP SEISMICALLY RETROFIT YOUR HOUSE
REGISTER FEBRUARY 19 - MARCH 19, 2020

WHO: Homeowners in specific high-risk ZIP Codes with houses that have a raised foundation and are built before 1980 may qualify.

WHAT: Earthquake Brace + Bolt (EBB) program offers up to $3,000 toward a code-compliant seismic retrofit.

WHY: To lessen damage caused by earthquakes, the state-supported EBB program was created.

WHERE: You can register online at EarthquakeBraceBolt.com.

WHEN: Registration is open February 19 through March 19, 2020.

Homeowners will be randomly selected and notified. To qualify for reimbursement, homeowners must not apply for a permit until they have been accepted into the program and must not start the retrofit work until they have been approved by EBB to do so.

Find Out More

California Residential Mitigation Program
801 K Street, Suite 1000, Sacramento, CA 95814
EarthquakeBraceBolt.com
877-232-4300
ITEM 3 • Executive Report


Representative Mike Thompson introduced H.R. 5494 on December 19th, 2019, replacing previously introduced H.R. 2053. H.R. 5494 establishes tax exempt status for state-funded residential mitigation programs for earthquake (as in the previous bill), windstorm and wildfire (newly added perils).

H.R. 2053

Sponsor: Rep. Mike Thompson (D, CA)

Co-Sponsors: California
Rep. Aguilar (D)
Rep. Bera (D)
Rep. Calvert (R)
Rep. Chu (D)
Rep. Cook (R)
Rep. Garamendi (D)
Rep. Gomez (D)
Rep. Panetta (D)
Rep. Sanchez (D)
Rep. Speier (D)
Rep. Swalwell (D)

Alabama
Rep. Bradley (R)
Rep. Rogers (R)
Rep. Sewell (D)

South Carolina
Rep. Rice (R)

North Carolina
Rep. Rogers (R)
ITEM 4

Financial Report

Chief Financial Officer Tom Hanzel will propose to the Governing Board, and seek Board adoption of a resolution authorizing, the issuance of multiple series of 2020 revenue bonds.
CEA’s Revenue Bond Program – Overview

• CEA’s revenue bond program – providing liquidity, diversification, and stability.

• Revenue bonds provide flexibility to the CEA and can be used as a liquidity tool for funding the payment of earthquake claims.

• Revenue bonds provide diversification and permanence to the claim-paying capital structure, maximize liquidity, and serve as an efficient alternative to purchasing additional risk transfer, allowing the CEA to maximize the benefit from its financial resources as well as maintaining its long-term sustainability.

• The CEA has issued $665 million of taxable revenue bonds in two series: The Series 2006 bonds, which were defeased prior to their final maturity on July 1st, 2016, and the CEA’s Series 2014 bonds, which matured on July 1st, 2019. Currently, there are no bonds outstanding.

• Following the Series 2020 revenue bond issuance, the CEA plans to become a regular issuer of bonds to broaden its investor base.
ITEM 4 • Financial Report

CEA’s Proposed Series 2020 Revenue Bonds Structure

• The proposed Series 2020 revenue bond issuance will be in the aggregate amount of $700 million, and will be comprised of two subseries:
  ◦ Series 2020A-1, consisting of $400 million in short-term bonds (maturing September 1\textsuperscript{st}, 2020), and
  ◦ Series 2020A-2, consisting of $300 million in bonds with maturities from July 1\textsuperscript{st}, 2021 to July 1\textsuperscript{st}, 2026, approximately $50 million of which would mature annually.

• The CEA will pledge revenue to secure repayment of both subseries of the proposed Series 2020 bonds; the pledged revenue will consist of CEA’s policyholder premium, less the commissions and participating-insurer operating costs that CEA’s participating insurance companies retain. The Series 2020A-1 principal and interest payments will be pre-funded at closing with available capital, which enables the CEA to meet its additional bonds test.

• The proceeds of the revenue bonds will be invested in the 2020 claims-paying account and the interest earnings will materially offset the interest costs on the revenue bonds.
The Series 2020 revenue bond issuance provides multiple benefits to the CEA and its policyholders:

- 2020A-1 bonds maintain the 2nd IAL at $1.656 billion. If the CEA did not issue the Series 2020A-1 short-term bonds, and assuming no earthquake events occurred that materially reduced CEA’s claim-paying resources, as a result of reductions called for by a statutory formula, the 2nd IAL would be reduced by 15%, or by $248.4 million, in 2021.

- 2020A-2 bonds provide an additional $300 million in claims-paying capacity and reduces the CEA’s need to purchase risk transfer by $300 million.

- In total, the Series 2020 bond issuance will reduce the need of additional risk transfer by $548.4 million and will save the CEA approximately $19.2 million in risk transfer costs, based on average 3.5% rate-on-line.

- The estimated costs of contemporaneous issuance for both the Series 2020A-1 and 2020A-2 bonds are projected to not exceed $4.0 million. Costs could increase if the two Series of 2020 bonds were issued separately.

- The estimated net interest cost over the life of the series 2020A-1 and 2020A-2 is $800 thousand.

- Based on the risk transfer cost savings from the issuance of the Series 2020 bonds, the net interest costs of the Series 2020 bonds, and the projected costs of issuance for the Series 2020 bonds, the total economic benefit to the CEA and its policyholders of the Series 2020 bonds is estimated to be approximately $14.4 million providing, cost-effective liquidity and sustainability for the CEA.
ITEM 4 • Financial Report
Claim Paying Capacity Pre- and Post-Issuance

**Pre-2020 Bond Issuance**
- Post Earthquake Industry Assessment ("2nd IAL") $1,656
- Policyholder Surcharge $1,000
- Revenue Bonds $724
- Risk Transfer $8,593
- Projected CEA Available Capital $6,061
- Total Capacity $18,034M

**Post-2020 Bond Issuance**
- Post Earthquake Industry Assessment ("2nd IAL") $1,656
- Policyholder Surcharge $1,000
- Revenue Bonds $1,424
- Risk Transfer $8,593
- $400M of available capital used to pre-fund Series 2020A-1 bonds
- Projected CEA Available Capital $5,661
- Total Capacity $18,334M

Series 2020 Issuance:
- 2020A-1 - $400M
- 2020A-2 - $300M
ITEM 4 • Financial Report
Diversifying Claim Paying Capacity

2010

Pre-2020 Bond Issuance

Post Earthquake Industry Assessment ("2nd IAL") 9%
Policyholder Surcharge 5%
Revenue Bonds 4%
Risk Transfer 48%
Projected CEA Available Capital 34%

Post-2020 Bond Issuance

Post Earthquake Industry Assessment ("2nd IAL") 9%
Policyholder Surcharge 5%
Revenue Bonds 8%
Risk Transfer 47%
Projected CEA Available Capital 31%

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New Industry Assessment 11%
Post Earthquake Industry Assessment ("2nd IAL") 16%
Revenue Bonds 3%
Risk Transfer 32%
CEA Available Capital 38%

Declined to zero on 4/1/2018

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CEA’s Proposed Series 2020A-1 (Short-Term) Revenue Bonds Flow of Funds

- Premium Revenue
  - Trustee
    - Revenue Fund
      - Principal
      - Interest
        - Bondholders
          - Disbursement Account
            - Reserve / Rebate Accounts (if necessary)
            - Set Aside Payment (Pre-Fund) from Available Capital for Principal Payment
          - Unused Pledged Revenue
            - For Interest Payment Set Asides
              - CEA Fund
ITEM 4 • Financial Report
CEA’s Proposed Series 2020A-2 (Intermediate-Term) Revenue Bonds Flow of Funds

CEA's Proposed Series 2020A-2 (Intermediate-Term) Revenue Bonds Flow of Funds

- Premium Revenue
  - Trustee
  - Revenue Fund
  - Bondholders
  - CEA Fund

Flow of Funds:

- Premium Revenue
  - Trustee
  - Revenue Fund
  - Bondholders
  - CEA Fund

- Unused Pledged Revenue
  - Principal
  - Interest
  - Reserve / Rebate Accounts (if necessary)
  - Disbursement Account

Set Aside Payment if Revenues Deficient
ITEM 4 • Financial Report
CEA’s Proposed Series 2020 Revenue Bonds Team

California Earthquake Authority
Treasurer of the State of California
Agent for Sale

SERIES 2020A-1 (Short-Term Bonds)
SENIOR MANAGER
J.P. Morgan

SERIES 2020A-2 (Intermediate Bonds)
SENIOR MANAGER
Citigroup

CO-SENIOR MANAGER
Goldman Sachs

MUNICIPAL ADVISOR
Raymond James

BOND COUNSEL
Orrick, Herrington & Sutcliffe

DISCLOSURE COUNSEL
Hawkins Delafield & Wood

CO-MANAGER
280 Securities LLC

Academy Securities, Inc.

AmeriVet Securities Inc.

Jefferies LLC

KeyBanc Capital Markets Inc.

Mesirow Financial Inc.

Ramirez & Co., Inc.

RBC Capital Markets, LLC

Rice Financial Products Company

Stern Brothers & Co.

TD Securities (USA) LLC

UBS Financial Services Inc.

UNDERWRITERS’ COUNSEL
Norton Rose Fulbright

TRUSTEE
U.S. Bank

TRUSTEE COUNSEL
Dorsey & Whitney LLP

RATING AGENCIES
Moody’s Investors Service, Inc.
Fitch Ratings
ITEM 4 • Financial Report
CEA’s Proposed Series 2020 Revenue Bonds Timeline

✓ January 22nd – 23rd – Rating agency meetings

• January 30th, 2020 – CEA Governing Board meeting for consideration and approval of financing documents and structure

• Week of February 3rd – Ratings received and print Preliminary Official Statement

• Week of February 18th – Price bonds

• Week of March 2nd – Close bonds
ITEM 4 • Financial Report

Recommendations:

Staff recommends that the Governing Board adopt a written resolution (in the form presented to the Board as Attachment I) approving the sale of Series 2020 revenue bonds on the terms and conditions more fully described in that written resolution.
ITEM 5
Closed Session

The Board will meet in closed session to discuss personnel matters, as permitted by California Government Code section 11126, subdivision (a).
CLOSED SESSION

Thank you for your patience
Public Session will convene shortly
ITEM 6

Public Comment

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.
ITEM 7

Adjournment

Thank you for attending this meeting of the California Earthquake Authority Governing Board.

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