

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, September 25, 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
Kasey O'Connor, 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 Atkins

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Tom Hanzel, Chief Financial Officer and Chief Insurance Operations Officer
Laurie Johnson, PhD, Enterprise & Strategic Risk Advisor
Shannon McEuen, Governing Board Liaison
Michael Melavic, Chief Information Officer
Kellie Schneider, Chief Operations Officer
Tom Welsh, General Counsel

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 9:05 a.m. A quorum was achieved.

2. Consideration and approval of the minutes of the June 12, 2019, CEA Governing Board meeting.

MOTION: Mr. Martinez moved approval of the June 12, 2019, California Earthquake Authority Governing Board Meeting Minutes as presented. Ms. O'Connor seconded. Motion carried unanimously.

3. Consideration and approval of the minutes of the July 15, 2019, CEA Governing Board meeting.

MOTION: Ms. O'Connor moved approval of the July 15, 2019, California Earthquake Authority Governing Board Meeting Minutes as presented. Mr. Martinez seconded. Motion carried unanimously.

CEA Enterprise – Executive and Operations Reports

4. Executive Report by Chief Executive Officer Glenn Pomeroy, which will include an update for the Board on legislative activities of interest to the CEA.

Glenn Pomeroy, Chief Executive Officer, provided an overview, with a slide presentation, of the impact of the Ridgecrest Earthquakes, growth in policies in force over the years, CEA Advisory Panel, federal legislation, and community outreach efforts since the last meeting. He stated the top candidate has been selected for the Chief Information Security Officer position and is close to being finalized.

Questions and Discussion

Mr. Martinez asked for a presentation at a future Board meeting on the CEA Annual Culture Survey results. It is good for the Board to better understand the health of the organization.

Ms. O'Connor asked if the increase in policies was a response to the Ridgecrest earthquakes and how the number of policies compared north and south. Mr. Hanzel stated it is difficult to say if the increase was due to the Ridgecrest earthquakes or to the new Rate and Form Filing a few days prior to the earthquakes. Better insight of the trends will be presented at the December Board meeting.

Mr. Pomeroy added that the greater growth was seen in Southern California.

Mr. Wood asked to see the policy increase by ZIP Code, region, or county. He stated it would be interesting to note the number of new policies following a major marketing campaign.

Mr. Wood asked for clarification on the claims submitted from renters for the Ridgecrest earthquakes. Mr. Pomeroy stated renter's earthquake policies are for contents only.

Mr. Wood asked about the two vacancies on the CEA Advisory Panel. Mr. Pomeroy stated they are gubernatorial appointees that have yet to be filled.

Mr. Wood asked who would be an ideal Advisory Panel member. Mr. Pomeroy stated besides insurance companies and agents, the Legislature envisions a voice of the consumer on the Advisory Panel, such as a teacher or a fire district official.

Mr. Wood suggested no-cost emergency management training for individuals in the insurance field.

Mr. Martinez suggested considering the Advisory Panel's background categories and ability to provide the original intent of why it was initially created in statute to provide a heightened or repurposed role for the Advisory Panel.

Mr. Wood suggested a joint meeting with the Board and the Advisory Panel so Advisory Panel members could see the bigger picture. He suggested that the Chair or members of the Board attend an Advisory Panel meeting. Mr. Pomeroy stated the anti-trust consideration is a challenge for the Advisory Panel; it constrains their ability to offer much.

Mr. Martinez asked about the CEA-supported Assembly Bill (AB) 548, which was recently signed by the governor. Mr. Welsh stated AB 548 directs the CEA to target disadvantaged communities when money is appropriated by the Legislature to fund mitigation programs; and modifies a pre-existing provision of the statute that puts a cap on the grant amount and funds 75 percent of the retrofit project. Staff is working on a program to implement this, which will have carryover effects for residual funding previously appropriated by the Legislature and will help inform the California Residential Mitigation Program (CRMP) and the Earthquake Brace + Bolt (EBB) program about how to target communities to achieve the Legislature's directive to focus on vulnerable communities.

5. Chief Operations Officer Kellie Schneider will present to the Board the quantitative business metrics report.

Kellie Schneider, Chief Operations Officer, reviewed the Business Metrics Report, which was included in the meeting packet. She noted that a new

metric was added July 1st tied to the CEA Finance Department in issuing financial statements and ensuring that they are completed by the 10th business day of the month.

Questions and Discussion

Chair Ghilarducci asked how staff assures the metrics stay green. Ms. Schneider stated the metrics are assessed quarterly and are tied to the strategic plan.

6. Ms. Schneider will report on the status of the procurement of a Human Resource Management System software.

Ms. Schneider stated staff is finalizing the process of bringing a human resources management system into CEA to centralize payroll and processes and is planning to ask for Board approval at the December meeting to execute a contract for the software. She stated staff is also finalizing a Request for Proposal (RFP) for a ticketing system for the Centralized Policy Processing Platform (CPP). This will not require Board approval.

Questions and Discussion

Chair Ghilarducci asked for verification that this resource management system is being designed to track employees from different aspects. Ms. Schneider stated that is correct.

Mr. Fry asked if Dr. Johnson had been consulted about including in the RFP the continuity of management operations during a crisis situation. Ms. Schneider stated the RFP will ensure that the vendors are cloud-based and secure and that employees can continue to operate post-event.

Mr. Melavic stated the need for the IT system to maintain high-availability.

Chair Ghilarducci asked if the CEA has a business continuity plan.

Ms. Schneider stated it does and, in fact, will be doing a tabletop exercise tomorrow on a reconstitution plan.

Chair Ghilarducci asked if every employee participates in these exercises, including executive-level employees. Ms. Schneider stated the exercises are currently for internal operations but will be rolled out to the executive team in the future.

Mr. Martinez asked if the resource management system has much interaction with Fi\$Cal. Ms. Schneider stated Fi\$Cal is on the finance side

and is tied to state agencies and budgets. CEA is not part of the state's budget and, as such, does not participate in Fi\$Cal.

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

Mr. Hanzel provided an overview, with a slide presentation, of the CEA financial information as of July 31, 2019. He noted that the net premiums earned continues to sit in the high 40 percent range. Nearly 50 cents of every dollar brought in goes to risk-transfer partners to help build the claims-paying tower.

Questions and Discussion

Chair Ghilarducci asked if the CEA can increase the net premiums earned. Mr. Hanzel stated the CEA currently needs to leverage to get to that 1-in-400-year event level. The CEA is required to meet that 400-year level and so must find ways to build the claims-paying capacity. Mr. Pomeroy's idea of Senate Bill (SB) 254 would be a way for net premiums earned to increase.

Mr. Pomeroy stated SB 254 would allow the CEA to manage to a 1-in-250-year event level, which is what most insurance companies do when they take on earthquake risk. The current system requires the CEA to get its claims-paying capacity from global reinsurance markets.

Chair Ghilarducci suggested adding that as a metric for the CEA to achieve. It will require education to broaden the discussion and bring more individuals to the table to build a stronger coalition.

Ms. O'Connor stated SB 254 was made a two-year bill. She stated the importance of having conversations with the Legislature in the interim to help them better understand and give them time to process and prepare for when SB 254 comes back before them.

Mr. Hanzel stated the need for diversification to continue to grow, which will require more claims-paying capacity, which is the primary driver of risk-transfer.

Presentation, continued

Mr. Hanzel reviewed the policies in-force by category and reviewed deductible options. He noted that policyholders are choosing to spend a

little more money but have a materially lower deductible when an event happens.

Questions and Discussion

Chair Ghilarducci suggested including a narrative on areas that do not have an increase in the number of policyholders, areas that are more disadvantaged but equally at risk, and populations who are on fixed incomes, such as the senior population. He suggested getting a better understanding of demographics to help target populations throughout the state. Mr. Hanzel agreed that looking at the social dynamics is important.

8. Mr. Hanzel will propose for Board approval mid-year revisions to the 2019 CEA budget, which will take into account a budget augmentation.

Mr. Hanzel provided an overview, with a slide presentation, of the proposed 2019 Insurance Services mid-year revised budget, including proposed budget augmentations of \$2,118,362, to meet policy acquisition expenses due to an increase in projected 2019 written premium. He stated the mid-year analysis showed an approximate \$12 million under-spend in certain categories. That savings is proposed to be spent in other categories.

Questions and Comments

Mr. Fry asked about staff capacity. Mr. Hanzel stated there have been requests for additional staff based on growth related to policies and the additional responsibilities created by the Wildfire Fund. He stated the CEA is actively in the budget process and will provide an update at the December meeting.

Staff recommendations:

- Approve the proposed 2019 Insurance Services mid-year revised budget, including proposed budget augmentations of \$2,118,362, to meet policy acquisition expenses due to an increase in projected 2019 written premium; and
- Direct staff to operate CEA business operations within the total, approved, revised budgets for Insurance Services and Mitigation Services.

MOTION: Ms. O'Connor moved approval of the staff recommendations as presented. Mr. Martinez seconded. Motion carried unanimously.

9. Enterprise & Strategic Risk Advisor Dr. Laurie Johnson will deliver a quarterly report to the Board on the CEA enterprise-risk-management-program.

Laurie Johnson, Ph.D., Enterprise and Strategic Risk Advisor, reviewed the 12 priority risks in the CEA Enterprise-Risk-Management (ERM) Program, the ERM Quarterly Report as of September 6, 2019, and the 2019-2020 Program Plan. She reported the following:

This quarter, one risk checkpoint was approached or reached:

- Legislative/Regulatory
 - SB 254 remains in a watch standpoint. This is an open piece of legislation that could materially affect the organizational structure and responsibilities of the CEA.
 - Assembly Bill 1054 and the setup of the California Wildfire Fund - the ERM team is considering whether to add this to the 12 priority risks.

This quarter, one risk limit was approached or reached:

- IT Systems and Data Security – This item continues to be red because of an ongoing contracting matter for data security. This matter is now close to being resolved - a cyber-data insurance contract is expected to be in place by the end of the year.

Dr. Johnson stated an in-depth earthquake response assessment was completed following the Ridgecrest earthquakes. No risk checkpoints or limits were approached or reached.

Insure – Matters Related to CEA's Insurance Business

10. Mr. Hanzel and Chief Information Officer Michael Melavic will provide a status report on CEA's Centralized Policy Processing program (CPP), including a request to ratify CEA's amended and restated software development agreement with Insuresoft, the vendor supporting CPP.

Mr. Melavic provided an overview, with a slide presentation, of the benefits, evolution, and current state of the CEA's CPP.

Mr. Welsh stated, due to the evolution and changes in the underlying architecture of the CPP program, the license agreement and the master service agreement were updated to reflect those changes.

Mr. Welsh reviewed the CPP Diamond Budget and Spending Tracking tool, which was included in the meeting packet. He stated this tool will track the progression of this project as it continues to evolve.

Questions and Discussion

Chair Ghilarducci stated 22 verticals will be difficult to manage. He asked if staff has looked at other technologies to assist with that.

Mr. Melavic stated they have and agreed that Insuresoft will be kept busy managing that piece and keeping it consistent throughout. Different technologies have been considered for the data component so, when making a change to the data layer, it can be made on the top layer and it will float down to all 22 verticals. This will save time.

Chair Ghilarducci stated big data analytic and IT projects like this can be challenging, particularly with many third and fourth parties, requirements, and legal reviews. He asked Dr. Johnson if these technologies could assist her in her ERM work. Dr. Johnson stated checkpoints and limits have already been built in and the departments meet monthly.

Ms. O'Connor asked how the timeframe would change with this new CPP system. She noted that the current system takes 12 to 18 months for rate and form filing updates. Mr. Melavic estimated a 50 percent reduction in the process time due to the CPP's many efficiencies.

Ms. O'Connor stated the need to continue to look for ways to streamline and increase efficiency to positively affect policyholders and participating insurers. She offered an amendment to the second staff recommendation to increase the updates to the Board from "not less than annually" to "quarterly."

Mr. Melavic stated he will include the CPP update in his quarterly presentations to the Board.

Staff recommendations:

- Approve and ratify the Restated Software License and Services Agreement, and the Master Services Agreement (as amended), each between CEA and Insuresoft; and

- Approve the adopt CEA's consolidated budget and cost tracking protocol for the CPP project, as reflected on Attachment A to this Memorandum, and instruct CEA to continue tracking CPP project costs to the Governing Board quarterly.

MOTION: Ms. O'Connor moved approval of the staff recommendations as revised. Mr. Martinez seconded. Motion carried unanimously.

Mitigate – Matters Related to CEA's Mitigation and Research Missions

11. Chief Mitigation Officer Janiele Maffei will update the Board on CEA-mitigation-program projects, including the California Residential Mitigation Program incentive program (CRMP Earthquake Brace + Bolt), CEA's financial-incentive and mitigation program (CEA Brace + Bolt), and ongoing mitigation-related research projects.

Mr. Pomeroy stated Janiele Maffei, Chief Mitigation Officer, was unable to be in attendance at today's meeting. He provided an overview, with a slide presentation, of the goals and status of the CRMP Earthquake Brace + Bolt (EBB) program, the Hazard Mitigation Grant Program (HMGP) awards, and 2019 CEA Brace + Bolt (CEA BB) expansion program.

Mr. Pomeroy stated 8,600 applications were accepted into the 2019 EBB program. Historically, half drop out of the program.

Questions and Discussion

Chair Ghilarducci stated there will be \$600 million nationwide for pre-disaster mitigation under the new Disaster Recovery Act. He stated all mitigation funding will come to the state through his organization, which has been tasked with evaluating the applications submitted by local government entities and awarding funding.

12. Ms. Maffei will update the Board on the CEA Research Program.

Mr. Pomeroy reviewed the Staff Memo on the CEA Research Program update, prepared by Ms. Maffei, which was included in the meeting packet. He deferred to Mr. Hanzel to provide a summary of the CEA September 17, 2019, Research Forum on Post-Earthquake Data Collection event.

Mr. Hanzel stated the event was well attended and included a diverse audience. The forum included panel and roundtable discussions.

Participants agreed to continue these dialogues and partnerships with the industry to increase knowledge and awareness.

Questions and Discussion

Mr. Fry asked if Ms. Maffei has more forums planned. Mr. Welsh stated Ms. Maffei hosts the forum every fall.

Chair Ghilarducci suggested inviting the California Governor's Office of Emergency Services (Cal OES) to these forums because they are a driver of mitigation programs and funding.

Mr. Fry stated Dr. Johnson has been invited to Japan to speak at one of the first city-led forums. They will be doing a series of symposia for the public in Kobe, Japan, to celebrate the 25th anniversary of the Kobe earthquake. Dr. Johnson will speak about her long-term research of the rebuilding in Kobe.

Mr. Fry asked Dr. Johnson to report back on what Japan is doing differently, what they are doing better, and how they are reaching out to people. He asked her to update the Board on lessons learned at a future Board meeting.

13. 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.

14. Adjournment.

There being no further business, the meeting was adjourned at 11:15 a.m.