

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Wednesday, September 12, 2018  
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:

Vincent Brown, designee of State Treasurer John Chiang  
Kenneth Schnoll, designee of Insurance Commissioner Dave Jones  
Craig Fry, designee of Chair of the Senate Rules Committee Toni Atkins

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer  
Todd Coombes, Chief Insurance and Technology Officer  
Janiele Maffei, Chief Mitigation Officer  
Shannon McEuen, Governing Board Liaison  
Chris Nance, Chief Communications Officer  
Tim Richison, Chief Financial Officer  
Kellie Schneider, Chief Operations Officer  
Danny Marshall, General Counsel

Also present:

Kapil Bhatia, Director of Public Finance, Raymond James & Associates, Inc.

**1. Call to order and member roll call.**

Acting Chair Vincent Brown called the meeting to order at 1:00 p.m. A quorum was achieved.

**2. Consideration and approval of the minutes of the July 19, 2018, CEA Governing Board meeting.**

**MOTION:** Mr. Schnoll moved approval of the July 19, 2018, California Earthquake Authority Governing Board Meeting Minutes, as presented. Mr. Brown seconded. Motion carried unanimously

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

CEO Glenn Pomeroy welcomed new Governing Board designee, Craig Fry (designated to attend Board meetings by the Chair of the Senate Rules Committee). Mr. Fry introduced himself.

Mr. Pomeroy presented his report:

- Assembly Bill (AB) 2927 was unanimously adopted by the Senate and Assembly and is on the Governor's desk. The bill will secure a layer of CEA claim-paying capacity of \$1 billion, backed by CEA's capability to surcharge its policyholders in the unlikely event it would ever be called on. Placing that surcharge-supported layer into CEA capacity allows the Authority to keep rates affordable and protect more residence. The bill will save CEA \$30 million annually, beginning in 2019.
- The Insurance Commissioner and the Governor have made progress over past months in placing new members on the Board's Advisory Panel. The Panel met on August 22, 2018, and a meeting will be scheduled for this autumn. More will be anticipated from this group in the months to come as they revitalize their mission.
- A New York Times article from August 31, 2018, focused on scant catastrophe-insurance coverage – a similar issue is seen in California. The article quotes Commissioner Jones at length, who said that the threat of the next big earthquake is one of his greatest concerns as California's chief insurance regulator.
- The CEA's 2018 marketing theme is that an earthquake could happen today, and for that very reason, all California residents need to be prepared.

**4. Mr. Pomeroy will propose, for Board approval, routine updates to the CEA Retirement Plan and the CEA Deferred Compensation Plan.**

Mr. Pomeroy reminded the Board that Tim Richison, Chief Financial Officer, and Danny Marshall, General Counsel, will be retiring shortly. Mr. Richison has served as trustee of the CEA Retirement Plan and the CEA Deferred Compensation Plan. Mr. Pomeroy asked the Board to approve appointing Kellie Schneider, CEA Chief Operating Officer, as the new trustee.

Danny Marshall, General Counsel, suggested that the CEA consider having two trustees at any given time. Upon Board approval, Ms. Schneider and Mr. Richison will serve as the trustees. The resolution also contains an instruction for the CEO to seek a prospective trustee to replace Mr. Richison upon Mr. Richison's retirement.

Staff recommendation:

Approve the written resolution appointing a new trustee for the CEA Retirement Plan and the CEA Deferred Compensation Plan.

**MOTION:** Mr. Schnoll moved approval of the staff recommendation as presented. Mr. Brown seconded. Motion carried unanimously.

**5. Chief Financial Officer Tim Richison will present to the Board the CEA Financial Report.**

Tim Richison, Chief Financial Officer, provided an overview of CEA financial information as of June 30, 2018. He stated the Current Risk-Transfer Program Summary Chart is now broken down into two pages to better show all CEA risk-transfer programs.

**6. Mr. Richison will propose, for Board approval, mid-year revisions to the 2018 CEA budget, which will take into account a budget augmentation approved during this Board meeting.**

Mr. Richison provided an overview of budget-category-level revisions, existing and revised projections of statutory expense compared to statutory cap, and required/recommended budget augmentations.

Staff recommendation:

- Approve the proposed 2018 Insurance Services mid-year revised budget, including proposed budget augmentations of \$34,194,220 for risk-transfer and \$5,170,105 for producer compensation and participating-insurer operating costs.
- Direct staff to operate CEA business operations within the total, approved, revised budgets for Insurance Services and Mitigation Services.

**MOTION:** Mr. Schnoll moved approval of the staff recommendation as presented. Mr. Brown seconded. Motion carried unanimously.

**7. Mr. Richison will seek Board approval to negotiate the licensing of reinsurance-processing software from DataCede.**

Mr. Richison provided an overview of the Request for Proposals and Qualifications (RFP/Q) process for Enterprise Resource Planning Software, the selection process, and proposed reinsurance-processing-software-contract terms.

Staff recommendation:

- Negotiate for a reinsurance software solution, CedeRight, with DataCede, LLC., on the terms presented.
- Authorize CEO Glenn Pomeroy to execute resulting final, negotiated contracts on behalf of the CEA.

Mr. Fry asked Mr. Richison to describe items that DataCede provided for security. Mr. Richison deferred to Mr. Coombes to answer the question. Mr. Coombes said the software is hosted on Amazon Web Services, through the vendor, and has no apparent operational or security deficiencies in its cloud operation.

Mr. Fry asked about business continuity. Mr. Richison said that staff continues to ensure that the CEA has a sufficient business-continuity plan, including the ability to conduct all CEA business outside the CEA office.

**MOTION:** Mr. Brown moved approval of the staff recommendation as presented. Mr. Schnoll seconded. Motion carried unanimously.

**8. Mr. Richison will present, and recommend for Board approval, revisions and clarifications to the CEA Investment Policies.**

Mr. Richison provided an overview, with a slide presentation, of the proposed new CEA Investment Policy format. He stated no policies are being changed; the format of the policies will be changed so that it can be administered more efficiently.

Mr. Brown questioned the three additions listed on the presentation slide: Prudent Investor Standard; ethics, avoidance of conflicts of interest, and compliance with Investment Advisers Act of 1940; and investment goals.

As approved by the CEA Governing Board at its meeting on Wednesday, December 12, 2018

Mr. Richison stated his view that the three additions do not change policy and are changes to the format. They emphasize what is expected of the investment manager in the application of the policies for the CEA. These items are currently only in the investment-manager contracts with the CEA, and now will be added to CEA investment policy as assurance that these standards will be upheld and the goals will be met.

Mr. Brown asked if the investment goals in contracts are related to a return on investment. Mr. Richison stated that the investment goals are not about specific numbers, but rather, more about the overall conceptual basis of the CEA investment goals, such as security, liquidity, and yield.

Staff recommendation:

- Approve the new CEA Investment Policy.

**MOTION:** Mr. Schnoll moved approval of the staff recommendation as presented. Mr. Brown 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.**

Mr. Pomeroy provided the report for Dr. Johnson, who was unable to be in attendance.

Mr. Pomeroy reviewed the Enterprise Risk-Management Program (EMR) framework and progress to date, priority risk status, framework development, and next steps. He noted one red status indicator in the Cyber/Data Breach category on the metrics chart and said the flag is a reminder that there is an unresolved task.

Staff is currently in negotiations on the purchase of data-breach and related insurance to manage data-breach exposure and related risks. When the task is completed, the red flag will be removed.

**10. 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.**

Janiele Maffei, Chief Mitigation Officer, presented her report:

CRMP Earthquake Brace + Bolt (EBB)

- Over 6,000 seismic retrofits have been completed during the five-year program.
- 4,000 seismic retrofits are expected to be completed in 2018.

FEMA Hazard Mitigation Grant Program

- The Federal Emergency Management Agency (FEMA) approved additional federal funding for the 2019 EBB Program.

2018 CEA Brace + Bolt

- The new program will expand to more California ZIP Codes.
- The new program will encourage program participation from policyholders who experience a premium increase of 15 percent or more after the CEA's recent rate and form filing takes effect, which is pending with the Department of Insurance.
- The new program will roll out in late autumn 2018.

Mr. Brown asked about the typical lag time in receipt of FEMA funds. Ms. Maffei described the process of Notice of Intent, Notice acceptance, and submitting the application to the California Governor's Office of Emergency Services (Cal OES), which administers the program in California, which then submits the application to FEMA for review, and which sends it back to Cal OES. She admitted that it takes time for that process but stated that FEMA gives three years to operate the program under approved-grant funding.

Mr. Fry said he agreed that education and "getting the message out" is critical. He asked if staff has worked with legislators on this issue. He stated there are programs that waive fees for permits and plan-checks so more funding goes toward construction and not administrative fees. Ms. Maffei stated the average retrofit is approximately \$5,200, statewide. Staff is continuing to work on establishing the CEA charitable foundation to help provide program funds to meet the needs of vulnerable communities.

Mr. Fry asked if there is an opportunity to work with lobbyists or legislators on grant and tax-deduction legislation. Mr. Marshall clarified that FEMA funding that goes through the homeowner is not taxable because of federal law, but CEA money used to fund these programs is considered state money and remains taxable at the federal level.

Mr. Schnoll asked if individuals are placed on the wait list due exclusively to financial constraints or if there are other reasons for individuals to be placed on the wait list. Ms. Maffei said that individual applicants are brought into the program through a random-selection process; unsuccessful applicants are placed on a wait list, but that everyone who wished to enter and complete an EBB-supported retrofit this year had been brought in.

**11. Ms. Maffei will update the Board on the CEA Research Program.**

Ms. Maffei provided an overview of the status of the Pacific Earthquake Engineering Research Institute (PEER) small-component testing at UC San Diego and large-component testing at UC Berkeley, parts of the CEA's research project, "Quantifying the Performance of Retrofit of Cripple Walls and Sill Anchorage in Single Family Wood-frame Buildings." She said, as the CEA moves into developing new CUREE document or claim-adjustment document, it is important to prepared to describe to claim adjusters whether a house needs a patch-and-paint repair or a remove-and-replace job, to bring the house back to the resistance it was before the earthquake.

**12. Chief Insurance and Technology Officer Todd Coombes will report to the Board on CEA insurance and information technology initiatives.**

Todd Coombes, Chief Insurance and Technology Officer, provided performance reports of the CEA's insurance education and sales-support activities, insurance operations, and information technology in dashboard format.

He said his department continues work on an Adjuster Portal as a one-stop shop for adjusters on all things CEA-related, much like the Agent Portal that launched this year.

Mr. Brown asked who does the coding. Mr. Coombes stated it is done by a third-party quality-assurance, development, and systems-analysis team.

**13. Chief Operations Officer Kellie Schneider will report to the Board the quantitative business metrics report.**

As approved by the CEA Governing Board at its meeting on Wednesday, December 12, 2018

Kellie Schneider, Chief Operations Officer, provided an overview of the quantitative business metrics that align to the strategic plan, the four CEA strategic goal metrics, and the performance-management categories for 2018 metrics reporting. She summarized the changes that have occurred since the last Board meeting. She noted that the Individual Development Plan metric will be removed next year since it has become a voluntary task.

**14. 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.

**15. Public comment on matters that do not appear on this agenda and requests by the public that those matters be placed on a future agenda.**

There was no public comment.

**16. Adjournment.**

There being no further business, the meeting was adjourned at 2:21 p.m.