CALIFORNIA EARTHQUAKE AUTHORITY GOVERNING BOARD MEETING MINUTES

Tuesday, October 7, 2014
2:00 p.m.

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

Members of the Governing Board in attendance:
Mark Ghilarducci, designee of Governor Jerry Brown, Board Chair
Grant Boyken, designee of State Treasurer Bill Lockyer
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
Chris Nance, Chief Communications Officer
Tim Richison, Chief Financial Officer
Marc Keller, Governing Board Liaison
Danny Marshall, General Counsel

Also present:
Andrew Rouse, Senior Manager, Plante Moran, PLLC

1. **The meeting was called to order at 2:00 p.m. A quorum was achieved.**

2. **Chief Financial Officer Tim Richison will brief the Board on the completed CEA calendar-year-2013 audit, conducted by the CEA's independent financial auditors, Plante & Moran, PLLC; representatives of that firm will address the Board to elaborate on the written audit report.**

   - Andrew Rouse, Senior Manager at Plante & Moran (the CEA's independent financial auditor), reported on the recently concluded audit of the 2013 CEA Annual Financial Statements. He reviewed the scope of work and timeline of the 2013 audit.
     - Plante & Moran noted no internal-control deficiencies.

  - The “deferred acquisition costs” category was eliminated as of January 1, 2013, when the CEA adopted GASB Standard No. 65, resulting in a net adjustment of approximately $39 million.
  - GASB Standard No. 68 is under evaluation by the CEA and Plante & Moran, expected to be completed before the new standard’s effective date of December 31, 2015.
  - Plante & Moran noted no deficiencies in the CEA’s accounting principles.
  - Plante & Moran noted no significant deficiencies in management judgments and accounting estimates.
  - Plante & Moran noted suggested no audit adjustments, and no disagreements with management occurred.
  - Plante & Moran found no internal-control deficiencies in IT general controls.

3. Mr. Richison will propose to the Governing Board, and seek Board approval of, a 2014 issuance by the CEA of revenue bonds.

- Mr. Richison told the Board that completing the 2013 audit was necessary in order to propose a revenue bond sale for 2014. He reviewed the background, goals, and current activities of the revenue bond project team.
  - The project team proposes that CEA issue up to $350 million in two-year, three-year, and five-year bonds. The preliminary rating for the bonds for Fitch is “A.”
  - Revenue-bond proceeds would be used to pay CEA claims.
  - The guidelines for investing the bond proceeds follow the CEA’s usual investment policies and guidelines and are conservative.
  - The "claim-paying fund" is where the proceeds of the 2006 bonds currently reside, and the "claim-paying fund" is where the proceeds of the 2014 bonds would reside.
  - Consistent with the project team’s views, CEA staff proposes to retire the (existing) 2006 indenture by defeasing the 2006 bonds or putting remaining interest and principal payments into escrow for later payment. The escrow necessary to retire the 2006 indenture is $68.8 million. But the cost to the CEA would be only $37.778 million for full funding, since there is $31 million already in the interest and principal accounts held by the Trustee in the 2006 accounts.
  - The old indenture had “mechanical” problems, where at times money earned no interest because of end-of-the-day transfers. Investment income will be improved under a new indenture, which would stipulate a new transfer time of 11:00 a.m.

  - The old indenture paid the bonded debt by taking money out of the daily premiums received by the Trustee. The new indenture would allow the CEA to control the monthly debt payments in order to avoid overpayment.

- Mr. Richison said that staff recommends that the Board adopt a written resolution in the form presented today to the Board, approving the sale of the bonds on the terms and conditions that are there stated, and approve two 2014 budget augmentations: $5.85 million for the interest expense on the 2006 bonds and $2.5 million for the transaction expenses for the 2014 bonds.

Mr. Stroeh asked about reactions, now that there are no reserve accounts. Mr. Richison replied that the new arrangement is more efficient. Rating agency Fitch has given the CEA the same rating for 2014 as it provided for the 2006 bonds. The CEA has a good payment record. But should the CEA not pay principal and interest when due, the bond holders can still resort to collecting premiums coming in the door.

Mr. Shultz asked if the interest required as a budget augmentation to this year's budget would have been paid had the bonds continued to full maturity. Mr. Richison said yes.

Mr. Ghilarducci asked how much of the budget augmentation is already in the account. Mr. Richison stated most of the money, $31 million, is already in the accounts. Of the $37 million that is left and not presently in the account, $5.8 million is the new interest amount that would be put into the escrow account. Also, the transaction expenses for the 2014 issuance would be new money to be expended.

Mr. Shultz stated the $5.8 million in interest would have been paid out on the 2006 bonds over time had they not been defeased. Mr. Richison agreed.

Mr. Shultz said the $2.5 million might have been included in the cost, had reinsurance been purchased instead of issuing these bonds. Mr. Richison agreed that such an expense would come out of the bottom of available capital, so it can be put in the claim-paying capacity.

Mr. Ghilarducci asked what the ultimate objective of selling these bonds is. Mr. Richison replied that it is less expensive capacity than reinsurance, allows the debt market participants to get to know the CEA, and relieves pressure on CEA rates.

Mr. Wiley asked why it is important for the CEA to be known by the issuers. Mr. Richison stated the importance of building relationships is so that, on a post-event basis, the CEA would be more likely to be able to sell its bonds—being in the market develops a record with investors to shows that the CEA always pays its bonds when they are due.

Mr. Marshall pointed out a change from the form of resolution previously provided, noting that the CEA does not have a second investment-grade rating yet (as the original draft resolution had stated). He told the Board that he had added language on page 2, in Section 1, that the Authority staff's ability to move forward with the bond issuance depends on getting investment-grade ratings from two rating agencies.

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

4. Mr. Richison will present to the Board for its consideration and approval the annual transfer to the CEA Mitigation Fund of a statutorily directed portion of CEA investment income.

- Mr. Richison stated the Board annually sets aside an amount equal to five percent of investment income or $5 million, whichever is less, for deposit into the California Earthquake Authority Loss Mitigation Fund, as set out in the CEA law. The investment income for 2013 was approximately $21 million; five percent of that amount, or $1,064,574.96, will be set aside in the CEA Loss Mitigation Fund.
- The CEA's chief actuary, Shawna Ackerman, has reviewed the proposal to transfer the funds and has verified that it will not impair the actuarial soundness of the CEA.
- Mr. Richison said staff recommends that the Board authorize and approve setting aside $1,064,574.96 in the Loss Mitigation Fund.

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

5. Chief Executive Officer Glenn Pomeroy and Chief Communications Officer Chris Nance will present to the Board a post-event update on the August 24, 2014, South Napa earthquake.

- Mr. Pomeroy stated the CEA has received 441 claims. The take-up rate in Napa is half of the statewide average; about 6% of the homes have earthquake insurance. Of the 441 claims, 300 have been closed, totaling approximately $277,000 in claims paid. Twenty-five percent have received coverage under the new CEA feature that covers certain emergency repairs with no deductible, and of that amount only one-third maxed out (at the $1,500 emergency-repair sublimit) and the remaining two-thirds received an average CEA claim payment of $685.

By comparison, the La Habra earthquake earlier this year saw 450 CEA claims paid; 90 of those included the new emergency-repair payment, and only 14 of the 90 maxed out at $1,500 while the other 75 received an average CEA claim payment of $550.

Mr. Pomeroy welcomed representatives of the Red Cross to the Board meeting. He stated his respect for the Red Cross organization and his appreciation for the partnership between the CEA and the Red Cross that has formed over the years.

- Mr. Nance provided a report on the CEA's media presence in Napa:
    - A CEA news release was prepared and distributed about two hours after the earthquake.
    - The CEA moved swiftly to place how-to-file-a-claim radio ads.
    - The CEA completed approximately 40 interviews with reporters.
    - The CEA worked with the news media to correct the misinformation reported during the aftermath of the event.

- The CEA presented an open letter to Californians on the CEA website and paid to publish it in numerous newspapers, statewide.
- The CEA mailed a copy of the open letter and a “basics document” to 800 reporters and 23,000 agents so, in reporting on or handling future events, they can give accurate CEA-related earthquake information at a moment’s notice.
- Gina Plessas (of the CEA Consumer Services unit) worked at the local assistance center in Napa for two weeks, answering questions from policyholders and non-policyholders.
- The CEA hosted an agent forum on October 2nd in Napa with the USGS and Cal OES. There appeared to be interest in CEA agent-training offered earlier in 2014, but as a result of the August earthquake there were 71 attendees on October 2nd.
- The CEA and the San Francisco Examiner produced a 12-page insert for 13 newspapers throughout the Bay Area to go out on October 12th, focusing on the value of earthquake insurance for homeowners and the cost of reconstruction compared to the cost of earthquake-insurance coverage.
- The CEA sponsored the Bay Area Renters campaign.
- The CEA sponsored the statewide California Rocks! campaign.

Mr. Wiley asked if there was a social media complement to the insert available. Mr. Nance responded that the KGO ABC-7/San Francisco Examiner inserts will be available on the San Francisco Examiner website for a year and will be linked to from the CEA website. The CEA does not yet have a social media strategy but will in the coming months.

Mr. Ghilarducci stated there will be a Great California ShakeOut drill on October 16th, and the Loma Prieta earthquake anniversary is the 25thof October. He asked what the CEA activities will be for the ShakeOut.

Mr. Nance stated there are activities in both the San Francisco Bay Area and in Los Angeles:

- In Los Angeles, there is a talk at the City Hall, but it is based on the mayor’s schedule so there is no definite date yet.
- In the Bay Area, the ShakeOut will be in San Francisco, where the mayor will make his annual visit to a school, and Oakland, where there will be a ShakeOut drop, cover, and hold-on demonstration at a symposium.

6. 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.

There was no closed session.

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

There was no public comment.

8. Adjournment.

There being no further business, the meeting was adjourned at 2:54 p.m.