Date of Notice: Monday, December 3, 2012

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

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

DATE: **Thursday, December 13, 2012**

TIME: **9:00 a.m.**

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

Audio **Video (with audio)**

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

AGENDA:

1. Call to order and member roll call:

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

   Establishment of a quorum

2. Consideration and approval of the minutes of the October 25, 2012, Governing Board meeting.

3. Executive Report by Chief Executive Officer Glenn Pomeroy; assisted by CEA executive staff, Mr. Pomeroy's report will include an update for the Board on federal and state legislative activities of interest to the CEA.

4. Chief Financial Officer Tim Richison will present a financial report.

5. Mr. Richison and CEA General Counsel Danny Marshall will seek Board approval of new, written guidelines for the CEA's securing of risk-transfer products; Mr. Richison will ask that the Board grant CEA staff, under the new Board-approved guidelines and within stated pricing and time parameters, authorization to secure reinsurance and other risk-transfer on an as-needed basis.

6. Chief Actuary Shawna Ackerman will present for Board consideration a renewal and extension of the CEA's contract with earthquake modeling firm Risk Management Services ("RMS").

7. Chief Mitigation Officer Janiele Maffei will present a summary report on the September 17, 2012, Guidelines Workshop, and provide an outline for continued work on the Guidelines development.

8. Ms. Maffei will update the Board on the California Residential Mitigation Program (CRMP) incentive program.

9. Ms. Maffei will report on the CEA-sponsored Mitigation Research Workshop, to be held in Millbrae, California, on January 24, 2013.

10. Mr. Pomeroy will present the 2013 CEA Business Implementation Plan for Board consideration and approval.

11. In support of the 2013 CEA Business Implementation Plan, Mr. Pomeroy and Mr. Richison will present the 2013 CEA insurance-services budget for Board consideration and approval.

12. In support of the mitigation-related parts of the 2013 CEA Business Implementation Plan, Ms. Maffei and Mr. Richison will present the 2013 CEA mitigation-program budget for Board consideration and approval.

13. Mr. Pomeroy will request Board approval to extend the term of and modify Mr. Richison's CEA employment contract.

14. Mr. Pomeroy will present for Board consideration and approval a revised 2013 Governing Board meeting calendar.

15. 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.

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

17. Adjournment.

For further information about this notice or its contents:

General Information:
Susan Pitton
(916) 325-3800
Toll free (877) 797-4300

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

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

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

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

Please contact 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.

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Draft Meeting Minutes are not available.

Please see CEA Governing Board Meeting
Approved Minutes.

Governing Board Memorandum

December 13, 2012

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

Recommended Action: No action required – information only

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

FINANCIAL REPORT

GOVERNING BOARD MEETING
THURSDAY, December 13, 2012
9:00 A.M.

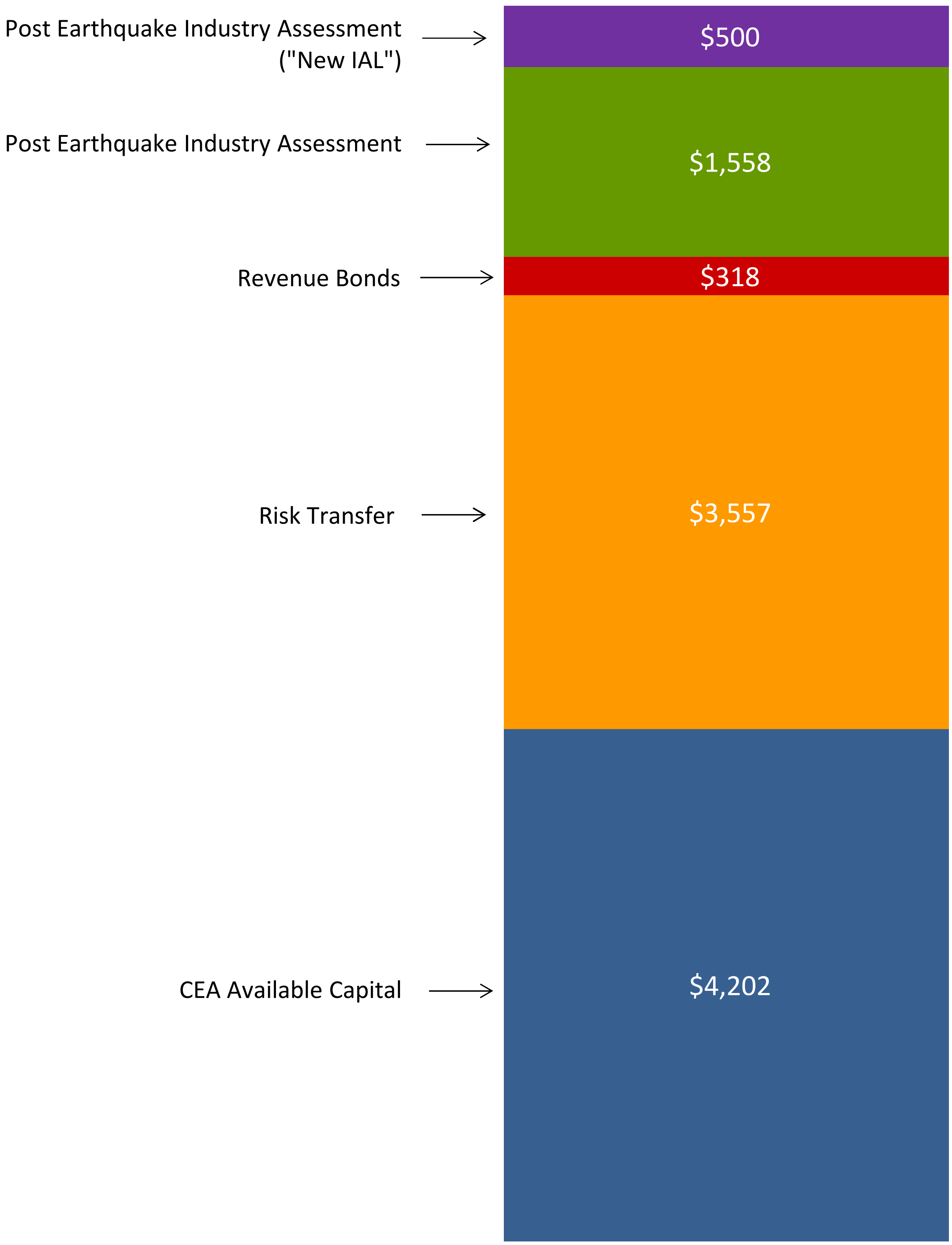
California Earthquake Authority
Available Capital Report

Capital as of October 31, 2012

Cash & Investments (includes capital contributions and premiums)	$	4,700,693,086 *
Interest, Securities & Restricted Securities Receivable	$	15,602,796
Premium Receivable	$	41,178,706
Risk Capital Surcharge & Capital Contributions Receivable	$	-
Other Assets	$	515,015
Investments from Revenue Bond Proceeds	$	(317,559,881)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	$	(20,624,662)
Unearned Premium Collected	$	(213,948,172)
Accrued Reinsurance Premium Expense	$	(2,761,508)
Accounts and Securities Payable, and Accrued Expenses	$	(1,125,280)
CEA Available Capital	**$**	**4,201,970,100**

** Does not include Earthquake Loss Mitigation Fund cash and investments of* *$24,764,367*

California Earthquake Authority
Claim-paying Capacity
as of October 31, 2012



Total Capacity $10,135M

California Earthquake Authority
Risk-Transfer Program
as of October 31, 2012

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
Contract A	January 1, 2012 - December 31, 2012	655,220,000	7.00%	45,865,400
Contract A1	January 1, 2012 - December 31, 2012	400,000,000	7.30%	29,200,000
Contract A2	January 1, 2012 - December 31, 2012	200,000,000	7.15%	14,300,000
Contract A3	January 1, 2012 - December 31, 2012	250,000,000	7.20%	18,000,000
Contract B	April 1, 2012 - March 31, 2013	1,251,464,950	6.20%	77,590,827
Contract C	May 1, 2012 - April 30, 2013	100,000,000	4.50%	4,500,000
September Program Contract #1	September 1, 2012 - August 31, 2015	100,000,000	5.70%	5,700,000
Total Traditional Reinsurance		**2,956,684,950**		

Transformer Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
Contract 1	August 2, 2011 – August 1, 2014	150,000,000	7.78%	11,670,000
Contract 2	February 7, 2012 – February 6, 2015	150,000,000	8.39%	12,585,000
Contract 3	August 1, 2012 – July 31, 2015	300,000,000	5.64%	16,923,000
Total Transformer Reinsurance		**600,000,000**		

Total Risk-Transfer	**3,556,684,950**

California Earthquake Authority
Balance Sheet
As of October 31, 2012

Assets

Cash and investments:	
Cash and cash equivalents	286,081,615
Restricted cash & equivalents	45,390,557
Restricted investments	317,560,097
Investments	4,076,425,184
Total cash and investments	4,725,457,453
Premiums receivable, net of allowance for doubtful accounts of $12,207,075	41,178,706
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	15,602,796
Securities receivable	-
Restricted securities receivable	-
Prepaid reinsurance premium	32,101,038
Transformer reinsurance premum deposit	14,634,112
Prepaid transformer maintenance premium	4,924,599
Equipment, net	760,762
Deferred policy acquisition costs	39,711,255
Other assets	515,015
Total assets	$ 4,874,885,737

Liabilities and Net Assets

Unearned premiums	$ 295,690,654
Accounts payable and accrued expenses	1,114,378
Accrued reinsurance premium expense	2,761,508
Claim and claim expense reserves	-
Securities payable	10,902
Revenue bond payable	126,000,000
Revenue bond interest payable	2,590,980
Total liabilities	428,168,422
Net assets:	
Restricted, expendable	234,722,480
Unrestricted*	4,211,994,835
Total net assets	4,446,717,314
Total liabilities and net assets	$ 4,874,885,737

* Includes Cumulative Participating Insurer Contributed Captial of $777,384,796
and State of California Contributed Capital of $180,039,621

Unaudited

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year-to-Date Ended October 31, 2012

Underwriting income:	
Premiums written	$ 478,577,100
Less premiums ceded - reinsurance	(182,663,896)
Less risk capital surcharge	-
Net premiums written	295,913,204
Change in unearned premiums	14,208,677
Net unearned premiums	14,208,677
Net premiums earned	310,121,881
Expenses:	
Claim and claims expense	170,908
Participating Insurer commissions	49,292,935
Participating Insurer operating costs	15,263,682
Reinsurance broker commissions	4,000,000
Pro forma premium taxes	10,989,543
Financing expenses, net	3,923,316
Earthquake Loss Mitigation Fund expenses	407,779
Other underwriting expenses	22,821,744
Total expenses	106,869,907
Underwriting profit	203,251,974
Net investment income	11,573,595
Other income	366,799
Participating Insurer Contributed Capital	-
State of California premium tax contribution	10,989,543
Increase in net assets	226,181,911
Net assets, beginning of year	4,220,535,403
Net assets, end of year	$ 4,446,717,314

Unaudited

California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2012 Budget	**Adjustments thru 10/31/2012**	**Augmentations thru 10/31/2012**	**2012 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 10/31/12**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) at 10/31/12**	**Percentage used of Augmented & Adjusted Approved 2012 Budget**
Salaries & Benefits	$ 8,015,623	$ -	$ -	$ 8,015,623	$ 8,761,022	$ (745,399)	109.30%
Rent	635,593	-	-	635,593	611,550	24,043	96.22%
Travel	335,402	-	-	335,402	294,770	40,632	87.89%
Non-paid Consultant Travel	8,066	-	-	8,066	1,387	6,679	17.20%
Telecommunications	232,707	-	-	232,707	179,495	53,212	77.13%
Training	161,668	-	-	161,668	165,740	(4,072)	102.52%
Insurance	143,078	-	-	143,078	143,415	(337)	100.24%
Board/Panel Services	19,781	-	-	19,781	19,196	585	97.04%
Administration & Office	1,037,706	-	-	1,037,706	812,355	225,351	78.28%
(Software Maint & Support, Printing & Stationery, Postage)							
Administrative Contracted Services							
Data Mgmt Services	493,170	-	-	493,170	453,076	40,094	91.87%
Other Administrative Contracted Services	37,780	-	-	37,780	41,244	(3,464)	109.17%
Furniture/Equipment	41,005	-	-	41,005	27,849	13,156	67.92%
EDP Hardware/Software	215,671	-	-	215,671	579,429	(363,758)	268.66%
Dept of Insurance Examination	28,954	-	-	28,954	(34,914)	63,868	-120.58%
Total Operating Expenses	**$ 11,406,204**	**$ -**	**$ -**	**$ 11,406,204**	**$ 12,055,614**	**$ (649,410)**	**105.69%**
Consulting Services							
Actuarial	25,000	-	-	25,000	-	25,000	0.00%
Administrative Consulting	-	-	-	-	-	-	0.00%
Executive Recruiting	45,000	-	-	45,000	-	45,000	0.00%
Financial Consulting	300,615	-	-	300,615	222,060	78,555	73.87%
Government Relations	217,301	-	-	217,301	219,646	(2,345)	101.08%
Information Systems	1,642,708	-	-	1,642,708	486,129	1,156,579	29.59%
Information Technology	6,000	-	-	6,000	5,000	1,000	83.33%
Internal Audit	86,843	-	-	86,843	(13,483)	100,326	-15.53%
Investment Compliance	20,000	-	-	20,000	-	20,000	0.00%
Legal Consulting	5,395	-	-	5,395	-	5,395	0.00%
Public Relations	200,000	-	-	200,000	-	200,000	0.00%
Other Consulting Services	296,859	-	-	296,859	160,447	136,412	54.05%
Total Consulting Services	$ 2,845,721	$ -	$ -	$ 2,845,721	$ 1,079,799	$ 1,765,922	37.94%

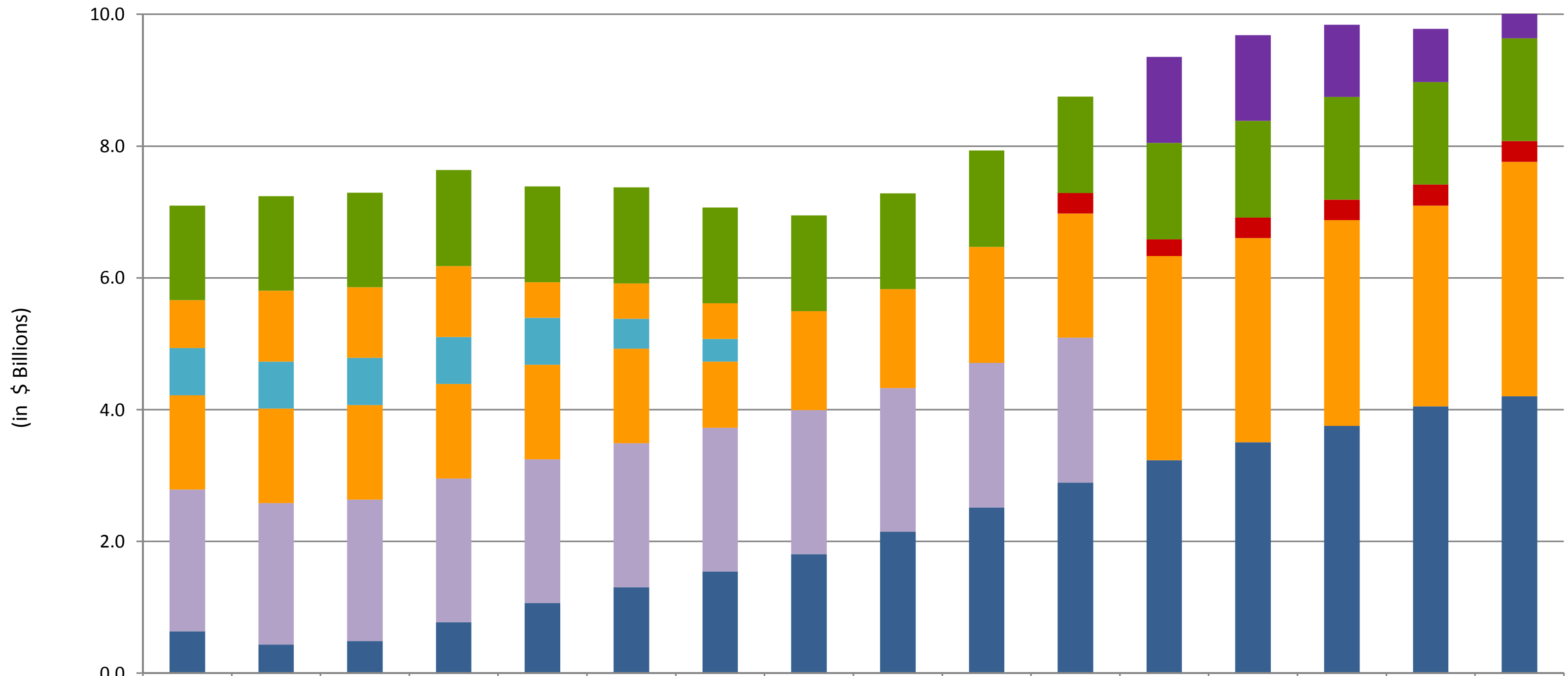
California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2012 Budget	**Adjustments thru 10/31/2012**	**Augmentations thru 10/31/2012**	**2012 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 10/31/12**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) at 10/31/12**	**Percentage used of Augmented & Adjusted Approved 2012 Budget**
Research	$ 1,018,000	$ -	$ -	$ 1,018,000	$ 559,000	$ 459,000	54.91%
Contracted Services							
Agent Services	-	-	-	-	-	-	0.00%
Audit Services	160,000	-	-	160,000	130,000	30,000	81.25%
Brochure/Information Products	175	-	-	175	-	175	0.00%
Consumer Services	-	-	-	-	(1,238)	1,238	0.00%
Contracted Marketing & Outreach	348,065	-	-	348,065	20,435	327,630	5.87%
Investment Compliance	-	-	-	-	-	-	0.00%
Legal Services-Claims Counsel	200,000	-	-	200,000	135,876	64,124	67.94%
Legal Services-Claims Counsel-PI	-	-	-	-	-	-	0.00%
Legal Service - Non-Claims	2,685,698	-	-	2,685,698	1,707,848	977,850	63.59%
Marketing Services	9,239,714	-	-	9,239,714	5,024,120	4,215,594	54.38%
Media Services	137,000	-	-	137,000	-	137,000	0.00%
Modeling Services	666,470	-	-	666,470	615,518	50,952	92.35%
Web Development/Maintenance	-	-	-	-	-	-	0.00%
Other Contracted Services	675,758	-	-	675,758	52,983	622,775	7.84%
Total Contracted Services	$ 14,112,880	$ -	$ -	$ 14,112,880	$ 7,685,542	$ 6,427,338	54.46%
Participating Insurer Operating Costs	68,573,084	-	-	68,573,084	47,872,067	20,701,017	69.81%
Participating Insurer Commissions	21,189,083	-	-	21,189,083	14,776,324	6,412,759	69.74%
Investment Expenses	2,077,067	-	-	2,077,067	1,691,863	385,204	81.45%
Financing Expenses	8,864,057	-	-	8,864,057	7,739,533	1,124,524	87.31%
Reinsurance	200,453,436	-	27,188,128	227,641,564	186,663,896	40,977,668	82.00%
Total Expenditures	**$ 330,539,532**	**$ -**	**$ 27,188,128**	**$ 357,727,660**	**$ 280,123,638**	**$ 77,604,022**	**78.31%**

California Earthquake Authority
Mitigation
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2012 Budget	**Adjustments thru 10/31/2012**	**Augmentations thru 10/31/2012**	**2012 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 10/31/12**	**Augmented & Adjusted Approved Budget (d) vs. Actual Expenses (e) at 10/31/12**	**Percentage used of Augmented & Adjusted Approved 2012 Budget**
Salaries & Benefits	$ 271,500	$ -	$ -	$ 271,500	$ 206,943	$ 64,557	76.22%
Rent	21,000	-	-	21,000	19,004	1,996	90.50%
Travel	30,000	-	-	30,000	27,113	2,887	90.38%
Non-paid Consultant Travel	-	-	-	-	-	-	0.00%
Telecommunications	7,000	-	-	7,000	4,256	2,744	60.80%
Training	15,000	-	-	15,000	6,036	8,964	40.24%
Insurance	5,000	-	-	5,000	-	5,000	0.00%
Board/Panel Services	-	-	-	-	-	-	0.00%
Administration & Office	32,000	-	-	32,000	23,546	8,454	73.58%
(Software Maint & Support, Printing & Stationery, Postage)							
Administrative Contracted Services							
Data Mgmt Services	-	-	-	-	-	-	0.00%
Other Administrative Contracted Services	-	-	-	-	-	-	0.00%
Furniture/Equipment	900	-	-	900	339	561	37.67%
EDP Hardware/Software	-	-	-	-	605	(605)	0.00%
Dept of Insurance Examination	-	-	-	-	-	-	0.00%
Total Operating Expenses	**$ 382,400**	**$ -**	**$ -**	**$ 382,400**	**$ 287,842**	**$ 94,558**	**75.27%**
Consulting Services							
Other Consulting Services	50,000	-	-	50,000	-	50,000	0.00%
Total Consulting Services	**$ 50,000**	**$ -**	**$ -**	**$ 50,000**	**$ -**	**$ 50,000**	**0.00%**
Contracted Services							
Marketing Services	100,000	-	-	100,000	98,646	1,354	98.65%
Total Contracted Services	**$ 100,000**	**$ -**	**$ -**	**$ 100,000**	**$ 98,646**	**1,354**	**98.65%**
Investment Expenses	25,000	-	-	25,000	16,747	8,253	66.99%
Total Expenditures	**$ 557,400**	**$ -**	**$ -**	**$ 557,400**	**$ 403,235**	**$ 154,165**	72.34%

California Earthquake Authority
Total Claim-Paying Capacity (CPC)
as of October 31, 2012

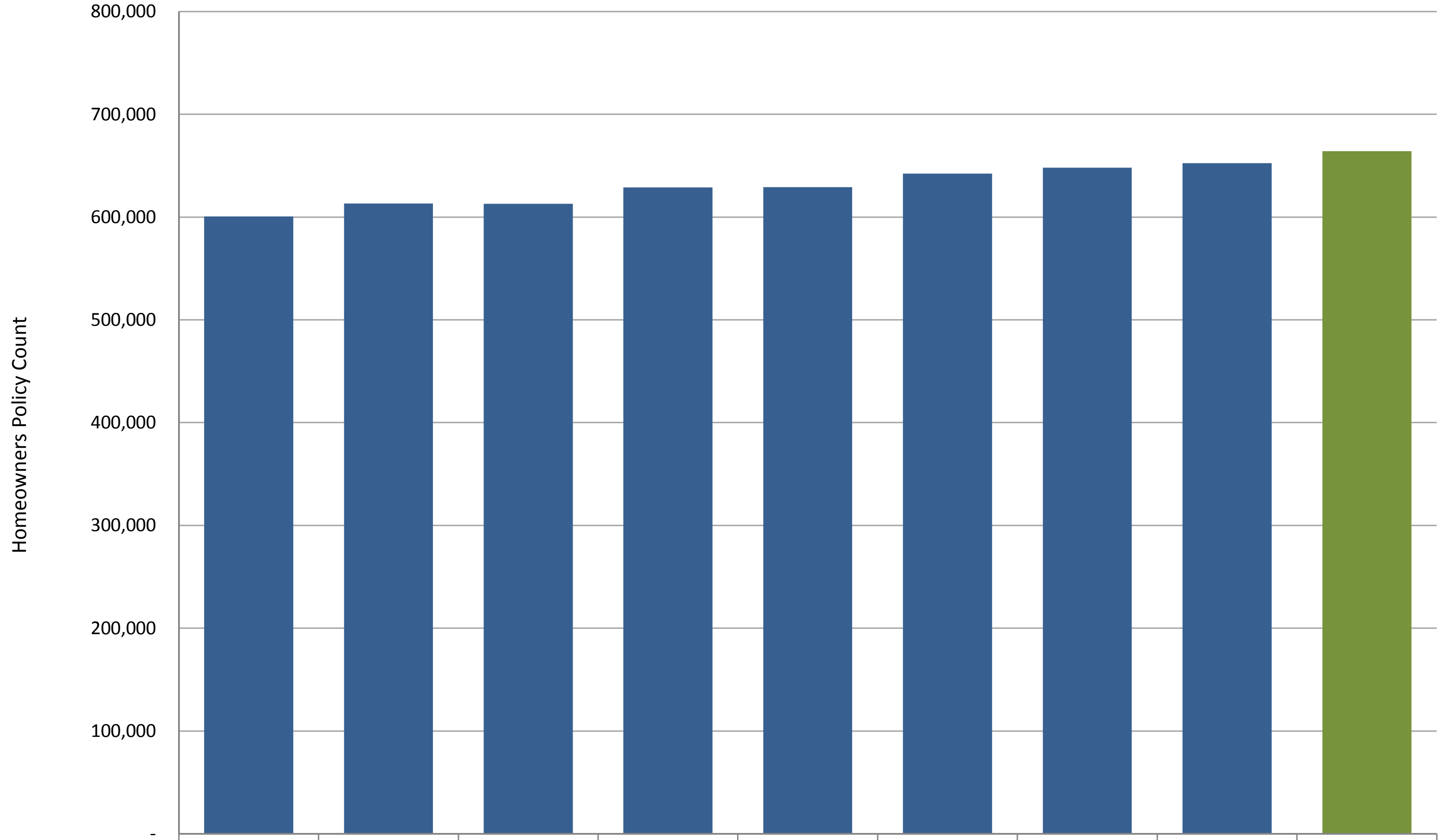


	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Total CPC	$7.095	$7.240	$7.293	$7.635	$7.390	$7.373	$7.069	$6.948	$7.284	$7.933	$8.752	$9.354	$9.685	$9.840	$9.777	$10.135
New Industry Assessment	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	1.304	1.304	1.095	0.804	0.500
2nd Industry Assessment	1.434	1.434	1.434	1.456	1.456	1.456	1.456	1.456	1.456	1.465	1.465	1.465	1.465	1.558	1.558	1.558
Revenue Bonds	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.311	0.254	0.311	0.311	0.317	0.318
Risk Transfer, 2nd Layer	0.727	1.075	1.075	1.075	0.538	0.538	0.538	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Line of Credit	0.716	0.716	0.716	0.716	0.716	0.456	0.348	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Risk Transfer, 1st Layer	1.433	1.433	1.433	1.433	1.433	1.433	1.000	1.500	1.500	1.756	1.885	3.100	3.100	3.123	3.050	3.557
1st Industry Assessment	2.150	2.150	2.150	2.183	2.183	2.183	2.183	2.183	2.183	2.197	2.197	0.000	0.000	0.000	0.000	0.000
CEA Available Capital	0.635	0.432	0.485	0.772	1.064	1.307	1.544	1.809	2.145	2.515	2.894	3.231	3.505	3.753	4.048	4.202

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

*as of October 31, 2012

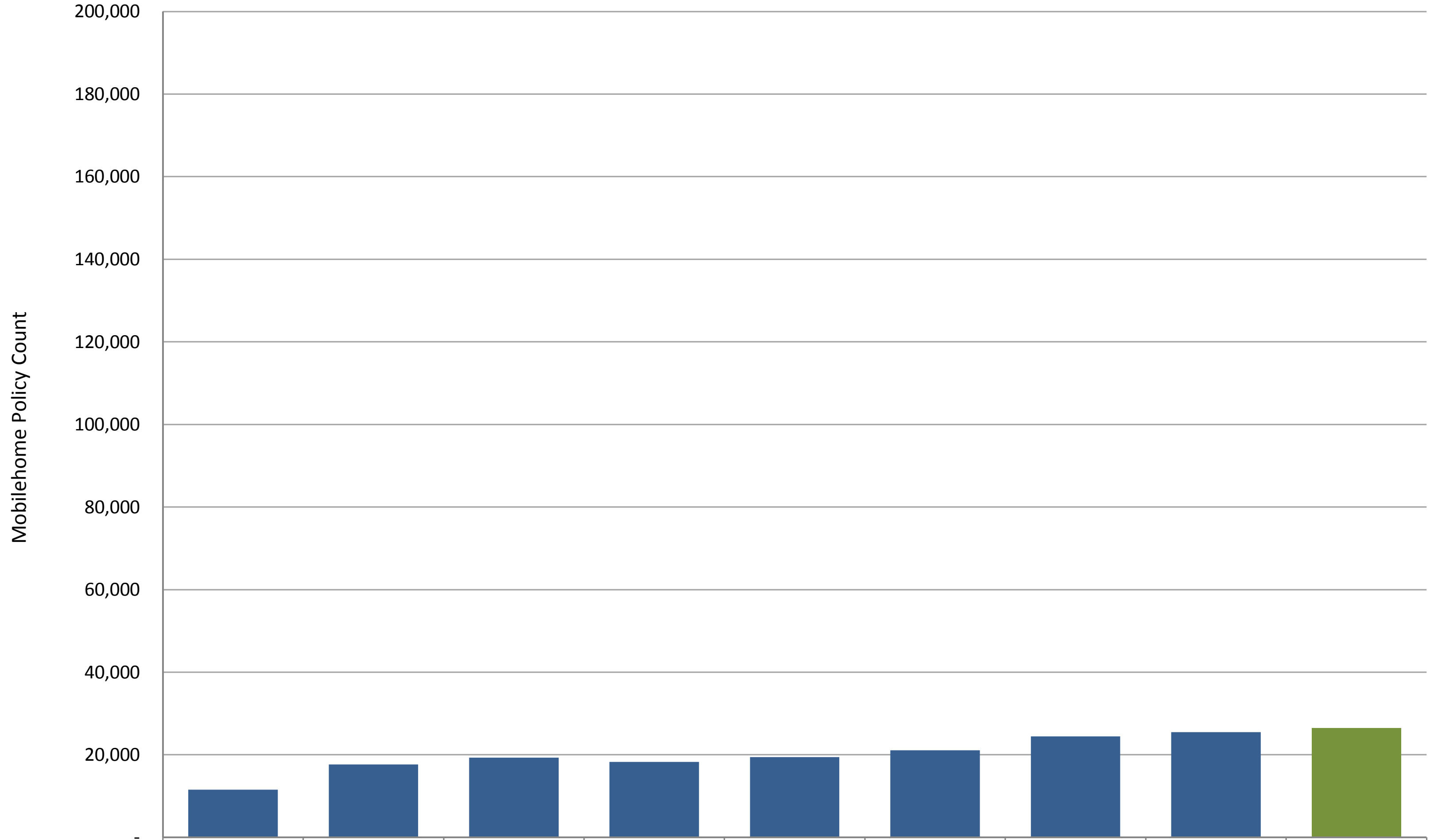
California Earthquake Authority
Homeowners Policy Count
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Policy Count	600,673	613,266	612,941	628,802	629,138	642,174	647,947	652,387	663,847
Annual Change in Policy Count	0.0%	2.1%	-0.1%	2.6%	0.1%	2.1%	0.9%	0.7%	1.8%

* as of October 31, 2012

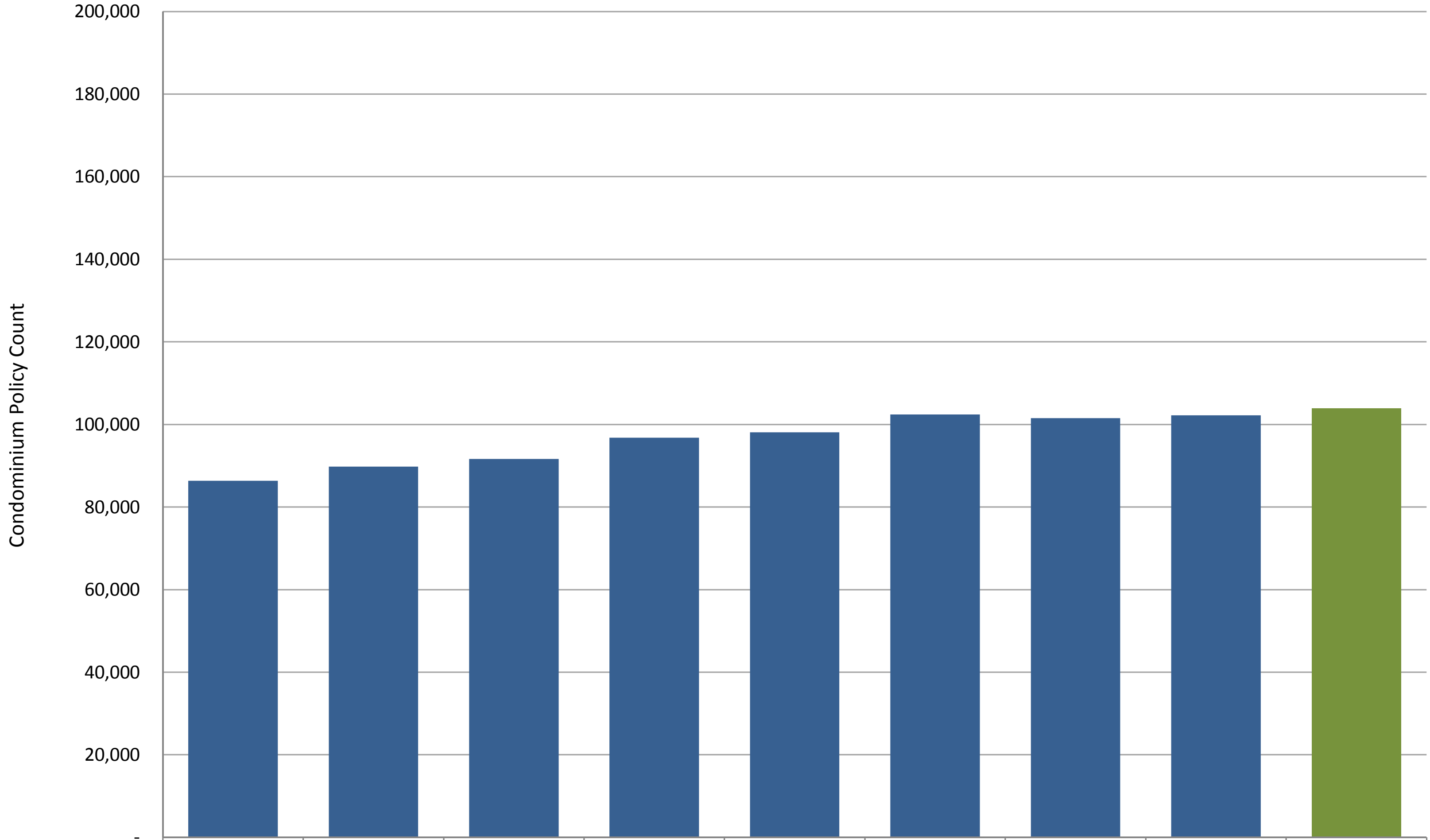
California Earthquake Authority
Mobilehome Policy Count
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Policy Count	11,585	17,631	19,289	18,257	19,437	21,118	24,423	25,518	26,418
Annual Change in Policy Count	0.0%	52.2%	9.4%	-5.4%	6.5%	8.6%	15.7%	4.5%	3.5%

* as of October 31, 2012

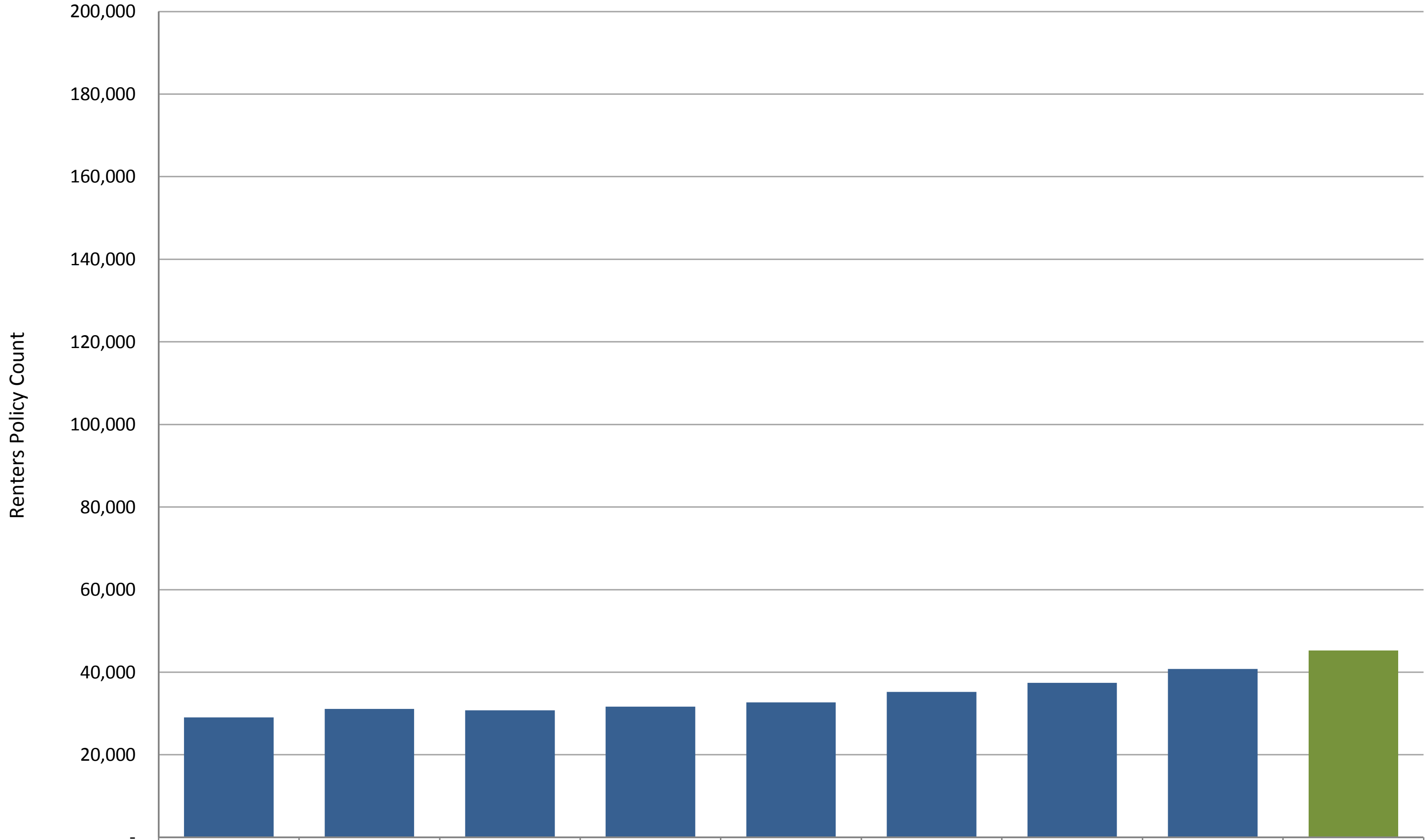
California Earthquake Authority
Condominium Policy Count
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Policy Count	86,359	89,758	91,643	96,758	98,106	102,391	101,553	102,197	103,877
Annual Change in Policy Count	0.0%	3.9%	2.1%	5.6%	1.4%	4.4%	-0.8%	0.6%	1.6%

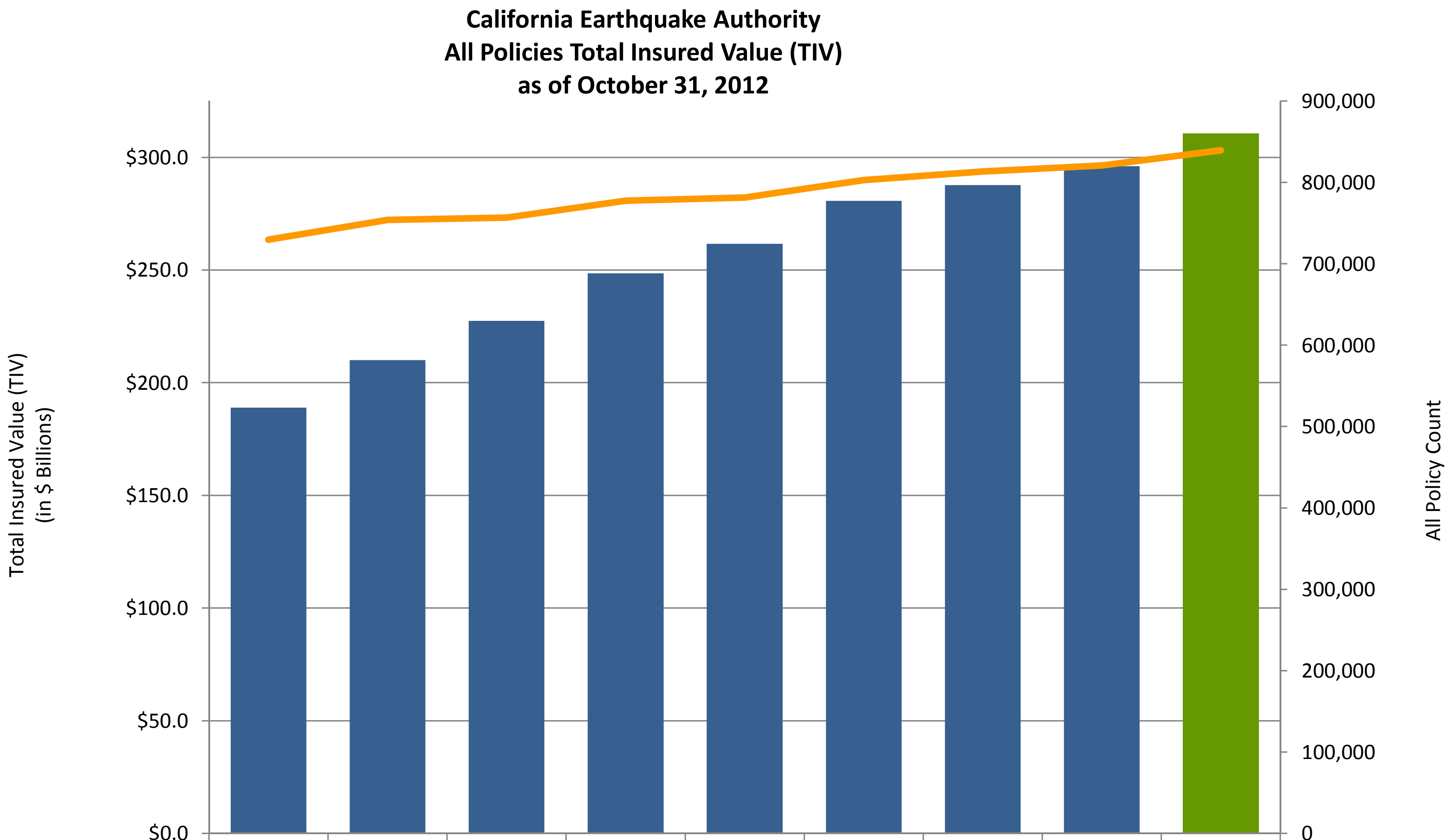
* as of October 31, 2012

California Earthquake Authority
Renters Policy Count
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Policy Count	29,058	31,112	30,799	31,647	32,681	35,247	37,394	40,822	45,251
Annual Change in Policy Count	0.0%	7.1%	-1.0%	2.8%	3.3%	7.9%	6.1%	9.2%	10.8%

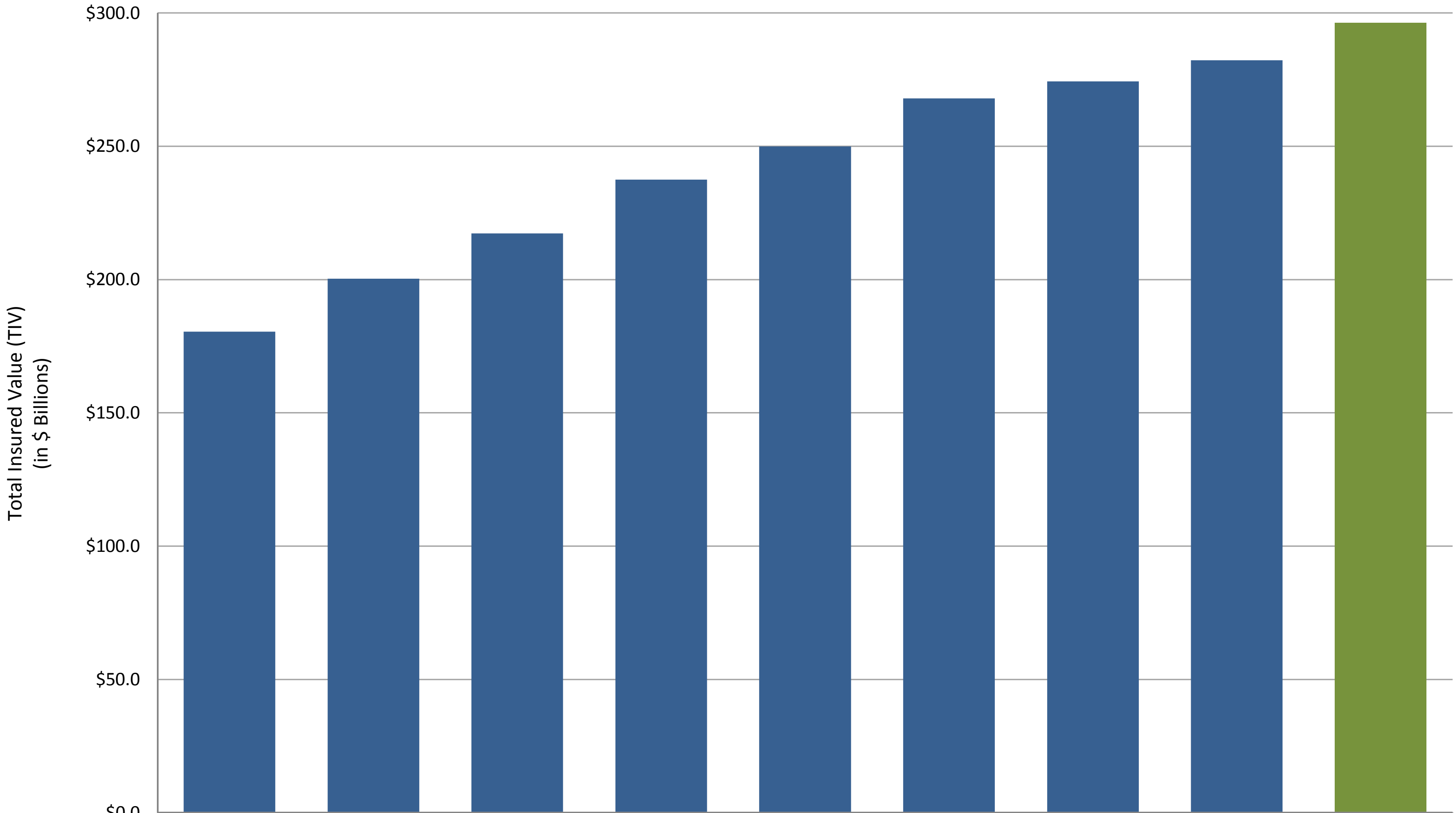
* as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$188.9	$210.0	$227.4	$248.6	$261.7	$280.7	$287.7	$296.0	$310.7
Annual Change in TIV	9.6%	11.2%	8.3%	9.3%	5.3%	7.3%	2.5%	2.9%	5.0%
All Policy Count	729,679	753,772	756,678	777,471	781,370	802,939	813,327	820,924	839,393
Annual Change in Policy Count	0.0%	3.3%	0.4%	2.7%	0.5%	2.8%	1.3%	0.9%	2.2%

*as of October 31, 2012

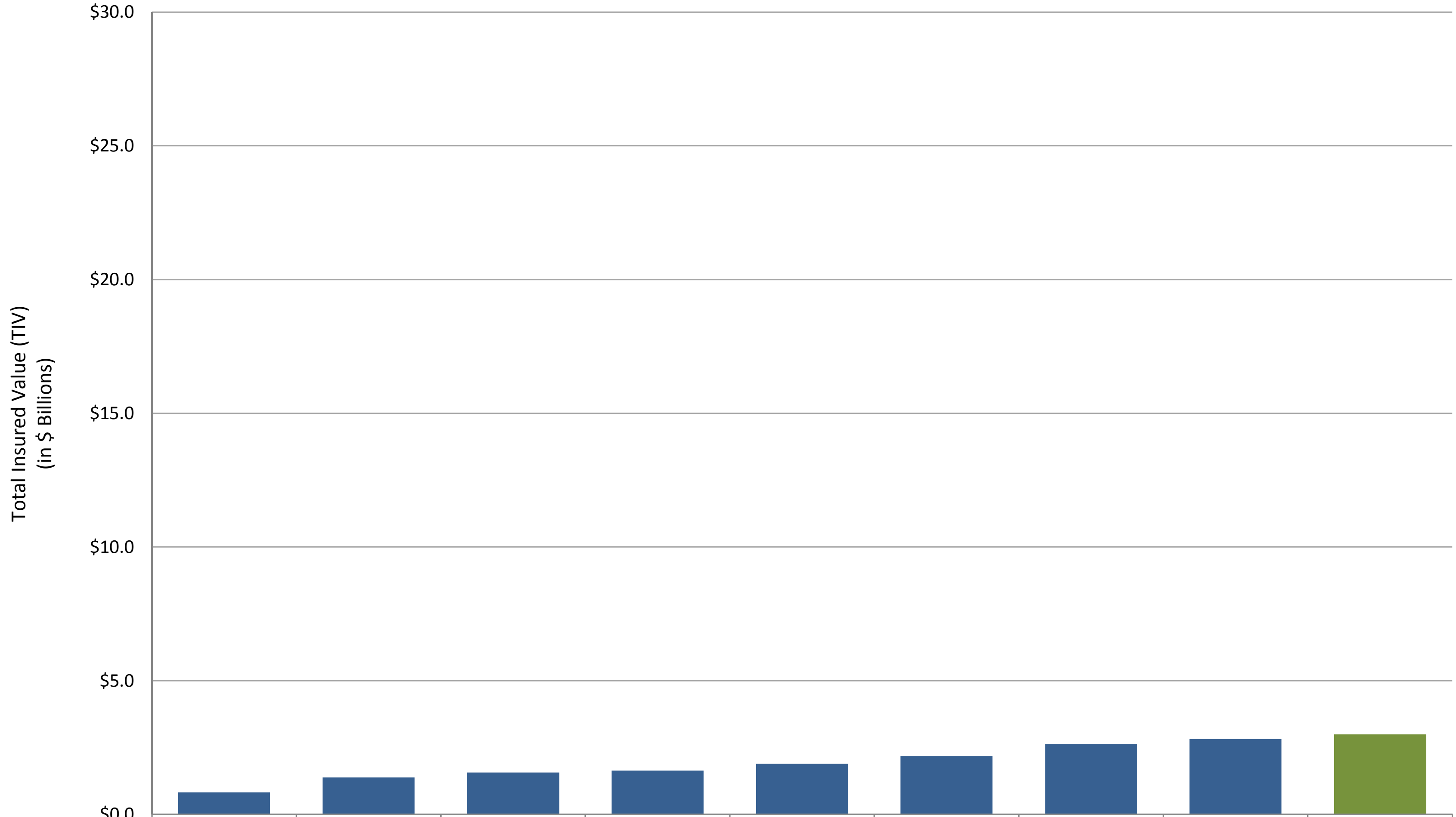
California Earthquake Authority
Homeowners Total Insured Value (TIV)
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$180.5	$200.3	$217.3	$237.5	$249.9	$267.9	$274.3	$282.2	$296.3
Annual Change in TIV	0.0%	11.0%	8.5%	9.3%	5.2%	7.2%	2.4%	2.9%	5.0%

* as of October 31, 2012

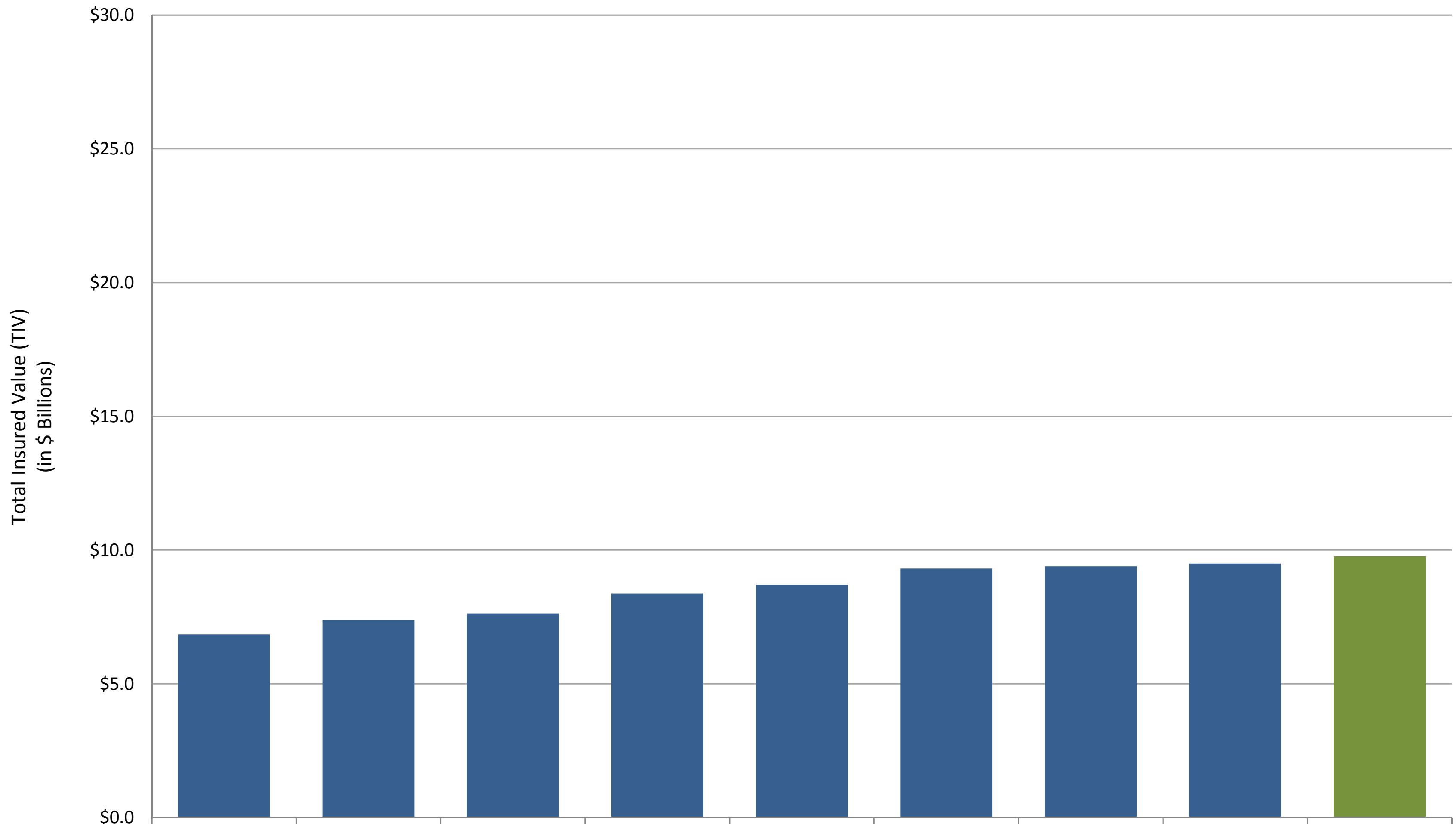
California Earthquake Authority
Mobilehome Total Insured Value (TIV)
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$0.8	$1.4	$1.6	$1.6	$1.9	$2.2	$2.6	$2.8	$3.0
Annual Change in TIV	0.0%	66.3%	13.4%	5.0%	15.6%	15.0%	20.2%	7.4%	5.8%

*as of October 31, 2012

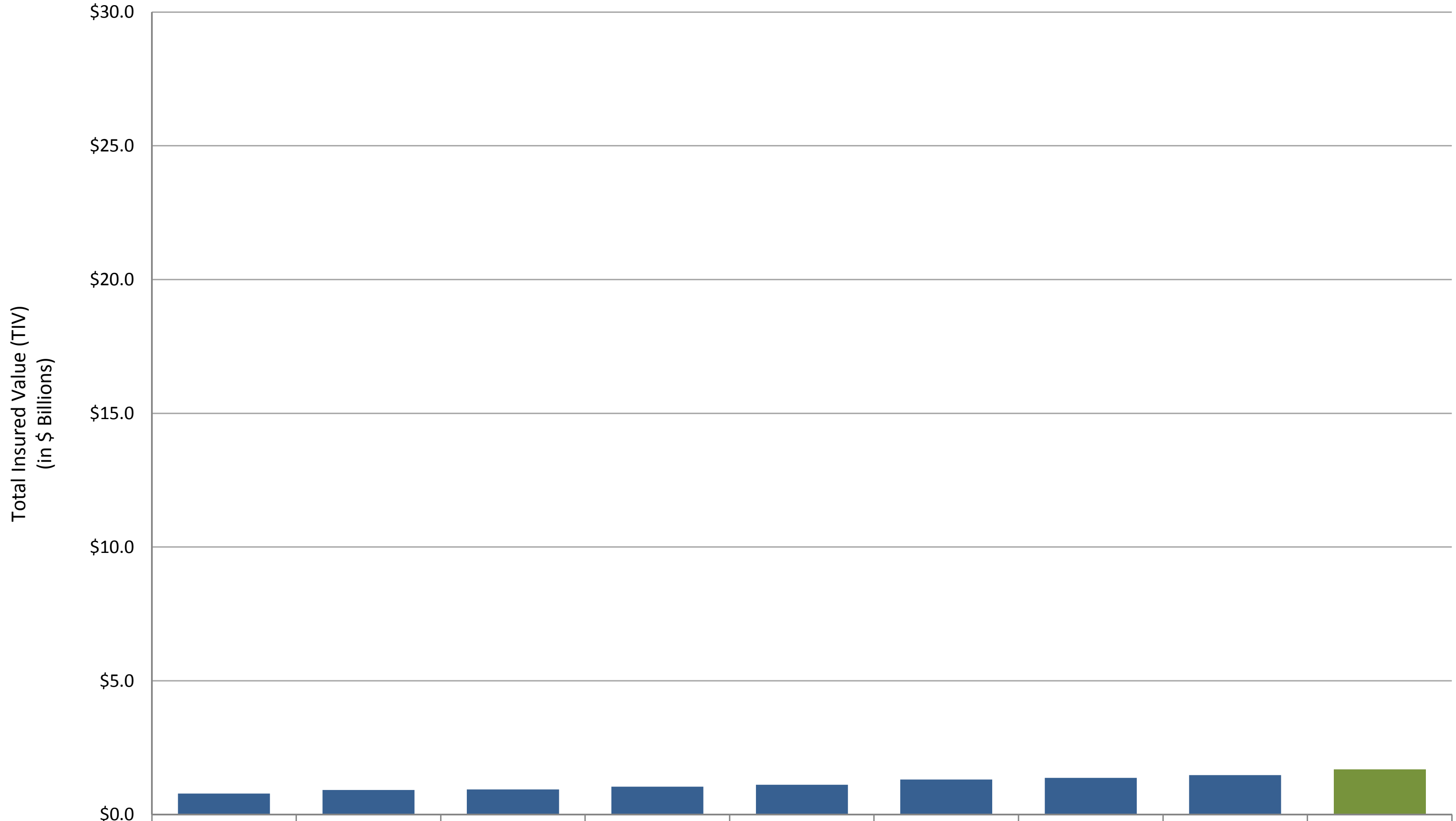
California Earthquake Authority
Condominium Total Insured Value (TIV)
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$6.8	$7.4	$7.6	$8.4	$8.7	$9.3	$9.4	$9.5	$9.8
Annual Change in TIV	0.0%	7.9%	3.3%	9.7%	3.9%	7.0%	0.9%	1.1%	2.7%

* as of October 31, 2012

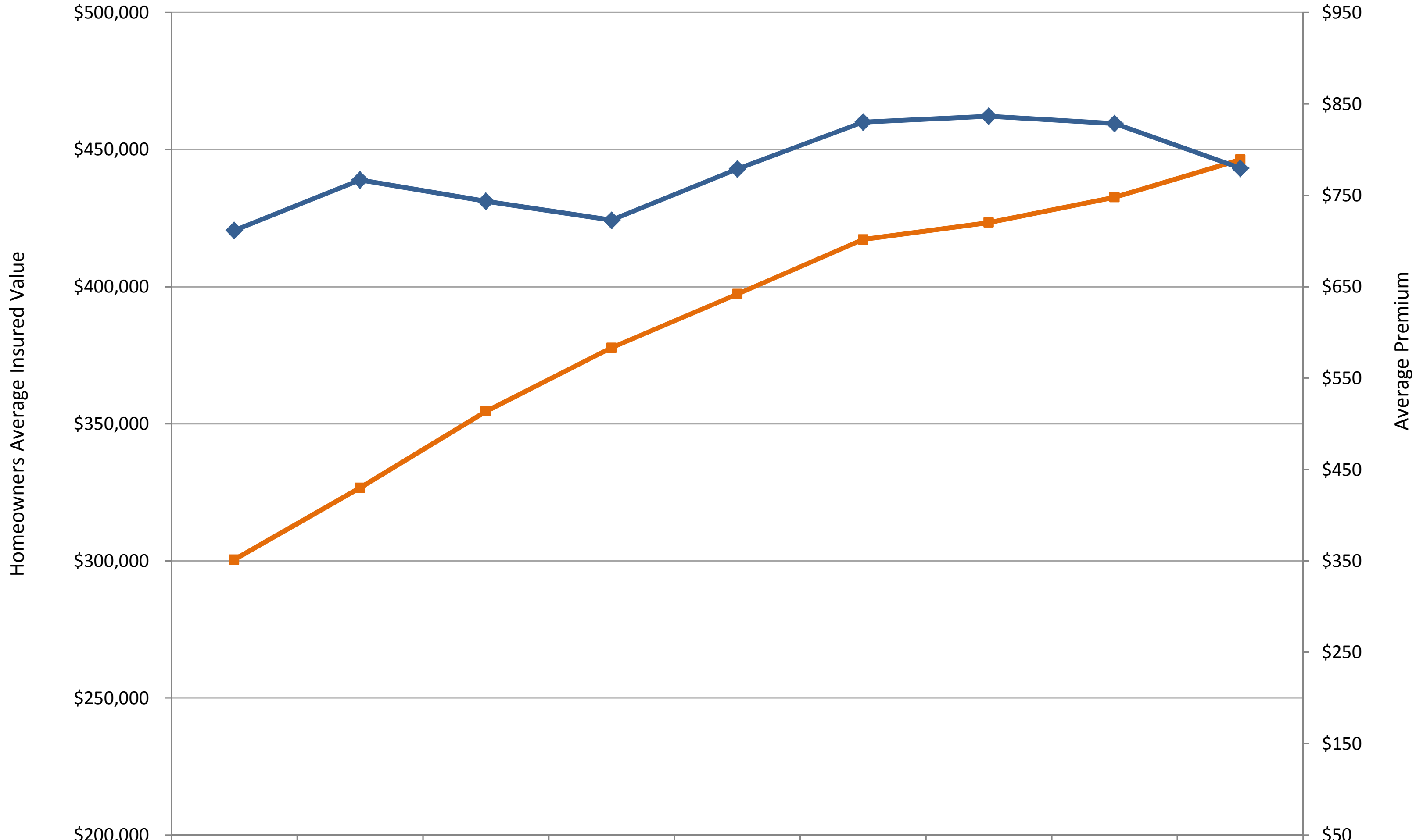
California Earthquake Authority
Rental Total Insured Value (TIV)
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
TIV (in $ Billions)	$0.8	$0.9	$0.9	$1.0	$1.1	$1.3	$1.4	$1.5	$1.7
Annual Change in TIV	0.0%	18.2%	1.6%	10.8%	7.6%	16.9%	5.2%	7.6%	13.3%

* as of October 31, 2012

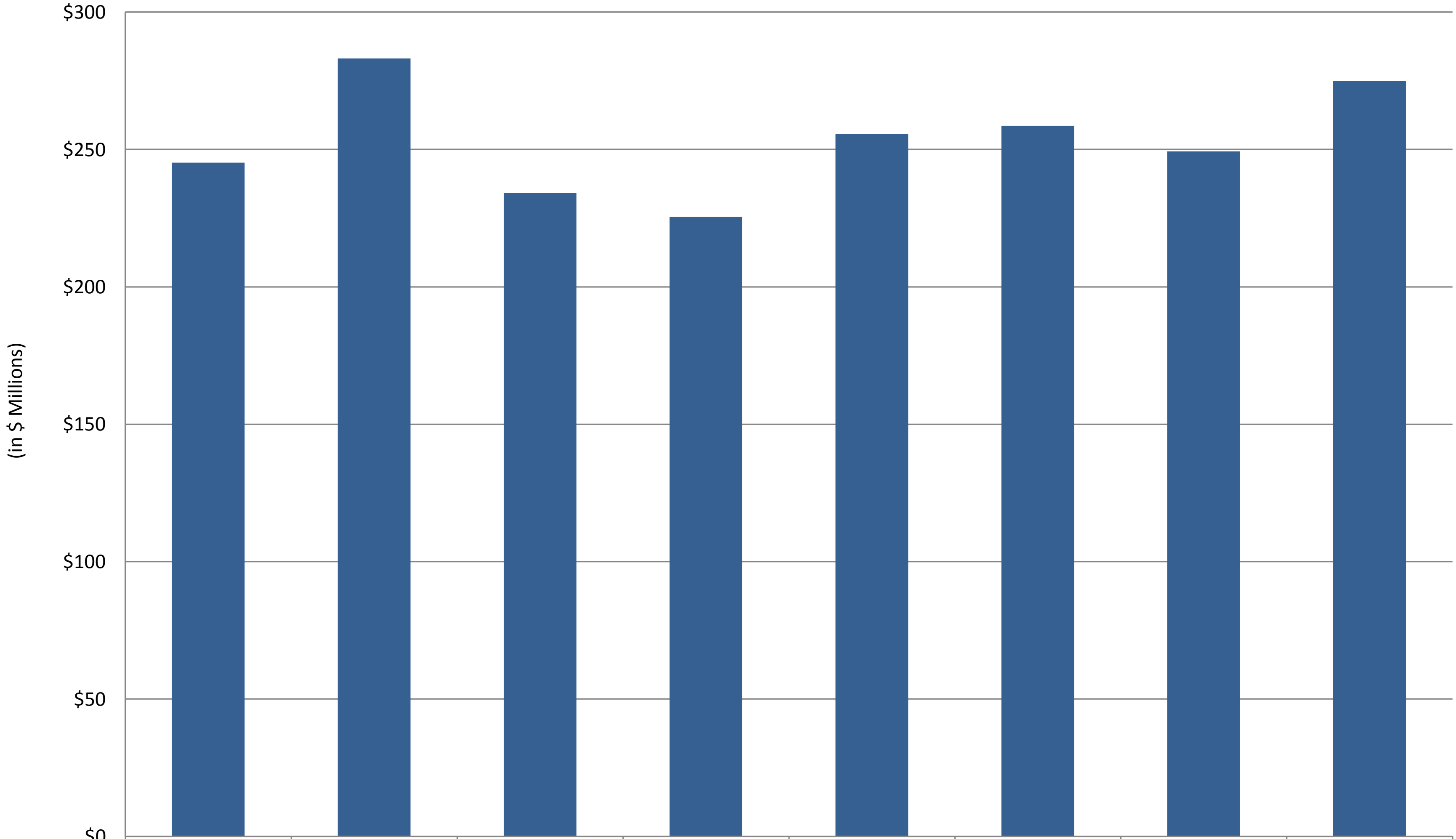
California Earthquake Authority
Average Homeowners Policy Premium and Insured Value
as of October 31, 2012



	2004	2005	2006	2007	2008	2009	2010	2011	2012*
Average Insured Value	$300,458	$326,668	$354,539	$377,701	$397,284	$417,206	$423,414	$432,634	$446,342
Average Premium	$712	$767	$744	$723	$779	$830	$837	$829	$780

*as of October 31, 2012

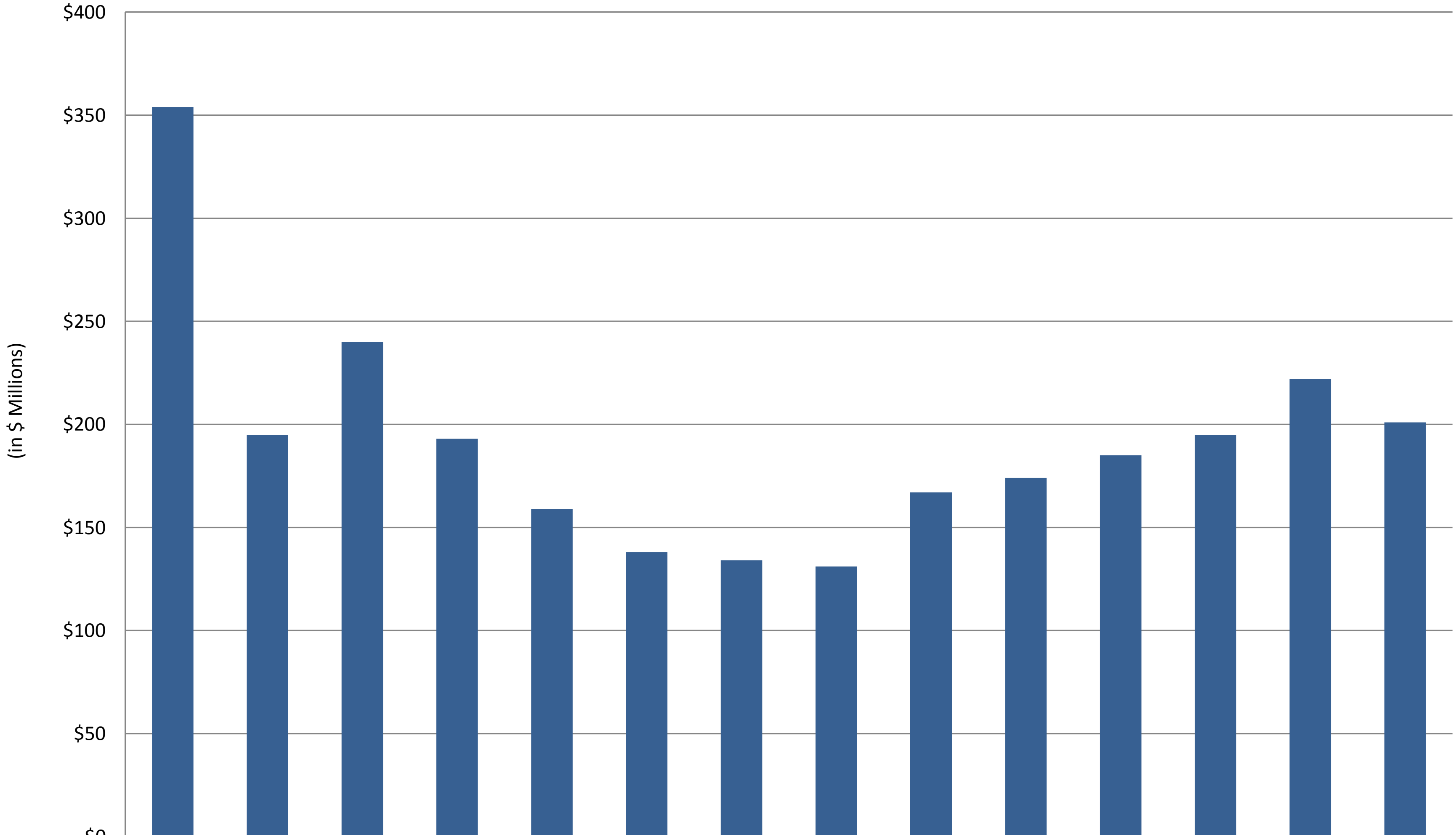
California Earthquake Authority
Annual Capital Accumulated from Premium
as of December 31, 2011



2004	2005	2006	2007	2008	2009	2010	2011
$245.2	$283.1	$234.1	$225.5	$255.7	$258.6	$249.3	$275.0

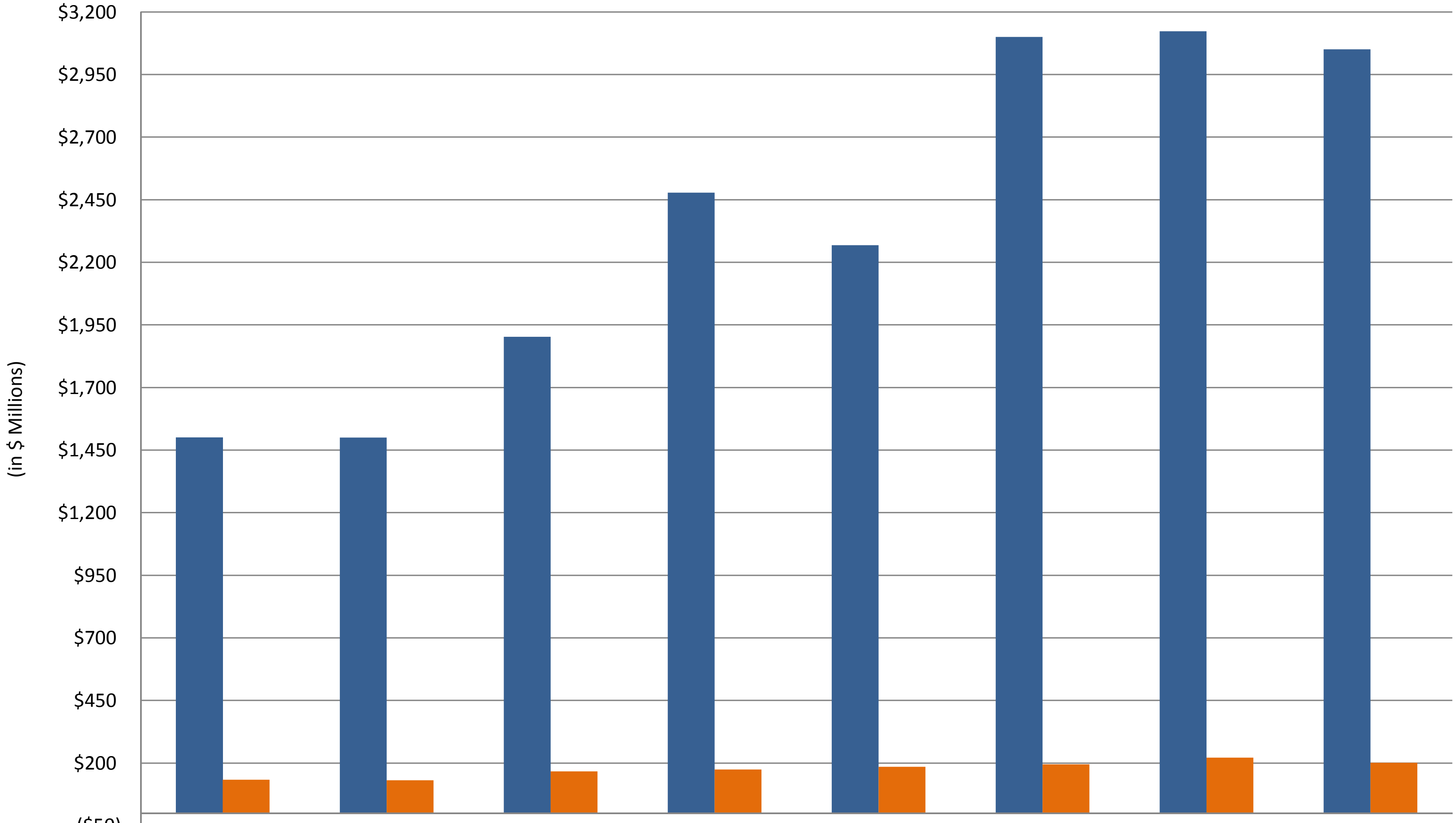
NOTE: From 2009 forward, figure is GASB underwriting profit. Prior to 2009, figure was FASB net premiums written minus total expenses.

California Earthquake Authority
Annual Risk Transfer Premium
as of December 31, 2011



1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
$354	$195	$240	$193	$159	$138	$134	$131	$167	$174	$185	$195	$222	$201

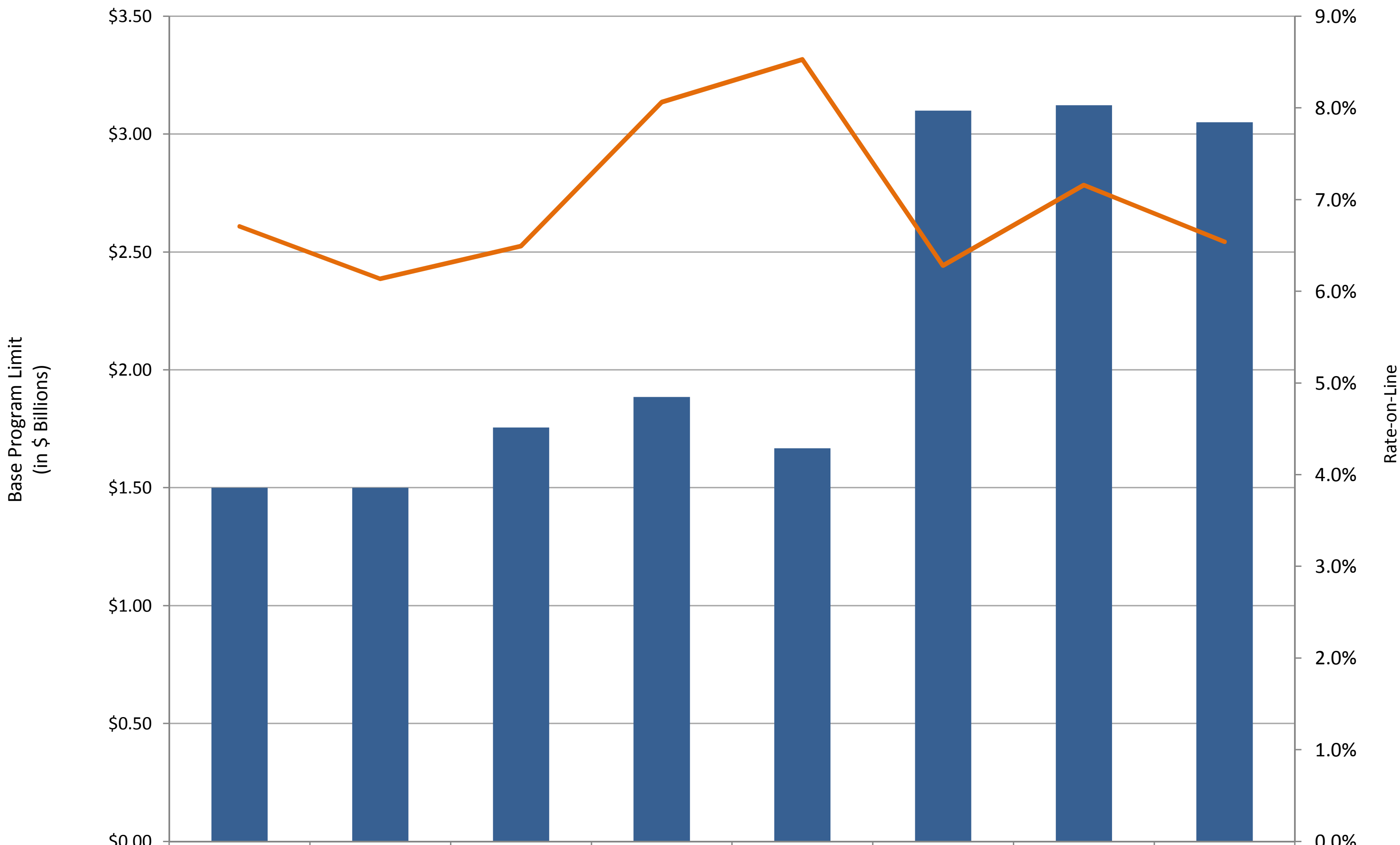
California Earthquake Authority
Annual Risk Transfer Premium and Limit
as of December 31, 2011



	2004	2005	2006	2007	2008	2009	2010	2011
Limit	$1,500	$1,500	$1,902	$2,478	$2,268	$3,100	$3,123	$3,050
Premium	$134	$131	$167	$174	$185	$195	$222	$201

NOTE: Limits through 2005 do not include supplemental coverage while 2006 forward include supplemental coverage.

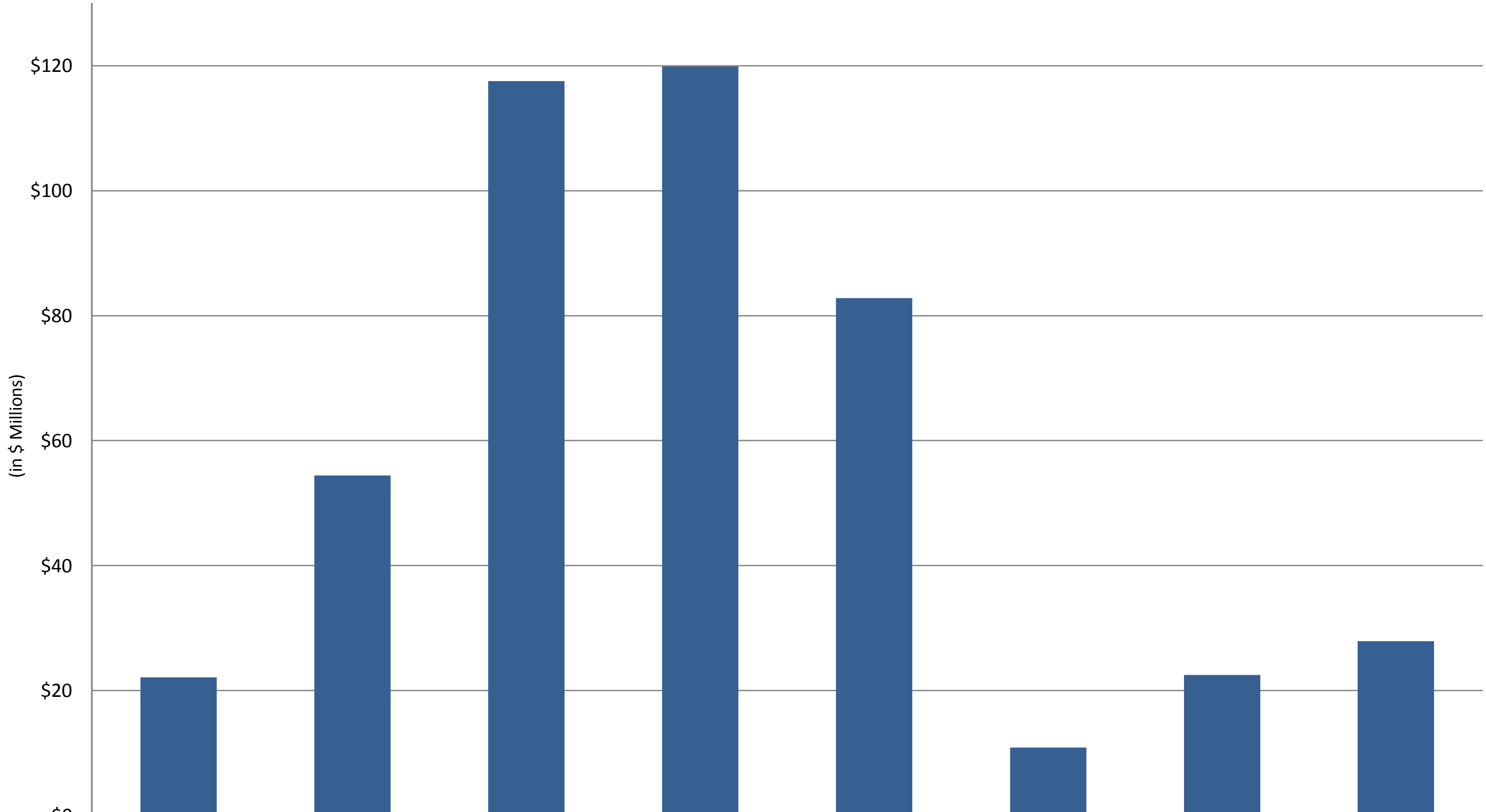
California Earthquake Authority
Annual Risk Transfer Base Program Limits and Rate-on-Line
as of December 31, 2011



	2004	2005	2006	2007	2008	2009	2010	2011
Base Program Limit	$1.50	$1.50	$1.76	$1.89	$1.67	$3.10	$3.12	$3.05
Rate-on-Line	6.7%	6.1%	6.5%	8.1%	8.5%	6.3%	7.2%	6.5%

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

California Earthquake Authority
Annual Investment Income
as of December 31, 2011

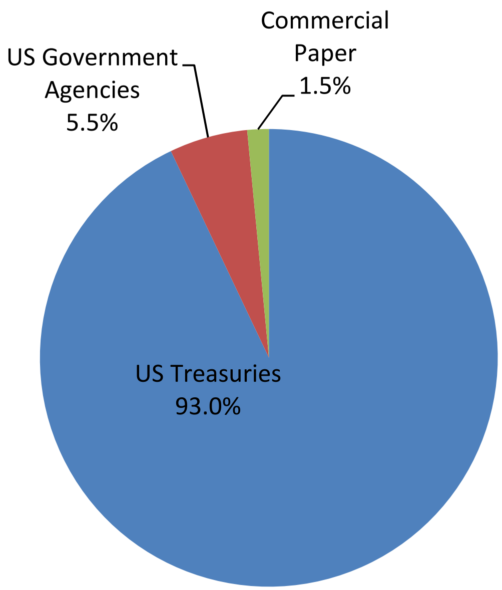


2004	2005	2006	2007	2008	2009	2010	2011
$22.1	$54.4	$117.5	$119.9	$82.8	$10.9	$22.5	$27.9

NOTE: Prior to 2009, investment income was reported from FASB financial statements which did not include unrealized gains or losses and were net of manager fees.

California Earthquake Authority
Investment Portfolio Distribution at Market Value
as of October 31, 2012

CEA Liquidity and Primary Fund:	$4,360,763,224
Claim-paying Fund:	$317,559,881
Mitigation Fund:	$24,763,446

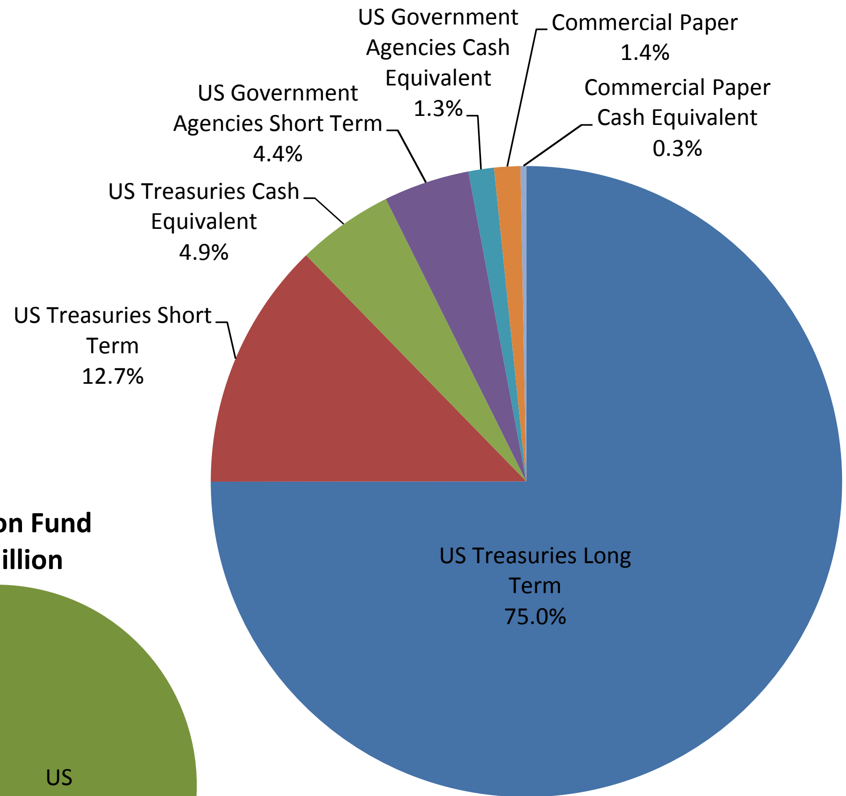


The asset allocation of the three funds are as follows:

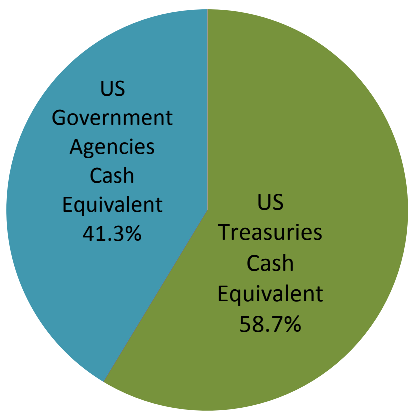
	CEA Liq. & Prim. Fund	Claim-paying Fund	Mitigation Fund
US Treasuries - Long Term	75.0%	99.8%	0.0%
US Treasuries - Short Term	12.7%	0.2%	0.0%
US Treasuries - Cash Equivalent	4.9%	0.0%	58.7%
US Government Agencies - Short Term	4.4%	0.0%	0.0%
US Government Agencies - Cash Equivalent	1.3%	0.0%	41.3%
Commercial Paper	1.4%	0.0%	0.0%
Commercial Paper Cash Equivalent	0.3%	0.0%	0.0%
Totals	**100%**	**100%**	**100%**

California Earthquake Authority
Investment Portfolio Distribution at Market Value
as of October 31, 2012

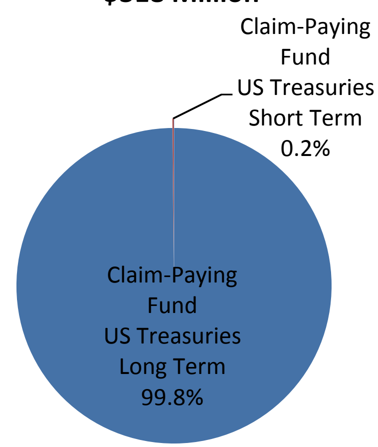
CEA Liquidity & Primary Fund
$4,361 Million



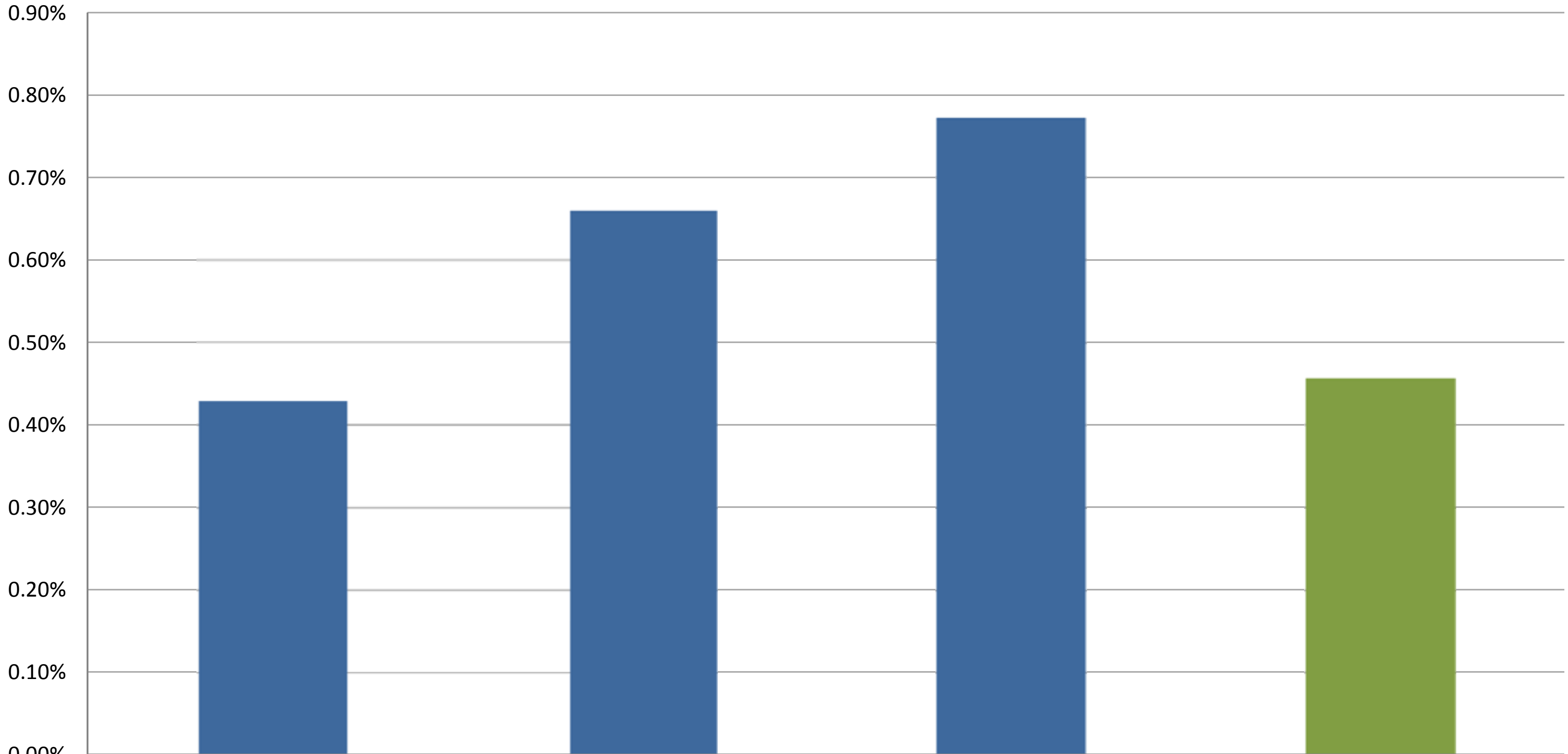
Mitigation Fund
$25 Million



Claim-Paying Fund
$318 Million



California Earthquake Authority
12-Month Rolling Investment Return
as of October 31, 2012

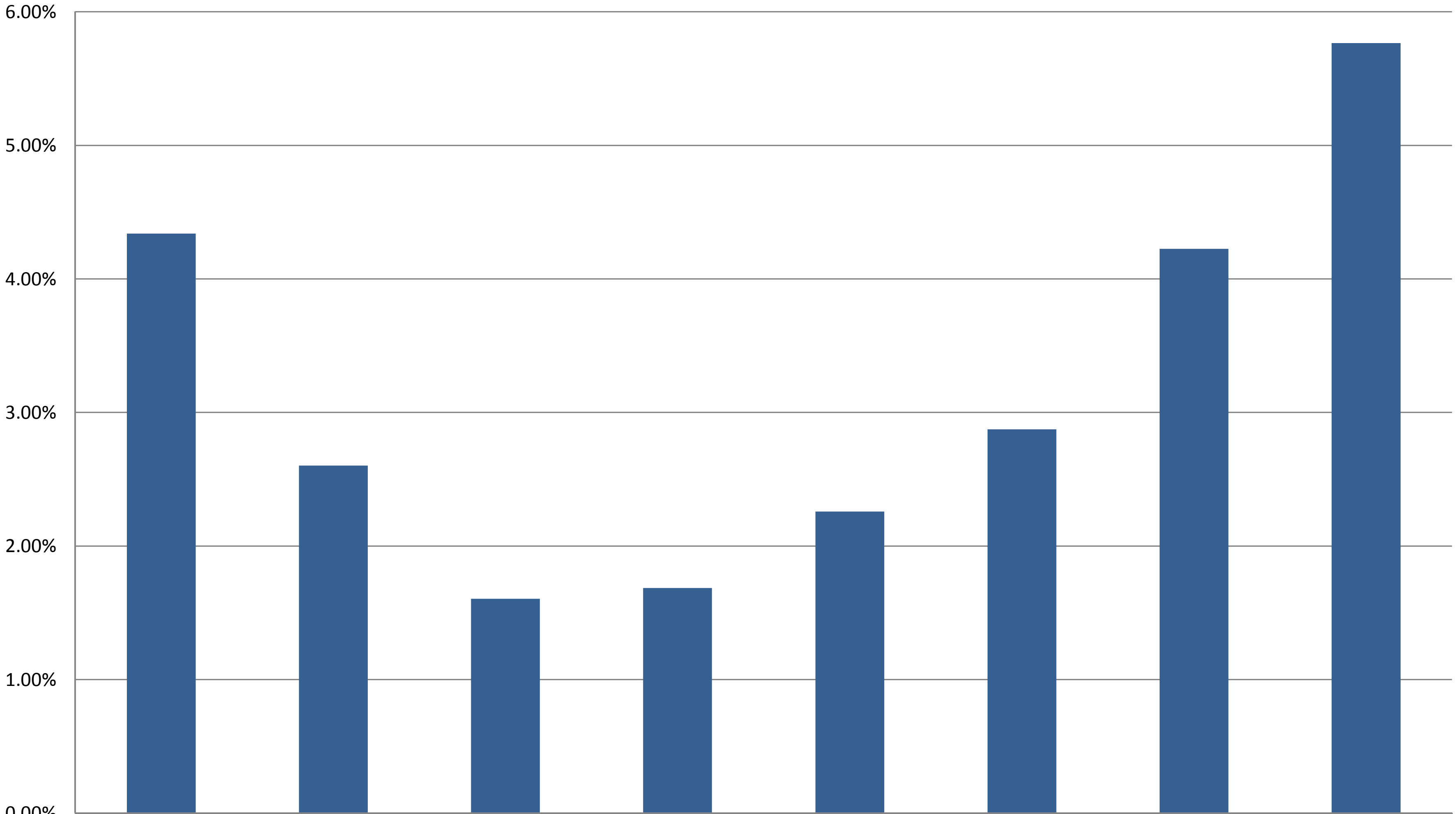


2009	2010	2011	2012*
0.43%	0.66%	0.77%	0.46%

NOTE: Gross of Investment Manager Fees

*as of October 31, 2012

California Earthquake Authority
Annual Investment Manager Fees as a Percentage of Investment Income
as of December 31, 2011



2004	2005	2006	2007	2008	2009	2010	2011
4.34%	2.60%	1.60%	1.69%	2.26%	2.87%	4.22%	5.76%

California Eathquake Authority

Schedule of Outstanding Debt

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE
Series 2006 Revenue Bonds	**$ 315,000,000**	**6.169%**	**$ 310,829,067**	**$ 126,000,000**	**31-Oct-2012**

DEBT-SERVICE SCHEDULE

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

Period Ending	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-13	$126,000,000		$3,886,470	$3,886,470	
1-Jul-13	$94,500,000	$31,500,000	$3,886,470	$35,386,470	
2013					$39,272,940
1-Jan-14	$94,500,000		$2,914,853	$2,914,853	
1-Jul-14	$63,000,000	$31,500,000	$2,914,853	$34,414,853	
2014					$37,329,705
1-Jan-15	$63,000,000		$1,943,235	$1,943,235	
1-Jul-15	$31,500,000	$31,500,000	$1,943,235	$33,443,235	
2015					$35,386,470
1-Jan-16	$31,500,000		$971,618	$971,618	
1-Jul-16		$31,500,000	$971,618	$32,471,618	
2016					$33,443,235

Governing Board Memorandum

December 13, 2012

Agenda Item 5:	Presentation of new CEA guidelines for procuring risk transfer and claim-paying capacity, including traditional reinsurance and alternative risk transfer methods
Recommended Actions:	Approve resolution adopting *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer* and authoring CEA staff to make future risk transfer purchases in accordance with those Guidelines.

Background:

Since the Board first adopted them in 1999, written, Board-adopted guidelines have provided CEA staff and Governing Board with guidance for all CEA reinsurance purchases. The present set of guidelines, presented to the Board at the time of each purchase of risk transfer and periodically readopted by the Board, is entitled *Guidelines for Sources of Claim-Paying Capacity: Providers and Products* (the "Guidelines").

Significantly, the Guidelines provide standards by which the CEA determines whether any given reinsurer would be eligible to participate on the CEA's reinsurance program, and if so, what maximum (dollar amount) line of reinsurance the CEA would accept from that reinsurer.

The Guidelines expressly provide that they should be modified periodically to respond to changing reinsurance-market conditions and reinsurance products, to encompass other financial tools from other segments of the financial community, and to adjust to economic changes.

In accordance with that provision, the Guidelines have been modified by the Board, as needed. The Board has adopted revisions and modifications to the Guidelines nine times since 1999—once in 2001, twice each in 2002 and 2009, and once each in 2004, 2005, 2007, and 2010.

Since the most recent revision to the Guidelines in 2010, however, the CEA has brought about notable developments and led significant innovations in the CEA's risk-transfer purchases, most notably using transformer reinsurance and collateralized reinsurance—these advances are not fully or adequately addressed by the current Guidelines.

Staff therefore proposes that the Board replace the present Guidelines to address the new structuring of CEA risk transfer and update other aspects of the Guidelines.

Based on the enhanced Guidelines, proposed to be adopted, Staff is recommending that the Board provide its pre-authorization to make reinsurance and risk-transfer purchases, under Board-determined, stated parameters of pricing and timing, so long as those purchases are accomplished under the new Guidelines and reported to the Board periodically.

Analysis:

CEA reinsurance and risk-transfer purchases are made in accordance with the version of the Guidelines in effect at the time of the purchase—the Guidelines are, and will remain, a public document.

The Guidelines provide guidance not only to the CEA and its staff in making reinsurance-purchasing decisions, but they also guide reinsurers by assisting their determining in advance whether they are eligible to participate on the CEA's reinsurance program, and if so, at what levels of participation.

The Guidelines are a key factor in CEA risk-transfer-purchase decisions. In fact, the Guidelines are incorporated by reference, for a variety of purposes, into most CEA reinsurance and risk transfer contracts—they govern, for example, the CEA's option to reduce or terminate a subscribing reinsurer's line if that reinsurer no longer complies with the Guidelines' reinsurer financial-strength requirements.

Since the most recent revision of the Guidelines, however, the CEA has increasingly developed and now relies on risk-transfer transactions that are not fully and specifically addressed in the current Guidelines. These include such transactions as:

- The three transformer reinsurance transactions entered into in August 2011, February 2012, and August 2012, for three-year terms and in an aggregate limit of $600 million, in which the counterparty is a special purpose reinsurance vehicle (not a traditional reinsurer), and raised capital to finance and secure its reinsurance obligations through the issuance of catastrophe bonds in an amount equal to the limit of reinsurance under each respective reinsurance contract.

- Participation on the CEA's traditional reinsurance program by a variety of institutional investors, such as hedge funds and pension plans that are not traditional reinsurers, but which were permitted by CEA to participate in the reinsurance placements (as either the counterparty or ultimate risk bearer) on a secured or collateralized basis.

- Participation in the CEA's traditional reinsurance program by institutional investors that are not traditional reinsurers but act as the ultimate risk-bearer, with a traditional reinsurer providing fronting capacity and acting as the counterparty to the reinsurance agreement.

Because the present Guidelines do not squarely address many of CEA's current (and future) risk-transfer transactions and innovations, the CEA staff has in the past presented such transactions to the Board for approval on an ad hoc basis, which requires the Board to consider and analyze the transactions independently, with no applicable, approved guidelines.

Given the great likelihood that innovative transactions, including some not yet developed, will play a significant role in the CEA's future risk-transfer structures, it is advisable for the

Guidelines to set forth clear standards and practices for these and other types of risk-transfer transactions.

CEA staff, in consultation with reinsurance, financial, and legal experts, have undertaken revisions to the Guidelines based on recommended standards for best practices in the CEA's purchase of risk transfer, whether traditional reinsurance or alternative forms of risk transfer.

The revisions also add new sections regarding alternative risk-transfer purchases and provide updates and modifications to existing sections.

The revised Guidelines proposed by CEA staff are included as *Attachment A* to this memorandum.

Significantly, it should be noted that the revised Guidelines now are presented under a new title, to more accurately reflect their new scope: *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer*.

Description of Key Revisions to the Guidelines

This section outlines the most significant proposed revisions to the Guidelines and the reasons for those revisions. (Minor and conforming changes and corrections are not specifically discussed in this memorandum.)

- The substantive provisions of the new Guidelines are divided into two sections, each with its own standards and requirements: "Traditional Reinsurance" and "Alternative Risk Transfer."

- The significant modifications to the Traditional Reinsurance section include:

    - The section on primary and secondary market capacity (page 3) has been revised to reflect the increasingly-common use by entities acting as subscribing reinsurers on the CEA's traditional reinsurance contract to use stronger, well-capitalized traditional reinsurers as fronting entities to enter into reinsurance contracts with the CEA. These entities include, among others, financial service companies and other entities that are not traditional reinsurers, as well as traditional reinsurers that do not have sufficient capital or ratings to participate to their desired level on the CEA reinsurance program. The Guidelines now provide more complete and accurate standards for considering such arrangements, while retaining the important CEA-protective requirement that no specific retrocession may occur unless approved in advance by the CEA.

    - The reinsurer financial-strength-calculation formulas (pages 4–5) are modified to permit the CEA to consider a reinsurer's Moody's financial strength rating (if any), along with its A.M. Best and Standard & Poor's ratings (if any), in determining that reinsurer's maximum qualifying line—previously, only A.M. Best and Standard & Poor's ratings could be considered. Still taking an appropriately conservative outlook, the new Guidelines retain the requirement that, for those reinsurers rated by more than one of the named rating services, the *lowest* rating is applied.

- The reinsurer maximum-line-calculation formula now provides (page 5) that whether a reinsurer is a fronting or retroceding entity, or a retrocessionaire, or any combination of these, all that reinsurer's participation is counted to determine the reinsurer's maximum qualifying line.

- The "Traditional Reinsurance" section now includes a subsection, "Credit Enhancement" (pages 5–7), which provides standards for reinsurers that wish to participate in the CEA's reinsurance programs but either do not qualify or qualify but wish to reinsure more than their maximum qualifying line. Since both situations create a credit-adequacy question, collateral or other security is required as a credit enhancer.

  While requiring credit enhancement has become increasingly common under the CEA reinsurance program, the specific requirements, standards, and requirements for collateralizing the line have not been set out in the Guidelines until now. With the new Guidelines, the CEA or a potential reinsurer can determine the enhancement that may be required of it, whether posting collateral in a bank for the CEA's benefit or providing a letter of credit from an approved financial institution. The "Credit Enhancements" section also incorporates the standards for credit-enhancing parental guarantees that are in the current Guidelines.

- The new Alternative Risk Transfer section (page 9 and forward) provides standards to permit the CEA to secure forms of risk transfer that are alternatives to traditional reinsurance contracts with traditional reinsurers. Covered here would be future iterations of the CEA's existing transformer reinsurance transactions and collateralized reinsurance transactions with institutional investors (such as hedge funds and pension plans) that are not traditional reinsurers. The key elements include the following:

  - The new Guidelines establish an internal *Alternative Risk Transfer Advisory Subgroup* consisting of the CEA's CFO, CEO, General Counsel, and other staff or executives determined by the subgroup. The Subgroup will have primary responsibility for overseeing and approving the structural and pricing terms of, and any publicity in connection with, each future CEA alternative risk transfer transaction.

    The subgroup is responsible for determining whether a proposed alternative risk transfer transaction (1) is economically reasonable for the CEA, in light of market conditions, (2) furthers the CEA's claim-paying capacity without subjecting the CEA to unreasonable exposure to market, legal, or regulatory risk; and (3) poses an undue risk of harm to the CEA's stature or reputation.

- In addition, before the CEA may enter into any alternative risk transfer transaction, the CFO would be required to make a formal determination, in consultation with the CEO and other appropriate professionals, that the proposed pricing for the transaction is competitive, taking into account the relative benefits of the transaction as compared to other available forms of risk transfer.

- Transaction agreements must be drafted or reviewed, or both, by the CEA's expert internal or external counsel, and the agreement terms must be consistent with appropriate market standards, from the CEA's perspective. CEA's preferred terms for insurance-linked securities transactions are attached as *Annex A* to the Guidelines, and these include the following:

    - A term of three years or longer.

    - Full collateralization of the aggregate limit of any reinsurance contract entered into in connection with the transaction, held solely in the form of specified permitted assets.

    - Premium payments payable on a quarterly basis.

    - Advance deposit of premiums only if required by the rating agency that rates the security used to fund the reinsurance contract.

    - Separate retentions for each annual risk period during the term of the contract, to be calculated at the commencement of the risk period.

    - The reinsurance contract provides for extension of the term of the contract at the CEA's option (for the limited purpose of submitting loss payment demands and receiving loss payments), allowing the CEA to extend the term for and additional term of up to 18 months or longer.

    - The CEA will not be responsible for paying any fees or expenses associated with structuring the transaction until and unless the parties actually finalize and enter into the reinsurance contract.

- Insurance-linked securities transactions must be accomplished in accordance with procedural guidelines set out in *Annex B* of the Guidelines. These include the following:

    - Interviews or public presentations by CEA personnel must be approved by the *Alternative Risk Transfer Advisory Subgroup*, and should be limited to specified topics.

    - Any information provided by the CEA to any party in the transaction that may reasonably be expected to be used in an offering document should be reviewed and approved by the *Alternative Risk Transfer Advisory*

Subgroup, both to ensure its accuracy and to ensure that it does not omit any material fact, if that omission could otherwise make the information misleading.

- Transactions may not close unless the reinsurer's transaction counsel has provided the appropriate "10b-5 negative assurance letter" to the underwriter.

- Procedures must be established and in place to ensure that modeling and subject business data provided to the reinsurer is accurate and complete.

- CEA personnel at every level must avoid statements that might falsely imply that the CEA has authority over the securities transaction or offering documents.

- The CEA will not provide indemnification to any party involved in the transaction, except with respect to any inaccuracies in insurance policy data provided by the CEA in connection with the transaction.

- Underwriters selected to assist the reinsurer in connection with the securities transaction must meet specified standards for experience and expertise.

- CEA staff involved in the transactions must receive appropriate education and training regarding the legal and regulatory framework applicable to insurance-linked securities transactions.

Board Authorization for CEA Staff to Act in Accordance with Guidelines

With the Board's adoption of the more useful, robust, and complete *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer*, CEA staff recommends that the Board provide the CEA staff the instruction—and the authority—to act in all respects in accordance with these Guidelines, and to purchase reinsurance and risk-transfer products, or enter risk-transfer arrangements, in strict accordance with the Guidelines, without further action or authorization by the Board.

Any actions taken pursuant to this authority would be reported periodically to the Board, and of course the Board would, without limitation, remain free to review any transaction by examining documents and discussing the transaction with CEA officers and staff.

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

To accomplish this end in both a flexible and prudent manner, and to meet the tight time limits and deadlines inherent in highly time-sensitive risk-transfer transactions, staff now seeks the Board's authorization for staff to execute—in amounts and at pricing according to the staff's discretion, in full compliance with the Guidelines and under documented conditions—additional levels of reinsurance and alternative risk transfer transactions when market conditions are favorable, based on a principle of prudent pre-authorization by the Board.

The CEA's practice has been (and the Guidelines continue to provide for, in the General Strategy section) for CEA staff to provide the Board for its approval, on at least an annual basis, a **comprehensive risk-transfer strategy** that sets forth the CEA's basic risk-transfer goals and benchmarks for the ensuing year. Pursuant to that Board-approved annual risk-transfer strategy, CEA staff seeks pre-authorization to enter into risk transfer arrangements consistent with that approved strategy. Staff requests the Board's pre-authorization to enter into additional risk-transfer arrangements that fall within the scope of the annual comprehensive risk transfer strategy presented to and approved by the Board, upon all of the following terms and on the basis of conforming written findings and documentation:

- The CEA's chief financial officer, acting with the approval of the chief executive officer and with advice of the general counsel, determine, in their judgment, that a proposed purchase of risk transfer is reasonable and necessary to appropriately expand and enhance the CEA's risk-transfer capacity.

- The CEA's chief financial officer and chief executive officer (and, in the case of a proposed alternative risk transfer transaction, the *Alternative Risk Transfer Advisory Subgroup*), with advice of the general counsel, determine with respect to a proposed risk-transfer transaction that, in their judgment, the transaction would be accomplished in full compliance with the terms of the *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer*.

- With respect to the pricing terms:

  - In connection with a proposed traditional reinsurance transaction, the CEA's chief financial officer and chief executive officer determine, in their judgment, that the pricing terms committed to by any reinsurer(s) are rates-on-line competitive with, or lower than, market rates for reinsurance for reinsurance of earthquake risks under comparable terms and at comparable retention levels (taking into account any additional advantages to the CEA to any particular contemplated transaction, including, without limitation, collateralization of the line or other credit enhancement, multi-year structures, or opening of new markets of risk-transfer resources).
  - In connection with a proposed alternative risk transfer transaction, the CEA's chief executive officer, chief financial officer, and the *Alternative Risk Transfer Advisory Subgroup* determine, in their judgment, that the pricing terms committed

to by the counterparties to the transaction are at rates-on-line competitive with, or lower than, the CEA's then-existing traditional-reinsurance contracts at comparable retention levels (taking into account any additional advantages to the CEA to any particular contemplated transaction, including, without limitation, collateralization of the line or other credit enhancement, multi-year structures, or opening of new markets of risk-transfer resources).

- The CEA's chief financial officer provides the Board members full and timely written notification of the final terms, including pricing terms, of the transaction when such terms are finalized, with the information provided to the Board by chief financial officer and staff regarding any such transaction to be appropriately stated, include the findings from any necessary legal review, and full and complete.

Resolution

CEA staff will provide the Board with a written resolution adopting the *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer* in connection with this agenda item, and pre-authorizing the CEA staff to enter into future risk transfer transactions in accordance with the terms of those Guidelines, as described above and in the resolution.

Recommendation:

Staff recommends that the Board:

1. Approve a resolution adopting the *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer* for use by CEA staff.

2. Approve a resolution providing the CEA staff with the pre-authorization to enter into future risk transfer transaction in compliance with the terms of the *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer*.

California Earthquake Authority

GUIDELINES FOR SECURING RISK TRANSFER: Traditional Reinsurance and Alternative Risk Transfer

Adopted: _________ 2012

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INTRODUCTION

The CEA's *Guidelines for Sources of Claim-Paying Capacity: Providers and Products* were first issued in 1999 (referred to as the "Original Guidelines") and have been modified and updated periodically. The Original Guidelines included recommendations of the best reinsurance-related business practices for the CEA in connection with accessing the reinsurance market, with a primary focus on traditional reinsurance. They described how the CEA evaluates reinsurers and reinsurance products and also provide minimum standards that reinsurance providers should meet to qualify as suitable for the CEA. These *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer* (referred to as the "Guidelines"), which incorporate and build upon the Original Guidelines, seek to establish a more comprehensive approach by recommending best business practices for accessing 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, collateralized reinsurance issued by institutional investors (such as hedge funds and pension plans) that are not traditional reinsurers, and other similar markets. By adopting these Guidelines, the CEA's Governing Board recognizes the evolution of alternative risk transfer since the Original Guidelines were first issued in 1999 and reaffirms its commitment to stable and efficient risk transfer, whether in the traditional or alternative markets.

These Guidelines may be updated periodically by the CEA's Governing Board in its discretion, including to respond to changing conditions in the reinsurance and broader financial markets, as well as legal and regulatory developments.

GOALS

These Guidelines seek to accomplish four principal goals, presented in order of priority, while mitigating the CEA's potential legal liability and ensuring regulatory compliance:

1. *Financial Strength*: 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.

2. *Stability*: To encourage the CEA to secure claim-paying capacity from providers and use products that, together, can endure all market conditions.

3. *Efficiency*: To enable the CEA to select the most efficient claim-paying capacity, including at rates on line that are competitive with other sources of claim-paying capacity.

4. *Flexibility*: To provide for reasonable flexibility by allowing for alternative products and stable sources of claim-paying capacity that are more cost-effective.

GENERAL STRATEGY

The CEA recognizes that it must be in a position to access the entire global risk transfer market to meet its capacity needs, including through the purchase of traditional reinsurance and the use of alternative risk transfer structures. In order to most effectively accomplish the four principal goals outlined above, the CFO, in consultation with the CEO, the General Counsel, other appropriate staff or officers at the CEA, and the Governing Board, should endeavor to prepare, on at least an annual basis, a comprehensive risk transfer strategy that sets forth the basic risk transfer goals and benchmarks for the ensuing year, including potential capacity constraints and anticipated exposures to be transferred to the risk transfer markets.

TRADITIONAL REINSURANCE

The Guidelines in this section apply to all providers of traditional reinsurance and all traditional reinsurance contracts to which the CEA is a party.

STABILITY OF RISK TRANSFER PROGRAM

Unlike a private insurance company, the CEA cannot go without claim-paying capacity if reinsurance market capacity diminishes or demand for reinsurance capacity exceeds supply—recoveries from sources of external capacity are a direct source of the CEA's financial ability to pay its policyholders' claims. If risk capital (reinsurance capacity) becomes unavailable, the CEA's claim-paying capacity will shrink and it could be materially and adversely affected. To provide uninterrupted availability of earthquake coverage for California's residential property insurance policyholders, the CEA must endeavor to buy from providers that can endure all market conditions.

To most effectively accomplish this goal, the CEA will consistently consider the following steps:

1. Enter into multi-year agreements when cost-effective and advantageous under the existing economic environment.

2. Take steps to ensure that future markets are available to which CEA risk can be transferred.

3. To the extent feasible, transact directly with entities that are the primary bearers of the ultimate risk (the "primary risk bearers").

4. Distinguish clearly between primary and secondary market capacity.

The CEA distinguishes primary market capacity from secondary marked capacity as follows:

- Primary market capacity offers direct contact between the CEA and the ultimate risk bearer and is therefore generally more stable than secondary capacity. Direct contact will generally permit a more thorough and effective exchange of knowledge between the CEA and the ultimate risk bearer—this direct collaboration can mature into a long-term relationship that enhances uninterrupted access to risk capital, which is crucial to the CEA's mission.

- Secondary market capacity means the entity executing the transaction with the CEA is not the ultimate risk bearer—instead, it may be a fronting entity that is a conduit of risk and premium to a retrocessionnaire or bondholder (in secondary markets). In such a case, while the contract counterparty is directly liable to the CEA under the terms of the reinsurance contract for the payment of claims, it is the secondary market that has accepted the ultimate risk of CEA loss.

Because of certain general advantages of primary market capacity, the CEA prohibits any <u>*specific retrocession*</u> of CEA risk without the advance written permission of the CEA. In those cases where the CEA has approved the retrocession of CEA risk, such risk should be applied against the maximum permitted line of the direct reinsurer and each retrocessionaire, as described in the next section of these Guidelines.

The CEA has relied on reinsurance intermediaries and independent financial consultants to help CEA evaluate the economic environment at the time of securing reinsurer participations, and to consider reinsurers that might occasionally (with CEA permission) use retrocessional reinsurance to manage risk.

5. The CEA cannot depend entirely on a few entities or markets to provide all its claim-paying capacity. An inordinately large allocation to one reinsurer could disadvantage the CEA. The CEA at its sole discretion may moderate this guideline in response to compelling and appropriate circumstances.

FINANCIAL STRENGTH OF REINSURER

The reinsurer's financial strength and its ability to fulfill its promise of claim-paying obligations are the primary considerations in determining whether a reinsurer qualifies to do business with the CEA. Depending on the severity of the CEA's losses, a reinsurer's failure to make timely payment to the CEA could be the equivalent of a failed promise to a CEA policyholder, because reinsurance recoveries are a primary source of the CEA's ability to pay claims. Accordingly, in obtaining claim-paying capacity from traditional reinsurance sources, the CEA should apply the following criteria at inception of the reinsurance contact, but also should maintain the flexibility to take appropriate action, including by means of the credit enhancements described below, if these criteria are no longer satisfied.

In the sole judgment and discretion of the CEA, acting with the advice of staff and experts, the CEA may waive or modify any allocation guideline if to do so would bring substantial benefit to the CEA without compromising the basic goals of financial strength, stability, and efficiency.

General Criteria

To qualify as a CEA reinsurer, a reinsurer must meet both of the following standards (all amounts in US dollars):

- Policyholders' surplus (PHS) of at least $150 million; and
- An A.M. Best rating of at least A-, or a Standard & Poor's (S&P) rating of at least A-, or a Moody's rating of at least A2.

The CEA should use the following criteria to allocate lines of reinsurance to reinsurers:

1. The rating agencies A.M. Best, S&P, and Moody's assign ratings to reinsurers that signify a reinsurer's financial strength. Each rating agency analyzes key financial ratios to measure leverage, liquidity, asset quality, and other balance-sheet and income-statement indicators of financial strength. They also assess management qualifications and take into account a reinsurer's exposure to natural disasters. It is therefore appropriate that the rating A.M. Best, S&P, or Moody's assigns a reinsurer should influence the size of that reinsurer's participation in CEA reinsurance contracts.

2. "Economic mass" — a company's policyholders' surplus — is an indicator of financial staying power and should directly influence the CEA participation allocation. No reinsurer should be allocated combined participating shares in CEA reinsurance contracts for a given contract period that would generate total liabilities (not including exposures to reinstated limits, if any) greater than 10% of that reinsurer's PHS.

3. To properly scale a reinsurer's CEA participation level to its rating and PHS, the following guidelines will be used when allocating lines of reinsurance contracts:

Table 1

(For reinsurers with PHS between $ 150 & $300 million)

Maximum Line (% of PHS)	A.M. Best Rating*	Standard & Poor's Rating*	Moody's Rating*
0% — 1 .5%	A-	A-	A2 – A3
1.51% — 3.0%	A	A or A+	A1
3.01% — 6.0%	A+ or A++	AA- to AAA	Aaa – Aa3

Table 2

(For reinsurers with PHS greater than $300 million)

Maximum Line (% of PHS)	A.M. Best Rating*	Standard & Poor's Rating*	Moody's Rating*
0% — 3.0%	A-	A-	A2 – A3
3.01% — 5.5%	A	A or A+	A1
5.6% — 8.0%	A+	AA- to AA+	Aa1 – Aa3
8.01% — 10.0%	A++	AAA	Aaa

* For a company that is rated by two or more of the rating agencies mentioned above, the lowest of the ratings will apply in applying these guidelines.

The maximum line allocation is calculated as follows: The sum of all the reinsurer's authorized lines on all CEA reinsurance contracts that are or will be effective for the same period is compared to the maximum permitted line from Table 1 or Table 2. The reinsurer's authorized lines that will be compared to the maximum permitted line will be the aggregate of all lines of CEA risk assumed by reinsurer for that period, regardless of whether any such lines are assumed as primary market capacity, as a fronting entity, as a retrocessionaire, or in any combination of these.

4. The CEA buys reinsurance from the global reinsurance community. Many of the CEA's reinsurers are not domiciled in the United States, and many of those reinsurers provide financial reports based on currencies other than U.S. dollars. Exchange rates fluctuate daily, and an exchange rate moving downward in relation to the U.S. dollar means diminished financial security for the CEA. To manage this risk, the CEA will employ the following procedure:

a. In assigning reinsurance-contract participations, the CEA will calculate a non-U.S.-domiciled reinsurer's PHS based on its domicile's exchange rate against the U.S. dollar not more than 30 days before the date of binding that reinsurer's participation in a reinsurance contract. This is called the "Base Exchange Rate."

b. If during the term of a reinsurance contract a reinsurer domicile's exchange rate falls below the Base Exchange Rate, the CEA will reevaluate compliance with the Guidelines for any reinsurer based in that domicile.

Credit Enhancement

The CEA, at its sole discretion, may accept certain credit-enhancement tools in support of reinsurance-line allocations for reinsurers, including reinsurers participating in Alternative Transactions, that do not meet the above financial strength criteria and would therefore ordinarily fall outside the Guidelines. This guideline, which permits the CEA certain flexibility in waiving or modifying allocation guidelines, is not intended to reserve or grant, and does not reserve or grant, any rights whatsoever to any person or entity other than the CEA and its Governing Board. Credit enhancement may include, without limitation, any of the following:

1. ***Collateralization***. The CEA may allow Reinsurers to provide the CEA with collateral, in a form acceptable to the CEA, to support an allocation of reinsurance limit outside the Guidelines. All such Collateral must be posted in a collateral account established in a U.S.-based bank with a long-term credit rating of at least “A-” from Standard & Poor’s or “A-” from A.M. Best, using a form of collateral account control agreement approved by the CEA. The collateral account control agreement must require that collateral in the account be solely held in the form of specified types of permitted assets, consisting of one or more of the following:

a. Cash, in United States Dollars;

b. Interests in money market mutual funds rated in the highest rating category by Moody’s or Standard & Poor’s and registered under the Investment Company Act of 1940 that invest solely in direct obligations of the U.S. Treasury and have a per share value of $1.00 or more;

c. Direct obligations of the U.S. Treasury, excluding Treasury “separate trading of registered interest and principal securities” zero coupon bonds (Treasury STRIPS) or Treasury Inflation Protected Securities (TIPS); or

d. Other assets that the CEA may, at its option, permit upon a determination, in the sole judgment and discretion of the ART Subgroup (as that subgroup is described in the Alternative Risk Transfer section of these Guidelines), acting with the advice of staff and experts, as needed, that the assets provide levels of safety, security, and liquidity comparable to the categories of assets specified in subparagraphs (a) through (c) immediately above.

2. ***Letters of Credit***. The CEA may allow reinsurers to provide one or more letters of credit, in a form acceptable to the CEA, to support an allocation of reinsurance limit outside the Guidelines. All letters of credit must meet appropriate format and security standards, which may include, without limitation, the following criteria:

a. The letter of credit is issued by a U.S.-based bank with a long-term credit rating of at least “A-” from Standard & Poor’s or “A-” from A.M. Best.

b. The letter of credit is a clean, irrevocable, unconditional direct pay letter of credit payable to the CEA and in form and substance satisfactory to the CEA.

c. The letter of credit is issued for a term expiring no earlier than the termination date of the reinsurance contract for which the reinsurer is securing its line by the letter of credit, and includes an evergreen provision that automatically extends the term for at least one additional year beyond the expiration date unless the issuer of the letter of credit gives written notice of non-renewal to the CEA by certified mail not less than 60 days prior to the expiration date, and in the event of such a non-renewal or other expiration of the letter of credit, the subscribing reinsurer agrees to obtain replacement letters of credit to the extent necessary to comply with its collateralization requirements.

3. ***Parental Guarantees***. A reinsurer that has exceptionally strong capitalization, or a company that is affiliated with a strongly capitalized parent that is willing to provide, and does provide, a written parental guarantee, may be acceptable even if it fails to meet the criteria in the above allocation guidelines. In deciding whether to accept a parental guarantee as a credit enhancement, the CEA will consider the following:

a. A subsidiary of a quality parent typically enjoys superior liquidity and access to capital.

b. A strong parent would likely not abandon a failed subsidiary and would fulfill the subsidiary's obligations because of the damage that abandonment would inflict on the parent's reputation. Parent companies that are not insurers, however, should be carefully examined for appropriate risk appetite and other desirable, relevant attributes.

The CEA, in its discretion, may require a reinsurer to provide credit enhancements in support of the entire line allocated to the reinsurer, or only that portion of the reinsurer's allocated line that exceeds the amount of that would otherwise be permissible under these Guidelines.

Lloyd's Syndicates

The financial statements of syndicates at Lloyd's do not state a policyholders' surplus; therefore, unlike with non-Lloyd's reinsurers, policyholders' surplus cannot be used as an allocation criterion for Lloyd's. The CEA must instead use a "policyholders' surplus equivalent" in lieu of using policyholders' surplus. The CEA will use one or more of the following, as specified in this paragraph, as policyholders' surplus equivalents:

- The syndicate's premium receipts plus its reserves. This is commonly referred to as "Syndicate Level Assets."

- Any additional capital dedicated by a syndicate's member(s) for the syndicate's liabilities by a deposit of funds into any of three trust funds in which members' assets may be held—the Lloyd's deposit fund, the special reserve fund, or the personal reserve fund—each of which is available to meet cash calls made on the member with respect to syndicate needs. This is commonly referred to as "Members' Funds at Lloyd's."

- The syndicate's volume of business measured in gross written premiums net of acquisition costs underwritten by a syndicate's business plan accepted by Lloyd's (Lloyd's requires syndicates to have a stated amount of capital to support the amount of gross written premiums in the business plan). This is commonly referred to as the syndicate's "stamp capacity."

For purposes of determining a syndicate's maximum line allocation, the CEA will calculate the policyholders' surplus equivalent as follows:

- If the syndicate has disclosed to the CEA both its Syndicate Level Assets <u>and</u> its dedicated Members' Funds at Lloyd's, the combination of Syndicate Level Assets and dedicated Members' Funds at Lloyd's will be used as the policyholders' surplus equivalent.

- If the syndicate has disclosed to the CEA its Syndicate Level Assets but not its dedicated Members' Funds at Lloyd's, the Syndicate Level Assets will be used as the policyholders' surplus equivalent.

- If the syndicate has not disclosed to the CEA its Syndicate Level Assets, the syndicate's stamp capacity will be used as the policyholders' surplus equivalent.

The exchange rate for Syndicate Level Assets, dedicated Members' Funds at Lloyd's, and stamp capacity will be the market exchange rate, Pounds Sterling to U.S. Dollar, in effect on the date CEA commences marketing the reinsurance program.

If a syndicate has an rating from either A.M. Best, S&P, or Moody's, Table 1 or Table 2, above, will be used to calculate the syndicate's maximum line allocation, based on the syndicate's appropriate policyholders' surplus equivalent, converted to reflect the market exchange rate, and its rating. If a syndicate does not have an rating from A.M. Best, S&P, or Moody's , that syndicate's appropriate policyholders' surplus equivalent, converted to reflect the market exchange rate, will be calculated using Table 3, below.

Table 3

Lloyd's of London: Non-Rated Syndicates

Policyholders' Surplus Equivalent (Syndicate Level Assets, Members' Funds at Lloyd's, or Stamp Capacity) Conversion to Maximum Line Allocation

Policyholders' Surplus Equivalent (millions)	Maximum Line (% of Policyholders' Surplus Equivalent)
< $150	2%
> $150	3%

The CEA requires that all its reinsurance contracts grant the CEA the right (but not the obligation) to reduce or terminate a reinsurer's participation share, before contract expiration, if the reinsurer's financial strength weakens, causing the reinsurer's existing participation allocation to exceed what the Guidelines would permit.

Expatriate Companies

The CEA will not contract for reinsurance capacity with a reinsurer that meets the criteria as an "expatriate company." As used in these Guidelines, an expatriate company is a U.S. corporation that relocates, whether physically on solely on paper, to an offshore tax-haven location. If the CEA is unable to secure the desired or necessary reinsurance capacity without contracting with an expatriate company, the CEA staff will present to the CEA Governing Board the reasons that the CEA should contract with the expatriate company and ask for the Governing Board's approval to execute the contract.

EFFICIENCY

Because a competitive market environment benefits the CEA when it negotiates terms for traditional reinsurance, the CEA should:

1. Work to place cost-effective alternatives to traditional reinsurance;

2. Provide reinsurers detailed underwriting information through its intermediaries.

Appropriate use of secondary capital market transactions can supplement traditional reinsurance capacity. Certain negative attributes of some secondary capital market products (instability, inflexibility, and lack of claim-paying track record) may be overcome by achieving the desirable attributes of lower cost, encouragement of competition among reinsurers, and diversification of sources of claim-paying capacity.

FLEXIBILITY

In the sole judgment and discretion of the CEA, acting with the advice of staff and experts, the CEA may waive or modify any allocation guideline if to do so would bring substantial benefit to the CEA without compromising the basic goals of financial strength, stability, and efficiency.

ALTERNATIVE RISK TRANSFER

The Guidelines in this section apply to all alternative risk transfer transactions in which the CEA is a party (referred to as "Alternative Transactions"), including reinsurance funded by the proceeds of a catastrophe bond issued by a special purpose reinsurer and other transactions funded by insurance-linked securities (referred to collectively as "ILS Transactions"), collateralized reinsurance with institutional investors, such as hedge funds and pension plans, and similar transactions.

The CEA, at its sole discretion, may enable the development of and utilize Alternative Transactions, that may bring greater efficiency and stability to the CEA's claim-paying structure or diversify the CEA's sources of claim-paying capacity, in order to, among other things:

- Attract capacity at more efficient terms;

- Attract capacity that is comparable with the pricing of traditional reinsurance markets; or

- Enable the development of alternative markets or alternative financial products, which may bring, without limitation, greater efficiency and stability to the CEA's claim-paying structure or diversify the CEA's sources of claim-paying capacity.

ESTABLISHMENT OF ADVISORY SUBGROUP

The CEA will establish a Alternative Risk Transfer Advisory Subgroup (referred to as the "ART Subgroup"), which will have primary responsibility for overseeing and approving the structural and pricing terms of, and any publicity in connection with, each Alternative Transaction. The ART Subgroup will be composed of the CEO, the CFO and the General Counsel, together with any other CEA staff or officers deemed appropriate by the ART Subgroup to oversee CEA involvement in any Alternative Transactions. The ART Subgroup will operate through the unanimous consensus of the CEO, the CFO and the General Counsel. Formal meetings of the ART Subgroup and approval of matters before the ART Subgroup through formal voting procedures will not be required.

Before approving any Alternative Transaction, the ART Subgroup should consider whether the proposed Alternative Transaction:

- Is economically reasonable for the CEA in light of market conditions;
- Furthers the CEA' s claim-paying capacity without subjecting it to unreasonable exposure to market, legal or regulatory risk; and
- Poses an undue risk of harm to the CEA' s stature or reputation.

In connection with these considerations, the ART Subgroup may consult independent third party advisors such as the CEA's reinsurance intermediaries and independent financial advisor to analyze and discuss with the ART Subgroup the benefits, risks and opportunities of any proposed Alternative Transaction. CEA staff should appropriately document discussions and decisions related to these topics.

FLEXIBILITY

As the CEA participates in various Alternative Transactions and gains experience regarding the benefits and risks involved with Alternative Transaction structures, the ART Subgroup shall reevaluate these Guidelines to ensure that risks are mitigated and that potential benefits are not unduly limited by applications of the Guidelines and the procedures mandated by the Guidelines.

PRICING

The final pricing of any Alternative Transaction must be approved by the CFO in consultation with the CEO and any other appropriate professionals at the CEA appointed by the ART Subgroup to advise on pricing matters. The CFO should solicit the views of reasonably selected market professionals to assist the CEA in determining whether an Alternative Transaction is competitive from a pricing standpoint, taking into account the relative benefits of the transaction with other forms of risk transfer.

NEGOTIATION OF TERMS

It is recommended that the CEA's internal and external counsel (if any) either draft or review the terms of any reinsurance agreement entered into by the CEA in connection with an Alternative Transaction to ensure that the terms are consistent with appropriate market standards and create effective risk transfer from the CEA's perspective. Annex A of these Guidelines describes certain preferred terms for ILS Transactions.

OPERATING GUIDELINES

In connection with its procurement of reinsurance funded by the proceeds of a catastrophe bond or other insurance-linked securities issued by a special purpose reinsurer (referred to as an ILS Transaction), it is recommended that the CEA and its staff comply with the preferred guidelines attached as Annex B and any other operating guidelines provided by the CEA's internal and external counsel in connection with ILS Transactions. The operating guidelines attached as Annex B may be amended at any time with the prior approval of the ART Subgroup, and should be reviewed periodically for changes to applicable law.

ANNEX A

PREFERRED TERMS FOR ILS TRANSACTIONS

The following is a non-exhaustive description of preferred terms for any ILS Transaction through which the CEA obtains reinsurance coverage. In describing these preferred terms, it is expressly understood that the ILS market continually evolves and different reinsurance structures may be desirable to the CEA depending on pricing, the CEA's needs and other factors. In the sole judgment and discretion of the CEA, acting with the advice of staff and experts, the CEA may deviate from these preferred terms if to do so would bring substantial benefit to the CEA without compromising the basic goals of financial strength, stability, and efficiency.

1. The reinsurance agreement will indemnify the CEA on an excess of loss aggregate annual basis for a period of not less than three years.

2. The aggregate limit of the reinsurance agreement will be fully collateralized to the aggregate limit of the agreement. The proceeds from the sale of the bonds must be deposited into a collateral account established in a U.S.-based bank with a long-term credit rating of at least "A-" from Standard & Poor's or "A-" from A.M. Best, using a form of collateral account control agreement approved by the CEA. The collateral control agreement must require that collateral in the account be solely held in the form of specified types of permitted assets, consisting of one or more of the following:

   a. Cash, in United States Dollars;

   b. Interests in money market mutual funds rated in the highest rating category by Moody's or Standard & Poor's and registered under the Investment Company Act of 1940 that invest solely in direct obligations of the U.S. Treasury and have a per share value of $1.00 or more;

   c. Direct obligations of the U.S. Treasury, excluding Treasury "separate trading of registered interest and principal securities" zero coupon bonds (Treasury STRIPS) or Treasury Inflation Protected Securities (TIPS); or

   d. Other assets that the CEA may, at its sole option, permit upon a determination, in the sole judgment and discretion of the ART Subgroup, acting with the advice of staff and experts, as needed, that the assets provide levels of safety, security, and liquidity comparable to the categories of assets specified in subparagraphs (a) through (c) immediately above.

3. The CEA will be obligated under the reinsurance agreement to make periodic reinsurance premium payments to the reinsurer on a quarterly basis.

4. Only if required by the rating agency retained by the reinsurer to rate the security, the CEA will deposit into an escrow account for the benefit of the reinsurer one quarter of annual reinsurance premium payments.

5. The reinsurance agreement will have separate retentions for each annual risk period. The dollar amount of the retention will be reset and recalculated for the second and third annual periods pursuant to procedures agreed to by and between the CEA and the reinsurer.

6. The reinsurance contract will provide for one or more optional extension periods allowing the CEA, in its sole discretion and at its election, to extend the term of the reinsurance contract beyond its scheduled termination date for the limited purpose of submitting loss payment requests and receiving loss payments. The aggregate time of all such optional extension periods will be at least 18 months.

7. The CEA will pay negotiated fees and expenses upon successful completion of a risk-transfer transaction by the reinsurer. If the risk-transaction is not successfully completed by the reinsurer, the CEA will not be obligated to pay or reimburse any person or entity (including, without limitation, the reinsurer, the underwriter, or any service providers engaged by the reinsurer or underwriter) for any expenses and fees associated with the transaction.

ANNEX B

PREFERRED ILS OPERATING GUIDELINES

The following preferred operating guidelines relate specifically to the procurement of reinsurance funded by the proceeds of a catastrophe bond or other insurance-linked securities issued by a special purpose reinsurer (referred to as an ILS Transaction).

Publicity

Any interviews or public presentations (including conferences and seminars) by an officer, director or employee of the CEA in connection with its participation as a cedent in an ILS Transaction should be approved by the ART Subgroup. In making any public statements, the CEA should be careful not to condition the market for specific securities offerings that are underway or are contemplated in the future. For example, the CEA should not mention the specific size of a contemplated offering or the at-risk layer, the anticipated launch date, the underwriters, the anticipated pricing parameters or the expected loss of the transaction. In addition, to the extent practicable, the CEA should seek to require any reporter with whom an interview has been granted to submit a draft of the article for review as a condition of access to CEA officers and employees.

Offering Materials

All CEA information provided by the CEA to any party involved in an ILS Transaction and that may reasonably foreseeably be used in connection with the reinsurer's preparation of offering materials should be subject to the review and approval of appropriate personnel appointed by the ART Subgroup in order to determine, at the time the information was provided, whether the information (i) is accurate in all material respects and (ii) does not omit to state a material fact necessary in order to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

If the CEA determines to participate in a roadshow or other investor presentation, as approved by the ART Subgroup, it is recommended that the CEA's participation be scripted in advance (including in high-level PowerPoint slides), with the script subject to review by the appropriate legal staff at the CEA. Material non-public information about the CEA should be held confidential and not disclosed unless and until the CEA determines to publicly disclose that information.

Prior to the closing of an ILS Transaction, it is recommended that the CEA confirm that transaction counsel for the reinsurer has delivered a customary 10b-5 negative assurance letter to the underwriters.

Subject Business

Internal procedures should be put in place to ensure that the underlying subject business data and policies provided to the reinsurer, which in turn may be provided to a third party risk modeling firm, is accurate and constitutes the complete set of business that the CEA intends to be covered by the reinsurance agreement.

Statements Regarding Offering Materials

Statements implying that the CEA has or had ultimate authority over any ILS Transaction or undermining the reinsurer's independence or ultimate authority should be avoided. For instance, the CEA should be careful to describe the CEA's role in an insurance-linked securities transaction from the perspective of an insurance company purchasing reinsurance and not as the "sponsor" of the transaction or the "issuer" of the insurance-linked securities. In other words, the CEA purchases reinsurance that is transformed and funded through a capital markets offering by an independent special purpose insurer, but it does not have control or authority over the reinsurer or the offering.

Indemnification

The CEA may agree to indemnify the reinsurer for claims relating to inaccuracies in CEA policy data used in the ILS Transaction. However, the CEA will not agree to provide any other indemnification for the transfer of the risk from the reinsurer into the capital markets, except through the procurement of an insurance policy where the risk of indemnification is not borne by the CEA.

Underwriters

While ultimate selection may be within the discretion of the reinsurer, the underwriters assisting the reinsurer in the effort of transferring the risk into the capital markets should be acceptable to the CEA from a reputation and experience perspective, including that:

- The lead underwriter has been in business for at least five years and has a satisfactory reputation in connection with insurance-linked securities offerings and the broader capital markets;

- The underwriters are appropriately licensed as broker-dealers to perform the functions required of them under the purchase agreement with the reinsurer; and

- The underwriters have appropriate experience in transferring insurance risk to the capital markets.

Periodic Training

The ART Subgroup should ensure that all CEA staff involved in ILS Transactions periodically receive appropriate training regarding the legal and regulatory framework applicable to ILS Transactions.

Governing Board Memorandum

December 13, 2012

Agenda Item 6:	RMS – earthquake loss modeling – contract renewal
Recommended Action:	Approve renewal of the RMS contract

Background:

There are three widely recognized, commercially available catastrophe-loss models/modelers: EQECAT (http://www.eqecat.com/), RMS (http://www.rms.com/), and AIR-Worldwide (http://www.air-worldwide.com/Home/AIR-Worldwide/).

Since 2004 and with the Governing Board's support and approval, the CEA has worked continually, under contract, with all three of these earthquake models/modelers—under that arrangement, the CEA can feel confident that its earthquake-loss modeling is always provided by widely used, tested models at their highest level of development, a critical factor for support of CEA's sophisticated operational and financial needs.

Analysis:

In part because of its collaboration with the three widely recognized earthquake modelers, the CEA broadens its understanding of California earthquake risk and the various, but similarly purposed, modeling methodologies. The collaboration enables the CEA to view the broadest range of modeling results, for planning purposes and project and product development.

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

Staff has negotiated a three-year contract renewal with RMS, to take effect January 1, 2013. Under the renewed contract, RMS will provide substantially the same services as under the current contract, which has functioned well.

The fees payable to RMS under the proposed contract renewal are in the 2013 CEA budget and include two basic components:

- Two full earthquake-loss analyses of the CEA's insured-risk portfolio, for an annual fee of $190,000.

- Services, as needed, in support of the CEA EARLE system, for an annual fee of $55,000, which includes RMS's participation in the twice-annual tests of the entire EARLE system.

Notes on new/renewed contract:

- The agreed fees charged for the corresponding two components in the present, expiring contract are $160,000 and $50,000, respectively, and those amounts remained flat from January 1, 2009, through December 31, 2012.
- The CEA's new *Homeowners Choice* product increases the complexity and number of required outputs from any modeled loss-analysis, including that available through RMS.

Recommendation:

Staff recommends that the Governing Board CEA's renewal of the contract with RMS.

Governing Board Memorandum

December 13, 2012

Agenda Item 7:	- Summary of the September 17, 2012, Guidelines workshop - Outline for continuing work on the development of statewide standards for the seismic retrofit of single-family dwellings.
Recommended Action:	No action required – information only

Background and Analysis:

At the Governing Board's October 25, 2012, meeting, Chief Mitigation Officer Janiele Maffei described the Guidelines workshop held jointly by the California Earthquake Authority ("CEA") and the Federal Emergency Management Agency ("FEMA").

Held on September 17, 2012, in Millbrae, the Guidelines workshop convened earthquake-engineering professionals and other stakeholders to discuss and inform the development of comprehensive guidelines for the seismic rehabilitation of existing single-family, wood-frame dwellings.

Establishing and promulgating consensus Guidelines will be necessary to successfully establish and expand (1) an incentive program to encourage seismic retrofits, such as that being coordinated under the California Residential Mitigation Program, and (2) the ability of the CEA to develop, justify, and provide mitigation-based premium discounts for insured homeowners.

The CEA is working with FEMA to use the information gained at the September workshop to outline a scope of work and a work schedule for the development of the Guidelines. First steps include formation of a project team and steering committee.

Recommendation:

No action – information only.

Governing Board Memorandum

December 13, 2012

Agenda Item 8:	Update on the California Residential Mitigation Program ("CRMP")
Recommended Action:	No action required – information only

Background and Analysis:

The governing board of the California Earthquake Authority/ Cal-EMA joint powers agreement ("JPA") met on November 13, 2012. The JPA manages the California Residential Mitigation Program ("CRMP"), which has been designed to provide financial incentives to homeowners who complete seismic retrofit projects on their dwellings.

The CRMP retrofit pilot project is presently scheduled to roll out in early 2013. Five homeowners in a Northern California community and five homeowners in a Southern California community will use a Web portal to submit applications for the retrofit program.

Requests for qualifications, seeking services of a Web-site designer and an auditor for the program, are currently being advertised.

Solicitations for insurance services, inspection services, and quality-control services will be publicized shortly.

An RFQ for marketing services for the state-wide roll-out of CRMP is being finalized.

Recommendation:

No action required – information only.

Governing Board Memorandum

December 13, 2012

Agenda Item 9:	Report on the CEA's mitigation-research workshop set for January 2013
Recommended Action:	No action required – information only

Background and Analysis:

At the Governing Board's June 21, 2012, meeting, Chief Mitigation Officer Janiele Maffei outlined the three major emphases of the California Earthquake Authority's ("CEA") mitigation program, including (1) development of comprehensive guidelines for the seismic retrofit of single-family dwellings and (2) development of the California Residential Mitigation Program ("CRMP"). The mitigation program includes development and sponsorship of a research program.

Research Symposium:

The CEA has invited earthquake engineering research professionals to Millbrae, California, on January 24 and 25, 2012, for *A Workshop for Development of an Experimental and Numerical Modeling Program to Evaluate the Effectiveness of Selected Seismic-Mitigation Measures for Single-Family Dwellings*.

Workshop participants will collaborate with CEA staff to discuss research requirements and expectations, with the objective being a roadmap for a multi-year research program to evaluate the effectiveness of selected seismic-mitigation measures for wood-framed single-family dwellings ("SFDs").

Key to CEA's interests, the resulting research program will be designed to support the calculation of appropriate mitigation-related insurance-premium discounts, support the guideline-development process, and inform other strategic mitigation endeavors.

Recommendation:

No action – information only.

Governing Board Memorandum

December 13, 2012

Agenda Item 10**:** 2013 CEA Business Implementation Plan

Recommended Action: Approve the 2013 CEA Business Implementation Plan

Background:

The CEA prepares an annual Business Implementation Plan (BIP) and accompanying budget to describe, organize, and support the business activities of the Authority. The Board-approved BIP is the core used by staff in developing the CEA's annual budgets for insurance services and mitigation programming.

Analysis:

This year's BIP *(please see: Attachment A - 2013 CEA Business Implementation Plan)* follows the general rules set out as Background above.

CEA department directors, supported by staff analysis, have built the proposed 2013 BIP, after assessing and accounting for the presence and status of activities in the 2012 BIP.

In addition to initiatives new for 2013, the proposed 2013 BIP generally accounts for elements of the 2012 BIP that, on account of changing business priorities, have been delayed or were changed, or are ongoing or expanded processes.

Throughout 2013, CEA staff will update the Board on the BIP-implementation process.

Recommendation:

Staff recommends the Governing Board approve the proposed 2013 CEA Business Implementation Plan.

California Earthquake Authority
2013 Business Implementation Plan

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
GOAL ONE: Earthquake Response/Claim Payment. ***Provide excellent customer service – process claims promptly, fairly, and consistently.***				
STRATEGY A: Enhance the CEA's claim-handling guidelines and procedures.				
1. Claim-Adjuster Training • **Adjuster training** – Sacramento	May 2013	Host annual CEA Claim Manager Conference.	Mitch Ziemer Dan Dyce	
2. Claim system enhancements and testing	May 2013	Conduct testing of claim system with participating insurers.	Mitch Ziemer Dan Dyce	
STRATEGY B: Coordinate with other earthquake-response entities.				
1. Establish and maintain **communication and response protocols** to coordinate CEA involvement in local-area assistance centers.	Ongoing	Support local-area assistance centers.	Bob Stewart Mitch Ziemer Annde Ewertsen	FEMA/CalEMA CDI
2. Review, compare, and update **internal protocols for CEA earthquake response procedures.**	Ongoing	Support collaboration among CEA staff and conduct 'table-top exercises' to ensure response procedures are documented, current, and incorporate key activities such as the EARLE system.	Mitch Ziemer Dan Dyce	
STRATEGY C: Support research to determine best practices in evaluation and repair of earthquake damage. ***NOTE:*** *CEA's Communications and Mitigation Departments will sponsor and conduct specific research projects in 2013, as noted throughout this Plan. Other CEA Governing Board-approved research initiatives conducted under the CEA Strategic Plan (including this Strategy) will be coordinated through the CEA Research Plan, under the leadership of the CEA's Director of Policy, Research, and Special Projects, reporting directly to the Chief Executive Officer.*				
1. **Implement CEA Research Plan.**	2013	Board-approved research projects: **UCERF3** is targeted for completion in 2013; **NGA2-West** is targeted for completion in January 2013. In connection with CEA's efforts to pass the Earthquake Insurance Affordability Act, CEA-supported studies, research, and reports will inform the CEA's efforts.	Bruce Patton	CEA-MRT
GOAL TWO: Financial Strength. ***Maximize CEA ability to pay all covered claims – maintain sufficient resources to continue as viable entity.***				
STRATEGY A: Continuously explore possible enhancements to the financial layer structure that would strengthen the viability of the CEA.				
1. Propose **2014 CEA financial structure,** using best choices to maintain financial strength.	August 2013	Working with Independent Financial Advisor, CEA Advisory Panel, and Chief Actuary derive cost-efficient financial structure.	Tim Richison	Financial Advisor Advisory Panel (Mark Simmonds, Wayne Coulon)

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
2. Propose and secure Board approval of **2014 CEA reinsurance program.**	August 2013	Work with CEA reinsurance intermediary team to plan and achieve required reinsurance limits at lowest effective cost.	Tim Richison	CEA Financial Advisor Reinsurance Intermediaries
3. Annual **rating agency reviews** • Financial-strength review with A.M. Best • Bond-rating review with Moody's and Fitch.	Ongoing	Work with rating agencies to maintain CEA ratings, including present financial strength rating from A.M. Best of "A-minus (Excellent)" and a bond rating of A from Fitch and A3 from Moody's.	Tim Richison	Financial Advisor
4. Continue to study and update **financial alternatives.** • Investigate financial structures, instruments of domestic and international catastrophe programs • Research and monitor global financial markets for new financing vehicles and techniques. Finalized drafting and implementation of robust compliance guidelines to assist CEA staff and Board in understanding, planning for, and working to mitigate financing and related risks.	Ongoing	Staff to collaborate with outside financial experts and expert colleagues to find and develop financial alternatives for cost-effective claim-paying capacity.	Tim Richison Danny Marshall Joe Zuber	CEA Financial Advisor Outside financial and legal experts
5. Evaluate **CEA issuing catastrophe bonds** as alternative risk-transfer.	Ongoing	Cat bond team is drawn from STO and outside experts in cat bonds and capital markets; includes work with CEA financial advisor.	Tim Richison Danny Marshall Joe Zuber	CEA Financial Advisor CEA Cat Bond Team
6. Procure vendors: • **Cash Management and Custody Banking**	November 2013	Procure custody banking services.	Mark Dawson Trudi Miller	
7. Evaluate effects of **NAIC Model Audit Rule** on the CEA.	Ongoing	Continue reviewing documentation and attend training to evaluate changes necessary to comply with NAIC's Model Audit Rule.	Tim Richison Mark Dawson	
8. Complete and continue with **investment compliance project.**	Ongoing	Procured investment-compliance software and team is working with the contractor to enhance the software's automatic daily portfolio evaluation. Investment-Compliance Committee Charter under management review; Committee has met and is discussing policy and charter provisions.	Danny Marshall Niel Hall Rick Contreras Tim Richison	Investment-Compliance Consultant CEA Financial Advisor

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
9. Implement NAIC Model Audit Rule, Solvency II, IFRS, and Basel III into CEA's financial and compliance systems.	December 2015	Develop implementation plan for transition, provide training to affected CEA personnel, and complete implementation of new accounting systems by year end 2015.	Tim Richison	Legal & Compliance Department - CEA
10. Pursue legislative activity on federal and state levels.	Ongoing	Continue to work in the U.S. Congress to pass the *Earthquake Insurance Affordability Act* to secure more efficient and diversified financial capacity for CEA and other public earthquake-insurance programs. In California, explore legislative options to provide CEA with financial and staffing flexibility, to support operations more efficiently and secure an enhanced second-event capability. As noted above, CEA-supported studies, research, and reports will inform the CEA's efforts—this may require co-sponsors and studies and legislation, as needed.	Glenn Pomeroy Danny Marshall Susie Hernandez Bruce Patton	Co-sponsors Consultants Research organizations
STRATEGY B: Periodically re-evaluate residential earthquake insurance rates based on scientific data and CEA financial metrics.				
2. Complete analysis of **mitigation discount. *Also see Mitigation section.**	Ongoing	Continue re-evaluation of hazard reduction discount targeting a more robust mitigation discount.	Bob Stewart Mitch Ziemer Janiele Maffei Shawna Ackerman Bruce Patton Marianne Knoy CEA-MRT	EQECAT PEER ATC
3. Complete **rate analysis for all products** – develop action plan to present to CEA Advisory Panel's Rate Subcommittee and CEA Governing Board.	Ongoing	Rate analysis is ongoing, with comprehensive analysis annually at mid-year and year-end.	Bob Stewart Shawna Ackerman Mitch Ziemer	EQECAT Advisory Panel Brian Deephouse Wayne Coulon
4. Continue to work with CEA actuary to **update CEA's Dynamic Financial Analysis Model and Financial Model** and reflect new financial alternatives and products.	Ongoing	Continue to enhance CEA's DFA model.	Tim Richison Shawna Ackerman	

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
GOAL THREE: Earthquake Insurance Products. ***Encourage Californians to make informed decisions on purchase of earthquake insurance.***				
STRATEGY A: Continuously explore options to enhance CEA insurance products.				
1. Explore **enhancements to CEA insurance products.**	Ongoing	CEA staff is continually and actively reviewing CEA products—the review includes market research and analysis of policyholder purchasing patterns, the results of which will guide and allow enhancement of future product designs.	Bob Stewart Mitch Ziemer Shawna Ackerman	Participating insurers Advisory Panel Mark Simmonds Wayne Coulon
STRATEGY B: Market CEA earthquake insurance based on informed choice.				
1. Continuously evaluate products to identify product enhancements to increase marketability of CEA products.	Ongoing	CEA will support cross functional efforts to gather insight from participating insurers, agents, consumers, and others to guide ongoing product development.	Bob Stewart Mitch Ziemer Shawna Ackerman	Consumer Research Contractor Advisory Panel
2. **Refine CEA Marketing Value Program (MVP) to create interest in earthquake insurance and sell polices:** • Apply business-to-business approach to reach consumers through participating-insurer agents / producers. • Emphasize existing policyholder retention and new policyholder sales. • Communicate consumer offer / benefit • Utilize social science, branding, message, marketing, and policyholder research. • Conduct benchmark and previous policyholder research projects. • Refine online marketing strategy. • Implement social media strategy. • Provide marketing incentives for each agent registered for MVP participation according to CEA's MVP guidelines. • Budget CEA 2013 MVP for 1.5 million pieces of mail and 8,000 preparedness starter kits.	2013	CEA will seek ongoing input from Governing Board, Advisory Panel, and participating insurers.	Chris Nance	Communications Plan Contractor Advisory Panel Communications Plan Contractor Wayne Coulon Mark Simmonds TBD-alternate

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
• Engage participating insurers in promotion of two flights of execution. • Send two mailings to CEA policyholders. • Seek cooperative marketing agreements from participating insurers. • Refine Joined Forces programming with American Red Cross through annual statewide auction in April and annual *Great California ShakeOut* earthquake preparedness drill in October. • Seek marketing opportunities with industry trade associations. • Integrate other earthquake preparedness stakeholders as appropriate. • Manage programming budgets that separate marketing and mitigation funds. • Integrate rollout of California Residential Mitigation Program (pilot) in East Bay and Los Angeles areas.				
3. **Identify measures to track and gauge marketing effectiveness (metrics):** • Refine year-round media plan: -Paid-media negotiations, and -Earned media outreach. • Utilization of media-buying and tracking software. • Develop integrated business-intelligence systems to target and track marketing and sales programming: -Marketing/sales funnel, -Content management, and -Agent/consumer relations.	Ongoing	CEA will utilize software and subscriptions to reconcile media buys; develop business intelligence systems to facilitate marketing and sales decisions, and track number of people considering earthquake insurance.	Chris Nance	Communications Plan Contractor Advisory Panel TBD Jeffrey McCarty Jonathan Leong-alternate

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
4. **Expand CEA agent/producer relations:** • Meet biannually with participating-insurer marketing liaisons to share MVP updates. • Coordinate agent training through participating-insurer liaisons. • Use technology to deliver agent training more efficiently. • Enhance premium calculator options on CEA's Web site. • Provide agents/producers with updated product-information brochures. • Continuously evaluate participating insurers' use of CEA marketing materials.	Ongoing	CEA will share updates and collect meaningful input from participating-insurer marketing liaisons.	Chris Nance	Communications Plan Contractor Advisory Panel Bruce Johnson Mark Simmonds
STRATEGY C: Conduct research to support product enhancement and marketing.				
1. **Expand utilization of results from message research study beyond CEA.**	Ongoing	CEA will seek to motivate more people to prepare for California's next damaging earthquake; social science experts recommend being on-message through everyone, everywhere, all the time.	Chris Nance	Advisory Panel TBD TBD Wayne Coulon-alternate CalEMA SCEC
2. **Further develop product-specific marketing strategies.**	Ongoing		Chris Nance Mitch Ziemer Shawna Ackerman	Advisory Panel Brian Deephouse TBD Jeff McCarty-alternate
3. **Conduct research on marketing activities for other comparable insurance products for which similar marketing challenges have been addressed (e.g., flood insurance).**	Ongoing	CEA will produce ongoing "SWOT" analyses – recognizing its strengths, weaknesses, opportunities, and threats.	Chris Nance	Advisory Panel Mark Simmonds Jeff McCarty Wayne Coulon-alternate

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
GOAL FOUR: Earthquake Preparedness and Loss Mitigation. ***Protecting life and property through preparedness and mitigation.***				
STRATEGY A: Continuously explore options to enhance CEA insurance products.				
1. Ensure CEA mitigation programs are **evaluated for program- and cost-effectiveness.**	Ongoing	Current CRMP pilot includes detailed evaluation and quality control process	Janiele Maffei	CRMP Governing Board
2. Work with earthquake mitigation stakeholders to earn their consideration of **earthquake insurance as a component of financial preparedness.**	Ongoing	Beginning pilot relationship with SF Mitigation program	Janiele Maffei Chris Nance	Advisory Panel Engineering groups Consumer groups
3. **Participate and fund conferences, seminars, and workshops to support collaborative mitigation efforts.**	Ongoing	Guidelines workshop completed September 2012. Research workshop planned for January 2013	Janiele Maffei	CRMP FEMA
4. **Explore relationships with other established natural-hazard mitigation opinion leaders and stakeholders.**	Ongoing	Partnership with FEMA: FEMA P-50 completed and Retrofit Guidelines process started	Janiele Maffei Bruce Patton	Advisory Panel Rod Garcia Jonathan Leong
STRATEGY B: Support research to evaluate and improve the effectiveness of earthquake preparedness and mitigation efforts.				
1. Engage engineering contractor to quantify damage reduction to support earthquake-insurance mitigation discount.	Ongoing	Workshop and RFQ process planned for 2013	Janiele Maffei Bruce Patton	Mitigation Discount Program Contractor Advisory Panel Rod Garcia Jonathan Leong Jeffrey McCarty-alternate
2. Conduct contents-mitigation programs that reinforce message research results and complement Residential Brace and Bolt Project.	Ongoing	CRMP pilot plan includes providing information about contents-mitigation	Janiele Maffei	CRMP Governing Board
3. Explore partnerships with relevant corporate interests in offering financial products to support consumers participating in the CRMP Incentive Program	Ongoing	Current development of Retrofit Guidelines essential to securing additional financial products for mitigation	Janiele Maffei	Mitigation Program Contractor Advisory Panel Jonathan Leong (Wayne Coulon, alternate)

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
STRATEGY C: Pursue funding to support CEA's consumer-education and mitigation programs.				
1. Work with federal, state, and private organizations to obtain pre- and post-event funding for earthquake-loss-mitigation programs.	Ongoing	The CEA's Residential Brace and Bolt Project is expressly referred to in the FEMA-approved *State of California Multi-Hazard Mitigation Plan* (which supports state and other eligibility for disaster recovery assistance and mitigation funding).	Janiele Maffei	Advisory Panel Jonathan Leong Pius Lee Wayne Coulon-alternate Participating insurers Other public & private sources
<u>GOAL FIVE: Governance and Organizational Effectiveness</u>. *Structure Board, Panel, and staff to maximize CEA's mission effectiveness.*				
STRATEGY A: Review the configuration of the CEA Governing Board and consider options to maximize its effectiveness.				
STRATEGY B: Clarify the role of the Advisory Panel and maximize its contribution to the CEA.				
1. Work with the Advisory Panel as it optimizes its appropriate role.	Process	Panel members periodically review CEA Business Implementation Plan and respond to staff requests for Panel-member participation.	Danny Marshall Susan Pitton	Advisory Panel
2. Update Advisory Panel handbook	Process (periodic)		Danny Marshall Susan Pitton	
STRATEGY C: Assess CEA workload – design and acquire optimal staffing configuration.				
1. Collaborate with CEA Board and other stakeholders to analyze and develop **action plan relating to organizational and staffing analyses.**	Ongoing	Areas of focus will include creation of a new business model, augmentation of HR capabilities, additional staff members possessing required functional expertise, addition of a Chief Information Officer (CIO) and Chief Risk Officer (CRO), and other recommendations resulting from the analysis.	Executive Staff	Governing Board Advisory Panel Participating Insurers
2. **Legal internship**	2013	Continued Placement of a legal intern (initial intern brought legal experience in New Zealand (and Christchurch 2010) earthquake claims) to develop expertise in catastrophe planning, insuring and response, as well as the regulatory atmosphere and initiatives in California and nationally. Intern will work with directors of each department to acquire an in-depth understanding of CEA's organization	Danny Marshall	Consulting Providers

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
		and functions.		
STRATEGY D: Continue maximizing organizational effectiveness.				
1. Establish **records management and retention program.** • Research, review, and recommend document retention best-practices standards	In process 2011-2013	Implementation proceeding through 2012 and 2013 through use of contracted consultant. Records-management program now in process, subject to technical staff availability within CEA. Anticipated full implementation in second quarter of 2013.	Danny Marshall Niel Hall Rick Contreras	
2. **Review CEA governance documents,** including Plan of Operations and the Procedures and Accounting Manuals, to ensure documents are up-to-date.	Process	CEA governance documents are in need of updating periodically, to reflect regulatory revisions and changes in operating procedures. The review will aid process improvements.	Bob Stewart Mike Melavic Danny Marshall Mitch Ziemer	All CEA department heads
3. **Enhance IS effectiveness by developing and implementing portfolio and project management principles and practices, including internal audit and financial controls in a sustainable and efficient manner.**	Ongoing	Ongoing project involving implementation of principles and practices learned from prior consulting engagement	Bob Stewart Mike Melavic	
4. **Identify, develop, and implement insurance data system fixes and enhancements,** including any system modifications needed to meet the ever changing business requirements including claim processing.	Ongoing	CEA Information Services staff will identify opportunities to refine the EPICenter to maximize system effectiveness and promote the ease of doing business with the CEA.	Bob Stewart Mike Melavic Mitch Ziemer Dan Dyce	
5. **Complete internal audit review and establish internal audit program** (responding to independent audit finding).	Ongoing	PwC consultants have interviewed CEA employees at management and staff levels and are engaged in drafting a “right sized” internal audit program for the CEA, under the guidance of CEA’s chief auditor; program will be operational in early 2012 and proceed.	Danny Marshall Rick Contreras	Consulting Firm
STRATEGY E: Collaborate with stakeholders and partners.				
1. **Inform external organizations about CEA.**	Ongoing		Executive Staff	Advisory Panel
2. **Participate in conferences and events that further CEA goals.**	Ongoing		Executive Staff	
3. Continue to **strengthen communication with**	Ongoing		Executive Staff	Advisory Panel

Business Activity	Date	Status/Comments	Team Leaders	Other Resources
external stakeholders (such as Legislative and Congressional staff; consumer groups; participating insurers; federal, state and regional agencies; and university resources).				

Abbreviations:

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

Governing Board Memorandum

December 13, 2012

Agenda Item 11: 2013 CEA Budgets: Insurance Services

Recommended Action: Approve 2013 Insurance Services Budget

<u>Background</u>:

The CEA staff prepares and submits to the Governing Board an annual budget, based on all anticipated expenses for the next calendar year[1], that aligns with the Board's Strategic Plan and the associated year's Business Implementation Plan.

<u>Analysis</u>:

<u>2013 Insurance Services Budget</u>

Staff has prepared four attachments to assist the Board in comparing and analyzing the 2012 and 2013 budgets for insurance services.

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2012 Budget Year**
  - This attachment shows:
    - a. the December Board-approved 2012 Budget,
    - b. budget adjustments throughout the year,
    - c. budget augmentations throughout the year,
    - d. augmented/adjusted approved 2012 budget,
    - e. actual expenses through October 31, 2012,
    - f. projected expenses for the months of November and December, 2012,
    - g. actual and projected expenses at December 31, 2012,
    - h. a comparison of augmented, adjusted, approved budget to actual and projected expenses at December 31, 2012, and
    - i. percentage of used augmented and adjusted approved 2012 budget.

- **Attachment B: Proposed 2013 Insurance Services Budget**
  - This attachment shows the proposed 2013 insurance services budget, constructed as necessary to fulfill the CEA's 2013 Business Implementation Plan.

- **Attachment C: 2012 Actual and Projected Expenses Compared to Proposed 2013 Budget**
  - This attachment shows the actual and projected expenses for 2012 and compares them to the proposed 2013 budget.

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[1] The CEA fiscal year is the calendar year.

- **Attachment C-1: 2013 Insurance Services Budget Analysis**
    - This attachment analyzes differences between the actual and projected expenses for 2012 and the proposed 2013 budget.

Operating Expenses: Comparison of projected expense to statutory cap[2]

The operating-expense portion of the proposed 2013 budget is $15,143,220, which is less than the 3% of (projected) premium income cap, as detailed below:

Projected 2013 written premium:	$ 591,330,380
Statutory operating-expense cap (percentage)	3%
Statutory operating-expense dollar cap for 2013	$ 17,739,911
Proposed 2013 operating expense budget	$ 15,143,220
Amount by which cap exceeds proposed budget	$ 2,596,691

Recommendation:

Staff recommends that the Board take the following actions:

Approve the:

- proposed 2013 Insurance Services budget, and
- direct staff to operate CEA business within the total approved budget amounts.

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

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f)	(g) (g=e+f)	(h) (h=d-g)	(i) (i=g/d)
	Approved 2012 Budget 1/1/2012	**Adjustments thru 12/31/2012**	**Augmentations thru 12/31/2012**	**2012 Budget after Augmentations and Adjustments**	**Actual Expenditures as of 10/31/12**	**Projected Expenditures 11/1/2012 to 12/31/2012**	**Actual and Projected Expenses at 12/31/12**	**Augmented & Adjusted Approved Budget (d) vs. Actual & Projected Expenses (g) at 12/31/12**	**Percentage used of Augmented & Adjusted Approved 2012 Budget**
Salaries & Benefits	$ 8,015,624	$ 3,037,642	$ -	$ 11,053,266	$ 8,761,024	$ 2,292,242	$ 11,053,266	$ -	100.00%
Rent	635,593	98,268	-	733,861	611,551	122,310	733,861	-	100.00%
Travel	335,402	33,433	-	368,835	294,769	74,066	368,835	-	100.00%
Non-paid Consultant Travel	8,066	(6,402)	-	1,664	1,387	277	1,664	-	100.00%
Telecommunications	232,707	(17,314)	-	215,393	179,494	35,899	215,393	-	100.00%
Training	161,668	37,219	-	198,887	165,739	33,148	198,887	-	100.00%
Insurance	143,078	337	-	143,415	143,415	-	143,415	-	100.00%
Board/Panel Services	19,781	3,255	-	23,036	19,196	3,840	23,036	-	100.00%
Administration & Office	1,037,706	185,221	-	1,222,927	812,356	410,571	1,222,927	-	100.00%
(Software Maint & Support, Printing & Stationery, Postage)									
Administrative Contracted Services									
Data Mgmt Services	493,170	50,521	-	543,691	453,076	90,615	543,691	-	100.00%
Other Administrative Contracted Services	37,780	11,713	-	49,493	41,244	8,249	49,493	-	100.00%
Furniture/Equipment	41,005	(7,587)	-	33,418	27,848	5,570	33,418	-	100.00%
EDP Hardware/Software	215,671	133,544	-	349,215	579,429	(230,214)	349,215	-	100.00%
Dept of Insurance Examination	28,954	(63,857)	-	(34,903)	(34,914)	11	(34,903)	-	100.00%
Total Operating Expenses	**$ 11,406,205**	**$ 3,495,993**	**$ -**	**$ 14,902,198**	**$ 12,055,614**	**$ 2,846,584**	**$ 14,902,198**	**$ -**	**100.00%**
Consulting Services									
Actuarial	25,000	(25,000)	-	-	-	-	-	-	0.00%
Claims	-	-	-	-	-	-	-	-	0.00%
Information Technology	956,000	(200,000)	-	756,000	491,129	264,871	756,000	-	100.00%
Financial Consulting	300,615	-	-	300,615	222,060	44,412	266,472	34,143	88.64%
Other Consulting Services	1,564,106	(1,111,507)	-	452,599	366,610	85,989	452,599	-	100.00%
Total Consulting Services	$ 2,845,721	$ (1,336,507)	$ -	$ 1,509,214	$ 1,079,799	$ 395,272	$ 1,475,071	$ 34,143	97.74%
Research	1,018,000	-	-	1,018,000	559,000	459,000	1,018,000	-	100.00%
Contracted Services									
Agent Services	-	-	-	-	-	-	-	-	0.00%
Audit Services	160,000	(30,000)	-	130,000	130,000	-	130,000	-	100.00%
Brochure/Information Products	175	-	-	175	-	-	-	175	0.00%
Communications	-	-	-	-	-	-	-	-	0.00%
Consumer Services	-	-	-	-	(1,238)	-	(1,238)	1,238	0.00%
Contracted Marketing & Outreach	348,065	(312,000)	-	36,065	20,435	4,087	24,522	11,543	67.99%
Dynamic Financial Analysis	-	-	-	-	-	-	-	-	0.00%
Investment Compliance	-	-	-	-	-	-	-	-	0.00%
Legal Services-Claims Counsel	200,000	508,876	-	708,876	135,876	573,000	708,876	-	100.00%
Legal Services-Claims Counsel-PI	-	-	-	-	-	-	-	-	0.00%
Legal Service - Non-Claims	2,685,698	-	-	2,685,698	1,707,848	878,359	2,586,207	99,491	96.30%
Modeling Services	666,470	244,778	-	911,248	615,518	295,730	911,248	-	100.00%
Marketing Services	9,239,714	(425,000)	-	8,814,714	5,024,120	3,787,896	8,812,016	2,698	99.97%
Media Services	137,000	(137,000)	-	-	-	-	-	-	0.00%
Other Contracted Services	675,758	(570,000)	-	105,758	52,983	47,923	100,906	4,852	95.41%
Total Contracted Services	$ 14,112,880	$ (720,346)	$ -	$ 13,392,534	$ 7,685,542	$ 5,586,995	$ 13,272,537	$ 119,997	99.10%
Commissions	68,573,084	(957,679)	-	67,615,405	47,872,067	9,574,413	57,446,480	10,168,925	84.96%
PI Operating Costs	21,189,083	-	-	21,189,083	14,776,324	2,955,265	17,731,589	3,457,494	83.68%
Investment Expenses	2,077,067	-	-	2,077,067	1,691,863	338,373	2,030,236	46,831	97.75%
Financing Expenses	8,864,057	423,383	-	9,287,440	7,739,533	1,547,907	9,287,440	-	100.00%
Reinsurance [1]	200,453,436	(904,844)	27,188,129	226,736,721	186,663,896	40,072,825	226,736,721	-	100.00%
Total Expenditures	**$ 330,539,533**	**$ -**	**$ 27,188,129**	**$ 357,727,662**	**$ 280,123,638**	**$ 63,776,634**	**$ 343,900,272**	**$ 13,827,390**	**96.13%**

1 Augmentation represents 2012 premium for reinsurance contracts Transformer 2012-1, Transformer 2012-2, Contract C, and September Contract #1

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Proposed 2013 Budget

		(a)		(b)		(c) (c=a+b)
		2013 Insurance Services Budget		**2013 Requested Budget Changes**		**2013 Adjusted Insurance Services Budget**
Salaries & Benefits	$	11,053,267	$	(38,829)	$	11,014,438
Rent		733,861		15,614		749,475
Travel		368,835		25,432		394,267
Non-paid Consultant Travel		1,664				1,664
Telecommunications		215,393				215,393
Training		198,887		23,832		222,719
Insurance		143,415				143,415
Board/Panel Services		23,036				23,036
Administration & Office		1,222,925		180,000		1,402,925
(Software Maint & Support, Printing & Stationery, Postage)						
Administrative Contracted Services						
Data Mgmt Services		543,691				543,691
Other Administrative Contracted Services		49,493				49,493
Furniture/Equipment		33,418				33,418
EDP Hardware/Software		349,215				349,215
Dept of Insurance Examination		(34,902)		34,973		71
Total Operating Expenses	**$**	**14,902,198**	**$**	**241,022**	**$**	**15,143,220**
Consulting Services						
Actuarial		25,000				25,000
Claims		10,000				10,000
** Compliance		100,000				100,000
Financial Consulting		350,000				350,000
** Government Relations		117,650				117,650
** Human Resources		300,000				300,000
Information Technology		128,750				128,750
** Internal Audit		100,000				100,000
** Investment Compliance		30,000				30,000
** Public Relations		100,000				100,000
Other Consulting Services		160,500				160,500
Total Consulting Services	$	1,421,900	$	-	$	1,421,900
Research		280,000				280,000
Contracted Services						
Agent Services		100,000				100,000
Audit Services		130,000				130,000
Brochure/Information Products		285,000				285,000
Communications		62,800				62,800
Consumer Services		300,000				300,000
Contracted Marketing & Outreach		-				-
Dynamic Financial Analysis		65,000				65,000
Legal Services-Claims Counsel		300,000				300,000
Legal Services-Claims Counsel-PI		-				-
Legal Service - Non-Claims		4,260,000				4,260,000
Marketing Services		7,184,403				7,184,403
Modeling Services		1,234,000				1,234,000
** Rating Agency Fees		200,000				200,000
** Staffing Services - Support and Admin		-		2,904,131		2,904,131
Other Contracted Services		284,500		160,000		444,500
Total Contracted Services	$	14,405,703	$	3,064,131	$	17,469,834
Commissions		59,133,038				59,133,038
PI Operating Costs		18,272,109				18,272,109
Investment Expenses		2,488,981				2,488,981
Financing Expenses		7,151,023				7,151,023
Risk Transfer		230,195,428				230,195,428
** Risk Transfer - Exposure Adjustment		18,846,376				18,846,376
Total Expenditures	**$**	**367,096,756**	**$**	**3,305,153**	**$**	**370,401,909**

** New budget category for 2013

Attachment C

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budget Comparison
2012 Actual and Projected Expenses to 2013 Budget

	(a) Actual and Projected Expenses at 12/31/12	(b) Proposed 2013	(c) (c=b-a) Difference	(d) (d=c/a) % Change
Salaries & Benefits	$ 11,053,266	$ 11,014,438	$ (38,828)	(0%)
Rent	733,861	749,475	15,614	2%
Travel	368,835	394,267	25,432	7%
Non-paid Consultant Travel	1,664	1,664	-	0%
Telecommunications	215,393	215,393	-	0%
Training	198,887	222,719	23,832	12%
Insurance	143,415	143,415	-	0%
Board/Panel Services	23,036	23,036	-	0%
Administration & Office	1,222,927	1,402,925	179,998	15%
(Software Maint & Support, Printing & Stationery, Postage)				
Administrative Contracted Services				
Data Mgmt Services	543,691	543,691	-	0%
Other Administrative Contracted Services	49,493	49,493	-	0%
Furniture/Equipment	33,418	33,418	-	0%
EDP Hardware/Software	349,215	349,215	-	0%
Dept of Insurance Examination	(34,903)	71	34,974	(100%)
Total Operating Expenses	**$ 14,902,198**	**$ 15,143,220**	**$ 241,022**	**2%**
Consulting Services				
Actuarial	-	25,000	25,000	0%
Claims	-	10,000	10,000	0%
** Compliance	-	100,000	100,000	0%
Financial Consulting	266,472	350,000	83,528	31%
** Government Relations	-	117,650	117,650	0%
** Human Resources	-	300,000	300,000	0%
Information Technology	756,000	128,750	(627,250)	(83%)
** Internal Audit	-	100,000	100,000	0%
** Investment Compliance	-	30,000	30,000	0%
** Public Relations	-	100,000	100,000	0%
Other Consulting Services	452,599	160,500	(292,099)	(65%)
Total Consulting Services	$ 1,475,071	$ 1,421,900	$ (53,171)	(4%)
Research	1,018,000	280,000	(738,000)	(72%)
Contracted Services				
Agent services	-	100,000	100,000	0%
Audit Services	130,000	130,000	-	0%
Brochure/Information Products	-	285,000	285,000	0%
Communications	-	62,800	62,800	0%
Consumer Services	(1,238)	300,000	301,238	(24333%)
Contracted Marketing and Outreach	24,522	-	(24,522)	(100%)
Dynamic Financial Analysis	-	65,000	65,000	0%
Legal Services-Claims Counsel	708,876	300,000	(408,876)	(58%)
Legal Services-Claims Counsel-PI	-	-	-	0%
Legal Service-Non-Claims	2,586,207	4,260,000	1,673,793	65%
Modeling Services	911,248	1,234,000	322,752	35%
Marketing Services	8,812,016	7,184,403	(1,627,613)	(18%)
** Rating Agency Fees	-	200,000	200,000	0%
** Staffing Services - Support and Admin	-	2,904,131	2,904,131	0%
Other Contracted Services	100,906	444,500	343,594	341%
Total Contracted Services	$ 13,272,537	$ 17,469,834	$ 4,197,297	32%
Commissions	57,446,480	59,133,038	1,686,558	3%
PI Operating Costs	17,731,589	18,272,109	540,520	3%
Investment Expenses	2,030,236	2,488,981	458,745	23%
Financing Expenses	9,287,440	7,151,023	(2,136,417)	(23%)
Risk Transfer	226,736,721	230,195,428	3,458,707	2%
** Risk Transfer - Exposure Adjustment	-	18,846,376	18,846,376	0%
Total Expenditures	**$ 343,900,272**	**$ 370,401,909**	**$ 26,501,637**	**8%**

** New budget category for 2013

California Earthquake Authority
Insurance Services
Proposed 2013 Budget

The 2013 Insurance Services budget proposes a spending level of $370,401,909, which represents an increase of $26,501,637 (8%) from the 2012 budget. The 2013 budget is composed of projected and actual amount for 2012, in addition to items for staff is requesting additional budget funds.

The 2013 budget increase of $26,501,637 is composed of the category that was added for Risk Transfer – Exposure Adjustment of $18.8 million, Staffing Services of $2.9 million, and other miscellaneous categories that have been detailed below.

Several 2013 budget sub-categories have been added for clarification of items that were combined into "Other Consulting Services" in previous years. The sub-categories added are as follows: "Compliance," "Government Relations," "Human Resources," "Internal Audit," "Investment Compliance," and "Public Relations." Two new sub-categories were added to the Contracted Services category: "Staffing Services-Support and Admin" and "Rating Agency Fees." The other category that was added to the 2013 budget was Risk Transfer-Exposure Adjustment."

All other categories have remained consistent with the 2012 Insurance Services Budget.

The following are explanations of additions to the budget categories for the 2013 insurance operations budgets (positive numbers in parentheses ( ) indicate an expenditure decrease in the 2013 budget as compared to the 2012 budget):

<u>Salaries and Benefits</u>: ($38,828)
The decrease relates to various salary related items, such as a decrease in the civil service payroll associated with the furlough-settlement payout. The temporary-employees-salary expense was increased because the salaries were annualized for all temporary positions the CEA currently has filled. The CEA also moved the calculated expenses associated with the contractually required Support and Administration Fees for temporary staff into a new sub-category, which now appears in the "contracted services" category. These adjustments created the decrease.

<u>Rent</u>: $15,614
The increase is required under the CEA's office lease; the increase is consistent with the rent schedule set forth in the lease.

<u>Travel</u>: $25,432
The increase is due to additional travel that will be required for the Insurance Director during 2013 that was not in the 2012 budget.

Training: $23,832
The increase relates to required training for all CEA staff, such as, sexual-harassment prevention, workplace violence prevention, and other required courses that for legal/timing reasons were not required in the 2012 budget.

Administration & Office: $179,998
The increase reflects the CEA's anticipated cost associated with the new Investment Accounting, Analytics, and Compliance software system that will be acquired in 2013.

Department of Insurance Examination: $34,974
This budget category had a credit balance from fees that CEA anticipated would be charged during a previous budget cycle but which did not occur. There is no real increase in 2013 expenses for this budget category.

Consulting Services: ($53,171)
The consulting services budget will decrease (overall) for the following reasons:

Actuarial: $25,000
The increase is to allow for procuring supplemental outside actuarial services, if needed.

Claims: $10,000
This is the contracted amount associated with the readiness and training performed annually, before (or regardless of whether) an earthquake strikes.

Compliance: $100,000
This category is for continuing consultation services required in connection with establishing compliance-program components. This category was not used in 2012.

Financial Consulting: $83,528
The increase relates to an increased need for the CEA's independent financial consultant during 2013.

Human Resources: $300,000
This category has been created for the 2013 budget. It relates to human-resources-related consulting work. The CEA used these services during 2012 but anticipates the need for the amount (and therefore the cost) of these services to be greater during 2013.

Information Technology: ($627,250)
CEA's contract for services is expiring with the current vendor, and a new contract is not anticipated.

Internal Audit: $100,000
This increase relates to the use of consultant for internal audit functions such as audit programs and risk assessments.

Investment Compliance: $30,000
This expense is not a new expense for 2013, because CEA had been including this expense in the other consulting-services sub-category. To add more transparency to contracted services, this sub-category was created.

Public Relations: $100,000
These expenses are related to the consulting services of a public relations firm to help the CEA create media-relations materials. The CEA will engage these services during the 2013 budget year.

Other Consulting Services: ($292,099)
This decrease relates to the creation of new sub-categories to provide more transparency in the consulting services category.

Contracted Services: $4,197,297
The contracted services budget will increase for the following reasons:

Agent Services: $100,000
In 2013 and for the first time, the CEA will provide a sales-support package to insurance agents who have taken a training course after May 29, 2012, and have enrolled in the MVP program. The package will include information on the CEA's new Homeowners Choice product.

Brochure/Information Products: $285,000
CEA has developed a new brochure for the CEA's new Homeowners Choice product, which was offered beginning January 1, 2012. In 2013 CEA will contract for the fulfillment and delivery of CEA brochures. In addition, CEA will work with CalEMA to complete the *Putting Down Roots in Earthquake Country* "Snapshot," a shorter version of the earlier *Putting Down Roots* series. These expenses were not part of the 2012 budget.

Communications: $62,800
In 2013, CEA will work to develop a Web-site-support product that includes applications for agents and participating insurers to put on their own Web sites. In 2013 CEA will begin to support financially the printing of the booklet versions of the *Putting Down Roots* series, as in past years. These expenses were not part of the 2012 budget.

Consumer Services: $301,238
In 2013, CEA will begin sending a *Year in Review* newsletter to all CEA policyholders. The newsletter will discuss the CEA's 2012 achievements and announce upcoming events and items of interest for 2013. This expense was not part of the 2012 budget.

Contracted Marketing and Outreach: ($24,522)
This category has been folded into the Marketing Services category.

Dynamic Financial Analysis: $65,000
This category is not new for 2013, but it was not used during 2012. The CEA will contract for services to construct a new dynamic financial analysis model to evaluate financial impacts of future CEA insurance products and discounts.

Legal Services-Claims Counsel: ($408,876)
This category and reasons related to the decrease are attorney-client privileged, and for that reason the details are not publicly disclosed.

Legal Services: $1,673,793
This category and reasons related to the increase are client-attorney privileged, and for that reason the details are not publicly disclosed.

Marketing Services: ($1,627,613)
The MVP budget was reduced in 2013 because CEA bases this budget category on CEA average policy premiums. The budget is formula-driven, and the 2013 calculation results in a reduced budget request in the category.

Modeling Services: $322,752
The increase for this category relates to the additional services that the earthquake-loss modeling firms will provide as CEA plans for the development of future earthquake-insurance products.

Rating Agency Fees: $200,000
This expense is not new for 2013—the CEA had included this expense in the "other contracted services" sub-category, but to add more transparency to contracted services this sub-category was created.

Staffing Services – Support and Admin: $2,904,131
This sub-category is new for the 2013 budget. The amount is a calculated number, and it consists of the contractually required costs that CEA must pay associated with the staffing-agency services supporting the temporary staff provided by such agencies.

Other Contracted Services: $343,594
This increase for this category relates to the MVP project, which requires an outside information-systems vendor.

Commissions: $1,686,558
This category represents the expense associated with the commissions paid to Participating Insurers, based on the premium associated with the sales of CEA policies. The increase to commissions relates to the projected growth in written premium for 2013.

PI Operating Costs: $540,520
This category represents the expense associated with the fees for operating costs that are paid to participating insurers for CEA policies. The increase in PI operating costs relates to the projected growth in written premium for 2013.

Investment Expenditures: $458,745
These are additional fees that will be required to manage increased income CEA will earn through investments during 2013.

Financing Expenses: ($2,136,417)
This decrease reflects the reduction in the CEA-paid interest expense during 2013.

Risk Transfer: $3,458,707
The increase relates to the increased total limit of risk transfer the CEA will require during 2013 to maintain its claim-paying capacity.

Risk Transfer-Exposure Adjustment: $18,846,376
This category is new for the 2013 budget and relates to the risk-transfer contracts that have a negotiated exposure-adjustment provision. This expense is additional premium the CEA would pay if CEA's total exposure exceeds the amount agreed on in the risk-transfer contracts (the CEA has exceeded the total-exposure trigger that is in the contract only once in 16 years).

Governing Board Memorandum

December 13, 2012

Agenda Item 12: 2013 CEA Budgets: Mitigation

Recommended Action: Approve 2013 Mitigation Budget

Background:

The CEA staff prepares and submits to the Governing Board an annual budget, based on all anticipated mitigation expenses for the next calendar year[1], that aligns with the CEA 2013 Business Implementation Plan for Mitigation.

Analysis:

2013 Mitigation Budget

Staff has prepared three attachments to assist the Board in comparing and analyzing the 2012 and 2013 budgets for Mitigation.

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2012 Budget Year**
  - This attachment shows:
    a. the June Board-approved 2012 Budget,
    b. budget adjustments throughout the year,
    c. budget augmentations throughout the year,
    d. augmented/adjusted approved 2012 budget,
    e. actual expenses through October 31, 2012,
    f. projected expenses for the months of November and December, 2012,
    g. actual and projected expenses at December 31, 2012,
    h. a comparison of augmented, adjusted, approved budget to actual and projected expenses at December 31, 2012, and
    i. percentage of used augmented and adjusted approved 2012 budget.

- **Attachment B: Proposed 2013 Mitigation Budget**
  - This attachment shows the proposed 2013 Mitigation budget, constructed as necessary to fulfill Mitigation business operations.

- **Attachment C: 2012 Actual and Projected Expenses Compared to Proposed 2013 Budget**
  - This attachment shows the actual and projected expenses for 2012 and compares them to the proposed 2013 budget.

[1] The CEA fiscal year is the calendar year.

Recommendation:

Staff recommends that the Board take the following actions:

Approve the:

- proposed 2013 Mitigation budget, and
- direct staff to operate Mitigation business within the total approved budget amounts.

CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budgeted Expenditures and Actual Expenditures
2012 Budget Year

	(a) **Approved 2012 Budget 6/21/2012**	(b) **Adjustments thru 12/31/2012**	(c) **Augmentations thru 12/31/2012**	(d) (d=a+b+c) **2012 Budget after Augmentations and Adjustments**	(e) **Actual Expenditures as of 10/31/12**	(f) **Projected Expenditures 11/1/2012 to 12/31/2012**	(g) (g=e+f) **Actual and Projected Expenses at 12/31/12**	(h) (h=d-g) **Augmented & Adjusted Approved Budget (d) vs. Actual & Projected Expenses (g) at 12/31/12**	(i) (i=g/d) **Percentage used of Augmented & Adjusted Approved 2012 Budget**
Salaries & Benefits	$ 271,500	$ -	$ -	$ 271,500	$ 206,943	$ 48,251	$ 255,194	$ 16,306	93.99%
Rent	21,000	-	-	21,000	19,004	3,801	22,805	(1,805)	108.60%
Travel	30,000	-	-	30,000	27,113	3,738	30,851	(851)	102.84%
Non-paid Consultant Travel	-	-	-	-	-	-	-	-	0.00%
Telecommunications	7,000	-	-	7,000	4,256	851	5,107	1,893	72.96%
Training	15,000	-	-	15,000	6,036	-	6,036	8,964	40.24%
Insurance	5,000	-	-	5,000	-	-	-	5,000	0.00%
Board/Panel Services	-	-	-	-	-	-	-	-	0.00%
Administration & Office	32,000	-	-	32,000	23,546	576	24,122	7,878	75.38%
(Software Maint & Support, Printing & Stationery, Postage)									
Administrative Contracted Services									
Data Mgmt Services	-	-	-	-	-	-	-	-	0.00%
Other Administrative Contracted Services	-	-	-	-	-	-	-	-	0.00%
Furniture/Equipment	900	-	-	900	339	-	339	561	37.67%
EDP Hardware/Software	-	-	-	-	605	-	605	(605)	0.00%
Dept of Insurance Examination	-	-	-	-	-	-	-	-	0.00%
Total Operating Expenses	**$ 382,400**	**$ -**	**$ -**	**$ 382,400**	**$ 287,842**	**$ 57,217**	**$ 345,059**	**$ 37,341**	**90.24%**
Consulting Services									
Other Consulting Services	50,000	-	-	50,000	-	-	-	50,000	0.00%
Total Consulting Services	$ 50,000	$ -	$ -	$ 50,000	$ -	$ -	$ -	$ 50,000	0.00%
Contracted Services									
Other Contracted Services	100,000	-	-	100,000	98,646	-	98,646	1,354	98.65%
Total Contracted Services	$ 100,000	$ -	$ -	$ 100,000	$ 98,646	$ -	$ 98,646	$ 1,354	98.65%
Investment Expenses	25,000	-	-	25,000	16,747	3,850	20,597	4,403	82.39%
Total Expenditures	**$ 557,400**	**$ -**	**$ -**	**$ 557,400**	**$ 403,235**	**$ 61,067**	**$ 464,302**	**$ 93,098**	**83.30%**

CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Proposed 2013 Budget

		2013 Mitigation Budget
Salaries & Benefits	$	241,962
Rent		25,200
Travel		34,000
Non-paid Consultant Travel		1,000
Telecommunications		7,250
Training		15,250
Insurance		5,000
Board/Panel Services		-
Administration & Office		122,850
(Software Maint & Support, Printing & Stationery, Postage)		
Administrative Contracted Services		
Data Mgmt Services		-
Other Administrative Contracted Services		-
Furniture/Equipment		1,400
EDP Hardware/Software		-
Dept of Insurance Examination		-
Total Operating Expenses	**$**	**453,912**
Consulting Services		
Other Consulting Services		25,000
Total Consulting Services	$	25,000
Contracted Services		
** Mitigation Projects		325,000
** Staffing Services-Support and Admin		14,367
Other Contracted Services		10,000
Total Contracted Services	$	349,367
Investment Expenses		25,000
Total Expenditures	**$**	**853,279**

**New budget category for 2013

Attachment C

CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budget Comparison
2012 Actual and Projected Expenses to 2013 Budget

	(a)	(b)	(c) (c=b-a)	(d) (d=c/a)
	Actual and Projected Expenses at 12/31/12	**Proposed 2013**	**Difference**	**% Change**
Salaries & Benefits	$ 255,194	$ 241,962	$ (13,232)	(5%)
Rent	22,805	25,200	2,395	11%
Travel	30,851	34,000	3,149	10%
Non-paid Consultant Travel	-	1,000	1,000	0%
Telecommunications	5,107	7,250	2,143	42%
Training	6,036	15,250	9,214	153%
Insurance	-	5,000	5,000	0%
Board/Panel Services	-	-	-	0%
Administration & Office	24,122	122,850	98,728	409%
(Software Maint & Support, Printing & Stationery, Postage)				
Administrative Contracted Services				
Data Mgmt Services	-	-	-	0%
Other Administrative Contracted Services	-	-	-	0%
Furniture/Equipment	339	1,400	1,061	313%
EDP Hardware/Software	605	-	(605)	(100%)
Dept of Insurance Examination	-	-	-	0%
Total Operating Expenses	**$ 345,059**	**$ 453,912**	**$ 108,853**	**32%**
Consulting Services				
Other Consulting Services	-	25,000	25,000	0%
Total Consulting Services	$ -	$ 25,000	$ 25,000	0%
Contracted Services				
** Mitigation Projects	-	325,000	325,000	0%
** Staffing Services-Support and Admin	-	14,367	14,367	0%
Other Contracted Services	98,646	10,000	(88,646)	(90%)
Total Contracted Services	$ 98,646	$ 349,367	$ 250,721	254%
Investment Expenses	20,597	25,000	4,403	21%
Total Expenditures	**$ 464,302**	**$ 853,279**	**$ 388,977**	**84%**

**New budget category for 2013

California Earthquake Authority
Mitigation Services
Proposed 2013 Budget

The 2013 Mitigation Services budget proposes a spending level of $853,279, which represents an increase of $388,977 (84%) from the 2013 budget. The 2013 budget is composed of projected and actual amounts for 2012, in addition to items for which staff requests additional budget funds.

The 2013 budget increase of $388,977 is composed primarily of the addition of the Mitigation Projects, at $325,000. The remainder of the increase, $63,977, is for Consulting Services and Administration and Office categories, which have been detailed below.

A new category was added for 2013, Consulting Services and two new sub-categories were added in Contracted Services which are “Mitigation Projects” and “Staffing Services-Support and Admin.” All other categories have remained consistent with the 2012 Insurance Services Budget.

The following are explanations of additions to the budget categories for the 2013 Mitigation budget (positive numbers in parentheses ( ) indicate an expenditure decrease in the 2013 budget as compared to the 2012 budget):

<u>Salaries and Benefits</u>: ($13,232)
The decrease is related to sharing the cost of the Program Manager position with CEA’s department of Policy, Research & Special Projects.

<u>Rent</u>: $2,395
The increase is due to the lease agreement that CEA has in place for the current office location, which is consistent with the rent schedule.

<u>Travel</u>: $3,149
The increase is due to additional travel that will be required for Mitigation staff during 2013 that was not included in the 2012 budget.

<u>Telecommunications</u>: $2,143
The increase reflects estimated 2013 cost based on actual 2012 expenditures for wireless and cell phone services by the Chief Mitigation Officer.

<u>Training</u>: $9,214
The increase in funding for training is to educate and inform Mitigation Department staff on key industry standards, policy matters, and research.

<u>Insurance</u>: $5,000
This expense is related to the allocated portion for Mitigation of the overall expense for various insurance.

Administration & Office: $98,728
The majority of the increase, $90,000 is related to CEA's sponsorship of planned public workshops related to seismic retrofit guidelines development and mitigation research. The remaining $8,728 increase is split among postage, office supplies, sponsorships, and conference registrations.

Furniture/Equipment: $1,061
This increase is related to the need to purchase additional file and publication storage furniture.

EDP Hardware/Software: ($605)
This budget item was not carried over from 2012.

Consulting Services: $25,000
The funds for this budget item are targeted towards consultation on mitigation research projects.

Contracted Services: $250,721
The contracted services budget will increase for the following reasons:

Mitigation Projects: $325,000
This new sub-category represents the projects spearheaded by the CEA Mitigation Program, which include the collaborative project with FEMA in seismic retrofit guidelines, modeling, and supplemental guideline projects.

Staffing Services-Support and Admin: $14,367
This sub-category is new for the 2013 budget and relates to the contract cost associated with the staffing-agency's own fees in connection with the agency's providing current temporary staff. This amount is paid by CEA to the agency and does not constitute any part of the staff's actual compensation.

Other Contracted Services: ($88,646)
The decrease in this sub-category represents the move of projects into the Mitigation Projects sub-category. Funds in this category will be used for a mitigation research documentation project.

Investment Expenditures: $4,403
These are the additional fees that will be needed to manage the additional income CEA will earn during 2013.

Governing Board Memorandum

December 13, 2012

Agenda Item 13: CEA Chief Financial Officer Tim Richison:

- Performance-Management-Plan Appraisal
- Extension/Modification of CEA Employment Contract
- Compensation adjustments

Recommended Actions: No action required – information only

Background:

As expressly authorized by the CEA Governing Board, CEO Glenn Pomeroy (to whom CEA Chief Financial Officer Tim Richison reports) has conducted and completed an annual appraisal of Mr. Richison's performance, in accordance with the criteria established in Mr. Richison's Performance-Management Plan, which itself was approved by the Board.

The annual appraisal is called for by Mr. Richison's employment contract, the present version of which is due to expire on December 31, 2012.

Analysis:

Mr. Richison has been continuously employed by the CEA since 1995, and as with all CEA contract executives, is employed by the CEA under a written employment contract. As the CEA law permits, the contracting parties are the CEA Governing Board and Mr. Richison.

The contract anniversary date is December 31st. The contract was last renewed in 2009, at which time the term was set for two years, with an automatic two-additional-year renewal provision, which means that the contract has no further automatic-renewal provision and will expire as of December 31, 2012.

Under its express terms, and following a satisfactory appraisal of the employee, the Richison employment contract provides a (required) annual salary cost-of-living adjustment ("COLA") and permits a discretionary annual-salary merit increase of up to 5%, which according to Board authority expressly conferred, is awarded in the discretion of the Chief Executive Officer.

The formal result of this year's appraisal of Mr. Richison's performance is "satisfactory."

Based on those factors, Mr. Pomeroy will do the following:

- Under the contract, any COLA amount is derived by calculating the change in the "Consumer Price Index—All Urban Consumers—California" furnished by the Division of Labor Statistics and Research, California Department of Industrial Relations, for the most recent 12-month period, i.e., using the latest data presently available compared to 12 months earlier. In the Richison contract, those data are by Board-approved convention calculated as of January immediately *following* the end of the most recent contract year—in this case, the COLA under the combined existing/renewed contract will be calculated based on year-to-year changes in the CPI that will be announced in January 2013.

- In relation to a discretionary annual-salary merit increase, Mr. Pomeroy has observed that Mr. Richison's performance and service to the CEA have been of the highest caliber. Further discussion of this matter will be had at the December 13, 2012, Board meeting.

- As noted, the Richison employment contract expires by its terms on December 31, 2012. Mr. Pomeroy and Mr. Richison concur, that the Richison contract should be extended for two years, with an automatic two-year extension at the end of the first two-year contract period.

- Mr. Pomeroy has determined that, other than the compensation-related provisions described above, all other parts and provisions of the CEA-Richison employment contract will remain essentially unchanged.

The Board will be provided with a contract amendment in the form of a letter agreement from Mr. Pomeroy, acting on behalf of the Board, to Mr. Richison .[1]

<u>Recommendation</u>:

No action required – information only.

[1] Once signed by both parties, the letter agreement would serve to modify the Richison contract, and the language and descriptions in that letter agreement would then take legal precedence over any descriptions or language in this memorandum; unless the letter agreement is executed, the language in this memorandum has no legal effect and binds neither party to the Richison contract.

Governing Board Memorandum

December 13, 2012

Agenda Item 14: (Proposed) 2013 Quarterly Governing Board Meeting Schedule

Recommended Action: Approve (proposed) 2013 quarterly Board meeting schedule

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At the October 25, 2012, Governing Board meeting, members said they might consider holding Board meetings quarterly in 2013 and asked staff to identify potential dates.

Staff presents the following dates for Board consideration and approval.

(Potential) 2013 Quarterly Meeting Dates

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

2013 MEETING DATES
February 14
June 27
September 26
November 21

2013

January

		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

February

					1	2
3	4	5	6	7	8	9
10	11	12	13	**14**	15	16
17	18	19	20	21	22	23
24	25	26	27	28		

March

					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

April

	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

May

			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

June

						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	**27**	28	29

July

	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

August

				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

September

1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	**26**	27	28
29	30					

October

		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

November

					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	**21**	22	23
24	25	26	27	28	29	30

December

1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to October 31, 2012

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
98010	Chino	1/5/1998	4.3	3 mi. W of Chino	1	$1,385.72	$124.71	$1,510.43
98050	San Juan Bautista	8/12/1998	5.3	7 mi. SSE of San Juan Bautista	1	161,204.93	13,643.13	$174,848.06
98070	Redding	11/26/1998	5.2	3 mi. NNW of Redding	1	4,029.72	362.67	$4,392.39
	1998 Minor Quakes				2	4,199.20	377.93	$4,577.13
99050	Hector Mine	11/16/1999	7.0	28 mi. N of Joshua Tree (near Palm Springs)	25	137,361.81	12,362.47	$149,724.28
	1999 Minor Quakes				1	4,037.26	363.35	$4,400.61
00030	Napa	9/3/2000	5.2	17 mi. ESE of Santa Rosa; 6 mi. NNE of Sonoma; 3 mi. WSW of Yountville	15	278,130.07	25,031.71	$303,161.78
01010	Ferndale	1/13/2001	5.4	53 mi. WNW of Ferndale	1	34,764.54	3,128.79	$37,893.33
	2001 Minor Quakes				1	52,896.82	4,760.70	$57,657.52
01040	West Hollywood	9/9/2001	4.2	West Hollywood	10	67,044.15	6,033.94	$73,078.09
	2002 Minor Quakes				1	8,361.24	752.51	$9,113.75
03090	San Simeon	12/22/2003	6.4	7 mi. NE of San Simeon	84	2,692,628.02	242,339.74	$2,934,967.76
04120	Parkfield	9/28/2004	6.0	7 mi SSE of Parkfield	1	7,032.59	632.93	$7,665.52
07240	Chatsworth	8/9/2007	4.5	4 mi NNW of Chatsworth	1	7,813.88	703.24	$8,517.12
07250	Alum Rock	10/30/2007	5.6	5 mi NNE of Alum Rock	1	6,149.20	553.42	$6,702.62
08280	Chino Hills	7/29/2008	5.4	5.5 mi SE of Diamond Bar	8	156,781.38	14,110.29	$170,891.67
09320	Calexico	12/30/2009	5.9	22.7 mi SE of Calexico	1	275.88	24.83	$300.71
	2009 Minor Quakes				1	4,839.51	435.56	$5,275.07
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	2	23,787.67	20,140.89	$43,928.56
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	17	79,392.57	7,145.34	$86,537.91
	2012 Minor Quakes				1	1,969.00	177.21	$2,146.21
12410	Brawley		5.3	4 mi North of Brawley, CA	2	23,536.24	2,118.27	$25,654.51
				Total	**178**	**$3,757,621.40**	**$355,323.63**	**$4,112,945.03**

Claims History Report Glossary

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

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

Date of Event: Date that the earthquake occurred.

Magnitude: Richter scale magnitude assigned by USGS.

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

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

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

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

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

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

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2012 - Policies in Force on: 10/31/2012

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowners							
15% Total	593,578	70.7 %	262,230,502,728	84.4 %	457,055,675	80.8 %	770
10% Total	66,321	7.9 %	31,883,886,154	10.3 %	56,708,262	10.0 %	855
Homeowners Total	659,899	78.6 %	294,114,388,882	94.7 %	513,763,936	90.8 %	779
Homeowners Choice							
15% Total	2,420	0.3 %	1,335,890,176	0.4 %	2,211,412	0.4 %	914
10% Total	1,528	0.2 %	852,291,385	0.3 %	1,264,512	0.2 %	828
Homeowners Choice Total	3,948	0.5 %	2,188,181,561	0.7 %	3,475,924	0.6 %	880
Manufactured Homes (Mobilehomes)-Homeowners							
15% Total	22,031	2.6 %	2,333,866,534	0.8 %	2,410,590	0.4 %	109
10% Total	4,293	0.5 %	637,135,939	0.2 %	565,008	0.1 %	132
Manufactured Homes (Mobilehomes)-Homeowners Total	26,324	3.1 %	2,971,002,473	1.0 %	2,975,598	0.5 %	113
Manufactured Homes (Mobilehomes)-Homeowners Choice							
15% Total	43	0.0 %	6,621,663	0.0 %	7,197	0.0 %	167
10% Total	51	0.0 %	9,024,181	0.0 %	6,206	0.0 %	122
Manufactured Homes (Mobilehomes)-Homeowners Choice Total	94	0.0 %	15,645,844	0.0 %	13,403	0.0 %	143
Condo Total	103,877	12.4 %	9,752,246,000	3.1 %	39,678,547	7.0 %	382
Renters Total	45,251	5.4 %	1,677,397,500	0.5 %	5,709,750	1.0 %	126
Grand Total	839,393	100.0 %	310,718,862,260	100.0 %	565,617,159	100.0 %	674

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2012 - Policies in Force on: 10/31/2012

HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	593,578	89.9 %	254,504,012,728	86.5 %	427,060,739	83.1 %	719
BCU 20k	66,047	10.0 %	660,470,000	0.2 %	1,217,269	0.2 %	18
Coverage C 25k	32,136	4.9 %	642,720,000	0.2 %	4,498,640	0.9 %	140
Coverage C 50k	21,259	3.2 %	956,655,000	0.3 %	4,769,049	0.9 %	224
Coverage C 75k	9,843	1.5 %	689,010,000	0.2 %	2,805,391	0.5 %	285
Coverage C 100k	33,769	5.1 %	3,208,055,000	1.1 %	11,852,184	2.3 %	351
Coverage D 10k	38,918	5.9 %	330,803,000	0.1 %	1,130,268	0.2 %	29
Coverage D 15k	74,890	11.3 %	1,011,015,000	0.3 %	3,305,734	0.6 %	44
Coverage D 25k	9,692	1.5 %	227,762,000	0.1 %	416,401	0.1 %	43
15% Total	**593,578**	**89.9 %**	**262,230,502,728**	**89.2 %**	**457,055,675**	**89.0 %**	**770**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	66,321	10.1 %	28,540,400,654	9.7 %	45,398,179	8.8 %	685
BCU 20k	16,412	2.5 %	164,120,000	0.1 %	252,754	0.0 %	15
Coverage C 25k	10,669	1.6 %	213,380,000	0.1 %	1,552,964	0.3 %	146
Coverage C 50k	7,875	1.2 %	354,375,000	0.1 %	1,528,055	0.3 %	194
Coverage C 75k	4,189	0.6 %	293,230,000	0.1 %	1,019,714	0.2 %	243
Coverage C 100k	18,141	2.7 %	1,723,395,000	0.6 %	5,669,937	1.1 %	313
Coverage D 10k	13,562	2.1 %	115,277,000	0.0 %	289,822	0.1 %	21
Coverage D 15k	26,597	4.0 %	359,059,500	0.1 %	851,397	0.2 %	32
Coverage D 25k	5,134	0.8 %	120,649,000	0.0 %	145,439	0.0 %	28
10% Total	**66,321**	**10.1 %**	**31,883,886,154**	**10.8 %**	**56,708,262**	**11.0 %**	**855**
Homeowners Total	**659,899**	**100.0 %**	**294,114,388,882**	**100.0 %**	**513,763,936**	**100.0 %**	**779**

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2012 - Policies in Force on: 10/31/2012

HOMEOWNERS CHOICE	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	2,420	61.3 %	1,254,591,676	57.3 %	1,873,746	53.9 %	774
BCU 20k	728	18.4 %	7,280,000	0.3 %	11,969	0.3 %	16
Coverage C 25k	312	7.9 %	6,240,000	0.3 %	63,910	1.8 %	205
Coverage C 50k	256	6.5 %	11,520,000	0.5 %	63,533	1.8 %	248
Coverage C 75k	89	2.3 %	6,230,000	0.3 %	25,622	0.7 %	288
Coverage C 100k	302	7.6 %	28,690,000	1.3 %	109,954	3.2 %	364
Coverage D 10k	306	7.8 %	2,601,000	0.1 %	11,959	0.3 %	39
Coverage D 15k	206	5.2 %	2,781,000	0.1 %	10,317	0.3 %	50
Coverage D 25k	679	17.2 %	15,956,500	0.7 %	40,403	1.2 %	60
15% Total	**2,420**	**61.3 %**	**1,335,890,176**	**61.1 %**	**2,211,412**	**63.6 %**	**914**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	1,528	38.7 %	769,286,885	35.2 %	991,844	28.5 %	649
BCU 20k	599	15.2 %	5,990,000	0.3 %	7,746	0.2 %	13
Coverage C 25k	311	7.9 %	6,220,000	0.3 %	51,807	1.5 %	167
Coverage C 50k	229	5.8 %	10,305,000	0.5 %	46,215	1.3 %	202
Coverage C 75k	91	2.3 %	6,370,000	0.3 %	21,412	0.6 %	235
Coverage C 100k	367	9.3 %	34,865,000	1.6 %	106,967	3.1 %	291
Coverage D 10k	265	6.7 %	2,252,500	0.1 %	6,794	0.2 %	26
Coverage D 15k	161	4.1 %	2,173,500	0.1 %	5,909	0.2 %	37
Coverage D 25k	631	16.0 %	14,828,500	0.7 %	25,818	0.7 %	41
10% Total	**1,528**	**38.7 %**	**852,291,385**	**38.9 %**	**1,264,512**	**36.4 %**	**828**
Homeowners Choice Total	**3,948**	**100.0 %**	**2,188,181,561**	**100.0 %**	**3,475,924**	**100.0 %**	**880**

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2012 - Policies in Force on: 10/31/2012

MANUFACTURED HOMES (MOBILEHOMES)-HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	22,031	83.7 %	2,138,228,034	72.0 %	2,289,595	76.9 %	104
Coverage C 25k	1,689	6.4 %	33,780,000	1.1 %	34,341	1.2 %	20
Coverage C 50k	1,115	4.2 %	50,175,000	1.7 %	34,445	1.2 %	31
Coverage C 75k	348	1.3 %	24,360,000	0.8 %	12,258	0.4 %	35
Coverage C 100k	488	1.9 %	46,360,000	1.6 %	19,274	0.6 %	39
Coverage D 10k	1,679	6.4 %	14,271,500	0.5 %	8,575	0.3 %	5
Coverage D 15k	1,542	5.9 %	20,817,000	0.7 %	10,735	0.4 %	7
Coverage D 25k	250	0.9 %	5,875,000	0.2 %	1,366	0.0 %	5
15% Total	**22,031**	**83.7 %**	**2,333,866,534**	**78.6 %**	**2,410,590**	**81.0 %**	**109**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	4,293	16.3 %	457,328,439	15.4 %	486,878	16.4 %	113
Coverage C 25k	1,335	5.1 %	26,700,000	0.9 %	19,736	0.7 %	15
Coverage C 50k	1,042	4.0 %	46,890,000	1.6 %	22,684	0.8 %	22
Coverage C 75k	335	1.3 %	23,450,000	0.8 %	8,448	0.3 %	25
Coverage C 100k	465	1.8 %	44,175,000	1.5 %	13,489	0.5 %	29
Coverage D 10k	1,324	5.0 %	11,254,000	0.4 %	4,634	0.2 %	4
Coverage D 15k	1,522	5.8 %	20,547,000	0.7 %	8,002	0.3 %	5
Coverage D 25k	289	1.1 %	6,791,500	0.2 %	1,137	0.0 %	4
10% Total	**4,293**	**16.3 %**	**637,135,939**	**21.4 %**	**565,008**	**19.0 %**	**132**
Manufactured Homes (Mobilehomes)-Homeowners Total	**26,324**	**100.0 %**	**2,971,002,473**	**100.0 %**	**2,975,598**	**100.0 %**	**113**

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2012 - Policies in Force on: 10/31/2012

MANUFACTURED HOMES (MOBILEHOMES)-HOMEOWNERS CHOICE	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	43	45.7 %	5,337,663	34.1 %	6,106	45.6 %	142
Coverage C 25k	11	11.7 %	220,000	1.4 %	372	2.8 %	34
Coverage C 50k	3	3.2 %	135,000	0.9 %	149	1.1 %	50
Coverage C 75k	0	0.0 %	0	0.0 %	0	0.0 %	N/A
Coverage C 100k	5	5.3 %	475,000	3.0 %	314	2.3 %	63
Coverage D 10k	4	4.3 %	34,000	0.2 %	44	0.3 %	11
Coverage D 15k	5	5.3 %	67,500	0.4 %	46	0.3 %	9
Coverage D 25k	15	16.0 %	352,500	2.3 %	167	1.2 %	11
15% Total	**43**	**45.7 %**	**6,621,663**	**42.3 %**	**7,197**	**53.7 %**	**167**
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	51	54.3 %	6,030,181	38.5 %	4,886	36.5 %	96
Coverage C 25k	17	18.1 %	340,000	2.2 %	353	2.6 %	21
Coverage C 50k	12	12.8 %	540,000	3.5 %	286	2.1 %	24
Coverage C 75k	5	5.3 %	350,000	2.2 %	46	0.3 %	9
Coverage C 100k	10	10.6 %	950,000	6.1 %	347	2.6 %	35
Coverage D 10k	10	10.6 %	85,000	0.5 %	60	0.4 %	6
Coverage D 15k	7	7.4 %	94,500	0.6 %	29	0.2 %	4
Coverage D 25k	27	28.7 %	634,500	4.1 %	200	1.5 %	7
10% Total	**51**	**54.3 %**	**9,024,181**	**57.7 %**	**6,206**	**46.3 %**	**122**
Manufactured Homes (Mobilehomes)-Homeowners Choice Total	**94**	**100.0 %**	**15,645,844**	**100.0 %**	**13,403**	**100.0 %**	**143**

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2012 - Policies in Force on: 10/31/2012

CONDO	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage A/BCU 10k	75,293	72.5 %	2,635,205,000	27.0 %	7,798,510	19.7 %	104
Coverage C 5k/D 1.5k	35,833	34.5 %	232,914,500	2.4 %	2,663,833	6.7 %	74
Coverage C 5k[1]	8,943	8.6 %	44,715,000	0.5 %	592,329	1.5 %	66
Coverage C 25k	14,550	14.0 %	363,750,000	3.7 %	1,819,614	4.6 %	125
Coverage C 50k	12,246	11.8 %	612,300,000	6.3 %	1,691,319	4.3 %	138
Coverage C 75k	5,726	5.5 %	429,450,000	4.4 %	867,538	2.2 %	152
Coverage C 100k	11,692	11.3 %	1,169,200,000	12.0 %	1,820,117	4.6 %	156
Coverage D 1.5k[2]	7,281	7.0 %	10,921,500	0.1 %	81,039	0.2 %	11
Coverage D 10k	14,695	14.1 %	146,950,000	1.5 %	348,298	0.9 %	24
Coverage D 15k	26,931	25.9 %	403,965,000	4.1 %	690,330	1.7 %	26
Coverage D 25k	4,250	4.1 %	106,250,000	1.1 %	112,959	0.3 %	27
Coverage E 25k	3,140	3.0 %	78,500,000	0.8 %	712,245	1.8 %	227
Coverage E 50k	60,461	58.2 %	3,023,050,000	31.0 %	17,962,229	45.3 %	297
Coverage E 75k	6,601	6.4 %	495,075,000	5.1 %	2,518,186	6.3 %	381
Condo Total	**103,877**	**100.0 %**	**9,752,246,000**	**100.0 %**	**39,678,547**	**100.0 %**	**382**

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

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

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 11/23/2012 - Policies in Force on: 10/31/2012

RENTERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage C 5k/D 1.5k	17,472	38.6 %	113,568,000	6.8 %	1,360,971	23.8 %	78
Coverage C 5k[1]	3,517	7.8 %	17,585,000	1.0 %	250,455	4.4 %	71
Coverage C 25k	11,022	24.4 %	275,550,000	16.4 %	1,440,440	25.2 %	131
Coverage C 50k	6,944	15.3 %	347,200,000	20.7 %	1,007,270	17.6 %	145
Coverage C 75k	2,093	4.6 %	156,975,000	9.4 %	336,342	5.9 %	161
Coverage C 100k	4,203	9.3 %	420,300,000	25.1 %	643,830	11.3 %	153
Coverage D 1.5k[2]	5,123	11.3 %	7,684,500	0.5 %	60,288	1.1 %	12
Coverage D 10k	7,743	17.1 %	77,430,000	4.6 %	202,779	3.6 %	26
Coverage D 15k	11,172	24.7 %	167,580,000	10.0 %	302,673	5.3 %	27
Coverage D 25k	3,741	8.3 %	93,525,000	5.6 %	104,701	1.8 %	28
Renters Total	**45,251**	**100.0 %**	**1,677,397,500**	**100.0 %**	**5,709,750**	**100.0 %**	**126**

California Earthquake Authority

Historical Risk-Transfer Costs

Risk-Transfer Limits

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
September 1, 2012	**Traditional Reinsurance**			
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Contract #B (4/1/2012 - 3/31/2013) [3]	$1,251,464,950	6.2000%	$77,590,827
	Contract #C (5/1/2012 - 4/30/2013) [3]	$100,000,000	4.5000%	$4,500,000
	September Program Contact #1 (9/1/2012 - 8/31/2015) [3]	$100,000,000	5.7000%	$5,700,000
	Total Traditional Reinsurance	$2,956,684,950	6.6005%	$195,156,227
Traditional Reinsurance Percent Change from Previous Year		1.95%	-1.99%	-0.07%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Contract #2 (2/7/2012 - 2/15/2015) [2]	$150,000,000	8.3880%	$12,582,000
	Contract #3 (8/1/2012 - 8/7/2015) [2]	$300,000,000	5.6410%	$16,923,000
	Total Transformer Reinsurance	$600,000,000	6.8625%	$41,175,000
	Total Risk-Transfer[3]	**$3,556,684,950**		**$236,331,227**
August 1, 2012	**Traditional Reinsurance**			
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Contract #B (4/1/2012 - 3/31/2013) [3]	$1,251,464,950	6.2000%	$77,590,827
	Contract #C (5/1/2012 - 4/30/2013) [3]	$100,000,000	4.5000%	$4,500,000
	Total Traditional Reinsurance	$2,856,684,950	6.6320%	$189,456,227
Traditional Reinsurance Percent Change from Previous Year		-1.49%	-1.52%	-2.99%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Contract #2 (2/7/2012 - 2/15/2015) [2]	$150,000,000	8.3880%	$12,582,000
	Contract #3 (8/1/2012 - 8/7/2015) [2]	$300,000,000	5.6410%	$16,923,000
	Total Transformer Reinsurance	$600,000,000	6.8625%	$41,175,000
	Total Risk-Transfer[3]	**$3,456,684,950**		**$230,631,227**
May 1, 2012	**Traditional Reinsurance**			
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Contract #B (4/1/2012 - 3/31/2013) [3]	$1,251,464,950	6.2000%	$77,590,827
	Contract #C (5/1/2012 - 4/30/2013) [3]	$100,000,000	4.5000%	$4,500,000
	Total Traditional Reinsurance	$2,856,684,950	6.6320%	$189,456,227

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
Traditional Reinsurance Percent Change from Previous Year		-1.49%	-1.52%	-2.99%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Contract #2 (2/7/2012 - 2/15/2015) [2]	$150,000,000	8.3880%	$12,582,000
	Total Transformer Reinsurance	$300,000,000	8.0840%	$24,252,000
	Total Risk-Transfer[3]	**$3,156,684,950**		**$213,708,227**
April 1, 2012	**Traditional Reinsurance**			
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Contract #B (4/1/2012 - 3/31/2013) [3]	$1,251,464,950	6.2000%	$77,590,827
	Total Traditional Reinsurance	$2,756,684,950	6.7094%	$184,956,227
Traditional Reinsurance Percent Change from Previous Year		-4.94%	-0.37%	-5.30%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Contract #2 (2/7/2012 - 2/15/2015) [2]	$150,000,000	8.3880%	$11,533,500
	Total Transformer Reinsurance	$300,000,000		$23,203,500
	Total Risk-Transfer[3]	**$3,056,684,950**		**$208,159,727**
January 1, 2012	**Traditional Reinsurance**			
	Contract #3 (1/1/2011 - 3/31/2012)	$500,000,000	6.2000%	$31,000,000
	Contract #4 (65% placed) (1/1/2011 - 3/31/2012)	$650,000,000	5.5000%	$35,750,000
	Contract #4a (5% placed) (4/1/2011 - 3/31/2012)	$50,000,000	5.5000%	$2,750,000
	Contract #A (1/1/2012 - 12/31/2012)	$655,220,000	7.0000%	$45,865,400
	Contract #A1 (1/1/2012 - 12/31/2012)	$400,000,000	7.3000%	$29,200,000
	Contract #A2 (1/1/2012 - 12/31/2012)	$200,000,000	7.1500%	$14,300,000
	Contract #A3 (1/1/2012 - 12/31/2012)	$250,000,000	7.2000%	$18,000,000
	Total Traditional Reinsurance	$2,705,220,000	6.5379%	$176,865,400
Traditional Reinsurance Percent Change from Previous Year		-6.72%	-2.92%	-9.44%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Total Risk-Transfer	**$2,855,220,000**		**$188,535,400**
2011	**Traditional Reinsurance**			
	Contract #1 (1/1/2011 - 12/31/2011)	$200,000,000	8.1500%	$16,300,000
	Contract #2 (1/1/2011 - 12/31/2011)	$1,300,000,000	7.5000%	$97,500,000
	Contract #3 (1/1/2011 - 3/31/2012)	$500,000,000	6.2000%	$31,000,000
	Contract #3a (1/1/2011 - 12/31/2011)	$200,000,000	6.0000%	$12,000,000
	Contract #4 (65% placed) (1/1/2011 - 3/31/2012)	$650,000,000	5.5000%	$35,750,000
	Contract #4a (5% placed) (4/1/2011 - 3/31/2012)	$50,000,000	5.5000%	$2,750,000
	Total	$2,900,000,000	6.7345%	$195,300,000
Traditional Reinsurance Percent Change from Previous Year		-7.13%	-5.91%	-12.61%
	Transformer Reinsurance			
	Contract #1 (8/2/2011 - 8/8/2014) [2]	$150,000,000	7.7800%	$11,670,000
	Total Risk-Transfer	**$3,050,000,000**		**$206,970,000**

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
2010	Contract #1	$202,500,000	9.2500%	$18,731,250
	Contract #2	$1,000,000,000	8.5500%	$85,500,000
	Contract #3	$275,000,000	7.7000%	$21,175,000
	Contract #4	$300,000,000	6.8000%	$20,400,000
	Contract #5 (97.10% placed)	$200,000,000	6.5000%	$12,623,000
	Contract #6 (94.05% placed)	$250,000,000	6.2500%	$14,695,313
	Contract #7 (79.62619% placed)	$1,150,000,000	5.5000%	$50,363,565
	Total	**$3,122,526,185**	**7.1573%**	**$223,488,128**
Percent Change from Previous Year		0.73%	13.96%	14.79%
2009	Contract #1	$500,000,000	7.7500%	$38,749,846
	Contract #2	$500,000,000	6.9999%	$34,999,384
	Contract #3	$200,000,000	5.9600%	$11,920,000
	Contract #4	$100,000,000	5.8000%	$5,800,000
	Contract #5	$200,000,000	5.5400%	$11,080,000
	Contract #6	$200,000,000	5.3100%	$10,620,000
	Contract #7 Backup Reinsurance for Transformer	$250,000,000	6.9900%	$17,475,000
	Contract #8	$650,000,000	4.9938%	$32,460,000
	Contract #9 Backup Reinsurance for Transformer	$400,000,000	6.6500%	$26,600,000
	Contract #10	$100,000,000	4.9938%	$4,993,846
	Total	**$3,100,000,000**	**6.2806%**	**$194,698,076**
Percent Change from Previous Year		85.96%	-26.36%	5.71% (Combined base & Supplemental)

Base-Limits

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
2008	Combined Reinsurance Contract #1	$300,000,000	9.8000%	$29,400,000
	Combined Reinsurance Contract #2	$1,367,000,000	8.2500%	$112,777,500
	Total	**$1,667,000,000**	**8.5289%**	**$142,177,500**
Percent Change from Previous Year		-11.58%	5.77%	-6.48%
2007	Collateralized Reinsurance Contract (2006-2007)	$350,000,000	6.9500%	$24,325,000
	Reinsurance Layer 1	$150,000,000	15.0000%	$22,500,000
	Reinsurance Layer 2	$50,000,000	12.5000%	$6,250,000
	Collateralized Reinsurance Contract (2007)	$125,000,000	11.5000%	$14,375,000
	Reinsurance Layer 3	$20,000,000	11.0000%	$2,200,000
	Reinsurance Layer 4 (79.45953% placed)	$1,200,000,000	7.1000%	$0
	Reinsurance Layer 5 (79.47738% placed)	$298,000,000	6.2000%	$0
	Total	**$1,885,356,952**	**8.0639%**	**$152,033,760**
Percent Change from Previous Year		7.37%	24.19%	33.33%

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
2006	Collateralized Reinsurance Contract (2005-2006)	$300,000,000	7.0000%	$21,000,000
	Collateralized Reinsurance Contract (2006-2007)	$350,000,000	6.9500%	$24,325,000
	Collateralized Reinsurance Contract	$30,000,000	6.8000%	$2,040,000
		$680,000,000	**6.9654%**	**$47,365,000**
	Base-Limit Coverage Reinsurance Contract	$1,076,000,000	6.0000%	$64,560,000
	Insurance In Force Adjustment			$2,100,000
	Total	**$1,756,000,000**	**6.4935%**	**$114,025,000**
Percent Change from Previous Year		17.07%	5.83%	23.89%
2005	Collateralized Reinsurance Contract (2005-2006)	$300,000,000	7.0000%	$21,000,000
	First Transformer Layer (2004-2005)	$150,000,000	7.2500%	$10,875,000
	MLCRC First Reinsurance Layer	$550,000,000	5.7500%	$31,625,000
		$1,000,000,000	**6.3500%**	**$63,500,000**
	Second Transformer Layer (2004-2005)	$200,000,000	5.5000%	$11,000,000
	MLCRC Second Reinsurance Layer	$300,000,000	4.3500%	$13,050,000
		$500,000,000	**4.8100%**	**$24,050,000**
	Insurance In Force Adjustment [1]			$4,484,662
	Total	**$1,500,000,000**	**6.1356%**	**$92,034,662**
Percent Change from Previous Year		0.00%	-8.51%	-8.51%
2004	MLCRC First Reinsurance Layer	$700,000,000	7.8500%	$54,950,000
	First Transformer Layer (2004-2005)	$150,000,000	7.2500%	$10,875,000
	MLCRC Second Reinsurance Layer	$150,000,000	6.3500%	$9,525,000
		$1,000,000,000	**7.5350%**	**$75,350,000**
	Second Transformer Layer (2004-2005)	$200,000,000	5.5000%	$11,000,000
	MLCRC Third Reinsurance Layer	$300,000,000	4.7500%	$14,250,000
		$500,000,000	**5.0500%**	**$25,250,000**
	Total	**$1,500,000,000**	**6.7067%**	**$100,600,000**
Percent Change from Previous Year		-2.47%	-6.40%	-8.72%
2003	MLCRC Coverage A	$600,000,000	8.8000%	$52,800,000
	MLCRC Coverage B	$400,000,000	7.2500%	$29,000,000
		$1,000,000,000	**8.1800%**	**$81,800,000**
	Transformer Layer	$200,000,000	5.5000%	$11,000,000
	MLCRC Coverage C	$338,000,000	5.1500%	$17,407,000
		$538,000,000	**5.2801%**	**$28,407,000**
	Total	**$1,538,000,000**	**7.1656%**	**$110,207,000**
Percent Change from Previous Year		-21.98%	6.99%	-16.53%

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
2002	First Aggregate	$1,433,620,000	7.2500%	$82,187,450
	First Aggregate ($200M part of)	$1,433,620,000	7.1400%	$14,280,000
	First Aggregate ($100M part of)	$1,433,620,000	5.9900%	$5,990,000
		$1,433,620,000	**7.1468%**	**$102,457,450**
	Second Aggregate	$537,607,500	5.5000%	$29,568,413
	Total	**$1,971,227,500**	**6.6976%**	**$132,025,863**
Percent Change from Previous Year		0.00%	-13.69%	-13.69%
2001	First Aggregate	$1,433,620,000	8.5000%	$96,357,700
	First Aggregate ($200M part of)	$1,433,620,000	7.5000%	$15,000,000
	First Aggregate ($100M part of)	$1,433,620,000	5.9900%	$5,990,000
		$1,433,620,000	**8.1854%**	**$117,347,700**
	Second Aggregate	$537,607,500	6.6250%	$35,616,497
	Total	**$1,971,227,500**	**7.7598%**	**$152,964,197**
Percent Change from Previous Year		-21.43%	-17.31%	-35.03%
2000	First Aggregate	$1,433,620,000	8.5000%	$104,857,697
	First Aggregate ($200M part of)	$1,433,620,000	7.5000%	$15,000,002
		$1,433,620,000	**8.3605%**	**$119,857,699**
	Second Aggregate	$1,075,215,000	10.7500%	$115,585,613
	Total	**$2,508,835,000**	**9.3846%**	**$235,443,311**
Percent Change from Previous Year		0.00%	3.02%	3.02%
1999	First Aggregate	$1,433,620,000	11.0000%	$157,698,200
	No Claims Bonus Paid to CEA			($28,970,456)
	Exposure Adjustment			($15,769,820)
	Revised ROL and Premium	$1,433,620,000	7.8792%	$112,957,924
	Second Aggregate	$1,075,215,000	10.7500%	$115,585,613
	Total	**$2,508,835,000**	**9.1095%**	**$228,543,537**
Percent Change from Previous Year		0.00%	-23.56%	-23.56%
1998	First Aggregate	$1,433,620,000	14.3750%	$206,082,875
	No Claims Bonus Paid to CEA			($22,687,734)
	Revised ROL and Premium	$1,433,620,000	12.7925%	$183,395,141
	Second Aggregate	$1,075,215,000	10.7500%	$115,585,613
	Total	**$2,508,835,000**	**11.9171%**	**$298,980,754**
Percent Change from Previous Year		16.13%	-4.19%	11.27%

Contract Year	Contract	Limit	Rate On Line (ROL)	Premium
1997	First Aggregate	$1,433,620,000	14.3750%	$206,082,875
	No Claims Bonus Paid to CEA			($14,430,600)
	Revised ROL and Premium	$1,433,620,000	13.3684%	$191,652,275
	Second Aggregate (1/1/98 - 3/31/98)	$1,075,215,000	10.7500%	$28,896,403
	Second Aggregate (7/1/97 - 12/31/97)	$716,810,000	10.7500%	$38,528,538
	Second Aggregate (4/1/97 - 6/30/97)	$358,405,000	10.7500%	$9,632,134
			10.7500%	**$77,057,075**
	Total	**$2,160,430,000**	**12.4378%**	**$268,709,350**

[1] Based on IIF of $198,926,424,765 at 12/31/05
[2] Twelve month annualized premium over 3 years
[3] Premium is based on 12-month premium
Note: Retentions based on CEA Capital and retained earnings calculated at the beginning of the calendar year
Retentions were variable between 1997 - 2002

California Earthquake Authority

Historical Risk-Transfer Costs

Supplemental-Limits

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

[1] 2006 included quota share limit of $450M

Supplemental Quota Share

Begin	End	Written Premium	Ceding Commission		Losses
7/1/2006	12/31/2006	$26,177,940	$4,581,141		$0
7/1/2005	6/30/2006	$42,241,492	$7,391,498		$0
7/1/2004	6/30/2005	$34,970,758	$5,856,545		$0
7/1/2003	6/30/2004	$31,458,876	$5,033,420	$5,847,750	$267,457
7/1/2002	6/30/2003	$26,454,750	$4,858,622	$5,190,607	$0
7/1/2001	6/30/2002	$24,280,490	$4,856,098		$0
7/1/2000	6/30/2001	$18,453,214	$3,690,643		$0
7/1/1999	6/30/2000	$12,017,218	$2,403,444		$0
Unearned Premium Returned			$19,914,409		