

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Wednesday, December 11, 2019  
9:00 a.m.**

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

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Gavin Newsom, Board Chair  
Matthew Saha, designee of State Treasurer Fiona Ma  
Michael Martinez, designee of Insurance Commissioner Ricardo Lara  
Jeffrey Wood, designee of Speaker of the Assembly Anthony Rendon  
Craig Fry, designee of Chair of the Senate Rules Committee Toni G. Atkins

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer  
Sheri Aguirre, Strategic Advisor  
Tom Hanzel, Chief Financial Officer & Chief Insurance Operations Officer  
Laurie Johnson, PhD, Enterprise & Strategic Risk Advisor  
Benjamin Kirwan, Controller  
Janiele Maffei, Chief Mitigation Officer  
Shannon McEuen, Governing Board & Advisory Panel Coordinator  
Michael Melavic, Acting Chief Information Officer  
Chris Nance, Chief Communications Officer  
Kimberley Owen, Chief Information Security Officer  
Tom Welsh, General Counsel & Acting Chief Operations Officer

Also present:

No members of the public addressed the Governing Board

**Preliminary Matters**

**1. Call to order and member roll call.**

Chair Mark Ghilarducci called the meeting to order at 9:02 a.m. A quorum was achieved.

**2. Consideration and approval of the minutes of the September 25, 2019, CEA Governing Board meeting.**

**MOTION:** Mr. Martinez moved approval of the September 25, 2019, California Earthquake Authority Governing Board Meeting Minutes as presented. Mr. Saha seconded. Motion carried unanimously.

**3. Consideration and approval of the 2020 Governing Board meeting calendar.**

The Board discussed and approved the setting of dates for 2020 Governing Board meetings, subject to adjustment as necessary, for the following dates during 2020: January 30, March 12, June 11, September 10, and December 10. Board members agreed to begin future Board meetings at 9:00 a.m.

**CEA Enterprise – Executive and Operations Reports**

**4. Executive Report by Chief Executive Officer Glenn Pomeroy, which will include among other things a report on legislative activities of interest to the CEA, and CEA's quantitative business metrics.**

Glenn Pomeroy, Chief Executive Officer, provided a summary, with a slide presentation, of the key events of 2019. The briefing included information on pending federal legislation (H.R. 2053) that would make monetary grants to homeowners for seismic retrofits tax-free at the federal level. CEA has built a broad coalition to support H.R. 2053, with the coalition seeking to amend the bill to include similar state-based monetary grants to fund wind and wildfire mitigation projects. The briefing also discussed CEA's monitoring of Business Metrics, and the consideration of updating the metrics to make that reporting more meaningful for the Governing Board. He also noted that 2019 was the second-largest growth year in the history of the CEA.

Mr. Pomeroy welcomed Chief Information Security Officer Kimberley Owen to the CEA and asked her to introduce herself.

**5. Chief Financial Officer & Chief Insurance Operations Officer Tom Hanzel will present to the Board the CEA financial and insurance operations report.**

Tom Hanzel, Chief Financial Officer & Chief Insurance Operations Officer, provided an overview, with a slide presentation, of the CEA financial information as of October 31, 2019. He stated CEA claim-paying capacity grew by approximately \$300 million from January 1<sup>st</sup> to October 31<sup>st</sup> of 2019, which was driven largely by growth of available capital. The Direct Written Premium grew by just under 5 percent since the beginning of the year and is closely in line with the growth in policy count. He noted that it will take another year to see how the rate and form filing, which included some significant rate increases for homeowners in seismically vulnerable areas, will impact policy count. He stated the Loss Reserves are just under \$5 million, which is attributable to claims from the Ridgecrest earthquakes in July 2019..

Questions and Discussion

Mr. Martinez referred to Slide 20, the policies in force for the top ten counties, and noted that the growth in policies appears to be driven not by a single factor, but many factors such as population and proximity of the location to seismic risk.

Mr. Fry asked if a correlation is seen between CEA's advertising and education programs, and policy growth. Mr. Hanzel stated CEA cannot determine with precision what is driving policy growth, but that the increase in policy growth does appear to be generally connected to advertising, communications, and marketing efforts.

Mr. Wood asked if the advertisements change after a major earthquake. Mr. Hanzel stated there was an augmentation of the budget after the last event to provide additional advertisement.

Mr. Martinez asked for an update on the alleged moratorium on the sale of new policies after the Ridgecrest earthquake. Tom Welsh, General Counsel, stated anecdotal complaints or questions about an alleged moratorium stopped after the Department of Insurance issued a notification that there was no moratorium on CEA's sale of new earthquake policies simply because there was an earthquake.

**6. Mr. Pomeroy and Mr. Hanzel will present the proposed 2020 CEA insurance-services budget for Board consideration and approval.**

Mr. Pomeroy reviewed the statutory and non-statutory components of the budget and stated the budget for next year will have a 3 percent increase.

Mr. Hanzel provided an overview, with a slide presentation, of the proposed 2020 CEA insurance-services budget. He stated approximately \$5 million less was spent in 2019 than originally expected. Statutory and non-statutory expenses will increase in 2020 due to a projected increase in staff for IT and insurance operations, and due to increases in commissions required to be paid to participating insurer in connection with increased insurance policy sales. In addition, the budget anticipates an increase in the budget to fund grants to mitigate more vulnerable homes. He stated the budget will be continuously reviewed throughout 2020 to better understand the needs of each department.

#### Questions and Discussion

Mr. Martinez asked about any major variances or augmentations in the proposed 2020 budget from the budget for 2019. Mr. Hanzel stated the main changes in budget for 2020 are due to the anticipated filling of staff vacancies, legal support, and on-boarding of two large carriers onto the Centralized Policy Processing (CPP) platform.

Staff recommendations:

- Approve the proposed 2020 insurance-services budget as presented; and
- Direct staff to operate the CEA business within the total approved budget amounts.

**MOTION:** Mr. Martinez moved approval of the staff recommendations as presented. Mr. Saha seconded. Motion carried unanimously.

#### **7. Mr. Hanzel will seek approval to contract with a financial auditor firm.**

Mr. Hanzel reviewed the selection process for the new independent financial auditor for the CEA. He stated Plante & Moran, PLLC, received the highest scores of the three finalist firms.

#### Questions and Discussion

Mr. Wood asked about the length of time that Plante & Moran has been the auditor. Benjamin Kirwan, Controller, stated Plante & Moran had an initial five-year contract that was extended for two years. Mr. Hanzel added that seven years is not a long duration for one auditing firm to be with an entity.

Mr. Martinez noted that the Insurance Commissioner has given his approval of the audit firm, as per Insurance Code section 10089.13(d).

Staff recommendations:

- Approve the selection of Plante & Moran, PLLC, to conduct the legally required independent annual audit of CEA's GASB and statutory financial statements for each of the years 2019 through 2023.
- If the Board approves the staff recommendation, the CEA staff will proceed to negotiate a contract with the firm. Assuming the negotiation is successful and a contract is executed, staff will notify the Board that the audit engagement has been successfully finalized by contract.

**MOTION:** Mr. Martinez moved approval of the staff recommendations as presented. Mr. Saha seconded. Motion carried unanimously.

**8. Mr. Hanzel will present to the Board the CEA staff's proposed 2020 Risk-Transfer Strategy.**

Mr. Hanzel reviewed the 2019 risk-transfer summary and the proposed 12-month CEA risk-transfer strategy for 2020. He stated the goals and objectives of the risk-transfer guidelines will remain the same for 2020 and the CEA will continue to work with all available markets, traditional reinsurers, "transformer" reinsurance and CAT bond products, and brokers to optimize claim-paying capacity.

Staff recommendation:

- Approve the proposed 12-month risk-transfer strategy for 2020.

**MOTION:** Mr. Saha moved approval of the staff recommendation as presented. Mr. Martinez seconded. Motion carried unanimously.

**9. Enterprise and Strategic Risk Advisor Dr. Laurie Johnson will deliver a quarterly report to the Board on the CEA Enterprise-Risk-**

**Management-Program, staffing of ERM functions in 2020, and activities related to post-event planning.**

Laurie Johnson, Ph.D., Enterprise & Strategic Risk Advisor, reviewed the 12 priority risks in the CEA Enterprise-Risk-Management (ERM) Program, the ERM Quarterly Report as of December 2, 2019, and the 2020 ERM Program Plan. She provided an overview, with a slide presentation, of the CEA's earthquake after-action response, organization-wide assessment, and lessons learned following the Ridgecrest earthquakes. She stated staff worked closely with the Environmental Systems Research Institute (ESRI) to develop an enhanced in-housing mapping capability.

Questions and Discussion

Mr. Fry asked about the update in the ERM report related to the Legislature, and the identified risk related to potential legislation. Mr. Pomeroy stated meeting dates are being scheduled for January, as the Legislature is currently in recess.

Mr. Wood asked Mr. Pomeroy to include updates on legislative office visits and special events attended in future Executive Reports.

Mr. Wood asked if the work on the California Wildfire Fund is putting a strain on the CEA. Mr. Hanzel stated the additional work has required staff to put in longer hours. Stress was higher during the first 30 to 60 days but staff has worked through it. He stated the need to wait for direction from the California Catastrophe Response Council on the future role of the CEA in the California Wildfire Fund work.

With respect to ERM risks related to cyber security and cyber insurance, Mr. Saha suggested reaching out to the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), which have recently looked into the cyber-security insurance issue. Dr. Johnson stated part of the challenge was understanding the CPP needs and data security issues and understanding the appropriate limits and terms for a policy for this unique insurance market.

Mr. Martinez asked if insurance agents and brokers are involved in CEA's planning for earthquake events and after-action response planning. Dr. Johnson stated mostly insurers and reinsurers have been involved to date. Mr. Martinez suggested that the agent/broker community be involved in the post-event planning group to allay misinformation such as the

miscommunications by agents/brokers that there as a moratorium on the sale of earthquake policies after Ridgecrest.

**10. Mr. Pomeroy will propose, for Board Approval, a proposal to revise CEA's contract with its Chief Actuary to expand and upgrade duties and title to that of Chief Risk Officer.**

Mr. Pomeroy proposed the staff recommendation.

Staff recommendation:

- Authorize the CEO to negotiate revisions to Chief Actuary's agreement to include duties and title of Chief Risk & Actuarial Officer.

**MOTION:** Mr. Martinez moved approval of the staff recommendation as presented. Mr. Saha seconded. Motion carried unanimously.

**Insure – Matters Related to CEA's Insurance Business**

**11. Mr. Hanzel and Chief Information Officer Michael Melavic will provide a status report on CEA's Centralized Policy Processing (CPP) program.**

Michael Melavic, Acting Chief Information Officer, provided an overview, with a slide presentation, of the 2019 wrap-up and Diamond system Budget and Spending Tracking chart of the CEA's CPP program.

**12. Mr. Hanzel will seek Board approval to renew and extend the term of CEA's existing contract with catastrophe-loss modeling firm, AIR-Worldwide.**

Mr. Hanzel provided an overview, with a slide presentation, of the background, analysis, and staff recommendation for the AIR-Worldwide earthquake-loss modeling contract.

Questions and Discussion

Chair Ghilarducci asked about the 6 percent increase for the new contract. Mr. Hanzel stated the increase is to cover updates and inflation.

Chair Ghilarducci asked about the parameters of the risk assessment. Mr. Hanzel stated the models have statewide assessment capabilities. The work of the United States Geological Survey (USGS) and the California Geological Survey (CGS) have been brought into the modeling.

Chair Ghilarducci asked about the number of reports provided to the CEA per year. Mr. Hanzel stated the modelers run the CEA's full book twice a year and are available to answer questions throughout the year. Also, AIR has developed a post-earthquake loss estimation (EARLE) system, which can be used in the interim.

Mr. Saha asked if the modelers provided information after the Ridgecrest earthquakes. Mr. Hanzel stated the CEA had enough information in-house. Also, the Ridgecrest earthquakes were not large enough for the modelers to update their information.

Staff recommendation:

- Approve AIR contract renewal for a three-year term.

**MOTION:** Mr. Saha moved approval of the staff recommendation as presented. Mr. Martinez seconded. Motion carried unanimously.

**13. Mr. Hanzel will present for Board approval the first annual risk-capital surcharge for CEA participating insurer AMICA Mutual Insurance Company.**

Mr. Hanzel provided an overview, with a slide presentation, of the background, analysis, and staff recommendations for the first annual risk-capital surcharge for Amica Mutual Insurance Company.

Staff recommendations:

- Approve Amica's first annual risk-capital surcharge in the amount of \$112,651.
- Authorize staff to notify Amica that the approved amount is due in 30 days.

**MOTION:** Mr. Martinez moved approval of the staff recommendations as presented. Mr. Saha seconded. Motion carried unanimously.

**Mitigate – Matters Related to CEA's Mitigation & Research Mission**

**14. Mr. Hanzel will recommend to the Board transferring money from the CEA Earthquake Loss Mitigation Fund to the California Residential Mitigation Program (CRMP), a joint powers authority**

**whose members are the California Governor's Office of Emergency Services and CEA.**

Mr. Hanzel summarized the proposed CRMP program funding for 2020 and asked the Board to approve the staff recommendation.

Questions and Discussion

Chair Ghilarducci asked for verification that these funds will be reimbursed as the Federal Emergency Management Agency (FEMA) funding comes in.

Mr. Fry also asked for verification that the funds being reimbursed from FEMA will be deposited into the correct account.

Mr. Hanzel assured Chair Ghilarducci and Mr. Fry that staff is diligent about ensuring the reimbursement from FEMA and the process related to that.

Staff recommendation:

- Approve a 2020 fiscal year transfer to CRMP of funds from the CEA Earthquake Loss Mitigation Fund in the amount of \$4.0 million to fund CRMP EBB programs and cash flow needs in 2020.

**MOTION:** Mr. Saha moved approval of the staff recommendation as presented. Mr. Martinez seconded. Motion carried unanimously.

**15. Chief Mitigation Officer Janiele Maffei will update the Board on 2019 developments in the CEA mitigation programs (CRMP Earthquake Brace + Bolt and CEA Brace + Bolt) and the CEA Research Program.**

Janiele Maffei, Chief Mitigation Officer, provided an update, with a slide presentation, of the mitigation grant programs and research projects.

**16. Mr. Hanzel and Ms. Maffei will present for Board consideration and approval the proposed 2020 CEA mitigation-program budget.**

Mr. Hanzel provided an overview, with a slide presentation, of the 2020 CEA mitigation budget.

Ms. Maffei added that the FEMA funding will not be used for administrative costs but will be directly applied to grants.

Staff recommendations:

- Approve the proposed 2020 mitigation budget; and

- Direct staff to operate the CEA's mitigation-related activities within the total approved budget amounts.

**MOTION:** Mr. Martinez moved approval of the staff recommendations as presented. Mr. Saha seconded. Motion carried unanimously.

## **Educate – Matters Related to CEA's Educate Mission**

### **17. Chief Communications Officer Chris Nance will provide 2019 Communications & External Affairs programming results.**

Chris Nance, Chief Communications Officer, provided an overview, with a slide presentation, of the 2019 communications programming results.

Mr. Pomeroy announced that Mr. Nance will be leaving the CEA to pursue the lifelong dream of starting his own consultation business. He thanked Mr. Nance for his leadership and important contributions to the CEA and stated he will be missed.

Mr. Martinez presented Mr. Nance with a resolution from the Board in appreciation for his years of service with the CEA.

## **CONCLUSION**

### **18. 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).**

The Board entered closed session at 11:20 a.m. and resumed its proceedings in open session at 12:06 p.m. Upon returning to open session, it was announced that no final action was taken during the closed session.

### **19. Public comment on matters that do not appear on this agenda and requests by the public that those matters be placed on a future agenda.**

There was no public comment.

### **20. Adjournment.**

There being no further business, the meeting was adjourned at 12:06 p.m.