



Date of Notice: Friday, September 26, 2014

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 Earthquake Authority
Main Conference Room
801 K Street, Suite 1000
Sacramento, California**

DATE: Tuesday, October 7, 2014

TIME: 2:00 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. Chief Financial Officer Tim Richison will brief the Board on the completed CEA calendar-year-2013 audit, conducted by the CEA’s independent financial auditors, Plante & Moran, PLLC; representatives of that firm will address the Board to elaborate on the written audit report.

3. Mr. Richison will propose to the Governing Board, and seek Board approval of, a 2014 issuance by the CEA of revenue bonds.
4. Mr. Richison will present to the Board for its consideration and approval the annual transfer to the CEA Mitigation Fund of a statutorily directed portion of CEA investment income.
5. Chief Executive Officer Glenn Pomeroy and Chief Communications Officer Chris Nance will present to the Board a post-event update on the August 24, 2014, South Napa earthquake.
6. 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.
7. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.
8. Adjournment.

For further information about this notice or its contents:

General Information:

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

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

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

<p>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 Marc.Keller@calquake.com.</p>
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Governing Board Memorandum

October 7, 2014

Agenda Item 2: Reports of Audits on CEA Annual Financial Statements (2013)

Recommended Action: No action required – information only

Background:

Plante & Moran, PLLC, California Earthquake Authority's independent auditor, has performed audits of CEA's financial statements for the year ended December 31, 2013.

- The independent auditor conducted an audit of CEA's financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America.
- In addition, and at the CEA's request, the independent auditor also conducted an audit of CEA's statutory financial statements based on accounting practices prescribed or permitted by the California Department of Insurance.

Reports of Audit for GAAP financial statements are found in *Attachment A* and consist of:

- Independent Auditor's Report
- Management's Discussion and Analysis (MD&A)
- Audited Financial Statements and accompanying notes
- Supplementary Information

Analysis:

According to the Independent Auditor's Reports, CEA's 2013 audited GAAP and statutory financial statements present fairly, in all material respects, the financial position of CEA, in conformity with accounting principles generally accepted in the United States of America and accounting practices prescribed or permitted by the California Department of Insurance, respectively.

A representative of, Plante & Moran, PLLC, will present to the Board the independent auditor's Management Comment Letter (*Attachment B*).

Recommended Action: No action required – information only.

CEA Governing Board Meeting – October 7, 2014

Agenda Item 2 – Attachment A – Reports of Audit for GAAP
Financial Statements

Materials will be provided to you prior to the Board meeting

CEA Governing Board Meeting – October 7, 2014

Agenda Item 2 – Attachment B – Independent Auditor's
Management Comment Letter

Materials will be provided to you prior to the Board meeting

Governing Board Memorandum

October 7, 2014

Agenda Item 3: Proposed Revenue Bond Sale

Recommended Action: Approve resolution authorizing the CEA's issuance of revenue bonds

Background:

The CEA's governing statutes provide express authority for the Authority to enter into arrangements for the use of debt to structure its finances and meet the Authority's claim-payment-related needs. Such authorized debt may be incurred either before or after the occurrence of an earthquake, or a combination of both.

The CEA has not to date incurred any post-event debt (e.g., a bond issuance following an earthquake for the express purpose of paying claims and claim expenses arising from that earthquake). But in July 2006 the CEA issued \$315 million in pre-event revenue bonds that, since that time, have provided an important and highly flexible risk-financing component of the Authority's financial structure. Those bonds have helped assure CEA's claim-paying capacity for major earthquakes and have helped the CEA prepare to survive the next major earthquake, so that the CEA can continue providing post-earthquake financial security for Californians.

As the CEA has developed into a mature risk management entity, the CEA plans to access debt capital markets more consistently, and seeks to develop a programmatic debt issuance strategy. This will achieve several goals.

1. Becoming a consistent issuer will help the CEA gain market recognition and provide the CEA with improved access to the capital markets, on both pre-event and post-event bases.
2. Expanding the capital markets' awareness of the CEA's revenue bond issuances.
3. Augmenting claim-paying capacity while benefiting from low interest rates for debt issuances.
4. Improve the structure of CEA debt indentures by eliminating inefficiencies of the CEA's initial (2006) revenue bond indenture.

The 2014 Revenue Bond issuance will lay the groundwork for future debt issuance strategy, including post-event debt issuance, while continuing to protect bondholders with a number of inherent and covenanted credit features of the CEA.

- Robust claim-paying capacity
- Legal covenants

- Stable revenue base
- Proven, sound financial management

At the August 29, 2013 Governing Board meeting, CEA Staff presented an analysis of proposed new revenue bond issuance, and the Board took the following actions:

1. Approved of Staff’s formation of a financing team to structure an issuance of \$300 million in pre-event revenue bonds, and
2. Directed Staff, when documentation for the revenue bond transaction is complete, to bring the documentation to the Board for consideration and approval.

Analysis:

Revenue Bond Finance Team

The State Treasurer’s Office issued a Request for Proposals for underwriters for the bond transaction in November 2013. Goldman, Sachs & Co. was chosen as the senior managing underwriter for the transaction.

In April 2014, the Revenue Bond Finance Team met at the State Treasurer’s office to begin discussions concerning the structure of the CEA’s proposed revenue bond issuance. The finance team consisted of CEA Staff, representatives from the State Treasurer’s Office, Orrick Herrington & Sutcliffe (CEA’s bond counsel), Bill Donovan (CEA’s outside counsel), and representatives from Goldman, Sachs & Co.

Proposed Revenue Bond Structure

The team discussed what bond structure would achieve CEA’s goals. Below is a summary of the proposed revenue bond structure that would meet CEA’s goals:

Borrower	California Earthquake Authority
Agent for Sale	California State Treasurer’s Office
Estimated Par Amount	Up to \$350 million
Maturity	July 1, 2019
Type of Bonds	Fixed Rate
Expected Closing	End of October, 2014

Anticipated principal, interest and optional bond redemptions would be calculated as follows:

	Fixed Rate Bonds
Interest Payment Date	Semiannual, beginning January 1, 2015
Interest Calculation	30/360
Interest Reset Date	n/a
Interest Determination Date	Fixed rate to be determined at pricing
Principal Payment Date	Annually, beginning July 1, 2016
Final Maturity	July, 2019

<p>Purpose of the Issuance:</p>	<p>The CEA will issue the Bonds to strengthen its claim-paying capacity. The sale of the Bonds is expected to increase the CEA's financial flexibility by enhancing and continuing access to the bond market.</p> <p>Net proceeds will be deposited in the CEA's Claim-Paying Account.</p> <p>Bond proceeds of approximately \$345,000,000 will be deposited in the CEA's Claim-Paying Account and be held for the payment of policyholder claims and related loss adjustment expenses on account of residential earthquake insurance coverages.</p> <p>The issuance of the Bonds is authorized by California law and is exempt from registration under the Securities Act of 1933.</p>
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Cost/Benefit Analysis

The CEA is committed to finding ways to help the organization prepare to survive a major earthquake, so the CEA can continue to provide post-earthquake financial security for Californians by means of providing Californians with access to residential earthquake insurance. In doing so, the CEA strives to provide the most cost-efficient claim-paying capacity possible. Staff has completed the analysis of the cost of issuing revenue bonds described above as compared to the cost of purchasing other forms of risk-transfer. The cost benefit analysis showed that the sale of debt would cost the CEA less than obtaining reinsurance at comparable levels. By replacing reinsurance with the selling of the revenue bonds, CEA insurance rates could decline by as much as 2%. This analysis assumes that any reinsurance obtained would be placed in CEA's financial structure in the same position where the 2006 bond proceeds currently reside.

Flow of Funds

Revenue bonds will be secured in part by pledged revenues consisting of the CEA's collected policyholder premiums, less agent commissions and participating insurer operating costs retained by the CEA's participating insurers. The bonds will also be secured by interest earnings on funds held by the trustee and by funds deposited by the CEA to pay debt service. All pledged revenues will be deposited with the trustee bank, U. S. Bank, for the bond transaction. U.S. Bank will fund a series of trustee accounts created specifically for the repayment of bond principal and interest. These trust accounts will be funded as follows:

- Starting July 1, 2015, and on the first day of each month thereafter, 1/12 of the annual principal payment will be set aside in a trust account each month.
- November 7, 2014, one-half of the amount of interest due and payable on January 1, 2015 will be set aside, and other one-half will be set aside on December 1, 2014.
- Starting on January 1, 2015, and on the first day of each month thereafter, 1/6 of the

amount of interest due and payable on the next ensuing semi-annual interest payment due date (either January 1 or July 1) will be set aside.

For a more detailed depiction of the flow of funds and the trust accounts, see the flow-of-funds chart in *Attachment A*.

Defeasance of 2006 Bonds

The CEA currently has outstanding bonds from the 2006 revenue bond issuance, which will mature on July 1, 2016. The indenture for the 2006 bond issuance contains provisions that the CEA desires to change to make the repayment of future bonds more efficient both from a cost and process flow perspective. In order to accomplish this change, the 2006 bond indenture needs to be retired. The team has chosen to do this is by setting aside securities required to pay the remaining interest and principal on the 2006 bonds prior to issuing the 2014 bonds. A new indenture for the 2014 bonds provides the CEA and bondholders with repayment provisions and process flows that are superior to the 2006 indenture.

Under the 2006 indenture, debt service is paid from policyholder premiums. Under the 2014 indenture, there will be two sources of funds to pay debt service—fund transfers from money on hand in the California Earthquake Authority Fund (made at the CEA’s option) and policyholder premiums. The ability to pay debt service from multiple sources protects the CEA and enhances the CEA’s creditworthiness.

Under the 2006 indenture, the CEA is required to have more money on deposit with the indenture trustee than the CEA will be required to have on deposit under the 2014 indenture. Under the 2006 indenture, all CEA revenue is collected by the indenture trustee and then paid to the CEA (after deducting funds to pay debt service). Under the 2014 indenture, lower minimum balance requirements coupled with more frequent transfers of funds to the CEA will improve the CEA’s cash flow, and will enhance the CEA’s investment earnings potential.

In order to accomplish the retirement of the 2006 indenture, after pricing of the 2014 revenue bonds but before the closing of the sale, the CEA will deposit with the Trustee, U.S. Bank, securities sufficient in denomination to pay the remaining interest and principal on the 2006 bonds. Once the deposit is made at U.S. Bank, the 2006 indenture will be retired and the new 2014 indenture will be the governing document for the 2014 revenue bonds. The amount of securities required for this process will be approximately \$68.8 million. There will be monies then remaining in the existing 2006 trustee accounts that will be sent to CEA after the deposit of the securities. U.S. Bank will then transfer those monies in the accounts under the 2006 indenture to CEA. The amount of these funds is approximately \$31,022,000. The net of the transfer of securities to U. S. Bank and the subsequent transfers of monies from the accounts under the 2006 indenture is \$37.778 million of additional expense for CEA for the defeasance of the 2006 bonds.

Revenue Bond Proceeds

The proceeds of the 2014 revenue bond sale will be deposited in an existing claim-paying bank account at the CEA’s custody bank, State Street Bank, and will not be a trust account at

the trustee bank. The CEA's investment managers will invest the proceeds on behalf of the CEA. When the 2006 revenue bonds were issued, the Board approved of using a combination of CEA's investment policies and guidelines for the CEA's Liquidity Fund and Primary Fund. For the 2014 revenue bond proceeds and any future bond proceeds, the CEA is establishing a separate investment policy and guidelines that follows what the Board approved for the 2006 revenue bond proceeds. The funds in the claim-paying account will be invested as described in *Attachment B (Claim-Paying Account Investment Policy and Guidelines)* which will become a part of CEA's Investment Policies and Guidelines. The investment concept is to invest in either U.S. Treasuries in accordance with the investment policies and guidelines for the CEA's Primary Fund, or short-term securities in accordance with the investment policies and guidelines for the CEA's Liquidity Fund. Since the claim-paying account may be accessed to pay claims prior to the maturity of the bonds, these investment policies ensure that the claim-paying account will consist of high-quality securities that are readily marketable.

The bond proceeds in the claims-paying account will be added to the financial layer of CEA's financial structure titles "Revenue Bond." *Attachment C* is a diagram showing a projected October 31, 2014 CEA financial structure including the bond proceeds from the 2014 bond sale.

Budget Augmentation

The transaction expenses associated with the issuance of the 2014 bonds and the interest expense associated with defeasance of the 2006 bonds are not in the current CEA 2014 budget. The interest expense for defeasance of the 2006 bonds is approximately \$5,850,000, and the transaction expenses for the 2014 bonds will total \$2,500,000. The major categories for the transaction expenses for the 2014 bonds include, but are not limited to, expenses for underwriters, co-managers, counsel, rating agencies, marketing, and the Trustee.

Revenue Bond Documents

Below is a listing of the revenue bond documents included with this memorandum, and a brief explanation of each document:

Indenture of Trust (Attachment D) – The bond indenture is an agreement between the borrower (CEA) and the trustee (U.S. Bank) and presents the general structure of the bond transactions and the duties and obligations of both the borrower and the trustee.

First Supplemental Indenture of Trust (Attachment E) – The First Supplemental Indenture of Trust is an agreement between the borrower (CEA) and the trustee (U.S. Bank) and presents the specific structure of each bond series in the transaction and the specific duties and obligations of the borrower and the trustee for each bond series.

Preliminary Official Statement (POS) (Attachment F) – The preliminary official statement is the bond-transaction prospectus given to potential investors and presents the history, background and financial results of the borrower, a summary of the bond transactions, and the risk factors inherent in the transaction.

Bond Purchase Contract (Attachment G) – The bond purchase contract is an agreement among the borrower (CEA), the underwriter (Goldman, Sachs & Co.), and the agent for sale (California State Treasurer’s Office) that lists the terms and conditions of the bond sale.

Escrow Agreement (Attachment H) – The agreement between CEA and the Trustee for the 2006 revenue bonds that identifies the aspects of fully funding the remaining principal and interest of the 2006 revenue bonds and the retirement of the 2006 indenture.

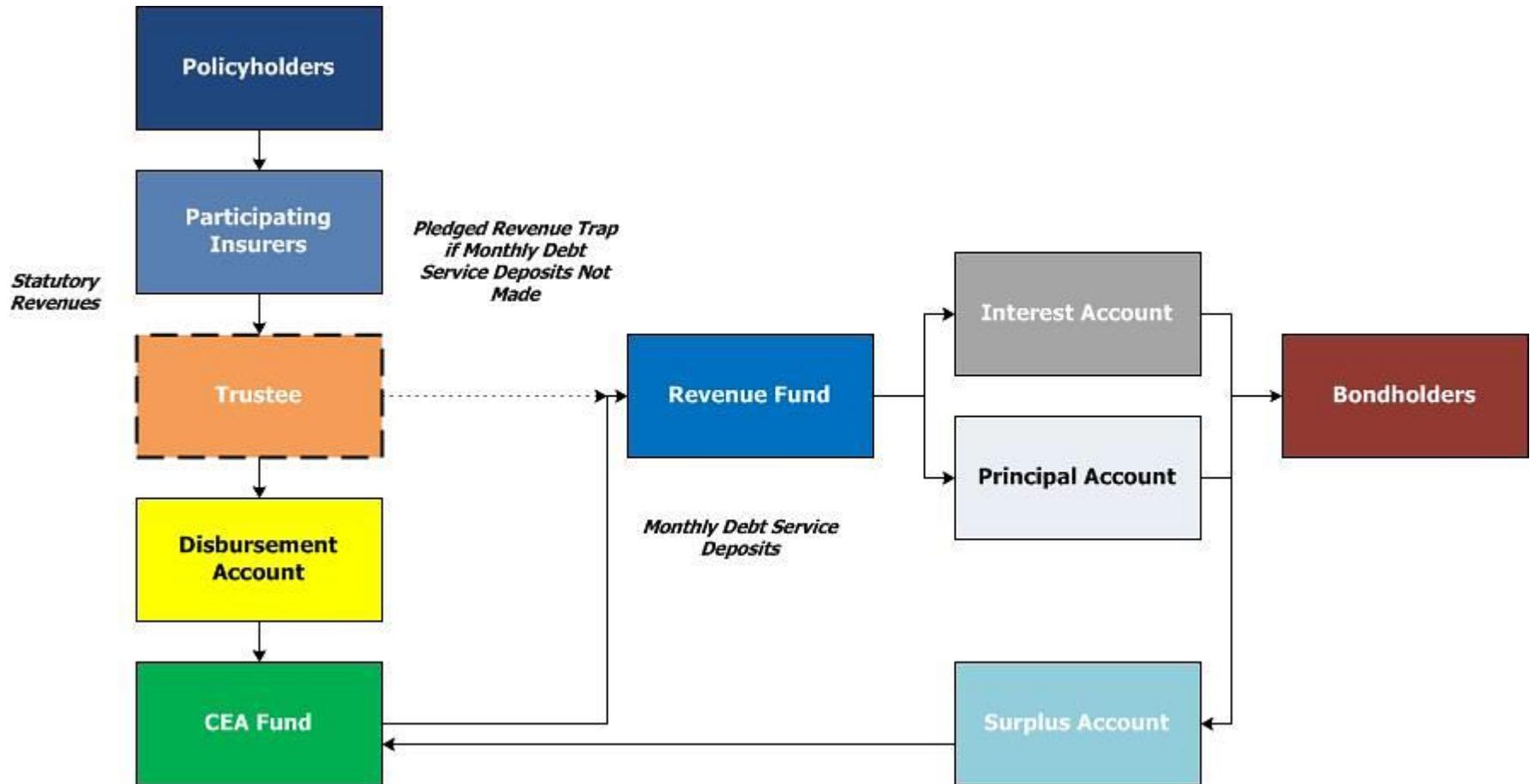
Governing Board Resolution (Attachment I) – The proposed Governing Board resolution gives CEA staff authorization to sell the revenue bonds on the terms and conditions presented above, and as elaborated on in the resolution.

Recommendation:

Staff recommends that the Governing Board (1) adopt a written resolution (in the form presented to the Board) approving the sale of revenue bonds on the terms and conditions stated above, and as elaborated on in the written resolution, and (2) approve a budget augmentation for Finance Expenses of \$5,850,000 for the interest expense on the 2006 outstanding bonds and \$2,500,000 for the transaction expenses for the 2014 bonds.



Flow of Funds



CEA Investment Guidelines

This section to be added to the existing CEA Investment Policies and Guidelines

Claim-Paying Fund and Claims-Paying Fund Investment Guidelines

Permitted Investments

Unless otherwise stipulated by the claim-paying account portfolio guidelines, investments shall be made in accordance to the State of California Government Code 16430.

“Eligible securities for the investment of surplus moneys shall be any of the following:

(a) Bonds or interest-bearing notes or obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

(b) Bonds or interest-bearing notes on obligations that are guaranteed as to principal and interest by a federal agency of the United States.

(c) Bonds and notes of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.

(d) Bonds or warrants, including, but not limited to, revenue warrants, of any county, city, metropolitan water district, California water district, California water storage district, irrigation district in the state, municipal utility district, or school district of this state.

(e) Bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, in debentures and consolidated debentures issued by the Central Bank for Cooperatives and banks for cooperatives established under the Farm Credit Act of 1933, as amended, in bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, in stock, bonds, debentures and other obligations of the Federal National Mortgage Association established under the National Housing Act as amended, and in the bonds of any federal home loan bank established under the act, obligations of the Federal Home Loan Mortgage Corporation, in bonds, notes, and other obligations issued

by the Tennessee Valley Authority under the Tennessee Valley Authority Act as amended, and bonds, notes, and other obligations guaranteed by the Commodity Credit Corporation for the export of California agricultural products under the Commodity Credit Corporation Charter Act as amended.

(f)(1) Commercial paper of “prime” quality as defined by a nationally recognized organization that rates these securities. Eligible paper is further limited to issuing corporations, trusts, or limited liability companies approved by the Pooled Money Investment Board that meet the conditions in either subparagraph (A) or subparagraph (B):

(A) Both of the following:

(i) Organized and operating within the United States.

(ii) Having total assets in excess of five hundred million dollars (\$500,000,000).

(B) Both of the following:

(i) Organized within the United States as a special purpose corporation, trust, or limited liability company.

(ii) Having program wide credit enhancements including, but not limited to, overcollateralization, letters of credit, or surety bond.

(2) Purchases of eligible commercial paper may not exceed 180 days’ maturity, represent more than 10 percent of the outstanding paper of an issuing corporation, trust, or limited liability company, and not exceed 30 percent of the resources of an investment program. At the request of the Pooled Money Investment Board, this investment shall be secured by the issuer by depositing with the Treasurer securities authorized by Section 53651 of a market value at least 10 percent in excess of the amount of the state’s investment.

(g) Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers’ acceptances, which are eligible for purchase by the Federal Reserve System.

(h) Negotiable certificates of deposits issued by a federally or state-chartered bank or savings and loan association, a state-licensed branch of a foreign bank, or a federally or state-chartered credit union. For the purposes of this section, negotiable certificates of deposits do not come within the provisions of Chapter 4

(commencing with Section 16500) and Chapter 4.5 (commencing with Section 16600).

(i) The portion of bank loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration.

(j) Bank loans and obligations guaranteed by the Export-Import Bank of the United States.

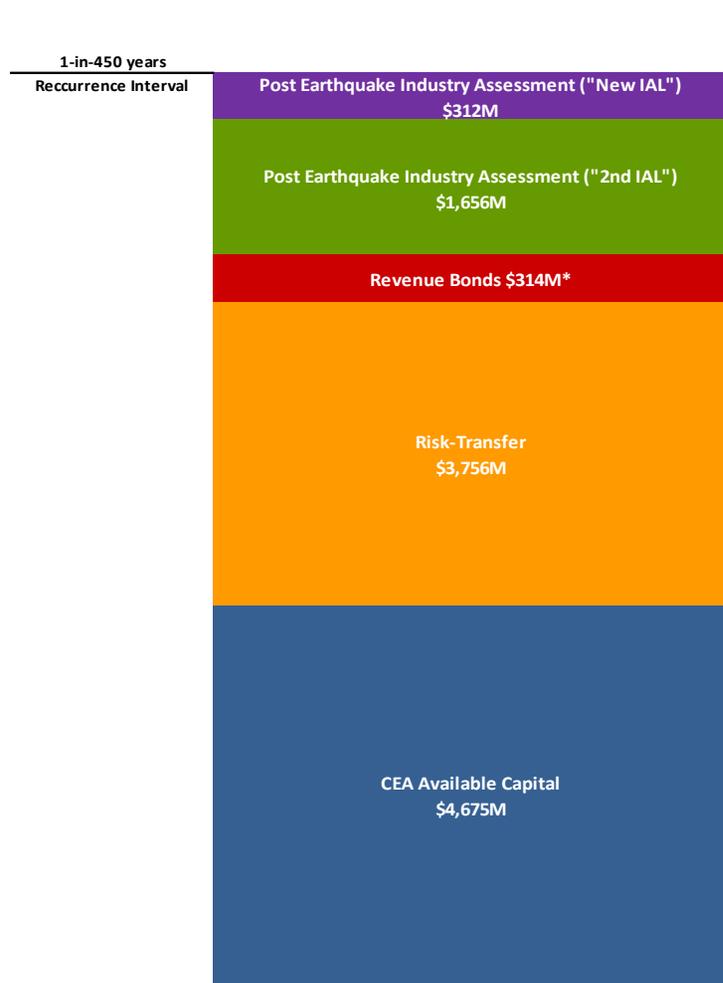
(k) Student loan notes insured under the Guaranteed Student Loan Program established pursuant to the Higher Education Act of 1965, as amended (20 U.S.C. Sec. 1001 and following) and eligible for resale to the Student Loan Marketing Association established pursuant to Section 133 of the Education Amendments of 1972, as amended (20 U.S.C. Sec. 1087-2).

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Claim-Paying Fund and Claims-Paying Fund Portfolio Permitted Investments

Investment	US Treasury Securities	Federal Agency Securities	Bankers Acceptances (BA)	Certificates of Deposit (CDs)	Commercial paper (CP)	Corporate Bonds / Notes
Maximum Maturity	5 years	181 days	181 days	181 days	180 days	180 days
Maximum Par Value, total Portfolio	None	50%	25%	25%	25%	5%
Maximum Par Value Per Name	None	25%	5%	5%	5%	5%
Maximum Par Value Per Maturity	None	None	None	None	None	None
Credit	Full faith and credit of the Federal Government	Credit analysis of certain issuing agencies	Rated in the highest rating category by all rating agencies	Rated in the highest rating category by all rating agencies	Rated within the US and rated A1/P1 or equivalent quality with total assets in excess of \$500MM; Must be on Pooled Money Investment Account approved list of issuers.	

**California Earthquake Authority
Projected Claim-paying Capacity Without New Revenue Bonds
As of October 31, 2014**



Total \$10,713M

**California Earthquake Authority
Projected Claim-paying Capacity with New Revenue Bonds
As of October 31, 2014**



Total \$11,061M

Source: California Earthquake Authority

*Revenue Bond Proceeds Layer, currently containing only proceeds from Series 2006 Bonds. Upon the issuance of the Series 2014 Bonds and the defeasance of the Series 2006 Bonds, the Revenue Bond Proceeds Layer will be equal to the amount of net proceeds of the Series 2006 and Series 2014 Bonds deposited in the Claim-Paying Account.

INDENTURE OF TRUST

BETWEEN

CALIFORNIA EARTHQUAKE AUTHORITY

AND

**U.S. BANK NATIONAL ASSOCIATION,
AS TRUSTEE**

Dated as of November 1, 2014

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INDENTURE OF TRUST

This INDENTURE OF TRUST is entered into and dated as of [November 1, 2014], between CALIFORNIA EARTHQUAKE AUTHORITY, a public instrumentality of the State of California (the “Authority”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America and being qualified to accept and administer the trusts hereby created, as trustee (the “Trustee”);

W I T N E S S E T H:

WHEREAS, the Authority is a public instrumentality of the State of California (the “State”) created under and pursuant to Chapter 8.6 of Part 1 of Division 2 of the Insurance Code of the State (as amended from time to time, the “CEA Act”);

WHEREAS, the Authority is authorized by the CEA Act to issue bonds, notes, commercial paper and variable rate securities, and any other evidence of indebtedness (the “bonds”);

WHEREAS, in order to establish the terms of and security for bonds to be issued under this Indenture (the “Bonds”), the governing board of the Authority (the “Board”) has authorized the execution and delivery of this Indenture; and

WHEREAS, all actions that are necessary to make the Bonds, when executed by the Authority and authenticated and delivered by the Trustee, the valid, binding and legal obligations of the Authority payable in accordance with their terms, and to constitute this Indenture a valid and binding agreement of the parties hereto, have been done and taken, and the execution and delivery of this Indenture have been duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, in order to secure the payment of all Bonds Outstanding under this Indenture, according to their tenor, and to secure the performance of the covenants and conditions therein and herein set forth, and to declare the terms and conditions upon and subject to which the Bonds are to be issued, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the benefit of the respective Holders from time to time of the Bonds, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. In addition to terms elsewhere defined in this Indenture, the following terms shall have the following meanings unless the context or use clearly indicates another meaning. These definitions shall apply to the singular and plural forms of these defined terms and, unless the context otherwise indicates, words of the masculine or female gender shall be deemed and construed to include correlative words of the feminine or masculine gender, respectively.

Additional Bonds

“Additional Bonds” means parity Bonds issued in accordance with the provisions of Article IV.

Annual Debt Service; Maximum Annual Debt Service

“Annual Debt Service” means, at any point in time, with respect to Bonds then Outstanding, the aggregate amount of principal and interest scheduled to become due and payable (either at scheduled maturity, mandatory redemption or otherwise) in the then current Fiscal Year, as calculated by the Authority in accordance with this definition. The term “Maximum Annual Debt Service” means the largest Annual Debt Service during the period from the date of such determination through the final maturity date of the Bonds then Outstanding. For purposes of calculating Annual Debt Service and Maximum Annual Debt Service, the following assumptions are to be used to calculate the principal and interest becoming due in any Fiscal Year for each Series of Bonds:

(i) in determining the principal amount due in each year and including the principal amounts of any Bonds proposed to be issued, payment shall (unless a different subsection of this definition applies for purposes of determining principal maturities or amortization) be assumed to be made in accordance with any amortization schedule established for such principal, including any sinking fund payments;

(ii) if 20% or more of the principal of such Bonds or Bonds proposed to be issued, calculated as of the date of issuance, is not due until the final stated maturity of such Bonds, debt service on such Bonds may, at the option of the Authority, be treated as if it were due based upon a level amortization of principal of and interest thereon over the term of such Bonds;

(iii) principal and interest payments on Bonds shall be excluded to the extent such payments are to be paid, in whole or in part, from moneys or Government Obligations, together with interest earnings thereon, then currently on deposit with the Trustee or another fiduciary in escrow specifically therefor; and

(iv) interest payments on Bonds shall be excluded to the extent such payments are to be paid from the proceeds of Bonds held by the Trustee as capitalized interest specifically to pay such interest.

Authority

“Authority” means California Earthquake Authority, a public instrumentality of the State.

Authority Agent

“Authority Agent” means an issuing and paying agent or other transfer or processing agent appointed by the Authority.

Authorized Representative

“Authorized Representative” means the [chief executive officer of the Authority and the chief financial officer of the Authority] and each of them and such other person or persons as the Board shall designate in writing to the Trustee from time to time as an authorized representative hereunder.

Available Capital

“Available Capital” has the meaning assigned in Section 10089.5(b) of the CEA Act, as amended from time to time.

Board

“Board” means the governing board of the Authority.

Bond Counsel

“Bond Counsel” means any attorney-at-law, or firm of such attorneys, selected by the Authority, and nationally recognized as experienced in legal work relating to the issuance of bonds by states and political subdivisions.

Bondholder or Holder

“Bondholder” or “Holder” whenever used herein with respect to a Bond, means the record owner of such Bond shown on the books of registration kept by the Trustee, which record owner, during any period when ownership of the Bond is determined by book entry at a securities depository, shall be the securities depository or its nominee.

Bonds

The term “Bonds” means bonds issued under this Indenture and “bonds” means bonds, notes, commercial paper, and variable rate securities and any other evidence of indebtedness that the Authority is authorized by the CEA Act to issue.

Business Day

“Business Day” means any day other than (i) a Saturday or Sunday; (ii) a day on which State offices are authorized or required to be closed; (iii) a day on which banks are authorized or obligated by law or binding executive order to close in California.

California Earthquake Authority Fund

“California Earthquake Authority Fund” means the fund by that name created in Section 10089.22(b) of the CEA Act.

CEA Act

“CEA Act” means Chapter 8.6 of Part 1 of Division 2 of the Insurance Code of the State, as amended from time to time hereafter.

Certificate of the Authority

“Certificate of the Authority” means an instrument in writing signed by an Authorized Representative of the Authority.

Claim-Paying Account

“Claim-Paying Account” means an account by that name established by the Authority within the California Earthquake Authority Fund.

Code

“Code” means the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

Commissioner

“Commissioner” means the Insurance Commissioner of the State together with any employee of the Commissioner at the time designated to act on behalf of the Commissioner.

CUSIP

“CUSIP” means the Committee on Uniform Securities Identification Procedures of the American Bankers Association, or any successor to its functions.

Debt Service Deposit

“Debt Service Deposit” has the meaning given in Section 3.03(a).

Disbursement Fund

“Disbursement Fund” means the fund by that name established in Section 3.02.

Dollars

“Dollars” or “\$” means lawful currency of the United States of America.

DTC

“DTC” means The Depository Trust Company or any successor thereto.

Event of Default

“Event of Default” means any of the events specified in Section 6.01.

Fiscal Year

“Fiscal Year” means the period of twelve months terminating on December 31 of each year, or any other annual period selected and designated by the Authority as its Fiscal Year in accordance with applicable law.

Government Obligations

“Government Obligations” means (a) direct obligations of the United States of America for the payment of which the full faith and credit of the United States of America is pledged, (b) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the United States of America, the payment of the principal of, premium, if any, and interest on which is fully guaranteed as a full faith and credit obligation of the United States of America and (c) obligations that as to principal and interest are unconditionally guaranteed by the United States of America (including any securities described in (a), (b) or (c) issued or held in book-entry form on the books of the Department of the Treasury of the United States of America), which obligations, in either case, are not subject to redemption prior to maturity at less than par at the option of anyone other than the holder.

Indenture and hereunder

“Indenture” and “hereunder” means this Indenture as the same may be amended or supplemented from time to time as permitted hereby.

Independent Certified Public Accountant

“Independent Certified Public Accountant” means any certified public accountant or firm of such accountants appointed by the Authority, and who, or each of whom, is independent pursuant to the Statement on Auditing Standards No. 1 of the American Institute of Certified Public Accountants.

Interest Account

“Interest Account” means the account by that name established pursuant to Section 3.04.

Outstanding

“Outstanding,” when used with reference to the Bonds at any date as of which the amount of outstanding Bonds is to be determined, means all Bonds that have been authenticated and delivered by the Trustee hereunder, except:

- (a) Bonds canceled or delivered for cancellation at or prior to such date;
- (b) Bonds deemed to be paid in accordance with Section 5.02;
- (c) Bonds in lieu of which others have been authenticated under Sections 2.07 and 2.08; and

(d) All Bonds held by or for the account of the Authority.

Participating Insurer

“Participating Insurer” means each insurer that has elected to join the Authority pursuant to the CEA Act and that has entered into a contract with the Commissioner and the Authority pursuant to Section 10089.9 of the CEA Act that sets forth its rights and responsibilities as an Authority participant.

Permitted Investments

“Permitted Investments” means and is limited to securities eligible under Section 16430 of the Government Code of the State, as amended from time to time hereafter, except to the extent further restricted by the investment policy of the Authority provided to the Trustee by an Authorized Representative.

Person

“Person” means any natural person, firm, partnership, association, corporation, or public body.

Pledged Policyholder Premiums

“Pledged Policyholder Premiums” means premiums for policies of basic residential earthquake insurance net of deductions from gross premiums by Participating Insurers for (i) producer commissions and production costs of the Participating Insurer authorized by the Authority, and (ii) non-claims-related operating costs (including policy issuance, premium collection, accounting, statistical, data-processing, and records-keeping services) of the Participating Insurer authorized by the Authority.

Pledged Revenue

“Pledged Revenue” means all income and receipts of the Authority derived from (i) Pledged Policyholder Premiums, and (ii) interest and other income from investment of money in any fund or account held by the Trustee for the payment of principal of or interest or premiums on Bonds. Segregated Revenue and Surcharge Revenue shall not constitute Pledged Revenue.

Principal Account

“Principal Account” means the account by that name established pursuant to Section 3.04.

Principal Office

“Principal Office” means the corporate trust office of the Trustee at One California Street, Suite 1000, San Francisco, California 94111, provided, however, for transfer, registration, exchange, payment and surrender of Bonds, the “Principal Office” means 111

Fillmore Ave. E., St. Paul, Minnesota 55107, or such other or additional offices as may be designated by the Trustee from time to time.

Qualified Newspaper

“Qualified Newspaper” shall include The Wall Street Journal and The Bond Buyer and any other newspaper or journal containing financial news, disseminated in the English language and customarily published on each business day, of general circulation in New York, New York, and selected by the Trustee, whose decision shall be final and conclusive.

Rebate Fund

“Rebate Fund” means the account by that name established pursuant to Section 3.05.

Revenue Fund

“Revenue Fund” means the fund by that name established pursuant to Section 3.03.

Segregated Revenue

“Segregated Revenue” means revenue from any segregated fund established by a Supplemental Indenture consisting of (a) the proceeds of sale of bonds, (b) securities described in Section 16430 of the Government Code of the State and (c) principal and interest payments on such securities described in Section 16430 of the Government Code of the State.

Series

“Series” means all Bonds identified in a Supplemental Indenture as a separate Series.

State

“State” means the State of California.

Statutory Revenue

“Statutory Revenue” means all income and receipts of the Authority, including, but not limited to, income and receipts derived from premiums, bond purchase agreements, capital contributions by insurers, assessments levied on insurers, surcharges applied to Authority earthquake policyholders, grants and all interest or other income from investment of money in any fund or account of the Authority established for the payment of principal or interest, or premiums on bonds, including reserve funds. Payments from reinsurers, whether paid to the Authority or due the Authority but retained by a reinsurer pursuant to a right of offset in a reinsurance contract with the Authority, shall not constitute Statutory Revenue.

Subordinate Bonds

“Subordinate Bonds” means bonds of the Authority issued pursuant to another indenture that are junior and subordinate to the payment of the principal, premium, and interest requirements for the Bonds and that are payable out of Pledged Revenue transferred to the indenture trustee for such bonds by the Authority or from Surcharge Revenue or Segregated Revenue or any combination of such sources.

Supplemental Indenture

“Supplemental Indenture” means any indenture executed and delivered by the Authority and the Trustee that is stated to be a supplemental indenture hereto.

Surcharge Revenue

“Surcharge Revenue” means revenue from surcharges applied pursuant to Sections 10089.29 and 10089.53 of the CEA Act.

Surplus Account

“Surplus Account” means the account by that name established pursuant to Section 3.04.

Tax Certificate

“Tax Certificate” means the Tax Certificate delivered by the Authority at the time of the issuance of a Series of Bonds the interest on which is intended to be exempt from federal income taxation, as the same may be amended and supplemented in accordance with its terms to comply with the Code.

Trustee

“Trustee” means the commercial bank, trust company or national banking association, appointed by the Treasurer of the State of California as trustee (initially U.S. Bank National Association) and having the duties, responsibilities and rights provided for in the Indenture and any other commercial bank, trust company or national banking association at any time substituted in its place as Trustee pursuant to the Indenture.

ARTICLE II

THE BONDS

SECTION 2.01. Authorization. Pursuant to authority conferred by and in accordance with the provisions of the Constitution of the State and the CEA Act and the other laws of the State, the Board hereby authorizes Bonds to be issued, in Series, for the purposes of providing capital for the Authority and to refund Bonds. Each separate Series of Bonds shall be authorized by the Board in a Supplemental Indenture. No Bonds may be issued under the provisions of this Indenture except in accordance with this Article.

SECTION 2.02. General Terms of Bonds. Each Bond issued hereunder shall be designated “California Earthquake Authority Revenue Bond”; provided that each Bond shall have a Series designation as specified in its Supplemental Indenture. Each Bond shall bear interest and be payable and be secured and have such other terms as shall be specified herein and in its Supplemental Indenture or, if not specified therein, as specified by an Authorized Representative pursuant to Section 2.06.

The principal of and the redemption premium, if any, and the interest on the Bonds shall be payable in Dollars. During any period in which ownership of any Bond is determined by a book-entry system at a securities depository, payment of debt service on such Bond shall be made to the securities depository, or its nominee, and in accordance with arrangements among the Authority, the Trustee and the securities depository. During any period when ownership of such Bond is not determined by a book-entry system, unless otherwise specified in a Supplemental Indenture, the principal of and redemption premium, if any, on all Bonds shall be payable by check at the Principal Office of the Trustee upon the presentation and surrender of the Bonds as the same become due and payable and the interest on the Bonds shall be paid by check drawn upon the Trustee and mailed to the persons in whose names the Bonds are registered on the registration books maintained by the Trustee at the close of business on the 15th day of the month preceding such interest payment.

SECTION 2.03. Execution. The Bonds shall be executed on behalf of the Authority by the manual or facsimile signature of its chief executive officer and countersigned by the manual or facsimile signature of its chief financial officer. In case the officer whose manual or facsimile signature shall appear on the Bonds shall cease to be an officer before the delivery of such Bonds, such manual or facsimile signature shall nevertheless be valid and sufficient for all purposes.

SECTION 2.04. Certificate of Authentication. No Bonds shall be secured hereby or entitled to the benefit hereof or shall be or become valid or obligatory for any purpose unless there shall be endorsed thereon a certificate of authentication, substantially in the form as set forth in the form of Bond referred to in Section 2.05 hereof, executed by the Trustee; and such certificate on any Bond issued by the Authority shall be conclusive evidence that it has been duly authenticated and delivered hereunder.

SECTION 2.05. Forms of Bonds. The Bonds, the Trustee’s certificate of authentication and the form of assignment shall be in substantially the forms specified in a Supplemental Indenture or if not specified therein, as specified by an Authorized Representative pursuant to Section 2.06 and may have such letters, numbers or other marks of identification (including, but not limited to, the Series designation provided for in Section 2.02) and such legends and endorsements placed thereon as may be required to comply with any applicable laws or rules or regulations, or as may, consistent herewith, be determined by an Authorized Representative. The Bonds shall be in either typewritten or printed form, as an Authorized Representative shall direct, provided that any expenses incurred in connection therewith shall be paid by the Authority.

SECTION 2.06. Issuance, Sale and Delivery of Bonds; Application of Proceeds.

(a) Subject to applicable terms, limitations and procedures contained herein and in the applicable Supplemental Indenture, the Bonds of a Series may be issued and sold at the direction of an Authorized Representative.

(i) The Bonds of each Series shall be delivered by the Trustee in accordance with electronic or written instructions of an Authorized Representative and in the manner specified herein. Said instructions shall specify the following terms for the Bonds then being issued to the extent such terms are not set forth herein or in the related Supplemental Indenture and are applicable to such Bonds: Series designation; authorized denominations; bond forms; book-entry provisions, if any, maturity date or dates, which may vary for Bonds within such Series; principal amount; issue date; interest rate; record date for interest payments; sinking fund provisions, if any; redemption provisions, if any; security; purchase price; CUSIP numbers; and any other terms and conditions that are not inconsistent with this Indenture. Such instructions shall also contain provisions representing that all action on the part of the Authority necessary for the valid issuance of the Bonds then to be issued has been taken, that all provisions of State and federal law necessary for the valid issuance of such Bonds have been complied with, and that such Bonds will be valid and enforceable obligations of the Authority according to their terms (subject to the exercise of judicial discretion in accordance with any applicable general principles of equity and bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights theretofore or hereafter enacted).

(ii) Such instructions shall be accompanied by the certificate and opinion required by Section 4.02.

(b) Upon the delivery of each Series of Bonds, the proceeds (net of all costs of issuance authorized to be paid by an Authorized Representative) shall immediately be deposited as set forth in the applicable Supplemental Indenture.

SECTION 2.07. Mutilated, Lost, Stolen or Destroyed Bonds. If any Bond is mutilated, lost, stolen or destroyed, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond of the same Series, maturity date, principal amount, number and tenor in lieu of and in substitution for the Bond mutilated, lost, stolen or destroyed; provided that there shall be first furnished to the Trustee evidence satisfactory to it of the ownership of such Bond and of such loss, theft or destruction (or, in the case of a mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee), together with indemnity satisfactory to the Trustee and compliance with such other reasonable regulations as the Authority and Trustee may prescribe. The Authority and the Trustee may charge the Holder of such Bond reasonable fees and expenses for replacing the Bond that was mutilated, lost, stolen or destroyed. Subject to the proviso set forth in the first sentence of this Section 2.07, if any such Bond shall have matured or a redemption date pertaining thereto shall have passed, instead of issuing a new Bond the Authority may pay the same without surrender thereof.

SECTION 2.08. Exchangeability and Transfer of Bonds; Persons Treated as Holders. The Authority hereby directs the Trustee, which is hereby constituted and appointed the registrar for the Bonds, to keep books for the registration of the Bonds and for the registration of transfers of the Bonds as provided herein.

Any Holder of a Bond, in person or by its duly authorized attorney, may transfer title to its Bond on the books of registration kept by the Trustee, upon surrender thereof at the Principal Office of the Trustee, together with a written instrument of transfer (in substantially the form of assignment attached to the Bond or as provided in its Supplemental Indenture) executed by the Holder or its duly authorized attorney, and upon surrender for registration of transfer of any Bond, the Authority shall execute and the Trustee shall authenticate and deliver in the name of the transferee or transferees a new Bond or Bonds of the same Series, maturity date, aggregate principal amount, number and tenor as the Bond surrendered.

Bonds may be exchanged upon surrender thereof at the Principal Office of the Trustee with a written instrument of transfer in the form set forth in the related Supplemental Indenture or otherwise satisfactory to the Trustee executed by the Holder or such attorney duly authorized in writing, for Bonds of the same Series, maturity date, aggregate principal amount, number and tenor as the Bonds being exchanged. The Authority shall execute and the Trustee shall authenticate and deliver Bonds that the Holder making the exchange is entitled to receive.

Such registrations of transfers or exchanges of Bonds shall be without charge to the Holder of such Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Holder of the Bond requesting such registration of transfer or exchange as a condition precedent to the exercise of such privilege. Any service charge made by the Trustee for any such registration, transfer or exchange shall be paid by the Authority.

The Trustee shall not register any transfer of any Bond after notice calling such Bond (or portion thereof) for redemption or partial redemption or notice of mandatory tender with respect thereto has been given and prior to such redemption or mandatory tender, as the case may be, except, in the case of any Bond to be redeemed in part, the portion thereof not to be redeemed.

The Holder in whose name any Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of either principal, premium, if any, or interest shall be made only to or upon the order of the Holder or his duly authorized attorney, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

All Bonds issued upon any transfer or exchange of Bonds shall be legal, valid and binding obligations of the Authority, evidencing the same debt, and entitled to the same security and benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

SECTION 2.09. Cancellation. All Bonds that have been surrendered to the Trustee pursuant to Section 2.07 or 2.08 of this Indenture or for payment upon maturity or redemption prior to maturity shall be cancelled and destroyed by the Trustee and a certificate of destruction shall be delivered to the Authority.

SECTION 2.10. Bonds Ratably Secured. All Bonds issued hereunder that by their terms are stated to be equally and ratably secured by this Indenture without preference,

priority or distinction on account of the Series or the actual time or times of the authentication, delivery or maturity of such Bonds shall be so equally and ratably secured so that, subject to any differences specified in the Indenture, all such Bonds at any time Outstanding hereunder shall have the same right, lien and preference under and by virtue of this Indenture and shall all be equally and ratably secured hereby with like effect as if they were of the same Series and they had all been executed, authenticated and delivered simultaneously on the date hereof, whether the same, or any of them, shall actually be disposed of at such date, or whether they, or any of them, shall be disposed of at some future date.

SECTION 2.11. Book-Entry Only System. Unless an Authorized Representative shall otherwise direct or unless otherwise specified in a Supplemental Indenture, all Bonds issued hereunder shall be registered as book-entry securities in the name of Cede & Co., as nominee of DTC, as registered owner of the Bonds, and held in the custody of DTC. Beneficial owners of Bonds will not receive physical delivery of Bond certificates except as provided hereinafter. For so long as DTC shall continue to serve as securities depository for the Bonds as provided herein, all transfers of beneficial ownership interests will be made by book entry only, and no person purchasing, selling or otherwise transferring beneficial ownership of Bonds is to receive, hold or deliver any Bond certificate.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Authority and the Trustee shall have no responsibility or obligation to any person on whose behalf DTC holds an interest in the Bonds. Without limiting the immediately preceding sentence, the Authority and the Trustee shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC or Cede & Co. with respect to any ownership interest in the Bonds, (ii) the delivery to any person, other than a registered owner of the Bonds, as shown on the registration books, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any person, other than a registered owner of the Bonds, as shown in the registration books, of any amount with respect to principal of or premium, if any, or interest on the Bonds.

Replacement Bonds may be issued directly to beneficial owners of Bonds other than DTC, or its nominee, but only in the event that (i) DTC determines not to continue to act as securities depository for the Bonds (which determination shall become effective no less than 90 days after written notice to such effect is delivered to the Authority and the Trustee); or (ii) an Authorized Representative has advised DTC of its determination (which determination is conclusive as to DTC and beneficial owners of the Bonds) that DTC is incapable of discharging its duties as securities depository for the Bonds; or (iii) the Authority has determined (which determination is conclusive as to DTC and the beneficial owners of the Bonds) that the interests of the beneficial owners of the Bonds might be adversely affected if such book-entry only system of transfer is continued. Upon occurrence of any of the foregoing events, the Authority shall use its best efforts to attempt to locate another qualified securities depository. If the Authority fails to locate another qualified securities depository to replace DTC, the Authority shall cause to be authenticated and delivered replacement Bonds, in certificate form, to the beneficial owners of the Bonds. In the event that the Authority makes the determination noted in (ii) or (iii) above (provided that the Authority undertakes no obligation to make any investigation to determine the occurrence of any events that would permit the Authority to make any such determination), and has made provisions to notify the beneficial owners of Bonds of such determination by mailing

an appropriate notice to DTC, it shall cause to be issued replacement Bonds in certificate form to beneficial owners of the Bonds as shown on the records of DTC provided to the Authority.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined by book entry at DTC, (i) the requirements in this Indenture of holding, delivering or transferring Bonds shall be deemed modified to require the appropriate person or entity to meet the requirements of DTC as to registering or transferring the book entry to produce the same effect and (ii) delivery of the Bonds will be in accordance with arrangements among the Authority, the Trustee and DTC notwithstanding any provision of this Indenture to the contrary.

The Authority, acting by and through an Authorized Representative, has entered into a letter of representation with DTC to implement the book-entry only system of Bond registration described above and the terms of the Bonds will be governed by such system notwithstanding anything to the contrary herein, including, but not limited to: (i) payments of principal of, interest and premium, if any, on the Bonds (ii) delivery of notices to Bondholders, (iii) selection of Bonds for redemption and payment of redemption price, and (iv) obtaining of consent of Bondholders to extent required by this Indenture, in each case, shall be in accordance with the letter of representation with DTC and the book-entry only system.

If at any time, DTC ceases to hold the Bonds in book-entry form, all references herein to DTC shall be of no further force or effect.

SECTION 2.12. Redemption of Bonds. A Series of Bonds made subject to redemption prior to maturity pursuant to the terms of a Supplemental Indenture shall be redeemable at such times, upon such notice, at such redemption prices and upon such terms as may be specified in such Supplemental Indenture.

ARTICLE III

PLEDGED REVENUE, FUNDS AND ACCOUNTS

SECTION 3.01. Pledge of Pledged Revenue and Debt Service Deposits. All Pledged Revenue and Debt Service Deposits are hereby irrevocably pledged to the punctual payment of principal, interest, and premiums on Bonds in the priority and subject to the limitations set forth in this Indenture, and Pledged Revenue and Debt Service Deposits shall not be used other than as specified herein for any other purpose while any of the Bonds remain Outstanding. Subject to the limitations set forth in this Indenture, all Bonds shall be equally and ratably secured by the foregoing pledge without preference or priority of one Bond over another, irrespective of number, series, maturity or otherwise. This pledge of Pledged Revenue and Debt Service Deposits shall constitute a lien and security interest which immediately attaches to Pledged Revenue and Debt Service Deposits and is effective, binding, and enforceable against the Authority without the need for any physical delivery, recordation, filing, or further act.

SECTION 3.02. Receipt and Deposit of Statutory Revenue; Transfer of Statutory Revenue.

(a) In order to carry out and effectuate the pledge contained herein, the Authority hereby assigns to the Trustee the right of the Authority to all Statutory Revenue. The

Authority agrees and covenants that the Authority will take all reasonable steps, including the execution of assignments and contracts, as may be necessary to have all Statutory Revenue paid to the Trustee instead of to the Authority to the extent practicable. Any Statutory Revenue received by the Authority (other than Statutory Revenue received by the Authority from the Trustee as provided in Section 3.02(b) and Section 3.04(c)) will be paid by the Authority to the Trustee as follows, if received: (i) before 12:00 noon Pacific time, will be paid to the Trustee on the day of receipt (if that day is not a Business Day, on the next Business Day) or (ii) at or after 12:00 noon Pacific time will be paid to the Trustee on the next succeeding Business Day. Statutory Revenue received by the Trustee shall be held by the Trustee in trust. For internal tracking purposes the Trustee may deposit Statutory Revenue in two trust accounts prior to deposit into the Disbursement Fund or the Revenue Fund, as applicable, one for Pledged Revenue and one for all other Statutory Revenue.

(b) On each Business Day, except to the extent a deposit in the Revenue Fund of Pledged Revenue is required to be made by the Trustee as provided in Section 3.03(b), all Statutory Revenue received by the Trustee shall be deposited by the Trustee in the Disbursement Fund, which fund is hereby established and which shall be held in trust by the Trustee. On each Business Day, the Trustee shall promptly transfer all Statutory Revenue held in the Disbursement Fund as of 11:00 a.m. Pacific time and as of 2:00 p.m. Pacific time, by wire transfer of immediately available funds, to the Authority for deposit in the California Earthquake Authority Fund. The amount of Pledged Revenue included in such a deposit in the Disbursement Fund shall, upon such deposit, no longer constitute Pledged Revenue.

SECTION 3.03. Debt Service Deposits; Revenue Fund; Payment of Bonds.

(a) The Authority may transfer, but is not required to transfer, funds held in the California Earthquake Authority Fund to the Trustee in the manner, in the amounts, and at the times set forth below [or as established in a Supplemental Indenture for a Series of Bonds], to pay the scheduled principal of (including mandatory sinking fund payments) and interest on all of the Outstanding Bonds issued pursuant hereto (each transfer so made, a “Debt Service Deposit” and collectively, the “Debt Service Deposits”). Debt Service Deposits shall be deposited by the Trustee in the Revenue Fund on the date of receipt or, if the date of receipt is not a Business Day, on the next Business Day. The Revenue Fund is hereby established and shall be held in trust by the Trustee. All funds deposited in the Revenue Fund shall be set aside on that same day in accounts within the Revenue Fund as and to the extent required by Section 3.04.

(b) If the Authority does not transfer the full amount of a Debt Service Deposit pursuant to the immediately preceding clause (a) by the time set forth herein [or in the related Supplemental Indenture], the portion of Statutory Revenue constituting Pledged Revenue that is received by the Trustee on the following day and each day thereafter will be deposited each day into the Revenue Fund, rather than the Disbursement Fund, such deposits to continue only in an amount and to the extent necessary to fund the accounts in the Revenue Fund to the amounts that would have been held therein if Debt Service Deposits had been made in full when scheduled.

(c) The Authority may transfer on or before the 15th day of each calendar month, but is not required to transfer, Debt Service Deposits in the amounts determined as set forth in the immediately following clauses (d) and (e) to the Trustee for deposit in the Revenue Fund pursuant to Section 3.03(a). If the amount of any Debt Service Deposit for a calendar month is less than the amount calculated as set forth below, or such amount as may be required in a Supplemental Indenture, or if no Debt Service Deposit is made for that calendar month, the Trustee shall transfer such difference from Pledged Revenue received by it after the 15th day of that month pursuant to Section 3.03(b), provided, however, the Authority may, at its option, on any date transfer funds in the amount of such shortfall or any remaining portion thereof to the Trustee for deposit in the Revenue Fund.

(d) [Except as otherwise provided in a Supplemental Indenture,] in each calendar month the portion of a Debt Service Deposit allocable to interest on the Bonds shall be equal to the sum of (i) with respect to interest on Bonds that have been Outstanding more than six months, one-sixth of the amount of interest due and payable on such Outstanding Bonds on the next ensuing interest payment date of January 1 or July 1, as applicable, and (ii) with respect to interest on each Series of Bonds that has been Outstanding less than six months, an amount equal to the amount of interest due and payable on such Series of Bonds on the next ensuing interest payment date of January 1 or July 1, as applicable, divided by the number of months preceding such interest payment date that such Bonds of a Series have been Outstanding, less, in each month, the amount of interest earnings, if any, on funds held during the preceding month in the Interest Account, as calculated by the Trustee and approved by the Authority; and

(e) In each calendar month, the portion of a Debt Service Deposit allocable to the principal of the Bonds shall be equal to the sum of (i) with respect to the principal of Bonds that have been Outstanding more than twelve months, one-twelfth of the amount of principal becoming due and payable on such Bonds (including any mandatory sinking fund payments) on the next ensuing July 1, and (ii) with respect to the principal of each Series of Bonds that has been Outstanding less than twelve months, an amount equal to the amount of principal due and payable on such Series of Bonds on the next ensuing July 1, if any, divided by the number of months preceding such July 1 that such Bonds of a Series have been Outstanding.

SECTION 3.04. Establishment and Maintenance of Funds and Accounts. All moneys in the Revenue Fund, including earnings thereon, shall be set aside in trust by the Trustee in the following accounts within the Revenue Fund (each of which the Trustee shall establish and maintain and hold in trust), each Business Day in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account) at the time of deposit to be satisfied before any transfer is made to any other account or purpose subsequent in priority: the Interest Account, the Principal Account, and the Surplus Account. The Authority shall maintain, but not in trust, so long as any Bonds are Outstanding, the California Earthquake Authority Fund created by the CEA Act.

All moneys held in the Interest Account, the Principal Account and the Surplus Account shall be held in trust and shall be applied, used and withdrawn only for the purposes authorized in this Indenture.

(a) Interest Account. The Trustee shall allocate to the Interest Account the sum of the interest amounts with respect to the Outstanding Bonds then required to be held therein pursuant hereto and pursuant to each Supplemental Indenture. If it elects to do so, the Authority may transfer to the Trustee for deposit in the Interest Account, and the Trustee shall set aside in the Interest Account, amounts sufficient to pay the interest component of the optional redemption price (and any required redemption premium) of Bonds being redeemed at the option of the Authority pursuant to optional redemption provisions in a Supplemental Indenture. Moneys in the Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it becomes due and payable (including accrued interest on Bonds purchased or redeemed hereunder).

The Trustee shall set aside in the Interest Account in the Revenue Fund all interest earnings on the Interest Account as and when received by the Trustee, all of which constitutes Pledged Revenue.

(b) Principal Account. The Trustee shall allocate to the Principal Account the sum of the principal amounts with respect to the Outstanding Bonds then required to be held therein pursuant hereto and pursuant to each Supplemental Indenture, including mandatory sinking fund payments. If it elects to do so, the Authority may transfer to the Trustee, from the California Earthquake Authority Fund, for deposit in the Principal Account, and the Trustee shall set aside in the Principal Account, amounts sufficient to pay the principal component of the optional redemption price (and any required redemption premium) of Bonds being redeemed at the option of the Authority pursuant to optional redemption provisions in a Supplemental Indenture. Moneys in the Principal Account shall be used and withdrawn solely for the purpose of paying such payments, except that a Supplemental Indenture for any Series of Bonds may permit money held in the Principal Account for the purpose of paying the mandatory redemption price of Bonds of such Series to be used instead to purchase Bonds of such Series as designated by the Authority.

The Trustee shall set aside in the Interest Account in the Revenue Fund all interest earnings on the Principal Account as and when received by the Trustee, all of which constitutes Pledged Revenue.

(c) Surplus Account. All remaining amounts in the Revenue Fund, if any, on that Business Day shall be deposited in the Surplus Account. All funds that are so deposited in the Surplus Account from Pledged Revenue shall no longer constitute Pledged Revenue. Bonds shall not be secured by any amounts in the Surplus Account. All moneys in the Surplus Account shall be disbursed each Business Day by wire transfer of immediately available funds to the Authority for deposit in the California Earthquake Authority Fund.

SECTION 3.05. Rebate Fund. The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated the Rebate Fund. The Authority shall cause to be transferred to the Trustee for deposit in the Rebate Fund the rebate requirement calculated in accordance with the provisions of the Tax Certificate and the Code for each Series of Bonds issued as federally tax-exempt obligations . Moneys held in the Rebate Fund are hereby pledged to secure payments to the United States of America, and the Authority and the Holders shall have no rights in or claim to such moneys. The Trustee shall

have no responsibility with respect to the Rebate Fund or the rebate requirement except to follow the written instructions of the Authority. Any funds not required to pay rebate may be withdrawn by the Authority.

SECTION 3.06. California Earthquake Authority Fund and Claim-Paying Account. The CEA has established the Claim-Paying Account as an account within the California Earthquake Authority Fund. All money in the California Earthquake Authority Fund may be used and withdrawn by the Authority from time to time for any lawful purpose, except that money in the Claim-Paying Account shall be used solely in accordance with Section 8.05.

SECTION 3.07. Records. The Trustee shall cause to be kept and maintained records, prepared in accordance with industry standards, pertaining to each fund and account held by it and all disbursements therefrom and shall deliver monthly to the Authority account statements of activity by the Trustee with respect to this Indenture.

SECTION 3.08. Deposit and Investment of Moneys in Funds. Moneys held by the Trustee in the Revenue Fund and the Rebate Fund shall be invested and reinvested in Permitted Investments in accordance with the written instructions of an Authorized Representative. All such Permitted Investments shall be held by or under the control of the Trustee and shall be deemed at all times to be a part of the fund or account that was used to purchase the Permitted Investment. All interest accruing thereon and any profit realized or losses incurred from Permitted Investments shall be credited or charged to the Interest Account in the Revenue Fund.

The Trustee is authorized to cause to be sold or redeemed and reduced to cash a sufficient amount of Permitted Investments whenever the cash balance in any fund or account is or will be insufficient to make any required disbursement. The Trustee shall not be responsible for any depreciation in the value of any Permitted Investment or for any loss resulting from such sale or redemption. Absent specific instructions from an Authorized Representative to invest cash balances in Permitted Investments hereunder, the Trustee shall, to the extent practicable, invest in money market funds composed of, or secured by, Government Obligations that constitute Permitted Investments unless otherwise specified in a Supplemental Indenture; or, if an Authorized Representative instructs the Trustee to do so, the Trustee shall invest in money market funds composed of, or secured by, Government Obligations that constitute Permitted Investments unless otherwise specified in a Supplemental Indenture. The Trustee may commingle any of the moneys held by it pursuant to this Indenture for investment in money market funds; provided, however, that the Trustee shall account separately for the moneys belonging to each fund or account established pursuant to this Indenture and held by it.

The Trustee or its affiliates may act as sponsor, advisor, principal or agent in the acquisition or disposition of any investment with the prior written approval of an Authorized Representative.

The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to received brokerage confirmations of security transactions as they occur, the Authority waives receipt of

such confirmation to the extent permitted by law. The Trustee will furnish the Authority with computer access to information about all investment transactions made by the Trustee hereunder.

ARTICLE IV

ADDITIONAL BONDS

SECTION 4.01. Limitations on Issuance of Additional Bonds. Subsequent to the issuance of the initial Series of Bonds hereunder, no additional Series of Bonds shall be issued hereunder unless:

(a) an Authorized Representative determines that the issuance of the Series of additional Bonds will not violate any additional bonds test or other requirement in the Indenture or any Supplemental Indenture;

(b) at least one of the following will be true concurrently with the issuance of such Series of additional Bonds

(i) the Board is provided with a certificate of an Authorized Representative that states that one of the following is accurate:

(1) the ratio of (A) Pledged Revenue for the most recently ended Fiscal Year to (B) Maximum Annual Debt Service on the Bonds, calculated as of the date of sale of, and including such additional Bonds, will not be less than 2.5:1; or

(2) the ratios of (A) projected Pledged Revenue for the current Fiscal Year and projected Pledged Revenue for the next Fiscal Year (including in such projected Pledged Revenue for each such Fiscal Year amounts projected to be received from any adopted policyholder rate increases), to (B) Maximum Annual Debt Service on the Bonds, calculated as of the date of sale of, and including such additional Bonds, will not be less than 2.5:1 for each such Fiscal Year.

(ii) the Series of additional Bonds is issued for refunding purposes to provide funds for the payment of any or all of the following:

(1) the principal or redemption price of the Outstanding Bonds to be refunded;

(2) expenses incident to the calling, retiring or paying of such Outstanding Bonds and the expenses of the issuance, sale and delivery of such refunding Bonds;

(3) interest on all Outstanding Bonds to be refunded to the date such Bonds will be called for redemption or paid at maturity; and

(4) interest on the refunding Bonds from the date thereof to the date of payment or redemption of the Bonds to be refunded.

(c) interest on any Bonds or bonds issued hereunder must be payable on January 1 and July 1 and principal must be payable on July 1 of each year.

SECTION 4.02. Proceedings for Issuance of Bonds. Whenever the Authority determines to issue a Series of Bonds, the Authority shall, in addition to fulfilling the requirements of Article II and Section 4.01, file with the Trustee:

(a) a certificate of the Authority stating that (i) no Event of Default specified in Section 6.01 has occurred and is then continuing and (ii) that the requirements of Section 4.01 have been satisfied; and

(b) an opinion of Bond Counsel that the execution of the Supplemental Indenture providing for the issuance of the Series of Bonds has been duly authorized by the Authority in accordance with this Indenture; that such Series of Bonds, when duly executed by the Authority and authenticated and delivered by the Trustee, will be valid and binding obligations of the Authority; and that upon the delivery of such Bonds the aggregate principal amount of Bonds then Outstanding will not exceed the amount permitted by law or by this Indenture.

SECTION 4.03. Subordinate Bonds. Except to the extent restricted by a Supplemental Indenture, the Authority may issue Subordinate Bonds pursuant to another indenture.

ARTICLE V

DISCHARGE OF LIEN

SECTION 5.01. Discharge of Lien and Security Interest.

(a) At the election of the Authority upon payment in full of all the Bonds and of all amounts payable under this Indenture, the pledge and lien on the Pledged Revenue and Debt Service Deposits arising under this Indenture shall cease, terminate, and be void; provided, however, such discharge of this Indenture shall not terminate the powers and rights granted to the Trustee with respect to the payment, transfer and exchange of the Bonds; and provided, further, that the rights of the Trustee to indemnity and payment of all reasonable fees and expenses shall survive such cancellation and discharge.

(b) Notwithstanding any provision in the Indenture to the contrary, if the principal of or interest on any Bonds shall be paid by a bond insurer, those Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority within the meaning of this Section 5.01, and the pledge of the Pledged Revenue and Debt Service Deposits and all covenants, agreements and other obligations of the Authority as herein provided shall continue to exist and shall run to the benefit of the bond insurer, and the bond insurer shall be subrogated to the rights of the Holders.

SECTION 5.02. Provision for Payment of Bonds. Bonds shall be deemed to have been paid within the meaning of Section 5.01 if:

(a) there shall have been irrevocably deposited with the Trustee in trust either (i) sufficient money of the United States of America in an amount equal to the principal amount of the Bonds, redemption premium (if any) and all unpaid interest on such Bonds to maturity or the redemption date, as the case may be, or (ii) Government Obligations, the principal and interest on which when due will be sufficient (as confirmed by a report of an Independent Certified Public Accountant) together with any money referred to in Section 5.02(a)(i) above, for the payment at their respective maturity dates or redemption dates prior to maturity of the principal thereof and the redemption premiums (if any) and interest to accrue thereon at such maturity or redemption dates, as the case may be; and

(b) if any such Bonds are to be redeemed on any date prior to their maturity, (i) the Trustee shall have received (not less than 20 Business Days prior to the proposed redemption date) irrevocable instructions from an Authorized Representative to redeem such Bonds on such date and (ii) notice of such redemption shall have been given or provision satisfactory to the Trustee shall have been made for the giving of such notice.

Limitations elsewhere specified herein regarding the investment of money held by the Trustee shall not be construed to prevent the depositing and holding of the obligations described in the preceding subsection (a)(ii) for the purpose of defeasing the lien of this Indenture as to Bonds that have not yet become due and payable. In addition, all money so deposited with the Trustee as provided in Section 5.02(a)(i) may also be invested and reinvested, at the direction of an Authorized Representative, in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the Trustee pursuant to this Section 5.02 that is not required for the payment of the Bonds and interest and redemption premium, if any, thereon with respect to which such money shall have been so deposited shall be deposited in the Revenue Fund as and when realized and collected for use and application as are other money deposited in the Revenue Fund.

SECTION 5.03. Discharge of Indenture. Notwithstanding the fact that the lien of this Indenture upon the Pledged Revenue and Debt Service Deposits may have been discharged and canceled in accordance with Sections 5.01 and 5.02, this Indenture and the rights granted and duties imposed hereby, to the extent not inconsistent with the fact that the lien upon the Pledged Revenue and Debt Service Deposits may have been discharged and canceled, shall nevertheless continue and subsist after payment in full of the Bonds until the Trustee has been paid all amounts owed to the Trustee and the Trustee shall have disbursed all funds held by the Trustee in the Revenue Fund pursuant to Section 3.04 of this Indenture.

SECTION 5.04. Unclaimed Moneys. Anything contained herein to the contrary notwithstanding, any moneys held by the Trustee in trust for the payment and discharge of the principal of or the redemption premiums, if any, or interest on any of the Bonds that remain unclaimed for two years after the date when the principal of, the redemption premiums, if any, and interest on such Bonds have become payable, shall, at the direction of an Authorized Representative, be repaid by the Trustee to the Authority as its absolute property free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Holders

shall look only to the Authority for the payment of the principal of, the redemption premiums, if any, and interest on such Bonds; provided, however, that before submitting the direction of the Authorized Representative as aforesaid, at its own expense, the Authority shall cause to be published once a week for two successive weeks in a print or electronic version of a Qualified Newspaper a notice that such moneys remain unclaimed and that after a date named in such notice, which date shall not be less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the Authority.

ARTICLE VI

DEFAULT PROVISIONS AND REMEDIES

SECTION 6.01. Events of Default. Any one of the following and anything specified in a Supplemental Indenture as an Event of Default shall constitute an Event of Default hereunder:

(a) default in the payment of any interest on any Bond when and as the same shall have become due;

(b) default in the payment of the principal of or any premium, if any, on any Bond when and as the same shall become due, whether at the stated maturity or mandatory sinking fund or optional redemption date thereof; and

(c) default in the performance of any other covenant or agreement of the Authority contained in this Indenture and the continuance thereof for a period of 60 days after written notice thereof to the Authority given by the Trustee.

SECTION 6.02. Suits at Law or in Equity and Mandamus. In case one or more Events of Default shall occur, then and in every such case the Trustee may, and, to the extent indemnified to its satisfaction under Section 7.01(f), shall at the request of the Holders of not less than a majority of the aggregate principal amount of any Series of the then Outstanding Bonds (or such greater percentage of the aggregate principal amount of the then Outstanding Bonds of any Series as may be specified in the Supplemental Indenture creating such Series), proceed to protect and enforce Bondholder rights by such appropriate judicial proceeding as the Trustee shall deem most effectual to protect and enforce any such right, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in this Indenture, or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Bondholders by this Indenture or the Bonds or by law. Funds received by the Trustee pursuant to this Section 6.02 shall be applied first to the payment of fees and expenses of the Trustee, including legal fees and expenses, and second, for deposit in the Revenue Fund and disbursement in accordance with Section 3.04 (unless otherwise ordered by a court in such judicial proceeding). The remedies against the Authority shall not include acceleration of the payment of principal of the Bonds. The provisions of this Indenture shall constitute a contract with each and every Bondholder and the duties of the Authority shall be enforceable by the Trustee on behalf of any Bondholder by mandamus or other appropriate suit, action or proceeding in any court of competent jurisdiction.

SECTION 6.03. Trustee to Represent Holders. The Trustee is hereby irrevocably appointed (and the successive respective Holders of the Bonds, by taking and holding the same, shall be conclusively deemed to have so appointed the Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Bonds for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Bonds and this Indenture, as well as under applicable provisions of any other law. All rights of action under this Indenture or the Bonds or otherwise may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in the name of the Trustee for the benefit and protection of all the Holders of such Bonds, subject to the provisions of this Indenture.

SECTION 6.04. Bondholders' Direction of Proceedings. Anything in this Indenture to the contrary notwithstanding, the Holders of a majority in aggregate principal amount of the Bonds then Outstanding shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the method of conducting all remedial proceedings taken by the Trustee hereunder, provided that such direction shall not be otherwise than in accordance with the CEA Act and the provisions of this Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Bondholders not parties to such direction.

SECTION 6.05. Limitation on Bondholders' Right to Sue. No holder of any Bond shall have the right to institute any suit, action or proceeding at law or in equity, for the protection or enforcement of any right or remedy under this Indenture, or any applicable law with respect to such Bond, unless (1) such Holder shall have given to the Trustee written notice of the occurrence of an Event of Default, (2) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such suit, action or proceeding in its own name; (3) such Holder or said Holders shall have indemnified the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, which indemnity shall be satisfactory to the Trustee in its sole discretion; and (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after such written request shall have been received by, and said tender of indemnity satisfactory to the Trustee shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Holder of Bonds of any remedy hereunder or under any law; it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by its or their action to affect, disturb or prejudice the security of this Indenture on the rights of any other Holder of Bonds, or to enforce any right under this Indenture or applicable law with respect to the Bonds, except in the manner herein provided, and that all proceedings at law or in equity to enforce any such right shall be instituted, had and maintained in the manner herein provided and for the benefit and protection of all Holders of the Outstanding Bonds, subject to the provisions of this Indenture.

SECTION 6.06. Termination of Proceedings. In case any proceedings taken by the Trustee or any one or more Bondholders on account of any Event of Default shall have been

discontinued or abandoned for any reasons or shall have been determined adversely to the Trustee or the Bondholders, then in every such case the Board, the Trustee and the Bondholders, subject to any determination in such proceedings, shall be restored to their former positions and rights hereunder, severally and respectively, and all rights, remedies, powers and duties of the Board, the Trustee and the Bondholders shall continue as though no such proceedings had been taken.

SECTION 6.07. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Trustee or to the Holders of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or otherwise.

SECTION 6.08. Waivers. No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein and every such right and power may be exercised from time to time and as often as may be deemed expedient. No waiver of any Event of Default hereunder shall extend to or shall affect any subsequent Event of Default or shall impair any rights or remedies consequent thereon.

ARTICLE VII

THE TRUSTEE

SECTION 7.01. Trustee.

(a) (i) U.S. Bank National Association will serve as the Trustee under this Indenture. The Trustee shall be required to perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default (that has not been cured or waived by the Trustee), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as reasonable persons would exercise or use under the circumstances in the conduct of their own affairs. The Trustee hereby designates the Principal Office as its principal corporate trust office for all purposes hereof and accepts the duties imposed upon it hereunder and agrees, particularly:

(1) to hold all sums held by it for the payment of the principal of, premium, if any, or interest on the Bonds in trust for the benefit of the Holders of the Bonds as provided herein until such sums shall be paid to such Holders of the Bonds or otherwise disposed of as herein provided;

(2) to authenticate and cancel Bonds as provided herein;

(3) to perform its obligations under this Indenture; and

(4) to keep such books and records relating to its duties as Trustee as shall be consistent with reasonable industry practice and to make such books and records available for inspection by the Authority at all reasonable times upon reasonable prior notice.

(ii) The Authority shall cause the necessary arrangements to be made and to be thereafter continued whereby:

(1) all Statutory Revenue will be paid to the Trustee;

(2) Bonds shall be made available for authentication, exchange and registration of transfer by the Trustee at the Principal Office of the Trustee; and

(3) the Trustee shall be furnished such records and other information, at such times, as shall be required to enable the Trustee to perform the duties and obligations imposed upon it hereunder.

(b) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action or its own negligent failure to act, except that, at all times regardless of whether or not any Event of Default shall exist:

(i) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee;

(ii) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the requirements of this Indenture; but in the case of any such certificate or opinion that by any provision hereof is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the requirements of this Indenture;

(iii) The Trustee shall not be liable for any error of judgment made in good faith unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iv) The Trustee shall not be deemed to have knowledge of any default or Event of Default unless and until it shall have actual knowledge thereof, or shall have received written notice thereof at the Principal Office of the Trustee. Except as otherwise expressly provided herein, the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default hereunder. The Trustee shall not be responsible for the validity or effectiveness of the pledge of Pledged Revenue given to or held by it hereunder. As used herein the term "actual knowledge" means the actual act or statement of knowing, without any duty to make any investigation with regard thereto.

(c) None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

(d) The Trustee shall not be responsible for any recital in this Indenture, or for the sufficiency or validity of this Indenture, or for the sufficiency of the security for the Bonds issued under this Indenture.

(e) The Trustee may consult with counsel with regard to legal questions and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered hereunder in good faith and in accordance therewith.

(f) Before taking any action under Article VI, the Trustee may require that indemnity satisfactory to the Trustee be furnished from any expenses and to protect it against any liability it may incur hereunder.

(g) The immunities extended to the Trustee under this Indenture also extend to its directors, officers, employees, and agents.

(h) The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of Holders of a majority (or other percentage provided for herein) in aggregate principal amount of Bonds outstanding relating to the exercise of any right, power or remedy available to the Trustee.

(i) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty.

(j) The Trustee may become the Holder or beneficial owner or pledge of Bonds with the same rights it would have if it were not Trustee.

(k) Unless expressly set forth otherwise in the relevant disclosure material, the Trustee shall have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds.

SECTION 7.02. Compensation and Indemnification of Trustee. The Authority shall (i) pay the Trustee and each Authority Agent reasonable compensation (that, to the extent permitted by applicable law, shall not be limited by any law limiting the compensation of the trustee of an express trust), (ii) pay or reimburse each of the Trustee and each Authority Agent upon request for all reasonable fees, expenses, disbursements and advances incurred or made in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all agents and other persons not regularly in its employ), except to the extent that any such expense, disbursement or advance is due to its own negligence or willful misconduct, and (iii) to the extent permitted by applicable law, indemnify each of the Trustee and each Authority Agent for, and to hold it harmless against, any loss, liability or expense incurred by it, arising out of or in connection with the acceptance or administration of this Indenture or the performance of its duties hereunder, including the costs and expenses of defending itself against or investigating any claim of liability or expense, except

to the extent that any such liability or expense was due to its own negligence or willful misconduct. The obligations of the Authority under this Section 7.02 shall constitute additional indebtedness hereunder and shall survive the satisfaction and discharge of this Indenture. Such additional indebtedness shall be a senior claim to that of the Bonds upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the Holders of Bonds and except for the Rebate Fund.

SECTION 7.03. Qualifications of Trustee; Resignation; Removal.

(a) There shall at all times be a trustee hereunder that shall be a commercial bank, trust company or national banking association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having (or if such bank, trust company or national banking association is a member of a bank holding company system, its holding company has) a combined capital and surplus of at least \$250,000,000, and subject to supervision or examination by federal or state authority. If such corporations or national banking associations publish reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section 7.03 the combined capital and surplus of such corporations or national banking associations shall be deemed to be their combined capital and surplus as set forth in their most recent reports of conditions so published.

(b) The Trustee may at any time resign by giving at least 30 days' written notice to the Authority. Upon receiving such notice of resignation, the Authority, shall promptly appoint a successor trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within thirty days after the giving of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee or any Holder who has been a bona fide Holder of a Bond for at least six months may, on behalf of itself and others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor trustee.

(c) In case at any time either of the following shall occur:

(1) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.03 and shall fail to resign after written request therefor by the Authority or by any Holder who has been a bona fide Holder of a Bond for at least six months; or

(2) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Authority may remove the Trustee and appoint a successor trustee by an instrument in writing by an Authorized Representative, or any Holder who has been a bona fide Holder of a Bond for at least six months may, on behalf of itself and all others similarly

situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee and appoint a successor trustee.

(d) The Authority or Holders of a majority in aggregate principal amount of the Bonds at the time Outstanding may at any time remove the Trustee and appoint a successor trustee by an instrument or concurrent instruments in writing signed by an Authorized Representative or by such Holders, as the case may be.

(e) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 7.03 shall become effective upon acceptance of appointment by the successor trustee acceptable to the Authority.

(1) Any successor trustee shall execute, acknowledge and deliver to the Authority and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusts hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the written request of the Authority or the request of the successor trustee, the trustee ceasing to act shall execute and deliver an instrument transferring to such successor trustee, upon the trusts herein expressed, all the rights, powers and trusts of the trustee so ceasing to act. Upon request of any such successor trustee, the Authority shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor trustee all such rights, powers and duties. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by Section 7.02.

(2) No successor trustee shall accept appointment as provided in this Section 7.03 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of this Section 7.03.

(3) Upon acceptance of appointment by a successor trustee as provided in this Section 7.03, the Authority or such successor trustee shall give Holders notice of the succession of such trustee to the trusts hereunder.

(f) Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its United States of America municipal corporate trust business, provided such company shall be eligible under this Section 7.03 and acceptable to the Authority, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

(g) In the event of the resignation or removal of the Trustee, the Trustee shall deliver any money held hereunder and any Bonds and its related books and records held by it in such capacity to its successor.

(h) The Trustee may appoint and at all times have one or more agents in connection with its duties and responsibilities hereunder.

SECTION 7.04. Instrument of Bondholders. Any instrument required by this Indenture to be executed by Bondholders may be in any number of writings of similar tenor and may be executed by Bondholders in person or by agent appointed in writing. Proof of the execution of any such instrument or of the writing appointing any such agent and of the ownership of Bonds given in any of the following forms shall be sufficient for any of the purposes of this Indenture:

(i) A certificate of any officer in any jurisdiction who by law has power to take acknowledgements within such jurisdiction that the person signing such writing acknowledged before him the execution thereof.

(ii) A certificate executed by any trust company or bank stating that at the date thereof the party named therein did exhibit to an officer of such trust company or bank, as the property of such party, the Bonds therein mentioned.

The Trustee may rely on such an instrument of Bondholders unless and until the Trustee receives notice in the form specified in (i) or (ii) above that the original such instrument is no longer reliable. In the event that the Trustee shall receive conflicting directions from two or more groups of Bondholders, each with combined holdings of not less than 25 percent of the principal amount of Outstanding Bonds, the directions given by the group of Bondholders that hold the largest percentage of Outstanding Bonds shall be controlling and the Trustee shall follow such directions to the extent required herein. The Trustee shall have no liability provided it is following the instructions of such Bondholders permitted to direct the Trustee pursuant to this Indenture.

SECTION 7.05. Issuing and Paying Agents. The Authority may appoint and at all times have one or more Authority Agents in such place or places as the Authority may designate, for the payment of a Series of Bonds. Such Authority Agents shall meet the qualifications for the Trustee and the procedures and conditions for removal and resignation set forth in Section 7.03 hereof. It shall be the duty of the Trustee to make such arrangements with any such Authority Agent as may be necessary to assure, to the extent of the moneys held by the Trustee for such payment, the prompt payment of Bonds presented at either place of payment.

ARTICLE VIII

COVENANTS OF THE AUTHORITY

SECTION 8.01. Punctual Payment and Performance. The Authority will punctually pay or cause to be paid interest on and the principal of and redemption premiums, if any, on the Bonds in strict conformity with the terms of the CEA Act, the Indenture and the

Bonds, and will faithfully observe and perform all of the agreements and covenants contained in the Indenture and the Bonds.

SECTION 8.02. Against Encumbrances; First Lien Indebtedness; Subordinated Bonds; Tax Covenants.

(a) The Authority will not create or cause or permit to be created any pledge, lien, charge or encumbrance having priority over, or having parity with, the lien of the Bonds upon any of the Pledged Revenue and Debt Service Deposits or issue any bonds, notes or other obligations secured by a pledge of or charge or lien upon Pledged Revenue or Debt Service Deposits except the Bonds; provided that the Authority may at any time, or from time to time, issue Subordinate Bonds in accordance with Section 4.03.

(b) The Authority shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority, directly or indirectly, to acquire any securities or obligations that would cause the interest on Bonds intended by the Authority to be exempt from federal income taxation to become subject to federal income taxation, and shall not take or permit to be taken any other action or actions, that would cause any such Bond to be an “arbitrage bond” within the meaning of Section 148 of the Code or “federally guaranteed” within the meaning of Section 149(b) of the Code and any such applicable regulations promulgated from time to time thereunder. The Authority shall observe and not violate the requirements of Section 148 of the Code and any such applicable regulations. The Authority shall comply with all requirements of Sections 148 and 149(b) of the Code to the extent applicable to Bonds. In the event that at any time the Authority is of the opinion that for purposes of this Section 8.02(b) it is necessary to restrict or to limit the yield on the investment of any moneys held by the Trustee under this Indenture, the Authority shall so instruct the Trustee under this Indenture in writing, and the Trustee shall take such action as may be necessary in accordance with such instructions.

(c) The Authority covenants to comply with the provisions and procedures of each Tax Certificate. The Trustee shall follow the directions of the Authority given pursuant to the Tax Certificate, and shall have no liability or responsibility to enforce compliance by the Authority with the terms of the Tax Certificate.

(d) The Authority and the Trustee shall not use or permit the use of any proceeds of the Bonds or any funds of the Authority (so long as such proceeds or other funds are under its control), directly or indirectly, in any manner, and shall not take or omit to take any action that would cause any of the Bonds to be treated as an obligation not described in Section 103(a) of the Code if such Bonds, when originally issued, were intended by the Authority to be obligations described in Section 103(a) of the Code.

(e) Notwithstanding any provisions of this Section 8.02, if the Authority shall provide to the Trustee an opinion of Bond Counsel to the effect that any specified action required under this Section 8.02 is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on any Bonds, the Trustee and the Authority may conclusively rely on such opinion in complying with the requirements of this Section, and, notwithstanding Article IX hereof, the covenants hereunder shall be deemed to be modified to that extent.

SECTION 8.03. Rate Covenant. During each Fiscal Year the Authority will review its rate structure for premiums for its policies of basic residential earthquake insurance and confirm that it has established, or it will endeavor to establish, rates sufficient to make certain that it can and will collect Pledged Revenue adequate to meet all of its obligations, including the deposit of amounts required and permitted by this Indenture to be deposited in such Fiscal Year in the Interest Account, the Principal Account, and the Rebate Fund.

SECTION 8.04. Application of Statutory Revenue to Pay Bonds Upon Termination of the Authority. Under the CEA Act the Authority shall continue in existence so long as the Bonds are Outstanding, accordingly, the Authority covenants that upon termination of the Authority by the Legislature of the State, all funds remaining in the California Earthquake Authority Fund after provision is made for the payment of earthquake losses shall be applied to the payment of the Bonds before any other transfer or disposition of the Authority's funds to the General Fund or otherwise pursuant to Section 10089.43 of the Government Code of the State.

SECTION 8.05. Claim-Paying Account. The Authority will expend money in the Claim-Paying Account for the payment of claims of Authority policyholders, and related Authority loss adjustment expenses, on account of the Authority's basic residential earthquake insurance coverage only after the date as of which Authority payments or provisions for policyholder claims and related Authority loss adjustment expenses have exhausted the Authority's Available Capital. On any date on which the Authority's Available Capital is exhausted and all outstanding policy holder claims, if any, have been paid or provided for, the Authority may transfer the funds in the Claim-Paying Account to another account and use those funds for any lawful purpose.

SECTION 8.06. Payment of Claims. The Authority will pay and discharge any and all lawful claims that, if unpaid, might become a charge or lien upon the Pledged Revenue or Debt Service Deposits or any part thereof or upon any funds in the hands of the Authority or the Trustee prior to or on a parity with the charge and lien upon the Pledged Revenue and Debt Service Deposits securing any Bonds.

SECTION 8.07. Accounting Records; Financial Statements and Other Reports.

(a) The Authority will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Pledged Revenue. Such accounting records shall at all times during business hours be subject to the inspection of the Trustee (who shall have no duty to inspect) or of any Holder (or its representative authorized in writing).

(b) The Authority will prepare and file with the Trustee financial statements of the Authority for each Fiscal Year commencing with the Fiscal Year ending on December 31, 2014, together with an audit report thereon prepared by an Independent Certified Public Accountant. The filing shall be made within 15 days after such financial statements become publicly available and the filing shall be accompanied by a certificate of the Authority as to whether, as of the date of such filing, an Event of Default has occurred and is continuing. The Trustee shall have no duty to review such financial statements.

SECTION 8.08. Protection of Pledged Revenue and Rights of Holders. The Authority will preserve and protect the security of the Bonds and the rights of the Holders and will warrant and defend their rights against all claims and demands of all persons. From and after the sale and delivery of any of the Bonds by the Authority, the Bonds shall be incontestable by the Authority.

SECTION 8.09. Payment of Governmental Charges and Compliance With Governmental Regulations. The Authority will pay and discharge all taxes or payments in lieu of taxes, assessments and other governmental charges or liens that may be levied, assessed or charged upon the Pledged Revenue or Debt Service Deposits or any part thereof promptly as and when the same shall become due and payable, except that the Authority shall not be required to pay any such governmental charges so long as the application or validity thereof shall be contested in good faith and the Authority shall have set aside reserves to cover such payments.

SECTION 8.10. Further Assurances. The Authority will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance hereof and for the better assuring and confirming unto the Holders of the rights and benefits provided herein.

ARTICLE IX

AMENDMENTS

SECTION 9.01. Amendments to Indenture Not Requiring Consent of Bondholders. Except to the extent restricted by a Supplemental Indenture, the Authority and the Trustee, without the consent of or notice to any Bondholders, may enter into amendments to this Indenture for one or more of the following purposes (but no such amendment may include a change described in clause (a), (b), (c) or (d) of Section 9.02):

(a) to grant to or confer upon the Bondholders of any Series any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders.

(b) to grant or pledge to the Bondholders of any Series any additional security;

(c) to amend this Indenture as may be necessary or convenient in connection with the book-entry system for payments, transfers and other matters relating to the Bonds;

(d) to cure any ambiguity or to correct or supplement any provision contained herein or in any Supplemental Indenture that may be defective or inconsistent with any provision contained herein or in any Supplemental Indenture, or to make such other provisions in regard to matters or questions arising under this Indenture that shall not materially adversely affect the interest of the Bondholders;

(e) to make any change therein necessary, in the opinion of Bond Counsel, to maintain any exclusion from gross income for federal income tax purposes of the interest on any Outstanding Bonds;

(f) to make any changes required by any Rating Agency to obtain or maintain an investment grade rating on the Bonds;

(g) to conform to the terms and conditions of the reimbursement agreements or loan agreements or similar documents relating to letters of credit, lines of credit, bond insurance policies, reserve fund surety bonds or policies, guarantees or similar undertakings for a Series of Bonds, *provided, however*, such amendments shall not materially adversely affect the interests of the Bondholders, and

(h) to issue one or more Series of Bonds, from time to time, hereunder.

SECTION 9.02. Amendments to Indenture Requiring Consent of Bondholders.

Exclusive of amendments authorized by Section 9.01 and subject to the terms and provisions contained in this Section 9.02 and in any Supplemental Indenture, the Holders of not less than a majority of the aggregate principal amount of the then Outstanding Bonds shall have the right, from time to time, anything contained in this Indenture to the contrary notwithstanding, to consent to such other amendments hereto as shall be consented to by the Authority in its sole discretion for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture or in any Supplemental Indenture; provided, however, that nothing in this Section 9.02 shall permit, or be construed as permitting (a) an extension of the maturity of the principal of, or the mandatory redemption date of, or interest on, any Bond, or (b) a reduction in the principal amount of, or the redemption premium or the rate of interest on, or the mandatory sinking fund requirement for, any Bond, (c) a preference or priority of any Bond or Bonds over any other Bond or Bonds except as provided in Article III, or (d) a reduction in the aggregate principal amount of the Bonds required for any consent to any amendment. The giving of notice to and consent of the Bondholders to any such proposed amendment shall be obtained pursuant to Section 9.03 hereof.

SECTION 9.03. Notice to and Consent of Bondholders.

If consent of the Bondholders is required under the terms of this Indenture for the amendment of this Indenture or for any other similar purpose, the Authority shall cause notice of the proposed amendment to be given by first-class mail to the last known Holders of the Outstanding Bonds then shown on the registration books for the Bonds. Such notice shall briefly set forth the nature of the proposed amendment or other action and shall state that copies of any such amendment or other document are on file at the office of the Authority and the Principal Office of the Trustee for inspection by all Bondholders. If, within 60 days or such longer period as shall be prescribed by the Authority following the mailing of such notice, the Holders of the requisite principal amount of the Bonds Outstanding by instruments filed with the Authority shall have consented to the amendment or other proposed action, then the Authority may adopt or execute, as appropriate, such amendment or other document or take such proposed action and the consent of the Bondholders shall thereby be conclusively presumed.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. Liability of Authority Limited to Pledged Revenue and Pledged Funds. Notwithstanding anything contained herein, the Authority shall not be required to advance any money derived from any source of income other than the Pledged Revenue and other funds pledged hereunder as provided herein for the payment of the interest on or principal of or redemption premium, if any, on the Bonds or for the performance of any agreements or covenants contained herein. The Authority may, however, advance funds for any such purpose so long as such funds are derived from a source legally available for such purpose and may be used by the Authority for such purpose without incurring an indebtedness prohibited hereby.

The Bonds are revenue obligations of the Authority and are payable, as to interest thereon, principal thereof and any premium upon the redemption of any thereof, solely from the Pledged Revenue of the Authority and other funds of the Authority herein pledged for the payment thereof as provided herein and the Authority is not obligated to pay them except from Pledged Revenue and such pledged funds. The Bonds do not constitute a debt or liability of the State or of any political subdivision of the State, or a pledge of the full faith and credit of the State or of any political subdivision of the State.

SECTION 10.02. Limitation of Rights; Third Party Beneficiary. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this Indenture or the Bonds is intended or shall be construed to give to any Person other than the Bondholders any legal or equitable right, remedy or claim under or in respect to this Indenture or any covenants, conditions and provisions herein contained; this Indenture and all of the covenants, conditions and provisions herein being intended to be and being for the sole and exclusive benefit of the Bondholders.

SECTION 10.03. Severability. If any one or more provisions of this Indenture is held to be in conflict with any applicable statute or rule of law or is otherwise held to be unenforceable for any reason whatsoever, such circumstances shall not have the effect of rendering the other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever. The invalidity of any one or more phrases, sentences, clauses or section of this Indenture contained, shall not affect the remaining portions of this Indenture, or any part thereof. [The provisions of this Section shall not apply to any limitations on liability of the Authority and its officers and agents contained in this Indenture, which limitations are not severable from and are an essential part of this Indenture.]

SECTION 10.04. Notices. Except as otherwise provided herein, it shall be sufficient service or giving of notice, request, complaint, demand or other paper if the same shall be delivered by registered or certified mail, postage prepaid, addressed as follows:

If to the Authority:

801 K Street, Suite 1000
Sacramento, California 95814-3518
Attention: Chief Financial Officer
with a copy to:
General Counsel
California Earthquake Authority
801 K Street, Suite 1000
Sacramento, California 95814-3518

If to the Trustee:

U.S. Bank National Association
One California Street
Suite 1000
San Francisco, California 94111
Attention: Corporate Trust Services

The Authority and the Trustee by notice given hereunder may designate any different addresses to which subsequent notices, certificates or other communications shall be sent, but no notice directed to any one such entity shall be thereby required to be sent to more than two addresses.

SECTION 10.05. Payments Due on Non-Business Days. In any case where the date fixed for payment of interest or premium, if any, on or principal of the Bonds on any interest payment date or maturity date or redemption date is not a Business Day, then, except as otherwise specified in a Supplemental Indenture, payment of such interest, premium or principal need not be made on such date but shall be made on the next succeeding Business Day, with the same force and effect as if made on the date fixed for payment (and no interest shall accrue or be payable on account of such delay except as otherwise specified in a Supplemental Indenture).

SECTION 10.06. Captions, Titles or Headings. Any captions, titles or headings in this Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this Indenture.

SECTION 10.07. Governing Law. This Indenture shall be construed and governed in accordance with the laws of the State.

SECTION 10.08. Effective Date. This Indenture shall become effective upon its execution and delivery.

SECTION 10.09. Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

SECTION 10.10. Execution in Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture of Trust to be executed in their respective names by an authorized representative.

CALIFORNIA EARTHQUAKE AUTHORITY

By _____

U.S. BANK NATIONAL ASSOCIATION

By _____
Authorized Officer

FIRST SUPPLEMENTAL INDENTURE OF TRUST

BETWEEN

CALIFORNIA EARTHQUAKE AUTHORITY

AND

**U.S. BANK NATIONAL ASSOCIATION
AS TRUSTEE**

Dated as of [November 1,] 2014

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FIRST SUPPLEMENTAL INDENTURE OF TRUST

This FIRST SUPPLEMENTAL INDENTURE OF TRUST (the “First Supplemental Indenture”), is entered into and dated as of [November 1,] 2014 between CALIFORNIA EARTHQUAKE AUTHORITY, a public instrumentality of the State of California (the “Authority”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America, as Trustee under the Indenture defined below (the “Trustee”);

W I T N E S S E T H:

WHEREAS, the Indenture of Trust, dated as of [November 1,] 2014 (the “Indenture”), between the Authority and the Trustee provides for the issuance of Bonds;

WHEREAS, no Bonds are Outstanding under the Indenture; and

WHEREAS, the Authority has determined to supplement the Indenture to provide for the issuance of a Series of Bonds thereunder which shall be designated “California Earthquake Authority Revenue Bonds, Series 2014” (the “Series 2014 Bonds”);

NOW, THEREFORE, THIS FIRST SUPPLEMENTAL INDENTURE WITNESSETH, in order to secure the payment of the Series 2014 Bonds at any time Outstanding under this Indenture and to secure the performance of the covenants and conditions therein and herein set forth with respect thereto, and to declare the terms and conditions upon and subject to which the Series 2014 Bonds authorized hereby are to be issued, and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Series 2014 Bonds authorized hereby, and for other valuable considerations, the receipt of which is hereby acknowledged, the Authority does hereby covenant and agree with the Trustee, for the benefit of the Holders from time to time of the Series 2014 Bonds authorized hereby, as follows:

ARTICLE XI

AUTHORITY AND DEFINITIONS

SECTION 11.01 Supplemental Indenture. This First Supplemental Indenture is entered into by the Authority and the Trustee as an amendment to the Indenture pursuant to Section 9.01(h) of the Indenture.

SECTION 11.02 Definitions. Unless the context otherwise requires, all terms that are defined in the Indenture shall have the same meanings in this First Supplemental Indenture. The following definitions are added to the definitions in Section 1.01.

Electronic Means

“Electronic Means” means a notice provided by telecopy, facsimile transmission, e-mail transmission or other similar electronic means of communication providing evidence of transmission, including telephonic communication confirmed by any other method set forth in

this definition and including any other communications method acceptable to the parties giving and receiving such notice.

Serial Bonds

“Serial Bonds” means the Series 2014 Bonds payable with respect to principal at their specified maturity date or dates, for which no mandatory sinking fund payments are provided.

Term Bonds

“Term Bonds” mean the Series 2014 Bonds payable on July 1, 2019, from mandatory sinking fund payments established for the purpose and calculated to retire such Series 2014 Bonds in part on or before their specified maturity date.

ARTICLE XII

AUTHORIZATION AND TERMS OF BONDS

SECTION 12.01 Authorization; Designation; and Certain Terms of the Series 2014 Bonds. (a) A Series of Bonds is hereby authorized to be issued, which shall be designated “California Earthquake Authority Revenue Bonds, Series 2014” (the “Series 2014 Bonds”). The Series 2014 Bonds are authorized to be issued in the aggregate principal amount of \$350,000,000. The Series 2014 Bonds shall be issued as fully registered Bonds in denominations of any integral multiple of \$1,000. The Series 2014 Bonds shall be initially registered in the name of Cede & Co., as nominee of DTC, or any successor thereto and purchases of beneficial interests in the Series 2014 Bonds may be made in book-entry form only. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except as set forth in the Indenture. The form of the Series 2014 Bonds, the Trustee’s certificate of authentication and the form of assignment shall be as set forth in Exhibit A hereto and shall be completed and delivered to DTC or its agent in such forms. The Series 2014 Bonds shall be dated the date of delivery thereof. During any period in which ownership of any Series 2014 Bond is determined by a book-entry system at a securities depository, payments of principal shall be made to Holders of record as of the close of business on the Business Day prior to the respective dates each of such payments is due and shall be paid by wire transfer of immediately available funds on the date such payment is due. Interest on the Series 2014 Bonds is payable semiannually on January 1 and July 1, commencing with January 1, 2015. During any period in which ownership of any Series 2014 Bond is determined by a book-entry system at a securities depository, interest shall be paid to Holders of record as of the close of business on the Business Day prior to the interest payment date by wire transfer of immediately available funds on the date such payment is due. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such date and shall be paid to the Person in whose name the Series 2014 Bond is registered at the close of business on a special record date (“Special Record Date”) for the payment of such defaulted interest to be fixed by the Trustee, notice of which shall be given to the Holders, subject to Section 2.11, by first-class mail or Electronic Means not less than ten (10) days prior to such Special Record Date.

(b) The Series 2014 Bonds shall mature on the following dates in the following amounts (subject to prior redemption as set forth in Section 12.03) and shall bear interest at the following rates per annum:

Maturity Date (July 1)	Principal Amount	Interest Rate
2016	\$ 40,000,000	%
2017	60,000,000	
2019	250,000,000	

(c) The Series 2014 Bonds shall be numbered in consecutive numerical order from R-1 upwards, and each such Bond shall bear interest from the date of delivery. Interest shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

SECTION 12.02 Redemption.

(a) *Mandatory Redemption.* The Series 2014 Bonds maturing on July 1, 2019, are subject to mandatory redemption prior to their stated maturity, in part, pro rata, from sinking fund payments of \$40,000,000 on July 1, 2017, of \$105,000,000 on July 1, 2018, and of \$105,000,000 on July 1, 2019, at a redemption price equal to the principal amount of the Series 2014 Bonds to be redeemed (plus accrued interest to the redemption date, which shall be paid from the Interest Account). Amounts on deposit in the Principal Account for that purpose shall be applied instead by the Trustee (if requested to do so by an Authorized Representative of the Authority) to purchase any Series 2014 Bonds designated by the Authorized Representative by notice to the Trustee given at any time or times prior to the 20th Business Day preceding each July 1 redemption date. The purchase price for any Series 2014 Bonds so purchased may not exceed the principal amount of the Series 2014 Bonds so being purchased (plus accrued interest to the purchase date, which shall be paid from the Interest Account). Series 2014 Bonds so purchased shall be cancelled in accordance with Section 2.09.

(b) *Optional Redemption.* The Series 2014 Bonds are not subject to redemption at the option of the Authority.

(c) *Instructions for Redemption and Purchase; Payment of Redemption Price or Purchase Price.* Redemptions and purchases of Series 2014 Bonds required or permitted hereby shall be effected by the Trustee in accordance with written instructions from an Authorized Representative of the Authority in form and substance reasonably satisfactory to the Trustee delivered, in the case of redemption no less than twenty-five days prior to the date fixed for redemption and in the case of purchase no less than one Business Day prior to the date of purchase. The funds for each such redemption or purchase shall be disbursed from the Principal Account, except that accrued interest shall be disbursed from the Interest Account.

(d) *Notice of Redemption.* Subject to Section 2.11, notice of redemption shall be mailed by first-class mail or sent by “Electronic Means” by the Trustee, not less than 20 days and not more than 60 days prior to the redemption date, to the respective Holders of any Series

2014 Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Each notice of redemption shall state the date of such notice, the date of delivery of the Series 2014 Bonds, the date fixed for redemption, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee) the maturity, CUSIP numbers, if any, and the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Series 2014 Bonds the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue on such principal portion. Notices of redemption given as described above are effective whether the notice is actually received, and whether any DTC procedures for giving notice are complied with. After the date fixed for redemption, no further interest will accrue on the portion of the principal of any Series 2014 Bonds called for redemption.

(e) *Pro-Rata Pass-Through Distributions of Principal and Interest.* In connection with a mandatory sinking fund payment on the Term Bonds pursuant to Section 12.03(a), the Trustee will effect a pro rata reduction of principal of the Term Bonds by sending DTC written notice of the dollar amount per \$1,000 principal amount payable on account of principal and accrued interest not less than two Business Days prior to the payment date. DTC will be responsible for distributing the principal and accrued interest among the DTC participants, pro rata according to the beneficial interest in the Series 2014 Bonds that DTC records list as owned by each DTC participant as of the record date for such payment.

SECTION 12.03 Use of Proceeds. The Authority covenants and agrees that net proceeds of the sale of the Series 2014 Bonds will be deposited in the Claims-Paying Account. As used in this Section, “net proceeds” means the principal amount of the Series 2014 Bonds minus the underwriter’s discount.

ARTICLE XIII

MISCELLANEOUS

SECTION 13.01 Limitation of Rights. With the exception of rights herein expressly conferred, nothing expressed or mentioned in or to be implied from this First Supplemental Indenture is intended or shall be construed to give to any person other than the Holders of the Bonds any legal or equitable right, remedy or claim under or in respect to this First Supplemental Indenture or any covenants, conditions and provisions herein or therein contained; this First Supplemental Indenture and all of the covenants, conditions and provisions herein and therein are intended to be for the sole and exclusive benefit of the Holders of the Bonds.

SECTION 13.02 Continuing Disclosure. The Authority shall at all times comply with and carry out all of the provisions of the Continuing Disclosure Certificate dated as of _____, 2014 (the “Continuing Disclosure Certificate”), executed by the Authority, as originally executed and as it may be amended from time to time in accordance with the terms thereof. Notwithstanding any other provision of the Indenture, failure of the Authority to comply with the Continuing Disclosure Certificate shall not be considered an event of default under the

Indenture; however, the Trustee, any Bondholder or any Beneficial Owner (as defined in the Continuing Disclosure Certificate) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Section.

SECTION 13.03 Severability. If any provision of this First Supplemental Indenture is held to be in conflict with any applicable statute or rule of law or is otherwise held to be unenforceable for any reason whatsoever, such circumstances shall not have the effect of rendering the other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever. The invalidity of any one or more phrases, sentences, clauses, or Sections of this First Supplemental Indenture shall not affect the remaining portions of this First Supplemental Indenture or any part thereof.

SECTION 13.04 Captions. The captions or headings in this First Supplemental Indenture are for convenience only and in no way define, limit or describe the scope or intent of any provisions or sections of this First Supplemental Indenture.

SECTION 13.05 Governing Law. This First Supplemental Indenture shall be governed by and interpreted in accordance with the laws of the State of California.

SECTION 13.06 Effective Date. This First Supplemental Indenture shall become effective upon its execution and delivery.

SECTION 13.07 Ratification of Indenture. As amended and supplemented hereby, the Indenture and the trusts conferred thereby are in all respects confirmed, and the Indenture, all indentures supplemental thereto including this Supplemental Indenture shall be read, taken and considered as one instrument.

SECTION 13.08 Execution in Several Counterparts. This First Supplemental Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be executed.

CALIFORNIA EARTHQUAKE AUTHORITY

By _____

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By _____
Authorized Officer

EXHIBIT A

**FORM OF CALIFORNIA EARTHQUAKE AUTHORITY
REVENUE BOND, SERIES 2014**

UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY AND ANY PAYMENT IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

No. _____

**California Earthquake Authority
Revenue Bond, Series 2014**

<u>Dated Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u> %	<u>CUSIP</u>	<u>Maturity Date</u>
-------------------	-------------------------	---------------------------	--------------	----------------------

REGISTERED OWNER: Cede & Co.

CALIFORNIA EARTHQUAKE AUTHORITY, a public instrumentality of the State of California duly organized and existing under the laws of the State of California (the "Authority"), for value received, hereby promises to pay, but solely from Pledged Revenue and Debt Service Deposits, in lawful money of the United States of America, to the registered owner or registered assigns, on the maturity date set forth above (unless redeemed prior thereto as hereinafter provided), the principal amount specified above, together with interest until the principal hereof shall have been paid. This Bond will bear interest from its dated date at the rate shown above. Interest will be calculated on the basis of a 360-day year comprising twelve 30-day months. Interest on this Bond is payable semiannually on January 1 and July 1, commencing with January 1, 2015. So long as this bond is held in book-entry form, the record date for interest payments is the close of business on the Business Day prior to the interest payment date and, if not in book-entry form, is the 15th day of the month preceding the related payment date. Payments of principal shall be made to Holders of record as of the close of business on the Business Day prior to the dates such payments are due and shall be paid by wire transfer of immediately available funds on the date such payments are due. Capitalized terms used herein and not defined herein shall have the meanings given such terms in the Indenture of Trust, dated as of [November 1,] 2014, as supplemented by a First Supplemental Indenture of Trust, dated as of [November 1,] 2014 (hereinafter collectively referred to as the "Indenture"), between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"),

In any case where the date fixed for the payment of interest on or principal of this Bond on any interest payment date or maturity date or redemption date is not a Business Day, then

payment of such interest or principal will not be made on such date but will be made on the next Business Day (and no interest will accrue or be payable on account of such delay).

This Bond is one of a duly authorized issue of Bonds of the Authority, designated as California Earthquake Authority Revenue Bonds (the “Bonds”), of the series designated above, all of which are being issued pursuant to the provisions of provisions of Chapter 8.6 of Part 1 of Division 2 of the California Insurance Code (the “CEA Act”) and the Indenture. Said authorized issue of Bonds is not limited in aggregate principal amount and consists or may consist of one or more Series as in the Indenture provided.

THIS BOND IS AN OBLIGATION OF THE AUTHORITY TO THE EXTENT PROVIDED IN THE INDENTURE, PAYABLE SOLELY FROM PLEDGED REVENUE AND DEBT SERVICE DEPOSITS.

THIS BOND IS NOT A DEBT OR LIABILITY OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION OF THE STATE OF CALIFORNIA. THIS BOND DOES NOT DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION OF THE STATE OF CALIFORNIA TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THIS BOND.

Reference is hereby made to the Indenture and the CEA Act for a description of the terms on which the Bonds are issued and to be issued, the provisions with regard to the nature and extent of the pledge of Pledged Revenue and Debt Service Deposits and the rights of the registered owners of the Bonds, and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the Authority and the registered owner from time to time of this Bond, and to all the provisions thereof the registered owner of this Bond, by its acceptance hereof, consents and agrees. Additional Bonds may be issued and other indebtedness may be incurred on a parity with the Series of Bonds of which this Bond is a part, but only subject to the conditions and limitations contained in the Indenture.

This Bond is payable both as to principal and interest, solely from Pledged Revenue and Debt Service Deposits as provided in the Indenture, and the Authority is not obligated to pay this Bond except from Pledged Revenue.

The Bonds of the Series of which this Bond is a part are not subject to optional redemption. The Bonds of the Series of which this Bond is a part maturing in 2019 (the “Term Bonds”) are, however, subject to mandatory redemption prior to their stated maturity, in part, pro rata, from sinking fund payments of \$40,000,000 on July 1, 2017, of \$105,000,000 on July 1, 2018, and of \$105,000,000 on July 1, 2019, at a redemption price equal to the principal amount of the Series 2014 Bonds to be redeemed (plus accrued interest to the redemption date). Amounts on deposit in the Principal Account for the mandatory redemption of the Term Bonds shall be applied instead by the Trustee (if requested to do so by an Authorized Representative of the Authority) to purchase any Term Bonds designated by the Authorized Representative by notice to the Trustee given at any time or times prior to the 20th Business Day preceding each July 1 redemption date. The purchase price for any Term Bonds so purchased may not exceed

the principal amount of the Term Bonds so being purchased (plus accrued interest to the purchase date).

The rights and obligations of the Authority and of the holders and registered owners of the Bonds of the Series of which this Bond is a part may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of or notice to the registered owners of Bonds.

This Bond is transferable or exchangeable as provided in the Indenture, only upon the Bond Register at the Principal Office of the Trustee, by the registered owner hereof in person, or by his or her duly authorized attorney, upon surrender of this Bond at the Principal Office of the Trustee, together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or his or her duly authorized attorney, and thereupon a new Bond or Bonds of the same Series, maturity, interest rate and in the same aggregate principal amount, shall be issued to the transferee in exchange therefor as provided in the Indenture, upon payment of any charges therein prescribed.

The person in whose name this Bond is registered shall be deemed and regarded as the absolute owner hereof for all purposes, including receiving payment of, or on account of, the principal of and interest due hereon.

It is hereby certified and recited that any and all acts, conditions and things required to exist, to happen and to be performed, precedent to and in the incurring of the indebtedness evidenced by this Bond, and in the issuing of this Bond, exist, have happened and have been performed in due time, form and manner, as required by the Constitution and statutes of the State of California and the CEA Act, and that this Bond, together with all other indebtedness of the Authority payable out of Pledged Revenue, is within every debt and other limit prescribed by the Constitution and statutes of the State of California and the CEA Act.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been manually signed by the Trustee.

IN WITNESS WHEREOF the California Earthquake Authority has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its duly authorized representatives all as of the date set forth above.

CALIFORNIA EARTHQUAKE AUTHORITY

By: _____
Chief Executive Officer

Countersigned:

By: _____
Chief Financial Officer

[FORM OF CERTIFICATE OF AUTHENTICATION]

This Bond is one of the California Earthquake Authority Revenue Bonds, Series 2014 described in the within mentioned Indenture and was authenticated on the date set forth below.

Date of Authentication: _____

U.S. Bank National Association,
as Trustee

By: _____
Authorized Officer

[FORM OF ASSIGNMENT]

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(Please Print or Type Name and Address of Assignee)

PLEASE INSERT SOCIAL SECURITY OR OTHER
TAX IDENTIFICATION NUMBER OF ASSIGNEE

the within bond and all rights thereunder, and hereby irrevocably constitutes and appoints

to transfer the within Bond on the books kept for registration thereof with full power of substitution in the premises.

Dated:

Signature:

(Signature of Assignor)

Notice: The signature on this assignment must correspond with the name of the Registered Owner as it appears upon the face of the within Bond in every particular without alteration or enlargement or any change whatsoever.

SIGNATURE GUARANTEED:

Notice: Signature must be guaranteed by an eligible guarantor firm.

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER __, 2014

NEW ISSUE – BOOK-ENTRY ONLY – FEDERALLY TAXABLE

CREDIT RATINGS:

Fitch: __

Moody's: __

See "RATINGS"

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the California Earthquake Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2014 Bonds is exempt from State of California personal income taxes, but is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel expresses no opinion regarding any other federal or state tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2014 Bonds. See "TAX MATTERS."

\$350,000,000*
CALIFORNIA EARTHQUAKE AUTHORITY
REVENUE BONDS, SERIES 2014
(FEDERALLY TAXABLE)

<u>Principal Amount*</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP**</u>	<u>Maturity Date*</u>
\$40,000,000	%			July 1, 2016
60,000,000				July 1, 2017
\$250,000,000 ____ % Term Bond Due July 1, 2019*, Priced to Yield ____ % CUSIP** _____				

Dated: Date of Delivery**Due: as shown above**

The California Earthquake Authority Revenue Bonds, Series 2014 ("Series 2014 Bonds") will bear interest from their date of delivery at the rates shown above, payable semiannually on January 1 and July 1, commencing on January 1, 2015. See "THE SERIES 2014 BONDS – Interest."

The Series 2014 Bonds are not subject to optional redemption prior to maturity. The Series 2014 Bonds maturing on July 1, 2019 are subject to mandatory sinking fund redemption prior to maturity. See "THE SERIES 2014 BONDS – Redemption."

Series 2014 Bonds may be purchased in book-entry form only, in the denomination of \$1,000 or any integral multiple of \$1,000. See APPENDIX D – "BOOK-ENTRY SYSTEM."

The California Earthquake Authority ("CEA") is a public instrumentality of the State of California that has offered basic residential earthquake insurance policies in California since December 1996. The CEA has a market share of approximately 75% of the residential earthquake policies in force in California. As of December 31, 2013, the CEA had 841,836 policies in force generating approximately \$575 million in annual premiums.

Net proceeds of the Series 2014 Bonds will be held by the CEA in its Claim-Paying Account to enhance the CEA's claim-paying capacity. See "SOURCES AND USES OF FUNDS."

The Series 2014 Bonds are being issued under an Indenture of Trust dated as of November 1, 2014, as supplemented by the First Supplemental Indenture dated as of November 1, 2014 ("Indenture") between the CEA and U.S. Bank National Association, as trustee ("Trustee"). The Series 2014 Bonds and any parity bonds issued in the future pursuant to the Indenture (collectively, "Bonds") are payable from and secured by Pledged Policyholder Premiums and interest earnings on amounts held by the Trustee under the Indenture for payment of debt service on the Bonds (collectively "Pledged Revenue") and Debt Service Deposits, as set forth under "SECURITY FOR THE BONDS – Pledged Revenue and Debt Service Deposits." In the Indenture, the CEA has covenanted that each year it will review its premium rate structure for its policies of basic residential earthquake insurance and confirm that it has established, or it will endeavor to establish, rates sufficient to make certain that it can and will collect Pledged Revenue adequate to meet all of its obligations, including debt service on the Series 2014 Bonds when due, as set forth under "SECURITY FOR THE BONDS – Rate Covenant."

THE BONDS ARE OBLIGATIONS OF THE CEA TO THE EXTENT PROVIDED IN THE INDENTURE, PAYABLE SOLELY FROM PLEDGED REVENUE AND DEBT SERVICE DEPOSITS. THE BONDS ARE NOT A DEBT OR LIABILITY OF THE STATE OR OF ANY POLITICAL SUBDIVISION OF THE STATE. THE BONDS DO NOT DIRECTLY, INDIRECTLY, OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION OF THE STATE TO LEVY OR TO PLEDGE ANY FORM OF TAXATION OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE BONDS.

This cover page contains certain information for quick reference only. It is not a summary. Investors must read the entire Official Statement, including the material under "Risk Factors," to obtain information essential to making an informed investment decision.

Certain legal matters incident to the authorization, sale and issuance of the Series 2014 Bonds are subject to the approval of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the CEA. Certain legal matters will be passed upon for the CEA by Daniel P. Marshall III, General Counsel to the CEA. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, counsel to the Underwriters. In connection with the issuance of the Series 2014 Bonds, KNN Public Finance, a Division of Zions First National Bank, Oakland, California, is serving as Financial Advisor to the State Treasurer. It is expected that the Series 2014 Bonds will be available for delivery through the Depository Trust Company book-entry system on or about November 6, 2014.

Honorable Bill Lockyer
Treasurer of the State of California
Agent for Sale

Goldman, Sachs & Co.
Barclays
Great Pacific Securities
KeyBanc Capital Markets Inc.
RBC Capital Markets

Blaylock Beal Van, LLC
J.P. Morgan
Mischler Financial Group
Siebert Brandford Shank & Co., L.L.C.

Stifel
Drexel Hamilton, LLC
Jefferies LLC
Prager & Co., LLC
The Williams Capital Group, L.P.

October __, 2014

* Preliminary, subject to change.

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GENERAL INFORMATION

All capitalized terms used in this Official Statement that are not defined in this Official Statement have the meanings assigned to such terms in the Indenture.

Descriptions and summaries of the Indenture, the Series 2014 Bonds, the CEA's insurance policies and reinsurance contracts, and other documents, regulations and laws referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. During the period of the initial offering of the Series 2014 Bonds by the Underwriters, copies of the Indenture (which includes the form of the Series 2014 Bonds) may be obtained from the Underwriters. After the period of the initial offering of the Series 2014 Bonds by the Underwriters, copies of the Indenture in reasonable quantities are available from the Trustee. Copies of the Indenture and other publicly available documents may be obtained from the CEA upon payment of a reproduction fee.

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and actual results may differ substantially from those set forth herein. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the owners of the Series 2014 Bonds.

No person has been authorized to give information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the CEA. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Series 2014 Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Official Statement speaks only as of its date, and any information, estimates and/or expressions of opinion herein are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no material change in the affairs of the CEA since the date hereof.

The information set forth herein has been obtained from official sources that are believed to be reliable, but it is not guaranteed as to accuracy or completeness. The presentation of information is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial position or other affairs of the CEA. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement includes forward-looking statements that are based on current expectations and projections about future events. These forward-looking statements are subject to risks and uncertainties, including risks and uncertainties outside the control of the CEA. Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include but are not limited to certain statements under the captions "SECURITY FOR THE BONDS" and "POLICY CLAIMS" in this Official Statement. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The CEA does not plan to issue any updates or revisions to these forward-looking statements if or when expectations or events, conditions or circumstances on which such statements are based occur.

A wide variety of other information, including financial information, concerning the CEA is available from the CEA, the California Insurance Commissioner (the "Insurance Commissioner"), the State Treasurer and publications and websites of the CEA, the Insurance Commissioner, the State Treasurer and various State agencies and officials. No such information is a part of or incorporated into this Official Statement.

In connection with this offering the Underwriters may over-allot or effect transactions which stabilize or maintain the market prices of the Series 2014 Bonds offered hereby at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Underwriters may offer and sell the Series 2014 Bonds to certain dealers, institutional investors, and others at prices lower than the public offering prices stated on the front cover hereof, and said public offering prices may be changed from time to time by the Underwriters.

CALIFORNIA EARTHQUAKE AUTHORITY

\$350,000,000*

Revenue Bonds, Series 2014

(Federally Taxable)

SUMMARY

This summary is a brief description of certain terms of the Series 2014 Bonds and certain other information in this Official Statement. A full review should be made of the entire Official Statement, including the Appendices.

- General**..... This Official Statement describes the California Earthquake Authority (“CEA”), a public instrumentality of the State of California (the “State” or the “State of California”), and the CEA’s Revenue Bonds, Series 2014 (“Series 2014 Bonds”) offered hereby.
- California Earthquake Authority**..... The CEA has offered basic residential earthquake insurance policies in California since December 1996. The CEA was created pursuant to California Insurance Code Sections 10089.5 through 10089.54 (as amended, “CEA Act”). See APPENDIX F – “THE CEA ACT.” The CEA has a market share of approximately 75% of the residential earthquake policies in force in California, and as of December 31, 2013, the CEA had 841,836 policies in force.
- Bond Authorization** The Series 2014 Bonds are being issued under the CEA Act and an Indenture of Trust dated as of November 1, 2014, as supplemented by the First Supplemental Indenture, dated as of November 1, 2014 (the “Indenture”), with U.S. Bank National Association as trustee (the “Trustee”).
- Purpose** Net proceeds of the Series 2014 Bonds will be held by the CEA in its Claim-Paying Account to enhance the CEA’s claim-paying capacity. See “SOURCES AND USES OF FUNDS.”
- Book-Entry** Series 2014 Bonds may be purchased in book-entry form only, in denominations of \$1,000 or any integral multiple of \$1,000. See APPENDIX D – “BOOK-ENTRY SYSTEM.”
- Maturities**..... The Series 2014 Bonds will mature on the dates shown on the cover page of this Official Statement.
- Mandatory Sinking Fund Redemption** .. The Series 2014 Bonds maturing on July 1, 2019* are subject to mandatory redemption on July 1, 2017 and July 1, 2018 from mandatory sinking fund payments of \$40,000,000* and \$105,000,000*, respectively, at a redemption price equal to

* Preliminary, subject to change.

the principal amount of the Series 2014 Bonds redeemed, plus accrued interest. See “THE SERIES 2014 BONDS – Redemption.”

Optional Redemption..... The Series 2014 Bonds are not subject to optional redemption.

Interest The Series 2014 Bonds will bear interest from their date of delivery at the rates per annum shown on the cover page of this Official Statement, payable semiannually on January 1 and July 1, commencing on January 1, 2015. See “THE SERIES 2014 BONDS – Interest.”

Security for the Bonds The Series 2014 Bonds and any other Bonds issued under the Indenture in the future are payable from and secured by Pledged Policyholder Premiums and interest earnings on amounts held by the Trustee under the Indenture for payment of debt service on the Bonds (“Pledged Revenue”) and Debt Service Deposits (defined below), as set forth under “SECURITY FOR THE BONDS – Pledged Revenue and Debt Service Deposits.”

Debt Service Deposits and Transfer of Pledged Revenue Under the Indenture, the CEA may transfer, but is not required to transfer, funds by the 15th day of each calendar month to the Trustee from the California Earthquake Authority Fund for deposit in the Revenue Fund to maintain the balances in the Interest Account and the Principal Account in the Revenue Fund at the levels required by the Indenture (“Debt Service Deposits”). The CEA expects to make each Debt Service Deposit. However, if a Debt Service Deposit is not made in full by the 15th day of a calendar month, the Indenture requires the Trustee to transfer Pledged Revenue received by it after the 15th day of that month to the Revenue Fund until an amount sufficient to make up the deficiency in the Debt Service Deposit has been transferred. Accordingly, when Debt Service Deposits are made by the CEA as expected by it, transfers by the Trustee of Pledged Revenue to the Revenue Fund will not occur. See “SECURITY FOR THE BONDS – Pledged Revenue and Debt Service Deposits.”

Under the CEA Act and the Indenture, the Trustee will receive all Pledged Revenue and will transfer all Pledged Revenue to the CEA each Business Day for deposit in the California Earthquake Authority Fund unless a transfer to the Revenue Fund is required by the Indenture to be made by the Trustee from Pledged Revenue. See “SECURITY FOR THE BONDS – Accounts and Flow of Funds Under the Indenture.”

Rate Covenant In the Indenture, the CEA has covenanted that each year it will review its premium rate structure for its policies of basic residential earthquake insurance and confirm that it has established, or it will endeavor to establish, rates sufficient to make certain that it can and will collect Pledged Revenue adequate to meet all of its obligations, including the deposit of amounts required and permitted by the Indenture to pay Bonds when due, as set forth under “SECURITY FOR THE BONDS – Rate Covenant.” Rates for CEA insurance premiums are subject to the approval of the Insurance Commissioner.

Non-impairment Covenant and Certain other Provisions of the CEA Act..... The State has pledged in the CEA Act not to limit, alter or restrict the rights vested in the CEA to fulfill the pledge of Pledged Revenue or any other terms of the Indenture or in any way impair the rights or remedies of the holders of the Bonds. See “SECURITY FOR THE BONDS – Non-impairment Covenant” and APPENDIX F – “THE CEA ACT.” In addition, the CEA Act requires, among other things, that the CEA be continued in existence for so long as any bonds of the CEA (including the Bonds) are outstanding and that the Insurance Commissioner not impede or in any matter interfere with, but affirmatively take all necessary steps to effect, full and timely payment of debt service on the Bonds. See “CALIFORNIA EARTHQUAKE AUTHORITY – Role of the Insurance Commissioner” and APPENDIX F – “THE CEA ACT.”

Flow of Funds under Indenture..... The flow of funds to pay debt service on the Series 2014 Bonds is discussed in detail under “SECURITY FOR THE BONDS – Pledged Revenue and Debt Service Deposits” and – Accounts and Flow of Funds Under the Indenture” and in the summary of certain terms of the Indenture in APPENDIX B – “SUMMARY OF THE INDENTURE.”

California Earthquake Authority Fund. The California Earthquake Authority Fund is held by the CEA and not the Trustee, and amounts in the California Earthquake Authority Fund are not pledged to secure the Series 2014 Bonds. Under the CEA Act, the California Earthquake Authority Fund is administered by the Insurance Commissioner, subject to the direction of the Governing Board of the CEA, and disbursed by the CEA staff, to pay CEA costs under the CEA Act, including but not limited to, premiums payable by the CEA under contracts of reinsurance, policyholder claims and claim expenses, and operating and other expenses of the CEA, and to establish claim reserves. See APPENDIX F – “THE CEA ACT.”

As described briefly above, the CEA expects to make Debt Service Deposits from funds held in the California Earthquake Authority Fund. Payment of Debt Service

Deposits from the California Earthquake Authority Fund is at the option of the CEA. The CEA might or might not continue to pay debt service from the California Earthquake Authority Fund if its funds are short and it is required to pay policyholder claims on a pro rata or installment basis. See “RISK FACTORS – Payment Deficiency.” In any event, the Series 2014 Bonds are secured by and have first call on Pledged Revenue (primarily Pledged Policyholder Premiums), which means that debt service could be paid from that source if Debt Service Deposits are not paid from the California Earthquake Authority Fund.

Claim-Paying Account..... The CEA covenants and agrees in the Indenture that it will deposit and hold the net proceeds of the Series 2014 Bonds in a Claim-Paying Account within the California Earthquake Authority Fund. The Bonds are not secured by money in the Claim-Paying Account. See “SECURITY FOR THE BONDS – California Earthquake Authority Fund; Claim-Paying Account.”

Additional Bonds..... The CEA Act and the Indenture permit the CEA to issue bonds, notes, commercial paper, variable rate securities and any other evidences of indebtedness (collectively called “bonds”). However, no bonds may be issued that have a claim on Pledged Revenue or Debt Service Deposits that is prior to the Series 2014 Bonds or any other Bonds issued under the Indenture, and no bonds may be issued that have a claim on Pledged Revenue or Debt Service Deposits on a parity with the Series 2014 Bonds except pursuant to the Indenture. In addition, the CEA must demonstrate compliance with the “additional bonds requirement” of the Indenture before the CEA may issue any Bonds under the Indenture on a parity with the Series 2014 Bonds. See “SECURITY FOR THE BONDS - Limitations on Additional Bonds.”

Events of Default and Limitations on Remedies..... The Indenture provides that the occurrence of specified events (such as a failure to pay debt service on the Bonds) is an event of default. If an event of default were to occur, the sole remedy of the holders of Bonds will be to have the Trustee file suit to require the CEA to perform its obligations under the Indenture. Acceleration of principal of the Bonds is not permitted. See “SECURITY FOR THE BONDS – Events of Default and Limitations on Remedies.”

The Bonds are obligations of the CEA to the extent provided in the Indenture, payable solely from Pledged Revenue and Debt Service Deposits. The Bonds are not a debt or liability of the State or of any political subdivision of the State. The Bonds do not directly, indirectly, or contingently obligate the State or any political subdivision of the State to levy or to

pledge any form of taxation or to make any appropriation for payment of the Bonds.

Indenture of Trust..... The Indenture creates funds and accounts for money held by the Trustee. The Indenture authorizes the issuance of the CEA’s Bonds and specifies the rights of holders of the Bonds, the nature and extent of security for the Bonds, and the rights and responsibilities of the Trustee. The Indenture also sets forth covenants of the CEA and defines events of default and remedies therefore. See APPENDIX B – “SUMMARY OF THE INDENTURE” for a summary of certain provisions of the Indenture.

Defeasance of the Series 2006 Bonds In July 2006, the CEA issued its California Earthquake Authority Series 2006 Revenue Bonds (the “Series 2006 Bonds”). Prior to the issuance of the Series 2014 Bonds, the CEA will use its available cash to fund an escrow account in an amount sufficient to pay the principal of and interest on all of the outstanding Series 2006 Bonds (currently outstanding in the aggregate principal amount of \$63 million) to their maturity. The beneficial owners of the Series 2006 Bonds will not have any claim on Pledged Revenue or Debt Service Deposits but will be paid solely from amounts in such escrow account.

Risks Certain risks that should be considered by investors in deciding whether to purchase the Series 2014 Bonds include, among others, the risks discussed under “Risk Factors.”

CALIFORNIA EARTHQUAKE AUTHORITY

The CEA was formed under the CEA Act and has offered basic residential earthquake insurance policies in California since December 1996. The CEA has a market share of approximately 75% of the residential earthquake policies in force in California. As of December 31, 2013, the CEA had 841,836 policies in force generating approximately \$575 million in annual premiums and it had approximately \$9.95 billion in claim-paying capacity, including approximately \$4.48 billion of Available Capital. See “SOURCES OF FUNDS TO PAY CLAIMS – General.”

Insurers writing residential property insurance policies in California are required by California law to offer earthquake insurance to their insureds. Insurers can underwrite earthquake insurance risk themselves or offer their insureds earthquake insurance written by other insurers.

Many property insurers sustained major earthquake coverage losses as the result of the 1994 Northridge earthquake in southern California. Because of the requirement that they offer earthquake insurance as part of an offer of residential property insurance, within a year following the Northridge earthquake, most insurers ceased offering residential property insurance policies in California. Accordingly, the availability of both residential property insurance and earthquake insurance in California declined precipitously.

In response to these problems in the California residential property insurance and earthquake insurance markets, California enacted legislation that accomplished two objectives.

First, California established the CEA as a privately-funded, publicly managed, public instrumentality of the State of California with the primary purpose of providing earthquake insurance to Californians. Insurers that write residential property insurance in California may, at their option, join the CEA. Upon joining, insurers no longer write residential property earthquake insurance coverage and instead satisfy their legal obligation to offer earthquake insurance to their residential property policyholders by offering them a CEA policy. Insurers that have joined the CEA are referred to as “Participating Insurers,” and are obligated, by a statutory formula, to contribute capital, and under certain circumstances, to pay assessments to support CEA claim-paying capacity. CEA policies are sold only through Participating Insurers.

Second, California enacted legislation enabling the CEA and insurers to meet the statutory requirement to offer earthquake coverage by offering a limited earthquake insurance product with a 15% deductible, lower limits of coverage for personal property and loss-of-use than is found in a typical fire insurance policy, and no coverage for driveways, detached garages, outbuildings, and swimming pools. This type of earthquake policy is commonly referred to in California as a “mini-policy.” The CEA’s standard Homeowners policy, described under “Policies and Premiums,” accounts for approximately 90% of the CEA policies in force and it is a mini-policy.

Since 2002, A.M. Best Company has assigned a financial-strength rating, an opinion of the CEA’s ability to meet its obligations to policyholders, of “A- Excellent” with a “stable outlook”, which has been reaffirmed each year. An explanation of the significance of this rating may be obtained from A.M. Best Company at www.ambest.com (that information is not incorporated by reference herein). Generally, rating agencies base their ratings on information and materials and on investigations, studies and assumptions made by the rating agencies themselves; this rating reflects the views of A.M. Best Company. There is no assurance that this rating will remain in effect for any given period or that the rating will not be modified or withdrawn.

Governance and Management

The CEA is a public instrumentality of the State of California. It is not a State of California agency, authority or department or otherwise an entity of the government of the State of California and, accordingly, its operations are not supported by appropriations in the budget of the State of California.

The Governing Board. The CEA's Governing Board is composed of the Governor, the State Treasurer and the Insurance Commissioner. Elections for these positions will be held in November 2014, with a new four-year term beginning for each in January 2015. The Speaker of the California Assembly and the Chairperson of the California Senate Committee on Rules serve as nonvoting, *ex officio* members of the Governing Board. The members of the Governing Board are listed below:

Name	Title
Edmund G. Brown Jr.	Governor
Bill Lockyer	Treasurer
Dave Jones	Insurance Commissioner
Toni G. Atkins	Speaker of the Assembly (non-voting)
Darrell Steinberg	Chairperson of Senate Committee on Rules (non-voting)

The CEA Act provides that the Governing Board has the power to conduct the affairs of the CEA and perform all acts necessary or convenient in the exercise of that power (subject to the regulatory authority of the Insurance Commissioner noted in the CEA Act). See APPENDIX F – “THE CEA ACT.”

Executive Officers. The executive officers of the CEA are listed below:

Name	Title
Glenn A. Pomeroy	Chief Executive Officer
Tim Richison	Chief Financial Officer
Bob Stewart	Chief Operations Officer/ Operations Manager
Daniel P. Marshall, III	General Counsel
Chris Nance	Chief Communications Officer
Shawna Akerman	Chief Actuary
Janiele Maffei	Chief Mitigation Officer
Todd Coombes	Chief Information Officer

Glenn Pomeroy became Chief Executive Officer of the CEA in 2008. Mr. Pomeroy was the head of GE Insurance Solutions' government and regulatory affairs group from 2001 to 2008. During Mr. Pomeroy's tenure with GE Insurance Solutions, it was acquired by Swiss Re. Mr. Pomeroy served as Commissioner of Insurance of North Dakota from 1993 to 2000 and as the President of the National Association of Insurance Commissioners in 1998. Prior to 1993, Mr. Pomeroy served as North Dakota

Securities Commissioner, Assistant Attorney General of North Dakota, and as a member of the North Dakota House of Representatives.

Tim Richison has been Chief Financial Officer of the CEA since its inception in 1996. As a loaned executive from the United Services Automobile Association (“USAA”) to the Insurance Commissioner, Mr. Richison assisted in establishing the CEA. During his eighteen-year career with USAA and his previous employment with Liberty Mutual Insurance Company, Mr. Richison worked in the areas of policy service, claims, systems, accounting, and internal and external audits. Mr. Richison is a graduate of the University of Texas at Tyler with a B.B.A. in Accounting and Computer Science.

Bob Stewart joined the CEA in 2004. Before joining the CEA, Mr. Stewart was the Assistant Vice President of Underwriting for USAA in the Western Region. Prior to that, he was an executive with American States Insurance Company. Mr. Stewart is a graduate of Indiana State University with a B.S. in Business Administration. Mr. Stewart holds a Chartered Property Casualty Underwriter (“CPCU”) designation and is a member of the CPCU Society.

Daniel Marshall has served as General Counsel of the CEA since inception and was part of the team that created the CEA. Mr. Marshall is a member of the CEA Executive Staff, counsel to the CEA Governing Board, and director of the CEA’s Legal and Compliance Department. The CEA’s inside and outside legal counsel report to him, as do the CEA’s compliance manager and chief auditor. Before joining the CEA, Mr. Marshall served as senior counsel in the California Department of Insurance and served as counsel to the California Residential Earthquake Recovery Fund. An active member of The State Bar of California since December 1980, he is an honors graduate of the Golden Gate University School of Law.

Chris Nance, Chief Communications Officer, is responsible for state and national strategic communications and marketing initiatives for CEA. He provides leadership for the development and implementation of a comprehensive strategy to guide CEA in the areas of consumer marketing, public affairs, insurance agent outreach, community partnerships, media relations and advertising. Formerly, Chris was a vice president for Ogilvy Public Relations Worldwide. He also has served as a deputy secretary for the California Business, Transportation and Housing Agency; a senior consultant for the California Legislature; and a press advance representative for the White House.

Shawna Ackerman became Chief Actuary of the CEA in 2010. During the ten years prior to joining the CEA she was a principal with a private sector firm that provided actuarial consulting services to the CEA. She is a Fellow and board member of the Casualty Actuarial Society and member of the American Academy of Actuaries.

Janiele Maffei became the CEA’s Chief Mitigation Officer in 2009. She is a registered structural engineer with over 30 years of experience in the earthquake engineering industry. She is a board member of the Earthquake Engineering Research Institute.

Todd Coombes became the CEA’s Chief Information Officer in 2013. He has more than 25 years of experience as a private sector business-technology executive. Before joining the CEA, Mr. Coombes was Executive Vice President and Chief Information Officer of ITT Educational Services, Inc. (“ITT”), where he was Executive Vice President and Chief Information Officer. Before joining ITT, he was part of the leadership team at CNO Financial Group, a \$4B life, annuity and health insurance company. Mr. Coombes holds a master’s degree in Business Administration from Anderson University, a bachelor’s degree in Information Systems Management from the University of San Francisco and an associate’s degree in Computer Science from Sierra College.

Advisory Panel. The Governing Board is advised by an Advisory Panel, whose members are appointed by the Governor except as stated in this paragraph. The Advisory Panel consists of four members who represent insurance companies licensed to transact fire insurance in California, two of whom are appointed by the Insurance Commissioner; two licensed insurance agents, one of whom is appointed by the Insurance Commissioner; and three members of the public not connected with the insurance industry, at least one of whom is required to be a consumer representative. In addition, the Speaker of the Assembly and the Chairperson of the Senate Committee on Rules each appoint one member of the public not connected with the insurance industry. Advisory Panel members serve four-year terms and may be reappointed. The Insurance Commissioner is a nonvoting, *ex officio* member of the panel.

Compensation. The CEA reimburses Governing Board and Advisory Panel members for their reasonable expenses incurred in attending meetings and conducting its business. Governing Board and Advisory Panel members serve without compensation by the CEA.

Employees and Consultants

The CEA Governing Board is authorized by the CEA Act to contract for the services of a chief executive officer, a chief financial officer, a chief mitigation officer, and an operations manager, and may contract for the services of reinsurance intermediaries, financial market underwriters, modeling firms, a computer firm, an actuary, an insurance claims consultant, counsel, and private money managers. Other employees of the CEA are subject to civil service provisions under the CEA Act.

Legislation adopted in 2013 eliminated a 25 person statutory cap on the number of employees of the CEA that are subject to civil service provisions. This change is expected to result in an increase in the number of CEA civil service employees and a reduction in temporary staffing services provided by private sector contractors.

Role of the Insurance Commissioner

Powers. The CEA is administered under the authority of the Insurance Commissioner. The Insurance Commissioner's role includes:

- as with other California residential property insurers, the power to review, then approve or deny, the CEA's rates for its earthquake insurance (the net premium revenue derived from such rates is a primary source of funds to pay the Bonds as described under "SECURITY FOR THE BONDS – Pledged Revenue and Debt Service Deposits");
- the power to approve the CEA's plan of operations, Participating Insurer and policyholder assessments, and policy forms;
- the promulgation of administrative regulations that specify procedures for ratemaking and forms approval, define the type and quality of investments the CEA is authorized to make, define policy coverage types and limits, set compensation rates paid to Participating Insurers, and specify the procedures to be followed by the CEA following an earthquake (or series of earthquakes) where the magnitude of losses make it likely that prorated or installment benefits may be paid; and
- the power to examine the CEA's books and records, issue and enforce statutory stop orders, investigate complaints and issue cease and desist orders, and impose fines and issue orders to

ensure compliance with the CEA Act and other laws and rules applicable to the CEA and the business of insurance generally.

There are limitations in Section 10089.21 of the CEA Act that restrict the ability of the Insurance Commissioner to shut down CEA operations or interfere with the payment of debt service on the Bonds. See APPENDIX F – “THE CEA ACT.”

- The Insurance Commissioner is prevented by the CEA Act from becoming (or appointing someone else to become) the conservator, liquidator, or receiver of the CEA. The CEA Act states that the CEA is not subject to the provisions of the California Insurance Code that permit the Insurance Commissioner to become the conservator or liquidator of insurers or to the provisions of the California Insurance Code that govern the conduct of conservatorship or liquidation proceedings for insurers.
- The CEA Act expressly prohibits the Insurance Commissioner from impeding or in any manner interfering with the payment of debt service on CEA bonds.
- The CEA Act expressly requires the Insurance Commissioner to affirmatively take all necessary steps to effect the payment of debt service on CEA bonds.

Plan of Operations. The CEA is required by the CEA Act to operate pursuant to a written plan of operations approved by the CEA’s Governing Board and the Insurance Commissioner. If at any time the Insurance Commissioner disapproves a plan or an amended plan submitted by the CEA Governing Board, the Insurance Commissioner may require it to be changed and adopted as changed. The plan of operations is required to establish in detail the policies and procedures of the CEA, including, but not limited to, its financial operations, claims procedures, methods of premium collection, procedures consistent with constitutional, statutory, and common law requirements for resolving grievances of applicants or policyholders who are dissatisfied with application handling or adverse claims decisions, whether by the CEA or by a Participating Insurer, assessment procedures, a plan for resolution of assessment disputes between the CEA and insureds, grievances between the CEA and Participating Insurers, Participating Insurer fees and expenses, policyholder eligibility standards and producer compensation.

Operating Expense Limitation

The CEA Act requires the operating expenses of the CEA to be capped at not more than three percent of the premium income received by the CEA. The CEA has always complied with this limitation and expects to continue to be able to do so. See Note 4 to the Financial Statements in APPENDIX A.

Legislation is pending in the California Legislature (Assembly Bill No. 2064) that would increase the cap on CEA’s operating expenses to six percent and list the types of expenses that are not “operating expenses.” There is no assurance that this legislation will be enacted. If the present version of this proposed legislation were to be enacted, CEA management believes that the CEA would be able to comply with the limitation without any material adverse financial consequences.

CEA Act References to Federal Programs

Section 10089.36 of the CEA Act requires that in the event a natural disaster program is enacted by Congress, the CEA Advisory Panel is to prepare a plan to dissolve the CEA or conform the CEA Act with the federal program and then recommend a plan of action to the CEA Governing Board and the Legislature; however, pursuant to Section 10089.22 of the CEA Act, the CEA must be continued in existence for so long as any bonds of the CEA (including the Bonds) are outstanding.

Section 10089.54 of the CEA Act provides that in the event both the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Mortgage Corporation (“Freddie Mac”) propose to implement policies to require earthquake insurance for single-family residential structures (other than condominium units or townhouses) as a condition of purchasing a mortgage or trust deed secured by that structure, it is the intent of the California Legislature that it should convene to consider whether the CEA should continue to write new earthquake insurance policies, with or without modification, or to cease writing new earthquake insurance policies. Section 10089.54 of the CEA Act also provides that in the event Fannie Mae and Freddie Mac implement such policies, the CEA is required to cease writing new earthquake insurance policies 180 days after such implementation unless a California statute is enacted authorizing the CEA to continue writing new earthquake insurance policies. Section 10089.54 authorizes the CEA to continue to renew its existing earthquake insurance policies even if Fannie Mae and Freddie Mac implement such policies. See APPENDIX F – “THE CEA ACT.”

THE SERIES 2014 BONDS

Authorization

The Series 2014 Bonds are being issued under the CEA Act and the Indenture. See APPENDIX F for a copy of the CEA Act. The issuance of the Series 2014 Bonds has been authorized by the Governing Board of the CEA as required by the CEA Act. The Insurance Commissioner has approved the sale of the Series 2014 Bonds. No other action or approval by the State or any official or agency of the State is required for the issuance of the Series 2014 Bonds in accordance with the CEA Act and the Indenture.

Book-Entry and Denominations

Series 2014 Bonds may be purchased in book-entry form only, in the denomination of \$1,000 or any integral multiple of \$1,000. See APPENDIX D – “BOOK-ENTRY SYSTEM.”

Interest

The Series 2014 Bonds will bear interest from their date of delivery at the rates per annum shown on the cover page of this Official Statement. Interest on the Series 2014 Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months.

Interest on the Series 2014 Bonds is payable semiannually on January 1 and July 1 of each year, commencing on January 1, 2015. The record date for interest payments is the close of business on the Business Day prior to the interest payment date. Interest will be paid to DTC, the registered owner of and securities depository for the Series 2014 Bonds, by wire transfer on the interest payment date of immediately available funds. Disbursement of such payments is the responsibility of DTC. See APPENDIX D – “BOOK-ENTRY SYSTEM.”

In any case where the date fixed for the payment of interest or redemption premium, if any, on or principal of the Series 2014 Bonds on any interest payment date or maturity date or redemption date is not a Business Day, then payment of such interest, premium or principal will not be made on such date but will be made on the next Business Day (and no interest will accrue or be payable on account of such delay).

Maturity*

The Series 2014 Bonds will mature on the dates specified on the cover page of this Official Statement. The Series 2014 Bonds maturing on July 1, 2019 are subject to mandatory sinking fund redemption as described below under “Redemption.”

Redemption*

Optional Redemption

The Series 2014 Bonds are not subject to optional redemption prior to maturity.

Mandatory Redemption

The Series 2014 Bonds maturing on July 1, 2019, are subject to mandatory redemption prior to their stated maturity, in part, on a pro rata basis, from sinking fund payments on July 1, 2017 and July 1, 2018, at a redemption price equal to the principal amount of the Series 2014 Bonds to be redeemed (plus accrued interest to the redemption date). The CEA is required by the Indenture to deposit \$40,000,000 in the Principal Account for mandatory redemption of Series 2014 Bonds on July 1, 2017, and \$105,000,000 in the Principal Account for mandatory redemption of Series 2014 Bonds on July 1, 2018. The Indenture permits amounts on deposit in the Principal Account for mandatory redemption to be used instead to purchase any Series 2014 Bonds maturing on July 1, 2019, designated by the CEA, at a purchase price not exceeding the principal amount of the Series 2014 Bonds being purchased (plus accrued interest). Series 2014 Bonds so purchased will be cancelled.

Pro Rata Redemption

The Trustee will effect a pro rata reduction of principal of all outstanding Series 2014 Bonds maturing on July 1, 2019, to accomplish the mandatory sinking fund redemptions on July 1, 2017 and July 1, 2018. Upon such pro rata reduction of principal, the Trustee will send DTC written notice of the dollar amount per \$1,000 principal amount payable on account of principal and accrued interest. DTC will be responsible for distributing the principal and accrued interest among the DTC participants, pro rata according to the beneficial interest in the Series 2014 Bonds being redeemed that DTC records list as owned by each DTC participant as of the record date for such payment.

Notice of Redemption

Notice of redemption will be mailed by first-class mail or sent by “Electronic Means” by the Trustee, not less than 20 days and not more than 60 days prior to the redemption date, to the respective Holders of any Series 2014 Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee. Each notice of redemption will state the date of such notice, the date of delivery of the Series 2014 Bonds, the date fixed for redemption, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee) the maturity, CUSIP numbers, if any, and the respective portions of the principal amount thereof to be redeemed. Each such notice will also state that on said date there will become due and payable on each of said Series 2014 Bonds the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue on such principal portion. Notices of redemption given as described above are effective whether

* Preliminary, subject to change.

the notice is actually received, and whether any DTC procedures for giving notice are complied with. See APPENDIX D – “BOOK-ENTRY SYSTEM.”

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DEBT SERVICE SCHEDULE

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

<u>Period Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>	<u>Annual Debt Service</u>
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*Mandatory sinking fund payment. The Indenture permits sinking fund payments to be used to purchase Series 2014 Bonds maturing on July 1, 2019, and requires any sinking fund payments that are not used to purchase such bonds to be used to redeem Series 2014 Bonds maturing on July 1, 2019. See “THE SERIES 2014 BONDS – Redemption.”

DEFEASANCE OF THE SERIES 2006 BONDS

The CEA will use available cash to fund an escrow account in an amount sufficient to pay the principal of and interest on all of the outstanding Series 2006 Bonds (currently outstanding in the aggregate principal amount of \$63 million) to their maturity. The owners of the Series 2006 Bonds will not have any claim on Pledged Revenue or Debt Service Deposits but will be paid solely from amounts in such escrow account.

SECURITY FOR THE BONDS

The following is a summary of security provisions for the Bonds contained in the Indenture. A more detailed summary of the Indenture appears in APPENDIX B. Investors should read APPENDIX B for more information.

Pledged Revenue and Debt Service Deposits

The Series 2014 Bonds and any parity bonds issued in the future under the Indenture (collectively, “Bonds”) are secured by and payable from Pledged Revenue and Debt Service Deposits. “Pledged Revenue” means all income and receipts of the CEA derived from (i) Pledged Policyholder Premiums, and (ii) interest and other income from investment of money in any fund or account held by the Trustee for the payment of principal of or interest or premiums on Bonds.

- “Pledged Policyholder Premiums” means premiums for policies of basic residential earthquake insurance net of deductions from gross premiums by Participating Insurers for (i) producer commissions and production costs of the Participating Insurer authorized by the CEA, and (ii) non-claims-related operating costs (including policy issuance, premium collection, accounting, statistical, data-processing, and records-keeping services) of the Participating Insurer authorized by the CEA. See “Policyholder Premiums” below for a five year history of Pledged Policyholder Premiums.
- The Indenture establishes funds and accounts for the payment of debt service on Bonds. Interest and other income from the investment of money in those funds and accounts are

pledged to the payment of debt service on the Bonds. These funds and accounts are described below under “Accounts and Flow of Funds Under the Indenture.”

The CEA’s obligation to pay debt service on the Bonds is limited to these sources of revenue that constitute Pledged Revenue. No other CEA revenue is Pledged Revenue. For example, all payments to the CEA from reinsurers, whether paid to the CEA or due the CEA but retained by a reinsurer pursuant to a right of offset in a reinsurance contract with the CEA, do not constitute Pledged Revenue. Similarly, payments to the CEA from its Participating Insurers as capital contributions or assessments do not constitute Pledged Revenue. See the following paragraphs for additional information about CEA revenue that is not Pledged Revenue.

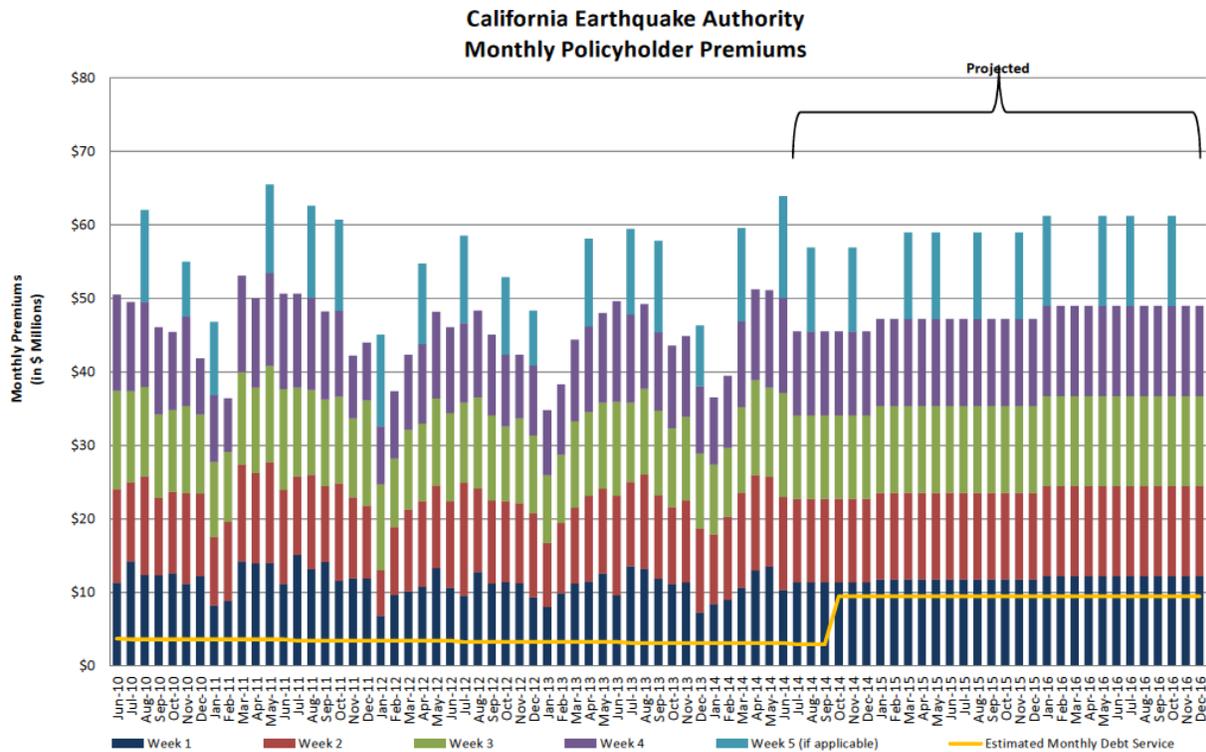
Pursuant to the Indenture the CEA may transfer, but is not required to transfer, to the Trustee, each calendar month by the 15th day of that month, CEA funds (which are expected to be transferred from the California Earthquake Authority Fund) to pay 1/6th of the next interest payment^{†‡} on the Bonds. Pursuant to the Indenture the CEA may transfer, but is not required to transfer, to the Trustee, each calendar month beginning with July 2015, by the 15th day of that month, CEA funds (which are expected to be transferred from the California Earthquake Authority Fund) to pay 1/12th of the next principal payment[‡] (including by way of mandatory sinking fund redemption) on the Bonds. These payments by the CEA are called “Debt Service Deposits” and will be deposited by the Trustee in the Revenue Fund. Amounts in the Revenue Fund, including Debt Service Deposits deposited therein, are pledged as security for the Bonds.

The CEA expects to make each Debt Service Deposit. However, if a Debt Service Deposit is not made in full by the 15th day of a calendar month, the Indenture requires the Trustee to transfer Pledged Revenue received by it after the 15th day of that month to the Revenue Fund until an amount sufficient to make up the deficiency in the Debt Service Deposit has been transferred. Accordingly, when Debt Service Deposits are made by the CEA as expected by it, transfers by the Trustee of Pledged Revenue to the Revenue Fund will not occur. The Indenture provides that Pledged Revenue transferred to the Revenue Fund and Debt Service Deposits shall not be used other than as specified in the Indenture for any other purpose while any of the Bonds remain Outstanding.

The amount of policyholder premiums collected each month since June of 2010, and the amount of policyholder premiums projected by the CEA to be collected each month through December of 2016, are set forth in the table below. The table also shows the weekly amount collected and projected to be collected. The table illustrates that premiums have been and are expected to be received throughout each month, facilitating the ability of the Trustee to collect Pledged Revenue after the 15th day of a calendar month sufficient to make up any deficiency in the CEA’s Debt Service Deposit for that month. For information about the Debt Service Deposit schedule, see “DEBT SERVICE SCHEDULE” herein.

[†] This percentage will be increased to 50% for November and December 2014 for the Series 2014 Bonds.

[‡] The payment will be reduced by the amount of earnings and other income on funds and accounts held by the Trustee that are pledged to the payment of debt service on the Bonds.



Accounts and Flow of Funds Under the Indenture

All Statutory Revenue of the CEA is required by the CEA Act to be paid to a trustee. The Trustee under the Indenture will serve as the trustee under the CEA Act and will receive all Statutory Revenue of the CEA. “Statutory Revenue” means all income and receipts of the CEA, including, but not limited to, income and receipts derived from premiums, bond purchase agreements, capital contributions by insurers, assessments levied on insurers, surcharges applied to CEA earthquake policyholders, grants and all interest or other income from investment of money in any fund or account of the CEA established for the payment of principal or interest, or premiums on bonds, including reserve funds. Payments from reinsurers, whether paid to the CEA or due the CEA but retained by a reinsurer pursuant to a right of offset in a reinsurance contract with the CEA, are not Statutory Revenue.

The Indenture defines the portion of Statutory Revenue that constitutes security for the Bonds as “Pledged Revenue.”

On each Business Day the Trustee will transfer all Statutory Revenue held by it to the CEA for deposit in the California Earthquake Authority Fund (described below), except the Trustee may be required to retain Pledged Revenue for deposit in the Revenue Fund as described under “Pledged Revenue and Debt Service Deposits” above. Pledged Revenue in excess of the amounts required to make up any deficiency in Debt Service Deposits by the CEA will not be transferred to the Revenue Fund but will be disbursed free of trust to the CEA for deposit in the California Earthquake Authority Fund.

Amounts deposited in the Revenue Fund will be allocated to accounts within the Revenue Fund, including the Interest Account and the Principal Account to be used to pay principal of and interest on Bonds.

California Earthquake Authority Fund; Claim-Paying Account

The CEA Act created the California Earthquake Authority Fund. The California Earthquake Authority Fund is held by the CEA and not the Trustee, and amounts in the California Earthquake Authority Fund are not pledged to secure the Bonds but are expected by the CEA to be used to make Debt Service Deposits. Under the Act, the California Earthquake Authority Fund is administered by the Insurance Commissioner, subject to the direction of the Governing Board of the CEA, and disbursed by the CEA's staff, to pay the CEA's costs under the CEA Act, including but not limited to, premiums payable by the CEA under contracts of reinsurance, policyholder claims and claim expenses, and operating and other expenses of the CEA.

The CEA has established the Claim-Paying Account within the California Earthquake Authority Fund. The net proceeds of the Series 2014 Bonds will be deposited in the Claim-Paying Account. See "SOURCES AND USES OF FUNDS." The Claim-Paying Account is not pledged to the payment of the Bonds.

Rate Covenant

In the Indenture, the CEA has covenanted that during each calendar year it will review its premium rate structure for its policies of basic residential earthquake insurance and confirm that it has established, or it will endeavor to establish, rates sufficient to make certain that it can and will collect Pledged Revenue adequate to meet all of its obligations, including the deposit of amounts required by the Indenture to be deposited in such calendar year in the Revenue Fund.

All rates for CEA insurance premiums must be actuarially sound and approved by the Insurance Commissioner before use. In order to establish or change any rate, the CEA is required to file a rate application with the Insurance Commissioner. The rate application includes a rate structure recommended by the CEA staff, in consultation with the CEA's Chief Actuary, and is approved by the CEA Governing Board before filing. After the Insurance Commissioner gives required public notice of the rate application, the Insurance Commissioner may conduct a hearing on the application, and in specified circumstances, must conduct a hearing; hearings are conducted before an administrative law judge, who proposes a decision for adoption or other action by the Insurance Commissioner. The decision following such hearings is subject to judicial review. Although rate hearings are not necessarily lengthy, a protracted rate hearing may occur before rates may be established or changed.

The CEA's rates are determined by the location of the dwelling, type of dwelling, and the number of stories, foundation type, and age of the dwelling. The CEA's rates have generally decreased since it began issuing policies. The most recent rate decrease was an average statewide decrease of 12.5% effective January 21, 2012. The decreases in rates are primarily due to decreases in the cost to the CEA of reinsurance.

Procedure. The procedure the CEA intends to follow to comply with this rate covenant will include the following:

- Based on information furnished by the CEA's earthquake loss modeling firm and analysis by the CEA's Chief Actuary, the CEA will determine whether a rate change (or on occasion, a new rating plan) is advisable or necessary.
- The CEA Rate Subcommittee of the CEA Advisory Panel, in public meetings, will be asked to analyze the proposed new rate and report its recommendations to the full Advisory Panel; the Advisory Panel will be asked to vote (also in a public meeting) whether to recommend the

new rates to the CEA Governing Board. The CEA Act requires that the Panel submit CEA condominium loss assessment coverage rates for Governing Board approval.

- The CEA Governing Board, after hearing from CEA staff and Advisory Panel and other interested parties, including the public, will vote whether to approve the new rates and direct CEA staff to file the Board-approved rates with the Insurance Commissioner. Although the Insurance Commissioner is a non-voting member of the Advisory Panel and a voting member of the Governing Board, he or she has an independent duty as regulator to examine CEA rates.
- Upon receipt in the Insurance Commissioner's office, the application is handled according to the law and regulations under what is known as Proposition 103 (1988) (and see generally California Insurance Code Section 1861.05 and related provisions, as well as the administrative regulations adopted by the Insurance Commissioner under that law). The time required for a rate application to pass through the office of the Insurance Commissioner varies, depending on many factors, including the degree of public participation or intervention and the steps required by law or mandated by the Insurance Commissioner for a particular application.
- Any resulting CEA rate changes will be implemented on an orderly basis over a period of months with the assistance of the Participating Insurers.

Rate Hearings. Once the CEA Governing Board approves filing a new rate application with the Insurance Commissioner, a hearing can be invoked by the Insurance Commissioner, either on his or her own motion or upon a request from a member of the public (under certain circumstances), to evaluate the rate application.

Rate hearings are held before administrative law judges ("ALJs") employed by the Insurance Commissioner for this purpose. This hearing procedure was required in 1988 by the voters who enacted Proposition 103. The Insurance Commissioner has adopted administrative regulations that pertain to rates, including regulations that test rates and are purport to determine appropriate rate levels, and regulations that provide procedural rules for conducting a rate hearing.

The duration and complexity of a rate hearing depends on the nature of the issues presented and the level of interest from the Department of Insurance and the public in those issues. The public can be an important factor in rate hearings, because Proposition 103 encourages public participation by requiring rate applicants to pay the expert and advocacy fees of members of the public who formally "intervene" in a rate hearing.

At the conclusion of the hearing, the ALJ renders a written proposed decision to the Insurance Commissioner, who makes the final decision. The Insurance Commissioner can accept the decision, return it to the ALJ and require further proceedings, or substitute a different decision. The final decision is subject to judicial review.

Exemption from State Insurance Premium Tax

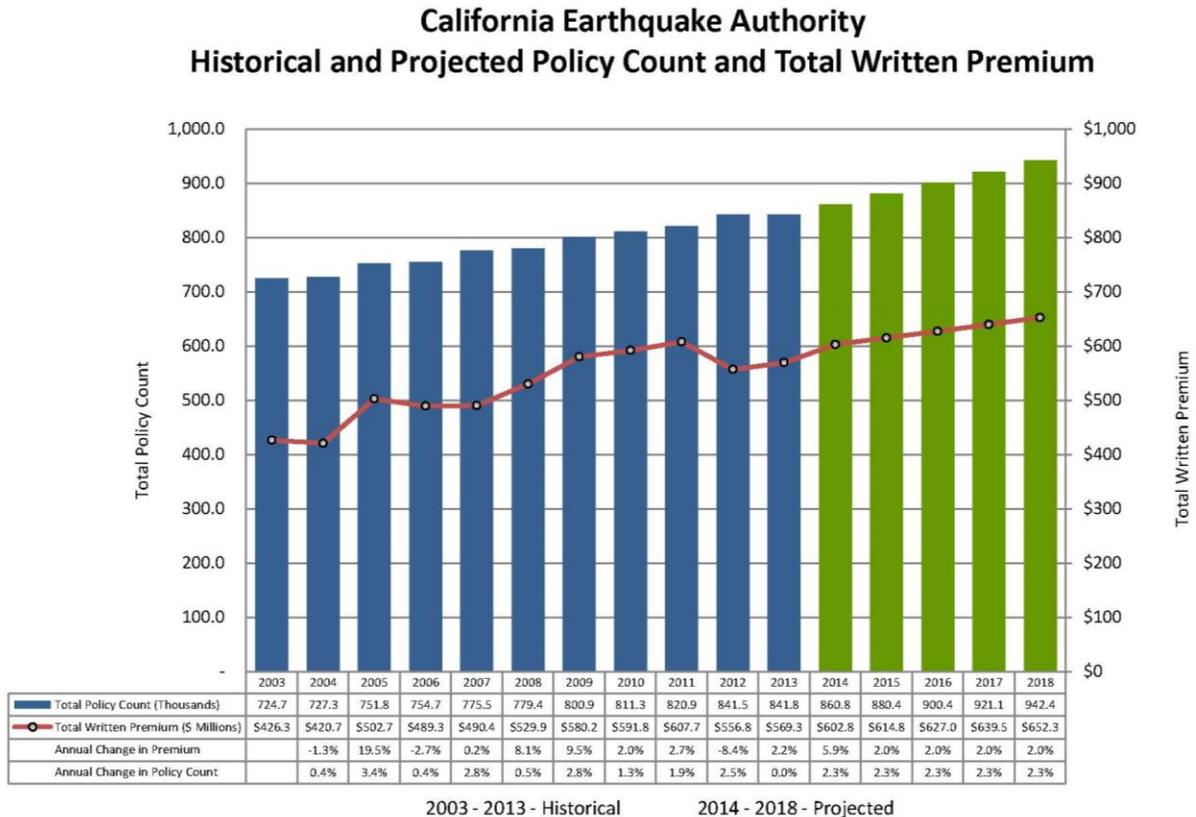
The CEA's rates include state insurance premium taxes. The CEA is exempt from remitting the proceeds of those taxes to the State by the CEA Act, which provides that the amount of tax foregone by the State shall be considered for all purposes a contribution by the State and its citizens to the capital and operating revenue of the CEA. See APPENDIX F – "THE CEA ACT."

Non-impairment Covenant

The State has pledged in the CEA Act not to limit, alter or restrict the rights vested in the CEA to fulfill the pledge of Pledged Revenue or any other terms of the Indenture or in any way impair the rights or remedies of the holders of the Bonds. See “RISK FACTORS – State Legislation or Action” for a discussion of the scope of protection of Bondholders afforded by this provision. Section 10089.43 of the CEA Act provides that upon termination of the CEA by the Legislature, its remaining funds shall be transferred to the State’s General Fund (unless otherwise directed by the Legislature). No such termination or transfer could occur under existing law while Bonds are outstanding, because the CEA Act provides that the CEA shall be continued in existence for so long as any bonds of the CEA (including the Bonds) are outstanding. Accordingly, the CEA covenants in the Indenture that upon termination of the CEA by the Legislature, all funds held in the California Earthquake Authority Fund shall be applied to the payment in full of all of the Bonds after provision is made for the payment of earthquake losses from the California Earthquake Authority Fund and before any other transfer or disposition of the CEA’s funds pursuant to Section 10089.43 of the CEA Act. See APPENDIX F – “THE CEA ACT.”

Policyholder Premiums

The following table shows the CEA’s historical and projected policy count and total written premiums for the years 2003 through 2018.



Source: California Earthquake Authority. These amounts are unaudited.

The Bonds are secured in part by Pledged Policyholder Premiums as described under “SECURITY FOR THE BONDS – Pledged Revenue and Debt Service Deposits”. “Policyholder Premiums” means total written premiums for policies of basic residential earthquake insurance (as shown in the table above) reduced by deductions authorized by the CEA to be made by Participating Insurers for (i) producer commissions and production costs of the Participating Insurer, and (ii) non-claims-related operating costs (including policy issuance, premium collection, accounting, statistical, data-processing, and records-keeping services) of the Participating Insurer.

The following table reports Pledged Policyholder Premiums for the five calendar years ended December 31, 2013.

Pledged Policyholder Premiums					
<i>(dollars in millions)</i>					
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Pledged Policyholder Premiums	\$505.8	\$522.6	\$531.4	\$492.1	\$499.3

⁽¹⁾ Source: California Earthquake Authority Audited Financial Statements.

Limitations on Additional Bonds

The CEA Act permits the CEA to issue bonds, notes, commercial paper, variable rate securities and any other evidences of indebtedness (collectively called “bonds”). No bonds may be issued, however, that have a claim on Pledged Revenue or Debt Service Deposits that is prior to the Bonds issued under the Indenture and no bonds may be issued that have a claim on Pledged Revenue or Debt Service Deposits that is on a parity with the Series 2014 Bonds except under the Indenture.

In addition, the Indenture requires the CEA to demonstrate compliance with the “additional bonds requirements” of the Indenture before the CEA may issue any Bonds in addition to the Series 2014 Bonds. Those requirements include the following:

1. The CEA must determine that either (a) the ratio of Pledged Revenue for its most recently ended fiscal year to Maximum Annual Debt Service on the Bonds (calculated in accordance with the definition of that term in the Indenture), as of the date of sale of, and including such additional Bonds, will not be less than 2.5:1; or (b) the ratios of (A) projected Pledged Revenue for the current fiscal year and projected Pledged Revenue for the next fiscal year to (B) Maximum Annual Debt Service on the Bonds, calculated as of the date of sale of, and including such additional Bonds, will not be less than 2.5:1 for each such fiscal year. This requirement does not apply to refunding Bonds.
2. Interest on the additional Bonds must be payable on January 1 and July 1, and principal on the additional Bonds must be payable on July 1.
3. Debt Service Deposits with respect to the additional Bonds must be made in the same manner and at the same times as Debt Service Deposits are made with respect to the Series 2014 Bonds.

The additional bonds requirements are described in detail in APPENDIX B – “SUMMARY OF THE INDENTURE.”

The CEA may issue (a) other bonds that are secured by Pledged Revenues but subordinate in right of payment to Bonds issued under the Indenture, and (b) other bonds that are not secured by Pledged Revenue (*i.e.* obligations payable from surcharges imposed on CEA policyholders; see “SOURCES OF FUNDS TO PAY CLAIMS – Policyholder Surcharges”).

Investment of Funds

Moneys held by CEA and moneys held by the Trustee under the Indenture are to be invested in Permitted Investments in accordance with written instructions from the CEA. “Permitted Investments” are limited to securities eligible for the investment of State of California funds pursuant to California Government Code Section 16430 and further limitations for investment set by the CEA Governing Board from time to time. The financial statements included in APPENDIX A report the CEA’s net investment income.

Events of Default and Limitations on Remedies

The Indenture provides that the occurrence of any of the following is an event of default:

1. Failure to pay when due any interest or principal on Bonds.
2. The failure of the CEA to perform its other obligations under the Indenture in accordance with the Indenture (after giving effect to any notice or grace period provided in the Indenture).

Upon the occurrence of an event of default, the Trustee may, and upon the request of the beneficial owners of not less than a majority of the outstanding principal amount of the Bonds, shall, take such action as the Trustee deems in its sole discretion to be appropriate to require the CEA to perform its obligations under the Indenture. Before doing so, the Trustee may require that it be indemnified against expenses and liabilities.

Acceleration of principal of the Bonds is not permitted by the Indenture.

The Bonds are obligations of the CEA to the extent provided in the Indenture, payable solely from Pledged Revenue and Debt Service Deposits. The Bonds are not a debt or liability of the State or of any political subdivision of the State. The Bonds do not directly, indirectly, or contingently obligate the State or any political subdivision of the State to levy or to pledge any form of taxation or to make any appropriation for payment of the Bonds.

The CEA is required by the CEA Act and the Indenture to continue in existence for so long as any bonds of the CEA (including the Bonds) are outstanding. The CEA is not authorized to become a debtor in a case under the United States Bankruptcy Code or make an assignment for the benefit of creditors. The CEA is not permitted by California law to have a liquidator, receiver or conservator. The CEA believes that it cannot go out of existence other than by act of the California Legislature after all of the Bonds are no longer outstanding.

See “RISK FACTORS” concerning risks related to the occurrence of events of default and the reduction in or termination of the CEA’s underwriting activities.

SOURCES AND USES OF FUNDS

The estimated sources and uses of the proceeds of the Series 2014 Bonds are as follows:

SOURCES

Principal Amount

USES

Deposit to Claim-Paying Account

Underwriters' discount

TOTAL USES

POLICIES AND PREMIUMS

Policy Issuance and Service

The CEA provides only residential earthquake insurance policies, and only of the following types:

- Homeowners policies (insuring only individually-owned residential structures of not more than four dwelling units, including both houses and mobilehomes);
- Common-interest development (condominium) owners policies (insuring individual owners' interests in individually-owned condominiums and other common-interest-development residences); and
- Renters policies (insuring the personal property contents of rented residential units).

See "POLICIES AND PREMIUMS – Policy Coverage and Limits."

Under the CEA Act, the CEA is authorized to transact only residential earthquake insurance; the CEA does not issue commercial property insurance or condominium association master policies, or insure any other nonresidential risks. Administrative regulations adopted by the Insurance Commissioner specify procedures for ratemaking and forms approval, and define permissible coverage types and limits.

CEA policies provide coverage only for losses directly resulting from a single peril - an earthquake that commences during the policy period. Losses caused by other perils are not covered. Excluded perils (damages not covered) include, but are not limited to, fire, non-plumbing water damage (flood, tsunami, rain or overflows from bodies of surface water), landslide or other earth movement not directly resulting from a covered earthquake, volcanic eruption, or human-caused acts.

For policyholders who purchase a CEA policy shortly after an earthquake occurs or a series of earthquakes commences, the CEA policies contain provisions that effectively exclude coverage not only for claims arising from that pre-policy-period earth movement, but also for claims arising from aftershocks or other related shocks in that series during the 30 days after the policy is issued, even if those subsequent shocks occur during the policy period.

Participating Insurers are prohibited by the CEA Act from writing their own earthquake policies that provide coverage within the terms and limits of a CEA earthquake policy, though they may sell products that supplement or augment the earthquake insurance products provided by the CEA. If a California homeowner, condominium owner, mobilehome owner or renter has obtained a policy of residential property insurance from a Participating Insurer, that policyholder is entitled to purchase a CEA earthquake insurance policy subject only to the CEA's limited eligibility standards. Under the eligibility standards, the CEA must issue and renew an earthquake insurance policy if the structure has no pre-existing, non-cosmetic earthquake damage, and the policyholder has a companion policy of

residential property insurance from a Participating Insurer. Accordingly, though such factors are taken into account in setting and calculating insurance rates, the CEA does not decide whether to accept or reject a particular risk (i.e., choose to underwrite or not) based on seismic data, property location, and soil conditions.

CEA policies are marketed and serviced by the Participating Insurer that writes the underlying policy of residential property insurance. For the policies they originate, the CEA pays the Participating Insurer ten percent of gross written premium as producer compensation, which includes compensation for agent commissions. Participating Insurers receive six percent of the CEA base premium for operating costs, consisting of the written premium for the CEA policies received minus amounts attributable to claims expenses, risk-transfer, and other risk financing costs. Participating Insurers also receive reimbursement for claims services at nine percent of the net amount of the claims paid to the policyholder and are reimbursed for the costs of salvage and subrogation recognized as loss adjustment expenses. The CEA is prohibited from renewing, and is required to rescind or cancel a policy, if the property is no longer covered by an underlying policy of residential property insurance issued by the same Participating Insurer that sold the CEA policy. The CEA policy does not provide coverage in the event there is no eligible, underlying policy of residential property insurance in effect at the time of loss.

The CEA Act provides that the rights, obligations, and duties the CEA owes to its insureds are the same as those owed by an insurer to its insured under common law, regulations, and statutes. In any claim against the CEA based on one of its earthquake policies, the CEA Act provides further that the CEA may be liable for any applicable damages for a breach of the covenant of good faith and fair dealing by the CEA or its agents. See APPENDIX F – “THE CEA ACT.”

Policy Coverage and Limits

A CEA policy may only be issued to an applicant who has secured a companion policy of residential property insurance. A policy of residential property insurance is defined in California Insurance Code Section 10087. The CEA does not issue commercial property insurance, condominium association master policies, or insure any other non-residential risks.

The CEA policy defines earthquakes that occur during a “seismic event” as “one or more earthquakes that occur within a 360-hour period. The seismic event commences upon the initial earthquake, and all earthquakes or aftershocks that occur within the 360 hours immediately following the initial earthquake are considered for purposes of this policy to be part of the same seismic event.” The CEA policy requires that the “seismic event” must commence during the policy period; it does not cover losses from earthquakes, aftershocks or other shaking related to a seismic event that commenced before the inception (or start) of the policy.

CEA’s Standard Homeowners Policy Coverage

The CEA offers two types of coverage for homeowners and mobilehome owners: a standard Homeowners policy and (beginning in July 2012) a Homeowners Choice policy with increased premiums.

The CEA’s standard Homeowners policies include coverage for all of the following:

- Dwelling (Coverage A) - The cost, up to the policy limit, to repair or rebuild the insured dwelling structure up to the policy limit. The CEA limit of insurance is equal to the limit of insurance on the Participating Insurer’s companion Homeowners policy. Two dwelling deductibles are available, 10% or 15% of the insured value of the dwelling;

- Extensions to Dwelling (Coverage B) - provides coverage (in a combined single limit with Coverage A) for limited categories of extensions to dwellings:
 - Equipment and utility service structures, such as electrical or water lines, owned by the insured and on the property that affect the habitability of the dwelling;
 - Portions of any walkways, driveways, decks or patios necessary for pedestrian entry or exit to and from the insured dwelling; and
 - Bulkheads, piers, or retaining walls necessary for the structural integrity of the dwelling;
- Personal Property (Coverage C) - Damage to personal property, including debris removal, with a standard base limit of insurance of \$5,000, and optional higher limits up to \$100,000 at an additional premium; coverage of personal property begins after covered damage to the home exceeds the dwelling deductible;
- Loss of Use (Coverage D) - Additional living expense and loss of use of the property, with a standard base limit of insurance of \$1,500 and optional higher limits up to \$25,000 at an additional premium; there is never a deductible for Loss of Use coverage.

Homeowner's Choice Policy Coverage

Homeowner's Choice Policies offer policyholders the same types of coverage as the standard Homeowners policy, along with a choice in coverage and premium, allowing policyholders to purchase only the coverages they want.

The CEA's Homeowners Choice policy provides coverage in the following manner:

- The option to purchase only coverage for the Dwelling (Coverage A) and Extensions to Dwelling (Coverage B), with an option to purchase, in addition, Personal Property (Coverage C) or Loss of Use (Coverage D), or both. Coverages A and B are the only required coverages on the Homeowners Choice policy.
- There are separate deductibles for Dwelling (Coverage A) and Personal Property (Coverage C).
 - A separate deductible option of 15% or 10% is available for both Dwelling (Coverage A) and Personal-Property (Coverage C). The deductible is a percentage of the Dwelling or Personal-Property coverage limit.
 - The Personal Property (Coverage C) deductible is waived if the Dwelling (Coverage A) deductible is met by loss to covered structural property.

Common Interest Development (Condominium) Owners Policies

CEA condominium owners policies provide three coverage packages, which may be purchased separately or in combination:

- Option One - Building Property (Coverage A) - Coverage for damage to interior structural components and built-in fixtures, such as cabinets, built-in appliances and wall-to-wall carpeting that are part of the policyholder's individual residence unit. This coverage has a limit of insurance of \$25,000 and a deductible of \$3,750. The coverage includes an additional \$10,000 in building code upgrade coverage, for additional costs related to upgrades required by residential building codes in effect at the time of the earthquake.
- Option Two - Personal Property (Coverage C) and Loss of Use (Coverage D) - Coverage for damage to personal property with a deductible of \$750 regardless of limit selected. Personal-property coverage limits begin at \$5,000 and range up to \$100,000 for an additional premium. Debris removal coverage is included as an additional insurance (up to 5% of the limit of insurance, but not to exceed \$1,000). Loss of Use coverage has a base coverage limit of

\$1,500 and optional higher limits of up to \$25,000 for an additional premium. Loss of Use coverage never has a deductible, regardless of limit selected.

- Option Three - Loss Assessments (Coverage E) - Loss Assessment coverage assists in paying for the insured's share of certain assessments made against the policyholder by the condominium or homeowners association for the purpose of repairing earthquake damage to commonly owned parts of dwelling structures. Loss Assessments are covered to the extent that they are made as a result of a loss normally covered under the policy. Loss Assessments coverage has a limit of either \$25,000 (this limit is available only if the condominium unit is valued at \$135,000 or less), \$50,000 or \$75,000, depending on the level of coverage purchased by the insured. The deductible for Loss Assessments is 15% of the applicable limit of insurance. In the event the condominium association chooses not to repair covered earthquake damage, and the value of the policyholder's interest in the condominium is impaired as a result, this insurance also covers the loss in value of the policyholder's interest, up to the applicable limit of insurance.

Renters Policies

Renters policies provide no coverage for structures or other real property. CEA renters policies include both Personal Property and Loss of Use coverage.

- Personal Property (Coverage C) - Coverage for damage to personal property with a standard base limit of insurance of \$5,000, and optional higher limits up to \$100,000 for an additional premium. Personal-property coverage has a deductible of \$750 regardless of limit selected; and
- Loss of Use (Coverage D) - Coverage for additional living expense and loss of use with a standard base limit of insurance of \$1,500, and optional higher limits up to \$25,000 for an additional premium. There is no deductible regardless of limit selected.
- Sublimits for Personal Property (Coverage C)
 - \$3,000 for damage to electronic-data processing equipment, such as computers and printers
 - \$250 for money, bank notes, coins, and medals
 - \$1,000 for business property
 - \$250 for securities, checks, traveler's checks and other negotiable instruments.

POLICY CLAIMS

No catastrophic earthquake has occurred in California since the CEA first accepted risk on December 1, 1996. A number of moderate earthquakes have occurred that, in the aggregate as of June 30, 2014, have resulted in the CEA having paid 186 claims totaling approximately \$4.21 million. On August 24, 2014, a moderate earthquake occurred south of Napa, California. Policyholder claims are being received and processed. The CEA does not expect its claim payments to policyholders and loss adjustment expenses relating to that earthquake to exceed \$3.5 million. The following chart presents claim payments to policyholders as of August 31, 2014.

Event Name	Magnitude	# of Paid Claims	Paid Claims	Loss Adjustment Expense Paid	Total Paid Losses & Loss Adjustment Expense
Chino	4.3	1	\$ 1,385.72	\$ 124.71	\$ 1,510.43
San Juan Bautista	5.3	1	161,204.93	13,643.13	174,848.06
Redding	5.2	1	4,029.72	362.67	4,392.39
1998 Minor Quakes	Various	2	4,199.20	377.93	4,577.13
Hector Mine	7.0	25	137,361.81	12,362.47	149,724.28
1999 Minor Quakes	Various	1	4,037.26	363.35	4,400.61
Napa	5.2	15	278,130.07	25,031.71	303,161.78
Ferndale	5.4	1	34,764.54	3,128.79	37,893.33
2001 Minor Quakes	Various	1	52,896.82	4,760.70	57,657.52
West Hollywood	4.2	10	67,044.15	6,033.94	73,078.09
2002 Minor Quakes	Various	1	8,361.24	752.51	9,113.75
San Simeon	6.4	84	2,692,628.02	242,339.74	2,934,967.76
Parkfield	6.0	1	7,032.59	632.93	7,665.52
Chatsworth	4.5	1	7,813.88	703.24	8,517.12
Alum Rock	5.6	1	6,149.20	553.42	6,702.62
Chino Hills	5.4	8	156,781.38	14,110.29	170,891.67
Calexico	5.9	1	275.88	24.83	300.71
2009 Minor Quakes	Various	2	8,627.67	776.49	9,404.16
Ferndale	6.5	3	23,901.50	2,151.13	26,052.63
Baja California Mexico	7.2	17	81,066.58	7,296.00	88,362.58
2010 Minor Quakes	Various	1	225,000.00	-	225,000.00
Brawley	5.3	2	23,833.24	2,145.00	25,978.24
2012 Minor Quakes	Various	2	7,819.09	703.72	8,522.81
Greenville	5.7	1	1,500.00	135.00	1,635.00
Westwood	4.4	3	21,400.00	1,929.63	23,369.98
La Habra	5.1	99	325,504.55	29,295.42	354,799.97
American Canyon	6.0	0	-	-	-
Total		285	\$432,749.39	\$369,738.75	\$4,712,528.14

Source: California Earthquake Authority.

“Magnitude” means the Richter scale magnitude assigned by the United States Geological Survey.

“# of Paid Claims” is a numeric count of the claims that received a payment from the CEA for damage caused by a particular earthquake.

“Paid Claims” means the total dollar amount of all claims paid by the CEA to policyholders for a particular earthquake.

“Loss Adjustment Expense Paid” is the amount paid to Participating Insurers for handling claims (9% of paid claims).

CEA's Risk-Management Philosophy

The CEA's goal is to be able to pay one hundred percent of covered claims and still have sufficient resources to continue operating as a viable insurer. The CEA strives to have both accuracy and balance in its claim-paying structure - accuracy, from a careful consideration of modeled loss output from the major earthquake models, and balance, both from the diversification of its claim-paying sources and from the weighing of the tradeoff between coverage and sustainability.

In analyzing the earthquake risk in its portfolio, the CEA uses three earthquake modelers: EQECAT, Inc. ("EQECAT"), AIR Worldwide Corporation ("AIR"), and Risk Management Solutions, Inc. ("RMS").

For its 2014 claim-paying structure, the CEA has used a weighted average of the modeled loss output from EQECAT (fifty percent), AIR (twenty-five percent), and RMS (twenty-five percent), to analyze its risk (with certain adjustments for demand surge and loss adjustment expense). This same approach was used for the CEA's 2013 claim-paying structure.

For 2014 the CEA has set minimum and maximum aggregate claim-paying levels between 1-in-450 and 1-in-550 year return loss period. This means that the CEA projects that it will have claims-payment sources in 2014 at least sufficient to pay losses that it would sustain from a 1-in-450-year loss in 2014 and still continue operating as a viable insurer. These are projections and actual results may differ substantially.

Loss modeling is subject to risks and uncertainties, including the uncertainty of the incidence and severity of earthquakes; loss models are not designed to and cannot predict the occurrence of earthquakes. The actual extent of losses to the CEA may differ materially from that indicated by loss modeling. Modeling earthquake losses is an inherently subjective process, involving the assessment of scientific and engineering information from a number of sources and that may not be complete or accurate. A significant amount of uncertainty exists in modeling earthquakes, including earthquake severity, recurrence intervals and ground-shaking estimates, site-specific soil conditions, building vulnerabilities, building and contents replacement costs, loss expenses, risk limits and locations, insurance-policy terms, and post-event demand surge (earthquakes may cause increased demand, and therefore higher costs, for building materials, construction labor, inspection services, temporary housing and insurance-claim services).

The science and engineering that underlie earthquake-loss estimation change often, and for that reason, the CEA sponsors significant scientific and engineering research and closely monitors modeling developments. After new scientific information has gone through peer review, the CEA works with EQECAT to model the potential impacts of any new scientific or research developments on CEA risk and rates. CEA also works with RMS and AIR on new scientific information to gain a better understanding of the different views of the impact from the various modelers.

Loss Modeling and Rate Setting

As set forth above, the CEA uses earthquake loss modeling to determine the amount of loss payment sources that it needs. In addition, the CEA uses earthquake loss modeling data as input in developing its premium rates, which are required by the CEA Act to be actuarially sound. The CEA is authorized by the CEA Act to use the output of earthquake loss modeling as a basis for rate setting.

The models estimate earthquake frequency and severity, taking into account soil type and the location, age, and construction type of the CEA's portfolio of insured properties. As output, the model

estimates earthquake loss likely to be sustained by groups of insured CEA properties organized by the United States Postal Service ZIP Code. The CEA's Chief Actuary and staff interpret and aggregate the modeled loss costs into rating territories based on geographic and soil characteristics, each of which is assigned a specific, indicated premium base-rate. The base-rate is augmented by adjustments for other structural attributes such as number of stories, construction year, and structure foundation.

The EARLE System

The Insurance Commissioner's regulations (Title 10 of the California Code of Regulations, Section 2697.8), reads in pertinent part:

Upon the occurrence of any earthquake event in the State [of California] that is likely to give rise to significant covered losses, the staff of the [California Earthquake] Authority shall, within seven (7) calendar days of the date of the earthquake event, cause to be created a scientific model of anticipated, covered losses from that event.

This requires the CEA to be able to determine, with reasonable confidence, the estimated covered losses to the CEA portfolio from a significant earthquake in California within seven days. The purpose of this action is so the CEA can make an informed decision regarding whether pro-rating of claim payments would be required and, if so, to what extent. The CEA also uses this information in calculating the probable loss to the CEA.

The CEA, with assistance from Exponent Inc., has developed a proprietary system called EARLE. The EARLE system takes a USGS ShakeMap and superimposes the CEA geocoded portfolio of insureds. The system generates an estimate of damages by looking at the location of each individual insured property compared to the instrumented shaking and the seismic data for each location. The system also incorporates damage estimates from three earthquake-modeling companies and provides real-time seismic instrumentation information rather than information uploaded by the USGS to its Web sites. This will significantly reduce uncertainty in the models.

In addition, the EARLE system includes a validation process where a credible statistical sample of dwellings are physically inspected, and the actual damage estimates are then used to validate outputs of the EARLE system and to recalibrate the damage function of the CEA modelers. This further refines the EARLE output.

Potential Losses to CEA

If claims and claim expenses exceed the CEA's available resources, the CEA would be forced to pay claims on a pro rata or installment basis. While pro rata or installment payments are undesirable, they are expressly contemplated by the CEA Act, and one or both will likely be necessary if claims and claim expenses exceed available resources.

If the CEA proposes to pay claims on a pro rata basis or in installments, the CEA Act would require the Insurance Commissioner to order the CEA to cease renewing or accepting new earthquake insurance policies. That would give the Insurance Commissioner time to evaluate the CEA's situation. The Insurance Commissioner would have to decide, among other things, whether the CEA should be permitted to remain in business. The order would not prevent the CEA from collecting policyholder premiums for outstanding policies and paying debt service on the Bonds from revenues from those policies. For a discussion of the consequences of such an order, see "RISK FACTORS – Payment Deficiency" and "SECURITY FOR THE BONDS—Events of Default and Limitations on Remedies."

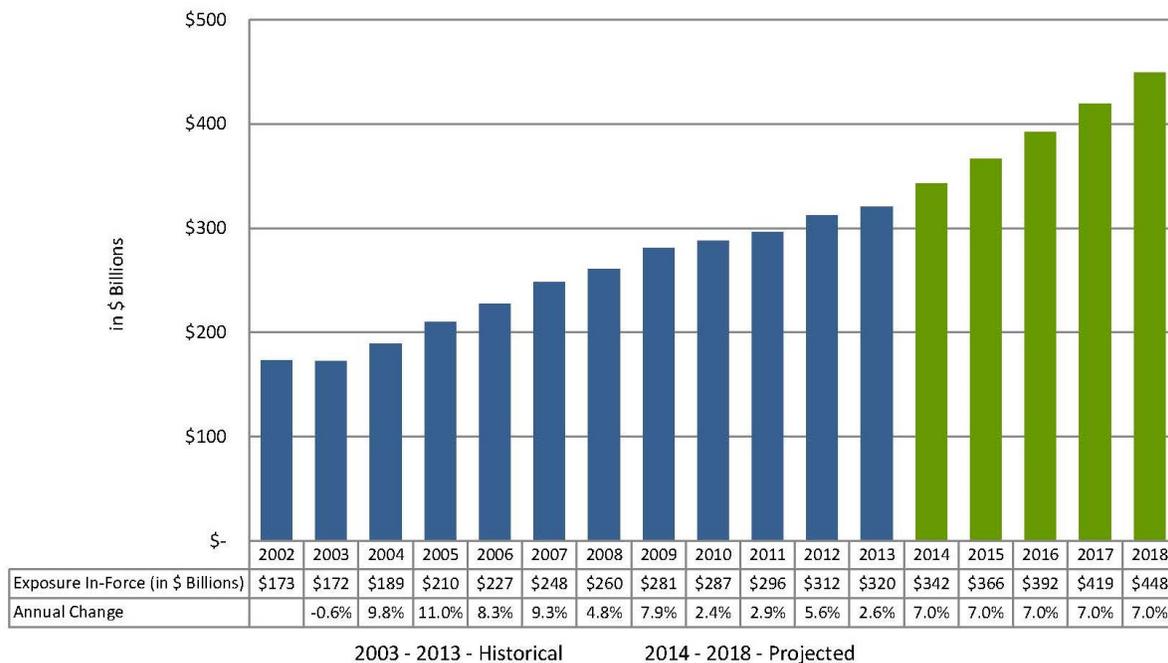
The Insurance Commissioner’s regulations (Title 10 of the California Code of Regulations, Section 2697.8), require the payment plan to ensure the maintenance of sufficient capital to ensure the continued operation of the CEA for the purpose of paying claims; discharging the CEA’s debts, including the Bonds and other bonded indebtedness; and paying or providing for other obligations of the CEA.

Projections

The CEA uses a proprietary advanced computer model to simulate the CEA’s financial performance by measuring and quantifying risks to which it is believed to be subject under various loss scenarios. The model is also used to evaluate CEA capital requirements, help determine reinsurance and securitization strategies, and assess the impacts of changing conditions, such as those resulting from policyholder growth and changes in the cost of repairing or replacing insured property. Importantly, these financial-risk management techniques help the CEA assess its reinsurance and other risk-financing arrangements, as well as providing a basis for devising strategies to ensure the viability of the CEA after a catastrophic earthquake.

The following chart depicts the CEA’s estimated historical and projected exposure to claims. The CEA’s estimated exposure to claims has risen faster than the policy count (depicted in the chart at page __) due primarily to increases in the cost of repairing or replacing insured properties.

California Earthquake Authority Historical and Projected Exposure



Source: California Earthquake Authority. These amounts are unaudited.

Claims Adjustment and Payment of Claims

Participating Insurers are contractually responsible for the processing and adjusting of all claims made under CEA policies. Claims under CEA policies are to be processed in accordance with the CEA's Claim Manual, which is approved by the CEA Governing Board and Insurance Commissioner and cannot be changed without their approval. An updated Claim Manual was approved by the Insurance Commissioner in December 2011 and went into effect January 2012. California law and regulations issued by the Insurance Commissioner specify procedures to be followed when handling and adjusting claims.

Each Participating Insurer is responsible for its own catastrophe planning and claims-personnel staffing and training. The CEA reimburses each Participating Insurer for its share of the expense of adjusting CEA claims at nine percent of net claims paid, regardless of whether the Participating Insurer was obligated to spend more than that to adjust any individual claim. For closed claims without payment, the CEA makes no loss adjustment expense reimbursement to the Participating Insurer.

In performing claim-adjusting services, Participating Insurers are required by their contract with the CEA and the Insurance Commissioner to act in good faith and in the best interest of the CEA. They must perform all claim-handling services with no less care or diligence than they would in the conduct of their own insurance business. Participating Insurers are permitted to use their own claim-handling practices except where the practices conflict with CEA procedures, as set forth in the CEA's Procedures and Accounting Manual, Plan of Operations, and Claim Manual. In case of any such conflict, the CEA's procedures supersede the Participating Insurers claim-handling practices. The CEA has contracted with a claims administrator to advise the CEA in field-adjusting matters and to assist in the claims-adjusting compliance review of the Participating Insurers.

The CEA works with Participating Insurers to train agents and adjusters. In 2012, CEA trained 1,989 agents and 1,809 adjusters; in 2013 the CEA trained 1,646 agents and 1,269 adjusters. To increase the number of agents and adjusters trained, the CEA provides online, in-person, company sponsored, or Webinar training sessions. CEA also conducts an annual meeting for Participating Insurer claim management staff accountable for responding to claims.

In order to determine claims-adjusting compliance by Participating Insurers, the CEA conducts claims reinspections and claim-file audits.

- Reinspections. Promptly after an earthquake occurs, to make certain that claims are being handled in a prompt, fair, and consistent manner, the CEA, in conjunction with its claims consultant (Crawford & Company), conducts claim re-inspections. Re-inspections include an on-site re-inspection and claimant interview. Subsequent inspections seek to confirm, and re-establish, if necessary, consistent claims handling among Participating Insurers.
- Claim-file audits. About one year after a catastrophic earthquake, the CEA conducts full-scale, detailed claim-file audits to determine whether Participating Insurers have appropriately applied CEA coverage and followed CEA Claims Manual procedures.

Following an earthquake event, CEA's Chief Actuary works with staff to establish sufficient reserves needed to satisfy claims. The amount of reserves needed are estimated using policy claim information, estimated claims incurred but not reported, and estimates of expenses for investigating and adjusting all incurred claims. The reserve amount is updated as more policy claim information becomes available.

SOURCES OF FUNDS TO PAY CLAIMS

General

The CEA had approximately \$9.95 billion in claim-paying capacity on June 30, 2014, the sources of which are depicted in the following table. The sources are depicted in layer form to represent the order of funds used to pay claims. Massive losses on account of policyholder claims likely would result in a restructuring of the CEA's claim-paying capacity and the sources available to operate and pay claims. For example, if losses exhausted Available Capital and reduced the Risk Transfer layer, the CEA might use amounts in the Revenue Bond Proceeds Layer to cover its operating expenses as well as the portion of future losses not covered by new reinsurance policies.

**California Earthquake Authority
 Claim-paying Capacity Without New Revenue Bonds
 As of June 30, 2014**



Source: California Earthquake Authority

The following description of these sources of funds to pay claims does not purport to be comprehensive or definitive. It is intended as background information only. The CEA currently has four sources of funds to pay claims.

Available Capital Layer

“Available Capital” consists of all money and assets held in the California Earthquake Authority Fund, except loss reserves, loss adjustment expense reserves, and unearned premium reserves. Available Capital includes proceeds of investment of such moneys and assets, however, it does not include unearned premium, proceeds of reinsurance or the proceeds of bonds issued by the CEA. The CEA’s Available Capital, as of December 31, 2013, totaled \$4.48 billion. Available Capital is the expected source of the transfers of Debt Service Deposits to the Trustee.

Risk-Transfer Layer

CEA’s risk-transfer layer is currently made up of two types of reinsurance: traditional and transformer. Traditional reinsurance is provided to the CEA under reinsurance contracts with reinsurers that meet the CEA’s credit and other quality standards for reinsurers. Transformer reinsurance is provided to the CEA under fully-collateralized reinsurance contracts with reinsurers that in turn, with the CEA’s permission, transfer the risk to the capital markets through catastrophe bond issues. Both types of reinsurance are described below under “Risk Transfer.”

As of December 31, 2013, CEA had \$3.115 billion in risk-transfer reinsurance, consisting of \$2.515 billion in traditional reinsurance and \$600 million in transformer reinsurance.

The CEA has no assurance that it can continue to obtain adequate reinsurance coverage on acceptable terms. Reduced availability of reinsurance could severely impact the CEA under its current financial structure. See “RISK FACTORS – Payment Deficiency.”

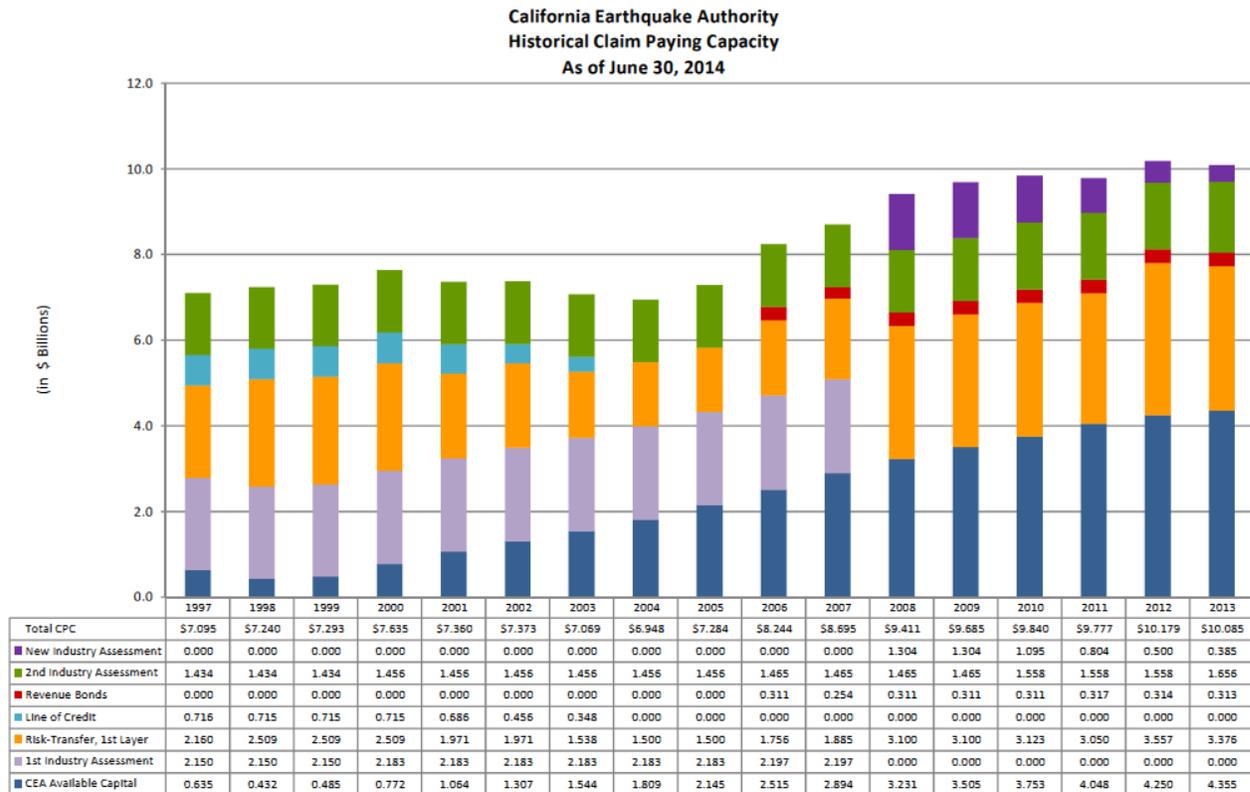
Revenue Bond Proceeds Layer

Net proceeds of the Series 2006 Bonds were deposited in the Claim-Paying Account concurrently with the issuance of the Series 2006 Bonds. The net proceeds of the Series 2014 Bonds also will be deposited in the Claim-Paying Account. See “SECURITY FOR THE BONDS – California Earthquake Authority Fund; Claim-Paying Account” and “SOURCES AND USES OF FUNDS.” Amounts in the Claim-Paying Account are to be applied solely for the payment of policyholder claims, however, if Available Capital has been exhausted and all policyholder claims have been paid or provided for, the CEA may transfer amounts in the Claim-Paying Account to another account and apply the funds for any lawful purpose, including, at its option, payment of Debt Service Deposits.

Industry-Assessment Layer

The CEA has the right under the CEA Act to make assessments on its Participating Insurers of up to an aggregate of \$1.967 billion to pay policyholder claims and to return the amount of Available Capital to \$350 million if policyholder claims and claim expenses paid by CEA due to earthquake events exhausts all other available funds. See “SOURCES OF FUNDS TO PAY CLAIMS – Industry Assessments.”

The following is a graphical representation of the CEA’s claim-paying capacity as of December 31, 2013:



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

Limited Sources of Funds. The sources of funds listed above are the only sources of funds to pay claims that have been arranged to date by the CEA. See “RISK FACTORS – Limited Sources of Funds to Pay Claims.”

Funds held in the CEA’s Earthquake Loss Mitigation Fund are by statute not available to pay policyholder or other claims against the CEA. The balance of the Mitigation Fund at December 31, 2013, was approximately \$24.4 million. The Mitigation Fund was created by the CEA Act, which requires the CEA to annually transfer an amount equal to the lesser of 5% of the CEA’s investment income or \$5 million to the Mitigation Fund if deemed actuarially sound by a consulting actuary. The CEA Act requires the fund to be used to supply grants and loans or loan guarantees to dwelling owners who wish to retrofit their homes to protect against earthquake damage. Dwelling owners are not required to be CEA policyholders. The CEA and the Governor’s Office of Emergency Services have entered into a joint exercise of powers agreement to create the California Residential Mitigation Program to carry out a joint mitigation program funded by the CEA’s Mitigation Fund. The program recently completed its pilot stage and is scheduled to be expanded.

Shortage of Funds. If at any time the CEA Governing Board determines that all the CEA’s Available Capital may be exhausted and no source of additional funds is or will be available to the CEA to pay policyholder claims, the Governing Board is required to draw up and present to the Insurance Commissioner a plan to pay policyholder claims on a pro rata basis or in installment payments. If the CEA proposes to pay claims on a pro-rata basis or in installments, the CEA Act would require the

Insurance Commissioner to order the CEA to cease renewing or accepting new earthquake insurance policies. For a discussion of the consequences of such an order, see “RISK FACTORS – Payment Deficiency” and “SECURITY FOR THE BONDS – Events of Default and Limitations on Remedies.” The State of California has no liability for payment of claims in excess of funds available to the CEA under the CEA Act.

Risk Transfer

The CEA’s traditional reinsurance program is split into three main programs: the January Program, consisting of reinsurance contracts effective January 1 through December 31; the April Program effective from April 1 through March 31; and the August Program effective from August 1 through July 31.

The CEA has historically purchased reinsurance in the global reinsurance marketplace as its most significant method of risk-transfer. The CEA has employed three reinsurance intermediaries to help the CEA in analyzing the global reinsurance market, assessing the creditworthiness of potential reinsurers and determining and negotiating the best available terms for reinsurance.

The CEA has detailed guidelines in place for its risk transfer program. The guidelines recommend best business practices for the CEA to access the traditional reinsurance market as well as alternative risk transfer markets, such as the alternative risk transfer products funded by the sale of catastrophe bonds and collateralized reinsurance issued by institutional investors (such as hedge funds and pension plans) that are not traditional reinsurers. The guidelines seek to accomplish four goals, in the following order of priority: to minimize the risk to the CEA that a provider might fail to pay claims under a reinsurance contract because of the provider’s financial condition; to encourage the CEA to secure claim-paying capacity from providers and use products that, together, can endure all market conditions; to enable the CEA to select the most efficient claim-paying capacity, including rates on line that are competitive with other sources of claim-paying capacity; and to provide for reasonable flexibility by allowing for alternative products and stable sources of claim-paying capacity that are more cost-effective. The guidelines list steps the CEA is to consider to accomplish these goals. The guidelines require CEA staff to prepare and submit to the CEA Governing Board for its approval, on at least an annual basis, a risk transfer strategy that sets forth the basic risk transfer goals and benchmarks for the ensuing year.

Industry Assessments

In addition to the initial capital contributions required of Participating Insurers upon their joining the CEA, Participating Insurers are subject to post-earthquake assessments (the “Industry Assessment Layers” or “IALs”). Currently, the CEA has the ability to assess its Participating Insurers in two separate “layers.” These two layers are commonly referred to as the “2nd IAL” and “New IAL.” See “SOURCES OF FUNDS TO PAY CLAIMS – General – *Industry-Assessment Layer*.”

Assessments can be levied under the 2nd IAL to pay policyholder claims and increase Available Capital.

The New IAL can be levied for the same purposes once the 2nd IAL has been exhausted.

Both the 2nd IAL and the New IAL are required to be reduced by provisions of the CEA Act. As of April 2014, the CEA’s aggregate assessment capability decreased from \$2.041 billion to \$1.967 billion, consisting of \$1.656 billion under the 2nd IAL and \$312 million under the New IAL.

The 2nd IAL is subject to annual reductions once the CEA’s Available Capital reaches \$6 billion in the last 90 days of a calendar year.

The New IAL is subject to both a five percent annual reduction and a reduction in an amount equal to the CEA’s “retained earnings differential,” which is calculated each April pursuant to Section 10089.33 of the CEA Act as the positive dollar amount difference between the CEA’s positive one-year retained earnings growth for the preceding calendar year minus the CEA’s capacity growth for the preceding calendar year, both calculated as of December 31st of the preceding year. The retained earnings differential for 2013 was a negative \$128 million, so the reduction in the New IAL was limited to the five percent annual reduction (\$89 million).

Assessments on Participating Insurers are required to be levied in proportion to each Participating Insurer’s share of the CEA’s total gross written premium. Each Participating Insurer’s CEA market share for purposes of calculating assessments is based on its CEA market share as of the end of the prior calendar year.

The following table shows the CEA market share of each Participating Insurer as of December 31, 2012 and December 31, 2013.

California Earthquake Authority Participating Insurers as of December 31, 2013

Participating Insurer	2012 CEA Market Share	2013 CEA Market Share
State Farm Insurance	33.834075%	34.461203%
Allstate Group ¹	14.843447%	13.163925%
United Services Automobile Association (USAA) ³	12.737147%	12.806076%
Farmers Insurance Group	12.218926%	12.035379%
Interinsurance Exchange of the Automobile Club ²	6.511738%	6.542736%
Safeco Insurance Company of America	5.698508%	6.036173%
CSAA ²	4.546632%	4.763990%
Mercury Casualty Company	2.958040%	3.179634%
Nationwide	2.479970%	2.423122%
Liberty Mutual	2.618275%	2.346933%
California FAIR Plan	0.795467%	0.764344%
Encompass	0.000000%	0.689978%
Foremost Property and Casualty Insurance Company	0.512860%	0.532725%
Homesite Insurance Company of California	0.121081%	0.120807%
Armed Forces	0.108350%	0.105016%
MAPFRE	0.000000%	0.013278%
Golden Eagle	0.008814%	0.009336%
Commerce West Insurance Company	0.006669%	0.005344%
Total	100.00%	100.00%

1 Allstate-Encompass was combined with Allstate Group

2 ACA was combined with CSAA

3 Garrison was combined with USAA

Source: California Earthquake Authority

Deficiency in Funds to Pay Claims

If at any time the CEA Governing Board determines all of the CEA's Available Capital may be exhausted and no source of additional funds, such as assessments, reinsurance, or bond proceeds, will be available to the CEA to pay policyholder claims, the CEA Governing Board is required to draw up and present to the Insurance Commissioner a plan to pay policyholder claims on a pro rata basis or in installment payments. If the CEA found it necessary to propose to the Insurance Commissioner a plan to pay policyholder claims on a pro rata basis or in installment payments, the Insurance Commissioner would be required by the CEA Act to order the CEA to cease renewing and accepting new earthquake insurance policies, and as a result policyholder premiums would cease, at least for the duration of the Insurance Commissioner's order. While the CEA has developed statistical models showing the probability of being forced to pay claims on a pro rata basis, such modeled indications are inherently imprecise predictors of future events. Any reduction in one of these sources could adversely affect the CEA's ability to conduct its insurance business, the CEA's finances, and the CEA's financial-strength rating and credit rating.

Policyholder Surcharges

The CEA has the statutory authority to issue up to \$730 million in bonds payable from surcharges imposed on CEA policyholders. The maximum amount of surcharges may not exceed debt service on the surcharge-backed bonds. The surcharge may not exceed 20 percent of the annual basic residential earthquake insurance premium in any one year for CEA policy being surcharged. The imposition of surcharges on policyholders would require action by the CEA Governing Board and approval of the Insurance Commissioner. The CEA has no plans at this time to issue bonds payable from such surcharges.

LITIGATION AND ADMINISTRATIVE PROCEEDINGS

No litigation is pending against the CEA (with service of process on the CEA having been accomplished) in any federal or state court, nor is the CEA a party in any administrative proceeding pending before any administrative body, that (i) seeks to restrain or enjoin the sale or delivery of the Series 2014 Bonds or the performance by the CEA of the purchase contract for the Series 2014 Bonds, (ii) challenges the constitutionality, validity or enforceability of the Indenture, the pledge of Pledged Revenue, or any other document or approval necessary to the issuance of the Series 2014 Bonds, (iii) challenges the existence, organization or powers of the CEA to adopt, execute and deliver the Indenture or perform the CEA's obligations thereunder, or (iv) challenges the constitutionality or validity of the CEA Act or the powers of the CEA thereunder.

There is not now pending, or known to the CEA's general counsel to be threatened, any material litigation against the CEA or any material administrative proceeding before the California Department of Insurance seeking sanctions or penalties against the CEA.

See "SECURITY FOR THE BONDS – Rate Covenant" for information concerning administrative proceedings that could be invoked in connection with a rate application filed by the CEA with the Insurance Commissioner.

RISK FACTORS

This section of the Official Statement describes certain risk factors that may affect the payment of and security for the Bonds. Potential investors should consider, among other matters, these risk factors in connection with any purchase of the Series 2014 Bonds. The following discussion is not meant to present an exhaustive list of the risks associated with the purchase of any Series 2014 Bonds (and other

considerations that may be relevant to particular investors) and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors, along with all other information in this Official Statement, in evaluating whether to purchase the Series 2014 Bonds.

Single Type of Insurance

The CEA Act authorizes the CEA to sell policies of basic residential earthquake insurance and states that the CEA is not authorized to transact any other type of insurance business. This proscription against diversification means the CEA has no other source of insurance-premium income to offset adverse financial developments in its earthquake-insurance business.

If a California homeowner (including an owner of a condominium unit or a mobilehome owner) or renter has obtained a policy of residential property insurance from a Participating Insurer, that policyholder is entitled to purchase a CEA policy of basic residential earthquake insurance, subject only to the CEA's brief eligibility standards. Accordingly, the CEA does not decide whether to accept or reject a particular risk (i.e., underwrite) based on seismic data, property location, soil conditions, or the like; the CEA must issue and renew the policy if the structure has no pre-existing, non-cosmetic earthquake damage and the policyholder has an eligible companion policy of residential property insurance from a Participating Insurer.

Limited Sources of Funds to Pay Claims

The sources of funds described under "SOURCES OF FUNDS TO PAY CLAIMS" are the CEA's only sources of funds to pay claims. One of those sources, the authority to levy assessments on the Participating Insurers, is required to be reduced by provisions of the CEA Act. This reduction of assessment authority will reduce the CEA's claim-paying capacity to the extent the CEA's other sources of funds to pay claims do not offset this reduction. Such a net reduction in the CEA's claim-paying capacity could adversely affect the CEA's ability to conduct its insurance business, the CEA's finances, and the CEA's financial-strength rating and credit rating. See "SOURCES OF FUNDS TO PAY CLAIMS – General – *Industry-Assessment Layer*" and "– Industry Assessments."

Payment Deficiency

In the Indenture, the CEA has covenanted to apply its Pledged Revenue to pay debt service on the Bonds. Pledged Revenue consists primarily of Pledged Policyholder Premiums.

It would be possible for the CEA to lack funds to pay the Bonds under the following circumstances. If, as a result of massive policyholder claims (see "POLICY CLAIMS – Projections"), the CEA found it necessary to propose to the Insurance Commissioner a plan to pay policyholder claims on a pro rata basis or in installment payments, the Insurance Commissioner would be required by Section 10089.35 of the CEA Act to order the CEA to cease renewing and accepting new earthquake insurance policies, and as a result policyholder premiums would likely decline, at least for the duration of the Insurance Commissioner's order, which in turn could result in a debt service payment deficiency. While the CEA has developed statistical models showing the probability of its being forced to pay claims on a pro-rata basis, such modeled indications are inherently imprecise predictors of future events. See also "Loss-Modeling Uncertainty," below.

The CEA Act requires, in substance, that the Insurance Commissioner shall not, directly or indirectly, when exercising his regulatory authority, impede or interfere with, but shall affirmatively take all necessary steps to effect, the full and timely payment of debt service on the Series 2014 Bonds, the

pledge of Pledged Revenue as security for the Series 2014 Bonds, and the application of Pledged Revenue to pay the Series 2014 Bonds in accordance with the Indenture. However, the CEA does not believe that this requirement would preclude the Insurance Commissioner from ordering the CEA to cease renewing and accepting new earthquake insurance policies under the circumstances described in the preceding paragraph. See APPENDIX F – “THE CEA ACT.” The Insurance Commissioner’s regulations require any plan to pay policyholder claims on a pro rata or installment payment basis to ensure the maintenance of sufficient capital to ensure the continued operation of the CEA for the purpose of paying claims; discharging the CEA’s debts, including the Bonds and other bonded indebtedness; and paying or providing for other obligations of the CEA.

The enforceability of the obligation of each Participating Insurer to remit Pledged Policyholder Premiums to the CEA and the Trustee is subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations in California and other states on legal remedies against insurers. Accordingly, there may be circumstances under which a Participating Insurer does not remit Pledged Policyholder Premiums to the CEA and the Trustee in full or on a timely basis.

Dependence Upon Reinsurance

Since its inception, the CEA has purchased, on average, over \$2.4 billion of risk-transfer capacity annually with an annual average expenditure of \$198 million, and has paid an aggregate of nearly \$3.5 billion in risk-transfer premiums through December 31, 2013.

The CEA purchases large limits of catastrophe reinsurance coverage and believes that it is one of the top five purchasers of catastrophe reinsurance in the world. The CEA has no assurance that it can continue to obtain adequate reinsurance coverage on acceptable terms. Permanently reduced availability of reinsurance could severely reduce the CEA’s claim-paying capacity under its current financial structure, thereby limiting its ability to conduct its business. The CEA’s claim-paying ability also would be adversely affected if reinsurers fail to perform under their reinsurance contracts with the CEA.

Loss-Modeling Uncertainty

The CEA uses loss modeling in several aspects of its business, including the development of premium rates. Loss modeling is subject to risks and uncertainties, including the uncertainty of the incidence and severity of earthquakes; loss models are not designed to and cannot predict the occurrence of earthquakes. The actual extent of losses to the CEA may differ materially from that indicated by loss modeling. Modeling earthquake losses is an inherently subjective process, involving the assessment of scientific and engineering information from a number of sources and that may not be complete or accurate. A significant amount of uncertainty exists in the earthquake events being modeled, including earthquake severity, recurrence intervals and ground-shaking estimates, site-specific soil conditions, building vulnerabilities, building and contents replacement costs, loss expenses, risk limits and locations, insurance-policy terms, and post-event demand surge (earthquakes may cause increased demand for building materials, construction labor, inspection services, temporary housing and insurance-claim services). See “POLICY CLAIMS – Loss Modeling and Rate Setting.”

Right of Participating Insurers to Withdraw

Participating Insurers that want to withdraw from the CEA may do so on 12 months’ written notice to the CEA. If a noticed withdrawal would reduce the remaining CEA participants’ cumulative California residential property insurance market share to less than 65 percent of the total California

residential property insurance market, Section 10089.19 of the CEA Act requires the Insurance Commissioner to recommend to the Legislature whether to continue or terminate the CEA. The cumulative California residential property insurance market share of all Participating Insurers is currently approximately 73.4 percent. Since the inception of the CEA, three insurers have withdrawn from the CEA. The withdrawing insurers were writing an insignificant portion of the CEA's book of business (less than 400 policies). Insurers that withdraw are not entitled to any refund of capital contributed to the CEA and must continue to offer earthquake insurance renewal and new coverage to their customers but from a non-CEA source. While the CEA is required by Section 10089.22 of the CEA Act and the Indenture to continue in existence for so long as any bonds of the CEA (including the Bonds) are outstanding, the announcement of plans to terminate the CEA could adversely affect the business and Pledged Revenue of the CEA.

Termination of the CEA

The CEA is required by Section 10089.22 of the CEA Act and the Indenture to continue in existence for so long as any bonds of the CEA (including the Bonds) are outstanding. The CEA is not authorized to become a debtor in a case under the United States Bankruptcy Code or make an assignment for the benefit of creditors. The CEA is not permitted by California law to have a liquidator, receiver or conservator. The CEA believes that it cannot go out of existence other than by act of the California Legislature after all of the bonds are no longer outstanding. However, other provisions of the CEA Act contemplate that CEA operations could be curtailed, even while bonds are outstanding. As noted above under "Payment Deficiency," under certain circumstances the Insurance Commissioner could order the CEA to cease renewing and accepting new earthquake insurance policies, and as a result Pledged Policyholder Premiums would cease and no longer constitute a source of Pledged Revenue, which in turn could result in a debt service payment deficiency.

State Legislation or Action

The CEA Act provides that the State pledges to and agrees with the holders of CEA bonds that the State will not limit, alter, or restrict the rights vested in the CEA by the CEA Act to fulfill each pledge of revenues and any other terms of any agreement made with or for the benefit of the holders of CEA bonds or in any way impair the rights or remedies of the holders of CEA bonds. This provision of the CEA Act affords limited but not complete protection for the Owners of Bonds against amendment of the CEA Act or actions that adversely affect Bondholders by legislation, action by the Governor under the California Emergency Services Act (Chapter 7, Division 1, Title 2 of the California Government Code), or voter initiative. Under California law, the electorate has the right, through its initiative powers, to propose statutes as well as amendments to the California Constitution. Generally, any matter that is a proper subject of legislation can become the subject of an initiative and be submitted to voters at the next general election.

Owners of the Bonds are entitled to the benefit of the prohibitions in Article I, Section 10, of the Constitution of the United States (the "Contract Clause") against a state's impairment of the obligation of contracts. The prohibition, although not absolute, is particularly strong when applied to the State's attempt to evade its own obligations. Similar protections are afforded by Article I, Section 9, of the California Constitution.

Under applicable law, the State must justify the exercise of its inherent police power to safeguard the vital interests of its people before the State may alter the CEA Act, the Indenture or the rights and remedies of Bondholders in a manner that would substantially impair the rights of Bondholders. In order to do so, the State must demonstrate a significant and legitimate public purpose, such as the remedying of a broad and general social or economic problem. In the event that the State so demonstrates a significant

and legitimate public purpose, the State must also show that the impairment of the Bondholders' rights is reasonable and appropriate to the public purpose justifying the legislation's adoption.

Nonetheless, a repeal, amendment or suspension of, or moratorium on, provisions of the CEA Act, the Indenture or the rights and remedies of Bondholders could be sought or adopted, even if such repeal, amendment, suspension or moratorium might constitute a violation of the Indenture. Additionally, the State might take, or refuse to take, or cause the CEA to take, or refuse to take, action required of the CEA under the Indenture, even if such action or inaction might constitute a violation of the Indenture. Costly and time-consuming litigation might ensue which might adversely affect the price and liquidity of the Bonds and the timely payment thereof. Moreover, the outcome of such litigation might be adverse to the interests of Bondholders, and accordingly, Bondholders could experience a decline in value of their investment as a result of any such event.

Section 10089.54 of the CEA Act provides that in the event both Fannie Mae and Freddie Mac propose to implement policies to require earthquake insurance for single-family residential structures (other than condominium units or townhouses) as a condition of purchasing a mortgage or trust deed secured by that structure, it is the intent of the California Legislature that it should convene to consider whether the CEA should continue to write new earthquake insurance policies, with or without modification, or to cease writing new earthquake insurance policies. Section 10089.54 of the CEA Act also provides that in the event Fannie Mae and Freddie Mac implement such policies, the CEA is required to cease writing new earthquake insurance policies 180 days after such implementation unless a California statute is enacted authorizing the CEA to continue writing new earthquake insurance policies. Section 10089.54 authorizes the CEA to continue to renew its existing earthquake insurance policies even if Fannie Mae and Freddie Mac implement such policies. Preventing the CEA from issuing new policies could have a material adverse affect on the amount of Debt Service Deposits and Pledged Revenue available to pay debt service on Bonds.

Decline in Demand for CEA Insurance

Factors beyond the control of CEA could adversely affect the demand for CEA insurance policies and the ability of the CEA to maintain Pledged Policyholder Premiums at their current levels. Such factors include, but are not limited to, the following:

General Economic Factors. An economic downturn affecting California could reduce discretionary incomes which in turn could result in reduced demand for CEA insurance policies. Because new policies are often written upon the purchase of a home, a slowdown in residential real estate sales could also have the effect of reduced demand for new CEA insurance policies.

Insurance-to-Value Programs. Increases in the absolute cost of CEA insurance due to Participating Insurers' "insurance-to-value" programs, which are designed to match insurance coverage to the updated, actual reconstruction costs of insured properties, could have the effect of reducing demand for CEA policies.

Change in Law. Insurers writing residential property insurance policies in California are required by California law to offer earthquake insurance to their insureds. A change in law eliminating this requirement could adversely affect the CEA. CEA has no position as to whether or not the non-impairment covenant discussed above limits the right of the State to enact a law eliminating this requirement.

Regulatory Risk

All rates charged by the CEA must be approved by the Insurance Commissioner before use. In order to establish or change any rate, the CEA is required to file a rate application with the Insurance Commissioner. The rate application includes modeling and other information and a rate structure recommended by the CEA staff, in consultation with the CEA's Chief Actuary, and approved by the CEA's Governing Board. After public notice of the rate application, a hearing may be conducted. A protracted hearing could occur before rates may be established or changed. In addition, administrative decisions arising from such hearings are subject to judicial review.

Limited Remedies Available to Bondholders

If an event of default were to occur, the sole remedy of the holders of Bonds will be to have the Trustee require the CEA to perform its obligations under the Indenture. Acceleration of principal of the Bonds is not permitted. See "SECURITY FOR THE BONDS – Events of Default and Limitations on Remedies."

Possible Tax Consequences

Defeasance of any Series 2014 Bond may result in a reissuance of the Bond for federal tax purposes, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest, which will be taxable as such) and the holder's adjusted tax basis in the Series 2014 Bond.

Limited Liquidity

The Underwriters have no obligation to make a secondary market in the Series 2014 Bonds, and no assurance can be given that a secondary market will develop or exist. Owners of the Series 2014 Bonds have no right to tender their Series 2014 Bonds for purchase by the CEA. Investors should consider the Series 2014 Bonds as long-term investments in which funds are committed to maturity.

FINANCIAL STATEMENTS

The financial statements as of and for the years ended December 31, 2013 and 2012, included in this Official Statement, have been audited by _____, independent accountants (the "Auditor"), as stated in their report appearing in APPENDIX A. The Auditor has provided CEA its consent to include such audited financial statements as part of this Official Statement.

RATINGS

Fitch Ratings ("Fitch"), and Moody's Investors Service ("Moody's") have assigned credit ratings of "___" and "___," respectively, to the Series 2014 Bonds. An explanation of the significance of these ratings may be obtained from Fitch at www.fitchratings.com and Moody's at www.moodys.com. That information is not incorporated herein. Such ratings reflect only the views of the rating agencies.

Generally, rating agencies base their ratings on information and materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will remain in effect for any given period of time or that the ratings might not be lowered or withdrawn entirely by the rating agencies, if in their judgment circumstances so warrant. The CEA and the Underwriters have undertaken no responsibility to oppose any such proposed revision or withdrawal. The CEA has agreed to notify the Municipal Securities Rulemaking Board, through its

EMMA System, of any change in the ratings of the Series 2014 Bonds. See “CONTINUING DISCLOSURE.” Any such downward change in or withdrawal of the ratings might have an adverse effect on the market prices or marketability of the Series 2014 Bonds.

LEGAL INVESTMENT

The Series 2014 Bonds are legal investments for all trust funds, the funds of all insurance companies, banks, trust companies, executors, administrators, trustees, and other fiduciaries. The Series 2014 Bonds are securities that may legally be deposited with, and received by, any State or municipal officer or agency or political subdivision of the State for any purpose for which the deposit of bonds or obligations of the State is now, or may hereafter be, authorized by law, including deposits to secure public funds.

UNDERWRITING

The Series 2014 Bonds will be purchased by an underwriting group represented by Goldman, Sachs & Co., Inc. (collectively, the “Underwriters”) from the CEA. The Underwriters have agreed to purchase the Series 2014 Bonds at a price of \$_____. The price represents the principal amount of the Series 2014 Bonds of \$_____, less an underwriting discount of \$_____. The purchase contract pursuant to which the Series 2014 Bonds are being sold provides that the Underwriters will purchase all of the Series 2014 Bonds if any are purchased. The obligation to make such purchase will be subject to certain terms and conditions set forth in such purchase contract, the approval of certain legal matters by counsel and certain other conditions.

FINANCIAL ADVISOR

KNN Public Finance, a Division of Zions First National Bank, is serving as financial advisor to the State Treasurer in connection with the sale of the Series 2014 Bonds.

RELATED PARTIES

In the ordinary course of its business each of the Underwriters (and affiliated entities) has engaged and in the future may engage in transactions with the CEA involving matters such as insurance and reinsurance brokerage, investment banking, general financing and banking, and consulting services. The Trustee, in its individual capacity, and its affiliates have engaged and in the future may engage in such transactions with the CEA and each of the Underwriters (and affiliated entities).

APPROVAL OF LEGAL MATTERS

The issuance of the Series 2014 Bonds is subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the CEA. Certain legal matters will be passed upon for the CEA by Daniel P. Marshall III, General Counsel to the CEA. Certain legal matters will be passed upon for the Underwriters by Hawkins Delafield & Wood LLP, counsel to the Underwriters. The proposed form of the opinion of Bond Counsel is set forth in APPENDIX C – “PROPOSED FORM OF OPINION OF BOND COUNSEL.” Bond Counsel, General Counsel, and Underwriters’ Counsel do not undertake any responsibility for the fairness, accuracy or completeness of this Official Statement.

TAX MATTERS

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and

compliance with certain covenants, interest on the Series 2014 Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the opinion that interest on the Series 2014 Bonds is exempt from State of California personal income taxes. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2014 Bonds.

The following discussion summarizes certain U.S. federal tax considerations generally applicable to holders of the Series 2014 Bonds that acquire their Series 2014 Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with all U.S. federal income tax consequences applicable to any given investor, nor does it address the U.S. federal income tax considerations applicable to categories of investors some of which may be subject to special taxing rules (regardless of whether or not such persons constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Series 2014 Bonds as part of a hedge, straddle or an integrated or conversion transaction, or investors whose “functional currency” is not the U.S. dollar. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the indirect effects on persons who hold equity interests in a holder, or (iii) any tax consequences applicable to Non-U.S. Holders (as such term is defined below) of the Series 2014 Bonds. In addition, this summary generally is limited to investors that acquire their Series 2014 Bonds pursuant to this offering for the issue price that is applicable to such Series 2014 Bonds (i.e., the price at which a substantial amount of the Series 2014 Bonds are sold to the public) and who will hold their Series 2014 Bonds as “capital assets” within the meaning of Section 1221 of the Code. This summary also does not consider the taxation of the Series 2014 Bonds under state, local or foreign tax laws.

As used herein, “U.S. Holder” means a beneficial owner of a Series 2014 Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a beneficial owner of a Series 2014 Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Series 2014 Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Series 2014 Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Series 2014 Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Prospective investors should consult their own tax advisors in determining the federal, state, local or foreign tax consequences to them from the purchase, ownership and disposition of the Series 2014 Bonds in light of their particular circumstances.

Interest. Interest on the Series 2014 Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

The Series 2014 Bonds may be issued at a premium. In general, the excess of the issue price of a Series 2014 Bond over its stated principal amount will constitute a premium. A U.S. Holder of a Series 2014 Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Series 2014 Bond.

Sale or Other Taxable Disposition of the Series 2014 Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the State) or other disposition of a Series 2014 Bond, will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Series 2014 Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Series 2014 Bond which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted tax basis in the Series 2014 Bond (generally, the purchase price paid by the U.S. Holder for the Series 2014 Bond, decreased by any amortized premium[, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Series 2014 Bond]). Any such gain or loss generally will be capital gain or loss. In the case of a noncorporate U.S. Holder of the Series 2014 Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the Series 2014 Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Tax on Net Investment Income. Certain non-corporate U.S. beneficial owners of Series 2014 Bonds will be subject to a 3.8% tax on the lesser of (1) the U.S. beneficial owner's "net investment income" (in the case of individuals) or "undistributed net investment income" (in the case of estates and certain trusts) for the relevant taxable year and (2) the excess of the U.S. beneficial owner's "modified adjusted gross income" (in the case of individuals) or "adjusted gross income" (in the case of estates and certain trusts) for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. beneficial owner's calculation of net investment income generally will include its interest income on the Series 2014 Bonds and its net gains from the disposition of the Series 2014 Bonds, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). If you are a U.S. beneficial owner that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of this tax to your income and gains in respect of your investment in the Series 2014 Bonds.

Information Reporting and Backup Withholding. Payments on the Series 2014 Bonds generally will be subject to U.S. information reporting and "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Series 2014 Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the Series 2014 Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Series 2014 Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with back-up withholding rules may result in the imposition of penalties by the IRS.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal income taxation that may be relevant to a particular holder of bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Bonds, including the application and effect of state, local, foreign, and other tax laws.

CONTINUING DISCLOSURE

The CEA will covenant for the benefit of the holders and beneficial owners of the Series 2014 Bonds to provide certain financial information and operating data relating to the CEA (the "Annual Report") by not later than the September 30th following the end of the CEA's fiscal year (which ends December 31) and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of certain enumerated events will be filed by, or on behalf of, the CEA with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) website of the MSRB. The specific nature of the information to be contained in the Annual Report and the events requiring the filing of a notice are set forth in APPENDIX E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE." Pursuant to the Indenture, failure of the CEA to comply with its obligations under the Continuing Disclosure Certificate will not be considered an event of default under the Indenture. However, the Trustee, or any Bondholder or Beneficial Owner (as defined in the Continuing Disclosure Certificate) may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the CEA to comply with its obligations under the Continuing Disclosure Certificate. The CEA has not failed to comply in all material respects with any previous undertaking with regard to Rule 15c2-12 to provide annual reports or notices of material events for the last five calendar years.

AUTHORIZATION

The delivery of this Official Statement, including the Appendices and other information herein, has been duly authorized by the CEA.

CALIFORNIA EARTHQUAKE AUTHORITY

APPENDIX A
FINANCIAL STATEMENTS

APPENDIX B

SUMMARY OF THE INDENTURE

[TO COME]

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Date of Closing]

California Earthquake Authority
Sacramento, California

California Earthquake Authority Revenue Bonds, Series 2014
(Final Opinion)

[TO COME]

APPENDIX D

BOOK-ENTRY SYSTEM

[NOT YET UPDATED]

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2014 Bonds. The Series 2014 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for the Series 2014 Bonds in the aggregate principal amount of the Series 2014 Bonds, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2014 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2014 Bonds with DTC and their

registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2014 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2014 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2014 Bonds may wish to ascertain that the nominee holding the Series 2014 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2014 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and interest payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the issuer or its paying agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the issuer or the paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to CEA or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The CEA may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the CEA believes to be reliable, but the CEA takes no responsibility for its accuracy.

APPENDIX E

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (this “Disclosure Certificate”) is executed as of November __, 2014, by the California Earthquake Authority (the “Authority”) in connection with the issuance of \$_____ aggregate principal amount of California Earthquake Authority Revenue Bonds, Series 2014 (the “Bonds”). The Bonds are being issued pursuant to an Indenture of Trust, dated as of November 1, 2014, as supplemented by the First Supplemental Indenture, dated as of November 1, 2014 (hereinafter collectively referred to as the “Indenture”), between the Authority and U.S. Bank National Association, as trustee (the “Trustee”). The Authority hereby covenants and agrees as follows:

SECTION 1. Nature of the Disclosure Certificate. This Disclosure Certificate is executed for the benefit of the Holders and Beneficial Owners (as defined below) of the Bonds from time to time, and in order to assist the Participating Underwriters (as defined below) in complying with the Rule (as defined below), but shall not be deemed to create any monetary liability on the part of the Authority or the State of California to any other persons, including Holders or Beneficial Owners of the Bonds based on the Rule. The sole remedy in the event of any failure of the Authority to comply with this Disclosure Certificate shall be an action to compel performance of any act required hereunder.

SECTION 2. Definitions. In addition to the definitions set forth above and in the Indenture, which apply to any capitalized term used but not defined in this Disclosure Certificate, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean the Annual Report filed by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the Authority, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority.

“EMMA System” shall mean the MSRB’s Electronic Municipal Market Access system, or such other electronic system designated by the MSRB.

“Holder” shall mean any person listed on the registration books of the Trustee as the registered owner of any Bonds.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

“Official Statement” shall mean the official statement relating to the Bonds, dated _____, 2014.

“Participating Underwriter” shall mean any original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” shall mean Rule 15c2–12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Authority shall, not later than September 30 of each year in which the Bonds are outstanding, commencing with the report containing 2014 Fiscal Year financial information, provide an Annual Report consistent with the requirements of this Disclosure Certificate (an “Annual Report”) to the MSRB through the EMMA System, in an electronic format and accompanied by identifying information all as prescribed by the MSRB; provided that the audited financial statements of the Authority may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. The Authority shall make a copy of any Annual Report available to any person who requests a copy at a cost not exceeding the reasonable cost of duplication and delivery.

(b) If in any year the Authority does not provide the Annual Report to the MSRB by the time specified above, the Authority shall instead file a notice to the MSRB through the EMMA System stating that the Annual Report has not been timely completed and, if known, stating the date by which the Authority expects to file the Annual Report.

(c) The Authority (or if a Dissemination Agent other than the Authority has been appointed, the Dissemination Agent) shall:

1. file a report with the Trustee certifying that the Annual Report has been filed pursuant to this Disclosure Certificate and listing the dates of the filings; and
2. take any other actions mutually agreed to between the Dissemination Agent and the Trustee.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the Authority for the fiscal year ended on the most recent December 31, of the type included in the Official Statement. If the Authority’s audited financial statements are not available by the date the Annual Report is required to be filed pursuant to this Disclosure Certificate, the Annual Report shall contain unaudited financial statements and the audited financial statements shall be filed in the same manner as the Annual Report when and if they become available.

(b) Other financial information and operating data as follows: (a) updated table of Pledged Policyholder Premiums; (b) updated table of claims payments made by the Authority; and (c) updated table depicting claim-paying capacity.

The Annual Report may consist of one or more documents. Any or all of the items listed above may be included in the Annual Report by reference to other documents that have been filed by the Authority with the MSRB through the EMMA System, including any final official statement (in which case such final official statement must also be available from the MSRB through the EMMA System). The Authority shall clearly identify in the Annual Report each such document so included by reference.

SECTION 5. Reporting of Listed Events.

(a) The Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person;

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
2. Modifications to rights of the Owners of the Bonds;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;

6. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee;

(c) The Authority shall timely file a notice of the occurrence of a Listed Event, as required under applicable federal securities laws, with the MSRB through the EMMA System. For the sake of clarity, item (a)8 above includes a rating change in the financial strength rating issued by A.M. Best Company.

SECTION 6. Termination of Reporting Obligation. The Authority's obligations under Section 3, 4 and 5 of this Disclosure Certificate shall terminate upon the maturity, legal defeasance, prior redemption or acceleration of all of the outstanding Series 2014 Bonds. If such termination occurs prior to the final maturity of the Bonds, the Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 7. Dissemination Agent. The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out the obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent (if not the Authority) shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the Authority shall be the Dissemination Agent. The initial Dissemination Agent shall be the Authority.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Authority may amend or waive any provision of this Disclosure Certificate, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Section 3(a), 4, 5(a), or 8, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of 60% of the Bonds outstanding or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds. The Authority also may amend this Disclosure Certificate without approval by the Holders to the extent permitted by rule, order or other official pronouncement of the SEC.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Authority shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being

presented by the Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(b), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Authority shall not have any obligation under this Disclosure Certificate to update such information or include it in any Annual Report or future notice of occurrence of a Listed Event.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity (except the right of the Trustee or any Holder or Beneficial Owner to enforce the provisions of this Disclosure Certificate on behalf of the Holders). This Disclosure Certificate is not intended to create any monetary rights on behalf of any person based upon the Rule.

SECTION 11. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Authority shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof, and the Holders of the Bonds shall retain all the benefits afforded to them hereunder. The Authority hereby declares that it would have executed and delivered this Disclosure Certificate and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

SECTION 12. Governing Law. The laws of the State of California shall govern this Disclosure Certificate, the interpretation thereof and any right or liability arising hereunder. Any action or proceeding to enforce or interpret any provision of this Disclosure Certificate shall be brought, commenced or prosecuted in Sacramento County, California.

IN WITNESS WHEREOF, the Authority has executed this Disclosure Certificate as of the date first above written.

CALIFORNIA EARTHQUAKE AUTHORITY

By _____

APPENDIX F

THE CEA ACT

The following includes provisions of the CEA Act in effect as of _____, 2014.

HDW – 9/12/14 Draft

PURCHASE CONTRACT

\$350,000,000

California Earthquake Authority
Revenue Bonds, Series 2014

[Pricing Date]

California Earthquake Authority
Chief Financial Officer
801 K Street, Suite 1000
Sacramento, California 95814

Honorable Bill Lockyer
Treasurer of the State of California
915 Capitol Mall, Room 261
Sacramento, California 95814

Ladies and Gentlemen:

The undersigned, Goldman, Sachs & Co. (the “Representative”), acting on behalf of itself and the other underwriters named on the attached Schedule I to this Purchase Contract (collectively, the “Underwriters”), offers to enter into this Purchase Contract with the California Earthquake Authority (the “Authority”) and with the Treasurer of the State of California (the “State Treasurer”), acting as agent for sale on behalf of the Authority. This offer is made subject to the Authority’s and State Treasurer’s acceptance of this Purchase Contract on or before 11:59 p.m., California time, on the date set forth above and, if not so accepted, will be subject to withdrawal by the Underwriters upon notice by the Representative delivered to the Authority and the State Treasurer at any time prior to the acceptance of this Purchase Contract by the Authority and the State Treasurer.

Capitalized terms used in this Purchase Contract and not otherwise defined herein shall have the meanings ascribed to such terms as set forth in the Indenture (defined herein) or if such terms are not defined in the Indenture, they shall have the meanings set forth in the Preliminary Official Statement (defined herein).

Section 1. Upon the terms and conditions and upon the basis of the representations, warranties and covenants set forth in this Purchase Contract, the Underwriters, jointly and severally, agree to purchase from the State Treasurer, and the State Treasurer agrees to sell and deliver to the Underwriters, on behalf of the Authority, all (but not less than all) of the \$350,000,000 aggregate principal amount of the Authority’s Revenue Bonds, Series 2014 (the “Bonds”).

The Bonds shall be dated their date of delivery and shall have the maturities and bear interest at the rates per annum set forth in Schedule II attached hereto. The aggregate purchase price for the Bonds shall be as set forth in Schedule III attached hereto, with the payment for and delivery of the Bonds to be made pursuant to Section 11 of this Purchase Contract (such payment and delivery and the other actions contemplated to take place at the time of such payment and delivery being sometimes referred to herein as the “Closing”).

Section 2. The Underwriters acknowledge receipt of the Authority's Preliminary Official Statement, dated October_, 2014, relating to the Bonds (including the cover page and all appendices thereto, the "Preliminary Official Statement") and the Authority agrees to deliver or cause to be delivered to the Underwriters the final Official Statement relating to the Bonds dated the date hereof as provided in Section 8 of this Purchase Contract (including the cover page and all appendices thereto and as may be amended and supplemented from time to time pursuant to this Purchase Contract, the "Official Statement"). The Authority has "deemed final" the Preliminary Official Statement pursuant to Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12") except for the omission of certain information permitted to be omitted by such rule, as stated in the certificate of the Authority regarding the Preliminary Official Statement delivered to the Representative on the date thereof.

The Underwriters have reviewed the information in the Preliminary Official Statement and will review the information in the Official Statement when delivered, in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters have not guaranteed and will not guarantee the accuracy or completeness of such information. The Underwriters have not notified the State Treasurer or the Authority of the need to modify or supplement the Preliminary Official Statement.

Section 3. The Bonds shall be issued and secured under the provisions of California Insurance Code Sections 10089.5 through 10089.54 (the "CEA Act"), a resolution of the Authority adopted on October 7, 2014, and the Indenture of Trust, as supplemented by the First Supplemental Indenture of Trust (collectively, the "Indenture"), each dated as of November 1, 2014 by and between the Authority and U.S. Bank National Association, as trustee thereunder (the "Trustee"). The Bonds shall be as described in the Indenture and shall be payable and subject to redemption as set forth in the Indenture. The redemption provisions for the Bonds are set forth in Schedule II attached hereto. The Bonds shall be legal, valid and binding obligations of the Authority to the extent provided in the Indenture, payable solely from Pledged Revenue and Debt Service Deposits (as defined in the Indenture). Net proceeds of the Bonds (being the principal amount of the Bonds less underwriting discount) will be held by the Authority in its Claims-Paying Account to enhance the Authority's claims-paying capacity.

The Authority will undertake, pursuant to a Continuing Disclosure Certificate, dated as of [Closing Date] (the "Continuing Disclosure Certificate"), to provide annual reports and notices of certain events in accordance with the requirements of Rule 15c2-12. The form of the Continuing Disclosure Certificate is set forth as Appendix E to the Preliminary Official Statement and Official Statement.

Section 4. The Representative has delivered a deposit in the form of a wire transfer (in immediately available funds) to State Street Bank for the account of the Authority in an amount equal to \$2,000,000. Such deposit has been delivered by the Underwriters as security for the performance by the Underwriters of their obligations to purchase, accept delivery of and pay for the Bonds at Closing. Upon receipt of the deposit, the Authority may invest the proceeds of the deposit for its account. At the Closing, the Underwriters shall pay or cause to be paid the purchase price of the Bonds (as specified in Schedule III), less the amount of such deposit, without interest on such deposit. Should the Authority fail to deliver the Bonds at Closing, or should the State Treasurer or the Authority be unable to satisfy the conditions to the obligations of the Underwriters to accept delivery of and to pay for the Bonds, as set forth in this Purchase Contract (unless waived by the Underwriters), or should such obligations of the Underwriters be terminated for a reason permitted

by this Purchase Contract, the Authority shall forthwith return the amount of such deposit, without interest, to the Underwriters. If the Underwriters fail (other than for a reason permitted hereunder) to accept delivery of and pay for any of the Bonds at the Closing as herein provided, such deposit shall be retained by the Authority as and for full liquidated damages for the failure of the Underwriters to accept delivery of and pay for the Bonds. The retention of such deposit shall constitute a full release and discharge of all claims and rights of the State Treasurer and the Authority against the Underwriters on account of such failure and a waiver of any right the State Treasurer or the Authority may have to any additional damages for such failure. The Underwriters, the Authority, and the State Treasurer understand that in such event the Authority's actual damages may be more or less than the amount of such deposit and the exact amount of actual damages will be difficult to ascertain. Accordingly, each of the Underwriters waives any right to claim that actual damages resulting from such failure are less than the amount of such liquidated damages and the execution of this Purchase Contract shall constitute a waiver of any right the State Treasurer or the Authority may have to additional damages from the Underwriters.

Section 5. The Underwriters have designated the Representative to act jointly (but not severally) on behalf of the Underwriters with respect to this Purchase Contract. The Representative hereby represent, warrant, and covenant to the Authority and the State Treasurer that (a) they are duly authorized to execute this Purchase Contract on behalf of the Underwriters and to take all action required or permitted to be taken hereunder by or on behalf of the Underwriters, (b) any authority, discretion, or other power conferred upon the Underwriters by this Purchase Contract may be exercised by the Representative acting jointly but without any of the other Underwriters, and (c) the Representative shall promptly notify the Authority and the State Treasurer of the date when all of the Bonds have been sold in the manner described herein.

Section 6. It shall be a condition to the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds that the entire principal amount of the Bonds shall be sold and delivered by the Authority to the Underwriters at Closing. The Underwriters agree to make an initial bona fide public offering of all of the Bonds, at the initial public offering prices (or yields) set forth on Schedule II attached hereto. Following the initial public offering of the Bonds, the offering prices may be changed from time to time by the Underwriters.

Section 7. The Representative represents that there were no Bonds sold by the Underwriters in the initial offering to investors, the sale to whom would require qualification under foreign law.

Section 8. (a) The Authority hereby authorizes the distribution of the Official Statement by the Underwriters in connection with the public offering and the sale of the Bonds; provided, however, that the Underwriters shall not sell any of the Bonds outside of the United States. The Authority consents to the distribution by the Underwriters prior to the date hereof of the Preliminary Official Statement, in electronic form, in connection with the public offering of the Bonds. The Authority shall supply or cause to be supplied to the Underwriters, within seven (7) business days of the date of this Purchase Contract and in time to accompany any confirmation that requests payment from any customer, provided such business day is no later than one (1) business day prior to the Closing, the Official Statement in the designated electronic format in order to allow the Underwriters to comply with Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board (the "MSRB"). Each of the Underwriters hereby agrees that it will not send any confirmation requesting payment for the purchase of any of the Bonds unless the confirmation is accompanied by or preceded by the delivery of a copy of the Official Statement. The Representative agrees to:

(a) provide the State Treasurer and the Authority, by 5:00 p.m., California time, on the day this Purchase Contract is executed, with final pricing information on the Bonds and any other information necessary for the completion of the Official Statement; (b) promptly disseminate to the Underwriters copies of the Official Statement, including any supplements thereto; (c) promptly file a copy of the Official Statement, including any supplements prepared by the Authority, with the MSRB; and (d) take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and MSRB rules governing the offering, sale and delivery of the Bonds to ultimate purchasers.

(b) From the date hereof until the earlier of 25 days from the “end of the underwriting period” (as defined in paragraph (f)(2) of Rule 15c2-12) or the date when all of the Bonds have been sold by the Underwriters, if in the reasonable opinion of the Authority, Orrick, Herrington & Sutcliffe LLP (“Bond Counsel”), General Counsel to the Authority (“General Counsel to the Authority”), or Hawkins Delafield & Wood LLP (“Underwriters’ Counsel”), any event shall occur as a result of which it is necessary to amend or supplement the Official Statement in order to make the statements therein not misleading, in the light of the circumstances existing at the time it is delivered to a purchaser, the Authority, if requested by the Representative, will forthwith prepare and furnish to the Underwriters in the electronic format designated by the MSRB an amendment of or supplement to the Official Statement (in form and substance satisfactory to Bond Counsel, General Counsel to the Authority and Underwriters’ Counsel,) which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the amendment of or supplement to the Official Statement is delivered to the Underwriters, not misleading. For the period of time this section remains operative, the Authority will furnish to the Underwriters such information as the Underwriters may, in consultation with the Authority and the State Treasurer, from time to time reasonably request. The Authority may assume that the “end of the underwriting period” for purposes of Rule 15c2-12 will occur on the date of Closing unless the Representative provides a letter on the date of Closing stating otherwise. If the Representative notifies the Authority and the State Treasurer that the end of the underwriting period shall not occur on the date of Closing, the Representative shall notify the Authority and the State Treasurer of the date when all Bonds have been sold so that the Authority may determine its obligation to supplement or amend the Official Statement. After the earlier of twenty-five (25) days from the “end of the underwriting period” or the date when the Representative notifies the Authority and the State Treasurer that all of the Bonds have been sold by the Underwriters, the Authority will no longer be obligated to amend or supplement the Official Statement.

Section 9. The Authority represents to each of the Underwriters as follows, each such representation to be deemed made as of the date of this Purchase Contract unless otherwise stated:

(a) The Authority will furnish or cause to be furnished such information, execute or cause to be executed such instruments and take or cause to be taken such other reasonable action in cooperation with the Representative as the Representative may deem necessary in order to qualify the Bonds for offer and sale under the “Blue Sky” or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate and determine the eligibility of the Bonds for investment under the laws of such states and other jurisdictions; provided, however, that the foregoing will not require the Authority to register as a dealer or broker or to consent to service of process or to qualify as a foreign corporation in connection with such qualification in any foreign jurisdiction or to comply with any other requirements reasonably deemed by the Authority to be unduly burdensome in connection with the foregoing.

(b) The Authority is a duly constituted and validly existing public instrumentality of the State of California (the “State”) and has all necessary power and authority to issue the Bonds, to enter into this Purchase Contract, the Indenture and the Continuing Disclosure Certificate, to issue, sell and deliver the Bonds to the Underwriters as provided herein, and to carry out and consummate all other transactions contemplated by each of the aforesaid documents;

(c) The Authority has duly authorized the execution and delivery of this Purchase Contract, the Indenture, the Continuing Disclosure Certificate and the Bonds, has duly authorized the delivery of the Official Statement, and has duly authorized the performance of its obligations under this Purchase Contract, the Indenture, the Continuing Disclosure Certificate and the Bonds;

(d) This Purchase Contract, the Indenture, the Continuing Disclosure Certificate and the Bonds, upon due execution by the other parties hereto or thereto, will constitute legal, valid and binding obligations of the Authority, enforceable against it in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium, and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion and to the limitations on legal remedies against governmental entities of the State;

(e) The Authority is not in breach of or in default under any applicable law or administrative regulation of the State or the United States or any applicable judgment or decree or any loan agreement, note, resolution, agreement or other instrument to which the Authority is a party or otherwise subject, which breach or default would in any way materially and adversely affect this Purchase Contract, the Indenture and the Continuing Disclosure Certificate, or the issuance of the Bonds, and no event has occurred and is continuing that with the passage of time or giving of notice, or both, would constitute such a breach or default; and the execution and delivery by the Authority of this Purchase Contract, the Indenture and the Continuing Disclosure Certificate, and compliance with the provisions thereof or of the Indenture, and the issuance, sale and delivery of the Bonds will not materially conflict with or constitute a breach of or default under any law, administrative regulation, judgment, decree or any agreement or other instrument to which the Authority is a party or otherwise subject; nor will any such execution, delivery, issuance, sale or compliance result in the creation or imposition of any lien, charge, encumbrance or security interest of any nature whatsoever upon any of the revenues or assets of the Authority pledged to pay the principal of and interest on the Bonds, except as expressly provided or permitted by the CEA Act, the Indenture and the Bonds;

(f) Except as set forth in the Official Statement, no litigation is pending (with service of process having been accomplished) or, to the knowledge of the Authority, threatened against the Authority (a) to restrain or enjoin the collection of any of the Pledged Revenue under the Indenture or the pledge thereof, (b) in any way questioning or affecting any of the rights, powers, duties or obligations of the Authority with respect to the Pledged Revenue under the Indenture, (c) to restrain or enjoin the execution or delivery of this Purchase Contract, the Bonds, the Indenture or the Continuing Disclosure Certificate, or performance under any of the Indenture and the Continuing Disclosure Certificate, or in any way questioning or affecting any authority for the issuance of the Bonds or validity or enforceability of the Bonds or the Indenture, the Continuing Disclosure Certificate and this Purchase Contract, (d) in any way contesting the accuracy of the Official Statement or contesting or affecting the validity of this Purchase Contract, the Bonds, the Indenture or the Continuing Disclosure Certificate, or any other document, license, permit or approval necessary to the performance on its part under such documents or the proceeding or authority pursuant to which the Bonds will be issued and sold, or (e) in any way questioning or affecting any

other agreement or instrument to which the Authority is a party, wherein an unfavorable decision or ruling with respect to any of the above would materially adversely affect the sale or issuance of the Bonds as contemplated by this Purchase Contract or the Indenture or which, in any way, would adversely affect the validity or enforceability of the Bonds, the Indenture, the Continuing Disclosure Certificate or this Purchase Contract or would materially adversely affect the collection of any of the Pledged Revenue under the Indenture or the pledge thereof;

(g) Except as set forth in the Official Statement, there is no litigation pending (with service of process having been accomplished), or, to the knowledge of the Authority, threatened against the Authority that may result in any material adverse change in the financial condition of the Authority;

(h) The Authority, the CEA Act, the Bonds, the Indenture and the Continuing Disclosure Certificate conform to the descriptions thereof contained in the Official Statement, and the Bonds, when sold to the Underwriters as provided herein and issued and delivered in accordance with the Indenture, will be validly issued and outstanding special obligations of the Authority entitled to the benefits of the CEA Act and the Indenture;

(i) No consent, authorization or approval of, or filing or registration with, any governmental or regulatory office or body not already obtained is required to be obtained by the Authority for the execution and delivery of this Purchase Contract, the Bonds, the Indenture and the Continuing Disclosure Certificate, and, except as disclosed in the Official Statement, no consent, authorization or approval of, or filing or registration with, any governmental or regulatory office or body not already obtained by the Authority is required to be obtained by the Authority for the performance thereof.; and

(j) At the time of acceptance hereof by the Authority, the Official Statement (excluding the information contained therein relating to the Underwriters and The Depository Trust Company (“DTC”) and its book-entry system) does not, and at all times thereafter up to and including the Closing Date will not, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(k) The Authority is not now, and has not at any time been, in default in the payment of principal of or interest on its bonds;

(l) The audited financial statements of the Authority included in Appendix A to the Official Statement do and will fairly present the financial position and results of operations of the Authority as of the dates and for the periods therein set forth in accordance with generally accepted accounting principles applied consistently; and there has been no material adverse change in the financial condition or results of operations of the Authority since December 31, 2013; and

(m) The Authority will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Bonds to be applied in a manner contrary to that provided for in the Indenture.

Section 10. The State Treasurer represents to each of the Underwriters as follows, each such representation to be deemed made as of the date of this Purchase Contract unless otherwise stated:

(a) The State Treasurer has the requisite right, power and authority to enter into this Purchase Contract.

(b) All authorizations and approvals for the performance by the State Treasurer of his obligations under this Purchase Contract have been obtained.

(c) At the date of Closing, this Purchase Contract (assuming due authorization, execution and delivery by and validity against the parties thereto other than the State Treasurer) will constitute the valid and binding obligations of the State Treasurer in accordance with its terms, subject to the effect of bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relating to or affecting the creditors' rights generally, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State.

Section 11. At 8:30 a.m., California time, on [Closing Date], or on such earlier or later date as may be agreed upon by the Representative, the Authority and the State Treasurer, will deliver or cause to be delivered to the Representative at the Office of the State Treasurer in Sacramento, California, or such other place as may be mutually agreed upon, the documents required to be delivered pursuant to this Purchase Contract and the Underwriters will accept delivery of the Bonds in definitive form through the facilities of DTC and pay the purchase price of the Bonds as set forth in Schedule III of this Purchase Contract (less the amount of the deposit referred to in Section 4 of this Purchase Contract) by wire transfer in immediately available funds to the order of State Street Bank, for the account of the Authority (or by such other form of payment in immediately available funds as shall have been mutually agreed upon by the Authority and the Representative). The Bonds in definitive form shall be evidenced by typewritten, lithographed or word-processed Bonds in authorized denominations. The Bonds shall be credited immediately after such payment to the account of the Representative at DTC. It is anticipated that CUSIP identification numbers will be printed, typewritten, lithographed or word processed on the Bonds, but neither the failure to include a CUSIP identification number on any Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the Underwriters to accept delivery of and pay for the Bonds in accordance with the terms of this Purchase Contract.

The Bonds shall be registered in the name of Cede & Co., as nominee of DTC, in the form of a single fully registered Bond for each maturity of the Bonds. The Authority acknowledges that the services of DTC will be used initially by the Underwriters in order to permit the issuance of the Bonds in book-entry form, and agrees to cooperate fully with the Underwriters in employing such services. The Bonds shall be made available to the Underwriters at the Office of the State Treasurer in Sacramento, California (or such other place or date as shall have been mutually agreed upon by the State Treasurer and the Representative) at least one day prior to the Closing for purposes of inspection.

Not later than 10 days after the date of the Closing, the Representative (on behalf of the Underwriters) shall submit to the State Treasurer the report(s) required by Section 1899.532 of Title 2 of the California Code of Regulations.

Section 12. The Underwriters have entered into this Purchase Contract in reliance upon the representations and warranties of the Authority and of the State Treasurer contained herein and upon the performance by the Authority and the State Treasurer of their obligations to be performed hereunder and under such documents and instruments to be delivered at or prior to the Closing. The

Underwriters' obligations under this Purchase Contract are and shall also be subject to the following conditions:

(a) the representations and warranties of the Authority and the State Treasurer contained herein shall be true, complete and correct on the date of this Purchase Contract and on and as of the date of the Closing, as if made on the date of the Closing;

(b) at the time of the Closing, the Authority's resolution authorizing the issuance of the Bonds and execution and delivery of the Indenture and the Continuing Disclosure Certificate shall be in full force and effect and shall not have been amended, modified or supplemented, and the Official Statement shall not have been amended, modified or supplemented, except in any case as may have been agreed to in writing by the Representative;

(c) (i) the Underwriters shall have the right to terminate their obligations to purchase the Bonds by written notification by the Representative to the State Treasurer and the Authority if at any time after the date of this Purchase Contract and prior to the Closing any of the following occurs that, in the reasonable judgment of the Representative, after consultation with the State Treasurer and the Authority, requires termination:

(1) any event shall occur or any circumstance shall exist that causes the Official Statement to contain any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading; or

(2) any national securities exchange, the Comptroller of the Currency, or any other governmental authority, shall impose as to the Bonds or obligations of the general character of the Bonds any material restriction not now in force or shall increase materially any restriction now in force with respect to the extension of credit by the Underwriters or charges to the net capital requirements of the Underwriters; or

(3) legislation shall be enacted, or a decision by a court of the United States shall be rendered, or any action shall be taken by, or on behalf of, the Securities and Exchange Commission which has the effect of requiring the Bonds to be registered under, or the sale thereof to be in violation of, the Securities Act of 1933, as amended ("Securities Act"), or has the effect of requiring the Indenture to be qualified under the Trust Indenture Act of 1939, as amended ("Trust Indenture Act"), or, in each case, any law analogous thereto relating to governmental bodies;

(ii) the Underwriters shall have the further right to terminate their obligations to purchase the Bonds by written notification by the Representative to the State Treasurer and the Authority if at any time after the date of this Purchase Contract and prior to the Closing any of the following occurs and in the reasonable judgment of the Representative, after consultation with the State Treasurer and the Authority, such event would have the effect of materially adversely affecting, directly or indirectly, the market price of the Bonds or the ability of the Underwriters to enforce contracts for the sale of the Bonds at the contemplated offering price(s) set forth in the attached Schedule II:

(1) any rating of the Bonds described herein shall have been downgraded or withdrawn by Fitch Ratings ("Fitch") or Moody's Investors Service ("Moody's"), provided that neither a change in outlook or placement on a "watch" list with respect to a rating nor a change in the

rating of a credit enhancement provider or liquidity provider for such other debt shall constitute a downgrade for purposes hereof;

(2) a general banking moratorium shall have been declared by federal, New York or State authorities having jurisdiction and shall remain in force, or material disruption in commercial banking or securities settlement or clearances services shall have occurred;

(3) any proceeding shall have been commenced or be threatened in writing by the Securities and Exchange Commission against the Authority;

(4) there shall have occurred a material adverse effect on the financial markets of the United States resulting from any new material outbreak or escalation of hostilities or any domestic or international calamity or crisis; or

(5) the occurrence of one or more major, damaging earthquakes which, in the judgment of the Representative, will have a material adverse effect on the claims-paying ability of the Authority;

(d) at or prior to the Closing, the Representative shall have received each of the following documents:

(1) the Preliminary Official Statement and the Official Statement, together with any supplements or amendments thereto in the event the Preliminary Official Statement or the Official Statement has been supplemented or amended;

(2) certified copy of the resolution of the Authority;

(3) executed counterparts of the Indenture;

(4) executed counterparts of the Continuing Disclosure Certificate;

(5) an opinion of Bond Counsel, dated the date of Closing, relating to the Bonds, in substantially the form set forth in Appendix C to the Official Statement;

(6) a letter from Bond Counsel, dated the date of Closing and addressed to the Representative on behalf of the Underwriters, to the effect that its respective opinion referred to in the immediately preceding subparagraph 5 may be relied upon by the Underwriters to the same extent as if such opinion were addressed to the Underwriters;

(7) a supplemental opinion of Bond Counsel, dated the date of Closing and addressed to the Representative on behalf of the Underwriters, to the effect that:

(i) this Purchase Contract has been duly authorized, executed and delivered by the Authority and the State Treasurer and (assuming due authorization, execution and delivery by the Representative and validity against the Underwriters) is a valid and binding agreement of each the Authority and the State Treasurer enforceable in accordance with its terms;

(ii) the Bonds are exempt from the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended;

(iii) the statements contained in the Official Statement under the captions “THE SERIES 2014 BONDS,” “SECURITY FOR THE BONDS,” and “TAX MATTERS,” Appendix B – “SUMMARY OF THE INDENTURE” and in Appendix E – “FORM OF CONTINUING DISCLOSURE CERTIFICATE” (excluding any financial and statistical data therein and any material that may be included under such captions by cross-reference), insofar as such statements expressly summarize certain provisions of the Bonds and the Indenture, and their opinion as Bond Counsel concerning certain federal tax matters relating to the Bonds, are accurate in all material respects.

(8) an opinion of Underwriters’ Counsel, dated the date of Closing and addressed to the Representative, in form and substance satisfactory to the Underwriters;

(9) a certificate of the Chief Financial Officer of the Authority, dated the date of the Closing, to the effect that, to the best of his knowledge, the representations and warranties of the Authority contained in this Purchase Contract are true and correct as of the date of the Closing as if made on such date; and except as disclosed in the Official Statement, there have been no adverse change of a material nature in the financial position or results of operations of the Authority since the date of the Preliminary Official Statement;

(10) a certificate of the State Treasurer dated the date of the Closing, executed on his behalf by any Deputy Treasurer, to the effect that the representations and warranties of the State Treasurer contained in this Purchase Contract are true, complete and correct as of the date of the Closing as if made on such date;

(11) an opinion of General Counsel to the Authority, dated the date of Closing, and addressed to the Authority and the Representative on behalf of the Underwriters, to the effect that

(i) the Authority is a public instrumentality of the State, duly organized and validly existing pursuant the laws of the State;

(ii) the resolution and other actions of the Authority approving and authorizing the execution and delivery of the Indenture, the Continuing Disclosure Certificate and this Purchase Contract (collectively, the “Authority Documents”) and the Bonds were duly adopted at a meeting of the governing body of the Authority which were called and held pursuant to law with all public notice required by law and at which a quorum was present and acting throughout;

(iii) (a) the Authority has full right and lawful authority to execute and deliver the Authority Documents and the Bonds; (b) the Authority Documents and the Bonds have been duly authorized and executed on behalf of the Authority; and (c) the Authority Documents and the Bonds are the legal, valid and binding obligations of the Authority enforceable in accordance with their respective terms, except as enforcement may be limited by applicable bankruptcy, insolvency, moratorium, or similar laws, or by legal or equitable principals relating to or limiting creditor’s rights generally;

(iv) all authorizations, approvals, licenses, permits, consents and orders of any governmental authority, legislative body, board, agency or commission having jurisdiction over the matters which are required for the due authorization by, or which would constitute a condition precedent to or the absence of which would materially adversely affect the due

performance by, the Authority of its obligations in connection with the issuance of the Bonds under the Indenture or any of its other obligations under the Indenture or under this Purchase Contract have been duly obtained, except for such approvals, consents and orders as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the Bonds;

(v) the execution and delivery of the Authority Documents and the Bonds and compliance with the provisions thereof, under the circumstances contemplated by thereby, do not and will not in any material respect conflict with or constitute on the part of the Authority a breach of or default under any agreement or other instrument to which the Authority is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Authority is subject;

(vi) except as set forth in the Official Statement, no litigation is pending (with service of process having been accomplished) or, to the knowledge of the Authority, threatened against the Authority: (a) to restrain or enjoin the collection of any of the Pledged Revenue under the Indenture or the pledge thereof, (b) in any way questioning or affecting any of the rights, powers, duties or obligations of the Authority with respect to the Pledged Revenue under the Indenture, (c) to restrain or enjoin the execution or delivery of this Purchase Contract, the Bonds, the Indenture or the Continuing Disclosure Certificate, or performance under any of the Indenture and the Continuing Disclosure Certificate, or in any way questioning or affecting any authority for the issuance of the Bonds or validity or enforceability of the Bonds or the Indenture, the Continuing Disclosure Certificate and this Purchase Contract, (d) in any way contesting the accuracy of the Official Statement or contesting or affecting the validity of any approval necessary to the performance on its part under such documents or the proceeding or authority pursuant to which the Bonds will be issued and sold, or (e) in any way questioning or affecting any other agreement or instrument to which the Authority is a party, wherein an unfavorable decision or ruling with respect to any of the above would materially adversely affect the sale or issuance of the Bonds as contemplated by this Purchase Contract or the Indenture or which, in any way, would adversely affect the validity or enforceability of the Bonds, the Indenture, the Continuing Disclosure Certificate or this Purchase Contract or would materially adversely affect the collection of any of the Pledged Revenue under the Indenture or the pledge thereof;

(vii) all references and descriptions, wherever occurring, in the Official Statement (including any appendix thereto) concerning California law, including but not limited to the CEA Act or any portion thereof, and including any description in the Official Statement concerning the application of the CEA Act or other provisions of California law, are accurate in all material respects; and

(viii) the Official Statement, including but not limited to the sections entitled "CALIFORNIA EARTHQUAKE AUTHORITY," "SECURITY FOR THE BONDS," "SOURCES AND USES OF FUNDS," "POLICIES AND PREMIUMS," "POLICY CLAIMS," "SOURCES OF FUNDS TO PAY CLAIMS," "LITIGATION AND ADMINISTRATIVE PROCEEDINGS," "RISK FACTORS," "FINANCIAL STATEMENTS," "CONTINUING DISCLOSURE" and "AUTHORIZATION," as well as Appendix E – "FORM OF CONTINUING DISCLOSURE CERTIFICATE" and the statements contained therein, insofar as they are within the knowledge of such counsel, are true and correct and fairly summarize the matters encompassed thereby to the extent such matters are described therein, and the Official Statement (excluding therefrom information concerning DTC and the book-entry system, and Appendix D thereto, as to which such counsel expresses no view, and financial, accounting, statistical or

economic or demographic or earthquake data, or forecasts, numbers charts, tables, graphs, exhibits, projections, assumptions or expressions of opinion, or any management discussion or analysis, all of which such counsel may expressly exclude from the scope of such opinion and as to which such counsel need express no opinion or view) does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(12) letters indicating that the Bonds have received the ratings of “__” by Moody’s and “__” by Fitch;

(13) evidence of required filings with the California Debt and Investment Advisory Commission;

(14) a certificate of the Trustee, dated the date of Closing, to the effect that:

(i) the Trustee is duly organized and existing as a national banking association under the laws of the United States of America, in good standing under the laws of the State, and has the full power and authority to enter into and perform its duties under the Indenture and to execute and deliver the Bonds to the Representative pursuant to the terms of the Indenture;

(ii) the Trustee is duly authorized to enter into the Indenture;

(iii) the execution and delivery by the Trustee of the Indenture, and compliance with the terms thereof, will not, in any material respect, conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties, which conflict breach or default would materially adversely affect the ability of the Trustee to perform its obligations under the Indenture or (except with respect to the lien of the Indenture) result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Trustee;

(iv) exclusive of federal or state securities laws and regulations, other than routine filings required to be made with governmental agencies in order to preserve the Trustee’s authority to perform a trust business (all of which routine filing, to the best of the Trustee’s knowledge, have been made), no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee is or will be required for the execution and delivery by the Trustee of the Indenture or the execution and delivery of the Bonds; and

(v) to the best of the Trustee’s knowledge, there is no litigation pending or threatened against or affecting the Trustee to restrain or enjoin the Trustee’s participation in, or in any way contesting the powers of the Trustee with respect to the transactions contemplated by the Bonds and the Indenture

(15) consent of Plante & Moran LLC to include in the Preliminary Official Statement and the Official Statement the Authority's audited financial statements for the fiscal years ended June 30, 2012 and 2013;

(16) evidence of approval by the California Insurance Commissioner of the Authority entering into this Purchase Contract; and

(17) such additional legal opinions, certificates, instruments or other documents as Bond Counsel reasonably requests to ensure the security of the Bonds or as the Representative may reasonably request to evidence the truth and accuracy, as of the date of this Purchase Contract and as of the date of the Closing, of the Authority's or of the State Treasurer's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Authority or the State Treasurer on or prior to the date of the Closing of all agreements then to be performed and all conditions then to be satisfied by the Authority or the State Treasurer.

All of the opinions, letters, certificates, instruments and other documents mentioned in this Purchase Contract shall be deemed to be in compliance with the provisions of this Purchase Contract if, but only if, they are in form and substance reasonably satisfactory to the Authority, the State Treasurer, the Representative, Bond Counsel, and Underwriters' Counsel. If the State Treasurer and the Authority shall be unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds contained in this Purchase Contract (unless waived by the Underwriters) or if the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriters, the Authority, nor the State Treasurer shall be under further obligation hereunder, except that: (i) the amount of the deposit referred to in Section 4 of this Purchase Contract shall immediately be returned to the Underwriters by the Authority and (ii) the respective obligations of the Authority, the State Treasurer, and the Underwriters set forth in Section 13 of this Purchase Contract shall continue in full force and effect.

Section 13. (a) The Underwriters shall be under no obligation to pay any expenses incident to the performance of the Authority's or the State Treasurer's obligations under this Purchase Contract and the fulfillment of the conditions imposed hereunder, including but not limited to: (i) the fees and disbursements of Bond Counsel; (ii) the fees and disbursements of any counsel other than Underwriters' Counsel, including auditors, engineers, consultants or others retained by the State Treasurer, or the Authority in connection with the transactions contemplated herein; (iii) any fees charged by investment rating agencies for the rating of the Bonds; and (iv) the fees of the financial advisor to the State Treasurer.

(b) The Underwriters shall pay all expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds except as provided by the State Treasurer by agreement, including but not limited to: (i) all advertising expenses in connection with the offering of the Bonds; (ii) all out-of-pocket disbursements and expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds; (iii) the fees and disbursements relating to the qualifications of the Bonds for sale under the securities or "Blue Sky" laws of various jurisdictions and the preparation of the "Blue Sky" Memoranda or Legal Investment Survey; (iv) all other expenses incurred by the Underwriters in connection with the offering and distribution of the Bonds, including the fees and disbursements of Underwriters' Counsel and (v) the fee of the California Debt and Investment Advisory Commission.

Section 14. Any notice or other communication to be given under this Purchase Contract may be given by delivering the same in writing to:

Office of the State Treasurer
Public Finance Division
915 Capitol Mall, Room 261
Sacramento, California 95814
Attention: Blake Fowler

California Earthquake Authority
801 K Street, Suite 1000
Sacramento, California 95814
Attention: Chief Financial Officer

Representative:

Goldman, Sachs & Co.
555 California Street, 45th Floor
San Francisco, California 94104
Attention: Ian Parker, Managing Director

Section 15. This Purchase Contract shall constitute the entire agreement between the parties hereto with respect to the Bonds and is made solely for the benefit of the Authority, the State Treasurer and the Underwriters (including the successors or assigns of any Underwriter), and no other person shall acquire or have any right hereunder or by virtue of this Purchase Contract. All of the Authority's and State Treasurer's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect, regardless of (i) any investigations made by or on behalf of any of the Underwriters; (ii) delivery of and payment for the Bonds, pursuant to this Purchase Contract; and (iii) any termination of this Purchase Contract.

Section 16. If any provision of this Purchase Contract shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Purchase Contract.

Section 17. This Purchase Contract may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute the Purchase Contract by signing any such counterpart.

Section 18. (a) This Purchase Contract shall be governed by and interpreted under the laws of the State of California.

(b) Any and all disputes or legal actions or proceedings arising out of, under and/or pertaining to this Purchase Contract, the Preliminary Official Statement or the final Official Statement or any document relating hereto or thereto shall be brought in the courts of the State located in the County of Sacramento and, by execution and delivery of this Purchase Contract, the parties hereto consent to and hereby accept for themselves and in respect of their property, generally and unconditionally, the jurisdiction of the aforesaid courts. To the extent permitted by law, the parties hereto irrevocably waive any objection, including, without limitation, any objection to the

laying of venue or based on the grounds of forum nonconveniens, which they may now or hereafter have to the bringing of any such action or proceedings in such jurisdiction.

Section 19. Each of the State Treasurer, the Authority and the Underwriters hereby acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Purchase Contract is an arm's-length, commercial transaction between the Authority, the State Treasurer and the Underwriters in which each Underwriter is acting solely as a principal and is not acting as an agent, advisor or fiduciary of the Authority or the State Treasurer, (ii) the Underwriters have not assumed (individually or collectively) any advisory or fiduciary responsibility to the Authority or the State Treasurer with respect to this Purchase Contract, the offering of the Bonds and the discussions, undertakings and procedures leading thereto (irrespective of whether any Underwriter, or any affiliate of an Underwriter, has provided other services or is currently providing other services to the Authority or the State Treasurer on other matters), (iii) the only contractual obligations the Underwriters have to the Authority and the State Treasurer with respect to the transactions contemplated hereby are those set forth in this Purchase Contract, and (iv) the Underwriters have financial and other interests that differ from those of the Authority and the State Treasurer. Each of the Authority, the State Treasurer and the Underwriters have consulted with their own legal, accounting, tax, financial and other advisors, as applicable, to the extent they have deemed appropriate. The Representative acknowledges and agrees that nothing in the foregoing paragraph is intended to limit the Underwriters' obligations of fair dealing under MSRB Rule G-17.

CALIFORNIA EARTHQUAKE AUTHORITY
REVENUE BONDS, SERIES 2014
PURCHASE CONTRACT

Section 20. This Purchase Contract shall become effective upon execution of the acceptance of this Purchase Contract by the Authority and the State Treasurer and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

GOLDMAN, SACHS & CO.,
AS REPRESENTATIVE OF THE
UNDERWRITERS

By: _____
Authorized Signatory

Accepted at _____ a.m./p.m. PT this ___
day of October, 2014

**TREASURER OF THE STATE OF
CALIFORNIA**

By: _____
Deputy Treasurer
For California State Treasurer Bill Lockyer

CALIFORNIA EARTHQUAKE AUTHORITY

By: _____
Chief Financial Officer
California Earthquake Authority

SCHEDULE I
(to Purchase Contract)

List of Underwriters

Senior Managing Underwriter

Goldman, Sachs & Co.

Co- Managing Underwriters

SCHEDULE II
(To Purchase Contract)

[\$(Principal Amount)]
California Earthquake Authority
Revenue Bonds, Series 2014

<u>Maturity</u> <u>(July 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Price</u>
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Redemption Provisions

Redemption of Bonds.

Optional Redemption. The Bonds are not subject to optional redemption prior to maturity.

Mandatory redemption. [The Bonds maturing on July 1, 2019, are subject to mandatory redemption prior to their stated maturity, in part, on a pro rata basis, from sinking fund payments on July 1, 2017 and July 1, 2018, at a redemption price equal to the principal amount of the Bonds to be redeemed (plus accrued interest to the redemption date). The CEA is required by the Indenture to deposit \$40,000,000 in the Principal Account for mandatory redemption of Bonds on July 1, 2017, and \$105,000,000 in the Principal Account for mandatory redemption of Bonds on July 1, 2018. The Indenture permits amounts on deposit in the Principal Account for mandatory redemption to be used instead to purchase any Bonds maturing on July 1, 2019, designated by the CEA, at a purchase price not exceeding the principal amount of the Bonds being purchased (plus accrued interest). Bonds so purchased will be cancelled.]

The Trustee will effect a pro rata reduction of principal of all outstanding Series 2014 Bonds maturing on July 1, 2019, to accomplish the mandatory sinking fund redemptions on July 1, 2017 and July 1, 2018. Upon such pro rata reduction of principal, the Trustee will send DTC written notice of the dollar amount per \$1,000 principal amount payable on account of principal and accrued interest. DTC will be responsible for distributing the principal and accrued interest among the DTC participants, pro rata according to the beneficial interest in the Series 2014 Bonds being redeemed that DTC records list as owned by each DTC participant as of the record date for such payment.

SCHEDULE III
(to Purchase Contract)

PRINCIPAL AMOUNT, UNDERWRITERS' DISCOUNT AND PURCHASE PRICE

SERIES	PAR AMOUNT	UNDERWRITERS' DISCOUNT	PURCHASE PRICE¹
2014	[\$Principal Amount].00		

¹ There will be credited toward the aggregate purchase price of the Bonds at Closing the amount of the deposit made pursuant to Section 4 of this Purchase Contract.

ESCROW AGREEMENT

between the

CALIFORNIA EARTHQUAKE AUTHORITY

and

U.S. BANK NATIONAL ASSOCIATION,

Dated November [], 2014

RELATING TO THE

CALIFORNIA EARTHQUAKE AUTHORITY
SERIES 2006 REVENUE BONDS

ESCROW AGREEMENT

This Escrow Agreement (the “**Escrow Agreement**”), dated November [], 2014, is between the California Earthquake Authority (the “**Authority**”), a public instrumentality of the State of California, and U.S. Bank National Association, a national banking association organized and existing under the laws of the United States of America and being qualified to accept and administer the trust hereby created, as trustee under the Indenture of Trust, dated as of July 1, 2006 (as supplemented, the “**2006 Indenture**”), between the Authority and U.S. Bank National Association (in such capacity, the “**Trustee**”).

WITNESSETH:

WHEREAS, the Authority has heretofore issued \$315,000,000 principal amount of its California Earthquake Authority Series 2006 Revenue Bonds (the “**Series 2006 Bonds**”) under the terms of the 2006 Indenture;

WHEREAS, the Series 2006 Bonds are currently outstanding in the principal amount of \$63,000,000;

WHEREAS, the Authority has determined to provide for the payment in full of all of the outstanding Series 2006 Bonds and the discharge of the 2006 Indenture in accordance with the terms of the 2006 Indenture, from certain available funds;

WHEREAS, Section 5.01 of the 2006 Indenture provides, in part, that at the election of the Authority upon payment in full of all of the Series 2006 Bonds and of all amounts payable under the Series 2006 Indenture, the pledge and lien on Pledged Revenues (as defined in the 2006 Indenture) shall cease, terminate, and be void;

WHEREAS, Section 5.02 of the 2006 Indenture provides, in part, that payment of the Series 2006 Bonds within the meaning of Section 5.01 may be accomplished by irrevocably depositing with the Trustee in trust Government Obligations (as defined in the 2006 Indenture), the principal and interest on which when due will be sufficient as confirmed by a report of an Independent Certified Public Accountant (as defined in the 2006 Indenture), together with any money deposited with the Trustee, for the payment at maturity or prior redemption of the principal and interest on the Series 2006 Bonds;

WHEREAS, Section 5.02 of the 2006 Indenture also provides that if any Series 2006 Bonds are to be redeemed on any date prior to their maturity date, the Trustee is to receive irrevocable instructions to redeem such Series 2006 Bonds on such date, and the 2006 Indenture provides for the mandatory redemption of \$31,500,000 aggregate principal amount of Series 2006 Bonds on July 1, 2015, at a redemption price equal to the principal amount of the Series 2006 Bonds to be redeemed plus accrued interest to the redemption date and without a redemption premium;

WHEREAS, the Authority has obtained the report (the “**Verification Report**”) attached as Exhibit 3 hereto from _____, which the Authority certifies is an Independent Certified Public Accountant as defined in the 2006 Indenture;

WHEREAS, the Authority has caused to be delivered to the Trustee on November [], 2014 for deposit in the Escrow Fund (established pursuant to Section 2 hereof) those certain Government Obligations (the “**Escrow Securities**”) listed in Exhibit 2 attached hereto and cash in the amount of \$ ___ (collectively, the “**Escrow Deposit**”); and

WHEREAS, the principal of and interest on the Escrow Securities when due together with the initial cash deposit, will be sufficient to pay through the final maturity of the Series 2006 Bonds, the principal of and interest on the outstanding Series 2006 Bonds on the dates listed in Exhibit 1 hereto (collectively, the “**Debt Service Requirements**”);

NOW, THEREFORE, in consideration of the mutual agreements herein contained, the Authority and the Trustee hereby agree as follows:

Section 1. Recitals. The recitals in the WHEREAS clauses above are true and correct.

Section 2. Establishment and Maintenance of the Escrow Fund. The Trustee shall establish and maintain an escrow fund (the “**Escrow Fund**”), which must be maintained until all Series 2006 Bonds have been redeemed or paid at maturity as provided in Section 3 hereof, and shall hold the Escrow Securities and the cash (whether constituting the initial deposit in the Escrow Fund or constituting receipts on the Escrow Securities) in the Escrow Fund at all times as a separate trust account wholly segregated from all other securities, investments, or money held by it. All Escrow Securities and all money in the Escrow Fund are hereby irrevocably pledged to secure the payment, including upon redemption, of the Series 2006 Bonds as provided in Section 3 hereof.

Section 3. Transfers Related to and Payments from the Escrow Fund. The Authority hereby irrevocably instructs the Trustee to, and the Trustee shall, do the following: collect and deposit in the Escrow Fund the interest on all Escrow Securities held in the Escrow Fund promptly as such interest becomes due, and use such interest, together with any other cash deposited in the Escrow Fund, to provide for payment of the Debt Service Requirements on the dates set forth in Exhibit 1.

Section 4. Termination of Pledge and Lien on Pledged Revenue; Transfer of Amounts In Pledged Revenue Fund.

(a) The Authority has caused the Escrow Deposit to be deposited in the Escrow Fund held by the Trustee and in Section 7 hereof has given the Trustee irrevocable instructions to redeem Series 2006 Bonds, accordingly, the Authority has caused the Series 2006 Bonds to be deemed paid pursuant to Section 5.02 of the 2006 Indenture. The Authority hereby certifies that all other amounts payable under the 2006 Indenture have been paid. The Authority hereby elects that the pledge and lien on the Pledged Revenue (as defined in the 2006 Indenture) arising under the 2006 Indenture shall cease, terminate and be void in accordance with Section 5.01 of the 2006 Indenture.

(b) The Trustee hereby acknowledges the election of the Authority that the pledge and lien on the Pledged Revenue arising under the 2006 Indenture shall cease, terminate

and be void in accordance with Section 5.01 of the 2006 Indenture, the satisfaction of the conditions precedent to such an election under the 2006 Indenture, and, accordingly, that the pledge and lien on the Pledged Revenues arising under the 2006 Indenture has ceased, terminated and become void.

(c) The Authority hereby requests that the Trustee transfer all amounts held in any account within the Pledged Revenue Fund other than the Disbursement Fund (each such fund held under the 2006 Indenture) to the Disbursement Fund and to transfer such amounts to the Authority in accordance with the 2006 Indenture causing the discharge of the 2006 Indenture to the extent set forth therein and herein.

Section 5. Substitution of Securities in the Escrow Fund. Upon a written request of the Authority to substitute Government Obligations for some or all of the Government Obligations on deposit in the Escrow Fund, the Trustee shall sell, redeem, or otherwise dispose of Government Obligation in the Escrow Fund as requested if, but only if, there are substituted therefor, from the proceeds of such disposition other Government Obligations; provided, however, such substitution will be subject to receipt by the Trustee from the Authority of a written report of an Independent Certified Public Accountant to the effect that the substitute Government Obligations will mature in such principal amounts and at such times and earn interest in such amounts and at such times so that sufficient money will be available to provide for the payment of the Debt Service Requirements from the Escrow Fund as provided in Section 3 hereof. The Trustee shall transfer to the Authority, free from the trust created by the Escrow Agreement, any proceeds of the sale, redemption, or other disposition of such securities in the Escrow Fund not needed for the foregoing substitution purpose. The Trustee will not be liable or responsible for any loss resulting from any investment made pursuant to this section and in full compliance with the provisions hereof.

Section 6. Deficiencies in the Escrow Fund. If at any time it appears to the Trustee that the money in the Escrow Fund will not be sufficient to make all payments required by Section 3, then the Trustee shall notify the Authority in writing as soon as reasonably practicable of such fact, stating the amount of such deficiency and the reason therefor, and the Authority shall deposit with the Trustee in the Escrow Fund, from any legally available moneys, such additional money as may be required to provide for the payment and redemption of the Series 2006 Bonds in accordance with the conditions and terms of the 2006 Indenture and hereof; provided, that the Trustee will in no event or manner be responsible for the failure of the Authority to make any such deposit.

Section 7. Redemption of Series 2006 Bonds; Notice of Redemption. The Authority hereby irrevocably instructs the Trustee to cause the redemption of \$31,500,000 aggregate principal amount of Series 2006 Bonds on July 1, 2015, at a redemption price equal to the principal amount of the Series 2006 Bonds to be redeemed plus accrued interest to the redemption date and without a redemption premium and to provide timely notice of the redemption of such Series 2006 Bonds, in each case in accordance with the 2006 Indenture. As the redemption is a redemption of less than all of the outstanding Series 2006 Bonds, the Trustee is instructed to effect reduction of principal of all outstanding Series 2006 Bonds in accordance with Section 12.01(i) of the 2006 Indenture and send the Depository Trust Company notice of the

dollar amount per \$1,000 principal amount payable on account of principal and accrued interest pursuant to Section 12.01(i) of the 2006 Indenture.

Section 8. Capacity of Trustee. The Trustee is entering into this Escrow Agreement in its capacity as trustee under the 2006 Indenture. The rights, duties and obligations of the Trustee shall, except as otherwise expressly provided herein, be governed by the 2006 Indenture. The Trustee shall be entitled to the protections, immunities and limitations from liability afforded it as Trustee under the 2006 Indenture.

Section 9. Compensation of the Trustee. The Authority shall pay the Trustee a fee for its services hereunder and shall reimburse the Trustee for the out-of-pocket expenses (including but not limited to the fees and expenses, if any, of its counsel or accountants) the Trustee incurs in connection with these services, all as more particularly agreed upon by the Authority and the Trustee; provided, that these fees and expenses will in no event be deducted from the Escrow Fund, and the Trustee has no lien or right of set-off against the Escrow Fund for payment of its fees. The annual fees and costs of the Trustee for any other duties to be carried out by it under the 2006 Indenture shall continue as previously agreed upon between the Trustee and the Authority.

Section 10. Resignation of the Trustee. The Trustee may resign and be discharged of its duties hereunder in accordance with the procedures for resignation or discharge of the Trustee under the 2006 Indenture. Any successor trustee under the 2006 Indenture shall succeed as the Trustee under this Escrow Agreement.

Section 11. Merger or Consolidation of the Trustee. Any company into which the Trustee is merged or converted or with which it may be consolidated; any company resulting from any merger, conversion, or consolidation to which the Trustee is a party; or any company to which the Trustee sells or transfers all or substantially all of its corporate trust business will be the successor to the Trustee and vested with all of the title to the Escrow Fund and all of the trusts, powers, discretions, immunities, privileges, and all other matters as was its predecessor, without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 12. Termination; Unclaimed Money. This Escrow Agreement shall terminate when the principal of, redemption price and interest on all Series 2006 Bonds have been paid; provided, that money held by the Trustee in the Escrow Fund for the payment of any of the Series 2006 Bonds which remain unclaimed shall be disposed of in accordance with Section 5.04 of the 2006 Indenture.

Section 13. Amendment of the Escrow Agreement. The parties may not amend this Escrow Agreement if such amendment would be materially adverse to the interests of the registered owners of the Series 2006 Bonds.

Section 14. Notices. All notices and communications hereunder must be in writing and will be deemed to be duly given in the same manner as set forth in Section 10.04 of the 2006 Indenture.

Section 15. Severability. If any section, paragraph, sentence, clause, or provision of the Escrow Agreement is for any reason held to be invalid or unenforceable, then the invalidity or unenforceability of such section, paragraph, sentence, clause, or provision will not affect any of the remaining provisions of the Escrow Agreement.

Section 16. California Law. The Escrow Agreement is to be governed by and construed and interpreted in accordance with the laws of the State of California.

Section 17. Execution in Counterparts. The Escrow Agreement may be executed in any number of counterparts, each of which will for all purposes be deemed to be an original and all of which will together constitute one and the same instrument.

IN WITNESS WHEREOF, the California Earthquake Authority has caused this Escrow Agreement to be signed in the Authority's name by its Chief Financial Officer, and U.S. Bank, National Association, as Trustee, has caused this Escrow Agreement to be signed by its Authorized Officer, all as of the day and year first above written.

CALIFORNIA EARTHQUAKE AUTHORITY

By _____
Chief Financial Officer

U.S. BANK, NATIONAL ASSOCIATION

By _____
Authorized Officer

EXHIBIT 1

DEBT SERVICE REQUIREMENTS

Period Ending	Interest	Principal	Total Debt Service
January 1, 2015	\$1,943,235.00	--	\$ 1,943,235.00
July 1, 2015	1,943,235.00	\$31,500,000.00 ¹	33,443,235.00
January 1, 2016	971,617.50	--	971,617.50
July 1, 2016	971,617.50	31,500,000.00	32,471,617.50
TOTAL:			\$68,829,705.00

¹ Mandatory sinking fund payment.

EXHIBIT 2

GOVERNMENT OBLIGATIONS FOR DEPOSIT IN ESCROW FUND

<u>Type of Security</u>	<u>CUSIP or ID</u>	<u>Maturity Date</u>	<u>Par Amount</u>
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EXHIBIT 3
VERIFICATION REPORT

Governing Board Memorandum

October 7, 2014

Agenda Item 4: Request for Annual Set-Aside for the CEA Loss Mitigation Fund

Recommended Action: Approve the Annual Set-Aside for the CEA Loss Mitigation Fund

Background:

California Insurance Code section 10089.37 states, in pertinent part:

The board shall set aside in each calendar year an amount equal to 5 percent of investment income accruing on the authority's invested funds, or five million dollars (\$5,000,000), whichever is less, if deemed actuarially sound by a consulting actuary employed or hired by the authority, to be maintained as a subaccount in the California Earthquake Authority Fund. The authority shall use those funds to fund the establishment and operation of an earthquake Loss Mitigation Fund.

The Governing Board last approved set-aside funding for the CEA Loss Mitigation Fund in August 2013. The Board authorized a set-aside amount of \$1,238,300.

Analysis:

The CEA Loss Mitigation Fund is established by law to hold the money to be used for the operational and program expenses of CEA mitigation activities. The Board, however, must approve the mitigation programs before CEA Loss Mitigation Fund money can be spent on program activities.

The Insurance Code also requires that the set-aside of monies for the CEA Loss Mitigation Fund be reviewed “by a consulting actuary employed or hired by the authority” to determine if it will impair the CEA’s actuarial soundness—the CEA’s Chief Actuary has reviewed the staff proposal to transfer funds and has determined that the requested transfer will not impair the CEA’s actuarial soundness, as stated in *Attachment A*.

Staff requests Board authorization and approval to set aside \$1,064,575, an amount equal to five percent of the CEA’s 2013 investment income, for the CEA Loss Mitigation Fund, as calculated and shown on *Attachment B*.

Recommendation:

Staff recommends the Board authorize a set-aside of \$1,064,575 for the CEA Loss Mitigation Fund.



MEMORANDUM

DATE: September 5, 2014
TO: Tim Richison, Chief Financial Officer
FROM: Shawna Ackerman, Chief Actuary
RE: 2013 Earthquake Loss Mitigation Fund

Pursuant to California Insurance Code §10089.37, the California Earthquake Authority (CEA) shall set aside an amount equal to the lesser of 5% of its annual investment income or \$5,000,000 for the Earthquake Loss Mitigation Fund, if deemed actuarially sound. The amount under review for calendar year 2013 is \$1,064,575.

The term “actuarially sound” is often applied to rates. The current rate structure considers and provides for a sufficient provision for the mitigation fund.

In the context of the statute for the mitigation fund, the term may also apply to the CEA’s solvency. I have reviewed the financial data provided to me including the provision for the mitigation fund. The CEA available capital at June 30, 2014 is \$4.617 billion and the total claims paying capacity is \$10.548 billion. The mitigation funds available to set aside are approximately 0.02% of the CEA’s available capital and 0.01% of the CEA’s total claims paying capacity. Because the mitigation fund represents a small percentage of the CEA’s total claims paying capacity, the absence of the funds for claims paying will not impair the CEA’s solvency. Additionally, the mitigation funds can increase the CEA’s ability to pay 100% of claims liabilities to the extent that the funds are used to support activities that reduce the CEA’s losses in the event of a damaging earthquake. Therefore, I conclude that the mitigation fund amount as proposed is actuarially sound as contemplated in the statute.

California Earthquake Authority
Calculation of Available Set-Aside Amount for Loss Mitigation Fund
For the Years Ended December 31

Year	Investment Income	5% of Investment Income	A	B	C	(A + B + C)
			Beginning-of-Year Remaining Funds Available for Set Aside	Lesser of 5% of Investment Income or \$5 million **	Funds Set Aside by the Governing Board	End-of-Year Remaining Funds Available for Set Aside
Balance as of December 31, 2000						\$ -
2001	\$ 44,184,990.04	\$ 2,209,249.50	\$ -	\$ 2,209,249.50	\$ (309,275.55)	\$ 1,899,973.95
2002	\$ 24,782,830.64	\$ 1,239,141.53	\$ 1,899,973.95	\$ 1,239,141.53	\$ (2,509,232.25)	\$ 629,883.23
2003	\$ 25,562,896.69	\$ 1,278,144.83	\$ 629,883.23	\$ 1,278,144.83	\$ -	\$ 1,908,028.07
2004	\$ 35,851,094.85	\$ 1,792,554.74	\$ 1,908,028.07	\$ 1,792,554.74	\$ -	\$ 3,700,582.81
2005	\$ 64,786,415.96	\$ 3,239,320.80	\$ 3,700,582.81	\$ 3,239,320.80	\$ (3,700,582.81)	\$ 3,239,320.80
2006	\$ 118,647,844.32	\$ 5,932,392.22	\$ 3,239,320.80	\$ 5,000,000.00	\$ (3,239,320.80)	\$ 5,000,000.00
2007	\$ 125,616,215.18	\$ 6,280,810.76	\$ 5,000,000.00	\$ 5,000,000.00	\$ (5,000,000.00)	\$ 5,000,000.00
2008	\$ 84,700,308.00	\$ 4,235,015.40	\$ 5,000,000.00	\$ 4,235,015.40	\$ (5,000,000.00)	\$ 4,235,015.40
2009	\$ 55,449,955.00	\$ 2,772,497.75	\$ 4,235,015.40	\$ 2,772,497.75	\$ (4,235,015.40)	\$ 2,772,497.75
2010	\$ 40,385,063.00	\$ 2,019,253.15	\$ 2,772,497.75	\$ 2,019,253.15	\$ (2,772,497.75)	\$ 2,019,253.15
2011	\$ 31,693,442.00	\$ 1,584,672.10	\$ 2,019,253.15	\$ 1,584,672.10	\$ (2,019,253.15)	\$ 1,584,672.10
2012	\$ 24,766,000.00	\$ 1,238,300.00	\$ 1,584,672.10	\$ 1,238,300.00	\$ (1,584,672.10)	\$ 1,238,300.00
2013	\$ 21,291,499	\$ 1,064,574.96	\$ 1,238,300.00	\$ 1,064,574.96	\$ (1,238,300.00)	\$ 1,064,574.96
Balance as of December 31, 2013						\$ 1,064,574.96

** By law, "(t)he board shall set aside in each calendar year an amount equal to 5 percent of investment income accruing on the authority's invested funds, or five million dollars (\$5,000,000), whichever is less..."
Insurance Code section 10089.37.

Governing Board Memorandum

October 7, 2014

Agenda Item 5: Napa Quake Post Event Communications

Recommended Action: No action required – Information Only

Immediately following the 6.0 magnitude earthquake that occurred in the Napa region on August 24, 2014, CEA Communications and External Affairs distributed a news release with an estimate that about 15,000 CEA policyholders may have experienced moderate to strong shaking.

The CEA news release also noted that CEA policies provide certain coverages that are not subjecting to any deductible, such as coverage for additional living expenses and the first \$1,500 of the coverage for emergency repairs. In the Napa region, just 6 percent of residents with home insurance also have an earthquake policy.

Background and Analysis:

During the week that followed the earthquake in Napa, the CEA completed nearly 40 interviews with reporters. Topics discussed with the media ranged from why the CEA was created to how earthquake insurance coverage works. Reporters were directed to the CEA's website for any additional information they may have required on the organization and its policies.

Though CEA information was delivered as planned, it proved to be a challenging week for reporters and the CEA alike. Reporters covering the topic often had a difficult time fully digesting earthquake insurance details within the short period of time they had available to produce a news story.

Time constraints resulted in a large amount of news information that misrepresented the average CEA premium for earthquake insurance policies, and how CEA policy deductibles work.

The CEA moved swiftly to address this misinformation through placement of an "open letter" advertisement (attached) to California residents in 25 newspapers statewide, including the San Francisco Chronicle, Los Angeles Times, Orange County Register, San Jose Mercury News, Oakland Tribune, San Diego Union-Tribune and Sacramento Bee.

The CEA also mailed and emailed copies of the *Open Letter to Californians* with a complementary two-sided document entitled *CEA Earthquake Insurance – Some Basics* (also attached) to about 800 reporters and 23,000 agents statewide.

This advertising—with a circulation of over 3.3 million—plus production costs and postage for the mailing, were billed to the CEA's post-event budget.

In addition, in the Bay Area Designated Market Area (DMA) in which the Napa earthquake occurred, the CEA also plans to distribute a 12-page insert on earthquake insurance, produced by the San Francisco Examiner, through 13 newspapers on Sunday, October 12 to correspond with the Loma Prieta Earthquake 25th Anniversary Commemoration.

Titled “When the shaking stops, too few households on solid ground,” the lead story focuses on more than a half-trillion dollars (\$602 billion) in potential reconstruction costs from earthquake damage to homes in the 10-county Bay Area region that are not covered by earthquake insurance policies.

Sidebar stories for the insert feature USGS, Risk Management Solutions (RMS), FEMA, American Red Cross, California Residential Mitigation Program, and United Policyholders, as well as the ABC News 7 Loma Prieta Commemorative special, sponsored by the CEA.

Newspapers through which the insert will be distributed include the San Francisco Examiner, San Francisco Chronicle, Oakland Tribune, San Jose Mercury News, Santa Cruz Sentinel and Santa Rosa Press Democrat.

This advertising, with a circulation of 994,857, was billed to the CEA’s annual advertising budget.

Newspaper advertising related to the *Open Letter* and the earthquake insurance insert was scheduled to run alongside radio advertising advising CEA policyholders on how to file a claim; the Bay Area Renters campaign on TV, radio and outdoor; and the statewide *California Rocks!* campaign on TV, radio, in direct mail, and online.

Recommendation: No action required – information only.

CaliforniaROCKS!

It's a cool place to live. But it rocks from earthquakes, too.

A note to Californians about earthquake insurance:

At the California Earthquake Authority, our thoughts are with those injured in the recent earthquake near Napa—fortunately, no lives were lost. And while many families in and around Napa have house damage to repair, most face replacing only broken household items.

The La Habra (Orange County) earthquake in March also caused expensive damage, but thankfully no serious injuries and no fatalities.

But imagine how a normal day—for any of us—would turn upside down if a major earthquake caused major damage to *our* home, *our* community. Today, each of us can hit the pause button and ask, what can I do differently to get ready?

Let's start with some financial basics—insuring against the losses. We believe CEA earthquake-insurance products offer flexible, useful coverage. But as we learned on the ground in Napa, the price and deductibles for CEA insurance are often misunderstood.

- *The price to insure your home is based on straightforward risk factors.* You might be surprised how affordable CEA coverage is for a newer, one-story house. For an older, two-story house on or near a fault, your risk is greater so the price will be higher.
- *CEA does not require policyholders to “pay” a deductible.* Deductibles for catastrophe insurance are significant, no doubt—that keeps prices lower. But a CEA policy deductible only defines when the policy begins paying for loss—you never cut a check to pay a CEA deductible.
- *These important coverages have no deductible.* We cover \$1,500 for emergency repairs and up to \$25,000 for living expenses if you can't live in your home after an earthquake, at no deductible.
- *You have real options to access coverage.* You can choose a deductible that applies just to your belongings—meaning you're more likely to receive a payment after that moderate shaker that does no significant damage to your house.
- *We know condo owners have unique needs.* Homeowners associations can assess owners to repair expensive quake damage—the CEA offers loss-assessment coverage.
- *Renters insurance is reasonably priced.* Earthquake insurance for renters is usually less than \$15 per month, with a flat \$750 deductible.

And of course, there's no ignoring these earthquake basics—planning to survive and recover.

- *Know your risk.* Do you live, work, or go to school on or near a fault? In a home or building vulnerable to shaking?
- *Know what to do when the ground shakes.* Don't run for the door—drop to the ground. Take cover under a sturdy desk or table. And hold on until the shaking stops.

Ask your home insurance agent about earthquake insurance. Check CEA policies for coverage details. And whether or not you buy a California Earthquake Authority policy, act now and do your research—before that unpredictable big one hits home.



Glenn Pomeroy, CEO
California Earthquake Authority

CaliforniaROCKS!

It's a cool place to live. But it rocks from earthquakes, too.

CEA Earthquake Insurance – Some Basics

Why CEA earthquake insurance?

- 2,000 known faults crisscross California, and on average, according to the official *California Multihazard Mitigation Plan*:
 - Moderate earthquakes (magnitude 5.5) hit California 3 to 4 times a year.
 - A strong earthquake (magnitude 6 to 6.9) hits California every 2 to 3 years.
 - A major earthquake (magnitude 7 to 7.9) hits California about every 10 years.
- Regular homeowners, condo-unit, and renters policies don't cover earthquake damage.
- Today, even if a resident qualifies for a disaster grant, it may not cover the cost to repair or rebuild. Disaster loans, if available, are limited and must be repaid.

CEA premiums are based on straightforward, objective risk factors.

CEA premiums are based on science, not profit. Determining factors are the insured value, location, construction- and foundation-types, age, number of stories, and coverage choices.

Premiums (average, statewide) for each CEA policy type (as of 7/31/2014):

Homeowners	\$798 per year (\$66.50 per month)
Mobilehome	\$119 per year (\$9.92 per month)
Condo-unit	\$381 per year (\$31.75 per month)
Renters	\$120 per year (\$10 per month)

Premiums may be higher in high-risk areas and lower in low-risk areas.

CEA does not require policyholders to "pay" a deductible.

A CEA policy deductible defines when the CEA policy begins paying for loss—it does not impose an out-of-pocket payment obligation on the policyholder. Two CEA coverages come with zero deductible: \$1,500 for emergency repairs and, if a home can't be occupied after an earthquake, up to \$25,000 for additional living expenses.

Useful, flexible coverage: separate deductible for personal-belongings coverage.

A CEA policyholder can choose a *separate* deductible for personal belongings that makes a claim payment more likely after a moderate shaker that doesn't damage the house.

- CEA's *Standard Homeowners* policy includes dwelling, personal property, and additional living expense coverages.
- With CEA's *Homeowner's Choice* policy, the policyholder buys dwelling coverage but may also insure personal property, cover additional living expenses, or both.

Condo owners and renters have unique needs.

- A condo-owners association can assess owners to repair expensive, uninsured quake damage to common areas—the CEA offers condo loss-assessment coverage.
- CEA renters earthquake insurance covers personal property such as electronics and furniture with a flat \$750 deductible, and covers additional living expenses up to \$25,000 with no deductible.

All details, limits, and conditions of CEA coverages are found in CEA insurance policies.

CEA Average Annual Premiums (as of 7/31/2014)

County	Homeowners	Mobilehome	Condo-unit	Renters
Fresno	\$159	\$48	\$117	\$50
Humboldt	\$624	\$115	\$315	\$121
Los Angeles	\$970	\$181	\$493	\$137
Monterey	\$395	\$90	\$179	\$67
Orange	\$578	\$127	\$244	\$87
Sacramento	\$172	\$52	\$124	\$49
San Bernardino	\$748	\$141	\$472	\$142
San Diego	\$222	\$58	\$152	\$49
San Francisco	\$2,156	n/a	\$575	\$168

CEA Coverage Scenario for a Moderate Earthquake

Coverage Type	CEA Standard Homeowners Limits of Insurance	CEA Homeowners Choice Limits of Insurance <i>(All optional coverages purchased)</i>
Dwelling (Coverages A/B)	\$500,000 <i>(10% deductible chosen: \$50,000)</i>	\$500,000 <i>(10% deductible chosen: \$50,000)</i>
Personal Property (Coverage C)	\$100,000 <i>(Dwelling deductible must first be met.)</i>	\$100,000 <i>(15% deductible chosen: \$15,000)</i>
Additional Living Expenses/Loss of Use (Coverage D)	\$10,000 <i>(No deductible)</i>	\$10,000 <i>(No deductible)</i>
Damage Scenario	Amount of Damage Caused by Moderate Earthquake	
Dwelling	\$30,000	\$30,000
Emergency Repairs	\$1,500	\$1,500
Personal Property	\$35,000	\$35,000
Additional Living Expenses/Loss of Use	\$10,000	\$10,000
Coverage Type	CEA Payment-Standard Homeowners	CEA Payment-Homeowners Choice
Dwelling (Coverage A/B)	\$0 <i>(Deductible not met)</i>	\$0 <i>(Deductible not met)</i>
Emergency Repairs (included in Coverage A)	\$1,500 <i>(No deductible for first \$1,500 of emergency repairs.)</i>	\$1,500 <i>(No deductible for first \$1,500 of emergency repairs.)</i>
Personal Property (Coverage C)	\$0 <i>(Dwelling deductible not met)</i>	\$20,000 <i>(Homeowners Choice separate deductible met.)</i>
Additional Living Expenses/Loss of Use (Coverage D)	\$10,000	\$10,000
Total Claim Payment	\$11,500	\$31,500

Additional Resources

Find more information at these links:

- myhazards.calema.ca.gov
- ShakeOut.org/California
- redcross.org/prepare/location/home-family/plan
- totallyunprepared.com

www.CaliforniaRocks.com

