

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, September 20, 2017
12:00 p.m.**

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

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Edmund G. Brown, Jr., Board Chair
Vincent Brown, designee of State Treasurer John Chiang
Chris Shultz, designee of Insurance Commissioner Dave Jones
Jeffrey Wood, designee of Speaker of the Assembly Anthony Rendon

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Todd Coombes, Chief Insurance and Technology Officer
Laurie Johnson, Enterprise and Strategic Risk Advisor
Janiele Maffei, Chief Mitigation Officer
Carlos Martinez, Governing Board Liaison
Chris Nance, Chief Communications Officer
Tim Richison, Chief Financial Officer
Kellie Schneider, Chief Operations Officer
Danny Marshall, General Counsel

Also present:

Dale Stern, Downey Brand

1. Call to order and member roll call.

Chairman Mark Ghilarducci called the meeting to order at 12:12 p.m. A quorum was achieved.

2. 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.

The Board entered closed session at 12:13 p.m. and resumed its proceedings in open session at 1:04 p.m.

3. Consideration and approval of the minutes of the June 7, 2017, CEA Governing Board meeting.

Mr. Wood referred to the last paragraph of Item 3 and asked to change “present before the Board” to “present before their organizations.”

MOTION: Mr. Brown moved approval of the June 7, 2017, California Earthquake Authority Governing Board Meeting Minutes, as corrected. Mr. Shultz seconded. Motion carried unanimously.

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

Glenn Pomeroy, Chief Executive Officer, summarized (with slide presentation) CEA policies in force, policy growth, claim-paying capacity, mitigation retrofits, and federal legislation.

He asked the Board to support HR 1691, the Earthquake Mitigation Incentive and Tax Parity Act of 2017.

MOTION: Mr. Shultz moved approval of HR 1691, the Earthquake Mitigation Incentive and Tax Parity Act of 2017. Mr. Brown seconded. Motion carried unanimously.

Mr. Pomeroy asked Laurie Johnson, CEA’s Enterprise and Strategic Risk Advisor, to discuss Senate Bill 1768, the National Earthquake Hazards Reduction Program (NEHRP) Reauthorization Act of 2017. Dr. Johnson provided an overview of the history and funding of NEHRP. She stated the need to reauthorize the program. She said this reauthorization would cover new items, such as earthquake early-warning.

Mr. Pomeroy asked the Board to vote its support of SB 1768.

MOTION: Mr. Brown moved approval of Senate Bill 1768, the National Earthquake Hazards Reduction Program Reauthorization Act of 2017. Mr. Shultz seconded. Motion carried unanimously.

Mr. Pomeroy continued his slide presentation of recent hurricanes and earthquakes. He concluded his executive report by highlighting an article from The New Yorker magazine in 2015, “The Really Big One,” noting that the author won a Pulitzer Prize for this article.

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

CFO Tim Richison provided an overview, with slide presentation, of CEA financial information as of June 30, 2017. He noted that the CEA’s risk-transfer level of \$7.4 billion is the highest the CEA has ever had, and the CEA is now the second largest sponsor of CAT bonds, worldwide.

6. Mr. Richison will propose for Board approval mid-year revisions to the 2017 CEA budget, which will take into account a budget augmentation approved during this Board meeting.

Mr. Richison provided an update, with slide presentation, on the Insurance Services Budget as of June 30, 2017 (Attachment A), the projected 2017 statutory expense compared to the projected statutory cap, and the Mitigation Budget as of June 30, 2017. He noted that CEA needed to purchase more risk transfer in 2017, bringing CEA’s cost of risk-transfer in 2017 will be more than anticipated at the December 2016 Board meeting.

As approved by the CEA Governing Board at its meeting on Wednesday, December 6, 2017

He asked that the board approve a 2017 budget augmentation of \$56 million, funding premium sufficient to allow CEA to meet its capacity obligation through risk-transfer.

Mr. Shultz stated the budget is in line with Department of Insurance expectations.

Recommendations:

- Approve the proposed 2017 Insurance Services mid-year revised budget, including a proposed budget augmentation of \$56,010,972 to meet risk-transfer responsibilities; and
- Direct staff to operate CEA business operations within the total, approved, and revised budgets for Insurance Services and Mitigation Services.

MOTION: Mr. Shultz moved approval of the staff recommendations; seconded by Mr. Brown. Motion passed unanimously.

7. Mr. Pomeroy will request Board approval to permit the CEA to contract to hire certain staff positions.

Mr. Pomeroy gave an overview of the need for, and scope of, four proposed contract-employee positions.

Mr. Brown asked for the estimated salary for these positions. Mr. Pomeroy stated he did not have a figure, but that salary savings would occur if some of these individuals move from their current temporary (employment-agency provided) positions with the CEA to become full-time contract employees.

Mr. Brown asked about the timeline. Mr. Pomeroy stated contracts would be initiated immediately upon Board approval.

Mr. Shultz said he thought these normally civil-service-classification positions could and should be contracted out, in these cases. He recommended that flexibility be built into the contracted positions.

Mr. Ghilarducci stated that, unlike two unique positions described, the Chief Information Security Officer and Mitigation Director positions are not unique and therefore do not require that contracted positions be created. He suggested the Board move forward to create two contract positions, but with the recommendation that, while those two positions may begin as contract positions, they be considered for hiring as civil service positions in the future.

Mr. Brown agreed, especially regarding the Chief Information Security Officer position.

Mr. Pomeroy clarified that his recommendation for all positions in question was not to hire contractors but to hire individuals as CEA employees under individual employment contracts. He told the Board that contracting on essentially a temporary basis with individuals as employees may make it difficult to later hire them into civil service positions.

Mr. Ghilarducci offered to work with staff to fill those positions. Mr. Brown also offered to help in any way.

Recommendation:

Staff recommends that the Governing Board accept recommendations to direct-hire the following positions, delegating the hiring process to the chief executive officer:

- Insurance Education and Sales Support Director
- Mitigation Director
- Reinsurance and Risk-Transfer Director
- Chief Information Security Officer

MOTION: Mr. Shultz moved approval of the staff recommendation with the caveat that the CEO explore all avenues to make the Mitigation Director and the Chief Information Security Officer civil service positions, and provide progress reports to the Board on this effort; seconded by Mr. Brown. Motion passed unanimously.

8. Chief Mitigation Officer Janiele Maffei will update the Board on CEA mitigation program projects, including the California Residential Mitigation Program incentive program (CRMP Earthquake Brace + Bolt), CEA's financial-incentive and mitigation program (CEA Brace + Bolt), and ongoing mitigation-related research projects.

Janiele Maffei, Chief Mitigation Officer, provided updates, with a slide presentation, of CEA Mitigation Programs and Incentive Programs. She stated registration for the California Residential Mitigation Program's (CRMP) next round of incentivized retrofits will begin in January 2018. CRMP is in the process of applying for a \$3 million FEMA Hazard Mitigation Grant, which if successful will allow it to do 1,000 additional retrofits.

Mr. Ghilarducci asked about the status of the retrofit program in Eureka. Ms. Maffei said Eureka is included in the CRMP Earthquake Brace + Bolt Program, but there are too few contractors to do the needed work. She felt a centralized contractor program may better serve the area. She also noted the need to promote seismic retrofit business to construction contractors statewide.

Mr. Brown asked how to help homeowners learn the technical terminology needed and what to look for to complete the online Premium Calculator questions. Ms. Maffei stated there is information on both CEA and EBB websites, and staff holds webinars for participating insurers (PIs) and agents so they can help homeowners understand the terms.

Mr. Ghilarducci stated a family member found the contractor to be helpful in explaining terms such as cripple wall and what needed to be done to retrofit her home.

9. Ms. Maffei will update the Board on the CEA Research Program.

Ms. Maffei provided an overview, with a slide presentation, of the CEA research program and its projects: (A) update the Consortium of Universities for Research in Earthquake Engineering (CUREE) *General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Wood-frame Buildings* and (B) the CEA and Pacific Earthquake Engineering Research (PEER) project, *Quantifying the Performance of Retrofit of Cripple Walls and Sill Anchorage in Single Family Wood-frame Buildings*.

10. Ms. Maffei will present, and seek Board approval of, contracting with the Southern California Earthquake Center (“SCEC”) for a research project proposed by SCEC that would support and expand the CEA’s continued use of UCERF3 and future, related seismic-science reports.

Ms. Maffei gave an overview, with a slide presentation, of the background, rupture forecast and ground-motion models, seismic-science reports, and the improvements, findings, recommendations, and next steps of the Uniform California Earthquake Rupture Forecast (UCERF3). She asked the Board to approve a sole-source agreement with the Southern California Earthquake Center to continue UCERF-related, California-specific seismic research.

Recommendation:

Staff recommends that the CEA provide research funding for the proposed research project (as described in Attachment A), at a total expenditure level of \$369,771. Project funding will be incorporated into the CEA’s 2018 budget. No augmentation is necessary for the 2017 budget, as the 2017 CEA budget includes \$200,000 for seismic research and that sum will not be expended in 2017.

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

11. Ms. Maffei will ask that the Board approve the CEA’s establishing a nonprofit charitable foundation, whose functions would include receiving contributions and disbursing accumulated funds for clearly-defined grant programs and other appropriate mitigation-related purposes.

Ms. Maffei gave an overview, with a slide presentation, of the background and purpose of creating a CEA-sponsored charitable foundation, to support expansion of mitigation programming (and funding) statewide.

Ms. Maffei introduced CEA outside attorney Dale Stern, partner at Downey Brand, who continued the slide presentation and provided an overview of the operations and next steps in forming a CEA-sponsored foundation, which would be a California nonprofit public-benefit corporation.

Mr. Wood asked where contributions are expected to come from. Ms. Maffei stated they are expected from all sources, such as large corporations. Mr. Pomeroy added that the insurance and reinsurance industries are heavy financial supporters of mitigation on the East Coast, because there—as in California—it is in their best interests to lower the risk they are undertaking to reinsure.

Mr. Wood asked how the foundation would be marketed. Ms. Maffei stated the bylaws and structure of the foundation have not yet been formed. Mr. Stern stated foundations often combine educational efforts with marketing efforts through websites, webinars, and onsite training.

Mr. Brown asked about the membership of the board and its appointing body. Mr. Stern stated one possibility, that the CEA Governing Board would identify between five and 13 individuals of diverse backgrounds to ensure that the foundation is operating consistently with its purposes, budget, and bylaws.

Mr. Brown asked for clarification on the Board member's statutory authority to make appointments for Board principals. Danny Marshall, General Counsel, stated that what is contemplated for the foundation-board appointments are acts of the CEA as an entity, separate from any act of any principal who serves as CEA Board members.

Mr. Brown stated the need for a legal analysis to make the authority of the CEA Board clear relative to those who appointed them. Mr. Marshall offered his assistance.

Mr. Pomeroy stated staff can make recommendations of prospective foundation board of trustee members at the December Board meeting. Mr. Stern stated the goal is to identify prospective board of trustee members, but the process of bringing specific candidates' names before the Board is not as important as coming up with a good list of names to discuss.

Mr. Shultz stated the need to look carefully at the ethics and campaign/financial-reporting issues and any payments made at the behest of any elected officials who sit on the board.

Mr. Ghilarducci asked if the foundation fund could be applied to disadvantaged communities. Mr. Pomeroy stated the current programs and grants are available to all communities regardless of need, but the CEA would explore ways to do more specialized funding.

Mr. Ghilarducci stated the Board is interested in this concept but is concerned about many of the details. Mr. Pomeroy stated details will be provided for Board consideration as the project moves ahead.

Mr. Shultz moved approval of the establishment of the CEA nonprofit charitable foundation; Mr. Brown seconded the motion.

Mr. Marshall suggested amending the motion to include Board permission to file the Articles of Incorporation, which had been presented to the Board at this meeting.

Mr. Shultz and Mr. Brown agreed that the motion be so amended.

MOTION: Mr. Shultz moved approval of the establishment of a CEA nonprofit charitable foundation and the filing of the Articles of Incorporation; seconded by Mr. Brown. Motion passed unanimously.

12. Chief Insurance and Technology Officer Todd Coombes will report to the Board on CEA insurance and information technology initiatives and seek Board approval to expand the CEA's contract with existing contractor Aartrijk to support strategic consulting on the CEA's insurance-marketing efforts.

Todd Coombes, Chief Insurance and Technology Officer, gave an overview, with a slide presentation, of insurance operations and technology-related activities, including an organizational change in July 2017, which added insurance education and sales support teams. He provided insurance operations, insurance education and sales support, and information technology updates.

Mr. Coombes provided background and analysis for a proposed modification to the Aartrijk Group contract for strategic consulting on insurance marketing.

Recommendation:

Staff recommends that the Governing Board approve increasing the Aartrijk Group contract spending limit from \$100,000 to \$150,000 per year to support additional

agent/insurance strategic consulting, and approve related contract negotiations and execution by CEO Glenn Pomeroy.

MOTION: Mr. Shultz moved approval of the staff recommendations; seconded by Mr. Brown. Motion passed unanimously.

13. Chief Communications Officer Chris Nance will seek Board approval to amend the CEA’s existing agreement with Randle Communications, which has been instrumental in planning and arranging the CEA’s community- and agent-outreach activities, in order to increase expenditures.

Chris Nance, Chief Communications Officer, gave an overview, with a slide presentation, of community-outreach-presentation talking points, completed presentations to-date throughout California, and supporting organizations of the community outreach services. He asked that the Board approved enhancing the present CEA contract with Randle Communications, to accommodate growing interest in these outreach presentations.

Mr. Brown asked if authorizing expenditures for future years’ budgets is a common practice. Mr. Richison stated it is necessary to plan ahead in order to secure venues for the presentations.

Mr. Shultz asked where the adjustments will be in the 2018 budget. Mr. Richison stated they will be under product education.

Recommendation:

- Authorize CEA staff to amend the CEA agreement with Randle Communications to enhance the contract scope-of-work and increase annual contract funding and expenditure from \$99,000 to \$180,240, to be accomplished within existing 2017 CEA budget.
- Staff also requests that the Board authorize a similar expenditure of \$180,240 for the (forthcoming) 2018 CEA budget, which would allow the CEA to contract with and compensate Randle Communications for a term extending through December 31, 2018.

MOTION: Mr. Shultz moved approval of the staff recommendations; seconded by Mr. Brown. Motion passed unanimously.

14. Mr. Nance will seek Board approval to modify the CEA’s existing agreement with Runyon Saltzman, the CEA’s principal advertising agency, in order to increase 2017–18 expenditures.

Mr. Nance gave an overview, with a slide presentation, of the background, past and current marketing campaigns, and proposed enhancement of the new “Testimonials” campaign and “rest-of-the-story” videos.

Recommendation:

Authorize CEA staff to enhance the contractual scope-of-work, and increase related contractual spending authority from \$330,000 to \$537,000, for advertising and creative services, all within the CEA’s existing agreement with Runyon Saltzman, Inc.

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

15. Enterprise & Strategic Risk Advisor Laurie Johnson will update the Board on CEA enterprise-risk-management-program planning and progress.

Laurie Johnson, Enterprise and Strategic Risk Advisor, gave an overview, with a slide presentation, of the priority risks, risk management process completion, and the Enterprise Risk Management (ERM) framework and progress to date.

Mr. Wood stated he was glad to see this effort and requested an update on the 14 identified risks chart every couple of Board meetings. Dr. Johnson stated that was her intent.

16. Chief Operations Officer Kellie Schneider will present to the Board the periodic CEA-operations metrics report, and propose Board adoption of a successor plan to the current (2015–17) CEA Strategic Plan.

Kellie Schneider, Chief Operations Officer, gave an overview, with a slide presentation, of the revised CEA Strategic Plan. She said “organizational resilience” was added to the strategic goals of educate, mitigate, and insure. She noted that performance-management objectives and revised metrics will be presented at the December Board meeting. She stated she welcomes feedback on the revised strategic plan.

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

No members of the public addressed the Board.

18. Adjournment.

There being no further business, the meeting was adjourned at 3:23 p.m.