

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, February 27, 2014
1:00 p.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 Governing Board Chair Governor Jerry Brown
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 Darrell Steinberg
George Wiley, designee of Speaker of the Assembly John Pérez

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

- 1. The meeting was called to order at 1:02 p.m. A quorum was achieved.**
- 2. Consideration and approval of the minutes of the December 16, 2013, and February 10, 2014, Governing Board meetings.**

MOTION: Mr. Shultz moved approval of the December 16, 2013, and February 10, 2014, Governing Board meeting minutes; seconded by Mr. Boyken. 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.**

- At the previous Governing Board meeting, the Board and staff had discussed why so few Californians purchase earthquake insurance. The CEA is now addressing those reasons with the initiatives in the new Strategic Plan adopted by the Board in December 2013.
- The Strategic Plan focuses on three goals: Educate, Mitigate, and Insure.
 - Educate. The CEA is developing research-based messaging conveyed via a number of programs: direct mail from agents to their insureds; the Cooperative Marketing Venture (CMV) program; paid advertising on TV, radio, and online; collaborations with organizations such as the American Red Cross; and the Great California ShakeOut. The educational banner for 2014 will be *California Rocks!*.
 - Mitigate. Financial incentives, Pre-Standard Guidelines development, and mitigation-discount research programs are underway.
 - Insure. To address the cost barrier that exists for some homeowners, staff continues to pursue federal legislation in Washington that would enable the development of more affordable, and therefore more valuable, insurance. The legislation also would provide additional *private* dollars for education and mitigation.
- In addition, the CEA is seeking to replace the 30-year-old mandatory-offer law with updated language that will change the way Californians learn about and buy residential earthquake insurance. This concept is now in Assembly Bill 2064 (Cooley). The CEA has received an unsolicited first letter of support for the legislation from United Policyholders, a major California consumer and policyholder-advocacy group.
- The California Senate will hold informational hearings beginning in late March on earthquake insurance and response.
- The Western States Seismic Policy Council issued a press release announcing award recipients for 2014. The CEA an excellence award, characterized as “*Education Outreach: Presented to the California Earthquake Authority for Public Education, Mitigation and Research Activities.*”

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

- During the CEA’s 2013 budget year, approximately 90% of the Insurance Services budget was expended, while 75% of the Mitigation budget was expended in 2013.
- CEA has \$4.5 billion of surplus available for payment of claims as of December 31, 2013.
- Many different Risk-Transfer-Program contracts became effective during the course of 2013, with various beginning and end dates. The risk-transfer contracts are not all one-year contracts; several are two- and three-year contracts. The CEA spent \$212 million in 2013 on purchasing risk-transfer, while in the previous year the CEA spent approximately \$220 million.
- The completed January risk-transfer placement showed some of the lowest rates for risk-transfer contracts that the CEA has seen. There is an abundance of capital for risk-transfer available through both traditional reinsurers and through the larger capital markets.

- The CEA faces an ongoing issue: the cost to rebuild houses increases every year, which in turn has a direct effect of increasing the CEA's total exposure. In order to establish its claim-paying capacity at a level of 1-in-465-years, the CEA determined that it would purchase \$3.6 billion of risk-transfer.
- As a result of the completed placement of the January 2014 risk-transfer program, CEA has in place risk-transfer contracts of intentionally varying terms: 63% are one-year contracts, 12% are two-year contracts, and 25% are three-year contracts. The CEA's risk-transfer strategy aims to diversify various aspects of risk-transfer mechanisms, including the source of funds that back promises underlying risk-transfer: at any one point, therefore, an adverse economic or other disruptive event would have less effect on (1) the price the CEA must pay to obtain risk-transfer as well as (2) the terms of that risk-transfer.
- The CEA's collateralized reinsurance contracts also strengthen the financial ability of the CEA.

5. Mr. Richison will seek Board approval to contract with liquidity fund investment manager and primary fund investment manager, selected in a competitive procurement, and execute the resulting, negotiated contracts with Eaton Vance Management and American Beacon Advisors.

- The CEA has put out several RFPs for investment managers.
 - An October 2013 RFP for a CEA Liquidity Fund investment manager (to manage the short-duration fund that provides ready cash after an earthquake): The CEA received three proposals.
 - A December 2013 RFP for Primary Fund investment managers (operating as large firms): The CEA received four proposals.
 - The procurement selection panel conducted site visits to the most highly qualified, highest-scoring firms.
 - For CEA Liquidity Fund investment manager, Eaton Vance was awarded the most points, and CEA procurement selection panel visited Eaton Vance in January 2014 for a formal review.
 - For Primary Fund investment managers, the selection panel did not need to conduct a site visit for one of the firms, American Beacon (because American Beacon is an existing CEA contractor with proven abilities and capabilities), but still plans to visit the three other top-scoring firms, Schroder, Goldman Sachs, and Cutwater, before completing the evaluation process.
- Staff recommends Eaton Vance as a Liquidity Fund investment manager and American Beacon as a Primary Fund investment manager

Mr. Ghilarducci asked about the duration of the contracts. Mr. Richison responded that the contracts will have terms of five years with options for two one-year extensions; he added that over time, the CEA has negotiated reduced the fees charged by investment managers.

Mr. Stroeh asked if the New York firms have offices in California. Mr. Richison replied that Goldman Sachs does have a small office in San Francisco, but that Eaton Vance, Schroder, American Beacon, and Cutwater do not have offices in California.

MOTION: Mr. Boyken moved approval of the staff recommendation to negotiate for investment management services with Eaton Vance and American Beacon, and to authorize CEO Glenn Pomeroy to oversee contract negotiations and execute the contracts on behalf of the CEA; seconded by Mr. Shultz. Motion passed unanimously.

6. Mr. Richison will seek Board authorization to set the CEA participating insurers' respective maximum-earthquake-loss funding-assessment levels, effective April 1, 2014.

Mr. Richison explained that the CEA is required by law each year to inform its participating insurers of their respective shares (for the ensuing 12 months) of the participating-insurer assessments that are part of the CEA's financial structure. A participating insurer's assessment share is based on its CEA market share as measured by CEA-premium.

The "new industry assessment layer" requires another calculation, done each year, as that layer (by law) rolls off. For 2014, the new industry assessment layer is experiencing the legal minimum roll-off, \$89 million, which will reduce that layer to just over \$311 million.

The second industry assessment layer stands at approximately \$1.655 billion.

Mr. Richison directed the Board to his report showing the CEA market share of the participating insurers and each such insurer's residential property insurance market share—the data are from the California Department of Insurance. The report provides the CEA-calculated assessment liability for each participating insurer in both the second industry assessment layer and the new industry assessment layer. Board approval of these amounts is an annual legal requirement.

MOTION: Mr. Boyken moved that the Board approve the report and instruct CEA staff to notify each participating insurer of its maximum assessment liability for the next 12 months; seconded by Mr. Shultz. Motion passed unanimously.

7. Chief Mitigation Officer Janiele Maffei will provide a report to the Board on the activities from the 20th Anniversary of the Northridge Earthquake event, including sponsorship by the CEA and staff participation in the historic two-day symposium.

- As a lead sponsor of the *Northridge 20* symposium, the CEA was integral to its planning and execution. Ms. Maffei served as co-chair of the program committee and master of ceremonies for the symposium. The theme was impacts, outcomes, and next steps.
- The keynote speeches were followed by technical speakers from a broad spectrum, such as earth science, business and insurance, and structure materials.
- A collection of symposium recommendations was adopted and ceremonially signed by representatives of each of the participating organizations.

Chief Communications Officer Chris Nance spoke about the opportunity for education afforded by the event.

- The media-relations program was in two parts:

- Earned media: An op-ed piece in the Los Angeles Times.
- Paid media: Ads in 11 newspapers for a week and several radio stations for four weeks, adding up to approximately seven million impressions. Consumers were prompted to go to the CEA website landing page and then to the participating insurers' website home pages to purchase a CEA policy.

8. Ms. Maffei will update the Board on the CEA's mitigation program "Pre-Standards Project" and other mitigation-related research.

- The Pre-Standard Project is currently called ATC 110 (ATC means CEA contractor Applied Technology Council). ATC has identified a project technical team and produced a work plan with the title "Development of a Pre-standard for the Evaluation and Retrofit of One and Two Family Light Frame Residential Buildings."
- Ms. Maffei described the ATC personnel and project team composition.
- The next steps are to investigate and develop an outline, develop a draft, and present the draft in August. Ms. Maffei said she intends to return to the Board with recommendations for the following year.

Mr. Ghilarducci asked about coordination with the Seismic Safety Commission or the California Building Standards Commission, since the Pre-Standards will have an impact on the California Building Code. Ms. Maffei replied that it will be a consensus process and stakeholders can review the document at all stages and ATC will incorporate its comments.

Mr. Ghilarducci then asked about post-event-funding availability and the eligibility of homes for federal or state post-event aid. Ms. Maffei responded that Pre-Standard will exist to give homeowners both pre-earthquake mitigation steps and post-earthquake steps for increasing performance.

Mr. Shultz asked about progress after the first steps—things that will permit homeowners to perform work according to developed standards. Ms. Maffei explained that the document will have plans for contractors and homeowners to use without engineers, and then a second, more technical part for engineers.

She continued that participants hope the Pre-Standard will be adopted by reference into the California Existing Building Code. She confirmed Mr. Stroeh's observation that they are developing a process for moving through the levels of complexity, making sure that the final product has information that helps homeowners complete a cost-benefit analysis.

9. 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.

- People in the four CRMP-incentive-program (*Earthquake Brace + Bolt*) ZIP Codes were reached via paid media: postcards, door hangers, and "stickies" in the Los Angeles Times directing people to the CEA website. Ms. Maffei showed a breakdown of response.
- At the website were a qualification process and a registration form. 653 people went through the pre-qualification survey, with 460 people actually qualifying. The final selection of participants was done by lottery.

- After program selection, successful homeowners hired a contractor, obtained a building permit, and completed their retrofit and uploaded documentation to the website, including the following:
 - The amount spent (for reimbursement purposes).
 - Before-and-after pictures.
 - A signed building permit.
 - A federal tax form, W9, or payment-authorization form to document direct payment to a third-party contractor.
- The program staff review each document; each homeowner will receive up to \$3,000.
- The website includes an education component: Contractors take a test, and after passing it they can list name and contact information on the EB+B website.
- The pilot will complete at the end of March 2014. The program evaluation, already underway, will be very important.
- For the future, additional funding will be sought to expand the project to follow the initial success of the pilot.

Mr. Stroeh commented that the project has to be integrated into the whole issue of insurance.

Mr. Boyken asked if contractors who have participated would take part in marketing.

Ms. Maffei said she felt that they would be the program's key marketing group.

Ms. Maffei and Mr. Stroeh provided information on cripple-wall bolting.

Ms. Maffei informed Mr. Ghilarducci that no major challenges had yet surfaced that require correction as a result of the pilot.

10. Chief Actuary Shawna Ackerman will present for Board consideration a renewal and extension of the CEA's contract with earthquake modeling firm AIR Worldwide ("AIR").

- AIR is one of three modelers with which the CEA currently contracts. AIR, EQECAT, and RMS models are commonly in use at insurance companies, reinsurance companies, and brokerages that deal with catastrophe insurance.
- For almost the last 10 years, AIR has provided the CEA with two significant analyses:
 1. A biannual portfolio analysis, which helps with CEA financial-capacity calculations.
 2. Modeling information for the CEA's proprietary Earthquake Loss Estimation (EARLE) system, which allows staff to quickly assess and provide the Board with estimated losses seven days after an event occurs.
- Those two pieces within the AIR contract amount to \$70,000 and \$150,000 per year. Under the proposed contract, each piece will increase by about \$15,000 per year.

Mr. Ghilarducci asked how fast staff can get loss estimation after an event. Ms. Ackerman described the process, which is designed to deliver an estimate to the Board within seven days

after the event. (1) The process begins with a preliminary estimate from the EARLE administrator, Exponent, that is delivered within 24 hours after the event. (2) The three contracted loss modelers then provide their estimates within the two days following. (3) Depending on the size of the event, staff sends claim adjusters to collect additional data, based on a random sample of claims—the modelers then use that additional data to adjust their estimates. By the seventh day, staff can give the Board its best estimate of the event-related damage and the CEA’s estimated losses.

MOTION: Mr. Boyken moved approval of the staff recommendation to renew the contract with AIR and to authorize the CEO to execute and negotiate the contract; seconded by Mr. Shultz. Motion passed unanimously.

11. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2014 CEA IT Project Portfolio.

- Staff prepared a detailed seven-page report that describes each project.
- Staff has begun 55% of the projects. 94% of the portfolio projects are tracking according to plan.
- In the first two months of 2014, staff has focused on parts of projects that did not require payment to external resources.
- Five projects were added to the portfolio, and one original project was split in two.
- The names of some projects were changed for clarification.
- Nine projects out of 33 had planned-completion-date adjustments.
- Staff is still tracking to the approved \$1.5 million for 2014.
- Risk assessment: Staff is in process of changing how IT works on software upgrades and development.
- Portfolio size: Staff is carefully taking into account available bandwidth to achieve correct execution of all projects.

Mr. Boyken asked about the internal-audit closure. Mr. Coombes responded that it would be closing out within the assigned timeframe.

Mr. Ghilarducci asked about the projects on hold. Mr. Coombes explained their status:

1. Implementing human-resources system is on hold to accommodate other work they are doing.
2. The governance tool software is moving at a slower pace than originally planned because it is particularly important that the team gets it right.
3. The infrastructure managed services project had been slower to move through some of the RFP initial efforts than originally planned.

12. Mr. Coombes will update the Board on a procurement charter to support the portfolio-related contracting.

- The procurement charter was proposed to permit staff to safely conduct certain levels of procurement and contracting, going directly to the Board less frequently.

- Staff worked with Legal and IT to build specific steps for a detailed charter.
- Mr. Coombes described the procurement portion of the process.
 1. Procurements will come from the federal government General Services Administration (GSA) IT Schedule 70 contractor list.
 2. The number of available contractors will be reduced from 5,000 to fewer than 100 using stated criteria.
 3. From that group, staff will identify no fewer than 10 candidates and subject them to further benchmarks.
 4. The narrowed field will receive a standard letter that explains the CEA's minimum terms and conditions and also describes the work sought to be procured.
 5. The final candidates – no fewer than three – will enter into a final stage of competitive analysis.
- The contracting part of the process would be negotiating with the best candidate, and coming up with the best terms, conditions, and pricing.
- The final portion would consist of unanimous agreement on contract approval among the CIO, General Counsel, and CEO.

Mr. Ghilarducci asked if staff were following any template for the procurement process – for example, does it mirror the GSA-related process that state departments use? Mr. Coombes responded that the CEA is not a government member of the GSA so it cannot access all of its filtering capabilities. The CEA does use information available online, then places it into a spreadsheet using its own criteria to work down the 5,000 contractors.

Mr. Ghilarducci asked about the Master Services Agreement contracts, which specifically speak to IT contractors that the state of California has—does the CEA vet those as well? Mr. Coombes replied that because the CEA is not a California state agency, it must be concerned about some of the contract obligations associated with the state procurement process and its products. The CEA needed to differentiate itself from state-financed organizations and for that reason decided to move forward using the GSA-sourced information instead of California Multiple Award Schedules (CMAS) that are part of the state procurement process.

13. Mr. Coombes will update the Board on the CEA's IT Infrastructure Managed Service RFP.

- In December 2013, staff began an RFP process to solicit managed-service providers, who would be tasked to help create an IT infrastructure that was resilient, met CEA needs, boosted the CEA's ability to tackle portfolio projects and daily IT functions, and address significantly the CEA's pressing need for more advanced disaster-recovery capability.
- The RFP set out thorough requirements for working with CEA staff, as well as providing for primary and secondary data centers—the primary center would have its own production and development environments, while the secondary center would house the test environment and backup environment.

- One vendor that met all the published qualifications responded. On account of the pressing need for the services, staff analyzed the vendor and sought to move it from a competitive RFP into a sole-source contract justification.
- Staff did quite a bit of due diligence, meeting with the vendor several times to check references and work through various points.
- Staff has the financial terms of the contract, and its terms and conditions, generally in place.
- Staff sought from the Board three things:
 1. Approval to complete the contract.
 2. A below-the-line budget augmentation for 2014 of \$1,604,750 (\$125,000 per month for 10 months, plus an additional \$354,750 for the costs and fees associated with implementation). The \$125,000 per month would continue throughout the three years of the contract term.
 3. An update by staff at the next Board meeting on the contract finalization and the start of activities.

Mr. Boyken asked General Counsel Danny Marshall about state rules governing sole-source contract procedure. Mr. Marshall responded that since the CEA is not part of the state contracting system, it does not follow those rules per se. But the CEA's own contracting guide has adopted all of the state rules and criteria that pertain to sole-source procurements.

Mr. Boyken moved approval of the staff recommendations. There was no second.

Mr. Shultz asked whether staff had anticipated that a procurement in this range would be part of the 2014 budget; Mr. Richison confirmed that staff had, adding new IT-related budget entry under "Contracted Services" so that this item could be easily identified.

Mr. Ghilarducci stated that he was not comfortable with the staff recommendation, given the amount of money to be spent over the projected three-year contract term and the sole-source character of the arrangements. He wondered if there could be some efficiencies, to make the contract less expensive.

Mr. Boyken commented that it might help to reach the point where staff could name the vendor.

Mr. Ghilarducci expressed his concern with the process staff followed for the sole-source. Mr. Coombes explained that staff had not followed the GSA process and that staff had actually followed a formal RFP process. Staff had created and published a detailed set of requirements and waited for responses; and although staff had heard from more than one firm, only one vendor seemed to feel that it met all of the stringent requirements and submitted a proposal. Given the sole respondent, Staff then went through sole-source contract justification, and additionally went well beyond the usual sole-source process in the steps taken to vet the vendor.

Mr. Marshall pointed out that the sensitivity of trying to negotiate a contract during a procurement was the only reason for anonymity of the vendor. When the document is signed, all of the information becomes public. Mr. Marshall also noted that this was the way that a procurement would go even under the Board-approved IT Charter when it represents a CEA expenditure of over \$300,000 per year and is not part of the GSA-related process.

Mr. Ghilarducci encouraged staff to be sensitive to the large amount of money involved: It is an IT procurement issue, which is scrutinized in this state to a tremendous degree.

Mr. Boyken and Mr. Ghilarducci inquired about vendor outreach: Had Mr. Coombes's contacts been notified of the RFP? Mr. Coombes responded that CEA staff had notified all of the data centers that he was aware of when the RFP became available on the CEA website.

Mr. Stroeh suggested outlining the requirements in simple form to the contractors.

Mr. Boyken mentioned the concern about public scrutiny. In the agenda item for next time, staff could think about the steps they had gone through and the things they heard from potential bidders who decided not to bid.

Mr. Shultz saw two scenarios that had led to this point. The first: The RFP was drafted to achieve a very high quality of service, and while there were multiple potential bidders, in the end only one decided to bid. The second: The RFP was written with such stringent requirements that only one bidder may have been eligible, resulting in a sole-source contract situation.

Mr. Coombes felt that the first scenario was more accurate. Staff had called out some very specific requirements in the RFP. At the same time, they had heard from potential bidders who wanted clarification of certain requirements such as the preferred location(s) of the data center(s) and CEA staff's access to the centers to perform work on or related to the equipment.

Board and staff agreed that the item should be postponed to the next regularly scheduled Board meeting or an interim meeting. Mr. Boyken and Mr. Ghilarducci asked to participate in discussions of the process, the justification for the RFP requirements, and, possibly, some of the CEA's IT policies.

14. Mr. Pomeroy will present the 2014 Business Implementation Plan for Board consideration and approval.

- The 2014 Business Implementation Plan aligns with the three CEA Strategic Plan goals of Educate, Mitigate, and Insure.
- Within the goals, the priority initiatives are categorized along the lines of Innovation, Research, and Technology.
- Staff has added a segment entitled Governance and Departmental Effectiveness to capture the activities across the three main goals, in order to ensure transparency and accountability.

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

15. The Board may 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 2:55 p.m.

It reconvened in open session at 3:45 p.m.

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 was no public comment.

17. Adjournment.

MOTION: Mr. Ghilarducci moved to adjourn the meeting; seconded by Mr. Boyken.

Motion passed unanimously.

The meeting adjourned at 3:46 p.m.