

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, December 16, 2015
1:00 p.m.**

Location: California Department of Food and Agriculture
Auditorium
1220 N Street
Sacramento, California

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Jerry Brown, CEA Governing Board Chair
Christina Elliott, designee of State Treasurer John Chiang
Dave Jones, Insurance Commissioner
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Kevin de León

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
Bruce Patton, Director of Policy, Research, and Special Projects
Tim Richison, Chief Financial Officer
Carlos Martinez, Governing Board Liaison
Danny Marshall, General Counsel

Also present:

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

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

2. Consideration and approval of the minutes of the August 26, 2015, CEA Governing Board meeting.

MOTION: Mr. Jones moved approval of the August 26, 2015, CEA Governing Board meeting minutes as presented. Ms. Elliott seconded. Motion passed unanimously.

3. Executive Report by Chief Executive Officer Glenn Pomeroy and members of the CEA Executive staff. Mr. Pomeroy's report will include an update for the Board on legislative activities of interest to the CEA.

Chief Executive Officer Glenn Pomeroy provided a history and overview of the accomplishments of the CEA over the past five years, highlighting the mitigation, operations, and finance work of the CEA in 2015.

CEA Accomplishments: 2015

- Educate
 - New Earthquake Authority website
 - New Mandatory Marketing document and process
 - New “Straight Talk” campaign
- Mitigate
 - Guidelines
 - Led collaborative initiative to train home inspectors
 - Continued to develop ATC110
 - Research
 - Completed phase 1 of Napa earthquake research
 - Retrofits
 - EBB Program completing 600 retrofits
 - Earned \$3M support from State of California for 1,000 homes (2016)
 - Received \$300,000 FEMA grant for 100 Napa homes (2016)
 - Developed program capability to retrofit 1,700 homes (2016)
- Insure
 - Operations
 - CEA policyholder count grew by 11,000. The CEA has 876,000 policyholders as of November 24, 2015. This is the highest policy count since 1999.
 - Significant enhancements in policy coverage, deductible options, and mitigation discount
 - 10% statewide average rate reduction
 - Development of new mobile app
 - Added 3 new Participating Insurers
 - Hyundai Insurance
 - Progressive
 - ASI
 - Finance
 - Maintained “A- (Excellent)” rating
 - Continued to leverage alternative risk-transfer solutions

- Organizational Health
 - Information Technology
 - Implemented technology needed for 2016 CEA rate and form filing
 - Developed new Premium Calculator
 - Developed Centralized Policy Processing (CPP) concept
 - Hired IT Security Manager and upgraded other key positions
 - Administrative
 - Developed 2016 organizational metrics
 - Increased civil service positions and decreased temporary positions
 - Created Chief Administrative Officer position

Strategic Accomplishments: 2011 – 2015

- Increased Policy Sales
 - 7% growth in policies sold, while rest of industry declined by 12%
- Reduced Risk Transfer Costs
 - Expanded use of capital markets in risk-transfer portfolio. Total amount spent on reinsurance has declined while the amount of reinsurance protection purchased has increased substantially.
- Reduced Reliance on Industry Assessment Layer
 - Total industry exposure in two IALs has declined while assessment attachment point has increased significantly.
- Increased Civil Service Positions/Reduced Temps
- Continued Build-out of Executive Team
 - Chief Mitigation Officer: Established 2011
 - Research Director: Established 2011
 - Chief Information Officer: Established 2013
 - Chief Administrative Officer: Established 2015
- Increased Value and Affordability of CEA Policy
 - 2012: Successful rate and form filing deployed new “Choice” policy and implemented a statewide average 12.5% rate reduction
 - 2015: Starting 1-1-2016, successful rate and form filing will dramatically enhance CEA policy coverage and options and further reduce rates by an average 10%
 - Mitigation discount of up to 20% made available to qualified homeowners (effective 1-1-2016)
- Mitigation
 - Established Chief Mitigation Officer position
 - Created JPA with Cal OES and developed EBB program
 - 2014: 8 homes retrofitted in pilot

- 2015: 600 homes to be retrofitted; significant new funding sources identified

Mr. Pomeroy thanked the Board for its support and guidance over the years.

4. Chief Financial Officer Tim Richison will present to the Board the CEA financial report.

Chief Financial Officer Tim Richison provided a summary PowerPoint presentation of CEA financial documents. He reviewed the Available Capital Report as of the end of October of 2015, which showed over \$5.8 billion in total cash and investments and just under \$5 billion of available capital (available to pay CEA insurance claims).

5. Mr. Richison will present to the Board the CEA's 2016 Risk-Transfer Strategy.

Mr. Richison reviewed the risk-transfer strategy approved by the Board for 2015 and presented for approval the risk-transfer strategy for 2016, including maintaining the CEA's claim-paying-capacity level between 1-in-450 years and 1-in-550 years.

MOTION: Mr. Jones moved approval of the proposed 12-month risk-transfer strategy for 2016. Motion passed unanimously.

6. Mr. Richison and Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc. – the CEA's independent financial advisor – will propose an amendment to the CEA's Investment Policies and Guidelines to permit longer average durations in certain investment classes.

Mr. Richison described an opportunity for the CEA to take advantage of certain aspects of the present state of the economy, involving a change to the combined-maximum-modified-duration requirements of CEA's investment policies and guidelines.

Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc., provided an overview PowerPoint presentation of why the CEA should modify its investment policies and guidelines, as described by Mr. Richison, and how those adjustments would benefit the CEA under current market and economic conditions.

Mr. Jones asked staff to inform the Board on the extent that securities the CEA directly invests in are securities issued by oil-, gas-, or coal-related companies.

General Counsel Danny Marshall stated the CEA, according to law, does not invest in equity issues. In the present recommendation, there could be transition risk, but it would be minimal, if it exists.

MOTION: Mr. Jones moved approval of the staff recommendation, consistent with the supporting recommendation of the CEA's independent financial advisor, to amend the CEA's Investment Policies and Guidelines to increase the combined-maximum-modified duration of the CEA's investment portfolio from 1.75 years to 3.00 years. Motion passed unanimously.

7. Mr. Richison will propose, for Board approval, investment management firms selected to manage two CEA Claim-Paying Fund(s).

Mr. Richison stated the CEA received five responses from a Request for Qualifications (RFQ) issued in May 2015 to secure CEA Claim-Paying Fund investment managers, to invest the funds in the CEA's growing investment portfolio arising from debt proceeds. Staff is recommending three firms for approval.

Staff recommends that the Board authorize CEA staff to: (1) Negotiate for investment-management services with Franklin Templeton Institutional, LLC, and Asset Allocation and Management Company, LLC, and with Deutsche Asset & Wealth Management in the event the CEA is unable to negotiate a contract successfully with either of those two firms; and (2) authorize CEO Glenn Pomeroy to execute the resulting contracts on behalf of the CEA.

MOTION: Ms. Elliott moved approval of staff's recommendations. Mr. Jones seconded. Motion passed unanimously.

8. Chief Mitigation Officer Janiele Maffei will update the Board on CEA mitigation-program projects.

Chief Mitigation Officer Janiele Maffei provided an update PowerPoint presentation on the mitigation activities of the CEA that are conducted outside of the California Residential Mitigation Program (CRMP):

- The Earthquake Guidelines Development project:
 - The CEA continues to work with FEMA and the Applied Technology Council to develop guidelines for homeowners and contractors that support, where possible, non-engineered building retrofits.
- FEMA P-50 and P-50-a Training
 - The CEA worked with FEMA in 2015 to train 214 home inspectors, building inspectors, and engineers to help homeowners understand seismic vulnerabilities of their homes at point-of-sale.
 - The CEA hopes to use these trained inspectors in the verification process for customers seeking the 10% and 20% (verified) CEA hazard-reduction premium discount.
- "End-to-End Mitigation" website

- The CEA plans to begin creating a website in the next six months that will be a “one-stop shop,” intended to help homeowners understand hazard vulnerability, the process of seismic retrofitting, and how to choose the right insurance product.

Mr. Stroeh asked about the length of the FEMA P-50 training sessions.

Ms. Maffei said it is a five- to six-hour training.

Mr. Jones asked what entity prescribed the columns in the Natural Hazards Disclosure Report chart, specifically the “I Don’t Know” column. Ms. Maffei said the California Seismic Safety Commission created the document, which is related to its *Homeowner’s Guide to Earthquake Safety*.

Mr. Jones suggested eliminating the “I Don’t Know” column, because, he said, seismic risks are identifiable risks. He asked staff to research the entity or entities responsible for the design of the form, what it would take to change the form, and whether it would be desirable for the CEA to seek to change the form.

Mr. Stroeh stated the need to include information—on the form—regarding how a person completing the form might identify seismic risks and then use that form to provide the answers to those questions.

Ms. Elliott stressed the importance of the home-inspector training, so that necessary information can be provided in the home-inspection report, thus enabling homeowners to answer the relevant questions “yes” or “no.”

9. Ms. Maffei will update the Board on the California Residential Mitigation Program incentive program (“Earthquake Brace + Bolt”), operated by a joint powers authority whose members are the California Governor’s Office of Emergency Services and the CEA.

The Earthquake Brace + Bolt (EBB) Program:

- The EBB program is the first incentive program of the CRMP.
- New registration opens January 20, 2016, and will remain open for 30 days.
- The program provides up to \$3,000 for qualifying homes for cripple-wall bracing and frame/foundation bolting.
- EBB provided funds in support of 593 completed retrofits in 2015.
- 1,600 retrofits are planned for 2016. Of those:
 - 600 retrofits will be funded by the Loss Mitigation Fund; and
 - 1,000 retrofits will be funded by an appropriation the State of California made to the California Department of Insurance, with direction to grant the money to the CEA for CRMP uses.
- The website was updated this year to make it easier for homeowners.

- By January 20, 2016, the CEA will have met with city and building officials, conducted contractor outreach, updated the website, and produced homeowner materials, such as flyers, email, and direct mail.

Cal OES/FEMA Hazard Mitigation Grant Program:

- The \$300,000 CalOES/FEMA Hazard Mitigation Grant will be used to retrofit 100 houses in Napa.
- Registration opens Wednesday, February 22, 2016, and will remain open for 30 days.
- The program will be called “EBB Powered by CalOES and FEMA” and have its own logo, toll-free number, and URL: NapaBraceBolt.com.

10. Mr. Pomeroy will update the Board on progress toward developing a pilot risk-reduction program, which could provide financial incentives for CEA policyholders who live in vulnerable houses in high risk areas to perform retrofits.

Mr. Pomeroy introduced the concept of a CEA risk-reduction program as a method to provide funds for retrofits for CEA policyholders. With CEA Board support, staff will present a more formal proposal in the March 2016 meeting.

- CEA policyholders who own and live in pre-1940 houses that have been insured by the CEA for three years or more will be eligible for the program.
 - Initial study indicates that approximately 3,400 policyholders should have qualifying houses.
- The program will:
 - Target the ten ZIP Codes that have the highest seismic risk
 - Allocate approximately \$10 million, out of a CEA revenue or capital source to be determined, to retrofit the houses.
 - Begin with a pilot program in fall 2016.
- The benefits of the program:
 - A retrofitted house reduces expected loss.
 - Policyholders reduce their cost of insurance.
 - The CEA reduces its risk-transfer needs.
 - The CEA book of business is not negatively affected.

Mr. Ghilarducci spoke in support of the program.

Ms. Elliott stated the State Treasurer’s Office would be supportive of this program.

Mr. Jones stated he fully supports this program. He suggested a discussion about asking the Legislature for additional funding for this project as a separate agenda item in the March meeting.

11. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2015 CEA information technology (IT) initiatives and Project Portfolio.

Chief Information Officer Todd Coombes provided a PowerPoint presentation on the 2015 IT Project Portfolio:

- The 2015 IT Project Portfolio consisted of 17 projects:
 - Three projects were added over the year.
 - Seven projects were canceled during the year.
 - The remaining 13 projects were completed in 2015.

12. Mr. Coombes will seek Board approval for planned 2016 CEA IT initiatives and for the corresponding 2016 IT Project Portfolio.

Mr. Coombes presented the 2016 IT Project Portfolio:

- The 2016 IT Project Portfolio consists of 16 projects
 - The projects total \$1,309,000, already integrated in the CEA budget.

MOTION: Ms. Elliott moved approval of funding for the “non-statutory expense” of external contract labor for the 2016 CEA IT Project Portfolio, in accordance with the 2016 budget, in an amount not to exceed \$1,309,000.

Seconded by Mr. Jones. Motion passed unanimously.

13. Mr. Coombes will update the Board on progress toward the concept of centralizing the processing of CEA insurance policies.

Mr. Coombes provided a PowerPoint presentation on the background, objectives, progress, strategy, and next steps toward Centralized Policy Processing.

- The CEA has more than 20 participating insurance companies (PI) and therefore must interface with more than 20 different IT systems, 20 different IT processes.
- For every change in policy, each PI must change its systems and processes, which is time-consuming and expensive.
- The Department of Insurance and the PIs have requested that the CEA create a more effective, less expensive alternative for keeping all systems and processes current.

- Centralized policy processing will accomplish this goal:
 - CEA and the vendor would provide the technology and software to the PIs, and the PIs and CEA would use the technology to process policies.
- PIs will begin coming up live and in production in first quarter 2016:
 - Three PIs are on board now.
 - The CEA has a goal of 100 percent PI adoption over the next 10 years, by providing meaningful benefits, removing objections, and listening to and collaborating with PIs.

14. Chief Actuary Shawna Ackerman will request Board approval to renew and extend the CEA’s existing contract with earthquake-risk-modeling firm, Risk Management Services.

Chief Actuary Shawna Ackerman presented her report:

- The contract with RMS, one of the three major modelers under contract with the CEA, will expire at the end of 2015.
- The CEA has renegotiated the CEA-RMS contract, and the negotiated, annual contract price will increase by \$50,000 to \$305,000 for the next three-year contract term.
 - The CEA’s newest rate and form filing (for 2016) has more elements, deductibles, and limits, which means more modeling services are required by the contractor.
 - CEA’s current risk-transfer capabilities and programs require more modeling.
 - There is an increased need for sensitivity testing and related analyses.

MOTION: Ms. Elliott moved approval of renewing the contract with Risk Management Services for a three-year term, as described, and authorizes CEO Glenn Pomeroy to execute that contract renewal on the CEA’s behalf. Seconded by Mr. Jones. Motion passed unanimously.

15. Chief Communications Officer Chris Nance will present a recap of the 2015 Great California ShakeOut in October, including CEA’s participation, and a preview of CEA’s 2016 advertising campaign.

Chief Communications Officer Chris Nance provided a PowerPoint presentation providing background and analysis of the annual *Great California ShakeOut* (October 15, 2015) and the 2016 research-based CEA advertising campaign, entitled “Straight Talk.”

The Straight Talk campaign will feature three advertising spots about earthquake risk and a fourth about policy enhancements and lower rates. The multifaceted

campaign will go out through TV, radio, print, online, and direct mail. These materials point consumers to the CEA website to calculate a premium estimate.

Mr. Nance showed the TV spots “Pressure” and “More, More, More” for the Board. Two other spots are titled “If, When” and “Plates.”

16. Mr. Pomeroy and Mr. Richison will present the 2016 CEA insurance services budget for Board consideration and approval.

Mr. Pomeroy and Mr. Richison provided a summary PowerPoint presentation of the 2015 CEA budget-related expenditures and the proposed 2016 CEA insurance services budget.

Mr. Pomeroy presented his detailed 2016 Budget Statement, dated December 16, 2015, to the Board.

Staff recommends the following Board actions: approve the proposed 2016 CEA insurance services budget and direct staff to operate CEA business operations within the total approved budget amounts.

MOTION: Ms. Elliott moved approval of the staff recommendation; seconded by Mr. Jones. Motion passed unanimously.

17. Ms. Maffei and Mr. Richison will present the 2016 CEA mitigation program budget for Board consideration and approval.

Ms. Maffei and Mr. Richison provided a summary PowerPoint presentation of the proposed 2016 CEA mitigation-program budget.

Staff recommends that the Board take the following actions: approve the proposed 2016 CEA mitigation-program budget and direct staff to operate CEA mitigation-related business activities within the approved budget amounts.

MOTION: Mr. Jones moved approval of the staff recommendation; seconded by Ms. Elliott. Motion passed unanimously.

18. Mr. Pomeroy will present the 2016 CEA Business Implementation Plan for Board consideration and approval.

Mr. Pomeroy provided an overview of the proposed 2016 CEA Business Implementation Plan (BIP) included in the meeting packet, organized so the tasks to be completed in 2016 are aligned with the CEA strategic mission. He said that staff is working on a metrics-reporting approach for use with the BIP.

MOTION: Ms. Elliott moved approval of the 2016 CEA Business Implementation Plan. Motion passed unanimously.

19. Mr. Pomeroy will update the Board on progress in data collection and reporting that support the Metrics Project.

Mr. Pomeroy directed the Board to the copy of the PowerPoint slides provided in the meeting packet, which represent the first round of metrics to be collected in January 2016. Additional metrics reports will be presented throughout 2016.

20. Mr. Pomeroy will update the Board on progress in obtaining additional office space on the floor immediately above the CEA's main office, to accommodate CEA staff and related operations.

Mr. Pomeroy noted that the building that houses CEA operations is for sale, which has delayed leasing opportunities, but that staff will continue its efforts to lease additional office space in that building and report results to the Board in a future meeting.

21. Mr. Pomeroy will present for Board consideration and approval the 2016 Governing Board meeting calendar.

Mr. Pomeroy presented the proposed 2016 Governing Board meeting calendar, which would initiate regular quarterly meetings.

MOTION: Mr. Ghilarducci moved approval of the proposed 2016 Governing Board meeting calendar; seconded by Mr. Jones. Motion passed unanimously.

22. 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.

The Board entered a closed session at 3:12 p.m. and resumed its proceedings in open session at 3:31 p.m. Mr. Ghilarducci reported that the Board was advised by counsel.

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

There were no questions or comments from the public.

24. Adjournment.

There being no further business, the meeting was adjourned at 3:32 p.m.