

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, February 19, 2015
2:00 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 Jerry Brown, Chair
Grant Boyken, designee of State Treasurer John Chiang
Chris Shultz, designee of Insurance Commissioner Dave Jones
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Kevin de León
George Wiley, designee of Speaker of the Assembly Toni G. Atkins

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Todd Coombes, Chief Information Officer
Chris Nance, Chief Communications Officer
Tim Richison, Chief Financial Officer
Bob Stewart, Chief Operations Officer
Marc Keller, Governing Board Liaison
Danny Marshall, General Counsel

Also present:

Sheri Aguirre, Managing Director, California Residential Mitigation Program

1. Call to order and member roll call.

Chair Mark Ghilarducci called the meeting to order at 2:01 p.m. A quorum was achieved.

2. Consideration and approval of the minutes of the December 17, 2014, CEA Governing Board meeting.

MOTION: Mr. Boyken moved approval of the December 17, 2014, CEA Governing Board meeting minutes, as presented. Mr. Shultz seconded. Motion passed unanimously.

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

Mr. Pomeroy asked for Governing Board support of a legislative initiative on seismic-retrofit financing.

- Senator Bill Monning to introduce the legislation before February 27th
- 100% financing
- Repayment through property tax bill
- Loan stays with the property upon sale or transfer
- Statewide reach
- The CEA could set up a lending mechanism to help homeowners retrofit

Mr. Ghilarducci stated his support of the initiative with the caveat that the Board reserves the right to see how the bill evolves, what it will take to roll out the program, the impact to the CEA, and how it will be sustained.

MOTION: Mr. Boyken moved support of the seismic retrofit financing legislative concept to be put forward by Senator Monning, with the caveat that the Board reserves the right to see how the bill evolves, what it will take to roll out the program, the impact to the CEA, and how it will be sustained. Mr. Shultz seconded. Motion passed unanimously.

Mr. Pomeroy provided an update on the CEA claim-paying capacity and risk-transfer diversification requirements.

- No legislation for 2015
- Continued need to further diversify risk-transfer sources

Mr. Pomeroy provided an update on the plans and activities for IT and each of the three CEA Strategic Plan goals for first quarter 2015.

4. Chief Financial Officer Tim Richison will present the CEA financial report.

Mr. Richison stated the 2014 year-end report will be presented in the May meeting. He reviewed the Balance Sheet, the Statement of Revenues, Expenses, Changes in Net Position, and the Available Capital Report for November 2014. The following are highlights of that report.

- Premium for 2014 was over \$600 million.
- Cash and investments was \$5.5 billion.
- Net investment income was \$32 million.
- Capital to pay claims was \$4.7 billion.

Mr. Richison referred to the Claim-Paying Capacity chart for November 2014 and pointed out the claim reserve for the Napa earthquake.

5. Mr. Richison will seek Board authorization to set the CEA participating insurers' respective maximum-earthquake-loss funding-assessment levels, effective April 1, 2015.

Mr. Richison discussed the new industry assessment layer:

- The 2007 law has a roll-off provision for the new industry assessment layer (New IAL), which means the assessment level is reduced annually by the statutory formula. On April 1st, the new industry assessment layer is reduced to \$237 million from \$300 million.
- The assessment distribution to participating insurers is determined annually based on a participating-insurer written premiums for CEA policies for the preceding year.

MOTION: Mr. Boyken moved that the Governing Board adopt the New IAL aggregate assessment amount in Attachment A, effective April 1, 2015; the Board adopt the CEA market-share percentages shown in Attachment B, which are to be used to determine the maximum earthquake loss funding assessment levels for CEA participating insurers, effective April 30, 2015; and the Board authorize CEA staff to notify each participating insurer of its respective April 30, 2015, maximum earthquake-loss-funding-assessment level responsibility. Mr. Shultz seconded. Motion passed unanimously.

6. Chief Communications Officer Chris Nance will update the Board on new marketing documents, which, according to legislation sponsored by the CEA in 2014, are to be produced and distributed at the CEA's expense - distribution to all participating insurer policyholders is to commence starting in 2016.

Mr. Nance will seek to augment the CEA's 2015 budget to cover immediate research and creative costs in support of marketing-document development.

Mr. Nance quoted the new legal mandate (as a result of AB 2064 in 2014), that "at least once each year, a participating insurer shall provide each of its residential property insureds with marketing documents produced at the authority's expense."

Mr. Nance said the CEA is committed to creating effective communications for consumers, by producing and, through the 19 participating insurers (PIs), distributing marketing documents efficiently.

Mr. Nance discussed what the CEA has done to comply with the mandate and summarized the initial feedback by PIs on the marketing documents:

- The best time for distribution is at renewal.
- The best delivery method is the United States Postal Service.

- There are color (compared to black ink) and paper-weight limitations.
- Responding PIs are open to co-branding.
- It is important that agents and call centers give policyholders direction.
- It is important that agents receive support.

Mr. Nance summarized the feedback the PIs on printing and postage costs:

- Letter format on PI letterhead
- The more printed, the less it will cost

Mr. Nance stated he will present the cost estimate for the reimbursement process for Mr. Nance anticipates Board review in May 2015 and a budget recommendation for 2016 at the August Board meeting. He provided an overview of a creative concept the CEA is developing that would require a \$43,755 budget augmentation to accommodate the design needs, as well as a \$137,895 budget augmentation to research the effectiveness of CEA messaging.

Mr. Wiley asked if the work can be done in-house. Mr. Nance stated the CEA will contract out with the advertising agency to assist with the creative development and an independent contractor to implement the consumer research. There is a robust internal team to complement that effort.

Mr. Shultz stated his Department supports this effort because it helps target consumers who do not have earthquake insurance.

Mr. Boyken agreed and stated this directly touches potential policyholders.

Mr. Ghilarducci agreed but encouraged including electronic communication as a way to reach consumers. Mr. Pomeroy told the Board that all modes of communication will be explored.

Mr. Shultz stated there are regulatory requirements on documents that can be delivered electronically and others that must be delivered on paper. He offered to discuss it with staff offline.

MOTION: Mr. Boyken moved to approve two augmentations to the CEA's 2015 budget as expenses to accommodate the AB 2064 mandate, in a total amount of \$181,650, split as noted above, to cover new creative-material development and the supporting consumer research. Mr. Shultz seconded. Motion passed unanimously.

7. Mr. Nance will update the Board on the status of the CEA's new website.

Mr. Nance introduced the CEA's new website, just launched. He said that agent and adjuster portals will roll out March 2. Consumers will begin visiting the site for the first time in April after being exposed to broadcast advertising.

8. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA mitigation program's "Pre-Standard Project" (conducted in conjunction with FEMA and the Applied Technology Council) and other earthquake-loss-mitigation-related research.

Sheri Aguirre, Managing Director of the California Residential Mitigation Program (CRMP), presented for Ms. Maffei.

Ms. Aguirre provided an update on the CEA Mitigation Department. She stated mitigation is focused on three primary areas: guidelines, research, and incentives. The overall mitigation goal is "end-to-end mitigation," but the name is in the process of being changed to something that reflects the spectrum of areas of interest to homeowners and helps them make decisions about the solutions for their homes.

- End-to-end mitigation
- Residential mitigation ladder with the steps of the mitigation process
- ATC 110 Guidelines
 - Permission from the CEA Board to go forward in the next three years with the three common and serious vulnerabilities:
 - Classic cripple wall
 - Living space over a garage
 - Hillside
- South Napa earthquake research
 - Outreach - to begin on February 24, 2015
 - Door hangers
 - Media sent to the two ZIP Codes of Napa with older structures
 - Newspapers
 - Online survey instrument
 - Two phases of research
 - Phase 1 – Online survey. Anonymous participation. Participants receive a \$25 gift card.
 - Phase 2 – Opt-in for house inspection. Smaller subset to provide their address and, if the house was mitigated, to agree to have the CRMP correlate the mitigation to the damage. Participants receive a \$50 gift card.

9. Ms. Maffei will update the Board on the California Residential Mitigation Program incentive program operated by a joint powers authority whose members are Cal OES and the CEA.

Ms. Aguirre provided an overview of the CRMP Earthquake Brace + Bolt (EBB) program.

- First expansion in January 2015
- One-year program cycle
- Marketing program
- 2,066 homeowners registered and qualified
- Neighborhood group outreach
- Second expansion planned for March 2015, in Napa

Mr. Stroeh asked if counties can help fund this program. Danny Marshall stated the CEA Loss Mitigation Fund can take in money from private sources, from federal sources, and from local government sources under the law.

Mr. Ghilarducci stated, in a federal disaster, such as in the case of the Napa earthquake, federal mitigation dollars become available. California is an “enhanced” state and gets back up to 20% of the total disaster cost to use for hazard-mitigation programs.

Mr. Shultz asked how much retrofits cost per home and what the gap is between the \$3,000 grant and the actual cost. The total cost for each of the five program-supported retrofits recently completed ranged from \$3,100 to \$4,300. The homeowner contribution has been from zero to \$1,200.

Mr. Stroeh noted that the cost can vary greatly by size of home and location.

Mr. Richison added that construction costs also contribute to the variance.

10. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2015 CEA IT Project Portfolio.

- Portfolio progress and changes
- Expenditures
- Risk assessment
 - MVP agent portal to be rolled out on March 2
 - CEA rate and form filing to be rolled out in January 2016

11. Mr Coombes will update the Board on the progress of the concept for centralizing CEA insurance-policy processing.

- Solution objectives for centralized policy processing (CPP)
- Evaluation of solution alternatives
 - CPP working group and questionnaire
 - Software and service vendor Request for Information
 - Reviewed feedback and identified three solution models
 - Request for Proposal for solution models
- Progress and next steps
 - Recommendation on how to proceed will be determined by March 30.

12. Mr. Coombes will seek Board approval of a 2015 budget augmentation to support the design and development of a CEA mobile Web application.

- 2015 budget augmentation to create a mobile application.
- In conjunction with the mandatory marketing document from the CEA and the rollout of the 2016 rate and form filing.
- Prototype web application developed last year.
- 2015 IT Portfolio marketing project proposed to enhance the prototype and make it production-ready.

Mr. Wiley asked how often users will refer to a new CEA mobile app. Mr. Coombes stated this form of mobile application is more website-based, to fit within the framework of the mobile device used. It might be used just one time, and so it is important that it be easy to access and use.

Mr. Ghilarducci asked how the \$290,000 figure was determined. Mr. Coombes stated that staff worked with the design firm and estimated the required hours for a developer, a quality-assurance analyst, and a business analyst.

MOTION: Mr. Shultz moved approval of the budget augmentation of \$290,400 to add to the IT Portfolio Project mobile web application.
Mr. Boyken seconded. Motion passed unanimously.

13. Mr. Pomeroy will update the Board on the development of organizational and staff performance metrics for the CEA.

- The CEA is working with Hatton Management Consultants.
- SMART objectives
 - Specific

- Measurable and meaningful
- Aggressive, assignable, and attainable
- Results-oriented
- Time-bounded
- Template for how the SMART objectives and metrics will look to be presented in the May Board meeting.
- Target date for completion is June 30, 2015.

14. Mr. Pomeroy will ask the Board to designate one of its members to conduct, on behalf of the Board, the annual performance appraisal of the Chief Executive Officer.

Mr. Shultz will conduct the annual performance appraisal for Mr. Pomeroy.

15. The Board will meet in closed session to discuss personnel matters and litigation matters, as permitted by California Government Code section 11126, subdivisions (a) and (e), respectively.

The Board entered closed session at 3:49 p.m. and resumed its proceedings in open session at 4:23 p.m. Mr. Ghilarducci reported that the Board was advised by counsel.

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

There were no questions or comments from the public.

17. Adjournment.

There being no further business, the meeting was adjourned at 4:24 p.m.