



Date of Notice: Monday, June 20, 2011

PUBLIC NOTICE

**A PUBLIC MEETING OF THE GOVERNING BOARD
OF THE CALIFORNIA EARTHQUAKE AUTHORITY**

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

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

DATE: Thursday, June 30, 2011

TIME: 10:00 a.m.

AGENDA:

- 1. Call to order and member roll call:
 - Governor
 - Treasurer
 - Insurance Commissioner
 - Speaker of the Assembly
 - Chair of the Senate Rules Committee

Establishment of a quorum

- 2. Chief Executive Officer Glenn Pomeroy will seek approval of a Board resolution honoring the professional contributions to the CEA by CEA Advisory Panel Member Allen Martin, Ph.D., who passed away recently.
- 3. Consideration and approval of the minutes of the April 28, 2011, Governing Board meeting.

This CEA Governing Board meeting will be broadcast live 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.

4. 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.
5. Chief Financial Officer Tim Richison will present a financial report.
6. CEA Advisory Panel Vice Chair Mark Simmonds will provide a summary of the proceedings at the May 18, 2011, Panel meeting.
7. Chief Operations Officer Bob Stewart will brief the Board on the status of the rate and form application approved by the Board on February 24, 2011.
8. Mr. Pomeroy will present for Board review and approval plans for an organization and staffing analysis which will include a recommendation to contract with a consulting firm selected as a result of a competitive bid process to lead the project.
9. Mr. Richison will seek Board approval to enter into a transformer-reinsurance contract to augment CEA claim-paying capacity for 2011–2014.
10. Chief Communications Officer Chris Nance will update the Board on the status of the CEA's Marketing Value Program.
11. Mr. Pomeroy will present the results of his appraisal of Chief Operations Officer Bob Stewart's performance under the CEA executive-performance-evaluation plan.
12. Chief Actuary Shawna Ackerman will seek Board approval to remove the Annual Risk Capital Surcharge (2nd year) for CEA participating insurer *Safeco Insurance Company of America*.
13. 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.
14. Public comment on items that do not appear on this agenda and public requests that those matters be placed on a future agenda.
15. 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
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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 Susan Pitton by telephone, toll free, at (877) 797-4300 or by email at pittons@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

* * *

Governing Board Memorandum

June 30, 2011

Agenda Item 2: Resolution honoring CEA Advisory Panel member Allen Martin, Ph.D.

Recommended Action: Approve resolution

Long time CEA Advisory Panel member Allen Martin, Professor and Chair of the Department of Family and Consumer Sciences at California State University, Northridge, died on May 27th while visiting his family in Tennessee.

Chief Executive Officer Glenn Pomeroy will seek unanimous Board approval of a resolution to express the CEA's deep appreciation for Dr. Martin's many professional contributions to the CEA.



Draft Meeting Minutes are not available.

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

Governing Board Memorandum

June 30, 2011

Agenda Item 4: 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, JUNE 30, 2011
10:00 A.M.**

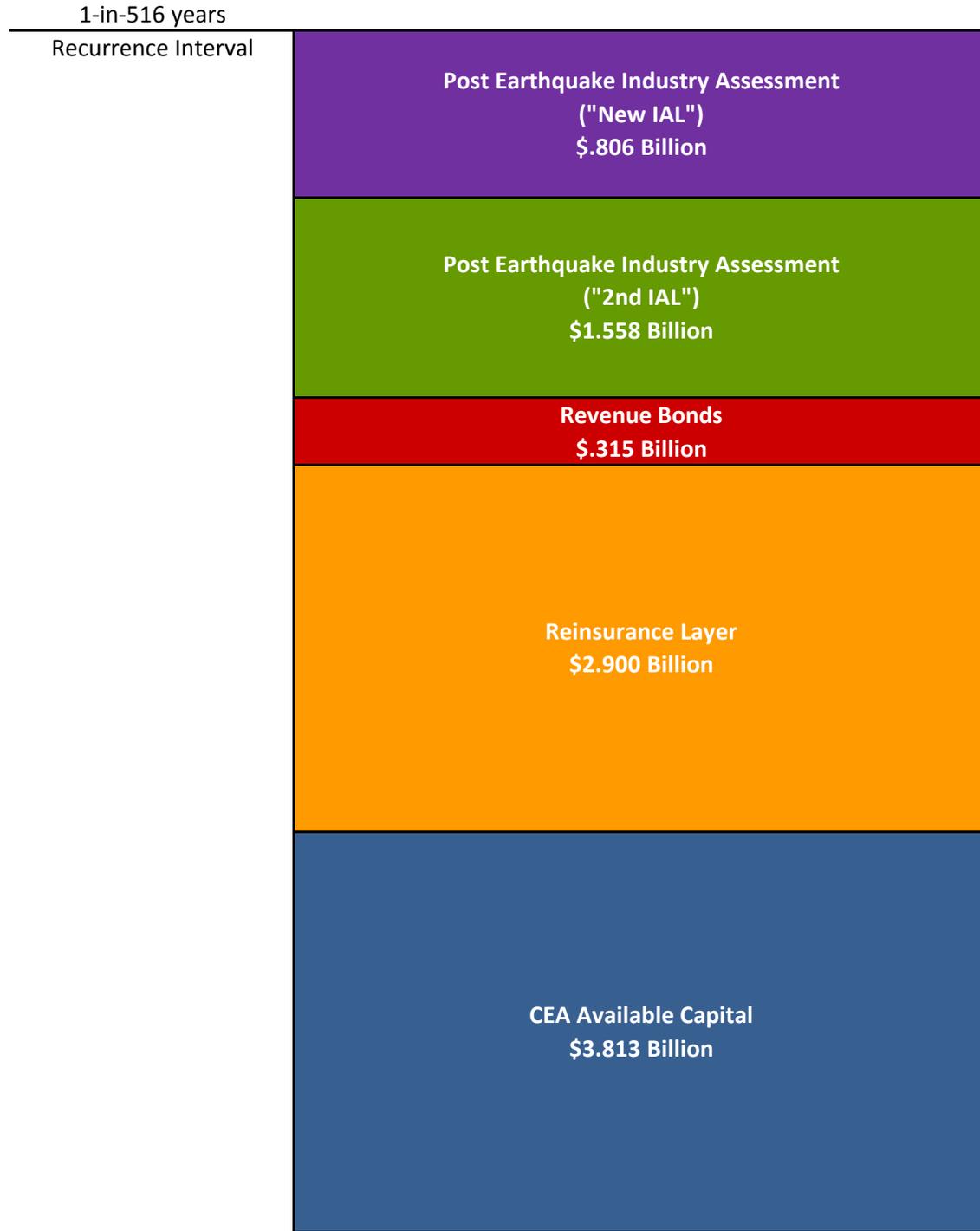
**California Earthquake Authority
Available Capital Report**

Available Capital as of April 30, 2011

Cash & Investments (includes capital contributions and premiums)	\$ 4,263,319,140 *
Investments from Revenue Bond Proceeds (at market value including Securities Receivable)	(314,689,359)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	(33,920,298)
Interest Receivable	14,217,837
Securities Receivable	62,204,647
Premium Receivable	40,078,276
Risk Capital Surcharge Receivable	0
Capital Contributions Receivable	1,367,494
Other Cash-Related Assets	4,121
Unearned Premium Collected	(217,192,676)
Securities Payable	(1,260,019)
Accounts Payable & Accrued Expenses	(938,957)
CEA Available Capital	<u><u>\$ 3,813,190,206</u></u>

** Does not include mitigation cash and investments of \$22,260,860*

California Earthquake Authority Claim-paying Capacity as of April 30, 2011



Total \$9.392 Billion

**California Earthquake Authority
Reinsurance Capacity
as of April 1, 2011**

Contract #4a - \$50M 4/1/2011 - 3/31/2012
Contract #4 - \$ 650M 1/1/2011 - 3/31/2012
Contract #3a - \$ 200M 1/1/2011 - 12/31/2011
Contract #3 - \$ 500M 1/1/2011 - 3/31/2012
Contract #2 - \$ 1,300M 1/1/2011 - 12/31/2011
Contract #1 - \$ 200M 1/1/2011 - 12/31/2011

\$3.3B
Reinsurance

Attachment

Total \$2.900 Billion

California Earthquake Authority
Balance Sheet
As of April 30, 2011

Assets

Cash and investments:	
Cash and cash equivalents	3,593,340
Restricted cash & equivalents	56,302,503
Restricted investments	309,556,996
Investments	<u>3,916,127,161</u>
Total cash and investments	4,285,580,000
Premiums receivable, net of allowance for doubtful accounts of \$10,533,225	40,078,276
Capital contributions receivable	1,367,494
Risk capital surcharge receivable	-
Interest receivable	14,217,837
Securities receivable	62,204,647
Prepaid reinsurance premium	33,350,000
Equipment, net	1,106,442
Deferred policy acquisition costs	39,330,341
Other assets	<u>4,121</u>
Total assets	<u><u>\$ 4,477,239,158</u></u>

Liabilities and Net Assets

Unearned premiums	\$ 292,854,363
Accounts payable and accrued expenses	938,957
Claim and claim expense reserves	-
Securities payable	1,260,019
Revenue bond payable	189,000,000
Revenue bond interest payable	<u>3,886,470</u>
Total liabilities	<u>487,939,809</u>
Net assets:	
Restricted, expendable	174,768,907
Unrestricted*	<u>3,814,530,442</u>
Total net assets	<u>3,989,299,349</u>
Total liabilities and net assets	<u><u>\$ 4,477,239,158</u></u>

* Includes Cumulative Participating Insurer Contributed Capital of \$756,612,796 and State of California Contributed Capital of \$158,985,185.

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year-to-Date Ended April 30, 2011

Underwriting income:	
Premiums written	\$ 186,353,199
Less premiums ceded - reinsurance	(64,412,500)
Less risk capital surcharge	-
Net premiums written	<u>121,940,699</u>
Change in unearned premiums	<u>10,007,857</u>
Net unearned premiums	<u>10,007,857</u>
Net premiums earned	<u>131,948,556</u>
Expenses:	
Claim and claims expense	4,288
Participating Insurer commissions	19,649,789
Participating Insurer operating costs	6,739,607
Reinsurance broker commissions	1,600,000
Pro forma premium taxes	4,381,705
Financing expenses, net	2,734,285
Mitigation Fund expenses	38,393
Other underwriting expenses	<u>3,817,898</u>
Total expenses	<u>38,965,965</u>
Underwriting profit	92,982,591
Net investment income	9,871,958
Other income	124,490
Participating Insurer Contributed Capital	-
State of California premium tax contribution	<u>4,381,705</u>
Increase in net assets	107,360,744
Net assets, beginning of year	<u>3,881,938,605</u>
Net assets, end of year	<u><u>\$ 3,989,299,349</u></u>

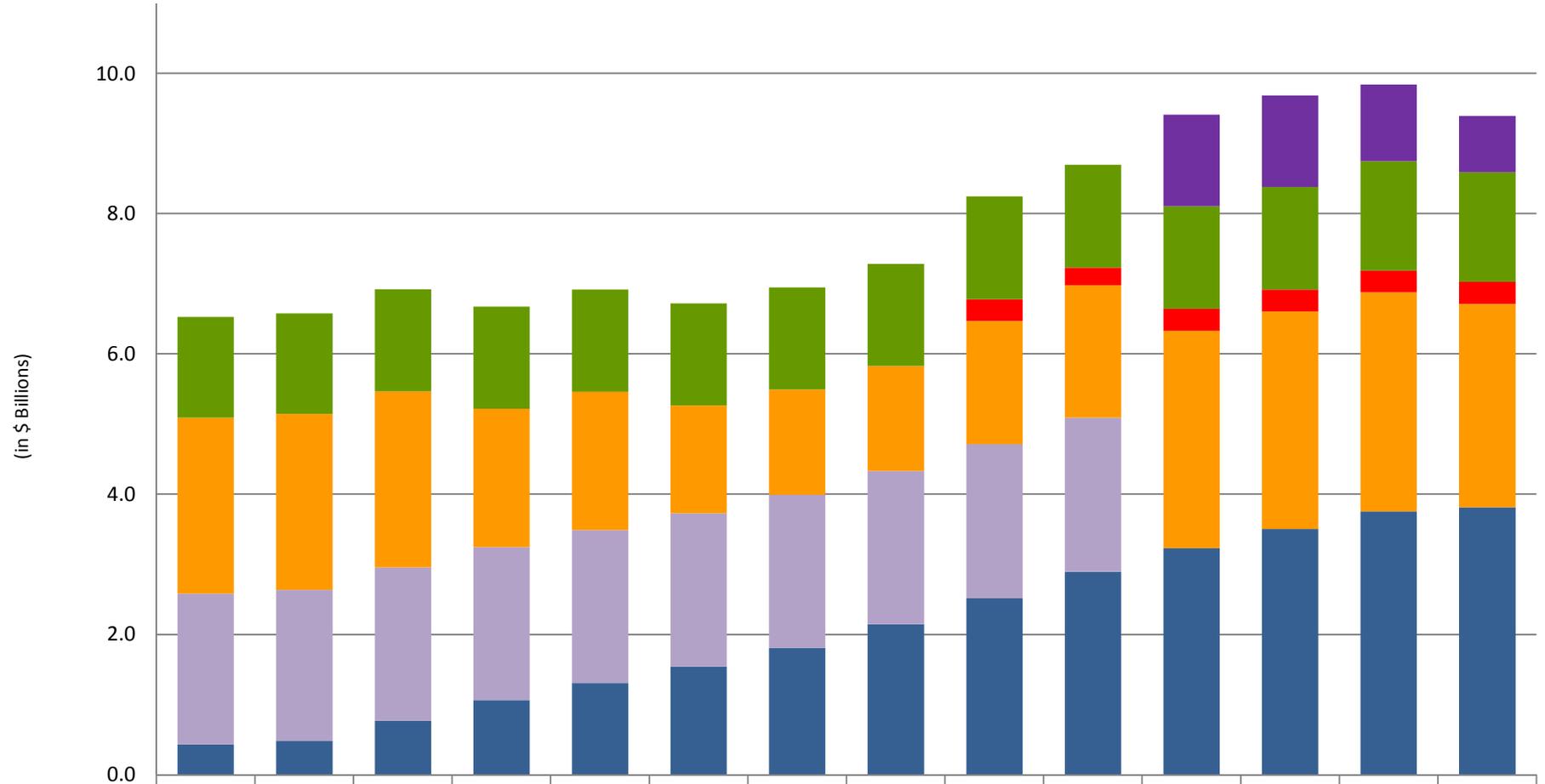
**California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2011 Budget Year**

	(a)	(b)	(c)	(d)	(e)	(f)
	<u>Approved 2011 Budget</u>	<u>Budget Augmentation April 2011</u>	(c=a+b) <u>Augmented Approved 2011 Budget</u>	<u>Actual Expenditures as of 4/30/11</u>	(e=c-d) <u>Remaining Augmented Approved Budget as of 4/30/11</u>	(f=d/c) <u>Percentage of Augmented Approved Budget Used</u>
Salaries & Benefits	\$ 8,383,706	\$ -	\$ 8,383,706	\$ 2,183,489	\$ 6,200,217	26%
Rent	699,880	-	699,880	180,789	519,091	26%
Travel	381,152	-	381,152	56,465	324,687	15%
Non-paid Consultant Travel	842	-	842	-	842	0%
Telecommunications	191,986	-	191,986	60,498	131,488	32%
Training	122,923	-	122,923	56,167	66,756	46%
Insurance	126,362	-	126,362	541	125,821	0%
Board/Panel Services	19,015	-	19,015	7,096	11,919	37%
Administration & Office (Software Maint & Support, Printing & Stationery, Postage)	918,718	-	918,718	227,724	690,994	25%
Administrative Contracted Services						
Data Mgmt Services	778,096	-	778,096	58,370	719,726	8%
Other Administrative Contracted	40,208	-	40,208	-	40,208	0%
Furniture/Equipment						
Under \$500	8,300	-	8,300	(96,008)	104,308	(1157%)
Over \$500	19,000	-	19,000	9,744	9,256	51%
EDP Hardware/Software						
Under \$500	26,238	-	26,238	12,086	14,152	46%
Over \$500	557,400	-	557,400	17,514	539,886	3%
Capital Lease Obligations	-	-	-	-	-	
Marketing & Outreach	-	-	-	-	-	
Legal Expenses - Intervenor's Fees	-	-	-	-	-	
Dept of Insurance Examination	55,000	-	55,000	16,552	38,448	30%
Total Operating Expenses	12,328,826	-	12,328,826	2,791,027	9,537,799	23%
Consulting Services						
Actuarial	25,000	-	25,000	-	25,000	0%
Claims	10,000	-	10,000	-	10,000	0%
Information Technology	50,000	-	50,000	-	50,000	0%
Information Tech. Security	-	-	-	-	-	0%
Financial Consulting	175,000	-	175,000	31,615	143,385	18%
Marketing Research	-	-	-	-	-	0%
Other Consulting Services	1,387,000	-	1,387,000	247,620	1,139,380	18%
Total Consulting Services	1,647,000	-	1,647,000	279,235	1,367,765	17%

**California Earthquake Authority
Insurance Services
Budgeted Expenditures and Actual Expenditures
2011 Budget Year**

	(a)	(b)	(c)	(d)	(e)	(f)
	<u>Approved 2011 Budget</u>	<u>Budget Augmentation April 2011</u>	<u>(c=a+b) Augmented Approved 2011 Budget</u>	<u>Actual Expenditures as of 4/30/11</u>	<u>(e=c-d) Remaining Augmented Approved Budget as of 4/30/11</u>	<u>(f=d/c) Percentage of Augmented Approved Budget Used</u>
Research	1,018,000		1,018,000	259,000	759,000	25%
Contracted Services						
Agent Services	50,000	-	50,000	-	50,000	0%
Audit Service	125,000	-	125,000	-	125,000	0%
Brochure/Information Products	25,000	-	25,000	-	25,000	0%
Business System Development	-	-	-	-	-	0%
Communications	110,000	-	110,000	-	110,000	0%
Consumer Services	50,000	-	50,000	-	50,000	0%
Contracted Marketing & Outreach	390,000	-	390,000	3,713	386,287	1%
Dynamic Financial Analysis	-	-	-	-	-	0%
Investment Compliance	-	-	-	-	-	0%
Legal Services-Claims Counsel	200,000	-	200,000	-	200,000	0%
Legal Service - Non-Claims	2,707,690	-	2,707,690	158,015	2,549,675	6%
Modeling Service	1,451,000	-	1,451,000	106,000	1,345,000	7%
Marketing Services	5,288,360	-	5,288,360	200,462	5,087,898	4%
Web Development/Maintenance	30,975	-	30,975	-	30,975	0%
Other Contracted Services	1,199,900	-	1,199,900	50,093	1,149,807	4%
Total Contracted Services	11,627,925	-	11,627,925	518,283	11,109,642	4%
Investment Expenses	2,455,000	-	2,455,000	607,250	1,847,750	25%
Financing Expenses	10,999,793	-	10,999,793	3,964,204	7,035,589	36%
Catastrophe Bonds	-	-	-	-	-	0%
Reinsurance	225,555,000	-	225,555,000	66,012,500	159,542,500	29%
Total Expenditures	\$ 265,631,544	\$ -	\$ 265,631,544	\$ 74,431,499	\$ 191,200,045	28%

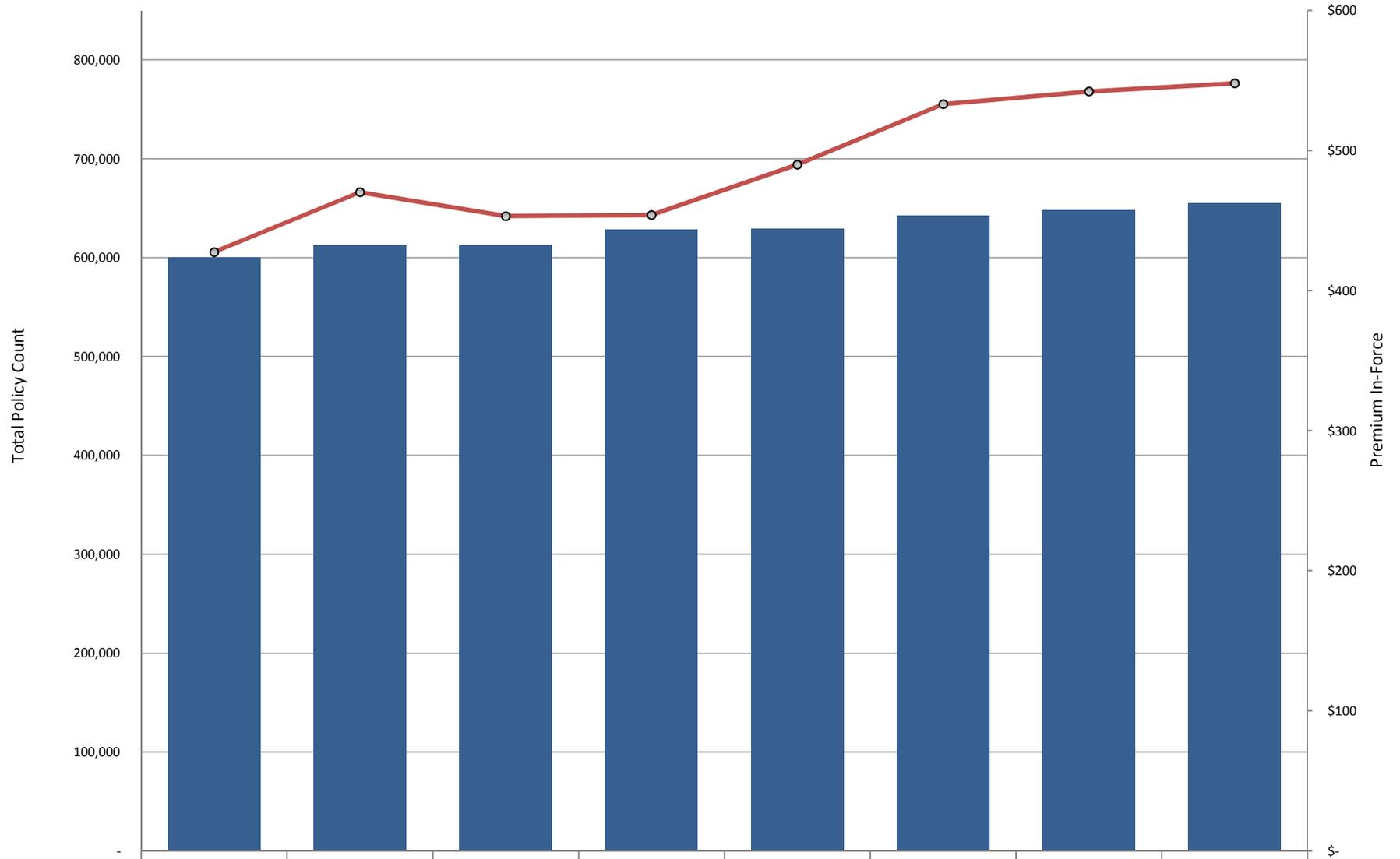
**California Earthquake Authority
Total Claim-Paying Capacity (CPC)
as of April 30, 2011**



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Total CPC	\$7.240	\$7.293	\$7.635	\$7.360	\$7.373	\$7.069	\$6.948	\$7.284	\$8.244	\$8.695	\$9.411	\$9.685	\$9.840	\$9.392
New Industry Assessment	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	0.806
2nd Industry Assessment	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
Revenue Bonds	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.311	0.254	0.311	0.311	0.311	0.315
Reinsurance	2.509	2.509	2.509	1.971	1.971	1.538	1.500	1.500	1.756	1.885	3.100	3.100	3.123	2.900
1st Industry Assessment	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
CEA Available Capital	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	3.813

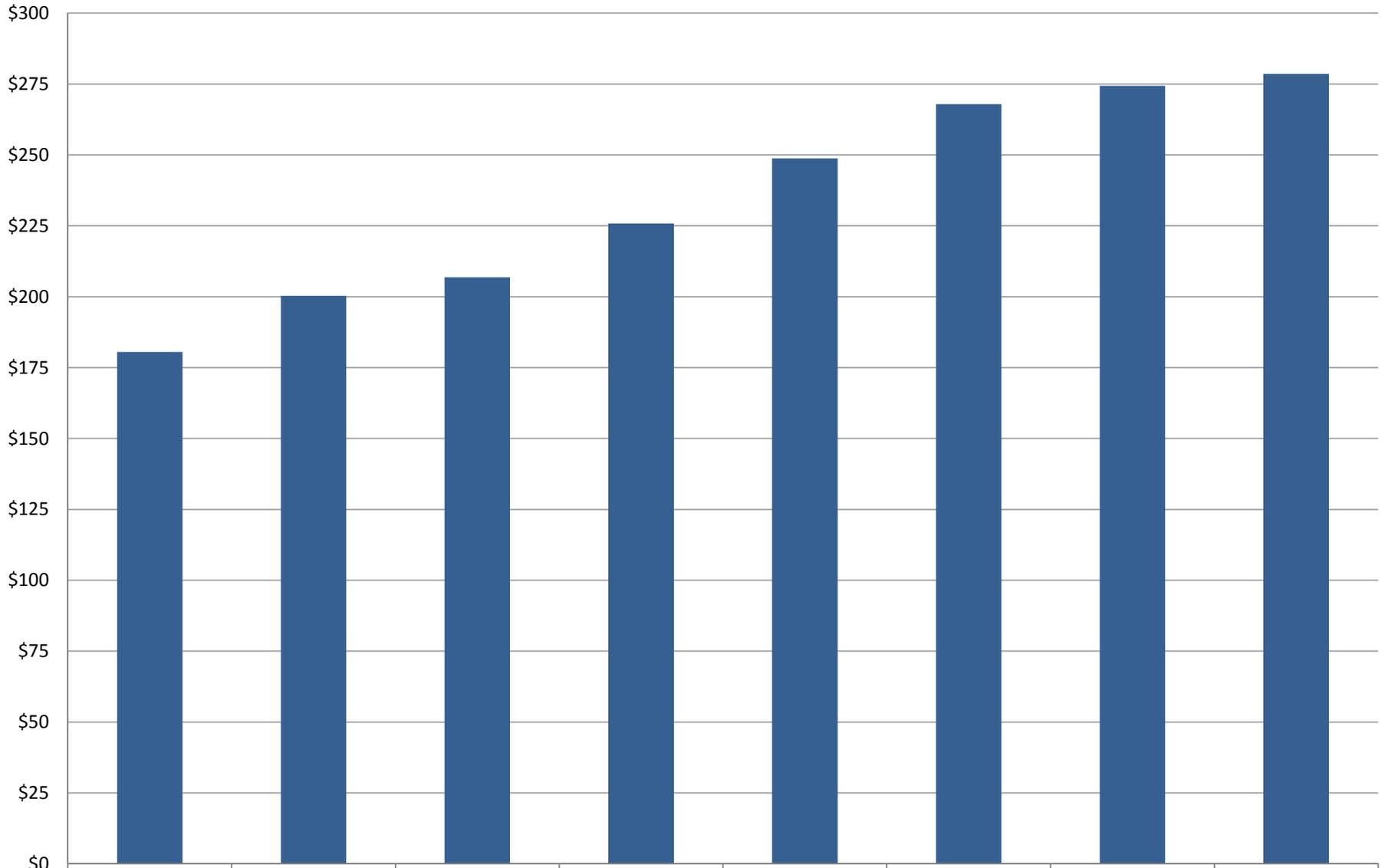
NOTE: In 2007 Revenue Bond proceeds were split between the Base and Supplement programs.

California Earthquake Authority Homeowner Policy Count and Premium In-Force as of April 30, 2011



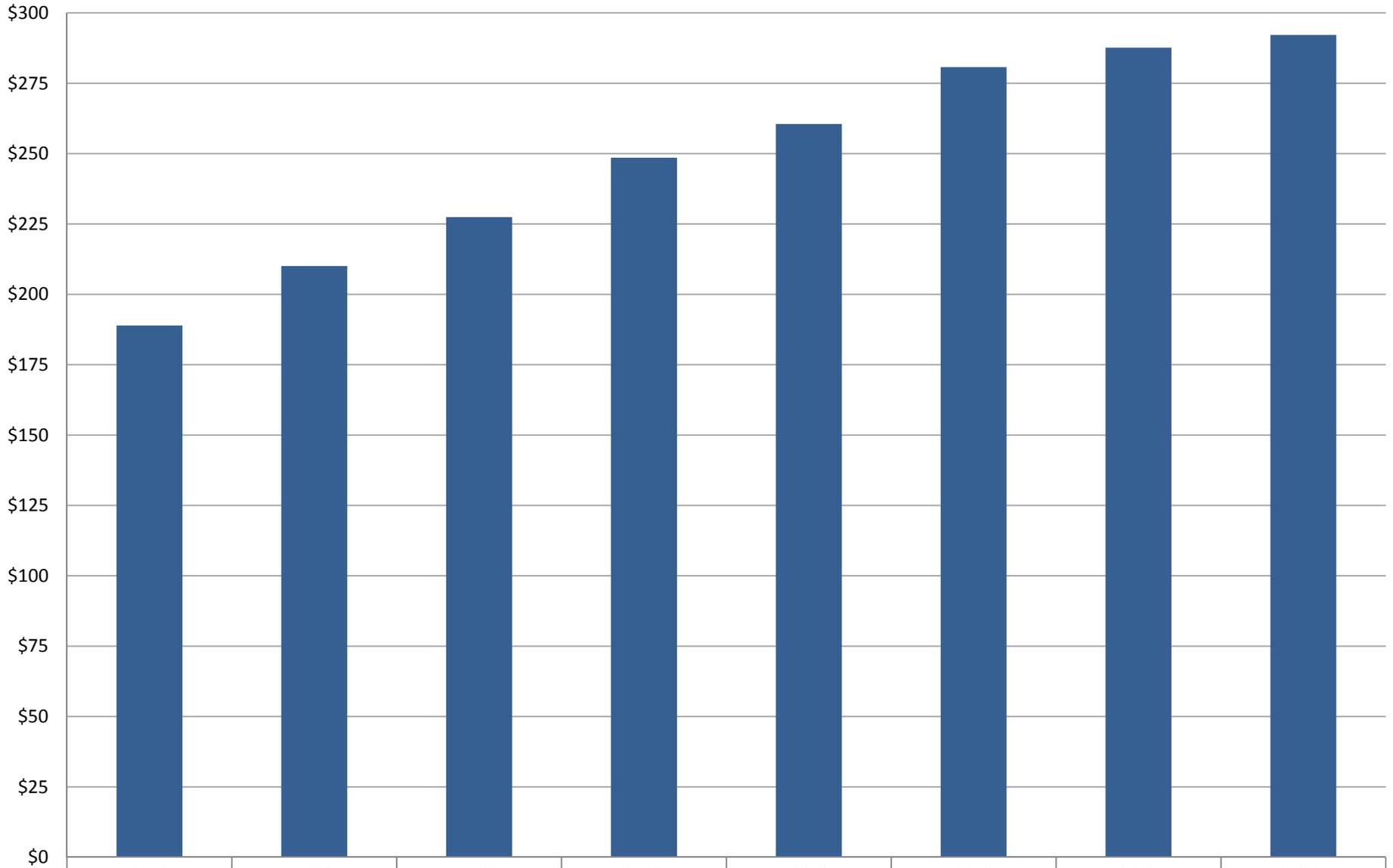
Total Policy Count	600,673	613,266	612,941	628,802	629,138	642,174	647,947	655,169
Total Premium in Force (in \$ Millions)	\$427.5	\$470.2	\$453.2	\$454.0	\$489.9	\$533.1	\$542.1	\$547.9
Annual Change in Policy Count	0.0%	2.1%	-0.1%	2.6%	0.1%	2.1%	0.9%	1.1%
Annual Change in Premium	0.0%	10.0%	-3.6%	0.2%	7.9%	8.8%	1.7%	1.1%

**California Earthquake Authority
Homeowner Policy Total Insured Value (TIV)
as of April 30, 2011**



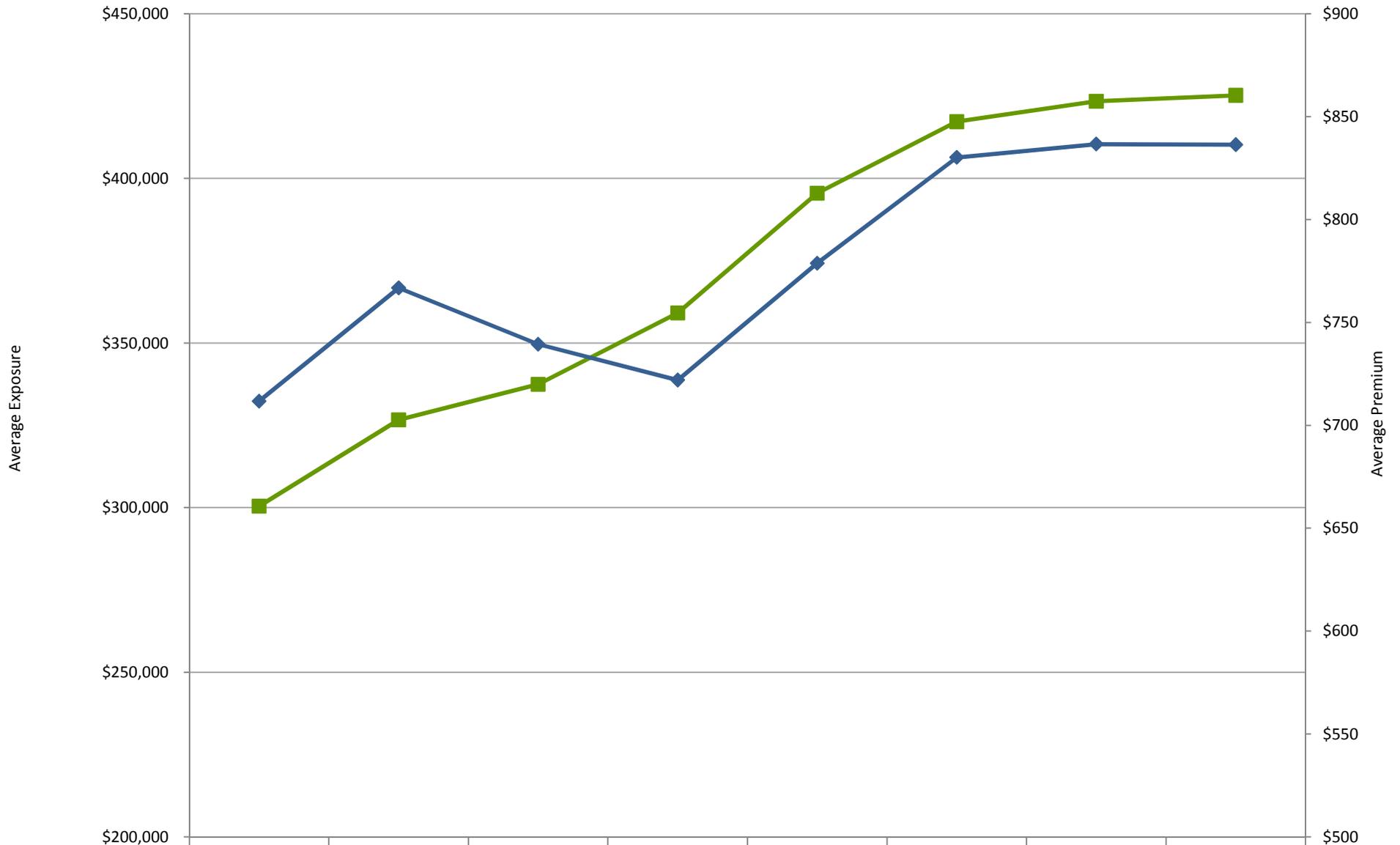
	2004	2005	2006	2007	2008	2009	2010	2011
TIV (in \$ Billions)	\$180.5	\$200.3	\$206.8	\$225.8	\$248.8	\$267.9	\$274.3	\$278.6
Annual Change in TIV	0.00%	11.00%	3.25%	9.17%	10.19%	7.68%	10.26%	1.54%

**California Earthquake Authority
Total Insured Value (TIV)
as of April 30, 2011**



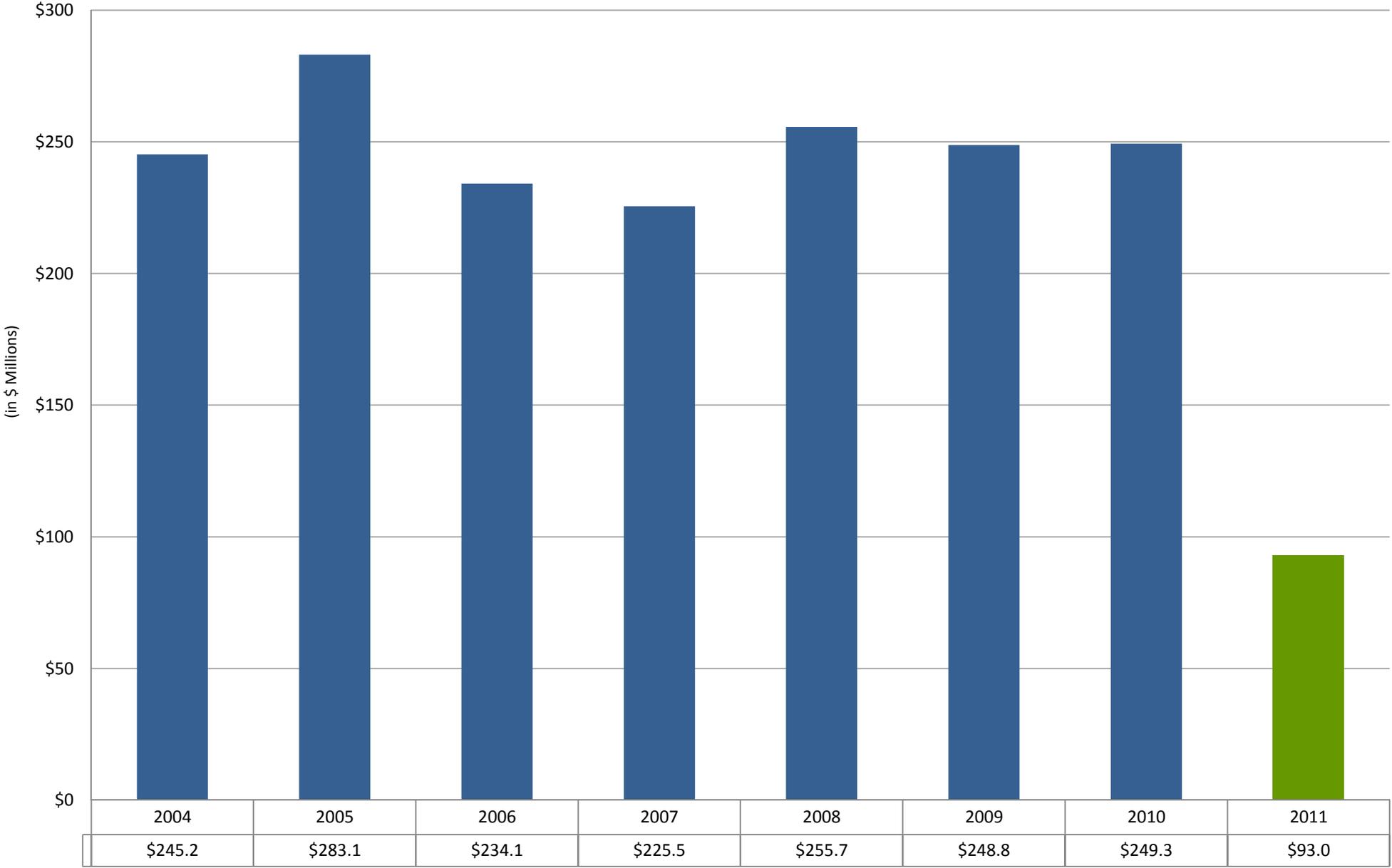
	2004	2005	2006	2007	2008	2009	2010	2011
TIV (in \$ Billions)	\$188.9	\$210.0	\$227.4	\$248.6	\$260.5	\$280.7	\$287.6	\$292.2
Annual Change in TIV	9.6%	11.2%	8.3%	9.3%	4.8%	7.8%	10.4%	4.1%

**California Earthquake Authority
Average Homeowner Policy Premium and Insured Value
as of April 30, 2011**



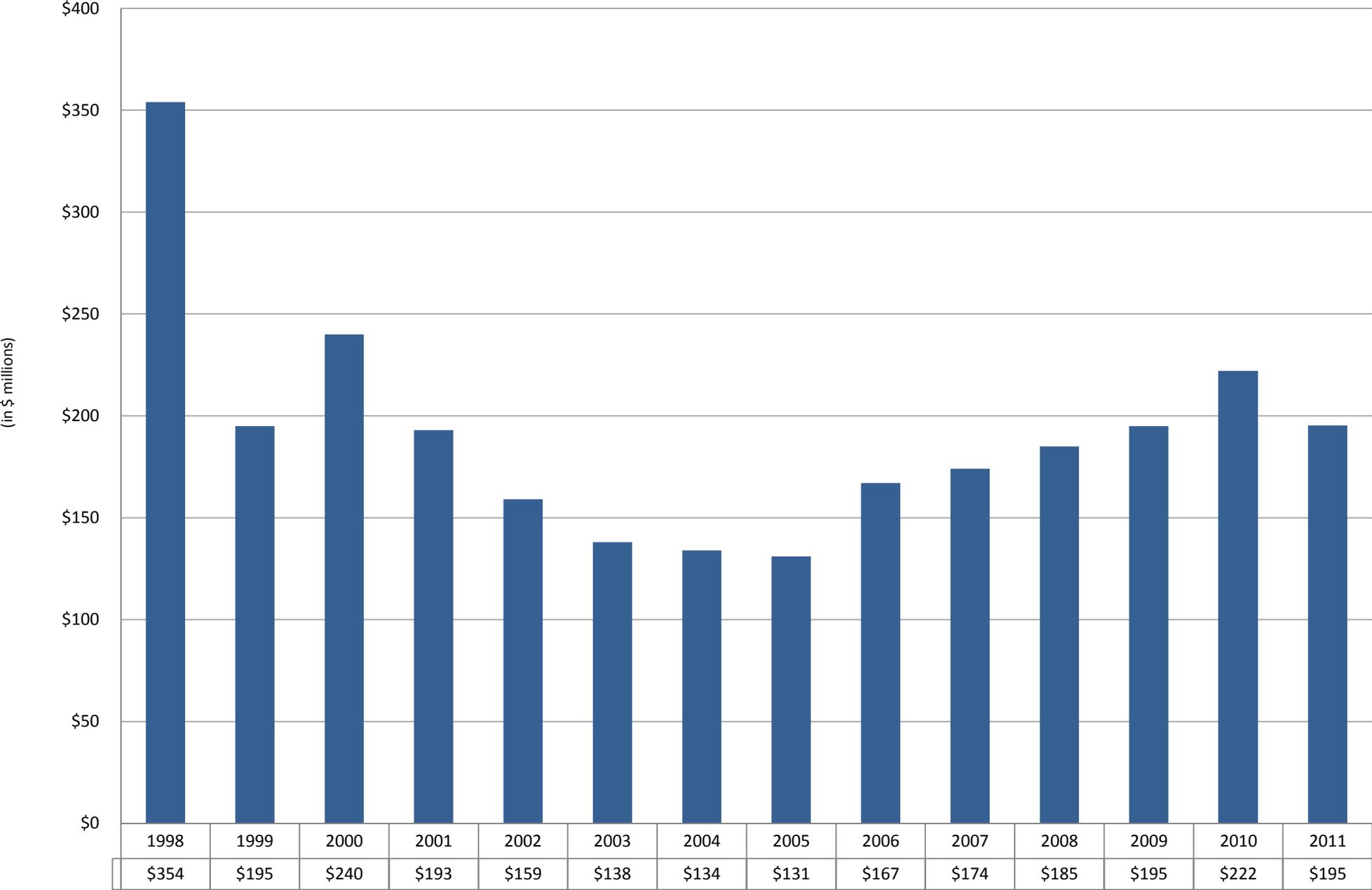
Average Insured Value	2004	2005	2006	2007	2008	2009	2010	2011
	\$300,458	\$326,668	\$337,455	\$359,110	\$395,483	\$417,206	\$423,414	\$425,200
Average Premium	\$712	\$767	\$739	\$722	\$779	\$830	\$837	\$836

**California Earthquake Authority
Annual Capital Accumulated from Premium
as of April 30, 2011**

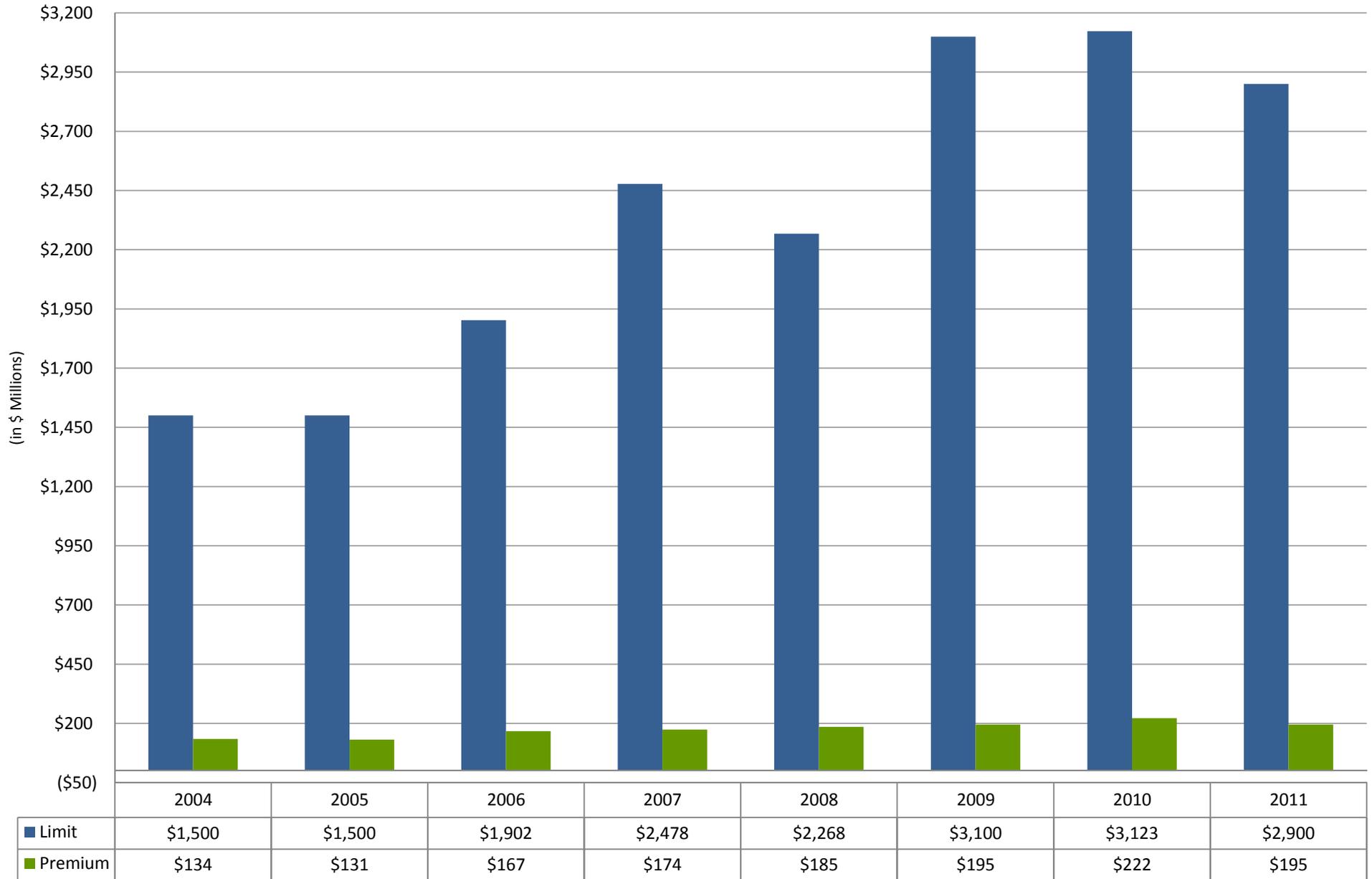


NOTE: From 2010 forward, figure is GASB underwriting profit. Prior to 2010, figure was FASB net premiums written minus total expenses.

**California Earthquake Authority
Annual Reinsurance Premium Expense**

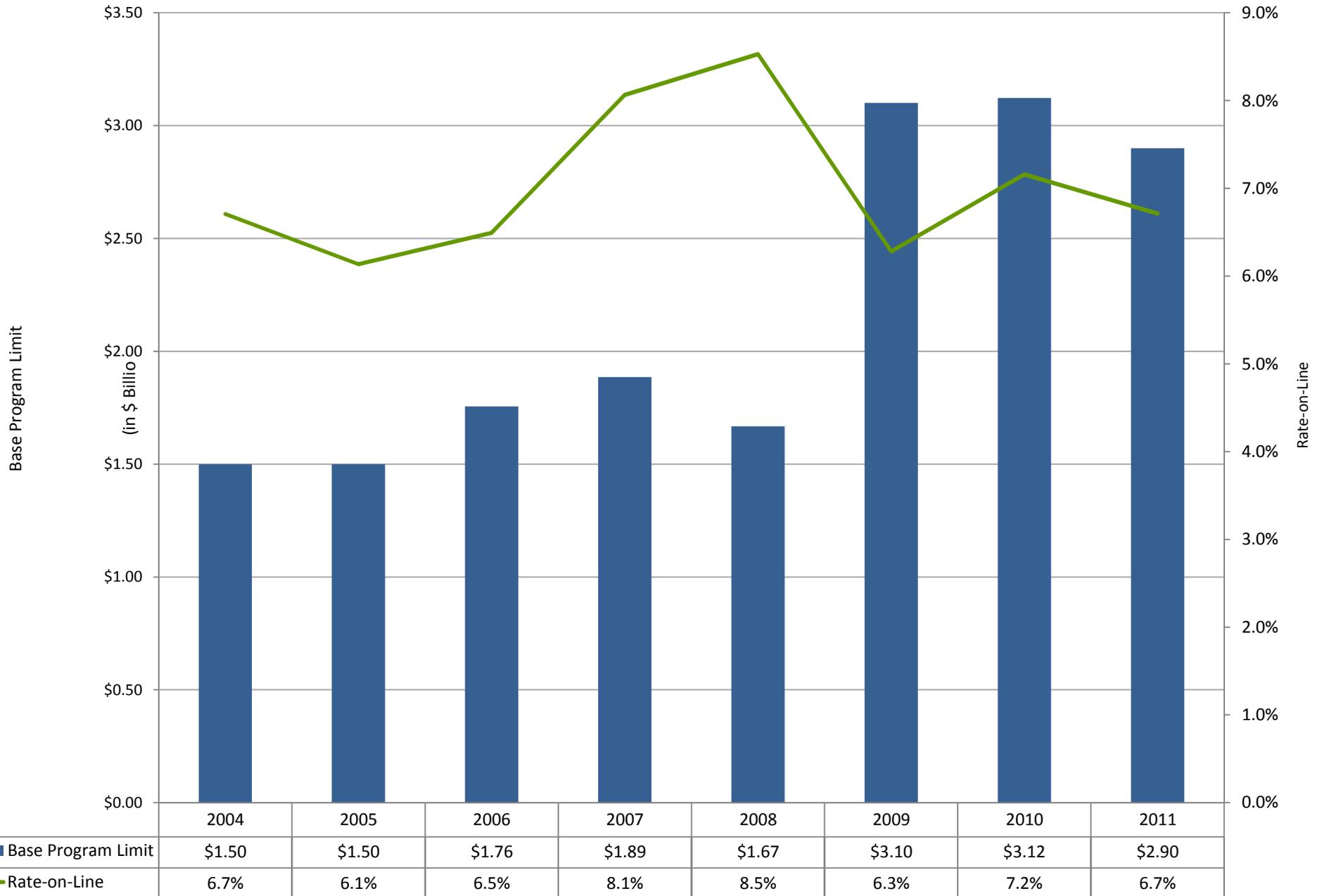


California Earthquake Authority Annual Reinsurance Premium and Limit



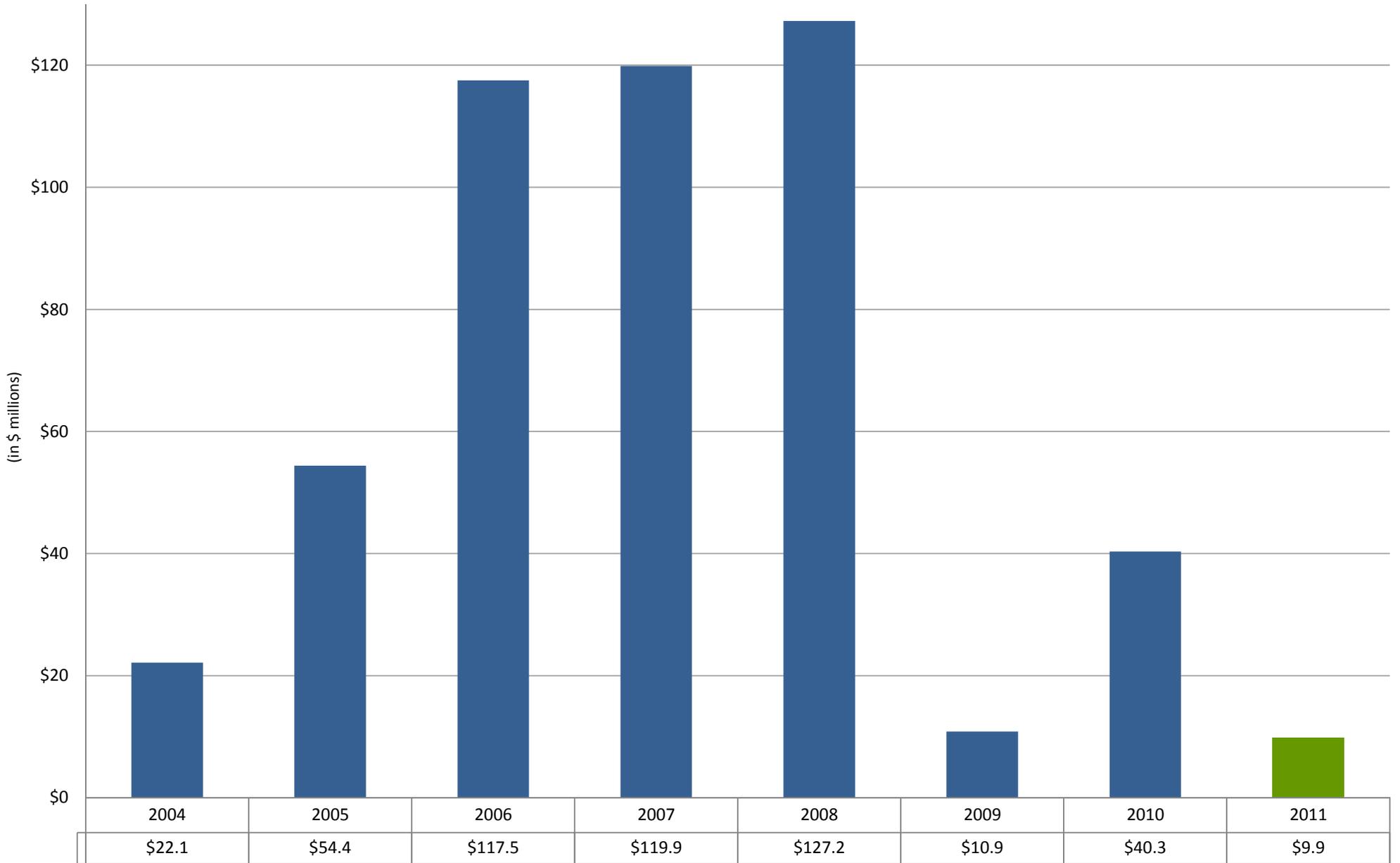
NOTE: Limits through 2005 do not include supplemental coverage while 2006 forward include supplemental coverage.

California Earthquake Authority Reinsurance Base Program Limits and Rate-on-Line



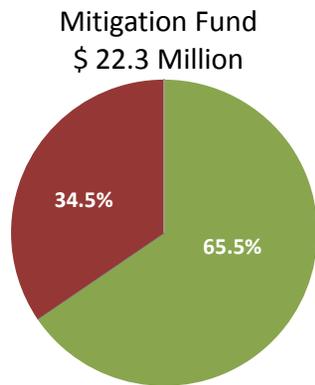
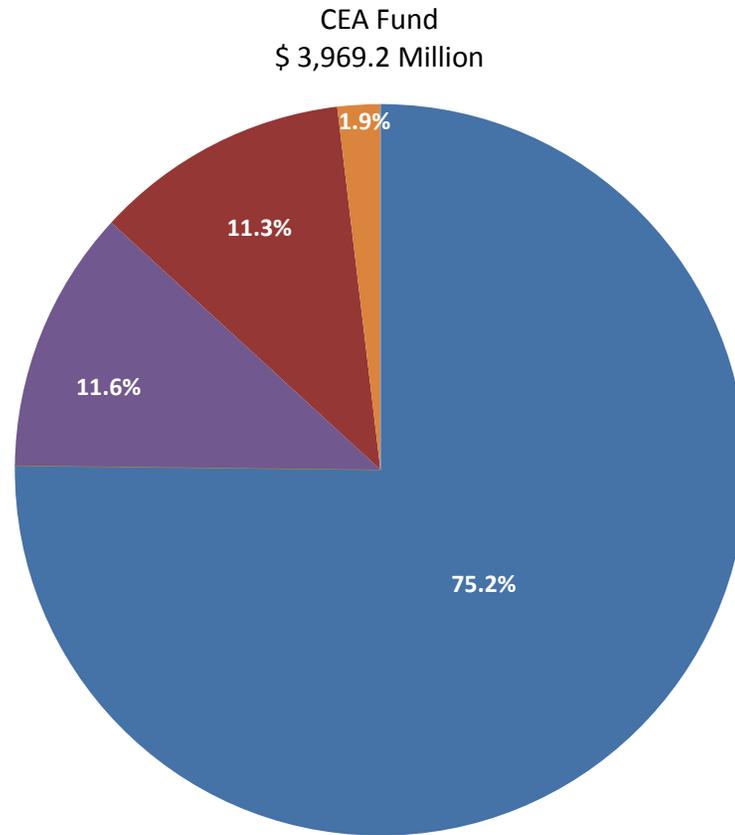
NOTE: The Rate on Line is a weighted average of the individual layers and their respective rates.

**California Earthquake Authority
Annual Investment Income
as of April 30, 2011**

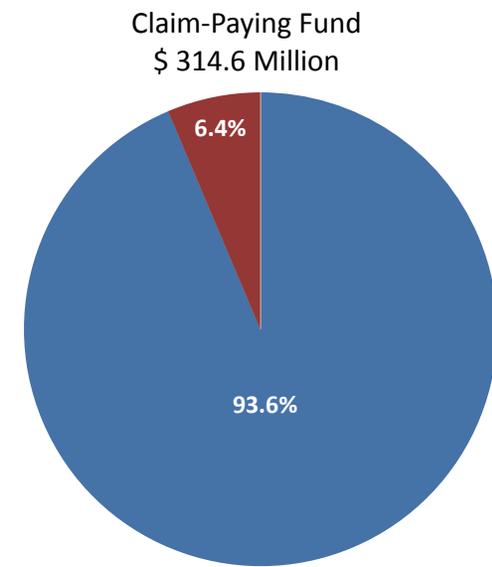


NOTE: Prior to 2011, investment income was reported from FASB financial statements which did not include unrealized gains or losses.

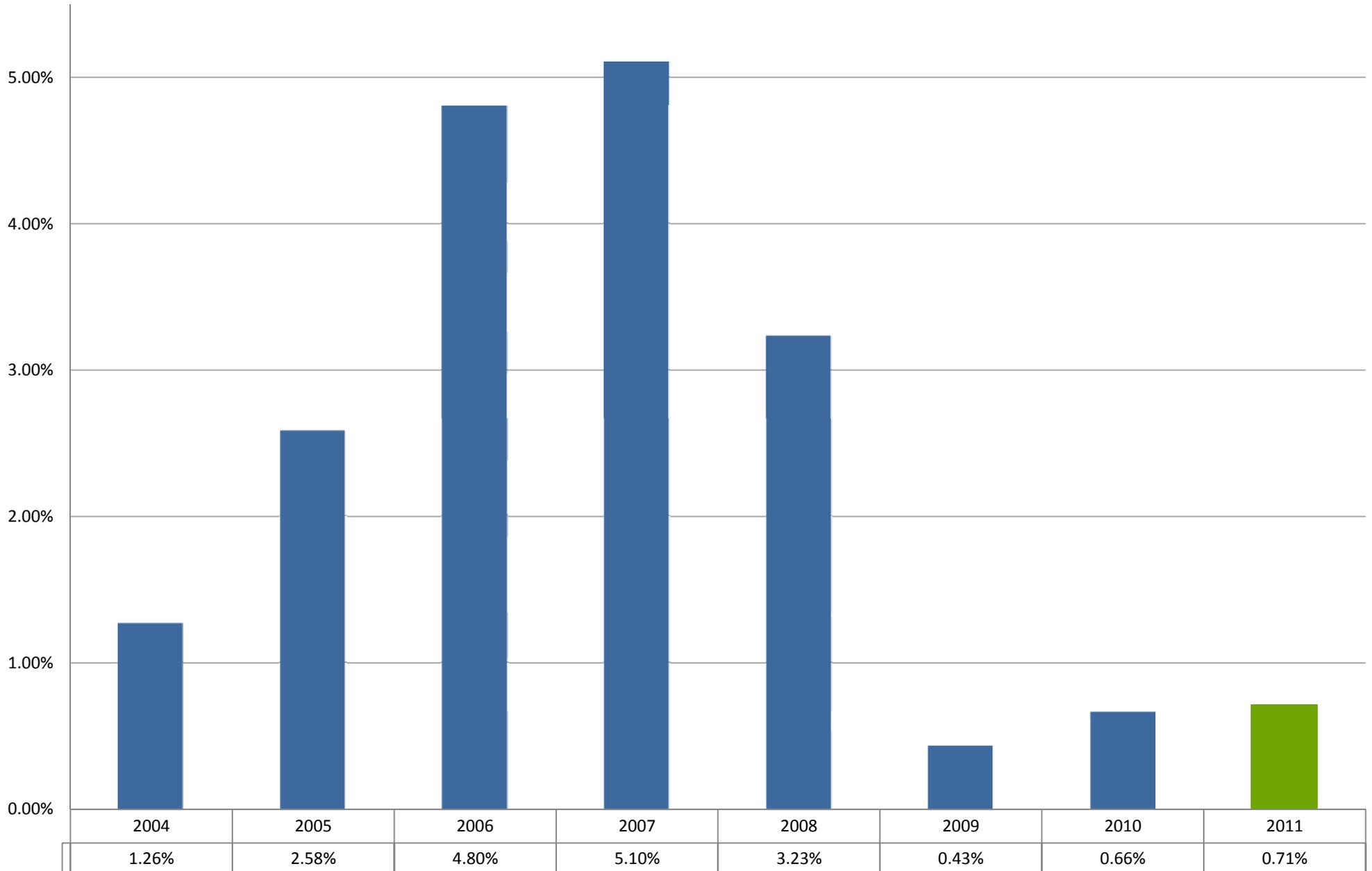
**California Earthquake Authority
Investment Portfolio Distribution
as of April 30, 2011**



- US Treasuries - Long Term
- US Government Agencies - Cash Equivalent
- US Treasuries - Cash Equivalent
- US Government Agencies - Short Term
- US Treasuries - Short Term
- Commercial Paper

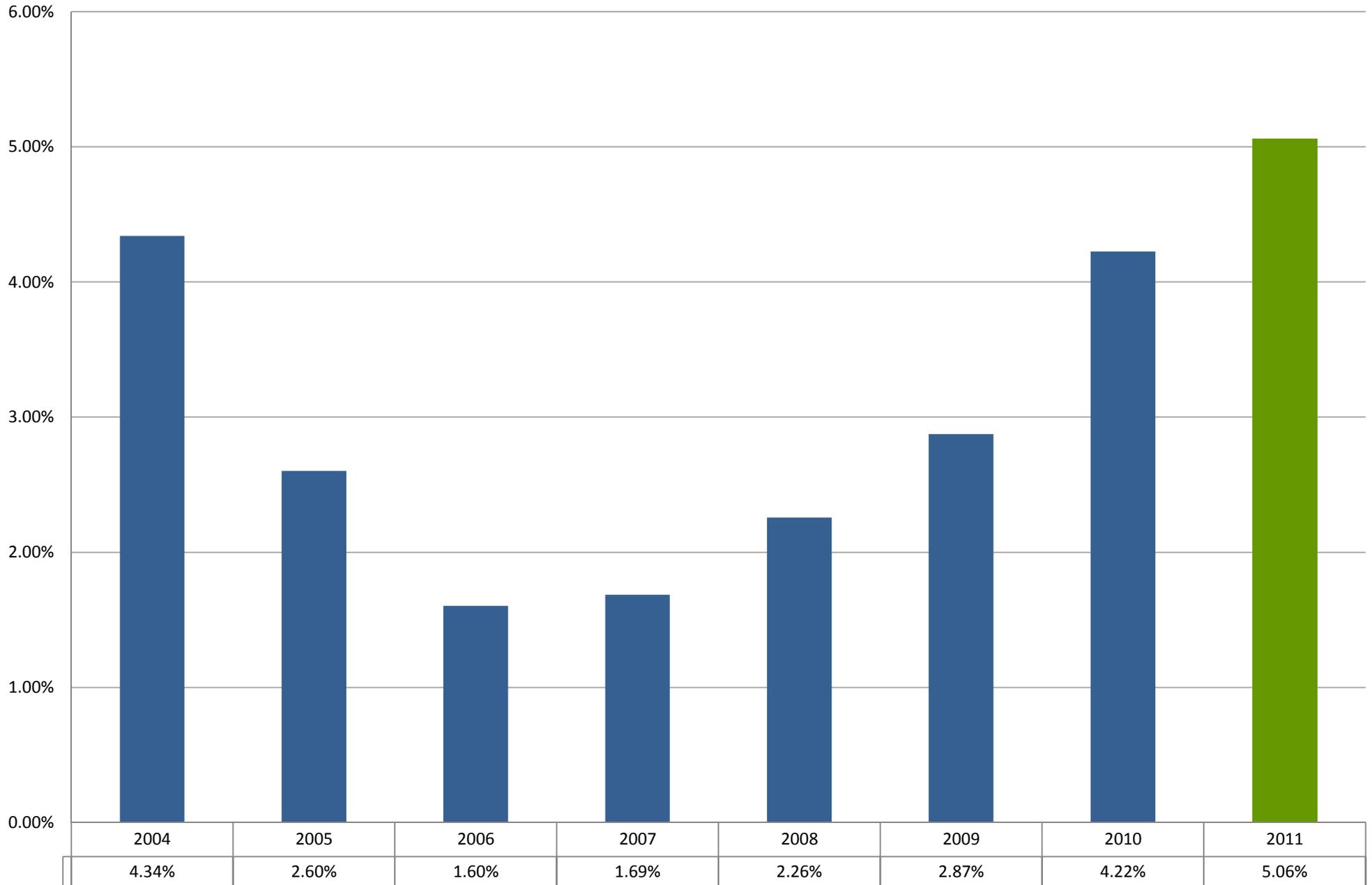


**California Earthquake Authority
12-Month Rolling Investment Return
as of April 30, 2011**



NOTE: Gross of Investment Manager Fees

**California Earthquake Authority
Investment Manager Fees as a Percentage of Investment Income
as of April 30, 2011**



**California Earthquake 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	\$ 189,000,000	30-Apr-2011

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-11	\$189,000,000		\$5,829,705	\$5,829,705	
1-Jul-11	\$157,500,000	\$31,500,000	\$5,829,705	\$37,329,705	
2011					\$43,159,410
1-Jan-12	\$157,500,000		\$4,858,088	\$4,858,088	
1-Jul-12	\$126,000,000	\$31,500,000	\$4,858,088	\$36,358,088	
2012					\$41,216,175
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

June 30, 2011

Agenda Item 6: CEA Advisory Panel update—Mark Simmonds

Recommended Action: No action required - information only

CEA Advisory Panel Vice Chair Mark Simmonds will provide a summary of the proceedings from the May 18, 2011, Advisory Panel meeting.

Governing Board Memorandum

June 30, 2011

Agenda Item 7: Board briefing on the status of CEA's rate and form application

Recommended Action: No action required – information only

Chief Operations Officer Bob Stewart will brief the Board on the status of the rate and form application approved by the Board on February 24, 2011, for submission to the Department of Insurance.

Governing Board Memorandum

June 30, 2011

Agenda Item 8: Board review and approval of plans for an organizational and staffing analysis; plans include a staff recommendation to contract with a consulting firm, competitively selected, to lead the project

Recommended Actions: Approved the plan for the organization and staffing analysis; authorize CEO Glenn Pomeroy to execute on behalf of the CEA a contract with the consulting firm selected through the competitive procurement process

Background:

Many aspects of CEA operations and even its overall purpose and prospects have evolved dramatically over the past 15 years. For that reason, CEA executive staff has recommended completion of an independent assessment of various elements of the organization, including overall structure, roles, and staffing levels.

Since its inception, the CEA has been the leading provider of residential earthquake insurance in California and an organization of influence in the global earthquake and finance communities. The CEA is broadly recognized as a worldwide thought leader in developing creative residential-earthquake products and related pricing structures; has set the standard for residential earthquake risk-transfer strategies; is developing leadership roles for the marketing of residential earthquake insurance and loss mitigation products; and has been an influential supporter of earthquake research.

In addition, the CEA is currently in the process of expanding its sphere of influence relating to earthquake loss mitigation and preparedness under the direction of a new, legislatively created Chief Mitigation Officer.

Recent complications concerning the CEA's intended implementation of new rates, revised policy forms, a new product, and related/needed system enhancements have plainly illustrated the ineffectiveness and inefficiencies inherent in the current operating structure. Specifically, some participating insurers' reliance on multiple, aged computer systems has presented difficulties and complications that are both labor-intensive and costly, and they inhibit the CEA's ability to effect timely, needed change.

Recognizing the absolute importance and necessity of creating an organizational paradigm that incorporates smart strategies based on an optimal, mutually beneficial ease-of-doing-business model, CEA executive staff initiated a competitive process to identify a consulting firm specializing in property and casualty insurance operations to complete an independent assessment of various elements of the organization, including structure, roles, and staffing levels.

The CEA released Request for Qualifications and Proposals – RFQ #02-11 to invite consultants and consulting firms with demonstrated expertise and success in organizing and optimizing insurance-operations efforts, and ancillary business and business-related activities, of property and casualty insurance organizations to submit qualifications and a proposal to the CEA.

Attachment A is a copy of RFQ #02-11.

The selection process is well underway. The consultant selected will assist the CEA in assessing the effectiveness of various current elements of the organization, including structure, roles, and staffing levels, and will consult with CEA and other interested parties in preparing near- and mid-term future assessments and recommendations of organizational direction, efficiency, and effectiveness.

The firm chosen to lead the project will provide the following services, as a minimum:

1. Conduct, complete, and report on an evidence-based functional assessment of the CEA's organizational structure that compares the current structure to an optimized, evolving structure that is to be projected and ultimately defined through collaboration with CEA executive management.
2. Deliver a written report (and as requested, make related oral presentations) to CEA executive management, the CEA Governing Board, and certain other key stakeholders, providing results of the analysis and recommendations that define an appropriate multi-functional organizational structure, including:
 - a. identification of required organizational functions;
 - b. resource requirements, including roles, staffing and staff size, associated skill requirements, and related costs; and,
 - c. the optimal roles of consultants, contractors, or vendors, or all three, if any, in the proposed organizational structure.
3. Collaborate with CEA staff to develop a strategy and tactical plan to provide services within the next three to five years to CEA's participating insurance companies and public entities, other than CEA, established to provide residential earthquake insurance coverage to consumers and others.
4. The project must be completed no later than November 15, 2011.

Results – Request for Qualification and Proposals – RFQ #02-11

Following a national advertising effort, the competitive-bid process has resulted in the identification of a firm that CEA executive staff recommends lead the organization and staffing analysis. Representatives from the recommended firm will present their proposal for the Board's consideration and approval.

Recommendation:

Approve staff's plan to continue with the organization and staffing analysis and authorize CEO Glenn Pomeroy to execute on behalf of the CEA a contract with the consulting firm selected as a result of the competitive-bid process.

In addition, authorize the CEO, advised by and together with the CEA General Counsel, to perform any and all additional acts, within the scope of the executed contract and this grant of authority, to direct, further and finalize these consulting services.



Request for Qualifications and Proposals

for

Organization and Staffing Analysis

RFQ #02-11

May 16, 2011

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I. Summary of Key Dates

The following schedule is subject to modification by the California Earthquake Authority (“CEA”). Questions must be submitted in the manner described in Section III.

- | | |
|---|---------------|
| 1. Date of issue | May 16, 2011 |
| 2. Deadline for submitting questions | May 27, 2011 |
| 3. Final date for the CEA to post addenda for which proposers are responsible | June 1, 2011 |
| 4. Final proposal submission date | June 8, 2011 |
| 5. Proposal evaluation | June 9, 2011 |
| 6. Finalists’ presentations (optional) in Sacramento, California | June 15, 2011 |
| 7. Award of opportunity to negotiate contract | June 23, 2011 |
| 8. Commencement date | July 1, 2011 |

II. Background of the California Earthquake Authority and Purpose of the Organization and Staffing Analysis

Following the unprecedented losses from the 1994 Northridge Earthquake, many California insurers either stopped or severely restricted selling new homeowners insurance policies. This was largely due to state law that required insurers to offer earthquake insurance when selling residential property insurance. A California Department of Insurance study released in May 1995 found that insurers representing 93 percent of the voluntary insurance market were either restricting or refusing to sell new policies.

In 1995, the California Legislature approved legislation to create the California Earthquake Authority (CEA). In 1996, the Legislature passed three additional bills that permitted the CEA to become operational when certain conditions were met. These bills were codified in California Insurance Code, sections 10089.5 through 10089.54 and will be referred to as the CEA Act. In November 1996, the Insurance Commissioner certified the conditions had been met. The CEA began writing earthquake policies effective December 1, 1996.

The CEA is administered by a Governing Board composed of five elected public officials. California's Governor, Treasurer, and Insurance Commissioner serve as voting members, while the Speaker of the Assembly and the President Pro-Tempore of the Senate serve as non-voting members. The Governing Board is advised by an 11-member Advisory Panel.

The CEA is currently financed with approximately \$3.8 billion in CEA capital, \$314 million in revenue bond proceeds, \$2.9 billion in third-party reinsurance, and \$2.7 billion in participating-insurer assessments. Operating under a uniform written contract, participating insurers sell and service CEA policies and adjust CEA claims. By law, the State of California has no liability for claims, costs, or liabilities arising from CEA operations.

The CEA's business is residential earthquake insurance and the provision of earthquake-loss-mitigation services and related educational outreach. The CEA offers basic residential earthquake insurance to owners of dwellings, mobilehomes, and condominiums as well as to renters. Policies cover damage to structure and contents and expenses incurred when a home is uninhabitable. CEA rates are actuarially sound, based on the best available science, and approved by the California Insurance Commissioner.

The CEA seeks a consulting firm specializing in property and casualty insurance operations to complete an independent assessment of various elements of the organization, including structure, roles, and staffing levels. The assessment is necessary given the evolution of the organization during its first fifteen years of operation in which it has become the leading provider of residential earthquake insurance in California and an organization of influence in the global earthquake community. Since its inception, the CEA has become a thought leader in development of creative residential earthquake products and related pricing structures; has set the standard for residential earthquake risk transfer strategies; is developing leadership roles for the marketing of residential earthquake insurance and loss mitigation products; and, has been an influential supporter of earthquake research. In addition, the CEA is currently in the process of expanding its sphere of influence relating to earthquake loss mitigation and preparedness under the direction of a new, legislatively created, Chief Mitigation Officer, position.

III. Submitting Questions

Questions are to be submitted by email only, and each proposer is solely responsible for following the timeframes in Section I. Submit all questions to:

RFQ02-11@calquake.com

The CEA will respond to questions as they are received. Answers will be posted on the CEA's Web site, www.EarthquakeAuthority.com, on the *Organization and Staffing Analysis RFQ* page.

IV. Proposer's Responsibilities Regarding Addenda

The CEA reserves the right in its sole discretion to modify any part of this RFQ by issuing a written addendum.

All addenda issued by the CEA after the final submission date for proposals will be posted solely to www.EarthquakeAuthority.com on the *Organization and Staffing Analysis RFQ* page.

Each proposer must continue to check the CEA Web site through the final submission date for further addenda.

Each proposer acknowledges and accepts the affirmative responsibility to inquire regarding, and seek clarification of, any part or provision of this RFQ that the proposer does not understand or believes is reasonably susceptible to more than one interpretation. If a proposer claims any ambiguity, conflict, discrepancy, omission, or other error in the RFQ, the proposer must immediately notify the CEA's RFQ contact person and request clarification. In its sole discretion, the CEA may issue clarifications in the form of written addenda to this RFQ and will post the written addenda to www.EarthquakeAuthority.com on the *Organization and Staffing Analysis RFQ* page.

In its sole discretion, the CEA may disregard any and all claims of ambiguity, conflict, discrepancy, omission, or other error received by the CEA after the final submission date for proposals.

No additional time to meet any deadline will be allowed, due to corrections or clarifications made by the CEA, after the final submission date for proposals.

The provisions of any addendum formally issued by the CEA are automatically incorporated into this RFQ, and in addition and as appropriate, may be made a part of or otherwise reflected in any contract awarded as a result of this RFQ.

Each proposer is required to acknowledge, as part of the proposer's cover letter (see page 12, section IX, subsection 1.g.), that proposer has reviewed the addenda posted one week or more before the final proposal submission date.

V. Submitting Proposal

- Submit the original and four copies of the proposal in a sealed envelope or package.
- The original proposal must bear an original signature of the person who signed the cover letter and be marked “Original.”
- The proposer’s name and address must appear on the outside of the sealed proposal package/envelope.
- A proposal by a firm must be signed by a person authorized to bind the firm.
- All proposals must be sent or delivered to the following address:

**California Earthquake Authority
801 K Street, Suite 1000
Sacramento, California 95814**

CONFIDENTIAL

Response to Request for Qualifications and Proposals #02-11

- Proposals must be physically received by the CEA no later than 5 p.m. Pacific Time on Wednesday, June 8, 2011.
- Unless expressly and specifically requested by the CEA, proposals are not to be submitted, in whole or in part, by fax or by electronic or magnetic media.

Should a proposal contain information that the proposer considers confidential or proprietary, a statement to that effect must be included in the cover letter, and each and every page containing confidential or proprietary information must be so marked in the upper right-hand corner. The CEA will use reasonable efforts to keep such pages from public disclosure, except to the extent provided in any resulting contract or the extent required by law. The CEA makes no representations or warranties that its efforts will be successful. Proposers are reminded that many of the CEA’s records are subject to public disclosure under the California Public Records Act.

No proposal can be considered confidential or proprietary in its entirety.

If, before the submission deadline, a proposer wishes to make any change or augment a proposal it has already submitted to the CEA, the only method of correction or modification is to notify the CEA proposer is withdrawing its proposal and then submit the modified proposal before the proposal-submission deadline. Modification offered in any other manner, or after the proposal-submission deadline, will not be considered.

All proposals become the property of the CEA upon submission.

All costs to develop proposals and attend interviews regarding proposals are the sole responsibility of the proposer and cannot be charged to the CEA.

Please review all addenda posted on the CEA’s Web site before submitting proposals.

Record your company name and the RFQ number on each page of the proposal.

VI. Services to be Provided

Introduction

The purpose of this Request for Qualifications and Proposal is to invite consultants and consulting firms with demonstrated expertise and success in organizing and optimizing the insurance-operations efforts, and ancillary business and business-related activities, of property and casualty insurance organizations to submit qualifications and a proposal to the CEA.

The consultant will assist the CEA in assessing the effectiveness of various current elements of the organization, including structure, roles, and staffing levels, and will consult with CEA and other interested parties in preparing near- and mid-term future assessments and recommendations of organizational direction, efficiency and effectiveness.

Term

The contract will have a one-year term. The CEA reserves the right, and the Firm agrees to allow the CEA the option to renew, at the CEA's sole discretion, this Contract for up to two additional six-month periods, at the same pricing basis, and on the same terms and conditions, agreed for the initial contract period.

Scope of Work

The proposing firm will provide the following services, as a minimum:

1. Conduct, complete, and report on an evidence-based functional assessment of the CEA's organizational structure that compares the current structure to an optimized, evolving structure that is to be projected and ultimately defined through collaboration with CEA executive management.
2. Deliver a written report (and make related oral presentations) to CEA executive management, the CEA Governing Board (i.e., board of directors), and certain other key stakeholders, providing results of the analysis and recommendations that define an appropriate multi-functional organizational structure, including:
 - a. identification of required organizational functions;
 - b. resource requirements, including roles, staffing and staff size, associated skill requirements, and related costs; and,
 - c. the role of consultants, contractors, or vendors, or all three, if any, in the proposed organizational structure.
3. Collaborate with CEA staff to develop a strategy and tactical plan to provide services within the next three to five years to CEA's participating insurance companies and public entities, other than CEA, established to provide residential earthquake insurance coverage to consumers and others.
4. The project must be completed no later than November 15, 2011.

VII. Minimum Qualifications

Proposer must meet, to the CEA's satisfaction, all of the following minimum qualifications to be considered for contract award. Proposer must affirmatively attest to each of the minimum qualifications in Proposer's cover letter. Failure to satisfy all minimum qualifications, in the CEA's sole judgment, will result in rejection of the proposal.

1. Have been in business for a minimum of 10 years specializing in business consulting, with demonstrable and successful consulting in the area of U.S. property and casualty insurance operations; if the firm has not been in business for at least 10 years or does not have 10 years' worth of relevant, required experience, the senior principals of the firm must have a least 15 years combined experience with consulting firms that concentrated their practice in the fields noted above; and,
2. Have at least one person assignable to the CEA who has a minimum of seven years of experience in property and casualty insurance-operations consulting.

Note: The CEA's contract form typically prohibits a contractor from replacing key personnel without CEA's prior permission.

VIII. Pricing

Proposal must include a clear and complete fee and expense structure. The CEA will pay negotiated fees and expenses in arrears, as may be agreed. If CEA is asked to accept a minimum periodic fee, proposal must include a clear and complete periodic-fee structure.

IX. Submission Instructions

The proposal and cover letter, exclusive of attachments, must not exceed 18 single-sided pages. Attachments must not exceed 16 single-sided pages. All proposals must include the following elements, in the following order:

1. Cover Letter

The cover letter must be signed by a person authorized to bind the proposer contractually. The CEA will reject any proposal that contains an unsigned cover letter. The cover letter must also contain all of the following:

- a. The proposing firm's name, address, telephone and fax numbers, and Web address.
- b. The name, title or position, telephone number, and email address of the person signing the cover letter and any other persons authorized to make representations for the proposer regarding the RFQ.
- c. A statement that the signature constitutes unrestricted authority to bind the proposer contractually.
- d. A statement that the firm is willing to be bound by contract provisions such as those outlined in Exhibit 1.
- e. A statement that the proposal is a valid, open proposal for at least 90 days after the submission date.
- f. A statement affirming that the proposer satisfies each of the Minimum Qualifications.

- g. A statement that the proposer has reviewed all addenda posted through the final addenda posting date shown on the “Summary of Key Dates.”
- h. A statement that each key professional and each responsible staff member working on the contract is willing to be subject to a background check.

2. Firm Background and History

- a. Location of firm headquarters.
- b. Number of years the firm has been in existence in the same or substantially the same form and under the same trade name.
- c. Total number of offices and employees (provide a breakdown of the number of professional, managerial, and support staff, respectively).
- d. Describe the firm’s ownership and ownership structure.
- e. Identify any affiliated or subsidiary organization(s).
- f. Identify pending or contemplated changes in the firm’s organizational structure.
- g. Identify the proposer’s insurance operations consulting clients and provide contact information from three representative insurance operations consulting clients.
- h. Describe the types of services the firm provides (including, but not limited to, the services described in this RFQ) and reasonable details of the fee arrangements that typically apply.
- i. Describe the firm’s experience providing property and casualty insurance operations consulting services to governmental and non-governmental clients.
- j. Disclose litigation or other legal proceedings in the past three years that your firm, or any officer or principal of your firm, has been involved in related to your firm’s business activities. Explain the nature of each such litigation or legal proceeding, even if the matter has been resolved.
- k. Provide the applicable coverage amounts for the following:
 - i. Errors-and-omissions insurance, if applicable
 - ii. Any other applicable insurance
- l. List every institutional client for which the firm provided any of the services described in Section VI (Services to be Provided) of this RFQ that terminated its relationship with the proposing firm during the past four years. Provide the following information:
 - i. The name of the client
 - ii. A full explanation of the reason(s) for termination of the relationship

3. Work Plan

This should describe how your firm will perform the proposed contract. Be specific and avoid generalizing.

The work plan should address, without limitation, the following components, and should be organized so that it is clear, comprehensive, and concise.

- a. Identify the primary contact for the contract.

- b. Describe your firm’s understanding of the work to be performed under this RFQ.
- c. Identify any RFQ requirements which your firm believes are unnecessary.
- d. Propose any alternatives that conform to this RFQ’s intent, that would lead to a better result, but which may not satisfy specific RFQ requirements.
- e. Identify any “value-added” services your firm would provide to the CEA.
- f. Detail any conflict of interest, or apparent or potential conflict of interest that would be created by your firm’s contracting with the CEA. Propose how to address or resolve these conflicts of interest.
- g. Describe your firm’s policy for ensuring the confidentiality of its clients’ matters.
- h. Define “client service” as it relates to your firm and describe mechanisms that are in place to solicit and respond to client feedback.
- i. Name the property and casualty insurance operations consulting professionals who would be assigned to the CEA account and their responsibilities. For each member of the team assigned to the CEA account, provide a brief résumé that outlines the person’s education and relevant experience; include relevant certifications or credentials, and the length of time each has been held.
- j. If the firm intends to use subcontractors to deliver any of the services outlined in Section VI (Services to be Provided), provide the information in f., g., h., and I regarding the proposed subcontractor(s).

4. Pricing

Price each section of the proposed work plan separately. For each task, for each contract period, specify the expected number of hours, the hourly rates, and the overall cost. If expected number of hours is unknown, provide the hourly rates.

The CEA will use the following information to analyze the reasonableness of the fees. Information is intended for internal CEA use, but certain CEA records are subject to public disclosure under the California Public Records Act and production under the Bagley-Keene Open Meetings Act. The CEA makes no representations or warranties that its efforts to keep records confidential will be successful.

- a. Itemize the direct labor costs using the following categories:
 - i. Staff billing, by title (e.g., partner, project manager, associate, clerical)
 - ii. Rate per hour for each staff member
- b. Itemize consultant and subcontract labor costs.
- c. Itemize maximum costs for travel, lodging, and meals. Costs must be billed in accordance with the CEA’s travel policies as provided in Exhibit 2.
- d. State any additional costs not previously covered in this section or state that there are no additional costs.
- e. Total of fees and costs.

5. Equal Employment Opportunity (EEO)

Describe the firm’s policies and programs that ensure compliance with state and federal Equal Employment Opportunity requirements.

6. Required Attachments

- a. Proposed fees labeled as “Required Attachment A”
- b. Drug-Free Workplace Certification labeled as “Required Attachment B”
(see Exhibit 3)
- c. References labeled as “Required Attachment C” (see Exhibit 4)

Additional Information

The CEA will not be bound by any oral interpretation of this RFQ by any of its representatives or employees, unless those oral interpretations are subsequently issued as a written addendum to this RFQ.

Each proposer must make those arrangements necessary to become fully informed in advance of commencing work regarding all conditions and matters that, during the contract term, could affect the performance of contracted work. Any failure to fully investigate the scope of work or the foregoing conditions will not relieve the proposer from responsibilities for properly estimating the difficulty or cost to successfully perform the work.

The CEA may request additional clarifying information from any proposer after the initial evaluation of the proposals.

X. Proposal-Evaluation Criteria

The purpose of the proposal-evaluation process is to: 1) determine whether the proposals satisfied the minimum qualifications, content, and format requirements; and 2) identify the proposers most likely to satisfactorily perform the services described. The evaluation process will be conducted in a comprehensive and impartial manner.

Each proposal package will be date-and time-stamped when received. Proposals received after the submission date and time will be returned unopened. Each timely proposal will be reviewed to determine whether it satisfies the minimum qualifications specified in Section VII. Proposals that meet the minimum qualifications will be evaluated and scored. The highest possible score is 100 points.

Finalist Interviews

The CEA may invite finalists to interview at its office in Sacramento, California. All costs and expenses associated with preparing and submitting this RFQ, along with all travel costs related to the interview and contract-negotiation processes, are the sole responsibility of the proposer.

Proposal Evaluation

Criteria and maximum score for the proposal are noted below:

CRITERIA	MAXIMUM POINTS
Work Plan	40
Qualifications, Firm Background, and History	30
Fee	20
Interview	5
References	5
TOTAL SCORE POSSIBLE	100

XI. Award of Opportunity to Contract

If, at any time during or at the conclusion of the RFQ process, the CEA determines that the results or prospects of this RFQ process are unsatisfactory, the CEA reserves the right to discontinue this process and decline to award an opportunity to contract. The final award of the opportunity to contract will be determined by the CEA’s management.

The opportunity to contract will be awarded to the most qualified proposer, after price and other factors have been considered, provided that accepting the proposal is reasonable and in the best interests of the CEA. The CEA reserves the right to reject any or all proposals and to waive any irregularities in the proposals received.

XII. Commencement Date

The commencement date is to be determined.

Certain standard terms of the California Earthquake Authority's (CEA) contract with the Executive Search Services (Contractor) are summarized below:

The contract will include, but will not be limited to, the following provisions:

1. Services to be Performed

The complete description of services is provided in Attachment A: Statement of Work. The CEA's Chief Operations Officer, or a designee of either will manage and direct Contractor's activities.

2. Ambiguities Not Held Against Drafter

Because this Agreement has been freely and voluntarily negotiated by the parties, Contractor and CEA agree that ambiguous contractual provisions will not be construed against the drafter.

3. Amendments

This Agreement can be amended only by mutual consent of the parties. No change in any term will be valid unless the change is in writing and signed by both Contractor and the CEA. No verbal agreement or understanding will bind either party.

4. Assignment; Delegation

Contractor must not assign any of its rights or delegate any of its duties under this Agreement without first obtaining the CEA's written consent. Any purported assignment or delegation by Contractor, in whole or in part, in violation of this section, is voidable at the sole option of the CEA.

5. Attorney Fees and Costs

In the event of litigation between the parties to enforce or interpret this agreement, the non-prevailing party must pay the reasonable attorney fees, costs for in-house counsel services, and actual and taxable costs of the prevailing party. These expenses must be paid in addition to any other relief to which the prevailing party may be entitled.

6. Audits

Contractor is subject to examination and audit by the Bureau of State Audits, the CEA, and CEA's representatives during the term of this Agreement and for three years after the final payment under this Agreement. Any examination or audit would be confined to matters connected with the performance of the required services, including, but not limited to, the costs of administering this Agreement. Contractor must cooperate fully with the Bureau of State Audits, CEA, and CEA's authorized representatives in any examination or audit. All adjustments, payments, and reimbursements determined necessary through any examination or audit must be made promptly by the appropriate party to this Agreement.

7. Changes in Control, Organization or Key Personnel

- 7.1 Contractor must notify CEA in writing within five calendar days:
- A. if any of Contractor's representations or warranties ceases to be true;
 - B. of any change in Contractor's staff who exercise a significant administrative, policy, or consulting role, including the Key Personnel (Attachment ___);
 - C. of any change in the majority ownership, control, or business structure of Contractor;
 - D. of any other material change in Contractor's business organization.
- 7.2 All Contractor's written notices under this provision must contain adequate information to permit CEA to evaluate the changes within Contractor's personnel or organization under the same criteria used by CEA in its original selection of Contractor. Contractor must provide any additional information the CEA might request in connection with such written notices.

8. Choice of Law

This Agreement will be construed and enforced according to California law (without regard to conflict-of-law provisions). A party may sue only in the state court sitting in Sacramento, California. Suit includes any action to compel arbitration or enforce an arbitration award. Each party waives any claim that Sacramento is an inconvenient or improper forum or venue. Each party agrees that the courts named above will have *in personam* jurisdiction over it.

9. Compensation

- 9.1 CEA will compensate the Contractor in accordance with Attachment B (Schedule and Fees). The consideration will compensate Contractor for all expenses Contractor incurs in its performance of services, including travel and per diem.
- 9.2 Contractor guarantees the fees will not increase during the term of this contract.
- 9.3 Correspondence from Contractor to CEA regarding payments or any related compensation matters must be sent to:

California Earthquake Authority
801 K Street, Suite 1000
Sacramento, California 95814
Attn: Bob Stewart, Chief Operations Officer

- 9.4 **Billing and Invoicing.** Contractor must submit itemized monthly invoices in arrears for services already performed. The CEA will make no payments in advance of services rendered. Invoices must include:

- i. Contractor's name, address and telephone number
- ii. an itemized description of services, including a detailed cost breakdown; and
- iii. total amount of the invoice.
- iv. project: "Organization and Staffing Analysis"

Invoices must be addressed to: CEA
Accounts Payable
801 K Street, Suite 1000
Sacramento, CA 95814

9.5 Payment will not be due until the invoiced work is performed, correctly identified on the invoice, and accepted by the CEA. CEA will pay Contractor's invoices as promptly as fiscal procedures permit.

10 Compliance with Laws

10.1 The Contractor must comply with all applicable laws, including those laws specifically applicable because of its relationship to the CEA. Any references to federal or state statutes or regulations are also references to any amendments or successor provisions to those sections.

10.2 **Permits and Licenses.** At its sole expense, Contractor must procure and fully maintain any permits and licenses necessary to accomplish the required services.

10.3 **Additional Documents.** Contractor will execute any additional documents and perform any additional acts as might be reasonable and necessary to carry out the provisions of this Agreement.

11 Confidentiality

11.1 In the course of its duties, the Contractor will gain knowledge of investment, financial, personal, personally-identifiable, technical, accounting, and statistical information pertaining to the CEA, its Governing Board and Advisory Panel and their members, CEA employees, contractors, vendors, agents, and policyholders (collectively, "Restricted Information"). All Restricted Information is *strictly confidential* unless the CEA expressly designates particular Restricted Information as non-confidential. Contractor must not directly or indirectly disclose any Restricted Information, or use it publicly in any way that requires its disclosure, either during or following the term of this Agreement, without the CEA's advance written, specific permission.

11.2 Contractor will not produce, reproduce, publish, or disseminate Restricted Information for its or any other person's personal gain. For purposes of this Section 11, "person" means any person, association, organization, partnership, business trust, limited liability company, or corporation.

11.3 Contractor will only release Restricted Information to its employees, representatives, contractors, or subcontractors, or to any other persons, who have been officially notified in writing that they are expressly binding themselves to maintain confidentiality of the Restricted Information. To the best of its ability, Contractor must affirmatively protect all Restricted Information from unauthorized use or disclosure.

11.4 The Contractor's disclosure of Restricted Information in violation of this provision is a material breach of contract.

11.5 Contractor understands that CEA is a public instrumentality of the State of California and that CEA's and Contractor's records might be subject to public disclosure and production pursuant to various laws, including but not limited to the California Public Records Act (Chapter 3.5, commencing with Section 6250) of Division 7 of Title 1 of the California Government Code) and the Bagley-Keene Open Meeting Act (Article 9, commencing with Section 11120, of Chapter 1 of Part 1 of Division 3 of Title 2 of the California Government Code). The CEA will notify Contractor promptly after receiving a request for disclosure of any documents or materials Contractor has designated as proprietary and confidential in the

CEA's possession. CEA will reasonably cooperate with Contractor, within the statutory framework and limitations on CEA's duties under the applicable law, and at Contractor's sole cost and expense, in Contractor's efforts to protect its trade secrets and confidential information.

12 Conflicts of Interest

12.1 **Contractor's Warranty.** By its signature on this Agreement, Contractor warrants to CEA that no claimed, apparent, or actual conflict of interest exists on its part, or on the part of any principal, employee, contractor, or subcontractor, that would influence its:

- A. advice and recommendations to the CEA;
- B. statements made about the CEA to any person or entity;
- C. activities performed on behalf of the CEA; or
- D. decisions taken or enacted on behalf of the CEA.

12.2 **Contractor's Affirmative Duties to Disclose and Address Conflicts of Interest.** The parties mutually intend and agree that the duty to disclose a claimed, apparent, or actual conflict, is Contractor's sole, affirmative duty. Contractor's failure to identify and disclose such a conflict of interest is a material breach of this Agreement and a default justifying Agreement termination, as the term "default" is used in Subsection (Termination for Contractor's Default). The CEA has sole authority and discretion to determine at any time the import and significance of Contractor's failure to identify and disclose any conflict of interest. Contractor must abide in good faith by any protocols developed by CEA before or during the term of this Agreement to identify, disclose, and address potential, apparent, and actual conflicts of interest. Contractor promises to provide the CEA with any requested information, documentation, and assurances, in writing if so requested, concerning any claimed, apparent, or actual conflict of interest.

12.3 **Fair Political Practices Laws.** Contractor must not directly or indirectly receive any personal benefit from information obtained from the CEA, or received or provided on behalf of CEA. Contractor must disclose to CEA any personal investment or economic interest that may be enhanced or made more valuable by any recommendation made to or activity undertaken on behalf of the CEA. Contractor acknowledges that the CEA is subject to the provisions of the Fair Political Practices laws of California (Government Code Section 81000, et seq., and the regulations adopted under that law), and Contractor must comply with the requirements of that law and those regulations. If requested by CEA, designated Contractor personnel will file with CEA a Statement of Economic Interests in compliance with CEA's Conflict of Interest Code (California Code of Regulations, Title 5, Part III, Chapter 1, Section 22000, et seq.).

12.4 Neither Contractor, nor any of its subsidiaries, officers, or directors, may submit a bid or be awarded a contract to provide services to CEA, procure goods or supplies for CEA, or perform any related action that is an outgrowth of the investment services or advice Contractor provides CEA under this Agreement.

13 Cumulative Remedies

The rights and remedies provided in this Agreement are cumulative and are not exclusive of any rights or remedies any party might otherwise have at law or in equity.

14 Drug-Free Workplace

Contractor will execute and return the certification in Attachment E with the signed Agreement. CEA may terminate the Agreement if the Contractor fails to comply with these drug-free workplace requirements.

15 Force Majeure

Neither party is liable for damages that result from delayed or defective performance when the delays arise from an event that is beyond the control and without the fault or negligence of the offending party. Force majeure events include, but are not restricted to, acts of a public enemy, acts of the State in its sovereign capacity, disabling strikes, epidemics, and quarantine restrictions.

Contractor is not excused for any delays or interruption in performance caused by events such as fires, floods, earthquakes, power failures, or freight embargoes; CEA relies on Contractor's statements and assurances in the Disaster Recovery Plan (Attachment F) and expects continuity of service during such events.

16 Indemnification

16.1 Contractor must indemnify, defend, and save harmless the CEA, the CEA Governing Board and Advisory Panel, and all CEA officers, agents, and employees, from and against any and all losses, costs, liabilities, damages or deficiencies, including interest, penalties and attorney fees, arising from any claims of:

- A. Contractor's breach of its promises, warranties, or other obligations; or
- B. Contractor's acts or omissions constituting bad faith, willful misfeasance, negligence, or reckless disregard of its duties under this Agreement.

16.2 For purposes of this section 20, and in reference to the provisions of section 5 (Assignment; Delegation), a subcontractor's or Contractor's consultant's act or omission to act, whether under Contractor's permitted or unpermitted delegation under this Agreement or unrelated to any delegation, is considered for all purposes the act or omission of Contractor.

17 Insurance

Contractor warrants that it maintains, or will obtain before commencing work under this Agreement, adequate liability and other necessary insurance, including such workers' compensation insurance as required by law, and promises to maintain that insurance at levels acceptable to the CEA at all times during the term of this Agreement. Contractor agrees to:

- A. maintain a liability insurance policy with limits of no less than \$1,000,000 per person / \$3,000,000 per occurrence, providing coverage for all of Contractor's activities;
- B. make CEA an additional named-insured in that policy, with right to notice of nonpayment of premium or cancellation of the policy;
- C. maintain adequate Errors and Omissions insurance, with limits of no less than \$1,000,000; and
- D. provide satisfactory evidence of insurance coverage to the CEA on request.

By its signature on this Agreement, Contractor acknowledges that CEA has no obligation to provide workers' compensation insurance or employee benefits of any nature for Contractor or Contractor's employees or subcontractors.

18 Key Personnel

- 18.1 Attachment D (“Key Personnel”) lists each person exercising a significant administrative, policy, or consulting role under this Agreement. Those personnel are referred to in this Agreement as “Key Personnel.”
- 18.2 Contractor may not substitute, replace, or reassign Key Personnel without CEA’s advance written approval. With CEA approval, the parties may document a change in the Key Personnel, and that writing will then become part of this Agreement. All Key Personnel are expressly subject to the provisions of Sections 7 (Changes in Control, Organization or Key Personnel) and 20 (Notices).
- 18.3 In its sole discretion, CEA can terminate this Agreement immediately, on written notice from CEA to Contractor, if Contractor changes any of its Key Personnel without the CEA’s agreement or if any one or more of the Key Personnel depart Contractor’s staff.

19 Notice of Proceedings

Contractor must promptly notify the CEA in writing of any investigation, examination, or other proceeding commenced by any regulatory agency and involving Contractor, its subcontractors, or any of its Key Personnel that is not conducted in the ordinary course of Contractor’s business.

20 Notices

Any notice required or permitted by this Agreement is deemed given:

- A. on the date of personal delivery;
- B. three days after the mailing date if deposited with the U. S. Postal Service; or
- C. on the date of receipt as shown by written (or, if the record is contained only on a computer storage device, stored) evidence of delivery when delivered by Express Mail or overnight delivery service.

No notice is effective if given only by facsimile machine (fax). Notices are to be directed to all the following representatives:

For CEA:

California Earthquake Authority 801 K Street, Suite 1000 Sacramento, California 95814 Attn: Chief Operations Officer	and	California Earthquake Authority 801 K Street, Suite 1000 Sacramento, California 95814 Attn: General Counsel
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For Contractor:

21 Publicity

Contractor must not release any publicity or announcement concerning this Agreement without the advance written approval of the CEA.

22 Record-keeping; Record Retention

Contractor will keep accurate and appropriate records to accomplish and document the services performed.

22.1 Contractor will use reasonable efforts to ensure that books and records of any permitted subcontractors are accurately maintained; all such books and records must be made available for inspection and copying by CEA or its representatives on reasonable prior notice and during normal business hours. Contractor must maintain its CEA-related records separate and distinct from the records pertaining to other clients.

22.2 All information, data, reports, and records associated with the CEA are the property of CEA and must be returned if requested at any time, and on termination or expiration of the Agreement. Contractor is permitted to keep copies of all such information, data, reports, and records Contractor requires, for three years after final payment on the Agreement.

23 Relationship of the Parties

23.1 This Agreement creates a relationship of independent contractor. CEA is interested only in the results to be achieved under this Agreement; the conduct of the work will lie solely with the Contractor. The work Contractor performs under this Agreement, however, must meet the general approval of the CEA and will be subject to the CEA's general right of inspection and supervision to secure its satisfactory completion.

23.2 Contractor's principals, employees, and contractors are not and will not be considered employees of CEA and are not entitled to any benefits provided by the CEA, or by the State of California, to its employees.

24 Reports

In addition to project deliverables, Contractor must provide other material that the CEA reasonably requests. Contractor will provide oral or written progress reports to:

- A. determine if Contractor is performing satisfactorily and timely;
- B. communicate interim findings; and
- C. facilitate discussion and resolution of issues.

25 Rights in Work

25.1 Neither Contractor, any subcontractor or other consulting staff employed by Contractor, has or will have any rights in any reports, data, documents, systems, or concepts (collectively, "Products") produced by Contractor for CEA. Only CEA has ownership of the Products that result from services provided under this Agreement. CEA reserves the right to give or otherwise release the Products.

25.2. Contractor reserves all rights to its intellectual property (IP) that predates the work performed for CEA, and to coincidental improvements to its IP made during the performance of the work under this Agreement, to the extent that such IP and coincidental improvements are exclusive of the Products.

25.3. CEA may grant Contractor the rights to publish results of its work in professional journals or as presentations at professional conferences, as specified with CEA's written approval for each publication proposed by Contractor.

CEA will not unreasonably withhold or delay approval or non-approval.

25.4 All Products are, and will be considered for all purposes, works-for-hire, including for purposes of interpretation under U.S. Copyright Law, 17 U.S.C. §101, et seq. To the extent that the Products are not construed as works-for-hire, Contractor will assign, and hereby does assign to the CEA, perpetually and without further consideration, all right, title, and interest to the Products. All right, title, and interest in the Products, and any copyright, patent, trade secret, or other proprietary right in the Products, are and shall be the sole property of the CEA.

25.5. Contractor grants to the CEA a perpetual, worldwide, royalty-free license or sublicense to use, copy, maintain, or modify, or to sublicense others to use, copy, maintain, or modify, intellectual property developed by Contractor before the date of the parties' initial agreement to develop the Products (before January 1, 2008) and used by Contractor in connection with the development and production of the Products.

25.6. Contractor will place in a "Source Code Escrow" the source code, object code, and documentation for all software used in connection with the development of the Products, and developed by Contractor for CEA after the date of the parties' initial agreement to develop the Products (after January 1, 2008). The source code, object code, and documentation for that software will be released to the CEA if the Contractor:

- A. is dissolved or adjudged bankrupt;
- B. is acquired by or merged with another business entity;
- C. is in material breach of this Agreement;
- D. is terminated for any reason; or
- E. has completed services for CEA.

26 Subcontractors

26.1 Contractor must perform the work contemplated under this Agreement with resources available within its own organization. Contractor must not subcontract any part of its work under this Agreement without the advance written permission of the CEA. The parties must agree in advance on any subcontractor.

26.2 Contractor must require in writing of any subcontractor that it be bound by all provisions of this Agreement.

27 Taxes

CEA is exempt from Federal excise taxes and will make no payment for or in connection with personal property taxes levied on Contractor or taxes levied on or in connection with Contractor's compensation.

28 Termination

This Agreement can be terminated as follows:

- 28.1 **Termination at the Option of the CEA.** This Agreement may be terminated in whole or in part, for any reason including the convenience of the CEA, and at any time with 30 days written notice by CEA. Despite any termination, and at its sole option, CEA can maintain this Agreement in effect for those transactions pending on the effective date of termination until those transactions are completed. Additionally, Contractor must take all steps specified by CEA to dispose of or otherwise administer any investments entered into under this Agreement. Upon its receipt of a termination notice from CEA, Contractor must promptly discontinue all services affected unless the notice specifies otherwise. If CEA terminates all or any part of this Agreement, CEA will pay Contractor for satisfactory services rendered before the termination, but not more than the maximum amount payable under applicable compensation provisions of this Agreement.
- 28.2 **Termination for Contractor's Default.** In addition to any other termination right, CEA is entitled, with two days written notice to Contractor and without any prejudice to its other remedies, to terminate this Agreement because of Contractor's failure to fulfill any of its Agreement obligations – any such failure is termed Contractor's Default. Upon its receipt of any notice from CEA terminating this Agreement for Contractor's Default, Contractor must immediately discontinue all services affected, unless the notice directs otherwise. Following a two-day notice of termination, CEA will pay Contractor only the reasonable value of its services rendered. In CEA's sole discretion and on any terms it chooses, CEA may offer Contractor an opportunity to address any default or cure any breach.
- 28.3 **Termination for Insolvency.** Contractor must notify CEA in writing immediately if Contractor or any principal of Contractor:
- A. files or is placed under federal bankruptcy laws,
 - B. files or becomes the subject of a state receivership action,
 - C. is adjudged bankrupt,
 - D. has a receiver appointed who qualifies,
 - E. makes an assignment for the benefit of creditors, or
 - F. is the subject of criminal investigation, indictment, or conviction.
- If any of the foregoing events occurs, or if CEA receives notice of any of the foregoing events, or if CEA reasonably determines there is a substantial probability that Contractor will be unable (financially or otherwise) to continue its performance, CEA is entitled to terminate this Agreement and all further rights and obligations immediately upon two days written notice.
- 28.4 **Convenience.** If CEA gives Contractor a notice of termination for failure to fulfill Agreement obligations and it is later determined that Contractor had not so failed, the termination will be considered to have been for the convenience of the CEA.
- 28.5 **Completion.** If CEA terminates this Agreement for Contractor's Default, CEA reserves the right to take over and complete Contractor's work by any means. Contractor will pay the CEA for any additional costs CEA incurs to complete the work, to the extent that those additional costs were incurred due to Contractor's Default.

29 Termination, Effect of

- 29.1 All duties and obligations of CEA and Contractor will cease on termination of this Agreement, except:

- A. Each party will remain liable for any rights, obligations, or liabilities that arose or may arise from its activities under this Agreement before it effectively terminated; and
- B. Those clauses named in Subsection 33.7 (Survival).

29.2 Within 15 days after the effective termination date, Contractor will deliver to the CEA all CEA records and deliverables, whether prepared by Contractor or received by Contractor from a third party. The records and Products include, but are not limited to:

- A. due diligence reports;
- B. reports and data prepared by Contractor, subcontractor or consultants;
- C. financial statements, investment performance data, and related reports and data systems prepared in connection with investment monitoring services;
- D. products, modified software, manuals, custom scripts, code, and processes.

Together, Contractor and CEA will determine an effective method and form to transfer the records and Products, and Contractor will deliver all records and property in usable form. Contractor will cooperate fully to ensure an orderly termination process and orderly transfer of services.

29.3 Upon expiration or termination of this Agreement, Contractor will provide all reasonable assistance to transition CEA's records, accounts, funds, required services to CEAs subsequent service provider, without additional costs to CEA.

29 Time Is of the Essence

Time is of the essence for delivery of services under this Agreement.

30 Waivers

A party's delay in exercising any right or privilege is not a waiver of any Agreement provision. Neither party's waiver, or single or partial exercise of any right or privilege will preclude any other or further exercise of any other right or privilege under this Agreement.

31 Warranties

The Contractor warrants its compliance with the following requirements:

32.1 Employees

- A. Americans with Disabilities Act. Contractor warrants that it complies with the Americans with Disabilities Act of 1990 (42 U.S.C. 12101, et seq. – the "ADA") and all regulations and guidelines issued under the ADA.
- B. Fair Employment and Housing Act. Contractor and subcontractors will comply with the provisions of the Fair Employment and Housing Act (Government Code section 12900 et seq.) and the related regulations (California Code of Regulations, Title 2, Section 7285.0 et seq.). The regulations of the Fair Employment and Housing Commission that implement Government Code section 12990, subdivisions (a) through (f) (Chapter 5 of Division 4 of Title 2 of the California Code of Regulations) are by this reference made a part of this Agreement.
- C. Nondiscrimination. During the performance of this Agreement, Contractor and its subcontractors, and their agents and employees, will not unlawfully discriminate

against, harass or allow harassment of any employee or applicant for employment because of sex, race, color, ancestry, religious creed, national origin, physical disability (including HIV and AIDS), mental disability, medical condition (including health impairments related to a diagnosis of cancer for which a person has been rehabilitated or cured), age (40 or over), marital status, denial of family and medical care leave, or denial of pregnancy disability leave. Contractors and subcontractors, and their agents and employees, must ensure that the evaluation and treatment of their employees and applicants for employment are free from those types of discrimination and harassment.

Contractor must include the nondiscrimination and compliance provisions of this clause in all permitted subcontracts to perform work under this Agreement.

32.2 Labor

- A. **Collective Bargaining.** Contractor and its subcontractors must give written notice of their obligations under this clause to all labor organizations with which they have a collective bargaining or other agreement, if any.
- B. **National Labor Relations Board Certification.** Contractor affirms, under penalty of perjury, that no more than one final, finding of contempt of a Federal Court has been issued against Contractor within the immediately preceding two-year period because of Contractor's failure to comply with a Federal court's order to comply with a National Labor Relations Board order.

32.4 Standard of Care. The personnel or subcontractors responsible for discharging Contractor's duties under this Agreement are experienced in the performance of the duties contemplated and will meet the appropriate standard of care;

32.5 Signature Authorization.

- A. The execution and performance of this Agreement will not:
 - 1. violate any provision of any charter document of the Contractor;
 - 2. violate any statute or any judgment, decree, order, regulation, or rule of any court or governmental authority applicable to Contractor; or
 - 3. violate, conflict with, constitute a default under, permit the termination of, or require the consent of any person under, any agreement to which Contractor may be bound, the occurrence of which would have a material adverse effect on the properties, business, prospects, earnings, assets, liabilities or financial or other condition of Contractor.
- B. The person signing the Agreement warrants that he or she is an agent of the Contractor and is duly authorized to enter into the Agreement on behalf of the Contractor.
- C. Contractor represents and warrants that it has the power and authority to enter this Agreement and carry out its obligations under this Agreement and it has duly authorized the execution of this Agreement, and no additional act of Contractor is necessary to authorize this Agreement. Contractor has completed, obtained, and performed all registrations, filings, approvals, authorizations, consents, and examinations any government or governmental authority may require for its acts contemplated by this Agreement.

32.6 Contractor warrants that it will promptly notify the CEA of any changes in Contractor's compliance with the warranties stated here, and agrees to restore the warranties, as the CEA in its discretion may require, if a lapse occurs. If the Contractor does not provide notice to the CEA to the contrary, the CEA has the absolute right to rely on the ongoing effectiveness of each warranty stated here.

33 Term of Agreement

33.1 This Agreement is effective on Month Date, 2011 and its term expires on Month Date, 2011, unless terminated sooner in accordance with the provisions of Sections 28 (Termination). The CEA may extend this Agreement for the second and third years, without any increase in the fees. The CEA may extend this Agreement for the fourth and fifth years, with the increase in fees provided in Attachment B (Schedule and Fees

33.2 Despite the completion or termination of services, other contractual obligations, including audit, confidentiality, indemnification, record-retention, rights in work, and warranties will continue.

34 Entire Agreement

34.1 This Agreement (A) states all representations of and the entire understanding between the parties with respect to the subject of this Agreement and (B) replaces any prior correspondence, memoranda, or agreements.

34.2 **Binding Effect.** This Agreement, and any instrument or further agreement executed pursuant to this Agreement, will bind the parties, their successors, assignees, and legal representatives.

34.3 **Counterparts.** This Agreement may be executed in counterparts. Each counterpart is an original; all counterparts together are one instrument.

34.4 **Incorporated Documents.** This Agreement consists of the terms of this Agreement and all attached documents that are expressly incorporated. The following schedules and attachments are attached and incorporated into this Agreement:

Attachment A: Scope of Work

Attachment B: Schedule and Fees

Attachment C: Service Expectations

Attachment D: Key Personnel

Attachment E: Drug-Free Workplace Certification

34.5 **Order of Precedence.** For any inconsistencies or ambiguities in the terms of this Agreement and incorporated documents, the following order of precedence will be used:

(i) applicable laws;

(ii) the terms and conditions of this Agreement, including attachments;

(iii) any other provisions, terms, or materials incorporated into this Agreement.

34.6 **Severability.** Should any court hold any provision of this Agreement to be void or unenforceable, the remaining provisions will remain in effect if they are still capable of performance.

34.7 **Survival.** Certain contractual obligations will survive completion of the work or termination of services. These include, but are not limited to: prevailing party's attorney

fees and costs, audit compliance, confidentiality requirements, fiduciary obligations, indemnification, publicity limitation, record retention, rights to work, and warranties.

34.8 **Titles / Section Headings.** Titles and section headings are not part of this Agreement.

California Earthquake Authority

Travel Reimbursement for Contractors¹

1. Policy

The CEA will reimburse for the Contractor's necessary actual expenses incurred by when traveling on official CEA business, if contractually agreed. Contractor's travel must be pre-approved by the CEA department manager.

2. Required Information

All reimbursement requests must be typed, properly itemized, and accompanied by the required receipts. Reimbursement requests must be approved by the appropriate CEA contract manager.

Reimbursement requests must provide the required information:

- CEA department manager's prior approval
- Purpose of business trip
- Claimant's name and address
- All appropriate expenses (airfare, hotel)
- Dates and times when expenses occurred
- Location where expenses occurred
- Signatures of claimant
- Any additional justification required

3. Receipts

Receipts are required for: (a) lodging; and (b) airfare – with travel agency or reservation receipt *and* passenger receipt)

Original receipts must be provided. Receipts must be pre-printed with the name of the business. Lodging receipts must show transaction dates and payment made. Airfare receipts must include agreements, invoices, passenger receipts, and ticket stubs.

4. 50-Mile Rule

No expenses (lodging or airfare) is allowed at any location within 50 miles of the claimant's business address, or within 50 miles of a claimant's primary residence.

All reimbursement requests must document the claimant's starting point of travel - either the business address or primary residence address.

¹ Contractor travel policies are subject to revision.

5. Lodging Reimbursement

Subject to CEA policies for non-employees, the cost of lodging may be claimed if travel is pre-approved.

6. Airfare Reimbursement

The CEA will reimburse for the *least expensive* mode of transportation available. Determination of the least expensive mode of transportation will include consideration of air, rail, and bus travel as well as the

Drug-Free Workplace Certification

The proposer named above hereby certifies that, if awarded a contract, it will comply with Government Code Section 8355 in matters relating to providing a drug-free workplace. The above named proposer will:

1. Publish a statement notifying employees that unlawful manufacture, distribution, dispensation, possession, or use of a controlled substance is prohibited and specifying actions to be taken against employees for violations, by Government Code Section 8355(a).
2. Establish a Drug-Free Awareness Program as required by Government Code Section 8355(b).
 - a) The dangers of drug abuse in the workplace,
 - b) The person’s or organization’s policy of maintaining a drug-free workplace,
 - c) Any available counseling, rehabilitation and employees assistance programs, and
 - d) Penalties that may be imposed upon employees for drug abuse violations.
3. Provide as required by Government code Section 8355(c) that every employee who works on the proposed contract:
 - a) Will receive a copy of the company’s drug-free statement, and
 - b) Will agree to abide by the terms of the company’s statement as a condition of employment on the contract or grant.

CERTIFICATION

I, the official named below, hereby swear that I am duly authorized legally to bind the proposer to the above described certification. I am fully aware that this certification, executed on the date and in the county below, is made under penalty of perjury under the laws of the State of California.

Proposer’s Authorized Signature

Title

Date Executed

In the County of

Federal Identification Number

The proposer must provide at least three references the CEA may contact that have been clients of the proposer within the past three years, including the name, address, and telephone number of the client, the name and title of the contact person, and a general description of the services provided to each client.

Name of Firm: _____

Address: _____

Contact Person: _____

Phone: () _____

Brief Description of Project:

Date and Dollar Value of Project _____

Name of Firm: _____

Address: _____

Contact Person: _____

Phone: () _____

Brief Description of Project:

Date and Dollar Value of Project: _____

Name of Firm: _____

Address: _____

Contact Person: _____

Phone: () _____

Brief Description of Project

Date and Dollar Value of Project: _____

Governing Board Memorandum

June 30, 2011

Agenda Item 9: Transformer-reinsurance program, financed through capital markets

Recommended Actions: Approve resolution to authorize a transformer-reinsurance transaction.

Background:

At the February 24, 2011, CEA Governing Board meeting, staff described a project it has been working on for more than a year to explore additional sources of risk transfer to diversify CEA's risk-transfer capacity—a transformer-reinsurance catastrophe bond transaction.

The Board approved staff's continuing to negotiate terms and conditions for the transaction, and it instructed staff to bring the transaction to the Board for final consideration upon completion of those negotiations.

Staff explained to the Board that the proposed transaction would achieve three critical goals:

- 1. A multi-year, collateralized reinsurance contract**
 - ✓ The proposed transformer-reinsurance contract is a vehicle for the CEA to access a multi-year, collateralized reinsurance contract.
- 2. Collateralized risk-transfer capacity, as part of a mechanism of indirect access (by CEA) to the broader capital markets**
 - ✓ The proposed transformer-reinsurance contract has terms similar to those of CEA's existing reinsurance contracts but with modifications necessary for its multi-year and collateralized nature. The capital-markets sourcing of capital allows this favorable multi-year arrangement, and 100%-of-limit collateralization adds a strong security feature.
- 3. Diversified risk-transfer sources, in addition to traditional reinsurance markets**
 - ✓ The reinsurer will fund the reinsurance limit (projected \$150 million) through a capital-markets transaction, i.e., the issuance of a catastrophe bond. This method should enable CEA to purchase risk-transfer at prices lower than those presently found in traditional reinsurance markets.

Analysis:

1. Details of proposed reinsurance contract.
 - a. A collateral account control agreement between the CEA and the Special Purpose Reinsurance Vehicle (SPRV) will provide financial security for the reinsurance contract.

- i. The proposed collateral arrangement is similar to CEA’s long-standing practice, that when a reinsurer does not meet the letter of the CEA’s “Guidelines for Sources of Claim-Paying Capacity” but still wishes to participate in CEA’s reinsurance program (and CEA is willing to accept that participation), that reinsurer must provide collateral, locked in place through a collateral agreement.
 - ii. The CEA will require the SPRV to put up collateral (*in an amount equal to 100% of the reinsurance limit*) in a trust account in a New York bank and execute a CEA-provided form of collateral account control agreement—this must be accomplished before the reinsurance contract is signed, to assure that collateral is in place that fully supports the contract.
- b. The three-year reinsurance contract covers losses on an annual aggregate basis (as do all of the CEA’s (one-year) reinsurance contracts) and has a “reset” provision for deductible and premium for the 2nd and 3rd years.
- i. At each contract anniversary, the reset provision will allow the parties to redetermine both the dollar-value attachment point and the dollar-value exhaustion point, which together with the remaining available reinsurance limit (note that the limit can only be reduced by loss payments to CEA under the contract) will be used to determine the following year’s reinsurance premium.
 - ii. The reinsurance contract attachment point “drops down” in CEA’s financial structure when (1) the CEA has losses in a one-year period but (2) the one-year total loss is not sufficient to trigger a 100% loss to the reinsurance contract.
 - a) At the next anniversary of the reinsurance contract, the attachment point of the next year of the reinsurance contract is adjusted for any prior-year CEA losses.
 - b) Reinsurers expect more premium if the risk of paying losses is higher—if there is a drop-down, the risk of paying losses in the drop-down year is higher than before the drop-down occurred, and therefore an adjustment would serve to increase premium payable by CEA.
- c. A schedule will show the range of the potential drop-down and the associated increase in premium to the reinsurer; the annual reinsurance premium will still be less than what CEA would expect to pay for a traditional reinsurance contract at the same risk level.
- d. If CEA losses are below an established loss threshold, the reset provision will operate to place the probability of attachment for subsequent contract periods at the same level as for the initial contract period—i.e., the reinsurance premium would not change.
- e. The attachment point for subsequent contract periods can also move up or down, depending on changes in the CEA’s policy-count and policy exposure, and new earthquake modeling.
- f. A modeling firm using the CEA’s most current portfolio and its latest commercially available model will calculate the probability of attachment.

Attachment A – Transformer-Reinsurance Structure

2. Primary financial risks of proposed transformer-reinsurance transaction

Staff presented and discussed these forms of risk at the February 24, 2011, Governing Board meeting:

- a. Basis risk
- b. Liquidity risk
- c. Counterparty risk
- d. Execution risk

3. Benefits of proposed transformer-reinsurance transaction

- a. This capital-markets transaction would diversify CEA's risk-transfer capacity.
- b. It is a fully collateralized reinsurance transaction, offering 100%-of-limit, onshore security to back up the reinsurance contract.
- c. The unit-pricing (rate) of the transaction will be lower than for CEA's traditional reinsurance.
- d. This transaction offers a means of capital replenishment—and the ability to replenish capital after claim payments is key to CEA's survival as a going concern.
- e. Unlike the traditional reinsurance marketplace, which recently has offered CEA primarily single-year contracts, the proposed transaction has at its core a highly advantageous multi-year reinsurance agreement, offering as well an attachment point considerably lower than the CEA's traditional-reinsurance program.

Notes on Contract Terms and Conditions

4. Because the binding and effective dates of this contract would be the same, there is no risk of erosion through losses (that is, if those dates were sequential, there can be a risk of limit erosion after the binding date and until the effective date).
5. The CEA would be obligated to pay transformer-reinsurance premium based on the contract limit for the first full year of coverage, but CEA would pay premium to account only for the remaining reinsurance limit in years two and three. The contract allows premiums for years two and three to be adjusted to account for certain increases in risk of loss to the contract.
6. As in CEA traditional-reinsurance contracts, the transformer-reinsurance contract would not provide for mandatory reinstatement of coverage (or require the CEA to pay a corresponding reinstatement premium) after a loss. (NOTE: If a reinsurance contract has a reinstatement provision, when reinsurance coverage under a contract is reduced by loss from a covered event, the reinsurance provided is *automatically* reinstated to the original

limit—that reinstated limit then automatically entitles the reinsurer to an additional reinsurance premium. The reinstatement term usually begins at the date of the loss and runs only through the end of the original coverage period.)

7. The contract excludes from reinsurance coverage certain, higher levels of CEA policy growth:
 - If CEA’s policy count increases by 10% or less in a 12-month period, the contract simply covers any resulting additional exposure.
 - If, however, CEA’s policy count increases by more than 10% in a 12-month period, the increase above 10% would effectively reduce the reinsurance limit, and CEA would retain the portion above the 10% mark on a quota-share basis.

Conclusion

Capital-markets investors are attracted to single-peril California earthquake coverage—this transaction provides opportunity to grow that investor base over time and therefore grow this risk-transfer capacity.

All these steps represent diversification of capacity sources while representing cost-savings for the CEA and its policyholders across the state.

This transaction is an opportunity for the CEA to accomplish four key objectives:

1. Accessing the capital markets for a part of its risk-transfer needs, thus introducing needed diversity in its risk-transfer counterparties;
2. obtaining risk-transfer pricing lower than traditional-reinsurance pricing;
3. providing for repeatable reinsurance-contract funding in the future; and
4. securing a multi-year, fully collateralized reinsurance contract.

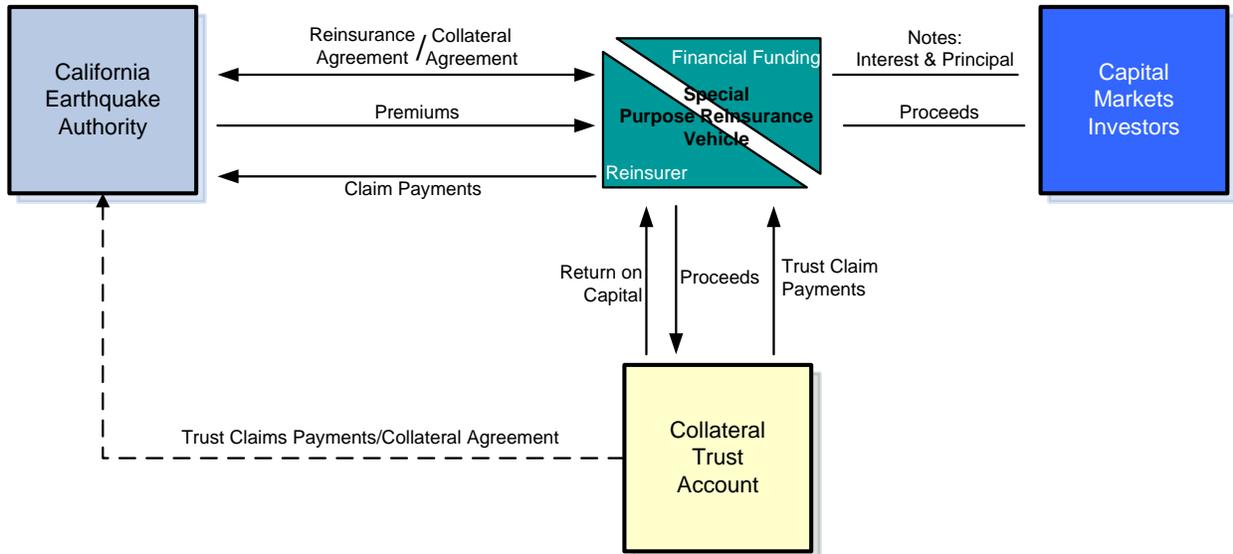
This transformer-reinsurance proposal is a direct result of the Board’s continuing direction to staff to work to put in place the highest-quality financial products, on the best terms, and at the lowest possible cost.

Recommendation:

Staff recommends that the Board:

1. Authorize Staff to finalize the contract on the terms and conditions described above, and elaborated on in the written resolution presented to the Board on this date; and
2. authorize CEO Glenn Pomeroy, acting under the guidance of the written resolution, to execute the resulting contract and related contract documents on behalf of the CEA.

Transformer Reinsurance Structure



Governing Board Memorandum

June 30, 2011

Agenda Item10: Update status of the CEA's Marketing Value Program (MVP)

Recommended Action: No action required – information only

Background:

The take-up rate for earthquake insurance among CEA participating insurance companies has remained static during recent years at about 12 percent. Before 2011 the CEA generally experienced enough new-policy sales following media reports about damaging earthquakes to offset any overall loss of business, but any such sales increases receded quickly after news coverage faded.

As a result, in 2011 CEA began a new approach to addressing the static earthquake-insurance take-up by focusing on four marketing challenges:

- **Price** – current premium perceived as high-cost.
- **Product** – standard policy offers high deductible, limited options.
- **Promotion** – consumers unaware of CEA.
- **Place (distribution)** – agents perceive limited relationship with CEA.

Price is being addressed in part through new federal legislation, which if enacted will help CEA reduce premiums and deductibles. And the **product** is being addressed through a rate-change application recently presented to the Department of Insurance, to further reduce the CEA's policy premiums and increase and enhance policy options. This memo updates what CEA is doing to **promote** new-policy sales through the **agent-distribution channel** to consumers.

In August 2010, the Board approved investing up to \$5 million (less than 1 percent of the CEA's 2011 premium revenue) to support a first-time, annualized, new-policy-sales Marketing Value Program (MVP), developed to:

- Use comprehensive marketing research.
- Establish the CEA's new brand (the *Strength to Rebuildsm*) with agents and consumers.
- Generate about 150 million (sales) impressions through three flights of paid media (a flight is a period when paid media and direct mail run concurrently). Costs are:
 - o \$1,750,000 for three flights of paid media;
 - o \$489,000 for two flights of direct mail to policyholders; and
 - o \$2,761,000 for three flights of direct mail to non-policyholders.
- Deliver new-policy-sales incentives for up to 5,000 participating-insurer agents in Flight 1, up to 5,000 CEA-trained agents in Flight 2, and in Flight 3, for up to 5,000 CEA-trained agents who sell three new CEA policies.
- Sell 15,000 new CEA policies.

- Retain more than 800,000 existing policies.
- Produce a return-on-investment for new policies sold that helps build CEA's capital.

In October 2010 the Board approved using funds (up to \$550,000) remaining from CEA's participation in the 2010 Great California ShakeOut for use in late 2010 and early 2011 to:

- Streamline editorial content for the *Putting Down Roots* publication – \$25,000.
- Update the CEA logo according to new brand – \$25,000.
- Produce a CEA-branded television ad – \$110,000.
- Purchase additional TV advertising – \$390,000 (\$130,000 for each flight in 2011).

Analysis:

The CEA recently finished a comprehensive marketing-research plan that was designed to produce all the valid information necessary for making future decisions with confidence. While many different research projects were designed to satisfy unique objectives, the CEA's research goal was to produce different results that could serve a common purpose.

The CEA's marketing-research program goal and objectives have been achieved through the following studies:

CEA Market Research:

Ogilvy Public Relations Worldwide contracted with Millward-Brown to simulate statewide CEA-policy purchase decisions according to local risks.

CEA Policyholder Research:

Ogilvy Public Relations Worldwide contracted with Smith & Company to identify reasons for record (14,038) net policy sales in March through April, 2010.

CEA Branding Research:

Ogilvy Public Relations Worldwide contracted with Smith & Company to identify a (marketing) story or promise about CEA's purpose.

Independent Social Science Research:

The U.S. Dept. of Homeland Security, California Emergency Management Agency, California Seismic Safety Commission, and California Volunteers contracted with Dr. Linda Bourque of UCLA and Dr. Dennis Mileti from the University of Colorado at Boulder, whose research has confirmed that:

- Most people don't perceive risk from high-consequence, low-probability events.
- Unique and inconsistent earthquake-preparedness messages have low market penetration.
- Most California residents get information about earthquake preparedness from TV and radio anchors or reporters.

Research results from Drs. Bourque and Mileti came with recommendations, including:

- Branding a standardized, research-based message.
- Coordinating the distribution of content.

CEA / CalEMA Message Research:

The CEA and CalEMA contracted with Harris Interactive to identify and understand the underlying earthquake-preparedness needs and motivations for California residents. The goal for this research was to develop a communications template, or map, depicting the decision-making thought process that would enable different earthquake preparedness stakeholders to identify a common message for effectively motivating residents to act.

Harris Interactive was selected to conduct this research because of its unique ability to separate the rational and emotional levels of respondents' thinking. Previous earthquake preparedness messaging, for example, had been based exclusively on "what to do," but not "why to do it." This research result will help elevate earthquake preparedness communications to the next level by identifying *why* California residents should protect their structures and develop an earthquake-emergency plan.

See **Attachment A** for the Earthquake Preparedness Message Map (front). Note how the message-research results were presented to large audiences in San Diego (5/13), Los Angeles (5/17), Inland Empire (5/18), San Francisco (5/19), and Sacramento (5/20); and see **Attachment B** (front and back) for the long- and short-term Earthquake Preparedness Message Boxes.

CEA MVP Strength to Rebuildsm Campaign:

The CEA's MVP will be implemented through three "flights":

- Flight 1 (June 13–26) for all agents appointed by CEA's participating insurers.
- Flight 2 (August 15–28) for all CEA-trained agents.
- Flight 3 (October 13–30) for CEA-trained agents who sold three new CEA policies.

All the CEA's campaign materials strategically integrate results from the aforementioned marketing, policyholder, branding, social-science, and message-research projects. Social-science research recommendations also were taken up through sharing the message-research results with stakeholders statewide and planning the execution of CEA's campaign through the news media.

The following attachments showcase key elements of the CEA campaign:

Attachment C – Reprint of MVP rollout story in March 7 issue of *Insurance Journal*

Attachment D – Direct mail (front) / Print ad (back)

Attachment E – TV ad (front) / TV and radio buys (back)

Attachment F – TV partnerships (front) / Radio partnerships (back)

Attachment G – Online radio sweepstakes (front) / Online TV news station microsites (back)

Attachment H – Newspaper online ads (front) / Ethnic newspaper buys and partnerships (back)

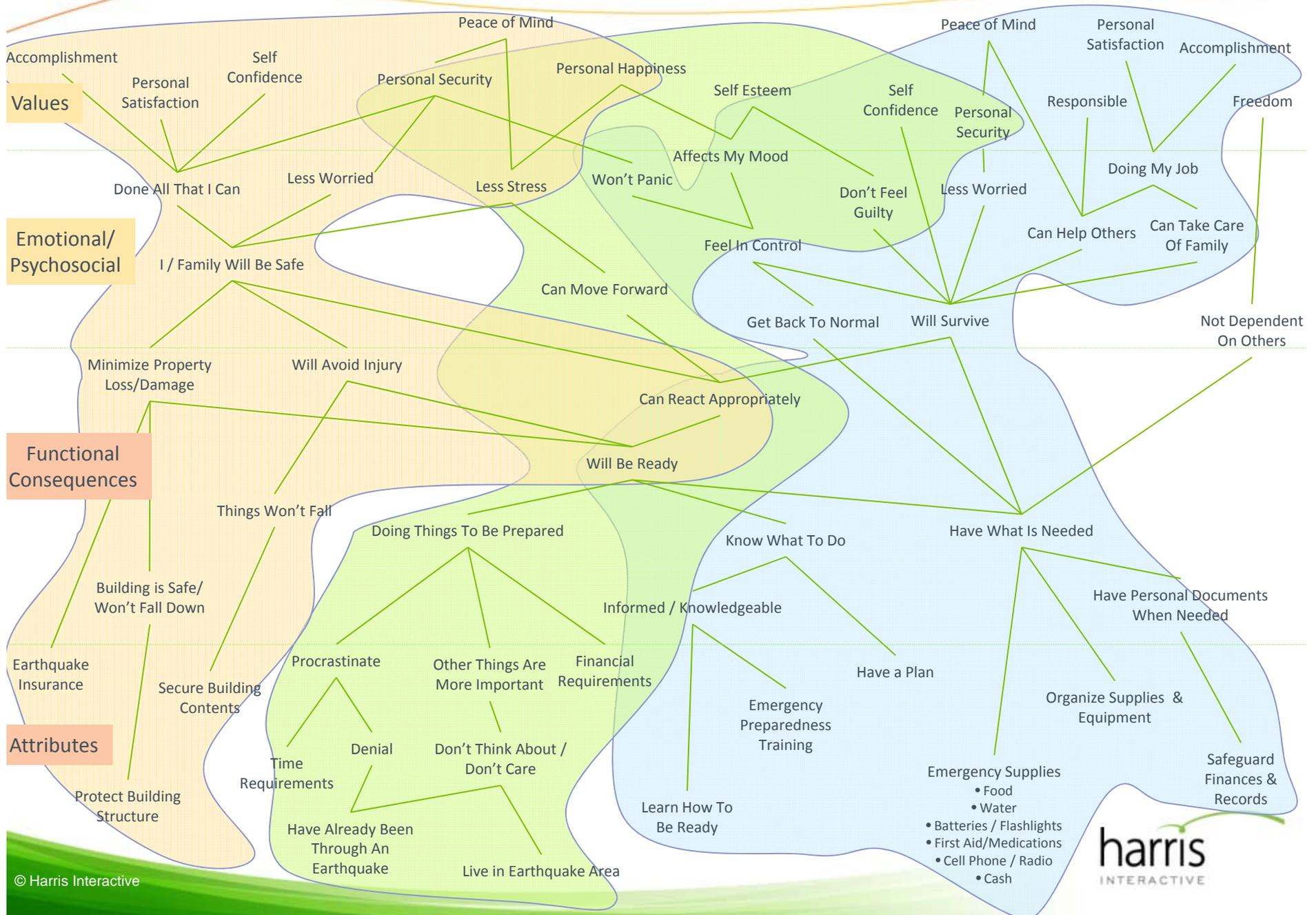
So far, the CEA's first annualized marketing program (MVP) is exceeding expectations. As of June 23, compared to similar programming in 2010:

- Agents trained up 186 percent.
- Agent MVP registration up 57 percent compared to CEA promotion for ShakeOut Drill.
- New MVP policies sold have already reached 36 percent of goal.

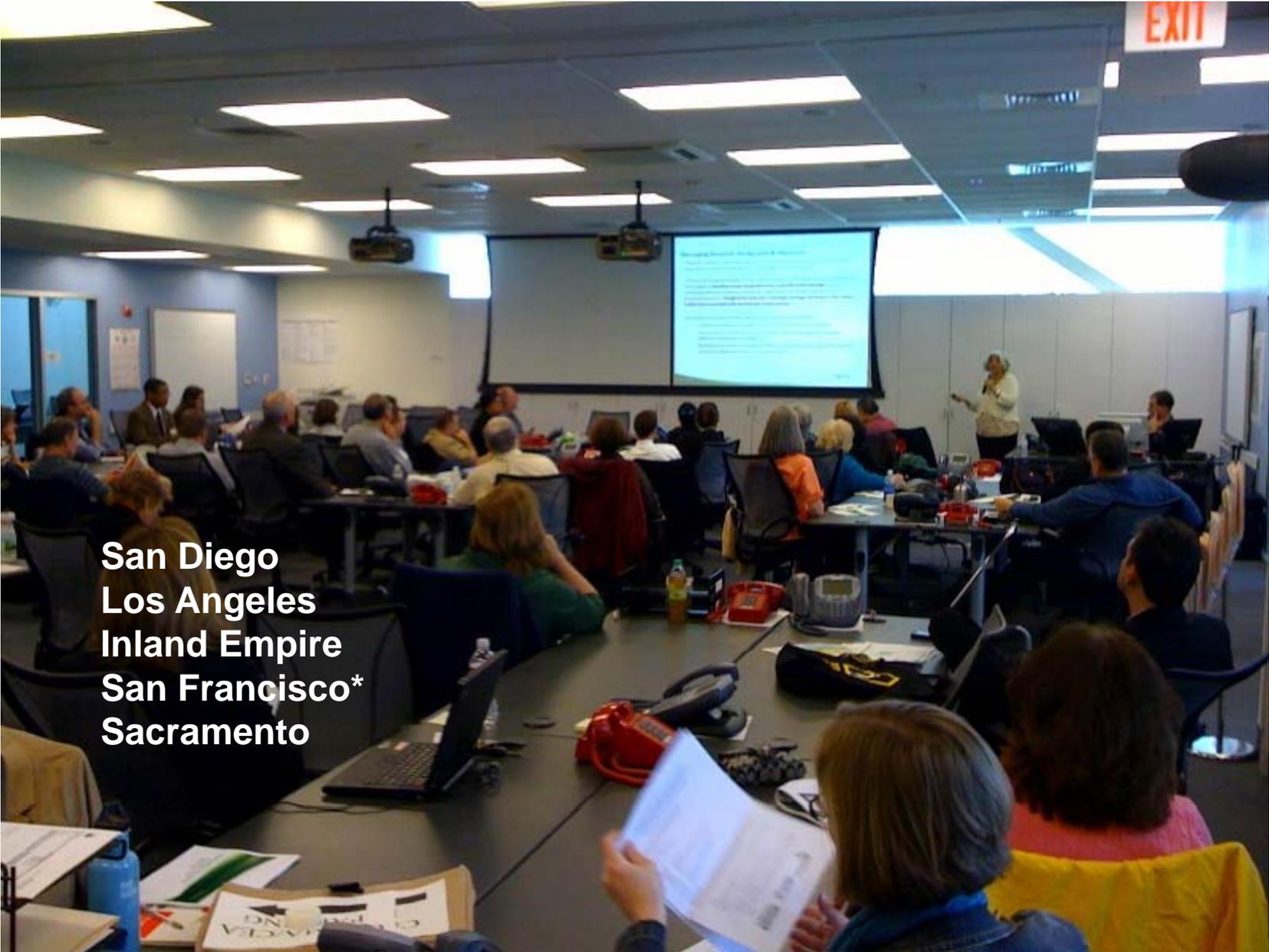
Recommendation:

No action required – information only.

Earthquake Preparedness Map

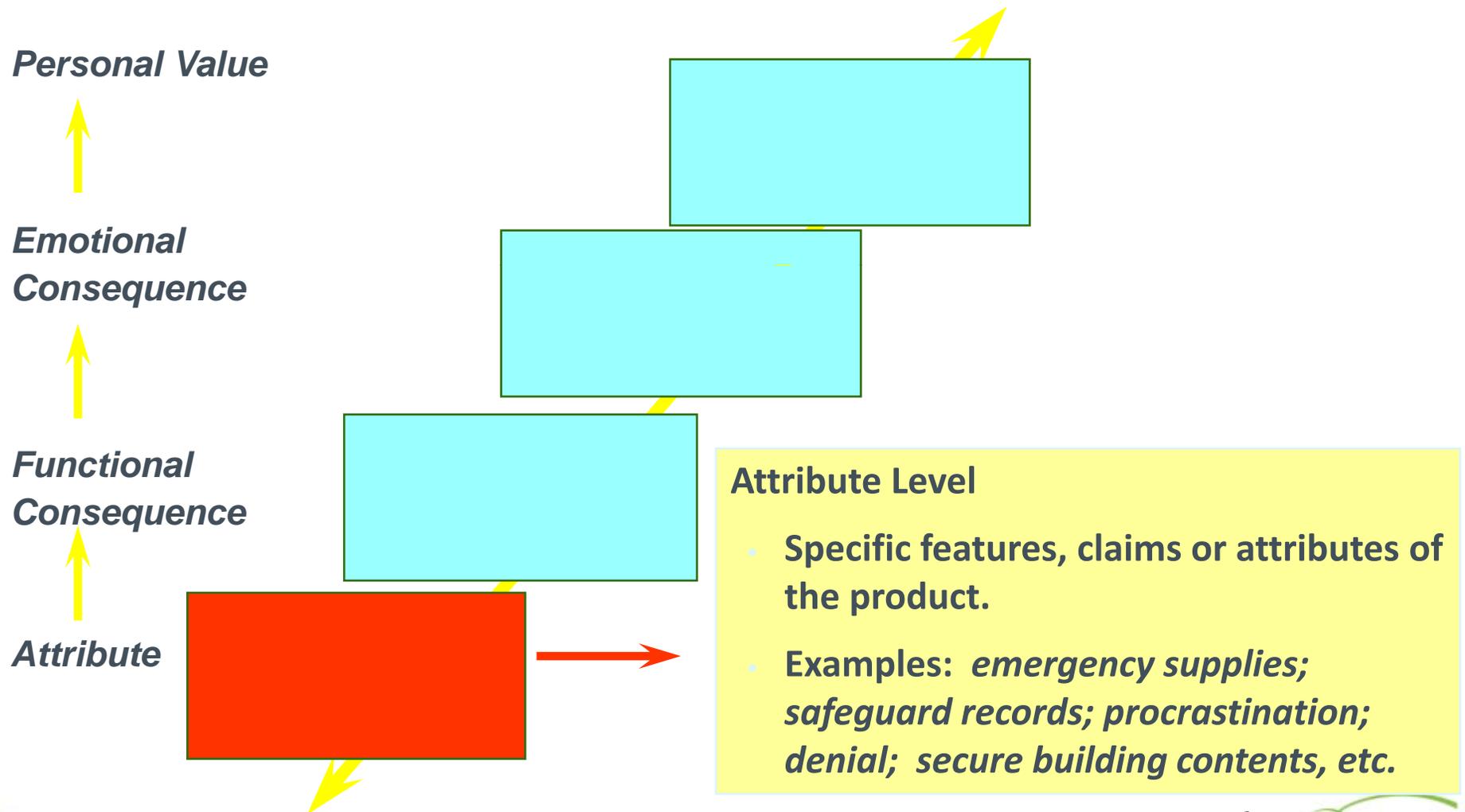


CEA / CalEMA Message Research Workshops



San Diego
Los Angeles
Inland Empire
San Francisco*
Sacramento

Communications Diagnosis Message Elements



Communications Diagnosis Message Elements

Personal Value



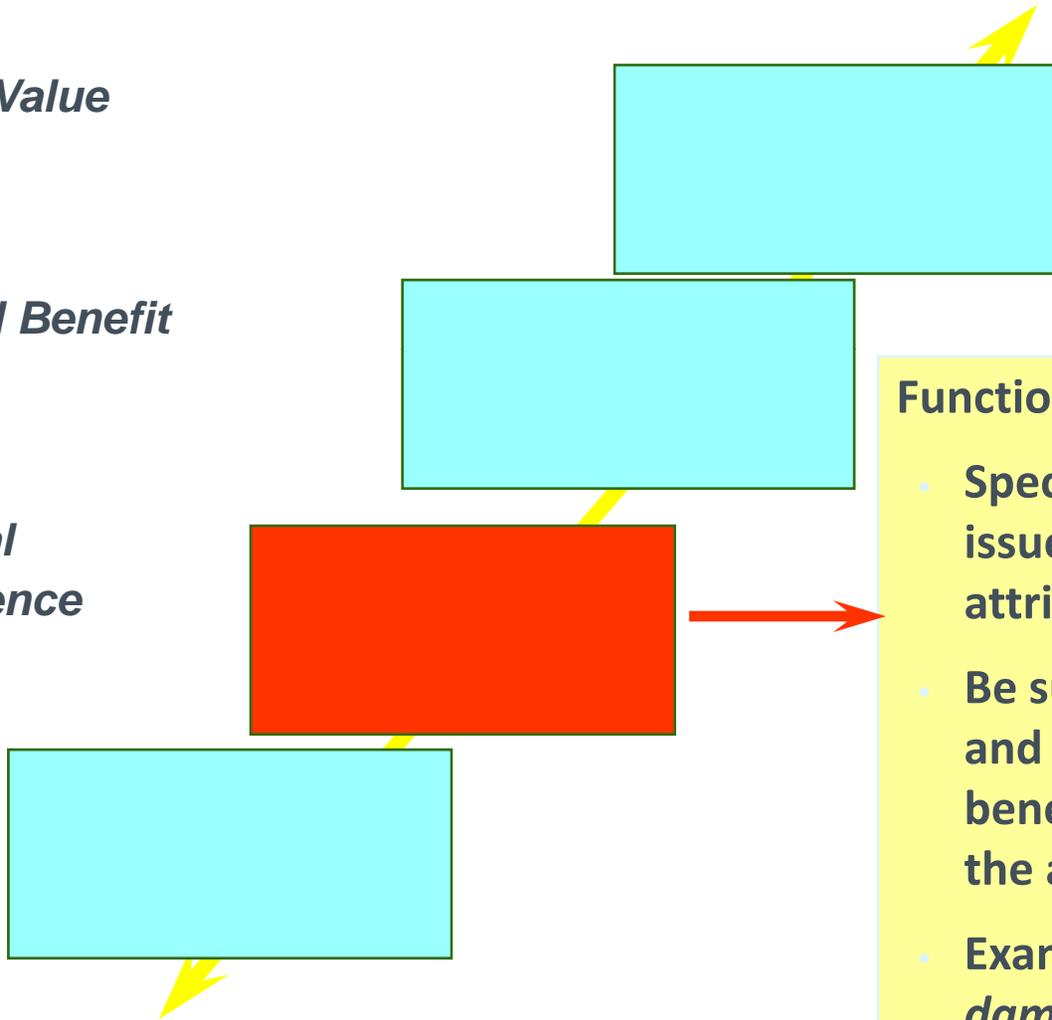
Emotional Benefit



Functional Consequence



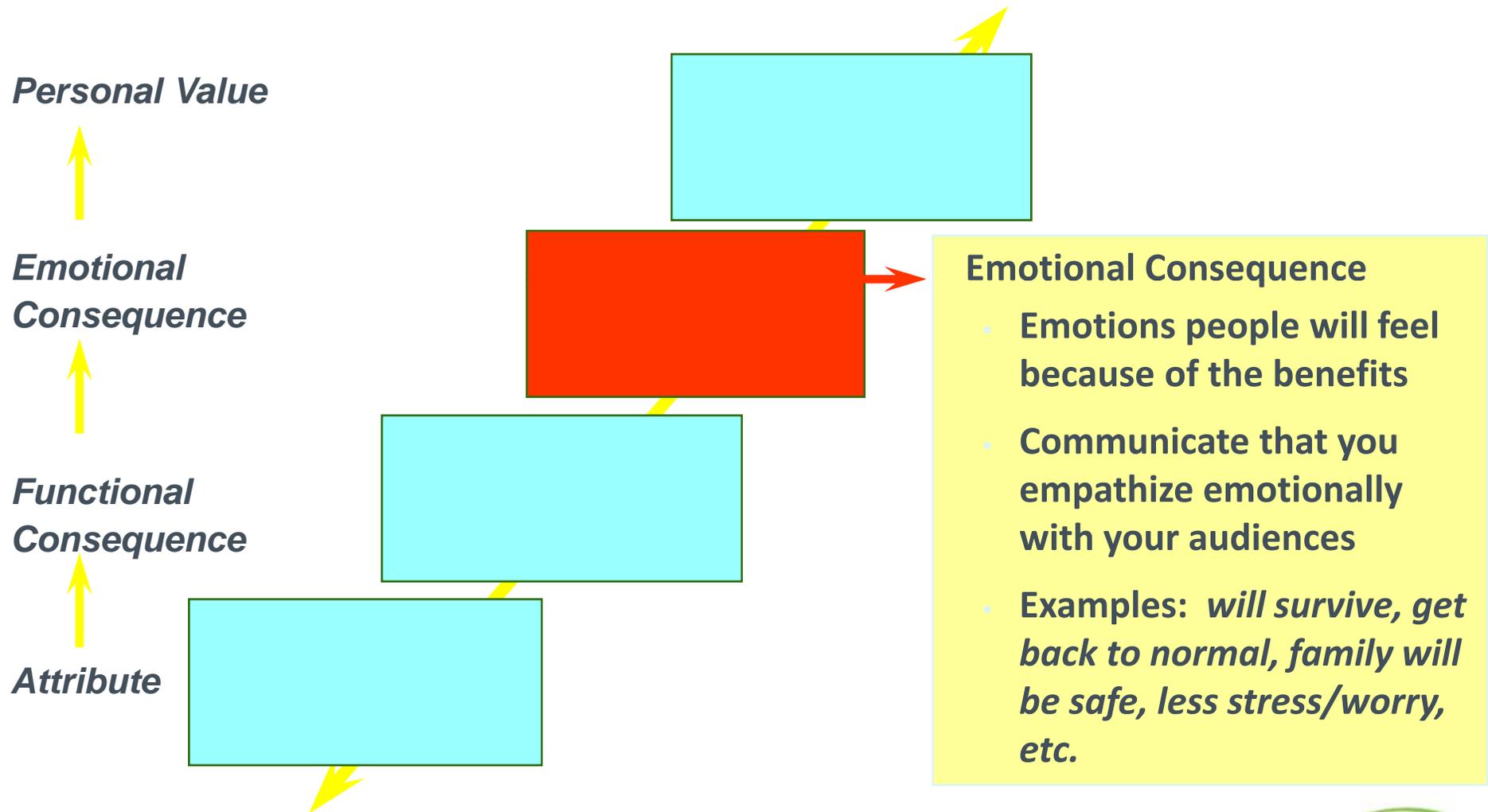
Attribute



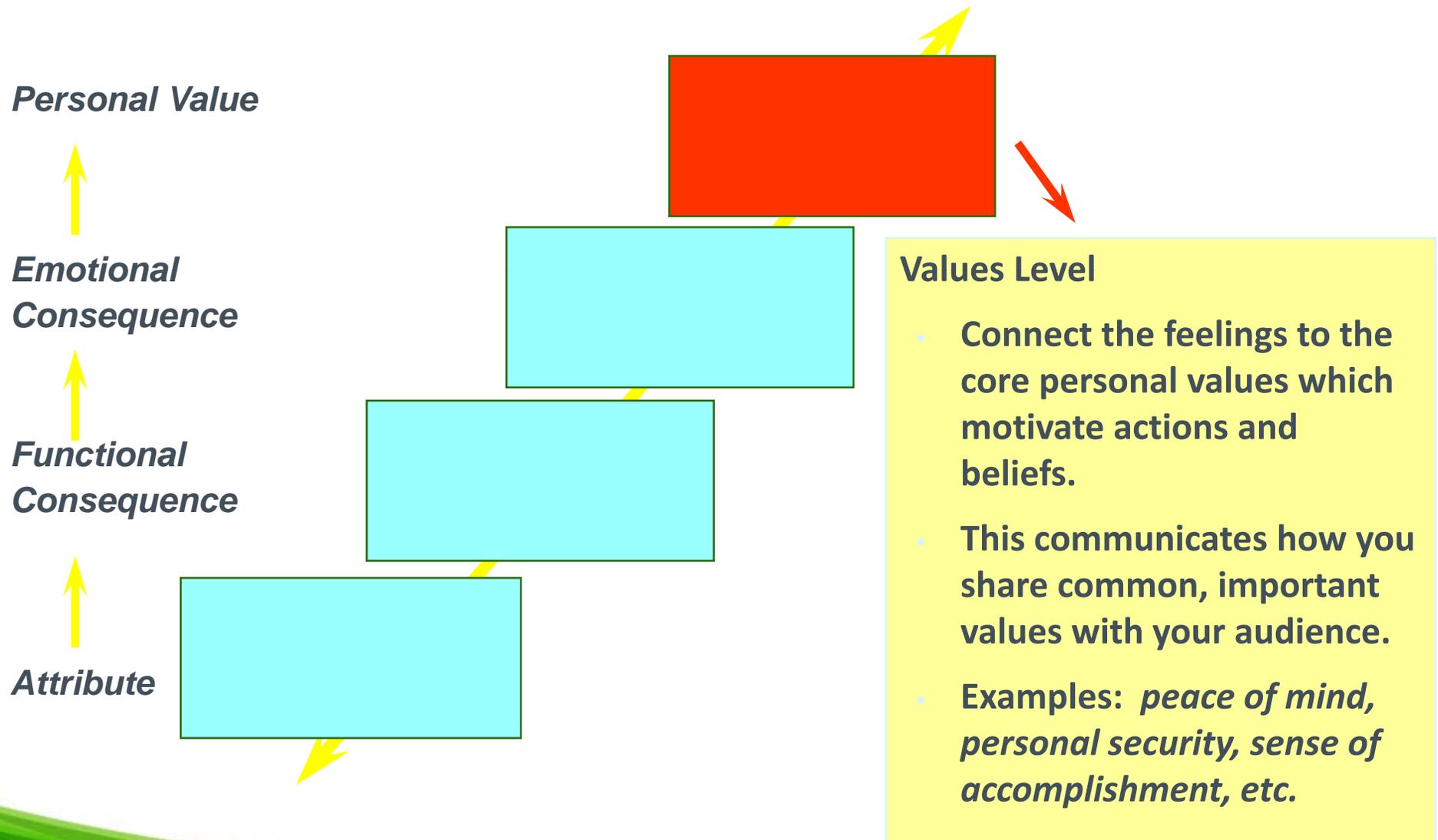
Functional Consequence Level

- Specific, tangible ways the issue, product, idea, or attribute benefits people.
- Be sure to explain exactly how and why it results in these benefits (i.e., is supported by the attributes).
- Examples: *minimize property damage, have what is needed; will be ready, etc.*

Communications Diagnosis Message Elements



Communications Diagnosis Message Elements



Reprint of MVP Rollout Story in March 7 Issue of *Insurance Journal*

WEST COVERAGE

News&Markets



California Earthquake Authority Targets \$5 Million to Help Agents Sell Earthquake Insurance

By Patricia-Anne Tom

New Zealand's 6.3 magnitude Christchurch earthquake is expected to be one of the costliest global insurance events since 2008, with total insured losses ranging between \$3 billion and \$12 billion.



Glenn Pomeroy

And it's not unthinkable to expect an earthquake of the same 6.3 magnitude to shake California — although most people in Christchurch have earthquake insurance while most Californians do not, according to Glenn Pomeroy, CEO of the California Earthquake Authority.

"I worry about the day a big event like that happens in California, where 90 percent of the homes have no earthquake insurance," he said. "People's life's savings in the form of their assets in their home — whether they are a homeowner, renter, mobile home owner, or condominium dweller — could be wiped out. Our hearts go out to friends and counterparts in New Zealand, and the event there renews our resolve to keep working at this here in this state to help get more people into a position where they can protect their most valuable assets."

As part of that resolve, the CEA has launched a new insurance agent marketing program with a goal to sell 15,000 new earthquake insurance policies by August 1. The 2011 insurance agent Marketing Value Program (MVP) is designed to enhance relationships between the CEA and its participating-insurer (PI) agents to help more Californians get "The Strength to Rebuild" their homes with earthquake insurance.

"It's a very comprehensive program that recognizes that our agents are where this all begins, in terms of being able to give the consumers the information they need to make an informed choice about whether to protect their home against an earthquake," Pomeroy said. "Agents in the private sector are our boots on the ground and have the interface with customers."

Pomeroy said the \$5 million marketing program should give the agents of the companies that participate with the CEA greater support in terms of providing the materials they need to more effectively communicate with and better service their customers about earthquake risk and the need for earthquake insurance.

The majority of Californians live within close proximity of one of the couple thousand known faults throughout the state, he said. Moreover, when an earthquake strikes, it comes without warning, and the

damage that it can cause can be severe.

"We think it is very important for people to, on an individual basis, spend some time reflecting on their own financial and family situation and reach their own decision about whether they wish to continue to go unprotected or not," Pomeroy said.

Thus, the marketing program that will take off on March 7 is divided into three tiers, or what the CEA is calling "flights," when each insurance agent can send to consumers 200 direct mail pieces about earthquake insurance. At the same time, the customer could see advertising in mainstream media that raises consumer awareness about earthquake risks; the CEA will be spending \$2 million on a media campaign to focus the customer's attention on the topic of earthquakes.

The agent direct mail pieces paired with the consumer targeted ad campaign is "a nice way of bringing these efforts together to create the maximum opportunity for [earthquake policy] sales to occur," Pomeroy said.

The first flight requires registration no later than May 1. It allows licensed agents who are appointed by CEA participating insurers to participate in the MVP and receive the postage-paid direct mail pieces that they then can send to their existing policyholders who do not have a CEA

WEST COVERAGE

News&Markets

policy. Agents can register for the MVP on the CEA's Web site, www.EarthquakeAuthority.com/MVP.

The second flight, which has a registration deadline of July 1, requires agents to complete the CEA's two-hour earthquake insurance training course before they can receive 200 additional direct mail pieces to send to their customers. Training can be completed via the CEA's Web site, or in person.

"To help a consumer make a decision about whether to purchase earthquake coverage or not, we feel that their trusted agent should be fully up to speed in terms of our policy and what it covers," Pomeroy said. While CEA

training is not required before selling a policy, currently about 3,000 PIs have completed CEA training. He suspects some of those agents might need a refresher on any policy changes since the last time they took the course, and he hopes that number will grow to 5,000 trained agents.

The third flight requires registration by September 1 and coincides with the Great California ShakesOur earthquake safety drill in October — agents are encouraged to mail cards out to correspond with the media campaign. To participate, agents must have sold three new CEA policies, effective March 1 through August 1, before they can receive an

additional 200 direct mail pieces.

"By the time (agents) make it to the final round, they'll have sold three policies during the course of the marketing push," Pomeroy said. "We're incentivizing training and rewarding production." If CEA reaches its goal of selling 15,000 new policies, that could generate \$1 million in CEA new-policy sales commissions for PI agents. Reaching that figure also would increase the CEA's capital strength with additional revenue.

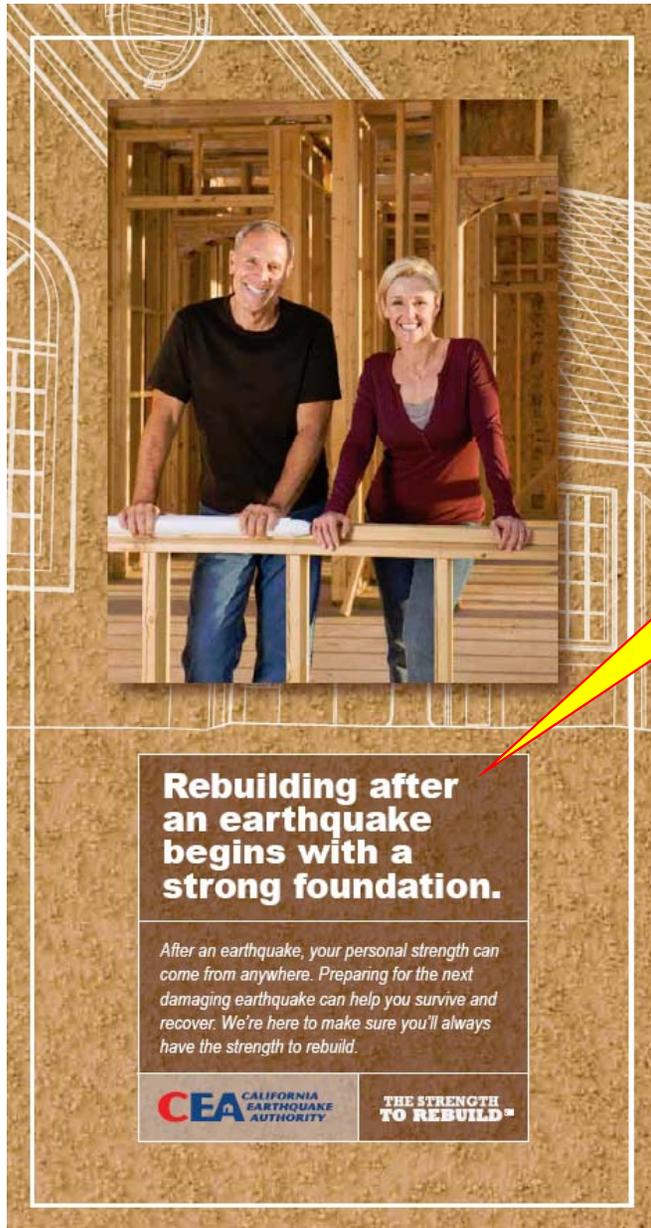
As an additional incentive to sell policies, the CEA will provide free earthquake preparedness starter kits to the first 15,000 new CEA policyholders through the MVP and reported on the CEA's Web site. The kits may include such items as a gas shut-off valve, furniture straps, putty to secure contents, etc. "At no cost to them, agents will be able to hand over to their consumers handy preparedness starter kits. It's a really nice way of linking up awareness with an opportunity for the consumer to begin protecting their home and for the agent to sell a policy, and of helping to cement the agent's relationship with the customer who is concerned about earthquake preparedness," Pomeroy said. He noted that agents' customer lists will remain their own; the CEA will provide agents with the postage paid materials. "All they'll need to do is slap the mailing or address label on the marketing piece, and drop it in the mail."

Ultimately, the CEA hopes that with insurance agents' help, consumers will really consider whether or not they're comfortable having no earthquake insurance protection. "Our goal to sell 15,000 new earthquake insurance policies is both ambitious and realistic," Pomeroy said. "In a state of 35 million people where the take-up rate of earthquake insurance is very low, selling 15,000 new policies isn't going to turn the world upside down, or go all the way in terms of fully preparing California for the 'big one.' But it'll be a terrific step in the right direction." ■



2011 Agent Marketing Value Program (MVP)	FLIGHT 1	FLIGHT 2	FLIGHT 3
CEA Training		✓	✓
3 NEW CEA policies* sold and reported to www.EarthquakeAuthority.com/MVP *Policies must reflect an effective date of 3/1/11 – 08/1/11.			✓
Mail free (\$50 retail value) preparedness starter kits. In name of PI agent for first 15,000 new CEA policies* reported to www.EarthquakeAuthority.com/MVP *Policies must reflect an effective date of 3/1/11 – 08/1/11.	✓	✓	✓
Deadlines to participate	May 1	July 1	Sept 1
Arrival of 200 postage-paid direct-mail pieces on or about this date.	June 1	Aug 1	October 3
Agents must send direct mail pieces to prospects by this date.	June 13	Aug 15	Oct 13
CEA advertising campaign duration	June 13-26	Aug 15-28	Oct 13-30





Rebuilding after an earthquake begins with a strong foundation.

After an earthquake, your personal strength can come from anywhere. Preparing for the next damaging earthquake can help you survive and recover. We're here to make sure you'll always have the strength to rebuild.



THE STRENGTH TO REBUILD™

CEA to Consumers:
Personal Values – Peace-of-mind
Emotional Benefits – Survive / rebuild your life, move forward, done everything possible to prepare
Functional Benefits – Financial resources to rebuild
Attributes – EQ insurance

Working with our network of leading insurance companies, we provide both claim-paying power and expert service. Together, we've created an unshakable foundation with the strength to match your resolve.

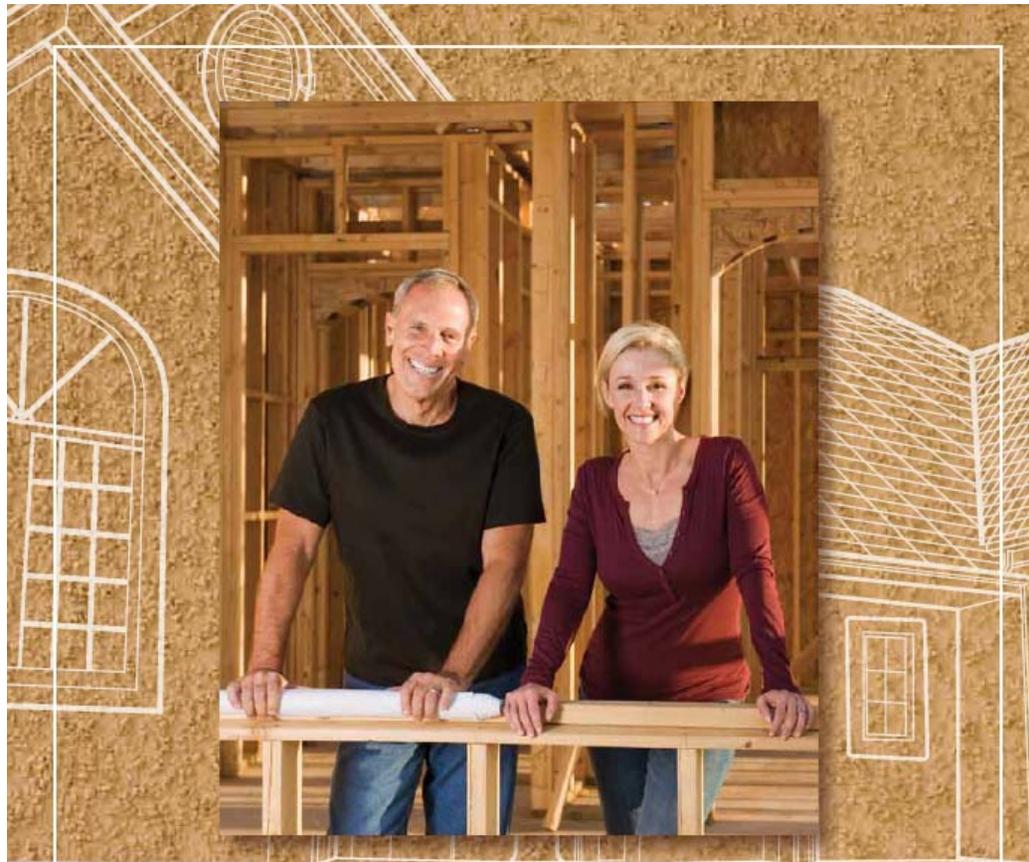
Contact your homeowners insurance agent to purchase a CEA earthquake policy.

For more information, visit www.EarthquakeAuthority.com

CEA CALIFORNIA EARTHQUAKE AUTHORITY
THE STRENGTH TO REBUILD™

Agent Name
Agent Address

CEA to Agents:
Custom fulfilled at no cost to MVP participants



Rebuilding after an earthquake begins with a strong foundation.

After an earthquake, your personal strength can come from anywhere. Preparing for the next damaging earthquake can help you and your family survive and recover. We'll provide the financial strength and resources to help you get your life back to normal. Working with our network of leading insurance companies, we provide both claim-paying power and expert service. Together, we're providing a foundation no earthquake can shake.

Contact your homeowners insurance agent to purchase a CEA earthquake policy.

For more information, visit www.EarthquakeAuthority.com

CEA CALIFORNIA EARTHQUAKE AUTHORITY

THE STRENGTH TO REBUILD™

TV Ad

Our policy with the CEA gave us the financial strength to rebuild! And working with our homeowners insurance agent we got back to normal.



TV and Radio Buys

TV Markets	Stations	Radio Market	Radio Stations
		Bakersfield	KERN, KNZR (KBFP-FM Spanish)
Eureka	KVIQ	Chico	KPAY, KFBK, KSTE
		Fresno	KMJ (KFSO-FM Spanish)
Sacramento	KOVR, KMAX, KTXL	Los Angeles	KFI, KLAC, KNX (KLVE-FM Spanish), KFWB, KMRB (Chinese)
San Francisco	KPIX, KBCW, KTVU	Merced	KJSN, KMJ
		Modesto	KFIV, KJSN, KSTE
Los Angeles	KCBS, KCAL, KTLA	Monterey-Salinas-Santa Cruz	KION, KCBS, KGO (KPRC-FM Spanish)
		Oxnard/Ventura	KFI, KLAC, (KLVE-FM Spanish)
San Diego	KSWB, KFMB	Palm Springs	KPSI, KFI
		Redding	KQMS, KFBK, KSTE
		Riverside-San Bernardino	KDIF, KTDD, KFI, KLAC, (KLVE-FM Spanish)
		Sacramento	KFBK, KSTE, KGO, KSFO
		San Diego	KGB, KOGO, KFI
		San Francisco	KGO, KISQ, KKSF, KNEW, KUFX, KSFO, KVTO (Chinese), KCBS
		San Jose	KGO, KKSF, KNEW, KUFX, KSFO
		San Luis Obispo	KVEC, KYNS, KMJ
		Santa Barbara	KTMS, KFI
		Santa Maria-Lompoc	KSMX, KSNI
		Santa Rosa	KGO, KNEW, KSRO, KSTE, KSFO
		Stockton	KJOY, KFBK, KFIV, KGO, KSTE, KSFO
		Victor Valley	KATJ, KNX, KFI (KLVE-FM Spanish)
		Visalia-Tulare-Hanford	KMJ (KFSO-FM Spanish)

TV Partnerships



Preparing to survive and recover from California's next damaging earthquake will help you and your family be safe. Preparing today also will help you and your family get back to normal sooner after the next big quake strikes.



Radio Partnerships



Clear Channel Promotional Team Truck



Online Radio Sweepstakes

California Earthquake Authority (CEA) - Windows Internet Explorer provided by Yahoo!

http://www.earthquakeauthority.com/CEAIndex.aspx

File Edit View Favorites Tools Help

California Earthquake Authority (CEA)

CEA CALIFORNIA EARTHQUAKE AUTHORITY

The Strength to Rebuild.™

How to file a claim | Contact Us | Employment Opportunities | Terms of Use

About the CEA | Insurance Policy Information | Premium Calculator | Agent & Adjuster Information Center | Are You Prepared? | Public Information Center

Do you have the strength to rebuild after the next damaging earthquake?

After a damaging earthquake, we'll look for the strength to recover anywhere we can – it may come to us in the form of a family photo or a treasured heirloom pulled from the rubble. We will rely on those close to us for personal strength in the face of an overwhelming disaster. And many Californians also will turn to the California Earthquake Authority (CEA) to get the financial strength they'll need to rebuild.

- The strength to hold you steady after an earthquake**
- Rebuilding begins with a strong foundation**
- Five reasons to buy CEA earthquake insurance**

Homeowners [LEARN MORE](#) | Condominium Owners [LEARN MORE](#)

Mobilehome Owners [LEARN MORE](#) | Renters [LEARN MORE](#)

Premium Calculator [LAUNCH](#)

Participating Insurance Companies [VIEW](#)

Take the Earthquake Preparedness Challenge for a chance to win \$10,000!

*Sweepstakes and Prize provided by Radio Partners.

AGENT SERVICES

Marketing Value Program (MVP)
Agents - click here for registration and info

Register for Training

Training Schedule Flyer

5/10/2011 Montebello register online

Online TV News Station Microsites

Attachment G

Ask your Homeowners Insurance Agent about earthquake insurance.

CEA CALIFORNIA EARTHQUAKE AUTHORITY
THE STRENGTH TO REBUILD™

KTVU.COM 811
San Jose 74° SFO Airport 63° Oakland 62°
StormTracker2
5-Day Forecast
Weather Webcast

Wednesday, June 22, 2011 11:03am

Home News Weather Traffic Sports Business Marketplace Entertainment Networking KTVU / TV36

KTVU.com » California Earthquake Authority

ShakeOut. Don't Freak Out.
October 20, 2011 Register Now at www.shakeout.org

Quake Insurance Digital Dashboard Latest News

CEA Earthquake Policy Calculator
Just click on the calculator to estimate what your CEA earthquake policy will cost you.

Earthquake Headlines

- Report: SoCal Quake Would Rattle Economy
- Strong Quake Jolts Anchorage
- Earthquake Rattles Northern Chile
- New Report Shows Early Chooz At Japan Nuke Plant
- Strong Earthquake Strikes Off Papua New Guinea
- Make A Donation To Help Quake Aid Tousand Victims
- Jan's Dispatches From Japan Special Section

Report: SoCal Quake Would Rattle Economy
A new study says a big Southern California earthquake would rattle the region's economy as well as its buildings. Full story »

Earthquake Survival Tips

Video

- QUAKE TIPS: How To Shut Off Your Gas Valve
- QUAKE TIPS: How To Build A Quake Survival Kit
- QUAKE TIPS: How To Find Relief After Quake

2. CEA Policy Premiums are based on individual homes

Secure It
When it comes to earthquake preparation you should secure anything 1) heavy enough to hurt you if it falls on you, or 2) fragile and/or expensive enough to be a significant loss if it falls. Here's a handy how-to guide. [Click On The Photo Full Story »](#)

Preparing Your Children
Do your children know what to do in an earthquake? Here's an easy-to-use guide on what to tell your children to get them ready for an earthquake and how to eliminate earthquake dangers to your children from your home. [Full Story »](#)

Surviving Day One
How well you survive the first 24-48 hours after a major earthquake? Here's a check list of what to do to get ready for those crucial hours. [Click On The Photo Full Story »](#)

Autos Homes Local Events More » Watch Video Listen Live

CBS Sacramento 813 CW31 80° Sacramento
Home News Sports Health Food of Watch - Listen Traffic Weather Get Answers Directory Deals

CEA CALIFORNIA EARTHQUAKE AUTHORITY
THE STRENGTH TO REBUILD™

Homeowners insurance does not cover earthquake damage...
Learn more about earthquake insurance.
EarthquakeAuthority.com

Earthquake Center

06/22/2011
1.9 Magnitude 10:50am
12 mi SW of Laguna Beach, CA

06/22/2011
1.9 Magnitude 10:20am
4 mi SW of Murietta, CA

06/22/2011
1.1 Magnitude 8:46am
5 mi ENC of Coso Junction, CA

Earthquake Preparedness

Structural Preparedness: Find out how to prepare your home against the damage of an earthquake. (PDF file)

Possession Preparedness: Find out how to prepare your home's contents and valuables against an earthquake. (PDF file)

Financial Preparedness: Read up on how to prepare your financial future so you can recover quickly if you're hit by an earthquake. (PDF file)

Earthquake Insurance: Residential insurance policies don't cover earthquake damage. See what other options you have to protect your home. (PDF file)

Insurance Premium Calculator
Get an estimate of your annual CEA Premium.

USGS Earthquake Resources

Earthquake FAQs: Get the answers to some of the most frequently asked questions about earthquakes.

Shake Intensity Maps: Get real-time maps of ground motion and shaking intensity following significant earthquakes.

Earthquake Notifications: Sign up for the free service that sends you more resources geared towards notification to [shaking](#) using [SMS](#) when [strong](#) earthquakes happen in your area.

Kids Play Games, view animations, photos, and service that sends you more resources geared towards notification to shaking using SMS when strong earthquakes happen in your area.

Are You Prepared?
Click & Learn 7 Steps to Earthquake Safety

Ask your Homeowners Insurance Agent about earthquake insurance.

CEA CALIFORNIA EARTHQUAKE AUTHORITY
THE STRENGTH TO REBUILD™

FOX40 85° F
NEWS FOUND LIVE WEATHER SPORTS ENTERTAINMENT HEALTH LIFESTYLE ABOUT US ALERTS LIVE STREAM

California Earthquake Authority

EARTHQUAKE

USGS M 2.5 - Earthquake: M 2.5, Nat Islands, Aleutian Islands, Alaska

UPDATE 1-Chile raises 980 mile in Aguan Andean strike-slip
*Shakes hit 4.7 percent following strike-slip...

UPDATE 1-Chile raises 980 mile in Aguan Andean strike-slip
*Shakes hit 4.7 percent following strike-slip...

Japan's recovery from March disaster seen strengthening
1 Quakees Tremble California Coast in 1 Monthing
Earthquake Jolts Bay Area on Anniversary of 1994 Quake
7 Earthquake Rattles Japan

5 Reasons to buy Earthquake Insurance

Premium Calculator

ShakeOut. Don't Freak Out. Register Now!

California-Nevada Fault Maps

DISASTER RELIEF FUND
[CLICK HERE TO LEARN MORE](#)

Are You Prepared? 7 Steps to Earthquake Safety

ShakeOut. Don't Freak Out.
October 20, 2011

Earthquakes: Learn More

Look USGS Earthquake Center
Picture: China earthquake
Photo: Mexico Quake Damage

HEADLINES

Japan: Survivors talk about healing through Japan nuclear crisis hitting, U.S. experts say worse
Helping Japan on the crisis continues
In Japan, a blossoming of desperation in the nuclear zone
At least 3 dead after potential Japan earthquake

Cleaning up Japan's radioactive water could take decades
All eyes on NJ power plant in wake of Japanese crisis
Video: Teaching evasion of waves, dog found floating off Japan coast

AT A GLANCE

Graphic: Japan's Change zone
Graphic: Japan's evacuation zone
Graphic: Japan's nuclear crisis
Graphic: Japan's nuclear crisis
Graphic: Japan's nuclear crisis

Japan: Survivors talk about healing through Japan nuclear crisis hitting, U.S. experts say worse

Helping Japan on the crisis continues

In Japan, a blossoming of desperation in the nuclear zone

At least 3 dead after potential Japan earthquake

Cleaning up Japan's radioactive water could take decades

All eyes on NJ power plant in wake of Japanese crisis

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Graphic: Japan's evacuation zone

Graphic: Japan's nuclear crisis

Graphic: Japan's nuclear crisis

Graphic: Japan's nuclear crisis

Newspaper Online Ads

Attachment H

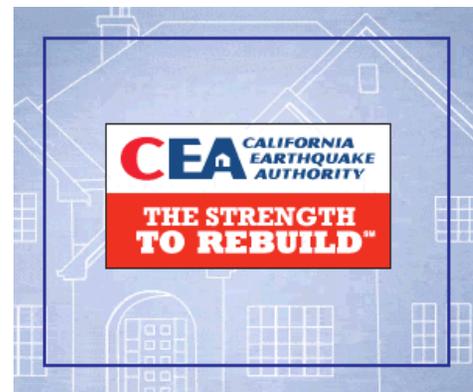
Preparing for the next damaging earthquake can help you survive and recover.

Ask your Homeowners Insurance Agent about earthquake insurance.



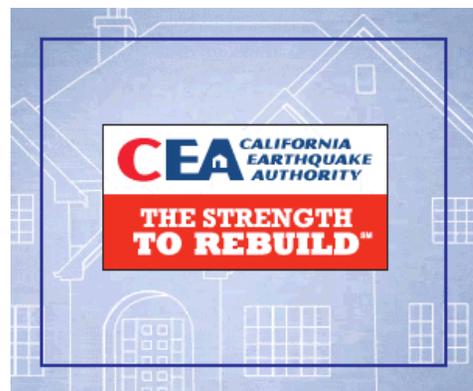
El momento de prepararse para el próximo terremoto es ahora.

Hable con su agente de seguro de hogar sobre cobertura de terremotos.



现在就做好準備以應付下一次地震。

請向您的屋主保險經紀人查詢增加地震保險的詳情。



Ethnic Newspaper Buys and Partnerships

Ethnic Media Buy

PRINT PUBLICATION	CITY	ETHNICITY
El Mensajero	San Francisco	Latino
Sing Tao Daily SF	San Francisco	Chinese
Philippine News	San Francisco	Filipino
Korea Times - SF	San Francisco	Korean
India West	San Leandro	South Asian
Cali Today	San Jose	Vietnamese
Sun Reporter	San Francisco	African American
Nichi Bei Weekly	San Francisco	Japanese
The World Journal	Los Angeles	Chinese
Asian Journal - LA	Los Angeles	Filipino
Korea Daily -LA	Los Angeles	Korean
Viet Bao Daily News	Los Angeles	Vietnamese
La Opinion	Los Angeles	Latino
L.A. Watts Times	Los Angeles	African American
Rafu Shimpo	Los Angeles	Japanese
La Prensa San Diego	San Diego	Latino
Enlace	San Diego	Latino
El Latino San Diego	San Diego	Latino
San Diego Voice & Viewpoint	San Diego	African American
Nguoi Viet Tu Do	San Diego	Vietnamese
Two Rivers Tribune	Eureka	Native American

ONLINE PUBLICATION	WEB SITE	ETHNICITY
L.A. Watts Times	www.lawattstimes.com	African American
The Globe	www.globenewspapers.com	African American
Yo! Youth Outlook	www.youthoutlook.org	African American
India Currents	www.indiacurrents.com	Asian-Indian
Carib Press	www.caribpress.com	Caribbean
Sing Tao	www.singtaousa.com	Chinese
Asian Journal L.A.	www.Asianjournal.com	Filipino
The Inquirer	www.inquirer.net	Filipino
Korean Journal	www.koreanjournal.com	Korean
Impulso	www.impulsonoticias.com	Hispanic
Alianza Metropolitan News	www.alianzanews.com	Latino
Impre Media	www.impre.com	Latino
La Oferta	www.laoferta.com	Latino
Two Rivers Tribune	www.tworiverstribune.com	Native American
Silicon Valley De-Bug	www.siliconvalleydebug.org	Multi
San Jose Beez	www.sjbeez.org	Multi
Los Angeles Beez	www.labeez.org	Multi
New America Media	www.newamericamedia.org	Multi



Ethnic Media Partnership



Press Conferences
October 2010



Governing Board Memorandum

June 30, 2011

Agenda Item 11: CEA Chief Operations Officer Bob Stewart:

- Performance Management Plan Appraisal
- Employment-Contract Modification

Recommended Action: Approve PMP Appraisal; Approve Amendment to Stewart Employment Contract

Background:

As authorized by the Governing Board, CEO Glenn Pomeroy (to whom CEA Chief Operations Officer Bob Stewart reports) has conducted and completed an annual appraisal of Mr. Stewart's performance in accordance with the criteria established in Mr. Stewart's Performance Management Plan, which itself was approved by the Board. The annual appraisal is called for by Mr. Stewart's employment contract, the current term of which extends into 2012.

Last year, the Stewart PMP was favorably concluded.

Analysis:

As with all CEA contract executives, Mr. Stewart is employed by the CEA under a written employment contract—as the law permits, the contracting parties are the CEA Governing Board and Mr. Stewart. The contract anniversary date is July 1st.

Under its express terms, and following a satisfactory appraisal of the employee, the Stewart employment contract permits an annual salary cost-of-living adjustment ("COLA") as well as an annual salary merit increase.

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

On that basis, Mr. Pomeroy proposes, with the concurrence of Mr. Stewart, that for the 12-month contract period beginning July 1, 2011;

- 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. Those data indicate an increase of 3.1302% in the relevant Index in the relevant period, and therefore a COLA is indicated.
- Mr. Pomeroy has observed that Mr. Stewart's performance and service to the CEA have been indispensable and of the highest caliber. For that reason, Mr. Pomeroy recommends

that Mr. Stewart receive as a merit salary increase for the 12-month compensation period beginning July 1, 2011, a sum equal to five percent of Mr. Stewart's annual salary.

- Mr. Pomeroy and Mr. Stewart jointly recommend that, other than the compensation-related provisions described above, all other parts and provisions of the CEA-Stewart employment contract remain unchanged.

The Board has been provided with a proposed contract amendment in the form of a letter agreement from the Board chair to Mr. Stewart. Once signed on behalf of the Board and by Mr. Stewart, the letter would serve to modify the Stewart contract in the manner noted above.

Recommendation:

- Accept the performance appraisal of Mr. Stewart;
- Accept the COLA calculation, and accept and approve the recommended compensation adjustment; and
- Approve the execution on behalf of the Board of a contract-modification letter agreement that embodies these modifications and delegate that execution on behalf of the Board to the Board chair or any Board member.

Governing Board Memorandum

June 30, 2011

Agenda Item 12: Second Annual Risk-Capital Surcharge for
Safeco Insurance Company of America

Recommended Action: Relieve Safeco Insurance Company of America of further
obligation to pay CEA risk-capital surcharges

Background:

Safeco Insurance Company of America (“Safeco”) is a California Earthquake Authority participating insurer, having offered CEA earthquake-insurance policies since December 1, 2008.

Safeco was the first insurer to apply to become a CEA participating insurer since Insurance Code section 10089.16(d) became law effective July 1, 2008. As part of the CEA-participating-insurer application process, and as required by that law, Safeco submitted policy data to CEA for its earthquake-insurance book of business. CEA used EQECAT to model the data to permit staff to complete an “earthquake-insurance risk profile,” to indicate the likelihood and magnitude of additional CEA losses from insuring Safeco’s CEA book of business during its first full year of CEA participation.

Based on Safeco’s earthquake-insurance risk profile, on June 28, 2008, the Governing Board unanimously approved Safeco’s CEA-participation application, conditioned on Safeco’s paying (up to) five annual risk-capital surcharges in addition to its required capital contribution¹ and any required loss assessments.²

On December 9, 2010, the Governing Board approved the risk-capital-surcharge-calculation method applicable to new participating insurers; applying the approved method to Safeco produced a first annual risk-capital surcharge of \$1,700,000.

Analysis:

Under the law, the Board must calculate the first risk-capital surcharge one year after the date the new participating insurer first placed or renewed business into the CEA; in addition, the Board must recalculate the risk-capital surcharge for each of up to four years after the first calculation and, for each such year, impose the resulting recalculated surcharge.

¹ As required by Insurance Code sec. 10089.15

² As required by Insurance Code secs. 10089.23, 10089.30, and 10089.31

Once the insurer's earthquake insurance risk profile becomes substantially similar to the CEA's average risk profile for a CEA book of business of similar size, the Board must relieve the insurer of further obligation to pay risk-capital surcharges.

The law also provides that each annual risk-capital surcharge must equal the CEA's increased cost of providing or securing capacity to insure the new participant's excess earthquake-insurance risk.

The law requires full payment of a noticed risk-capital surcharge within 30 days.

CEA staff has analyzed Safeco's earthquake insurance risk profile as of December 31, 2010, and has determined that Safeco's earthquake insurance risk profile is substantially similar to the CEA's average risk profile for a CEA book of business of similar size. CEA staff therefore recommends that the Board relieve Safeco of further obligation to pay annual risk-capital surcharges.

Attachment A details the second annual risk-capital-surcharge calculation for Safeco.

Recommendations:

Approve the calculation of Safeco's second annual risk-capital surcharge;

1. In accordance with applicable legal requirements and the most recent surcharge calculation, relieve Safeco of further obligation to pay annual CEA risk-capital surcharges; and
2. Direct staff to take any and all steps it deems necessary to accomplish and communicate the actions described above.

SECOND ANNUAL RISK-CAPITAL SURCHARGE CALCULATION
Uses 2010 Reinsurance Program Details on 12/2010 Portfolio

	(A)	(B)	
	With Safeco	Without Safeco	
(1) .20% Exceedence Level	9,003,057,702	8,870,575,730	
(2) Reinsurance Limit for PML500	3,122,526,185	3,137,270,873	
(3) Reinsurance E(L)	36,259,993	36,139,990	
(4) E(L) / Limit	1.161%	1.152%	
(5) SD(Loss) / Limit	10.337%	10.284%	
(6) Capital Multiplier	2.59	2.59	
(7) Capital Charge	26.759%	26.624%	
(8) Reinsurer Target ROE	20.0%	20.0%	
(9) Reinsurer Non-Brokerage Expense	9%	9%	
(10) Technical Price	7.157%	7.117%	
(11) Reinsurance Cost	223,488,128	223,288,170	
(12) Risk Capital Surcharge			199,958
(13) Investment Income Offset			372,539
(14) Second Annual Risk Capital Surcharge			-

Notes:

- (A) Values in column (A) are based on the 12/31/2010 CEA portfolio as modeled by EQECAT which includes Safeco
 (B) Values in column (B) are based on the 12/31/2010 CEA portfolio excluding Safeco policies as modeled by EQECAT, adjusted for an increase in exposure equal to the exposure increase from Safeco of 5.03% (see Exhibit 2)
- (1) .20% Exceedence level (PML500) is the CEA target capacity for 2010
 (2) Col. A is the actual 2010 reinsurance limit. Col. B is the limit needed to reach the target capacity level. Col. (B) is adjusted for Safeco's addition to the CEA's total Claims Paying Capacity
 (3) Estimated expected loss to reinsurers based on modeled loss exceedence curves
 (4) (3) / (2)
 (5) Standard deviation of loss to reinsurers expressed as a percentage of the limit
 (6) Selection, calibrated to actual price for 2010 Reinsurance shown in Column (A), line (10)
 (7) (5) x (6)
 (8) Selection, calibrated to actual price in Column (A), line (10)
 (9) Selection, based on review of historical reinsurer expense levels
 (10) [(7) x (8) + (4)] / [1.0 - (9)]
 (11) (2) x (10)
 (12) (A-11) - (B-11); Zero, if negative
 (13) Cumulative investment income attributable to Safeco's capital contribution
 (14) (12) - (13); Zero, if negative

SAFECO IMPACT ON EXPOSURE AND EXPECTED ANNUAL LOSSES

Policy Type	Dec 2010 EXCLUDING Safeco policies		
	(1) Number of Policies	(2) Exposure (\$Thousands)	(3) Expected Annual Loss Value (\$Million)
Homeowners	619,847	261,495,932	197.45
Mobilehomes	24,423	2,626,662	0.86
Renters	33,927	1,170,909.50	1.21
Condominiums	94,825	8,651,934	17.84
Total	773,022	273,945,437	217.36

Policy Type	Dec 2010 INCLUDING Safeco Policies		
	(4) Number of Policies	(5) Exposure (\$Thousands)	(6) Expected Annual Loss Value (\$Million)
Homeowners	647,919	274,338,008	209.36
Mobilehomes	24,423	2,626,662	0.86
Renters	37,394	1,375,590	1.35
Condominiums	101,553	9,389,174	18.98
Total	811,289	287,729,434	230.55

COMPARISON		
Percentage Change (including/excluding)		
(7)	(8)	(9)
Policies	Exposure	EAL
4.53%	4.91%	6.03%
0.00%	0.00%	0.00%
10.22%	17.48%	11.69%
7.10%	8.52%	6.39%
4.95%	5.03%	6.07%

Notes:

- (1) Dec 2010 portfolio excluding Safeco policies
- (2) Coverage A-E amounts for HO, MH, Condos; Coverage C and D amounts for Renters - excluding Safeco policies
- (3) Dec 2010 portfolio expected annual loss (EAL) excluding Safeco policies
- (4) Dec 2010 portfolio including Safeco policies
- (5) Coverage A-E amounts for HO, MH, Condos; Coverage C and D amounts for Renters - including Safeco policies
- (6) Dec 2010 portfolio EAL including Safeco policies
- (7) (4) / (1) - 1.0
- (8) (5) / (2) - 1.0
- (9) (6) / (3) - 1.0

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to April 30, 2011

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	22,153.62	1,993.83	\$24,147.45
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	15	46,166.44	4,109.25	\$50,275.69
Total					173	\$3,697,255.98	\$331,845.00	\$4,029,100.98

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 5/23/2011 - Policies in Force on: 4/30/2011

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowner							
15% Total	594,234	72.3 %	250,047,152,612	85.6 %	483,997,294	80.9 %	814
10% Total	60,935	7.4 %	28,530,497,573	9.8 %	63,947,187	10.7 %	1,049
Homeowner Total	655,169	79.7 %	278,577,650,185	95.3 %	547,944,482	91.6 %	836
Manufactured Homes (Mobilehomes)							
15% Total	20,777	2.5 %	2,125,003,524	0.7 %	2,063,774	0.3 %	99
10% Total	3,739	0.5 %	546,815,625	0.2 %	464,216	0.1 %	124
Manufactured Homes (Mobilehomes) Total	24,516	3.0 %	2,671,819,149	0.9 %	2,527,990	0.4 %	103
Condo Total	102,269	12.4 %	9,477,658,500	3.2 %	40,941,907	6.8 %	400
Renter Total	39,614	4.8 %	1,439,936,500	0.5 %	6,894,180	1.2 %	174
Grand Total	821,568	100.0 %	292,167,064,334	100.0 %	598,308,559	100.0 %	728

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 5/23/2011 - Policies in Force on: 4/30/2011

HOMEOWNER	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	594,234	90.7 %	242,653,433,112	87.1 %	447,375,592	81.6 %	753
BCU 20k	57,797	8.8 %	577,970,000	0.2 %	1,533,415	0.3 %	27
Coverage C 25k	30,647	4.7 %	612,940,000	0.2 %	5,259,527	1.0 %	172
Coverage C 50k	21,017	3.2 %	945,765,000	0.3 %	5,194,942	0.9 %	247
Coverage C 75k	10,488	1.6 %	734,160,000	0.3 %	3,279,803	0.6 %	313
Coverage C 100k	33,170	5.1 %	3,151,150,000	1.1 %	13,150,063	2.4 %	396
Coverage D 10k	38,980	5.9 %	331,330,000	0.1 %	2,021,414	0.4 %	52
Coverage D 15k	77,067	11.8 %	1,040,404,500	0.4 %	6,182,538	1.1 %	80
15% Total	594,234	90.7 %	250,047,152,612	89.8 %	483,997,294	88.3 %	814
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	60,935	9.3 %	25,413,666,573	9.1 %	51,062,685	9.3 %	838
BCU 20k	12,725	1.9 %	127,250,000	0.0 %	315,204	0.1 %	25
Coverage C 25k	9,993	1.5 %	199,860,000	0.1 %	1,648,855	0.3 %	165
Coverage C 50k	7,525	1.1 %	338,625,000	0.1 %	1,561,078	0.3 %	207
Coverage C 75k	4,376	0.7 %	306,320,000	0.1 %	1,106,709	0.2 %	253
Coverage C 100k	17,318	2.6 %	1,645,210,000	0.6 %	5,981,395	1.1 %	345
Coverage D 10k	13,665	2.1 %	116,152,500	0.0 %	546,041	0.1 %	40
Coverage D 15k	28,401	4.3 %	383,413,500	0.1 %	1,725,221	0.3 %	61
10% Total	60,935	9.3 %	28,530,497,573	10.2 %	63,947,187	11.7 %	1,049
Homeowner Total	655,169	100.0 %	278,577,650,185	100.0 %	547,944,482	100.0 %	836

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 5/23/2011 - Policies in Force on: 4/30/2011

MANUFACTURED HOMES (MOBILEHOMES)	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	20,777	84.7 %	1,939,207,524	72.6 %	1,954,564	77.3 %	94
Coverage C 25k	1,629	6.6 %	32,580,000	1.2 %	21,815	0.9 %	13
Coverage C 50k	1,110	4.5 %	49,950,000	1.9 %	18,308	0.7 %	16
Coverage C 75k	336	1.4 %	23,520,000	0.9 %	6,325	0.3 %	19
Coverage C 100k	455	1.9 %	43,225,000	1.6 %	10,293	0.4 %	23
Coverage D 10k	1,757	7.2 %	14,934,500	0.6 %	23,357	0.9 %	13
Coverage D 15k	1,599	6.5 %	21,586,500	0.8 %	29,112	1.2 %	18
15% Total	20,777	84.7 %	2,125,003,524	79.5 %	2,063,774	81.6 %	99
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	3,739	15.3 %	390,920,125	14.6 %	402,084	15.9 %	108
Coverage C 25k	1,116	4.6 %	22,320,000	0.8 %	10,646	0.4 %	10
Coverage C 50k	939	3.8 %	42,255,000	1.6 %	11,444	0.5 %	12
Coverage C 75k	313	1.3 %	21,910,000	0.8 %	4,106	0.2 %	13
Coverage C 100k	410	1.7 %	38,950,000	1.5 %	6,920	0.3 %	17
Coverage D 10k	1,233	5.0 %	10,480,500	0.4 %	10,836	0.4 %	9
Coverage D 15k	1,480	6.0 %	19,980,000	0.7 %	18,181	0.7 %	12
10% Total	3,739	15.3 %	546,815,625	20.5 %	464,216	18.4 %	124
Manufactured Homes (Mobilehomes) Total	24,516	100.0 %	2,671,819,149	100.0 %	2,527,990	100.0 %	103

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 5/23/2011 - Policies in Force on: 4/30/2011

CONDO	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage A/BCU 10k	71,720	70.1 %	2,510,200,000	26.5 %	6,344,026	15.5 %	88
Coverage C 5k/D 1.5k	36,520	35.7 %	237,380,000	2.5 %	3,317,749	8.1 %	91
Coverage C 5k ¹	7,211	7.1 %	36,055,000	0.4 %	678,082	1.7 %	94
Coverage C 25k	13,759	13.5 %	343,975,000	3.6 %	2,683,280	6.6 %	195
Coverage C 50k	12,040	11.8 %	602,000,000	6.4 %	2,670,716	6.5 %	222
Coverage C 75k	5,989	5.9 %	449,175,000	4.7 %	1,468,781	3.6 %	245
Coverage C 100k	11,559	11.3 %	1,155,900,000	12.2 %	2,914,126	7.1 %	252
Coverage D 1.5k ²	7,459	7.3 %	11,188,500	0.1 %	3	0.0 %	0
Coverage D 10k	15,195	14.9 %	151,950,000	1.6 %	200,685	0.5 %	13
Coverage D 15k	27,904	27.3 %	418,560,000	4.4 %	443,045	1.1 %	16
Coverage E 25k	2,904	2.8 %	72,600,000	0.8 %	706,854	1.7 %	243
Coverage E 50k	62,956	61.6 %	3,147,800,000	33.2 %	17,768,974	43.4 %	282
Coverage E 75k	4,545	4.4 %	340,875,000	3.6 %	1,745,587	4.3 %	384
Condo Total	102,269	100.0 %	9,477,658,500	100.0 %	40,941,907	100.0 %	400

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

²Policies 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 5/23/2011 - Policies in Force on: 4/30/2011

RENTER	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage C 5k/D 1.5k	15,570	39.3 %	101,205,000	7.0 %	1,503,886	21.8 %	97
Coverage C 5k ¹	2,914	7.4 %	14,570,000	1.0 %	287,605	4.2 %	99
Coverage C 25k	9,043	22.8 %	226,075,000	15.7 %	1,864,432	27.0 %	206
Coverage C 50k	6,371	16.1 %	318,550,000	22.1 %	1,485,663	21.5 %	233
Coverage C 75k	2,052	5.2 %	153,900,000	10.7 %	531,807	7.7 %	259
Coverage C 100k	3,664	9.2 %	366,400,000	25.4 %	923,095	13.4 %	252
Coverage D 1.5k ²	4,881	12.3 %	7,321,500	0.5 %	0	0.0 %	0
Coverage D 10k	7,106	17.9 %	71,060,000	4.9 %	100,847	1.5 %	14
Coverage D 15k	12,057	30.4 %	180,855,000	12.6 %	196,845	2.9 %	16
Renter Total	39,614	100.0 %	1,439,936,500	100.0 %	6,894,180	100.0 %	174

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

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

California Earthquake Authority

Historical Reinsurance Costs

Base & Supplemental Limits

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
2011	Contract #1	\$200,000,000 xs	\$3,300,000,000	8.1500%	\$16,300,000
	Contract #2	\$1,300,000,000 xs	\$3,500,000,000	7.5000%	\$97,500,000
	Contract #3	\$500,000,000 xs	\$4,500,000,000	6.2000%	\$31,000,000
	Contract #3a	\$200,000,000 xs	\$4,500,000,000	6.0000%	\$12,000,000
	Contract #4 (65% placed)	\$650,000,000 xs	\$5,000,000,000	5.5000%	\$35,750,000
	Contract #4a (5% placed)	\$50,000,000 xs	\$5,000,000,000	5.5000%	\$2,062,500
Total		\$2,900,000,000 xs	\$3,300,000,000	6.7108%	\$194,612,500
Percent Change from Previous Year		-7.13%		-6.24%	-12.92%
2010	Contract #1	\$202,500,000 xs	\$3,300,000,000	9.2500%	\$18,731,250
	Contract #2	\$1,000,000,000 xs	\$3,500,000,000	8.5500%	\$85,500,000
	Contract #3	\$275,000,000 xs	\$4,250,000,000	7.7000%	\$21,175,000
	Contract #4	\$300,000,000 xs	\$4,500,000,000	6.8000%	\$20,400,000
	Contract #5 (97.10% placed)	\$200,000,000 xs	\$4,800,000,000	6.5000%	\$12,623,000
	Contract #6 (94.05% placed)	\$250,000,000 xs	\$5,000,000,000	6.2500%	\$14,695,313
	Contract #7 (79.62619% placed)	\$1,150,000,000 xs	\$5,250,000,000	5.5000%	\$50,363,565
Total		\$3,122,526,185 xs	\$3,300,000,000	7.1573%	\$223,488,128
Percent Change from Previous Year		0.73%		13.96%	14.79%
2009	Contract #1	\$500,000,000 xs	\$3,500,000,000	7.7500%	\$38,749,846
	Contract #2	\$500,000,000 xs	\$4,000,000,000	6.9999%	\$34,999,384
	Contract #3	\$200,000,000 xs	\$4,500,000,000	5.9600%	\$11,920,000
	Contract #4	\$100,000,000 xs	\$4,700,000,000	5.8000%	\$5,800,000
	Contract #5	\$200,000,000 xs	\$4,800,000,000	5.5400%	\$11,080,000
	Contract #6	\$200,000,000 xs	\$5,000,000,000	5.3100%	\$10,620,000
	Contract #7 Backup Reinsurance for Transformer	\$250,000,000 xs	\$5,160,000,000	6.9900%	\$17,475,000
	Contract #8	\$650,000,000 xs	\$5,410,000,000	4.9938%	\$32,460,000
	Contract #9 Backup Reinsurance for Transformer	\$400,000,000 xs	\$6,000,000,000	6.6500%	\$26,600,000
	Contract #10	\$100,000,000 xs	\$6,060,000,000	4.9938%	\$4,993,846
Total		\$3,100,000,000 xs	\$3,500,000,000	6.2806%	\$194,698,076
Percent Change from Previous Year		85.96%		-26.36%	5.71%

(Combined base & Supplemental)

**California Earthquake Authority
Historical Reinsurance Costs**

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium	
Base-Limits						
2008	Combined Reinsurance Contract #1	\$300,000,000	xs	\$3,600,000,000	9.8000%	\$29,400,000
	Combined Reinsurance Contract #2	\$1,367,000,000	xs	\$3,900,000,000	8.2500%	\$112,777,500
	Total	\$1,667,000,000	xs	\$3,600,000,000	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	xs	\$3,600,000,000	6.9500%	\$24,325,000
	Reinsurance Layer 1	\$150,000,000	xs	\$3,950,000,000	15.0000%	\$22,500,000
	Reinsurance Layer 2	\$50,000,000	xs	\$4,100,000,000	12.5000%	\$6,250,000
	Collateralized Reinsurance Contract (2007)	\$125,000,000	xs	\$4,150,000,000	11.5000%	\$14,375,000
	Reinsurance Layer 3	\$20,000,000	xs	\$4,275,000,000	11.0000%	\$2,200,000
	Reinsurance Layer 4 (79.45953% placed)	\$1,200,000,000	xs	\$4,300,000,000	7.1000%	\$0
	Reinsurance Layer 5 (79.47738% placed)	\$298,000,000	xs	\$5,500,000,000	6.2000%	\$0
	Total	\$1,885,356,952	xs	\$3,600,000,000	8.0639%	\$152,033,760
	Percent Change from Previous Year	7.37%		24.19%	33.33%	
2006	Collateralized Reinsurance Contract (2005-2006)	\$300,000,000	xs	\$3,300,000,000	7.0000%	\$21,000,000
	Collateralized Reinsurance Contract (2006-2007)	\$350,000,000	xs	\$3,600,000,000	6.9500%	\$24,325,000
	Collateralized Reinsurance Contract	\$30,000,000	xs	\$3,950,000,000	6.8000%	\$2,040,000
		\$680,000,000	xs	\$3,300,000,000	6.9654%	\$47,365,000
	Base-Limit Coverage Reinsurance Contract Insurance In Force Adjustment	\$1,076,000,000	xs	\$4,006,000,000	6.0000%	\$64,560,000 \$2,100,000
	Total	\$1,756,000,000	xs	\$3,300,000,000	6.4935%	\$114,025,000
	Percent Change from Previous Year	17.07%		5.83%	23.89%	

**California Earthquake Authority
Historical Reinsurance Costs**

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium		
2005	Collateralized Reinsurance Contract (2005-2006)	\$300,000,000	xs	\$3,300,000,000	7.0000%	\$21,000,000	
	First Transformer Layer (2004-2005)	\$150,000,000	xs	\$3,600,000,000	7.2500%	\$10,875,000	
	MLCRC First Reinsurance Layer	\$550,000,000	xs	\$3,750,000,000	5.7500%	\$31,625,000	
		\$1,000,000,000	xs	\$3,300,000,000	6.3500%	\$63,500,000	
	Second Transformer Layer (2004-2005)	\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
	MLCRC Second Reinsurance Layer	\$300,000,000	xs	\$4,817,000,000	4.3500%	\$13,050,000	
		\$500,000,000	xs	\$4,617,000,000	4.8100%	\$24,050,000	
	Insurance In Force Adjustment ¹					\$4,484,662	
	Total		\$1,500,000,000	xs	\$3,300,000,000	6.1356%	\$92,034,662
	Percent Change from Previous Year		0.00%		-8.51%	-8.51%	
2004	MLCRC First Reinsurance Layer	\$700,000,000	xs	\$2,900,000,000	7.8500%	\$54,950,000	
	First Transformer Layer (2004-2005)	\$150,000,000	xs	\$3,600,000,000	7.2500%	\$10,875,000	
	MLCRC Second Reinsurance Layer	\$150,000,000	xs	\$3,750,000,000	6.3500%	\$9,525,000	
		\$1,000,000,000	xs	\$2,900,000,000	7.5350%	\$75,350,000	
	Second Transformer Layer (2004-2005)	\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
	MLCRC Third Reinsurance Layer	\$300,000,000	xs	\$4,817,000,000	4.7500%	\$14,250,000	
		\$500,000,000	xs	\$4,617,000,000	5.0500%	\$25,250,000	
	Total		\$1,500,000,000	xs	\$2,900,000,000	6.7067%	\$100,600,000
	Percent Change from Previous Year		-2.47%		-6.40%	-8.72%	
	2003	MLCRC Coverage A	\$600,000,000	xs	\$2,900,000,000	8.8000%	\$52,800,000
MLCRC Coverage B		\$400,000,000	xs	\$3,500,000,000	7.2500%	\$29,000,000	
		\$1,000,000,000	xs	\$2,900,000,000	8.1800%	\$81,800,000	
Transformer Layer		\$200,000,000	xs	\$4,617,000,000	5.5000%	\$11,000,000	
MLCRC Coverage C		\$338,000,000	xs	\$4,817,000,000	5.1500%	\$17,407,000	
		\$538,000,000	xs	\$4,617,000,000	5.2801%	\$28,407,000	
Total			\$1,538,000,000	xs	\$2,900,000,000	7.1656%	\$110,207,000
Percent Change from Previous Year			-21.98%		6.99%	-16.53%	

**California Earthquake Authority
Historical Reinsurance Costs**

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium
2002	First Aggregate	\$1,433,620,000 xs	\$3,436,000,000	7.2500%	\$82,187,450
	First Aggregate (\$200M part of)	\$1,433,620,000 xs	\$3,436,000,000	7.1400%	\$14,280,000
	First Aggregate (\$100M part of)	\$1,433,620,000 xs	\$3,436,000,000	5.9900%	\$5,990,000
		\$1,433,620,000 xs	\$3,436,000,000	7.1468%	\$102,457,450
	Second Aggregate	\$537,607,500 xs	\$5,326,000,000	5.5000%	\$29,568,413 ²
	Total	\$1,971,227,500 xs	\$3,436,000,000	6.6976%	\$132,025,863
	Percent Change from Previous Year	0.00%		-13.69%	-13.69%
2001	First Aggregate	\$1,433,620,000 xs	\$3,130,000,000	8.5000%	\$96,357,700
	First Aggregate (\$200M part of)	\$1,433,620,000 xs	\$3,130,000,000	7.5000%	\$15,000,000
	First Aggregate (\$100M part of)	\$1,433,620,000 xs	\$3,130,000,000	5.9900%	\$5,990,000
		\$1,433,620,000 xs	\$3,130,000,000	8.1854%	\$117,347,700
	Second Aggregate	\$537,607,500 xs	\$5,281,000,000	6.6250%	\$35,616,497
	Total	\$1,971,227,500 xs	\$3,130,000,000	7.7598%	\$152,964,197
	Percent Change from Previous Year	-21.43%		-17.31%	-35.03%
2000	First Aggregate	\$1,433,620,000 xs	\$2,843,000,000	8.5000%	\$104,857,697
	First Aggregate (\$200M part of)	\$1,433,620,000 xs	\$2,843,000,000	7.5000%	\$15,000,002
		\$1,433,620,000 xs	\$2,843,000,000	8.3605%	\$119,857,699
	Second Aggregate	\$1,075,215,000 xs	\$4,993,000,000	10.7500%	\$115,585,613
		Total	\$2,508,835,000 xs	\$2,843,000,000	9.3846%
	Percent Change from Previous Year	0.00%		3.02%	3.02%
1999	First Aggregate	\$1,433,620,000 xs	\$2,602,000,000	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 xs	\$2,602,000,000	7.8792%	\$112,957,924
	Second Aggregate	\$1,075,215,000 xs	\$4,753,000,000	10.7500%	\$115,585,613
	Total	\$2,508,835,000 xs	\$2,602,000,000	9.1095%	\$228,543,537
	Percent Change from Previous Year	0.00%		-23.56%	-23.56%

**California Earthquake Authority
Historical Reinsurance Costs**

Contract Year	Contract	Limit	Retention	Rate On Line (ROL)	Premium	
1998	First Aggregate	\$1,433,620,000	xs	\$2,726,000,000	14.3750%	\$206,082,875
	No Claims Bonus Paid to CEA					(\$22,687,734)
	Revised ROL and Premium	\$1,433,620,000	xs	\$2,726,000,000	12.7925%	\$183,395,141
	Second Aggregate	\$1,075,215,000	xs	\$4,877,000,000	10.7500%	\$115,585,613
	Total	\$2,508,835,000	xs	\$2,726,000,000	11.9171%	\$298,980,754
Percent Change from Previous Year		16.13%		-4.19%	11.27%	
1997	First Aggregate	\$1,433,620,000	xs	\$2,850,000,000	14.3750%	\$206,082,875
	No Claims Bonus Paid to CEA					(\$14,430,600)
	Revised ROL and Premium	\$1,433,620,000	xs	\$2,850,000,000	13.3684%	\$191,652,275
	Second Aggregate (1/1/98 - 3/31/98)	\$1,075,215,000	xs	\$4,877,000,000	10.7500%	\$28,896,403
	Second Aggregate (7/1/97 - 12/31/97)	\$716,810,000	xs	\$4,815,000,000	10.7500%	\$38,528,538
	Second Aggregate (4/1/97 - 6/30/97)	\$358,405,000	xs	\$5,001,000,000	10.7500%	\$9,632,134
	Total	\$2,160,430,000³	xs	\$2,850,000,000	12.4378%	\$268,709,350

¹ Based on IIF of \$198,926,424,765 at 12/31/05

² Twelve month annualized amount

³ Includes average limit for Second Aggregate of \$716.810M

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 Reinsurance 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

Contract Period		Written Premium	Ceding Commission	Ceded Premium	Losses
Begin	End				
1/1/2005	12/31/2006	\$102,946,945	\$18,181,382	\$84,765,563	
7/1/2004	12/31/2004	\$16,102,397	\$2,232,406	\$13,869,991	
7/1/2003	6/30/2004	\$22,980,920	\$4,599,044	\$18,381,876	\$186,801
1/1/2003	6/30/2003	\$18,538,621	\$3,707,724	\$14,830,897	\$50,817
7/1/2002	12/31/2002	\$12,510,357	\$2,502,071	\$10,008,286	
3/1/2001	6/30/2002	\$27,527,388	\$5,505,478	\$22,021,910	
7/1/1999	2/28/2002	\$15,448,110	\$3,089,622	\$12,358,488	
Unearned Premium @ 12/31/2006		-\$24,138,678	-\$4,224,269	-\$19,914,409	
Total		\$191,916,060	\$35,593,458	\$156,322,602	\$237,618