



**GOVERNING BOARD MEETING  
WEDNESDAY, SEPTEMBER 25, 2019  
9:00 A.M.**

**California Earthquake Authority  
Main Conference Room  
801 K Street, Suite 1000  
Sacramento, California 95814**



Date of Notice: Friday, September 13, 2019

# PUBLIC NOTICE

## A PUBLIC MEETING OF THE GOVERNING BOARD OF THE CALIFORNIA EARTHQUAKE AUTHORITY

**NOTICE IS HEREBY GIVEN** that the Governing Board of the California Earthquake Authority (“CEA”) will meet in Sacramento, California,. Pursuant to California Insurance Code §10089.7, subdivision (j), the Bagley-Keene Open Meeting Act applies generally to meetings of the Board, and the meeting is open to the public—public participation, comments, and questions will be welcome for each agenda item. All items are appropriate for action if the Governing Board wishes to take action. Agenda items may be taken out of order.

**LOCATION: California Earthquake Authority  
801 K Street, Suite 1000  
Sacramento, California**

**DATE: Wednesday, September 25, 2019**

**TIME: 9:00 a.m.**

**This meeting of the Governing Board will be available for audio. Please wait until the official start time of the meeting before clicking the icon:**



Or please use +1 323- 886-4439  
Conference ID number 405 498 200#  
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**If you are unable to hear the meeting, please call CEA directly at (916) 661-5001 for assistance.**

**\* Because of facility limitations at this location, this Governing Board meeting will not be available as streaming video on the Internet, but may be listened to remotely as noted above. Please note that Public Participation will be available only at the meeting location.**

## **AGENDA:**

### **Preliminary Matters**

1. Call to order and member roll call:

Governor  
Treasurer  
Insurance Commissioner  
Speaker of the Assembly  
Chair of the Senate Rules Committee

#### *Establishment of a quorum*

2. Consideration and approval of the minutes of the June 12, 2019, CEA Governing Board meeting.
3. Consideration and approval of the minutes of the July 15, 2019, CEA Governing Board meeting.

### **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.
5. Chief Operations Officer Kellie Schneider will present to the Board the quantitative business metrics report.
6. Ms. Schneider will report on the status of the procurement of a Human Resource Management System software.
7. Chief Financial Officer & Chief Insurance Operations Officer Tom Hanzel will present to the Board the CEA financial and insurance operations report.
8. Mr. Hanzel will propose for Board approval mid-year revisions to the 2019 CEA budget, which will take into account a budget augmentation.
9. Enterprise & Strategic Risk Advisor Dr. Laurie Johnson will deliver a quarterly report to the Board on the CEA enterprise-risk-management-program.

### **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 ratification CEA’s amended and restated software development agreement with Insuresoft, the vendor supporting CPP.

### **Mitigate – Matters Related to CEA’s Mitigation & 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.
12. Ms. Maffei will update the Board on the CEA Research Program.

## CONCLUSION

13. 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.
14. Adjournment.

For further information about this notice or its contents:

### General Information:

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**To view this notice on the CEA website or to learn more about CEA, please visit [www.EarthquakeAuthority.com](http://www.EarthquakeAuthority.com).**

**Persons with disabilities may request special accommodations at this or any future Governing Board meeting or may request the accommodation necessary to receive agendas or materials CEA prepares for its Board meetings. Please contact Shannon McEuen by telephone, toll free, at (877) 797-4300 or by email at [CEABoardLiaison@calquake.com](mailto:CEABoardLiaison@calquake.com). We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.**

**NOTE: If in the future you do not wish to receive public notices pertaining to CEA, please send your request by email to [CEABoardLiaison@calquake.com](mailto:CEABoardLiaison@calquake.com).**

## DRAFT

# CALIFORNIA EARTHQUAKE AUTHORITY GOVERNING BOARD MEETING MINUTES

Wednesday, June 12, 2019  
12:00 p.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  
Lisbeth Landsman-Smith, designee of Insurance Commissioner Ricardo Lara  
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  
Shawna Ackerman, Chief Actuary  
Tom Hanzel, Chief Financial Officer  
Laurie Johnson, PhD, Enterprise & Strategic Risk Advisor  
Janiele Maffei, Chief Mitigation Officer  
Michael Melavic, Acting Chief Information Officer  
Kellie Schneider, Chief Operations Officer  
Colby Tunick, Acting Governing Board Liaison  
Tom Welsh, General Counsel

### Also present:

Michelle Goss, CPA, Plante Moran, PLLC  
Dan VanDreumel, CPA, Plante Moran, PLLC

## **Preliminary Matters**

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

Chair Mark Ghilarducci called the meeting to order at 12:05 p.m. A quorum was achieved.

Mr. Ghilarducci welcomed everyone and moved the Board into closed session.

**2. The Board will meet in closed session to discuss personnel matters, as permitted by California Government Code section 11126, subdivisions (a).**

The Board entered closed session at 12:07 p.m. and resumed its proceedings in open session at 1:54 p.m. No action was announced as having been taken.

**3. Consideration and approval of the minutes of the March 20, 2019, CEA Governing Board meeting.**

**MOTION:** Ms. Landsman-Smith moved approval of the March 20, 2019, California Earthquake Authority Governing Board Meeting Minutes as presented. Motion carried unanimously.

**4. Consideration and approval of the minutes of the April 12, 2019, CEA Governing Board meeting.**

**MOTION:** Ms. O'Connor moved approval of the April 12, 2019, California Earthquake Authority Governing Board Meeting Minutes as presented. Ms. Landsman-Smith seconded. Motion carried unanimously.

**CEA Enterprise – Executive and Operations Reports**

**5. 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 a summary, with a slide presentation, of the CEA policies in force, policy growth, claim-paying capacity, mitigation retrofits, federal legislation, and community outreach efforts. He referred to the claims-paying tower on Slide 10 and noted that the blue CEA Surcharge \$1 Billion box was new this year. This authorization from the Legislature will save \$30 million this year in reinsurance costs. He reported the following:

- Senate Bill (SB) 254 has been made a two-year bill. The bill will implement a small post-event assessment layer on top of the tower to replace some of the reinsurance but has been met with resistance among some private insurance companies and legislators.
- Staff will testify in support of Assembly Bill (AB) 548 at the hearing in a couple of weeks. This bill will make certain changes related to the use of funds appropriated by California for the Earthquake Brace + Bolt program specifically to promote mitigation in low income communities.
- H.R. 2053, the federal Earthquake Mitigation Incentive and Tax Parity Act, continues to gain momentum in Congress.

**6. Chief Operations Officer Kellie Schneider will update the Board on 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 the Mitigate and Organizational Resilience categories deviated from the plan within 10 percent of what would be expected. She stated the Mitigate category will be discussed later today in Item 14. She stated the Organizational Resilience category relates to the completion of civil service probation reports for employees. Staff will meet with individual supervisors to resolve this issue.

#### Questions and Discussion

Chair Ghilarducci asked about training supervisors and other executives on ethics and leadership. Ms. Schneider stated that is one of the drivers of the Organizational Resilience category.

Mr. Wood asked if the ethics training is being done online. Ms. Schneider stated it is.

Mr. Wood asked if individuals are not completing it because of the two-hour requirement. Ms. Schneider stated individuals have either been out of town or unable to complete it in the timeframe internally identified.

#### **7. Enterprise & Strategic Risk Advisor Laurie Johnson will update the Board on CEA enterprise-risk-management-program planning and progress.**

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 May 29, 2019, and the 2019 Program Plan. She reported the following:

This quarter, two risk checkpoints were approached or reached:

- Business Continuity – A bomb scare in the building allowed risk controls and responses to be checked. An after-action review was conducted for program improvement.
- Legislative/Regulatory – As long as the legislation discussed in Item 5 is active, staff will continue to be strategic in monitoring efforts and proactive in understanding reputational and other risks that may materially affect the CEA.

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. Mr. Pomeroy will discuss hiring a Chief Information Security Officer in the next agenda item as a way to mitigate this problem.

#### Questions and Discussion

Mr. Fry asked if the IT Systems and Data Security category can ever realistically get out of the red. Tom Welsh, General Counsel, agreed that the risk will always be there. He stated the need for infrastructure and reviews to be put in place to manage against that.

**8. Mr. Pomeroy will seek Board approval to permit CEA to contract to hire a Chief Information Security Officer.**

Mr. Pomeroy stated two things are required to address the deficiency in data security:

- A Chief Information Security Officer (CISO)
  - As per Board request, staff has been working to fill the CISO position by developing a career executive assignment concept to recruit the CISO within civil service, but no qualified candidates were found.
  - Staff requests a contract position to recruit on the open market.
- A cyber-risk insurance policy

Staff recommendation:

- Approve recommended process and accept CEO Glenn Pomeroy's recommendation to direct-hire a contract Chief Information Security Officer.

Questions and Discussion

Ms. O'Connor asked about the process to ensure diversity in filling the CISO position. Mr. Pomeroy stated staff is working with two search firms and has asked that a diverse panel of candidates be provided.

Chair Ghilarducci asked how a search on the private side may differ from the search already conducted on the government side. Mr. Pomeroy deferred to Ms. Schneider to answer that question.

Ms. Schneider stated the two biggest challenges are competing with Silicon Valley and the requirements that candidates must be on the leading edge of technology in order to meet or exceed the data security standards implemented by participating insurers. She assured that the CEA is recruiting widely but stated salaries are depressed in the state in regards to IT classifications.

Mr. Wood suggested reaching out to professional organizations that might be centered around diverse groups. Michael Melavic, Acting Chief Information Officer, stated CISOs are in high demand and the pool of certified information systems security professionals is small.

Mr. Fry asked about a reasonable timeline to start the search. Ms. Schneider stated the search could begin next week.

**MOTION:** Ms. O'Connor moved approval of the staff recommendation as presented. Ms. Landsman-Smith seconded. Motion carried unanimously.

## **Insure – Matters Related to CEA’s Insurance Business**

### **9. Chief Financial Officer Tom Hanzel will present to the Board the quarterly CEA financial report.**

Tom Hanzel, Chief Financial Officer, provided an overview, with a slide presentation, of the CEA financial information as of March 31, 2019. He stated CEA claim-paying capacity grew by approximately \$100 million from January 1<sup>st</sup> to April 1<sup>st</sup> of 2019, which was driven by retained earnings in the company during the first quarter. There was also a shift in the risk transfer amount on April 1<sup>st</sup> due to the expiration of approximately \$1 billion and a new program that went into effect at that time. Pricing was essentially flat. He asked Shawna Ackerman, Chief Actuary, for verification.

Ms. Ackerman verified that both claim-paying towers maintain the Board-approved risk-transfer strategy of a minimum coverage to meet a 1-in-400-year event.

Mr. Hanzel stated the Department of Insurance (DOI) has concluded their triennial examination, which looked at CEA financials, controls, and risks. The DOI has issued their public Report of Examination with no recommendations or findings.

#### Questions and Discussion

Chair Ghilarducci referred to Slide 28 and asked about the 10 percent Producer Compensation line item, if producers are working effectively, and if it is worth their investing the time and energy. He asked if the percentage should be increased to make it a better incentive. Mr. Hanzel stated staff will look into that.

Chair Ghilarducci stated reinsurance is at 66 percent. A way needs to be found to buy that down. He asked staff about ideas and options they have considered to bring down what is given to reinsurers and to lower the protection gap.

Mr. Hanzel stated it is necessary. There is a dependency on reinsurance that potentially is not sustainable. These are good partnerships that need to be sustained while finding alternative ways to prop the primary tower up, reduce that spend, and the capacity that goes along with it. Three reinsurance brokers help place the business. Staff will be meeting with them on Monday for a strategy session on how to tackle this and how to ensure that there are enough funds before an event happens and after.

Ms. Ackerman stated the mitigation piece changes the risk, which then changes the amount of reinsurance that will be needed. Staff is working on convincing policyholders to take advantage of the \$3,000 grants available to mitigate their houses.

Chair Ghilarducci stated credit is not given from the reinsurers on the mitigation program. Mr. Pomeroy stated they will when enough of it is done.

Chair Ghilarducci asked what the tipping point would be on that. Ms. Ackerman stated she will look into that.

Mr. Welsh stated this connects to the earlier question about compensating the brokers and agents enough. He suggested that CEA is seeking to collaborate with the field force of agents who have the best relationships with policyholders who need their homes mitigated.

Chair Ghilarducci stated brokers and agents need to understand the mitigation program and to buy into the value of it. Agents sell insurance; they have no reason to push mitigation.

Mr. Hanzel stated this has been seen in other states, where the agent loses their commission if the risk goes down; however, the best agents go back and tell policyholders that their premium has been reduced through mitigation and they sell \$1 million in liability coverage or a lower deductible with that savings. The CEA could work with agents on options policyholders can utilize with their mitigation premium savings so that everyone benefits.

Mr. Martinez stated producer compensation and how to further incentivize could be part of a good, healthy dialogue with the participating insurers and the agent and broker communities.

Mr. Pomeroy stated staff will report back on this topic at the next meeting.

Mr. Fry stated he, Mr. Pomeroy, and his team met last week in Southern California. He stated a staff member whom he brought with him suffered severe damage to his house during the 1994 Northridge earthquake but has not had insurance on his house since then because he was under the impression it was too expensive. Mr. Pomeroy worked out the numbers right there at the table and this staff member bought insurance that day. Mr. Fry stated the importance of including in the agent training and incentives the fact that earthquake insurance is not expensive and the more policies they sell, the more money they will make and the prices will come down.

Chair Ghilarducci referred to Slide 30 and asked if there is a metric goal for number of policyholders for 2019 and 2020 to help drive resources.

Ms. Schneider stated policy count is not a current metric.

Chair Ghilarducci stated it would improve sustainability, acceleration, and accountability across the organization to include projected growth in the number of policies in force.

Dr. Johnson stated there is a risk management aspect to growth. The ERM program has risk checkpoints and growth limits, which trigger around risk transfers. Policy count growth is part of the ERM.

Chair Ghilarducci agreed but asked if the risk analytics are appropriate, based upon where the CEA wants to go as an organization. The ERM data is based on how the CEA currently operates as an organization, as opposed to where it wants to go to expand in the future.

Dr. Johnson stated it is a balance. Mr. Pomeroy stated staff will do more metrics on this.

Mr. Wood stated the cost to buy a house is not the same as the cost to rebuild. It is important for the public to understand the difference. Ms. Ackerman agreed and stated it is called the Coverage A or the Replacement Cost. The CEA is required to follow what the underlying homeowners residential policy sets as the coverage A amount.

Chair Ghilarducci stated this is a big thing in the disaster recovery business because the cost of rebuilding spurs whether homeowners will rebuild or not, which affects the economic recovery for the region and how it rebounds from a disaster. Understanding that piece is important because most homeowners are underinsured. That is where it all ties together with regards to how much people truly understand and what the insurance companies are conveying to them.

Mr. Martinez suggested adding that to the conversation with the participating insurers, agents, and brokers.

Mr. Wood suggested marketing to debunk the myth that earthquake insurance is too expensive.

Dr. Johnson stated, similar to a post-catastrophic fire, the base policy does not provide adequate replacement cost that most homeowners will face in an earthquake. She stated the need to also consider post-event inflation issues and competition for resources brought on by demand surge.

**10. Mr. Hanzel will seek Board approval for the annual set-aside of a statutory portion of CEA investment income for transfer into the CEA Earthquake Loss Mitigation Fund.**

Mr. Hanzel provided an overview, with a slide presentation, of the background and analysis for the annual set-aside for the CEA Earthquake Loss Mitigation Fund. He stated staff's proposal was reviewed by Shawna Ackerman, CEA Chief Actuary, as required by law.

Ms. Ackerman stated her review found the proposed set-aside to be actuarially sound.

Staff recommendation:

- Authorize a 2019 set-aside of \$5,000,000 for the CEA Loss Mitigation Fund (calculation shown on Attachment B to the Governing Board memorandum for this Agenda Item).

**MOTION:** Mr. Martinez moved approval of the staff recommendation; seconded by Ms. O'Connor. Motion passed unanimously.

**11. Mr. Hanzel will provide a brief overview of CEA's need to retain a consulting firm to assist CEA in a comprehensive assessment of its readiness to efficiently and effectively administer a high volume of claims following a major earthquake, and will seek Board approval to contract with a consulting firm to assist CEA in this process.**

Mr. Hanzel provided an overview, with a slide presentation, of the background and analysis for the CEA's need to retain a consulting firm to assist in a comprehensive assessment of its readiness.

Staff recommendations:

- Approve retaining a consulting firm at an expense not to exceed \$250,000 to provide a comprehensive assessment of CEA's claim readiness.
- Authorize CEO Glenn Pomeroy to negotiate and execute the contract on behalf of CEA.

#### Questions and Discussion

Chair Ghilarducci stated his organization routinely brings in external reviewers to push them and to ensure that they can meet the ability to respond and recover effectively. External reviewers find gaps that may exist and where improvements can be made. He suggested that this can coordinate with the ERM program.

Dr. Johnson agreed and stated the Natural Catastrophe Industry Working Group did a claim adjuster capacity assessment last year. They reached out to all PIs to test that model and weaknesses were found. Real "just in-time" training of new claims adjusters will be required for more people to understand earthquakes and, in particular, earthquake damage. Another area of weakness is volume and the ability to move things through the transactional aspects of claim adjustment and paying.

Mr. Fry volunteered to help the Working Group find solutions to the weaknesses they found and help educate on post-event recovery issues.

Mr. Martinez asked how often the proposed comprehensive assessments of CEA's claim readiness will be required. Mr. Hanzel stated every three to five years, depending on the baseline findings of the first one.

Chair Ghilarducci stated he is interested to see how the specialty consultant will come up with their assessment since there has not been a major California earthquake in years.

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

#### **12. CEA independent financial auditor Plante Moran PLLC will present to the Board the results of its most recent audit of CEA, conducted pursuant to the standards of the Governmental Accounting Standards Board (GASB).**

Mr. Hanzel introduced Michelle Goss and Dan VanDreumel from Plante Moran, CEA's independent financial auditors, and asked them to present this agenda item.

Michelle Goss, CPA, Partner, Plante Moran, provided an overview, with a slide presentation, of the audit process.

Dan VanDreumel, CPA, Senior Manager, Plante Moran, provided an overview, with a slide presentation, of the required communications under audit standard AU 260.

Ms. Goss stated there were no significant findings or issues. Plante Moran has issued a clean, unmodified opinion of the 2018 financial statements.

### **Mitigate – Matters Related to CEA’s Mitigation Mission**

#### **13. Mr. Pomeroy will report on the continued development of a 501(c)(3) Non-Profit Public Benefit Corporation.**

Mr. Pomeroy stated staff will present a proposed set of bylaws and a detailed business plan for Board approval at the September meeting. He asked the Board for their input.

#### Questions and Discussion

Ms. O’Connor asked staff to consider the following:

- How the Board of Trustees is established and who would be in the pool.
- What the appointment process will be and if the trustees will be subject to the Bagley-Keene Open Meeting Act and reportable to the FPPC and SEC.
- Ensure that safeguards are put in place.

Mr. Martinez asked staff to consider governance, internal controls, accountability, and transparency.

Mr. Fry stated the challenge of separating the perception of mitigation from recovery. Donations may be made for recovery when the goal is mitigation.

#### **14. 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, reviewed the Earthquake Brace + Bolt program activity to date and the progress of the Federal Emergency Management Agency (FEMA) Hazard Mitigation Grant Program (HMGP) for proactive risk-reduction mitigation work.

### **Educate – Matters Related to CEA’s Earthquake Preparation and Education Mission**

#### **15. Mr. Pomeroy will report on CEA’s launch of the statewide multi-agency earthquake preparedness and recovery “TV News Station Initiative.”**

Mr. Pomeroy gave credit to Chris Nance, Chief Communications Officer, for the TV News Station Initiative. He stated Mr. Nance is working with representatives from many of agencies to develop a three-pronged approach to get into TV news stations in the high-risk areas to do three things:

- Develop a public service announcement, which is produced and done by local talent.
- Build a shared landing page for the TV station websites as a one-stop shop for earthquake preparedness and recovery information.
- TV news station briefings with everyone around the table to help increase earthquake safety and preparedness.

Mr. Pomeroy stated staff has visited Los Angeles and San Francisco and plans to visit San Diego this fall.

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

Ms. Maffei provided an overview, with a slide presentation, of the current status of the CEA research projects.

Questions and Discussion

Chair Ghilarducci asked if Ms. Maffei engages the California Building Standards Commission when working on the codes. Ms. Maffei stated she does and plans to ask the Board in the near future for assistance in working with the California Department of Housing and Community Development (HCD).

**17. 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.

**18. Closing remarks by Mr. Pomeroy.**

Mr. Pomeroy thanked the Board for their input and invited everyone to attend the orientations that had been scheduled prior to the next Board meeting.

**19. Adjournment.**

There being no further business, the meeting was adjourned at 3:55 p.m.

**DRAFT**

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Monday, July 15, 2019  
9:00 a.m.**

Location: California Earthquake Authority  
Main Conference Room  
801 K Street, Suite 1000  
Sacramento, California

Additional Public Location: Lakewood City Hall  
Pan American Room  
5050 Clark Avenue  
Lakewood, 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

(via teleconference)

Craig Fry, designee of Chair of the Senate Rules Committee Toni Atkins

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer

Shawna Ackerman, Chief Actuary

Sheri Aguirre, Strategic Advisor

Janiele Maffei, Chief Mitigation Officer

Michael Melavic, Acting Chief Information Officer

Chris Nance, Chief Communications Officer

Kellie Schneider, Chief Operations Officer

Colby Tunick, Acting Governing Board Liaison

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 9:08 p.m. A quorum was achieved.

### **2. Chief Executive Officer Glenn Pomeroy, assisted by CEA staff, will update the Board regarding the July 4th magnitude 6.4 earthquake and subsequent aftershocks near Ridgecrest, California.**

Glenn Pomeroy, Chief Executive Officer, provided a summary of the July 4<sup>th</sup> magnitude 6.4 and 7.1 earthquakes near Ridgecrest and Trona, an area with approximately 2,000 CEA policyholders. He stated he and several staff traveled to the Ridgecrest area the day after the event. He asked Janiele Maffei to share with the board her initial observations.

Janiele Maffei, Chief Mitigation Officer, stated the 6.4 and 7.1 earthquakes occurred on perpendicular faults, which is unusual according to the United States Geological Survey (USGS) and the California Geological Survey (CGS). She stated there were signs of ground fault rupture, cracking in masonry, mobile homes off their foundations, broken water mains, and ruptured gas mains. The last two items can cause further impacts due to damage of contents by water or fire.

Ms. Maffei stated it was notable that there were categories of houses that do well, predominately the construction in Ridgecrest. She showed examples of houses that saw strong shaking with very little damage, even to chimneys. She stated single-family houses, light wood roofs, lots of walls, slab on-grade or stem-wall construction, and flat ground saw very little damage. She stated she did see signs in town of ground movement that the geologists will look at carefully.

Ms. Maffei stated, although Ridgecrest and Trona do not have older cripple wall houses so she was unable to test Earthquake Brace + Bolt (EBB) houses, there were examples of earthquake damage that will inform the CEA research and mitigation programs.

Ms. Maffei stated, even if individuals did not suffer structural damage to their homes, they were highly impacted due to the lack of water and air conditioning.

Mr. Pomeroy summarized the claims response before and after the earthquakes and post-event CEA on-site presence. He asked Chris Nance to report on his department's response.

Chris Nance, Chief Communications Officer, summarized the CEA Communications Department event activation from a few hours to one week post-event the for the Ridgecrest Earthquake.

### Questions and Discussion

Mr. Wood asked to put Mr. Pomeroy's video message back on Instagram. Mr. Nance stated he would ask the CEA's social media specialists to look into this.

Ms. Maffei stated there is a misconception among agents and brokers that there is a moratorium on selling earthquake policies in the state. This misconception needs to be dispelled quickly.

Chair Ghilarducci asked why some agents and brokers have that misconception. Mr. Pomeroy stated some companies that provide residential insurance put a moratorium in place on the purchase of homeowners' insurance in certain areas from time to time. Agents may assume a moratorium was put in place due to the events but the CEA never puts a moratorium on the sale of new earthquake insurance after an event.

Mr. Fry suggested preparing the media prior to interviews so they ask better questions of Mr. Pomeroy. Mr. Pomeroy stated the Station Initiative is designed to educate the media on earthquake specialist roles and scope of practice.

**3. Mr. Pomeroy and General Counsel Tom Welsh will update the Governing Board on legislative activities of interest to the CEA in order to receive Governing Board directives, by way of Resolution, as to any formal positions the CEA should or may take on pending legislation.**

Mr. Pomeroy provided an overview, with a slide presentation, of the California Wildfire Fund and CEA's new responsibilities under Assembly Bills (AB) 1054 and 111, current governance structure, and the creation of the California Catastrophe Response Council (Council), which will appoint and oversee the Wildfire Fund Administrator (WFA). He stated, until the additional members are appointed to make up the Council, the CEA Governing Board will assume and exercise the Council's authorities and duties. Also, until the Council appoints a WFA, the CEA is designated as the interim WFA and will be authorized to exercise the powers of the WFA.

Mr. Pomeroy stated the law was signed last Friday and took effect immediately. He asked Mr. Welsh to describe the steps to implement this law.

Tom Welsh, General Counsel, continued the slide presentation and discussed the governance and administration requirements and implementing the Wildfire Fund. He stated the next step is to promptly notice a meeting of the CEA Governing Board, exercising the powers of the Council. He suggested posting the 48-hour Notice of Meeting later this week or early next week.

**4. Mr. Pomeroy will recommend adoption of a resolution authorizing a modification to the CEA Brace + Bolt program, to expand the eligibility requirements for this program while remaining within the original authorized budget as approved at the July 9, 2018, Governing Board meeting.**

Mr. Pomeroy summarized the existing policyholder criteria approved at the July 2018 Board meeting and the recommendation to expand program criteria. He asked Sheri Aguirre to discuss the proposed aggressive outreach plan.

Sheri Aguirre, Strategic Advisor, summarized the outreach to policyholders, participating insurance companies, agents, and the media.

Staff recommendation:

- Adjust the CEA BB program parameters as outlined in the staff memorandum to allow those policyholders most impacted by implementation of CEA's current rating program.

#### Questions and Discussion

Mr. Martinez asked if the hazard reduction discount is a flat 20 percent or is up to 25 percent. Shawna Ackerman, Chief Actuary, stated it is up to 25 percent, depending on age and foundation type of the home.

Mr. Martinez asked where the funding will come from for this expansion. Mr. Pomeroy stated the funding will come out of CEA's available capital.

Mr. Martinez suggested including Congress and the State Legislature representatives as part of the aggressive outreach plan to help get the word out.

Mr. Fry asked where the 50 percent increase in insurance rates comes from. Ms. Ackerman stated the CEA is required by statute to follow the Uniform California Earthquake Rate Forecast (UCERF-3). The rate increases come from a combination of the implementation of the UCERF-3, which is based on the latest available science, and the recognition that there are certain types of buildings that are expected to sustain greater damage. She gave the example that a rating factor relative to roof type has not been implemented and foundation types have been expanded to include the category "other" to allow retrofitted houses to receive a discount.

Mr. Fry stated his concern that a 50 percent increase could drive individuals away from renewing their CEA coverage. Mr. Pomeroy agreed but stated outreach will educate homeowners their rate increases are because that their risk is greater. CEA will also communicate that CEA offers \$3,000 mitigation grants to assist them in retrofitting their homes, which will potentially reduce their premiums by 25 percent.

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

**5. Public comments on items 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.

**6. Adjournment.**

There being no further business, the meeting was adjourned at 10:06 a.m.

## **Governing Board Memorandum**

25 September 2019

Agenda Item 4: Executive Report by Chief Executive Officer Glenn Pomeroy

Recommended Action: No action required—information only

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

## **Governing Board Memorandum**

25 September 2019

Agenda Item 5: Quantitative Business Metrics Report Update

Recommended Action: No action required—information only

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Chief Operations Officer Kellie Schneider will present to the Board the periodic CEA Operations Business Metrics Report.

## **Governing Board Memorandum**

25 September 2019

Agenda Item 6: Update on Enterprise Resource Planning (ERP) software solution.

Recommended Action: No action required—information only

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### **Background**

CEA staff identified the need to replace current manual methods for tracking and managing core non-information technology operational activities with an off-the-shelf software solution that will allow CEA to conduct day-to-day operations in a more efficient manner, while considering growth and complexity of CEA business in the future.

In 2018, CEA began a formal process of seeking an integrated, off-the-shelf Enterprise Resource Planning (ERP) solution to replace manual processes for accounting, budgeting, human resources, procurement, and asset management, among other functions. The ERP solution would have: (a) met core requirements as an off-the-shelf product that requires minimal modifications, (b) minimized or eliminated manual processes, and (c) consolidated current systems and processes that are provided by single or multiple vendors.

On April 6, 2018, CEA issued a Request for Proposal and Qualifications (RFP/Q) for Enterprise Resource Planning Software #1-18v2. CEA received proposals from seven firms for the ERP software solution.

The selection panel ranked the firms that responded to the RFP/Q based solely on their responses to the specific criteria identified in the RFP/Q, and invited the top three firms to provide an on-site demonstration of their Enterprise Resource Planning (ERP) software solution.

This memo seeks to provide an informational update and notification of intent to request budget approval during the December 2019 Governing Board Meeting.

## **Analysis and Update.**

After further consideration, based upon the size and scope of the project, CEA decided to break the overall ERP project into manageable components and seek software solutions that would address specific functional needs within CEA, rather than a single software platform to cover the entire enterprise (enterprise-wide platforms are often designed for companies with significantly more employees than CEA). CEA focused fulfilling needs in the following functional areas:

- Human Resources
- Finance
- Employee Travel/Expense Reimbursement
- Reinsurance
- IT Ticketing

By looking for smaller software solutions, CEA has been able to identify affordable systems that meet functional needs at reasonable and efficient licensing fees. For example, CEA has already addressed systems requirements for 3 of these 5 functional requirements, at reasonable costs:

- Reinsurance Tracking: In 2018, CEA purchased software from Duck Creek (formerly DataCede) to meet the company's reinsurance tracking needs. That software solution has been acquired and is fully functional.
- Employee Travel/Expense: In 2019, CEA purchased software from Concur to fulfill employee travel and expense reimbursement needs. That software has been implemented and is currently in use.
- Finance: CEA's Finance Department, with assistance from IT, is currently in the process of upgrading and enhancing its existing finance software at a minimal cost. That software is functioning well and will continue to be supported by the vendor for at least 4 or 5 more years.

Research and acquisition of software solutions for the remaining two functional activities—IT Ticketing and Human Resources—is well underway:

- IT Ticketing: The ticketing system procurement is in initial evaluation stage and CEA expects to execute a purchase before the end of 2019. This software will replace the current system that the current vendor will no longer support after the first quarter of 2020. This system may also be flexible enough to service the needs of other functional areas (e.g., Communications and Legal) that use or may use a ticketing system to track projects, which may avoid the need for the

acquisition of other tracking systems.

- Human Resource Management: Finally, CEA is finalizing the procurement process for a Human Resources Management System (HRMS). HRMS systems are more sophisticated, and often somewhat expensive, so CEA employed a rigorous, fair and competitive procurement process to assess HRMS options. Depending upon the software vendor selected, the target cost is expected to exceed \$100,000 for the initial procurement, licensing, and integrator, and the annual licensing fee is not expected to exceed \$90,000 per year.

As these final software procurements are concluded, if either or both result in costs that exceed amounts that CEA has traditionally brought to the Governing Board for approval, we will notice the proposed acquisitions for consideration and action at the December 2019 Governing Board meeting.

## **Governing Board Memorandum**

25 September 2019

Agenda Item 7:                    Financial and insurance operations report

Recommended Action:        No action required—information only

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



# **FINANCIAL REPORT**

**July 31, 2019**

## Financial Report Table of Contents

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Note: See Fact Sheets for Policies In Force, Written Premiums, and Exposures.

# **Financial Statements & Budgets**

**California Earthquake Authority**  
**Balance Sheet**  
**as of July 31, 2019 and 2018**

<b>Assets</b>	<b>2019</b>	<b>2018</b>
Cash and investments:		
Cash and cash equivalents	\$ 257,876,042	\$ 239,536,092
Restricted cash and equivalents	12,116,273	17,557,667
Restricted investments	-	364,537,845
Investments	6,523,994,362	5,748,252,875
	<hr/>	<hr/>
Total cash and investments	6,793,986,677	6,369,884,479
Premiums receivable, net of allowance for doubtful accounts of \$5,639,833	95,601,084	84,551,474
Capital contributions receivable	-	-
Due from CA Wildfire Fund	162,151	-
Interest receivable	28,402,153	26,075,892
Securities receivable	-	-
Restricted securities receivable	-	-
Prepaid reinsurance premium	41,193,406	39,845,582
Prepaid transformer maintenance premium	272,281	991,374
Equipment, net	175,544	231,258
Other assets	80,554	5,747
	<hr/>	<hr/>
Total assets	<u>\$ 6,959,873,850</u>	<u>\$ 6,521,585,806</u>
<b>Liabilities and Net Position</b>		
Unearned premiums	\$ 436,640,007	\$ 406,603,560
Accounts payable and accrued expenses	6,943,460	4,773,769
Loss and loss adjustment expense reserves	11,117,573	120,995
Securities payable	-	3,827,320
Revenue bond payable	-	105,000,000
Revenue bond interest payable	-	245,438
	<hr/>	<hr/>
Total liabilities	454,701,040	520,571,082
Net position:		
Restricted, expendable	15,600,964	281,266,448
Unrestricted, participating insurer contributed capital	790,656,796	777,384,796
Unrestricted, State of California contributed capital	286,017,087	267,143,840
Unrestricted, all other remaining	5,412,897,963	4,675,219,640
	<hr/>	<hr/>
Total net position	6,505,172,810	6,001,014,724
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 6,959,873,850</u>	<u>\$ 6,521,585,806</u>

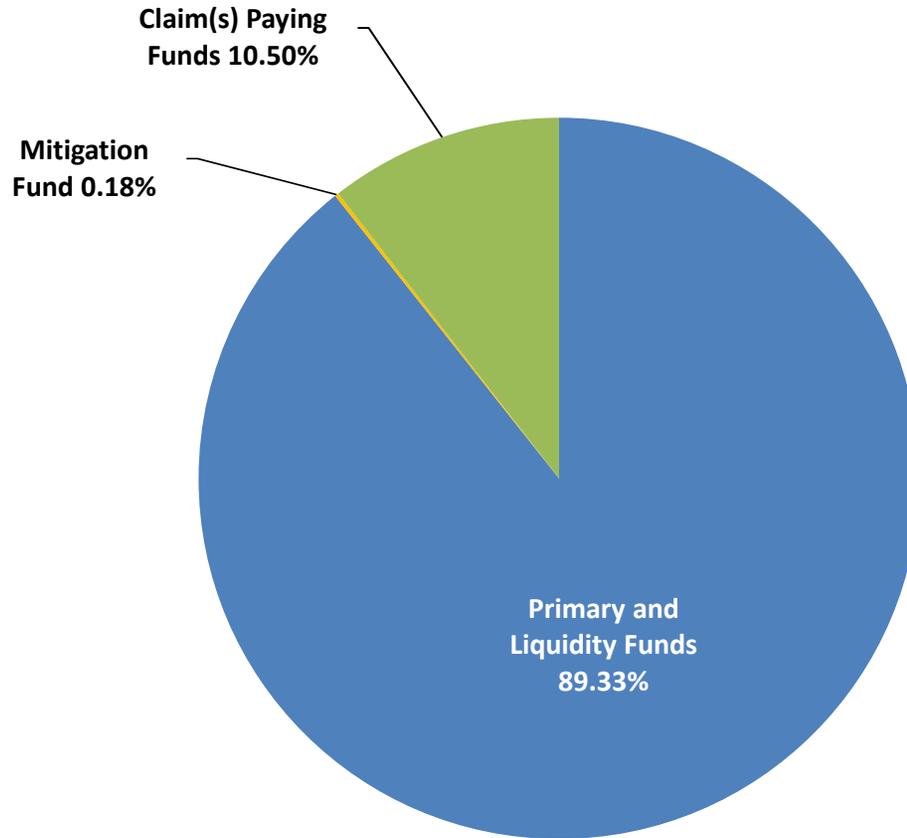
**California Earthquake Authority**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year-to-Date Ended July 31, 2019 and 2018**

	2019	2018
Underwriting income:		
Premiums written	\$ 485,844,761	\$ 461,537,794
Less premiums ceded - reinsurance	<u>(216,945,261)</u>	<u>(213,067,831)</u>
Net premiums written	<u>268,899,500</u>	<u>248,469,963</u>
Change in unearned premiums	<u>(19,191,806)</u>	<u>(33,147,544)</u>
Net premiums earned	<u>249,707,694</u>	<u>215,322,419</u>
Expenses:		
Losses and loss adjustment expenses	11,026,764	67,885
Participating Insurer commissions	48,588,985	46,156,423
Participating Insurer operating costs	15,739,004	14,990,154
Reinsurance broker commissions	1,633,333	1,633,333
Pro forma premium taxes equivalent	11,423,919	10,852,624
Other underwriting expenses	<u>30,490,986</u>	<u>25,268,172</u>
Total expenses	<u>118,902,991</u>	<u>98,968,591</u>
Underwriting profit	130,804,703	116,353,828
Net investment income	165,610,227	(16,357,912)
Other income	279,448	278,772
Grant revenue	62,980	4,050
Financing expenses, net	1,691,222	65,256
Earthquake Loss Mitigation Fund expenses	(4,278,901)	(4,953,393)
State of California premium tax contribution equivalent	<u>11,423,919</u>	<u>10,852,624</u>
Increase in net position	305,593,598	106,243,225
Net position, beginning of year	<u>6,199,579,212</u>	<u>5,894,771,499</u>
Net position, end of year to date	<u>\$ 6,505,172,810</u>	<u>\$ 6,001,014,724</u>

# **Investments**

**California Earthquake Authority  
Investment Distribution at Market Value  
as of July 31, 2019**

<b>Market Value</b>	<b>\$6,771,422,416</b>
Primary and Liquidity Funds	89.33%
Mitigation Fund	0.18%
Claim(s) Paying Funds	10.50%
<b>Total:</b>	<b>100.00%</b>



# Debt

**California Earthquake Authority  
Schedule of Outstanding Debt**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2014 Revenue Bonds 5 year bond CUSIP 13017HAE6	\$ 250,000,000	2.805%	\$ 247,910,261	\$ -	31-Jul-2019	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

Debt	Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
Series 2014 Revenue Bonds	1-Jan-17	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
5 year bond	1-Jul-17	\$210,000,000	\$40,000,000	\$3,506,250	\$43,506,250	
	2017- Paid					\$47,012,500
	1-Jan-18	\$210,000,000	\$0	\$2,945,250	\$2,945,250	
	1-Jul-18	\$105,000,000	\$105,000,000	\$2,945,250	\$107,945,250	
	2018- Paid					\$110,890,500
	1-Jan-19	\$105,000,000	\$0	\$1,472,625	\$1,472,625	
	1-Jul-19	\$0	\$105,000,000	\$1,472,625	\$106,472,625	
	2019- Outstanding					\$107,945,250

\*Moody's rating since November 2018.

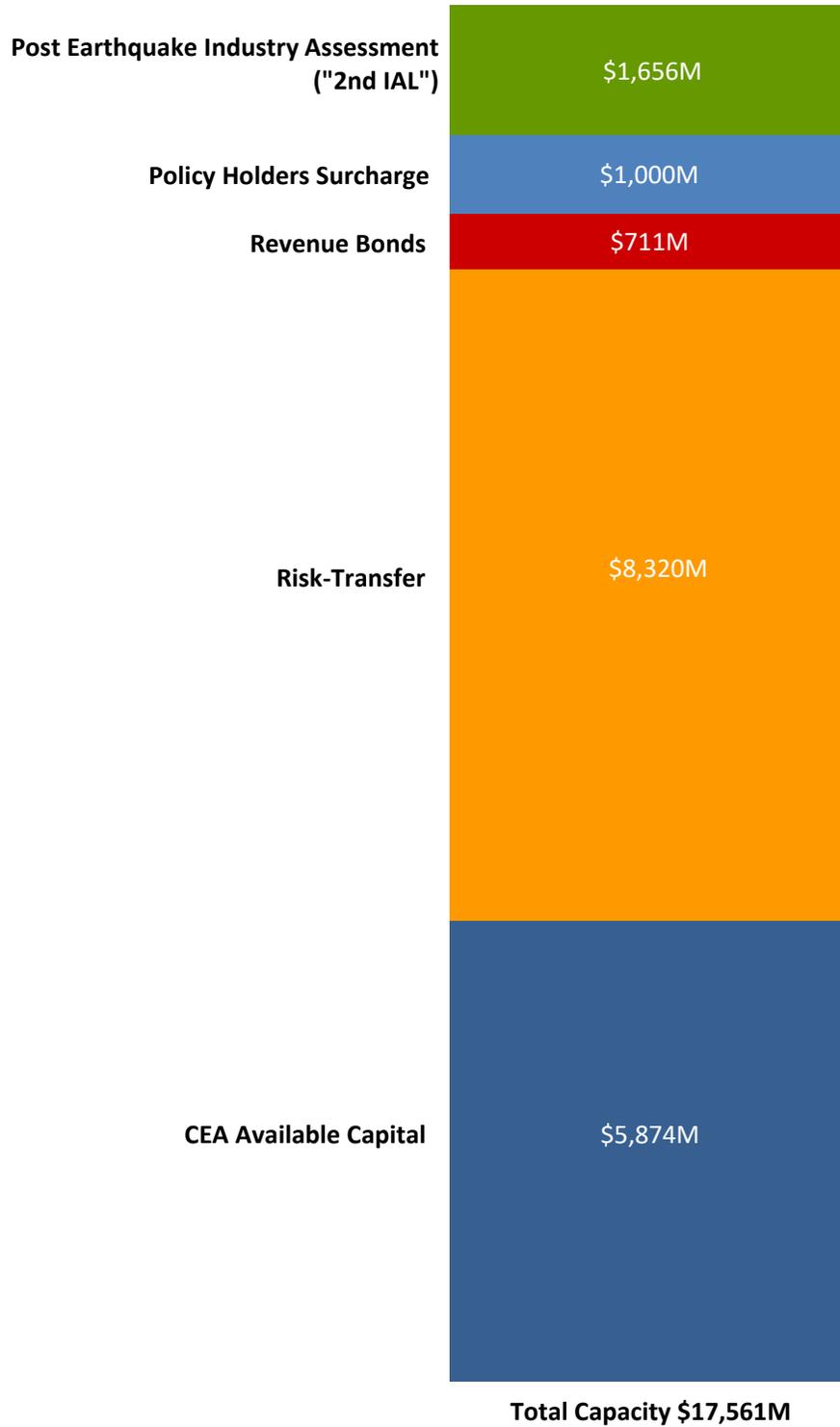
\*\*Fitch rating affirmed December 2018.

# **Claim-Paying Capacity**

**California Earthquake Authority**  
**Available Capital Report**  
**as of July 31, 2019**

Cash & Investments (includes capital contributions and premiums)	\$	6,793,986,677
Earthquake Loss Mitigation Fund Cash and Investments	\$	(12,116,273)
Interest & Securities Receivable	\$	28,402,153
Premium Receivable	\$	95,601,084
Risk Capital Surcharge & Capital Contributions Receivable	\$	-
Other Assets	\$	80,554
Revenue Bonds	\$	(710,719,597)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	\$	-
Unearned Premium Collected	\$	(303,332,072)
Accrued Reinsurance Premium Expense	\$	-
Accounts and Securities Payable, and Accrued Expenses	\$	(6,943,460)
Loss Reserves	\$	(11,117,573)
CEA Available Capital	<b>\$</b>	<b>5,873,841,494</b>

**California Earthquake Authority  
Claim-Paying Capacity  
as of July 31, 2019**



Note: Not drawn to scale

# **Risk-Transfer Programs**

**California Earthquake Authority**  
**Current Risk-Transfer Program Summary**  
**as of July 31, 2019**

<b>Traditional Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>
2019 January Program Contract 1	January 1, 2019 - December 31, 2019	1,047,774,800
2019 January Program Contract 2	January 1, 2019 - December 31, 2019	316,100,000
2019 January Program Contract 3	January 1, 2019 - December 31, 2019	75,000,000
2019 January Program Contract 4	January 1, 2019 - December 31, 2019	40,000,000
2019-2020 January Program Contract 1	January 1, 2019 - December 31, 2020	333,800,000
2019-2020 January Program Contract 2	January 1, 2019 - December 31, 2020	92,550,000
2019-2020 January Program Contract 3	January 1, 2019 - December 31, 2020	125,000,000
2019-2020 January Program Contract 4	January 1, 2019 - December 31, 2020	300,000,000
2018-2019 January Program Contract 1 (21 Month)	January 1, 2018 - September 30, 2019	277,705,560
2018-2019 January Program Contract 2 (21 Month)	January 1, 2018 - September 30, 2019	42,300,000
2018-2019 January Program Contract 1	January 1, 2018 - December 31, 2019	165,337,440
2018-2019 January Program Contract 2	January 1, 2018 - December 31, 2019	74,623,680
2018-2019 January Program Contract 3	January 1, 2018 - December 31, 2019	120,004,990
2018-2019 January Program Contract 4	January 1, 2018 - December 31, 2019	50,000,000
2019-2020 April Program Contract 1	April 1, 2019 - March 31, 2020	802,823,400
2018-2019 April Program Contract 1 (18 Month)	April 1, 2019 - September 30, 2019	402,830,000
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	200,000,000
2017-2020 August Program Contract 2	August 1, 2017 - July 31, 2020	200,000,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000
2018-2019 December Program Contract 1	December 1, 2018 - November 30, 2019	60,000,000
2018-2019 December Program Contract 2	December 1, 2018 - November 30, 2019	80,000,000
2019 January Program Contract 5	January 1, 2019 - December 31, 2019	140,000,000
2018-2019 January Program Contract 5	January 1, 2018 - December 31, 2019	164,999,800
2018-2019 January Program Contract 6	January 1, 2018 - December 31, 2019	279,999,840
2018-2020 June Program Contract 1	June 1, 2018 - May 31, 2020	69,999,990
2017-2020 August Program Contract 1	August 1, 2017 - July 31, 2020	93,750,000
2017-2019 December Program Contract 1	December 1, 2017 - November 30, 2019	124,999,994
2018-2019 December Program Contract 3	December 1, 2018 - November 30, 2019	49,999,950
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	93,750,000
2018-2019 August Program Contract 1	August 1, 2018 - July 31, 2019	118,750,000
2018-2021 August Program Contract 1	August 1, 2018 - July 31, 2021	93,750,000
2017-2019 July Program Contract 1	July 1, 2017 - June 30, 2019	70,000,000
<b>Total Traditional Reinsurance</b>		<b>6,244,849,444</b>
<b>Transformer Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>
2016-2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	500,000,000
2017-2020 Transformer Reinsurance Contract 1	May 16, 2017 - May 15, 2020	500,000,000
2017-2020 Transformer Reinsurance Contract 2	May 16, 2017 - May 15, 2020	425,000,000
2017-2020 Transformer Reinsurance Contract 3	December 1, 2017 - November 30, 2020	200,000,000
2017-2020 Transformer Reinsurance Contract 4	December 1, 2017 - November 30, 2020	200,000,000
2018-2021 Transformer Reinsurance Contract 1	September 14, 2018 - September 13, 2021	250,000,000
<b>Total Transformer Reinsurance</b>		<b>2,075,000,000</b>
<b>Total Risk-Transfer Program</b>		<b>\$ 8,319,849,444</b>

## Governing Board Memorandum

25 September 2019

Agenda Item 8: 2019 CEA Budget: Insurance Services Mid-Year Revision and Mitigation Mid-Year Revision

Recommended Action: Approve 2019 CEA Insurance Services Mid-Year Budget Revision; No action required on reduction of 2019 Mitigation budget.

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### **Background.**

CEA's Budget Process. CEA's annual operating expenses are subject to a statutory cap of 6% of CEA's annual written premiums on earthquake policies. See Ins. Code § 10089.6(c)(6% cap on expenses). However, a number of expense categories are expressly *excluded* from that statutory calculation because they are either subject to significant market fluctuations, such as reinsurance premiums and debt or capital market costs, or are not readily ascertainable at the beginning of any given year, such as loss adjustment expenses following a future earthquake. See Ins. Code § 10089.6(d)(items excluded from 6% cap). Although the excluded expense categories are not subject to the 6% cap, CEA nonetheless budgets for those expenses.

CEA further segregates its annual budgets between core earthquake insurance operations (Insurance Services Budget) and mitigation-related activities (Mitigation Budget). This budget segregation is because the expenses are paid from different funds—Insurance operations expenses are paid from the *Earthquake Authority Fund*, while mitigation expenses are paid from the *Loss Mitigation Fund*.

In December of each year, CEA presents these two budgets to the Board for approval. The Insurance Services Budget is a two-part budget covering both "statutory" expenses (those subject to the 6% cap) and "non-statutory" expenses (all other expenses). The Mitigation Budget is submitted for approval at the same time.

Mid-Year Revisions. Because the statutory cap is set as a percentage of written premium for the same budget year, CEA routinely conducts a mid-year recalculation of the actual amount of the statutory maximum to ensure that CEA's actual budgeted spending stays below the cap. At the same time, CEA reassesses and revises its budgets

as necessary to bring them in line with developments during the first six months, and to address significant events that may impact the second half of the year (e.g., a major earthquake). Mid-Year revisions include both “adjustments” (reductions in line items) and “augmentations” (increases to address changed circumstances).

### **2019 Budget and Summary of Mid-Year Revisions.**

At the December 2018 Governing Board meeting, CEA staff prepared and the Governing Board approved CEA’s 2019 annual budgets for Insurance Services and Mitigation. These budgets covered all anticipated expenses for the 2019 CEA fiscal (calendar) year.

In keeping with current practices, CEA has now completed its mid-year budget revision. Overall, the mid-year budget revision shows net reductions in both the Insurance Services and Mitigation Budget, but with the Insurance Services Budget requiring augmentation of several non-statutory budget items. These revisions are summarized as follows, and are explained in greater detail in the Analysis below, and in the Attachments:

Insurance Services Budget – The Insurance Services Budget is being revised to (1) adjust (reduce) annual statutory expenses by an aggregate of (\$4,916,016); and (2) augment (increase) certain non-statutory expenses by \$2,118,362.

Mitigation Budget – CEA staff has also determined that it is appropriate to adjust (reduce) the 2019 budget for Mitigation by (\$345,236).

The requested net augmentation of the Insurance Services budget is an action item that requires approval of the Board. The net reduction of the Mitigation Budget requires no action by the Board.

### **Analysis.**

**2019 Insurance Services Budget** – CEA staff has prepared an attachment to assist the Board in analyzing the 2019 mid-year budget revisions for the Insurance Services Budget.

- **Attachment A: 2019 Insurance Services Budget Mid-Year Revision**  
Attachment A shows the originally approved 2019 insurance services budget; actual expenditures through July 31, 2019; proposed revisions to certain budget categories for the remainder of 2019, based on anticipated expenditures; and a proposed augmentation to several categories of the 2019 non-statutory budget.

Budget-category-level revisions are proposed, based on anticipated expenditures for the remainder of 2019. The overall budget categories reduction is \$11,995,726. This reduction was used to offset the projected budget increase in four budget categories, resulting in no net budget increase. The budget augmentation of \$2,118,362 is to meet policy acquisition expenses due to an increase in projected 2019 written premium.

After analyzing CEA written-premium collections as of July 31, 2019, the 2019 annual-written-premium estimate has been revised upward from \$800,000,000 to \$815,000,000. In addition to impacting the budget for non-statutory expenses (producer compensation and Participating Insurer costs), this increase in written premiums also impacts the calculation of the 6% statutory cap. Comparing the revised mid-year 2019 budget to the revised written-premium estimate, the amount by which the CEA's statutory cap exceeds the 2019 annual aggregate budget has increased from \$5,105,680 to \$10,921,696 (an increase of \$5,816,016). The chart on the following page shows a comparison of the original (December 2018) Statutory Expense Cap calculation and the newly revised Statutory Expense Cap calculation that results from the increase in 2019 written premiums.

**ORIGINAL CAP CALCULATION**

**Summary of Proposed 2019 CEA Statutory Expenses/Expense Cap  
[projected statutory expense compared to projected statutory cap presented to  
Governing Board at December 2018 meeting]**

The projected statutory-expense portion of the proposed 2019 budget is \$42,894,320, which is less than the projected 6% cap of \$48,000,000:

Projected 2019 written premium:	\$800,000,000
Statutory operating-expense cap 2019 (percentage)	6%
Statutory operating-expense cap 2019 (dollars)	\$48,000,000
Approved 2019 operating expense budget	\$42,894,320
Amount by which 6% cap exceeds proposed budget	\$5,105,680

**REVISED CAP CALCULATION**

**Summary of Proposed 2019 CEA Statutory Expenses/Expense Cap  
[projected statutory expense compared to projected statutory cap presented to  
Governing Board at September 2019 meeting]**

The projected statutory-expense portion of the proposed 2019 budget is \$37,978,304, which is less than the projected 6% cap of \$48,900,000:

<b><u>Revised</u></b> Projected 2019 written premium:	\$815,000,000
Statutory operating-expense cap 2019 (percentage)	6%
Statutory operating-expense cap 2019 (dollars)	\$48,900,000
<b><u>Revised</u></b> Proposed 2019 operating expense budget	\$37,978,304
Amount by which 6% cap exceeds proposed budget	\$10,921,696

**2019 Mitigation Services Budget** – Attachment B is offered to support analysis of the 2019 mid-year Mitigation Services Budget.

- **Attachment B: 2019 Mitigation Budget Mid-Year Revision**

Attachment B shows the Board-approved 2019 mitigation budget; actual expenditures through June 30, 2019; and proposed revisions to certain budget categories for the remainder of 2019, based on anticipated expenditures.

For the remainder of 2019, CEA staff proposes *reducing* total budget expenditures by \$345,236, for a total Mitigation Services Budget expenditure of \$8,089,554. These adjustments are principally the result of timing. Implementation of the 2019 mitigation program was delayed in part as a result of working through required administrative processes to secure significant funding from FEMA.

**Recommendation:**

Staff recommends these Board actions:

- 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.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Budgeted and Actual Expenditures**  
**as of July 31, 2019**

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
				(d=a+b+c)		(f=d-e)	(g=e/d)
	<b>Approved 2019 Budget 1/1/2019</b>	<b>Adjustments<sup>A</sup></b>	<b>Augmentations</b>	<b>2019 Budget after Augmentations and Adjustments</b>	<b>Actual Expenditures</b>	<b>Augmented &amp; Adjusted Approved Budget (d) vs. Actual Expenditures (e)</b>	<b>Percentage used of Augmented &amp; Adjusted 2019 Budget</b>
Human Resources:							
Compensation and Benefits	\$ 29,283,828	\$ (750,002)	\$ -	\$ 28,533,826	\$ 15,912,450	\$ 12,621,376	55.77%
Travel	685,314	(250,297)	-	435,017	183,489	251,528	42.18%
Other	469,030	(48,899)	-	420,131	212,328	207,803	50.54%
Board Meeting	24,800	(4,999)	-	19,801	5,318	14,483	26.86%
Administration & Office	1,023,627	(397,508)	-	626,119	261,501	364,618	41.77%
EDP Hardware	1,694,063	(9,493)	-	1,684,570	335,624	1,348,946	19.92%
EDP Software	1,765,873	(29,223)	-	1,736,650	469,138	1,267,512	27.01%
Information Technology	3,072,201	(899,623)	-	2,172,578	568,548	1,604,030	26.17%
Telecommunications	371,980	(92,936)	-	279,044	166,079	112,965	59.52%
Rent/Lease	1,419,718	(20,614)	-	1,399,104	792,409	606,695	56.64%
Compliance	30,000	(6,000)	-	24,000	-	24,000	0.00%
Government Affairs	2,256,000	(1,563,122)	-	692,878	442,878	250,000	63.92%
Insurance	268,336	(26,356)	-	241,980	90	241,890	0.04%
Internal Audit	30,000	(7,500)	-	22,500	-	22,500	0.00%
Other	75,450	(26,675)	-	48,775	19,075	29,700	39.11%
Regulatory Expenses	354,500	92,182	-	446,682	441,682	5,000	98.88%
Risk Management	69,600	(12,800)	-	56,800	32,800	24,000	57.75%
California Wildfire Fund Allocation <sup>3</sup>	-	(862,151)	-	(862,151)	(162,151)	(700,000)	18.81%
<b>Total Statutory Expenditures<sup>1</sup></b>	<b>\$ 42,894,320</b>	<b>\$ (4,916,016)</b>	<b>\$ -</b>	<b>\$ 37,978,304</b>	<b>\$ 19,681,258</b>	<b>\$ 18,297,046</b>	<b>51.82%</b>
Audit Services	139,500	-	-	139,500	100,000	39,500	71.68%
Capital Market	1,924,105	(23,617)	-	1,900,488	1,761,888	138,600	92.71%
Claims	134,000	680,007	-	814,007	2,007	812,000	0.25%
Grants	100,000	502,924	-	602,924	115,924	487,000	19.23%
Investment Services	3,426,928	(46,216)	-	3,380,712	2,013,040	1,367,672	59.54%
Legal Services	4,303,600	(3,022,499)	-	1,281,101	293,401	987,700	22.90%
Loss-Modeling	1,085,700	(17,098)	-	1,068,602	768,602	300,000	71.93%
Marketing Services	16,810,515	(1,976,493)	-	14,834,022	4,485,181	10,348,841	30.24%
Producer Compensation <sup>2</sup>	80,000,000	-	1,500,000	81,500,000	48,010,827	33,489,173	58.91%
Participating Insurer Operating Costs <sup>2</sup>	35,206,400	-	618,362	35,824,762	19,097,369	16,727,393	53.31%
Seismic Related Research	380,000	(330,000)	-	50,000	-	50,000	0.00%
Engineering Related Research	3,910,000	(1,571,605)	-	2,338,395	593,395	1,745,000	25.38%
Risk Transfer	353,013,800	10,720,613	-	363,734,413	218,615,594	145,118,819	60.10%
<b>Total Non-Statutory Expenditures</b>	<b>\$ 500,434,548</b>	<b>\$ 4,916,016</b>	<b>\$ 2,118,362</b>	<b>\$ 507,468,926</b>	<b>\$ 295,857,228</b>	<b>\$ 211,611,698</b>	<b>58.30%</b>
<b>Total Budget Expenditures</b>	<b>\$ 543,328,868</b>	<b>\$ -</b>	<b>\$ 2,118,362</b>	<b>\$ 545,447,230</b>	<b>\$ 315,538,486</b>	<b>\$ 229,908,744</b>	<b>57.85%</b>

<sup>1</sup>Total 2019 Statutory Expenditures of \$19.7 million were 4.05% of written premium. This is in compliance with the maximum permitted ratio of 6.0%.

<sup>2</sup>Proposed augmentation for increased projection of premiums written for 2019.

<sup>3</sup>Reimbursement to CEA from the California Wildfire Fund for incurred expenses.

<sup>A</sup>Adjustments to meet insurance services end of year projections.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Budgeted Expenditures and Actual Expenditures**  
**as of July 31, 2019**

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	<b>Approved 2019 Budget 1/1/2019</b>	<b>Adjustments<sup>A</sup></b>	<b>Augmentations</b>	<b>2019 Budget after Augmentations and Adjustments</b>	<b>Actual Expenditures</b>	<b>Augmented &amp; Adjusted Approved Budget (d) vs. Actual Expenditures (e)</b>	<b>Percentage used of Augmented &amp; Adjusted 2019 Budget</b>
Human Resources:							
Compensation and Benefits	\$ 1,232,992	\$ 118,540	\$ -	\$ 1,351,532	\$ 783,143	\$ 568,389	57.94%
Travel	50,544	(35,479)	-	15,065	4,867	10,198	32.31%
Other	24,565	(1,760)	-	22,805	15,205	7,600	66.67%
Administration & Office	64,649	(55,802)	-	8,847	(1,475)	10,323	-16.67%
Information Technology	840	(70)	-	770	420	350	54.55%
Telecommunications	32,400	(15,702)	-	16,698	9,198	7,500	55.08%
Rent/Lease	111,900	3,003	-	114,903	63,278	51,625	55.07%
Other	200,000	(200,000)	-	-	-	-	0.00%
<b>Total Operating Expenditures</b>	<b>\$ 1,717,890</b>	<b>\$ (187,269)</b>	<b>\$ -</b>	<b>\$ 1,530,621</b>	<b>\$ 874,636</b>	<b>\$ 655,985</b>	<b>57.14%</b>
CRMP Contribution	6,300,000	-	-	6,300,000	3,300,000	3,000,000	52.38%
Investment Services	12,400	(3,299)	-	9,101	4,932	4,169	54.19%
Marketing	4,500	2,945	-	7,445	5,445	2,000	73.14%
Engineering - Related	400,000	(157,612)	-	242,388	35,488	206,900	14.64%
<b>Total Other Expenditures</b>	<b>\$ 6,716,900</b>	<b>\$ (157,967)</b>	<b>\$ -</b>	<b>\$ 6,558,933</b>	<b>\$ 3,345,864</b>	<b>\$ 3,213,069</b>	<b>51.01%</b>
<b>Total Expenditures</b>	<b>\$ 8,434,790</b>	<b>\$ (345,236)</b>	<b>\$ -</b>	<b>\$ 8,089,554</b>	<b>\$ 4,220,500</b>	<b>\$ 3,869,054</b>	<b>52.17%</b>

<sup>A</sup>Adjustments to meet mitigation end of year projections.

# Governing Board Memorandum

25 September 2019

Agenda Item 9: Enterprise and Strategic Risk Advisor Laurie Johnson will update the Board on the CEA Enterprise Risk Management Program.

Recommended Action: No action required—information only

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The CEA Enterprise Risk Management (ERM) Program is focused on monitoring and managing 12 priority risks:

Financial Risks	Insurance Risks	Operational Risks	Strategic Risks
<ul style="list-style-type: none"><li>• Risk Transfer</li><li>• Financial Management – Investments and Accounting</li></ul>	<ul style="list-style-type: none"><li>• Policy Contracting and Servicing</li><li>• Claim Handling</li><li>• Earthquake Science and Modeling</li><li>• CEA Residential Mitigation programs</li></ul>	<ul style="list-style-type: none"><li>• Business Continuity</li><li>• IT Systems and Data Security</li><li>• Legal – Compliance and Litigation</li><li>• Workforce</li></ul>	<ul style="list-style-type: none"><li>• Legislative/Regulatory</li><li>• Reputation</li></ul>

The following scorecard represents CEA ERM risk-reporting on these priority risks for 3<sup>rd</sup> quarter 2019 and includes all activity since the immediately past CEA Governing Board meeting. The column “Q3 2019” indicates risk status and whether a risk escalation occurred during the preceding months. The column named Outlook indicates the potential future direction of the risk status—as either positive, negative, or stable—until the CEA Governing Board next meets. The final column is a brief summary of actions taken and risk-escalation status.

ERM Quarterly Report	Status		6-Sep-19
Priority Risk	Q3 2019	Outlook	Activity Last Quarter / Comments
Risk Transfer		Stable	
Financial Management - Investments and Accounting		Stable	
Policy Sales and Servicing		Stable	
Business Continuity		Stable	
IT Systems and Data Security		Positive	A required contracting matter is in progress, but was not completed within the intended time frame. Work continues to resolve this matter.
Legislative/Regulatory		Positive	Proposed state legislation that could enhance the CEA's claim-paying capacity and ensure the availability of future additional capacity to meet growth needs and accomplish other program goals has been tabled until the 2020 legislative session. Also, state legislation passed in July 2019 has materially affected the CEA's core responsibilities, at least on an interim basis. Both legislative processes have triggered ERM-related monitoring, outreach, and documentation controls.
Claim Handling		Stable	
Legal - Compliance and Litigation		Stable	
Reputation		Stable	
Earthquake Science and Workforce		Stable	
Residential Mitigation Programs		Stable	

Legend	
	No risk checkpoints or limits reached.
	Approaching or reached a risk checkpoint.
	Approaching or reached a risk limit.

There are two continuing issues from prior reports which both have a positive outlook for Q4 2019:

- The IT Systems and Data Security priority-risk remains at “red” status while CEA continues to work to complete a contracting-related matter.
- The Legislative-Regulatory priority-risk remains at “yellow” status to reflect the on-going legislative process to enhance CEA’s claim-paying capacity that has been tabled until 2020. Also, the wildfire-related legislation passed in July 2019 has impacted CEA core responsibilities, at least on an interim basis, triggering a “yellow” status as well. The ERM Committee has undertaken an enterprise-risk assessment process to identify potential risk drivers, assessment measures,

checkpoints and limits, responses, and mitigations and controls for CEA while it serves as interim administrator of the California Wildfire Fund and the CEA Governing Board has the authorities and duties of the California Catastrophe Response Council until a majority of the council is appointed.

Since a major, damaging earthquake occurring in California is an overarching risk consideration for CEA, each priority risk in CEA's ERM program is assessed from both a "steady-state" perspective and a post-earthquake perspective. The magnitude 6.4 and 7.1 earthquakes of July 4 and 5, 2019 near Ridgecrest, CA, also triggered an ERM review of all priority risks, and found that no risk checkpoints or limits were approached or reached as a result of these earthquakes.

The Enterprise & Strategic Risk Advisor and support staff are continuing their work with the ERM Committee to advance the risk culture and ERM awareness within CEA and build out the enterprise-wide risk-management framework, generally in accordance with principles of the Own Risk and Solvency Assessment ("ORSA") guidance of the National Association of Insurance Commissioners.

The 2019 ERM Program Plan includes regular reviews of each priority-risk and corresponding risk control summary and consideration of potential emerging risks, enhancing the ERM program management, staffing and suite of risk assessment and monitoring tools and approaches, and addressing post-earthquake response-planning priorities revealed through the ERM efforts.

## Governing Board Memorandum

25 September 2019

Agenda Item 10: Status Report on Centralized Policy Processing program (CPP) & Related Agreements with Insuresoft

Recommended Action: Approve and Ratify Restated Software License and Services Agreement and Master Services Agreement (as amended); Approve Restructured Cost Tracking and Reporting for CPP Program

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### Background.

History of CEA's Policy Administration Structure. At the time of its statutory formation in 1997, CEA was structured as a risk-bearing earthquake insurance company that was required to rely entirely on the back-office policy administration and claims administration resources and data systems of its Participating Insurers. Those Participating Insurers were the sole repository of all data and information about CEA's policyholders—the hundreds of thousands of California residents paying premiums to and relying on CEA to cover their earthquake risk. At the time, that system made sense. CEA was a newly created insurance enterprise that *immediately* was bearing risk and protecting homeowners against damage to their homes from earthquakes, yet CEA had minimal staff and no data systems to facilitate policy and claims administration or to facilitate communications with customers. Reliance on the computer systems of the Participating Insurers was not only reasonable and appropriate in the early years of CEA's life, it was essential to CEA's ability to act as California's primary insurer of the risk of earthquake damage to homes throughout the state.

In the ensuing years, CEA steadily grew its policyholder base and added additional Participating Insurers. By 2013, CEA had approximately 22 Participating Insurers and more than 842,000 policyholders. CEA's available capital had grown to \$4.5 billion and its aggregate claim paying capacity was more than \$9.9 billion.

As CEA's growth accelerated, the original system of requiring CEA to rely entirely on the policy administration systems of the Participating Insurers was generating increasing friction and problems, for the Participating Insurers, for CEA, and ultimately for CEA's

policyholders. For example, what should have been a relatively simple process of lowering CEA's insurance rates or updating insurance policy terms typically required costly and time-consuming reprogramming of more than 20 policy administration systems housed at the Participating Insurers. In addition, this dispersed data structure created significant challenges in communicating with customers and prospective customers which inhibits CEA's ability to achieve its core mission of getting more California homes insured against damage from earthquakes.

Development of the CPP Concept. In 2014, CEA embarked on an ambitious program to remedy those issues and enhance its ability to efficiently service the policy administration needs of existing and new CEA policyholders, and grow CEA's book of business. In mid-2014, CEA formed a working group of staff from CEA and Participating Insurers to collaborate on developing the "Centralized Policy Processing" (CPP) concept. That working group process included surveying Participating Insurers about the challenges they faced in administering CEA's policies, and assessing the qualifications and products of software vendors capable of working with CEA to develop a CPP solution.

The CPP concept was first introduced and recommended to the Governing Board several months later, at the December 2014 Governing Board meeting. CEA's newly engaged Chief Information Officer, Todd Coombs, presented to the then Governing Board the recommendation that CEA invest in the acquisition and development of a unified property and casualty insurance system that could be used to consolidate the policy data of all CEA policyholders across all of CEA's Participating Insurers. The concept contemplated a 10-plus year process of developing a policy data and administration system capable of efficiently administering CEA's entire book of business, and then steadily and systematically migrating policyholder data from the systems of the Participating Insurers onto CEA's new CPP system. Full implementation of the concept would provide extraordinary benefits to CEA, policyholders and Participating Insurers. CPP is designed to respond to the existing impediments and PI costs associated with CEA Rate and Form Filings, allow the CEA to better manage its insurance product by mitigating Participating Insurer technical issues and costs, minimize the risk of data errors in transmitting policyholder data across systems, lower reinsurance costs by providing reinsurers with greater confidence in CEA's policyholder data, remove systems-based barriers to the sale of CEA policies, enhance visibility, integration and integrity of data, and speed CEA's ability to administer claims in a fast, fair and accurate manner. The policyholder benefits of CPP as a centralized "system of record" for CEA were clear, and the project moved forward.

At the August 2015 Governing Board meeting, Mr. Coombs explained that the CPP concept involved the development and implementation of three integrated systems:

- A Customer Communication Management System to facilitate the prompt delivery of accurate and consistent information to policyholders, regardless of the Participating Insurer from which they purchased homeowners insurance;
- A policy administration and claims administration system; and
- A data sharing agreement with the Participating Insurers.

The coordinated and integrated development of these systems was designed to resolve long-standing challenges with CEA's business that appeared to be inhibiting CEA's growth. After the Governing Board approved in August 2015 the core agreements with Insuresoft to license software (the *Diamond Suite* of products) and to provide related software development and implementation services necessary to establish the foundation of CPP, CEA accelerated deployment of the CPP Diamond project. The Insuresoft agreements are known, respectively, as the Software License and Services Agreement ("SILA") and the Master Services Agreement ("MSA").

Evolution of the CPP Project to Address External Changes. As with any decade-long software development project, the CPP project has had to adapt and evolve to address emerging changes beyond CEA's control that impacted both CEA and Participating Insurers.

The first external development related to an unrelated software vendor, Blue Cod Technologies, Inc., that was providing similar policy administration outsource services to six of CEA's Participating Insurers. In 2016, Blue Cod experienced operational and financial instability that appeared, in the view of the six Participating Insurers, to materially impact Blue Cod's ability to continue properly administering CEA's policies. As a result, those six Participating Insurers elected to accelerate their migration to CEA's new CPP Diamond system. That acceleration had a material impact on the duties of both Insuresoft and CEA, and also impacted project costs. For example, to meet the accelerated migration needs of these six Participating Insurers, Insuresoft was required to host the policy data on its own servers—something that was not contemplated in the original license and service agreement. The rapid movement of these legacy Blue Cod-administered policies onto the CPP Diamond system also accelerated and increased CEA's costs associated with software development and implementation.

After the successful migration of the six "Blue Cod" Participating Insurers to CPP, CEA and Insuresoft then were required to implement a significant structural change to the architecture of the CPP Diamond system. As more Participating Insurers considered and

then pushed to migrate their CEA policies onto CPP Diamond, many of the larger Participating Insurers requested that CPP change from a “multi-tenant” software license environment—with all of the policyholder data from all Participating Insurers being hosted on a single licensed Diamond platform—to a “single tenant” environment—with each Participating Insurers’ CEA policyholders data being hosted on a segregated server. Participating Insurers requested this significant change to give them added comfort and assurance that their homeowners’ customer lists could not be inadvertently shared with or viewed by competing Participating Insurers. This was an understandable and valid concern that CEA concluded needed to be addressed for CEA to achieve full adoption of the CPP Diamond system by all Participating Insurers.

The implementation of this new “single tenant” server environment necessitated amendments to the underlying software license master service agreements with Insuresoft, and also added complexity and additional costs to the project including the separate licensing, service, and maintenance of each Participating Insurer environment. As more large Participating Insurers expressed interest in migrating to CPP, CEA and Insuresoft quickly realized the time and effort required to allow those Participating Insurers to evaluate the CPP Diamond program was resulting in unexpected “Discovery” (due diligence) costs that were previously unnecessary for the smaller Participating Insurers. This realization required changes to the SILA and MSA. The resulting negotiation and execution of the Amended and Restated SILA and certain amendments to the MSA were ultimately completed in the summer of 2019, and the ratification of those agreements is an action item for today’s Governing Board meeting, as discussed more below.

Significantly, the move to this single tenant environment was also an instrumental step towards enabling CEA’s largest Participating Insurer—State Farm—to decide to migrate to CPP Diamond. State Farm’s homeowners insureds represent about one-third of CEA’s total book of business. The migration of State Farm’s policyholders onto CPP Diamond is in process and should be completed in late 2020 or early 2021. State Farm’s decision to adopt CPP Diamond is strong validation of the CPP concept that CEA hopes and expect will lead to universal adoption and consolidation of all CEA policyholders onto CPP Diamond within the next four to five years.

It is also important to note that during the same time CEA was developing and implementing the CPP program, CEA was experiencing a dramatic (and welcomed) increase in its take-up rate. Between 2013 and 2018 CEA’s policies in force grew by more than 200,000. This has a direct impact on overall CPP program costs given that certain transition services fees and policy conversion fees are both tied directly to policy count.

## Updated Budgeting and Project Cost Tracking

CEA's current executive team has taken a fresh look at the important issue of how CEA's historical and future costs and investments for CPP are being budgeted for, tracked, and explained to the Governing Board. CEA has now developed a new system for budgeting and tracking CPP project costs that are summarized below and explained in the attachment to this memorandum.

The CPP concept has multiple integrated facets and functions, some of which have fallen into different budget line items (budget "accounts") that align with how the functions have been performed and the nature of the services. CEA has now consolidated all of the budget elements related to the CPP Diamond program, and broken them out into categories that align with services and fees described in the Insuresoft agreements. The new tracking and spend reconciliation matrix is attached as **Attachment A**, and contains the following separate categories of costs related to the development and long-term implementation of CPP:

1. Standard Implementation Fee. A "per-Participating Insurer" fee that covers the cost of moving a Participating Insurer from its current system to production use-level participation in the CPP program.
2. Policy Conversion Fee. The fee charged in connection with converting a PI's legacy data to the format necessary to migrate the data onto CPP Diamond. The fee is tied to the number of policies in force (PIF) for each Participating Insurer.
3. Transition Services Fee (a). The fee that covers services requested by a Participating Insurer to support its move to the CPP platform.
4. Transition Services Fee (b). This fee covers the cost of assisting a Participating Insurer (i) with PI-specific issues related to the transition from its legacy system to the CPP platform, and (ii) in investigating and conducting due diligence on whether to adopt CPP (also referred to the "Discovery" process).
5. Master Service Agreement Expenses. The original Master Services Agreement (Sept'15) with Insuresoft, along with its amendments, allowed for a total spend of \$5 million through the end of 2019 for general CPP program and administrative services.
6. Maintenance/Hosting/Companion Software Services Fees. This category covers several sub-categories of costs:
  - Maintenance Services Fee. This was previously a lump-sum, annual fee. Under CEA's restated SILA, the annual fee is calculated based on the number of

Participating Insurers in production on CPP Diamond as of January 1 of each year. The fee covers future releases of the CPP Diamond software, defect corrections, and pre-production hosting services during PI-specific configuration, testing, and implementation

- Hosting Services. Currently needed only for the “Blue Cod” six; the balance of the PIs are hosted on CEA’s environment. The SILA allows for Insuresoft, if needed, to provide hosting to other PIs in the future.
  - Companion Software. This covers license fees for software used in conjunction with the CPP Diamond suite.
7. Initial Maintenance Services & Hosting Expenses. This category includes the hosting expense for the original 6 Blue Cod PIs. The amounts were included in the prior signed project assignments with Insuresoft. Also included is the cost of an annual Maintenance Services Fee for the first four years of the program (through 2019).
  8. Initial Licensing Fee. This category simply recites the one-time software license fee of \$500,000 that was paid in 2015, and is not subject to repeat, change or increase.

Each of these categories is separately tracked and reconciled in Attachment A, which includes both historical and projected expenses through 2026. The core purpose is to bring enhanced discipline, accuracy and transparency to CPP for the benefit of CEA management and the Governing Board. CEA can make additional adjustments to the presentation of CPP cost tracking as necessary or requested by the Governing Board.

### **Recommendation**

CEA Staff recommends that the Governing Board adopt a resolution:

1. Approving and ratifying the Restated Software License and Services Agreement, and the Master Services Agreement (as amended), each between CEA and Insuresoft; and
2. Approve and 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 not less than annually.

CEA - Attachment A to Agenda Item #10 - CCP Diamond Budget & Spending Tracking

As of July 31, 2019

Description	2015 Contracted Amount	Approval for 2016	Total	Actual Spend from inception - 07/31/2019	Projected spend from 07/31/2019 - 2026	Total New Est	Variance Orig to New
<b>1. Standard Implementation Fee</b> approved \$85,500 x 24 PI's actual = 9 x \$85,500	2,052,000		2,052,000	769,500	1,282,500	2,052,000	0
<b>2. Policy Conversion Fee</b> approved =1,100,000 (PIF Count) x \$5 actual = 13% of total PIF of 1,100,000	5,500,000		5,500,000	715,000	4,785,000	5,500,000	0
<b>3. Transition Services Fee (a)</b> approved = \$25,000 x 24 PI's actual = \$25,000 x 9 PI's		600,000	600,000	225,000	375,000	600,000	0
<b>4. Transition Services Fee (b)</b> approved = 1,100,000 (PIF Count) x \$5 actual = 1,100,000 x 13% x \$5 actual = discovery for Farmers and State F		5,500,000	5,500,000	715,000 958,875	3,826,125	5,500,000	0
<b>5. Master Service Agreement Expenses</b> <i>The original MSA agreement (Sept'15) along with the 4 amendments allows for a total of \$5mm of MSA spend through Dec'19.</i>	5,000,000		5,000,000	2,906,714		2,906,714	2,093,286
<b>6. Maintenance/Hosting/Companion/ Software Services Fees</b> <i>New Insuresoft SILA Hosting fees, companion software fees, and maintenance service fees.</i>					4,574,031	4,574,031	(4,574,031)
<b>7. Initial Maintenance Svs &amp; Hosting Expenses</b> <i>Hosting expense for original 6 Blue Cod PI's. Amounts were included in the prior signed project assignments with Insuresoft \$333,776. Included is Maint. SVS costs of \$400K</i>				733,776		733,776	(733,776)
<b>8. Initial License Fee</b> <i>One time fee to Insuresoft paid in FY 2015</i>				500,000		500,000	(500,000)
<b>Total Spend</b>	<b>12,552,000</b>	<b>6,100,000</b>	<b>18,652,000</b>	<b>7,523,865</b>	<b>14,842,656</b>	<b>22,366,521</b>	<b>(3,714,521)</b>

## Governing Board Memorandum

25 September 2019

Agenda Item 11: Mitigation and Research Program Update

Recommended Action: No action required—information only

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### CRMP Earthquake Brace + Bolt Programs

Overall, the EBB program has reached another milestone with more than 8,000 completed retrofits for all programs. The 2018 EBB program had a record-setting year with 3,349 retrofits completed far surpassing previous years' completions. While the going has been slow for the 2019 program due to the delay in FEMA funding, the pace has picked back up since the CRMP board approved a CRMP-funded EBB program in late April.

The 2019 FEMA-funded (HMGP DR-4308 grant) EBB program (registration closed on November 13, 2018), which set a new record with 8,688 homeowners applying, received FEMA approval to begin accepting homeowners into the program on August 13, 2019. The program accepted 1,000 of the registered applicants on August 21, 2019. On August 26<sup>th</sup>, EBB received notification of approval for Phase I of the \$20M HMGP DR-4344 grant. Required changes to the program made by FEMA will now require applicants to submit a permit, work plans and photos in Phase I. These changes mirror the changes made for the HMGP DR-4308 grant.

<b>Earthquake Brace + Bolt Program (8/26/2019): CRMP and CEA</b>			
<b>Program</b>	<b>Completed</b>	<b>In Progress</b>	<b>Status</b>
2014-2017 EBB	4,285	N/A	Closed
2018 EBB	3,349	N/A	Closed
CRMP 2019 EBB	232	269	984 transfers 148 accepted 142 extensions
FEMA Napa EBB	84	N/A	Closed
FEMA-funded 2019 EBB (HMGP DR-4308 grant)	N/A	N/A	8,688 registered 1,000 accepted

FEMA-funded 2019 EBB (HMGP DR-4344 grant)	N/A	N/A	4,000 accepted
Total	7,950	269	N/A

### Future Funding Opportunities

CRMP continues to look beyond present funding sources—the primary source has been the CEA Earthquake Loss Mitigation Fund—for additional funding sources, including available FEMA HMGP grants.

Current HMGP applications include:

#### *FEMA – Hazard Mitigation Grant Program (HMGP)*

- DR-4407 0104 - \$20M – (EBB Soft Story, 3 counties) The application has been submitted to Cal OES.
- DR-4407 0105 - \$20M – (EBB 23 counties) The application has been submitted to Cal OES.

#### *DHS - Pre-Disaster Mitigation (PDM)*

- \$10M - Multi-Family Dwellings – (Statewide) Denied for further consideration.
- Will be submitting an NOI for 2019 PDM program by September 19<sup>th</sup>.

### **CEA Brace + Bolt Program**

At the July 15, 2019, Governing Board meeting, the Board approved expanding the CEA Brace + Bolt (CEA BB) program eligibility criteria to expand the pool of policyholders eligible for a mitigation grant.

These changes targeted CEA policyholders facing a significant premium increase as a result of CEA’s new insurance rates, effective July 1, 2019. The new rating plan approved by the Governing Board and CDI makes significant changes to CEA’s rates based on new earthquake science and other underwriting factors. Overall, about 75% of CEA policyholders will see a premium *reduction*. However, the remaining 25% will see a rate increase, with some increases being modest (10% increase or less); others will experience a significant increase as a result of the application of best available science and the statutory mandate that CEA’s rates be actuarially sound. Notably, approximately 44,000 CEA policyholders will receive a very significant premium increase of more than 50%.

Also, effective on July 1, policyholders who have completed a code-compliant seismic retrofit on their house qualify for a Hazard Reduction Discount of up to 25% off their CEA earthquake insurance premium. This new Hazard Reduction Discount replaces CEA's previous rating plan that offered lower verified discounts and allowed homeowners to receive a 5% discount for "self-verifying" that their home had undergone a retrofit.

The new CEA BB eligibility criteria targets an estimated 30,000 additional insureds who will be facing a significant premium increase this year. Provided the policyholder's home was constructed prior to 1980, and would otherwise be eligible for an EBB-type retrofit grant (raised foundation, etc.), eligible policyholders include:

- All CEA policyholders who will receive a premium increase in excess of 50%; and,
- All CEA policyholders who will receive a premium increase of between 20% and 50%, provided they have been a CEA policyholder for two years or more, including those who are currently in their second year of persistency.

<b>CEA Brace + Bolt Program (8/26/2019): CEA BB</b>			
<b>Program</b>	<b>Completed</b>	<b>In Progress</b>	<b>Status</b>
Pilot CEA BB	98	N/A	Closed
2019 CEA BB	24	22	42,000 Invited 925 Accepted
	122	22	N/A

#### Outreach to Eligible Policyholders

Since the last Board meeting, CEA has sent a letter, via first-class mail, to the approximately 30,000 newly eligible policyholders, inviting them into the retrofit program. We have also contacted each participating insurance (PI) company who has eligible policyholders to let them know about the expansion and provide the list of those eligible. The PIs are:

- Allstate
- Amica Mutual Insurance Company
- Armed Forces Insurance Exchange
- Automobile Club of Southern California (AAA)
- California FAIR Plan
- CSAA-AAA Northern California
- Encompass
- Farmers Insurance Group
- Foremost
- Homesite
- Liberty Mutual Group Business Insurance Agriculture/Farm

- Liberty Mutual Insurance
- Mercury
- Nationwide Insurance
- Progressive
- Safeco
- State Farm Insurance
- USAA

We continue to work with each PI to support their outreach to agents and, subsequently, to CEA policyholders. In coordination with the PIs, we are currently following up with agents and providing CEA BB training and collateral material to help them with policyholder outreach. As of August 26<sup>th</sup>, 24 policyholders had completed a retrofit, 22 were in progress and 925 policyholders had registered for the program.

# Governing Board Memorandum

25 September 2019

Agenda Item 12: CEA Research Program: Projects

Recommended Action: No action required—information only

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## **Background:**

With Governing Board support and approval, CEA launched a new Research Program in 2017. The program provides for three tiers of funding for multiple disciplines of research, all relevant to CEA's mission to provide affordable, accessible earthquake insurance for those who own or rent residences in California. This report updates the Governing Board on the status of (1) CEA's Grant Program that funds professional and academic development for individuals seeking to specialize in earthquake science; and (2) CEA's ongoing Research Projects.

### **1. Grant Program**

Grants for professional and academic development comprise two of the tiers of the Research Program. To qualify for funding, projects must be related to earthquake studies, regardless of discipline, and meet program specifications for focus areas. The grant recipients will most likely be research specialists, possibly private sector but more likely faculty employed in public and private universities, within and outside California. In addition to generating research to inform CEA in its mission and inform the earthquake community in general, the grants are intended to support and build a new generation of earthquake-science specialists from many disciplines, including graduate students and professionals establishing themselves in the field.

In the case of grants made to faculty or researchers employed by a university, the practice is to contract with the university which then distributes grant funds, net of administration expenses, to the faculty member or researcher. Unfortunately, universities often deduct very substantial overhead and administration costs from the grant amount (up to 50% of the total grant amount). This common practice significantly reduces the net funds available to the researcher. CEA takes this into consideration when awarding and sizing grants.

In implementing the Grant Program, CEA Research and Legal Department staff have collaborated on the development of program policies and procedures, including best options for contracting with university faculty who may be awarded a CEA grant. In addition to the CEA Legal Department, input from CEA Finance and Accounting will ensure funding requests and distribution meet audit requirements. The goal is to establish clear contracting criteria and a process to administer the grant contracts and distribute funds in a safe and prudent manner. This work must be completed before program launch. The grant program is currently projected to launch in 2020.

## **2. Research Projects**

### a. Cripple-Wall-Performance Effects

CEA contracted with the Pacific Earthquake Engineering Research (PEER) Center in September 2016 to lead the CEA's research project, "Quantifying the Performance of Retrofit of Cripple Walls and Sill Anchorage in Single Family Wood-frame Buildings."

Progress to date on the seven project tasks is as follows:

1. Literature Review. **Completed**
2. Analysis of Building Inventory and Defining Representative "Index Buildings." **Completed**
3. Selecting Ground-Motion Records and Developing Loading Protocols. **Completed**
4. Experimental Program. **Completed**
5. Analytical modeling. **Completed**
6. Loss Model Calibration Framework. **In Progress**
7. Reporting, including regular progress reports. **Three reports have been received, and the project is on track.**

With this research project, CEA will have refined scientific data to inform CEA rate levels and mitigation related premium discounts. This project is scheduled to be completed during the second quarter of 2020.

## b. CEA Damage-Assessment Guidelines

In 2007, CEA provided major funding for the Consortium of Universities for Research in Earthquake Engineering (CUREE), whose work produced the "Assessment and Repair of Earthquake Damage" project—a set of guidelines for "...a sound technical basis for use by engineers, contractors, owners, the insurance industry, building officials, and others in the post-earthquake context. Based on experimental and analytical research and a broad discussion of the issues involved, the guidelines... ..facilitate improved consistency in the evaluation of building damage and the associated need for repairs."

The CUREE guidelines were last updated in 2010. As part of CEA's funding agreement with CUREE, the guidelines were made available for free PDF download and have been widely distributed as part of the California Department of Insurance-required earthquake training for adjusters.

CUREE disbanded in December 2016, leaving a void in maintaining and updating the guidelines. To ensure guidelines continuity, CEA contracted with Applied Technology Council in May 2018 to update the existing CUREE Guidelines and to develop companion engineering guidelines. ("Damage Assessment and Repair Guidelines for Residential Wood-Frame Buildings. Vol. 1 – General, Vol. 2 – Engineering.")

Drafting of these guidelines is currently underway and is expected to be completed December 2019.

## c. UCERF3 Analysis

The UCERF3 model represents a substantial advancement in science. It is also complex, yielding more than 250,000 fault-based ruptures—25 times more than the UCERF2 model. To deal with the complexity, work is required to identify which of the UCERF3 model's "branches" most influence modeled results.

Although CEA is not legally obligated to advance the scientific understanding of seismic risk in California, staff continues to believe that it is in CEA's best interests to do so, on a voluntary basis. Seismic research underpins many of CEA's actions, such as:

- Developing the structure and cost of innovative insurance products, using the best available science.

- Understanding the amounts of risk-transfer CEA requires to ensure coverage needs and policyholder claims.
- Measuring the effects of risk-reduction features on expected policyholder losses (e.g., to support a more robust hazard-reduction discount).
- Effectively communicating risk to CEA policyholders and other stakeholders.
- Quantifying the anticipated total cost of a damaging earthquake, using the CEA's proprietary EARLE process.

The Governing Board agreed and approved an earlier request that CEA contract with the Southern California Earthquake Center (SCEC) to manage and carry out the further efforts and collaboration of the UCERF3 research participants. USGS and SCEC will have leading roles in the development, progress, and quality control of the project, with oversight and appropriate management to be provided by the CEA Research Department.

CEA staff is currently working with SCEC to finalize the contract; however, this project has been delayed slightly due to personnel changes within SCEC. This project is expected to begin in the fourth quarter of 2019.

**Recommendation:**

No action required—information only.

**California Earthquake Authority**

**Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to July 31, 2019**

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
98010	Chino	1/5/1998	4.3	3 mi. W of Chino	1	\$1,385.72	\$124.71	\$1,510.43
98050	San Juan Bautista	8/12/1998	5.3	7 mi. SSE of San Juan Bautista	1	161,204.93	13,643.13	\$174,848.06
98070	Redding	11/26/1998	5.2	3 mi. NNW of Redding	1	4,029.72	362.67	\$4,392.39
	1998 Minor Quakes				2	4,199.20	377.93	\$4,577.13
99050	Hector Mine	11/16/1999	7.0	28 mi. N of Joshua Tree (near Palm Springs)	25	137,361.81	12,362.47	\$149,724.28
	1999 Minor Quakes				1	4,037.26	363.35	\$4,400.61
00030	Napa	9/3/2000	5.2	17 mi. ESE of Santa Rosa; 6 mi. NNE of Sonoma; 3 mi. WSW of Yountville	15	278,130.07	25,031.71	\$303,161.78
01010	Ferndale	1/13/2001	5.4	53 mi. WNW of Ferndale	1	34,764.54	3,128.79	\$37,893.33
	2001 Minor Quakes				1	52,896.82	4,760.70	\$57,657.52
01040	West Hollywood	9/9/2001	4.2	West Hollywood	10	67,044.15	6,033.94	\$73,078.09
	2002 Minor Quakes				1	8,361.24	752.51	\$9,113.75
03090	San Simeon	12/22/2003	6.4	7 mi. NE of San Simeon	86	2,692,628.02	242,339.74	\$2,934,967.76
04120	Parkfield	9/28/2004	6.0	7 mi SSE of Parkfield	1	7,032.59	632.93	\$7,665.52
07240	Chatsworth	8/9/2007	4.5	4 mi NNW of Chatsworth	1	7,813.88	703.24	\$8,517.12
07250	Alum Rock	10/30/2007	5.6	5 mi NNE of Alum Rock	1	6,149.20	553.42	\$6,702.62
08280	Chino Hills	7/29/2008	5.4	5.5 mi SE of Diamond Bar	8	145,967.19	13,089.08	\$159,056.27
09320	Calexico	12/30/2009	5.9	22.7 mi SE of Calexico	1	275.88	24.83	\$300.71
	2009 Minor Quakes				2	8,627.67	776.49	\$9,404.16

## California Earthquake Authority

### Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to July 31, 2019 (continued)

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	3	23,901.50	2,151.13	\$26,052.63
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	17	81,066.58	7,296.00	\$88,362.58
	2010 Minor Quakes				1	225,000.00	0.00	\$225,000.00
12410	Brawley	8/26/2012	5.3	4 mi North of Brawley, CA	2	23,833.24	2,145.00	\$25,978.24
	2012 Minor Quakes				3	146,471.18	13,182.41	\$159,653.59
13430	Greenville	5/23/2013	5.7	7 mi WNW of Greenville, CA	1	1,500.00	135.00	\$1,635.00
14460	Westwood	3/17/2014	4.4	6mi NNW of Westwood, CA	6	67,989.89	6,119.09	\$74,108.98
14470	La Habra	3/28/2014	5.1	1mi S of La Habra, CA	84	458,354.56	41,251.91	\$499,606.47
14480	American Canyon	8/24/2014	6.0	4mi NW of American Canyon, CA	195	3,533,174.00	317,985.66	\$3,851,159.66
	2014 Minor Quakes				3	18,859.35	1,697.34	\$20,556.69
	2015 Minor Quakes				2	5,877.69	529.00	\$6,406.69
	2018 Minor Quakes				3	6,058.71	545.28	\$6,603.99
19520	Searles Valley	7/4/2019	6.4	SW of Searles Valley, CA	10	22,298.22	2,006.83	\$24,305.05
<b>Total</b>					<b>489</b>	<b>\$8,236,294.81</b>	<b>\$720,106.29</b>	<b>\$8,956,401.10</b>

## Claims History Report Glossary

**Event Code:** A 5 digit code that the CEA assigns to all earthquakes expected to produce paid losses. This code is used to track statistics for a particular earthquake.

**Event Name:** This is generally the name given to the earthquake by the USGS (United States Geological Survey).

**Date of Event:** Date that the earthquake occurred.

**Magnitude:** Richter scale magnitude assigned by USGS.

**Location:** This is assigned by USGS and is usually a city close to the earthquake.

**# of Paid Claims:** A numeric count of the claims that received a payment for damage caused by a particular earthquake.

**Losses Paid:** Total dollar amount of all claims paid to the policyholders for a particular earthquake.

**LAE Paid:** "LAE" stands for Loss Adjustment Expense which is always 9% of paid losses. This is the amount paid to the Participating Insurers for handling the claim.

**Total Paid Losses and ALE:** The sum of Losses Paid and LAE Paid.

**Minor Quakes:** Losses paid for damage from minor earthquakes that were initially not expected to generate a claim and therefore were not issued a CEA event code.

**CEA Project Portfolio**

Schedule	Scope	External Resources	Project Cost	Overall Score	Portfolio #	Project Name	PM	Status	Target Start Date	Start Date	Project % Complete	Target End Date	End Date
✘	✔	✔	✔	✘	2016-01	Agent Sales Tool	Danica Wallin	On Hold	10/25/18	10/25/18	85%	12/31/19	
✔	✔	✔	✔	✔	2017-03	Business Continuity Program	Paul Stubbles	Active	01/03/17	01/03/17	50%	12/31/19	
✔	✔	✔	✔	✔	2017-05	Enterprise Resource Planning	Terri Kletzman	Active	02/01/17	02/01/17	15%	12/31/19	
✔	✔	✔	✔	✔	2017-12	eDiscovery	Vernon Miller	Active	05/01/19	05/01/19	51%	01/17/20	
✔	✔	✔	✔	✔	2017-13	Rate and Form Filing Project 2019	Terri Kletzman	Completed	06/05/17	06/05/17	100%	07/01/19	07/01/19
✘	✔	✔	⚠	✘	2018-02	EBB Redesign	Diana Orgain	Active	08/27/18	08/27/18	30%	04/30/20	
✔	✔	✔	✔	✔	2019-01	Enterprise Ticketing System	Diana Orgain	Active	03/04/19	03/04/19	25%	06/30/20	TBD
✔	✔	✔	✔	✔	2019-02	CEA BB Outreach	Danica Wallin	Active	07/01/19	07/01/19	30%	12/31/19	

Legend	
●	Project Status is at 0 - 2
●	Project Status is at 3 - 5
●	Project Status is at 6 - 7
●	Project Status is at 8 - 10



**CEA GOVERNING BOARD MEETING DATES FOR - 2019**

~~March 13, 2019~~ — ~~Wednesday~~ (**Rescheduled**)

March 20, 2019 – Tuesday (**Added**)

April 12, 2019 – Friday (**Added**)

June 12, 2019 – Wednesday

July 15, 2019 – Monday (**Added**)

~~September 11, 2019~~ — ~~Wednesday~~ (**Rescheduled**)

September 25, 2019 – Wednesday (**Added**)

December 11, 2019 – Wednesday

[IMPORTANT NOTE: *This schedule is for future meetings that have been proposed and approved by the respective bodies named. Meeting dates, times, and locations are subject to change. The final dates, times, and locations will be announced on official Public Notice, issued by the CEA 10 or more days before the date of the meeting. Public Notices are also posted on the CEA Web site [www.EarthquakeAuthority.com](http://www.EarthquakeAuthority.com) ]*



## **CEA ADVISORY PANEL MEETING DATES FOR - 2019**

**May 14, 2019 — Tuesday (Cancelled)**

**August 13, 2019 – Tuesday (Added)**

**November 19, 2019 – Tuesday (Added)**

[IMPORTANT NOTE: *This schedule is for future meetings that have been proposed and approved by the respective bodies named. Meeting dates, times, and locations are subject to change. The final dates, times, and locations will be announced on official Public Notice, issued by the CEA 10 or more days before the date of the meeting. Public Notices are also posted on the CEA Web site [www.EarthquakeAuthority.com](http://www.EarthquakeAuthority.com) ]*