CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES

Monday, December 16, 2013
10:00 a.m.

Location: CALSTRS Headquarters Building
Board Room – Lobby, E-124
100 Waterfront Place
West Sacramento, California

Members of the Governing Board in attendance:
Mark Ghilarducci, designee of Chair, Governor Jerry Brown
Grant Boyken, designee of State Treasurer Bill Lockyer
Chris Shultz, designee of Insurance Commissioner Dave Jones

Members of the CEA Staff in attendance:
Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Todd Coombes, Chief Information Officer
Janiele Maffei, Chief Mitigation Officer
Chris Nance, Chief Communications Officer
Tim Richison, Chief Financial Officer
Bob Stewart, Chief Operations Officer
Marc Keller, Acting Governing Board Liaison
Danny Marshall, General Counsel

Also present:
Henry Williams, Vice Chair, CEA Advisory Panel
Kapil Bhatia, Director of Public Finance, Raymond James & Associates, Inc.
Rick Patterson, Managing Director of Public Finance, Raymond James & Associates, Inc.

1. The meeting was called to order at 10:00 a.m. A quorum was achieved.

2. Consideration and approval of the minutes of the August 29, 2013 Governing Board meeting.

MOTION: Mr. Boyken moved approval of the August 29, 2013, Governing Board meeting minutes; seconded by Mr. Shultz. 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 federal and state legislative activities of interest to the CEA.

- Senator Dianne Feinstein has reintroduced in Congress the Earthquake Insurance Affordability Act. The measure is important to the CEA, because it addresses the CEA's over-dependence on reinsurance as a source of risk-transfer—40% of the CEA's premium collected is spent on reinsurance protection. The CEA is seeking additional, more efficient risk-transfer solutions.

- The measure introduced this year is virtually identical to measures the CEA has initiated and supported in the past:

  - It lowers the overall amount for which the Treasury would have the authority to issue guarantees from $5 billion to $3 billion, making it clear that federal involvement would be very limited.

  - It restricts the size of a guarantee that any one entity could obtain to 50% of the entity's total permitted guarantee. This would limit the CEA's guarantee to $1.5 billion per event, which would still be extremely helpful.

  - It would make the CEA's products more affordable, enabling more people to buy insurance. And there is a new, separate provision to require a mitigation-related set-aside by the qualified entity; this would bring significant new dollars to the CEA's mitigation efforts in California.

  MOTION: Mr. Boyken moved that the Board support Senate Bill 1813, as introduced by Senators Feinstein and Boxer; seconded by Mr. Shultz. Motion passed unanimously.

- The Rockefeller Foundation recognized the City of Oakland and four other cities, naming them to the Resilient Cities Network, an initiative providing Foundation technical assistance to promote resilience. The CEA had submitted a letter, supporting Oakland's application to the program.

- Bruce Patton, CEA Director of Policy, Research & Special Projects, received on behalf of the CEA an award from the Earthquake Engineering Research Institute (EERI). EERI recognized the CEA Governing Board and the CEA for their support of research, particularly UCERF3 and NGA-WEST2.

- The California ShakeOut took place on October 17 at 10:17 a.m. Nearly 10 million Californians participated. The Tech Institute in San Jose assembled a large crowd of schoolchildren to attend the event, and Director Ghilarducci and Mr. Pomeroy spoke to them about earthquake preparedness.

- The Automobile Club of Southern California announced that it had received approval from the Insurance Commissioner to reduce homeowners rates by up to 7% if that policyholder has also purchased a CEA policy to insure their home for earthquake.

- Next year the CEA will roll out a new marketing and advertising campaign entitled *California Rocks!* Mr. Pomeroy showed the kickoff video.

(8. – Item taken out of order.) CEA Advisory Panel Member Henry Williams will provide a summary of the proceedings of the October 24, 2014 Panel meeting.

- The Panel recognized the new CEA Strategic Plan and looks forward to the companion 2014 Business Implementation Plan as a critical component.
- The Panel is coordinating with CEA staff in supporting a modernization of the law that requires an offer of earthquake insurance by residential property insurers—the revisions should help the public better understand earthquake insurance.
- The Panel received updates from Mr. Richison, Mr. Nance, and Mr. Maffei.

Mr. Shultz asked whether the Panel feels that the mandatory offer rewrite is moving in the right direction. Mr. Williams confirmed that this was the view of the Panel. Many Panel members are in the insurance business, he said, and speak with policyholders on a daily basis. And CEA staff has effectively taken the Panel's input on revising the language to make it more palatable to the public.

4. Mr. Pomeroy will present to the Board concepts to modernize legislatively the California law that requires an offer of residential earthquake insurance to be associated with the issuance of residential property insurance – the Board may consider, support, or sponsor related legislation.

- The present earthquake mandatory-offer system is broken and needs a new approach.
  - Fewer than one in 10 California homes have earthquake-insurance protection.
  - Written in the mid-'80s, the mandatory-offer language of residential earthquake insurance comes to a policyholder word-for-word as it appears in state law—intimidating and unfriendly. In addition, a 12.5-grade reading level equivalency is required for a reader to understand it.
  - The mandatory law is also inaccurate: It requires the insurance company to make certain assumptions about what the policyholder might want by way of coverage and deductible.
- The change in language that would be a part of the new law advanced by the CEA staff in discussions is intended to foster more of a dialogue between companies and their policyholders, to establish clearly that earthquake damage is not covered in homeowners policies and they need to consider a separate earthquake policy in order to be properly covered.
- The draft letter that CEA staff has circulated and advocated presents the offer in a way that isn't confusing, and it encourages and empowers consumers to make their own choices about what mode of protection is best for them.
- Staff is also working with insurers to place clear and unambiguous links on their websites and to promote agent training in earthquake insurance, in order to create a more meaningful "offer environment."

- Staff has received input from the Advisory Panel and from two consumer groups.
- There is also in the proposed legislation a change in the CEA's 17-year-old spending cap, which is outdated. When the CEA law was first enacted, it was decided that 3% of premium collected is the amount the Board can spend on CEA operations. But every time there is a CEA rate reduction—and the CEA has reduced rates over 45% in the past 15 years—the amount of premium that is part of the cap calculation is reduced. And this is the amount the CEA can actually spend on running the organization.
- Staff feels that eliminating the cap is a reasonable solution that would enable the Board to continue its work of providing careful and appropriate spending oversight. It is a win-win-win proposition:
  - It is good for the participating insurers, since staff will be able to work with them to give better information to service their policyholders.
  - It is good for the Board because staff will be better able to discharge the CEA mission of insuring more California homes.
  - It is good for policyholders because they will be better informed about risk and can make better choices about earthquake preparedness and whether they wish to insure.

Mr. Pomeroy described for Mr. Boyken the outreach to the industry that staff had done to discuss the proposal and obtain industry thinking.

Mr. Shultz stated that the Department of Insurance, with the CEA, has had discussions with many participating insurers. He felt that Mr. Pomeroy had characterized the position of many insurers accurately, namely that the mandatory offer does not make sense today. Mr. Shultz said that if the CEA is going to bear more of the new responsibility of marketing, two objectives would be served:

1. It would alleviate the problem that insurers are now treating the mandatory offer as a regulatory burden and are doing the bare minimum.
2. The CEA has an interest in selling the insurance and can continue to tweak the mandatory offer over time. The effect would likely be to increase the take-up rate, because it would constitute marketing instead of regulatory compliance.

The Treasurer's position is for a proposal of a 5% cap and recommends that CEA staff enter the legislative process and continue discussions.

> **MOTION**: Mr. Boyken moved to direct CEA staff to begin with the legislative proposal to pursue both changing the language of the mandatory offer and effecting changes to the spending cap, recognizing the Treasurer's position; seconded by Mr. Shultz. Motion passed unanimously.

5. Mr. Pomeroy will present and seek Board approval of the 2014-2016 CEA Strategic Plan.

- The previous CEA Strategic Plan was drafted in the early 2000s. Staff felt it was time to update it in order to provide a new framework for innovation, creativity, and ambition, to permit getting more homes in California insured than the current structure is able to provide.
- Staff received extensive input from the Advisory Panel, stakeholders, and the Earthquake Country Alliance.
- The new Strategic Plan has a revised mission statement, vision, and core values.
- The plan is organized into three main goals: Educate, Mitigate, and Insure. Mr. Pomeroy explained each of the goals.
- Each goal has priorities organized in three main categories: innovation, research, and technology. They will allow staff to develop a Business Implementation Plan around the priorities.

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

6. Chief Financial Officer Tim Richison will present a financial report.

- The CEA is on-target to be under budget for the end of 2013.
- Of the CEA's $5 billion in cash and investments at the end of the third quarter, $4.4 billion was available capital to pay claims.
- Mr. Richison introduced a new page in the regular financial report, which will show the risk-transfer contracts in order of the contract expiration date. The laddering of the risk-transfer contract spreads the amounts of risk-transfer the CEA has to purchase at any one point. It is the ultimate goal of staff that market conditions not be the sole control of the price of risk-transfer the CEA purchases.
- With the new risk-transfer-purchase process, the CEA will be able to buy just the amount it needs, providing the capability not to over-buy or under-buy.
- During the last two years, the CEA has worked on enhancing the financial security backing the CEA's risk-transfer contracts. By using collateralization, letters of credit, or guarantees, the CEA can put in place the financial security it needs to if that reinsurer does not meet CEA's guidelines for risk-transfer purchase.
- Rating agencies have indicated they like the changes CEA has made to its risk-transfer program. This includes the just-in-time capability to purchase risk-transfer as well as the credit enhancements.
- CEA's outstanding revenue bonds will be paid off in July 2016.
- Fitch Ratings assigned the CEA bonds a rating of "A" and an outlook of "stable." It is the same rating it has given CEA since it started rating the Authority several

years ago. Some of the stated, key rating drivers were strong claim-paying resources, adequate capitalization, and very strong financial flexibility.

7. Chief Communications Officer Chris Nance will update the Board on the CEA's marketing campaigns.

- After three years of promoting CEA policy sales through its Marketing Value Program, some of CEA's key accomplishments include:
  - Introduction of CEA's brand, the Strength to Rebuild.
  - Reintroduction of the CEA and the policies it sells.
  - Focused engagement of the agents who sell CEA policies.
- CEA has joined forces for two years with the American Red Cross to promote risk education through a newly created statewide auction and the ongoing Great California ShakeOut.
- Misinformation still exists about earthquake insurance and earthquake risk.
  - Many people believe government will pay to repair earthquake damage.
  - Many people believe they will not be affected by earthquake damage.
  - Some believe their homeowners policy covers earthquake damage.
  - Some living in higher-risk areas mistakenly believe their risk is lower.
  - Just a third of new CEA policies purchased come with agent recommendations.
- Despite these barriers, CEA is increasing efforts to promote policy purchases through its PIs:
  - Overall marketing impressions increased from 2012 to 2013.
  - Staff refined its targeted demographic, resulting in a nearly two-to-one jump in the total number of marketing impressions delivered.
  - The CEA is promoted in nine radio markets and six TV markets.
  - Staff reduced the number of online impressions through a budget reduction.
  - Online advertising included 99 newspapers statewide.
  - The CEA reached ethnic communities through New America Media.
  - More direct mail was distributed in 2013 despite fewer agents participating in the MVP.
  - The statewide auction and the Great California ShakeOut successfully served as events around which CEA marketing could be implemented.
- New creative assets for 2014 include TV, radio and online ads, combined with CEA's new Cooperative Marketing Venture (CMV), in which 7 of 19 participating insurers have expressed interest.
- Mr. Nance played 15-second TV ads from its campaign for 2014: *California Rocks!*

- Staff has released an RFQ for a new marketing and strategic communications firm.

Chair Ghilarducci asked about past and future metrics. Mr. Nance replied that the previous campaign had met several different metrics. An independent firm, for example, had evaluated the effectiveness of its television ads in two markets—Sacramento and Los Angeles—and had found that they outperformed 80 percent of all brands advertising in those markets at that time.

Mr. Nance added that CEA's broadcast, online, and direct-mail advertising succeeded in moving many consumers to CEA's online information, where it earned, for the first time, more time from consumers considering earthquake insurance than from agents working with CEA's premium calculator.

In 2014, Mr. Nance explained, CEA's Cooperative Marketing Venture (also for the first time) will enable consumers considering earthquake insurance on CEA's online landing pages to connect directly with agents representing its participating insurers in order to purchase a CEA policy. He further explained that the most important near-term metric for CEA marketing is moving from 7 of 19 insurers participating in the Cooperative Marketing Venture to 19 of 19.

Chair Ghilarducci asked if staff had engaged the California State Association of Counties (CSAC) and the League of Cities. Mr. Pomeroy replied that with respect to the federal legislative effort, CEA had worked closely with a number of those organizations. In regard to those legislative efforts, CEA had not directly promoted the purchase of earthquake insurance through trade associations representing local governments. The CEA is working, however, to promote earthquake insurance for renters at community levels.

Mr. Nance added that staff has working specifically with a member of a county Board of Supervisors to develop pilot programming to address shared objectives for increasing take-up for renters insurance.

9. Mr. Richison will present to the Board the results of a CEA competitive procurement and will recommend for Board approval the selection of Plante & Moran, PLLC, as the CEA's new independent financial auditor.

The CEA operates under a Board-approved policy to change its external independent financial auditors every five years. In August 2013, the current auditor presented the audit of the CEA's 2012 financials. That firm's contract term ended with that presentation.

Staff put out an RFP in July 2013 for a new auditor to start audit the financials for CEA FY2013.

Staff has made the recommendation to the Insurance Commissioner, following state law, to select Plante & Moran as the new auditor, which the Commissioner approved. Staff then made the same recommendation to the Department of Finance, also following state law, which also approved Plante& Moran.

MOTION: Mr. Shultz moved approval of the selection of Plante & Moran as the CEA's independent financial auditor from 2013 to 2017; to authorize the CEO

Glenn Pomeroy to negotiate and execute the contract on behalf of the CEA; and to have staff bring the matter to the Board when that contract is executed; seconded by Mr. Boyken. Motion passed unanimously.

10. Mr. Richison will seek Board approval to contract with "small" asset managers, selected in a competitive procurement, and execute resulting, negotiated contracts with Miles Capital, Chandler Asset Management, and Smith Graham.

The CEA seeks to diversify its investment managers. It has split them into two groups:

- Large investment management firms, which have assets under management in excess of $10 billion.
- Small investment management firms, which manage less than $10 billion or less.

CEA typically contracts with investment managers for a five-year term.

Staff recently put out an RFQ for small investment managers, which attracted five respondents. The RFQ stipulated a maximum fee of 6 basis points for managing CEA assets. The investment managers being recommended today proposed fees in the range of 4.5 to 6 basis points.

A panel reviewed the proposals and is recommending that the CEA hire three firms.

MOTION: Mr. Boyken moved approval of the staff's recommendation to negotiate for investment management services with Smith Graham & Company, Miles Capital, and Chandler Asset Management; and to authorize the CEO Glenn Pomeroy to negotiate and execute the contracts. Seconded by Mr. Shultz. Motion passed unanimously.

11. Mr. Richison will present to the Board the CEA's 2014 Risk-Transfer Strategy.

The Board approved guidelines for staff to follow in obtaining risk-transfer contracts. As part of those guidelines, staff must present to the Board for approval annually the risk-transfer strategy for that year.

Using the guidelines has enabled CEA to substantially reduce its risk-transfer rate-on-line, obtaining as much as a 20% reduction compared to the equivalent expiring contracts. In 12 2013 transactions, the CEA purchased just over $3.3 billion.

Staff has been working with rating agencies A.M. Best, Moody's, and Fitch to try to secure approval of adjusting the CEA's financial-strength level of 1-in-500; that is the level the CEA must maintain to retain its rating with the respective agencies. But the newly established diversity of the CEA risk-transfer program, its higher quality, and CEA-instituted changes in the timing of risk-transfer purchases has led the agencies to reduce their required financial-security level. Fitch has reduced its level to a 1-in-400 year, while each of the other two agencies reduced their levels to 1-in-450 year.

- Staff will be attempting to lock in future risk-transfer capacity at lower rates for longer terms of time if rates start to increase, benefitting the CEA over the long term.

- Staff presented its proposal for the CEA's 2014 Risk-Transfer Strategy, aiming to obtain a claim-paying capacity between 1-in-450 years and 1-in-550 years.

  MOTION: Mr. Shultz moved approval of the 12-month risk-transfer strategy; seconded by Mr. Boyken. Motion passed unanimously.

12. Kapil Bhatia, Director of Public Finance, and Rick Patterson, Managing Director of Public Finance – both of Raymond James & Associates, Inc., the CEA's independent financial advisor – will present to the Governing Board the annual report on the state of the economy.

Mr. Patterson presented an economic overview.

- Although the recession has technically been over since 2009, fundamentals remain weak. This is the longest downturn since World War II.
- The Federal Reserve has taken action through three different Quantitative Easings to stimulate economic growth and maintain short-term interest rates at historic lows. This has impacts on the CEA, since many of its assets—by liquidity, need, and policy—are invested on the short end of the curve.
- Equity markets have had an excellent year, with both the Dow and S&P 500 posting record gains.
- Another highlight is a record high in corporate issuance because issuers are taking advantage of low interest rates.
- The municipal bond issuance is off a little in 2013 compared to 2012: Approximately $280 billion of issuance, year to date, $30 billion of which is in the taxable market.
- To address the financial crisis, four major central banks—the United States, UK, Euro Zone, and Japan—have invested, in the aggregate, roughly $4.7 trillion.
- The Federal Reserve's three "quantitative easings" are estimated to have increased U.S. GDP by roughly 1 to 3% and prevented a catastrophic failure in the global financial system.
- The federal budget deficit was reduced 41% from 2012 to 2013.
- The major source of revenue for the federal government is individual income taxes: 46% last year.
- Even though the global economy remains sluggish, it is expected to grow in 2014.
- Euro Zone countries Greece, Portugal, and Spain are projected to go into the black in 2014, relieving financial-sector stress.
- Regarding the fiscal cliff, it appears that a compromise has been reached to avoid a government shutdown on January 15. It would also allow the government to avoid the fiscal cliff for Fiscal Year 2014-15.

- Unemployment has declined since 2010. Currently it is at 8.7% for California and 7% for the nation. Nonfarm employment continues to increase.
- Consumer sentiment is currently at 73.2%, which is 31% higher than in August 2011. Consumer spending is projected to continue to increase.
- Since the third quarter 2009, there has been positive growth in the real GDP in every quarter except one. GDP growth will remain low, at roughly 2.5% over the next two years.

Mr. Bhatia discussed the financial markets and risk-transfer markets.

- Over the past four years, the stock market has increased over 175%, primarily because of asset inflation.
- In 2014 interest rates will go up marginally, moving to near normal by early 2015.
- The U.S. debt has increased significantly, to $38 trillion at the end of the second quarter of 2013, 365% of GDP.
- The debt is coming down. In addition, the Treasury debt is lower, agency debt is lower, and corporate debt is higher, which leads to more production and output. This is heading in the right direction.
- The municipal markets have grown significantly over the last 13 years, almost doubling, but they are still very small compared to the corporate markets.
- The corporate market has been on fire over the last five years, with over $1.2 trillion of issuance.
- California has always been one of the large issuers in the municipal markets. So far, 2013 year-to-date, $44 billion of debt has been issued, a 19% increase from 2012.
- Risk-transfer rates, whether in the traditional reinsurance market, collateralized market, or capital markets, are at an all-time low.
- There is more capital in the reinsurance market today than ever before, because more and more reinsurers and alternative investors are looking to invest monies in this space.
- The capital markets, as is the traditional-reinsurance market, are still producing returns of 7 to 9%, overall.
- There have been some earthquakes and other natural disasters, but overall the losses have been at lower levels compared to the historical average, looking at the capital. With low interest rates the CEA should see some benefits in its risk-transfer program.
- The capital markets for risk-transfer are robust: the outstanding amount is almost $20 billion.
- Changing investor interests are leading to lower risk-transfer rates. This benefits the CEA, which can diversify resources and diversify at the lowest cost.

- On an average, total capital coming into the risk transfer market over the next 5 to 10 years is expected to reach $100 billion to 200 billion. That pressure is leading to reduced pricing, more creative structures, and more multi-year transactions locking rates for both sides, even at the lowest interest rate.
- In the corporate space, they are looking to buy back stock to increase return on equity.
- Rating agencies, the insurance industry, and the reinsurance industry have all given the same statement: the additional capital infusion—increasing competition from the alternate market—is creating more pressure on traditional reinsurers.
- The biggest benefit coming out of pre-event financing is trying to prepare the market so that investors understand the CEA. Investor education is one of the most important elements in reducing the CEA's overall cost of financing.
- The greatest objective that the CEA can achieve is to affect how investors see the CEA's credit, not just to capture the low interest rates or to maintain sustainability and flexibility in its capital structure.
- With investor education, the CEA won't have to go to the market after an event and educate them on what the CEA is and what it does. As the outstanding bonds are maturing, new investors need to be educated. Investor outreach is the most important reason to do the pre-event financing.
- As the financial advisor to almost every state-sponsored entity in the country, Raymond James & Associates considers the CEA to be the gold standard: the CEA has strong management, excellent claim-paying resources, a strong risk-transfer program, diversification, and stability. Further, it has a strong investment portfolio that's all in Treasury securities.
- From a sustainability perspective, Raymond James & Associates, Inc. recommends:
  - Continuing to diversify the risk-transfer program
  - Look at more catastrophe-risk transfer through a transformer structure, considering where the rates are and where the additional capital is
  - Using pre-event revenue bonds for outreach to more investors
  - Continuing to evaluate alternative access to the capital sources

13. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA's Mitigation Program Guidelines Project and mitigation-related research.

Regarding the Mitigation Program Guidelines Project:

- Going forward into 2014, Ms. Maffei said she will switch from using the word "guidelines" to using "pre-standard," thus indicating that the Project will create a document that uses the process and vocabulary of a pre-standard, to be eventually adopted as a standard.

- The building code is now a bookshelf full of standards, adopted by various states and entities by reference. The Project goal is to develop a pre-standard that will turn into a standard that the State of California can adopt.
- Those present at the first organizational Project meeting included:
  - Program Manager John Heintz of ATC
  - Project Technical Director Colin Blaney, a structural engineer
  - Project Steering Committee Chair David Bonowitz, a structural engineer
- The Technical Committee and the Steering Committee each contains roughly eight people. They will be putting together a schedule and a draft of work for 2014.
- Regarding mitigation-related research, the CEA's Multi-disciplinary Research Team has started to examine loss-reduction resulting from mitigating a cripple-wall house, and it has begun by looking at existing loss models.

14. Ms. Maffei will update the Board on the California Residential Mitigation Program (CRMP) incentive program, operated by a joint powers authority whose members are the California Office of Emergency Services and the CEA.

- Ms. Maffei is the Executive Director of the California Residential Mitigation Program (CRMP), a program of a joint powers authority whose members are the CEA and Cal OES.
- CRMP has launched its pilot program, selecting 10 houses in Oakland and 10 in Los Angeles. The homeowners have begun to select contractors, some have gotten permits, and some have begun the retrofit work that the CRMP funding will support.
- Ms. Maffei showed an animated video related to the CRMP's "Earthquake Brace + Bolt" program.
- Mr. Pomeroy recognized Ms. Maffei's work on the video.

15. Chief Information Officer Todd Coombes will seek Board approval for the 2014 CEA IT Initiatives and Project Portfolio.

- Staff is focusing on using technology to add value and be a mechanism, following the Educate, Mitigate, and Insure goals in the Strategic Plan priorities.
- Staff is moving forward with a concept of formalizing IT project strategies and have built a 2014 IT Project Portfolio.
  - They went to each of the departments within the CEA, asking for a list of technology projects that would benefit them in 2014.
  - From the resulting 45 projects, the staff felt there was enough capacity internally and externally to do 27 projects.

- The portion of support that CEA must procure from external resources to help on the 27 projects will cost $1,512,980.
- Mr. Coombes explained a chart showing descriptions, schedules, and anticipated external costs of each of the 27 projects.
- Staff will report to the Board on the progress of the portfolio via a periodic scorecard, addressing expenditures, risks, and any changes.
- Staff does not intend to come back to the Board to ask for more funds for the 2013 portfolio.

MOTION: Mr. Boyken moved approval of the external contractor expense for the IT projects not to exceed $1,512,980; seconded by Mr. Shultz. Motion passed unanimously.

16. Mr. Coombes will update the Board on the CEA's IT Infrastructure Managed Services RFP.

- Staff wants to improve the IT infrastructure at the CEA. Currently most of the infrastructure, in terms of servers, data capacity, network equipment and so on, is located at the Sacramento office. Two third-party external data centers that contain CEA data are located in Dallas and Chicago.
- Staff has put out an RFP for bids to create an infrastructure that would include a third-party data center located in Sacramento, to be supported by a secondary data center located somewhere outside of higher-risk earthquake and flood zones.
- The strategy would be to send data constantly through a data pipe from the primary center to the secondary center, where it would be captured, backed up, and stored in case of a disaster.
- Staff will come to the Board at the next meeting with the selected firm, the contract, and the pricing.

17. Mr. Coombes will present to the Board a proposal for CEA IT-project procurements and contracts.

- Staff proposed a competitive-bid use method using the General Services Administration's GSA IT-70 list, supporting contracts without formal procurement with a cost of up to $300,000 per project, annually.
- In connection with that, staff is seeking an extended authorization for the CEO to contract up to a $300,000 threshold without Board approval, but with the agreement of the General Counsel and the CIO. This would represent an increase from the current $100,000-per-year level of CEO authority that is applicable to most contracts.
- Staff will follow up with a more specific set of processes and a charter. The General Counsel has prepared information outlining this information.

- Mr. Marshall walked the Board through the resolution.

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

18. Mr. Pomeroy and Mr. Richison will present the 2014 CEA insurance-services budget for Board consideration and approval.

- Mr. Pomeroy spoke about the unique CEA structure. It is not a state agency but a hybrid—a public instrumentality of the state established by act of the Legislature to operate essentially as a not-for-profit insurance enterprise that provides earthquake insurance to Californians.
- The CEA is not a part of the state budget in any way and receives no tax dollars to run its operations. CEA operations are funded almost entirely by its policyholders.
- Although privately funded, the CEA is publicly managed by its statutorily created Governing Board: the Governor, the State Treasurer, the Insurance Commissioner (as voting members), and non-voting members consisting of the leaders of the Assembly and the Senate.
- Once a year the Board establishes the annual budget for the upcoming year. At the quarterly meetings the Board ensures that CEA policies are being implemented by staff.
- The approved budget for 2013 was $371 million. The proposed budget for 2014 is $345 million.
- Current law limits the CEA's core operating expenses to 3% of premium.
- For 2013 the Board approved $15.2 million for operating expense. The proposed budget for 2014 is $15.5 million, which is less than the 3% statutory cap.
- In the future the statutory cap will inevitably limit the CEA's ability to move to the next level.
- Mr. Richison compared the 2013 budget with the proposed 2014 budget. He explained the increases and decreases in the categories.
- The 2014 budget contains a new category, IT Services, to track expenditures for IT projects.

Mr. Shultz noted the decrease in Commissions and PI Operating Costs for 2014. Mr. Richison explained that this was due to a projected decrease in CEA-policy count.

Chair Ghilarducci noted the continuing increase in the cost of risk-transfer. Mr. Richison explained that the increase tracks the rising cost of rebuilding a residential structures in California. He said that insurers do a good job of making sure when homeowner policies are renewed that the cost to rebuild is recomputed. So although the CEA's policy count may remain the same, CEA's exposure to the reconstruction costs continues to go up.

MOTION: Mr. Shultz moved approval of the 2014 proposed insurance services budget and moved to direct the staff to operate the business within the approved budgeted amounts; seconded by Mr. Boyken. Motion passed unanimously.

19. Ms. Maffei and Mr. Richison will present the 2014 CEA Mitigation-Program budget for Board consideration and approval.

Mr. Richison stated that the increases in the proposed 2014 mitigation budget are in direct relation to the success of the Brace+Bolt program. He then explained certain increases, particularly in categories of staffing and Non-Paid Consultant Travel.

Mr. Richison said that the $850,000 proposed for mitigation projects applies to activities outside of the CRMP program. He clarified for the Board the difference between CRMP program funding versus the CEA mitigation budget proposed today.

MOTION: Mr. Shultz moved approval of the 2014 CEA Mitigation Program budget; seconded by Mr. Boyken. Motion passed unanimously.

20. Mr. Pomeroy will present for Board consideration and approval the 2014 Governing Board meeting calendar.

MOTION: Mr. Shultz moved approval of the 2014 Governing Board meeting calendar; seconded by Mr. Boyken. Motion passed unanimously.

21. 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.

Mr. Marshall stated that there was no closed session.

22. 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.

23. Adjournment.

MOTION: Mr. Shultz moved to adjourn the meeting; seconded by Mr. Boyken. Motion passed unanimously.

Chair Ghilarducci adjourned the meeting at 1:06 p.m.