



Date of Notice: Monday, July 9, 2018

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: Sacramento City Hall*
Council Chamber, 1st Floor
915 I Street
Sacramento, California

DATE: Thursday, July 19, 2018

TIME: 12:15 p.m.

***Because of facility limitations at this location, this CEA Governing Board meeting will not be available as audio or video on the Internet.**

AGENDA:

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. The Board will meet in closed session to discuss personnel matters and litigation matters, as permitted by California Government Code section 11126, subdivisions (a) and (e), respectively.
3. Consideration and approval of the minutes of the March 14, 2018, CEA Governing Board meeting.
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. Mr. Pomeroy will seek Board authorization to extend agreements for government-affairs contractors presently assisting CEA in legislation-related activities.
6. Chief Financial Officer Tim Richison will present to the Board the CEA financial report.
7. Mr. Richison will seek Board approval to set CEA participating insurers' respective maximum earthquake-loss-funding-assessment levels, effective July 19, 2018.
8. CEA independent financial auditor Plante Moran PLLC will present to the Board the results of its most recent audit of the CEA, conducted pursuant to standards of the Governmental Accounting Standards Board (GASB).
9. Mr. Richison will seek the Board's approval for the annual set-aside of a statutory portion of CEA investment income for transfer into the CEA Earthquake Loss Mitigation Fund.
10. Mr. Richison will recommend to the Board transferring money from the CEA Earthquake Loss Mitigation Fund to the California Residential Mitigation Program ("CRMP"), a joint powers authority whose members are the California Governor's Office of Emergency Services and the CEA, to fund additional CRMP retrofit grants and related program services.
11. Chief Actuary Shawna Ackerman will seek Board approval to renew and extend the term of CEA's existing CoreLogic software license.
12. Enterprise & Strategic Risk Advisor Laurie Johnson will update the Board on CEA enterprise-risk-management-program planning and progress.
13. 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.
14. Ms. Maffei will seek Board approval to bring to an end the existing risk-reduction (pilot) program for CEA policyholders and roll out a new program providing financial incentives to CEA policyholders who own, and live in, vulnerable houses in designated higher-seismic-risk areas and wish to benefit from structural retrofits and resulting CEA-premium discounts.

15. Ms. Maffei will seek Board authorization to enter into an agreement with Risk Management Solutions, Inc. (RMS), to develop fragility-function-modification factors in collaboration with CEA and Pacific Earthquake Engineering Research Institute (PEER), which is an existing CEA contractor on a multi-year project.
16. Ms. Maffei will update the Board on the CEA Research Program.
17. Chief Communications Officer Chris Nance will update the Board on the current CEA marketing and advertising campaign, and discuss CEA's recent participation in support of the April 2018 *Get Prepared, California!* Auction to benefit American Red Cross.
18. Chief Insurance and Technology Officer Todd Coombes will give a report to the Board on CEA insurance and information technology initiatives.
19. Chief Operations Officer Kellie Schneider will update the Board on the quantitative business metrics report.
20. 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.
21. Adjournment.

For further information about this notice or its contents:

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<p>To view this notice on the CEA website or to learn more about the CEA, please visit www.EarthquakeAuthority.com</p>
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<p>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 the CEA prepares for its Board meetings.</p>
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<p>Please contact Shannon McEuen by telephone, toll free, at (877) 797-4300 or by email at smceuen@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.</p>
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DRAFT

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

Wednesday, March 14, 2018

1:00 p.m.

Location: CalSTRS Headquarters Building
Boardroom (Lobby: E-124)
100 Waterfront Place
West Sacramento, California

Members of the CEA Governing Board in attendance:

Mark Ghilarducci, designee of Governor Edmund G. Brown, Jr., Board Chair
Vincent Brown, designee of State Treasurer John Chiang
Kenneth Schnoll, designee of Insurance Commissioner Dave Jones
Lisbeth Landsman Smith, designee of Insurance Commissioner Dave Jones
Jeffrey Wood, designee of Speaker of the Assembly Anthony Rendon

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Todd Coombes, Chief Insurance and Technology Officer
Laurie Johnson, PhD, Enterprise and Strategic Risk Advisor
Janiele Maffei, Chief Mitigation Officer
Carlos Martinez, Governing Board Liaison
Chris Nance, Chief Communications Officer
Tim Richison, Chief Financial Officer
Kellie Schneider, Chief Operations Officer
Danny Marshall, General Counsel

Also present:

Kapil Bhatia, Director of Public Finance, Raymond James & Associates, Inc.
Ross Buckley, Personal Insurance Federation of California
Jack Ehnes, Chief Executive Officer, California State Teachers Retirement System (CalSTRS)
Fiona Ma, Second District, California State Board of Equalization

1. Call to order and member roll call.

Chair Mark Ghilarducci called the meeting to order at 1:03 p.m. A quorum was achieved.

2. Consideration and approval of the minutes of the December 6, 2017, and January 25, 2018, CEA Governing Board meetings.

MOTION: Mr. Brown moved approval of the December 6, 2017, and January 25, 2018, California Earthquake Authority Governing Board Meeting Minutes as presented. Mr. Schnoll seconded. Motion carried unanimously with no abstentions.

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

Mr. Pomeroy included his executive report in Agenda Item 4.

Mr. Pomeroy introduced the CEO of CalSTRS, Jack Ehnes, who in brief remarks welcomed the CEA Governing Board.

4. Mr. Pomeroy, assisted by CEA executive staff, will ask the Board to adopt a resolution of support and sponsorship of a bill aimed at diversifying and enhancing CEA's financial capacity to insure California homes that will be introduced in the California Legislature.

Mr. Pomeroy discussed the history of the CEA's claim-paying capacity (including reinsurance and other risk-transfer capacity); participating insurer assessment layers and their attachment point(s); CEA's policy growth; CEA's aggregate insured exposure; what Mr. Pomeroy termed a "win/win/win proposition" for participating insurers (PIs), global reinsurers, and California homeowners; and the reasons CEA's policy count has grown.

He said the CEA has grown to a point where it can no longer take on unlimited risk. He projected the need to increase CEA claim-paying capacity from \$17 billion to \$48 billion by the end of the next decade, based on a modest projected growth rate—if the projected growth occurs, CEA would be forced to impose a cumulative rate increase of approximately 50 percent over the next 10 years.

Mr. Pomeroy then discussed a legislative concept to diversify and enhance the CEA's financial capacity. This proposal would add three layers to the CEA claim-paying tower: a CEA Policyholder Surcharge Layer (up to 20 percent, as necessary); a PI Assessment Layer, renamed and increased from the former Industry Assessment Layer; and a Property and Casualty (P&C) Assessment Layer, which would provide approximately \$200 million in combined annual savings by 2022.

This proposal is part of a bill to be introduced by Assembly Member Adrin Nazarian, which would allocate 50 percent of monies not paid for risk-transfer to CEA-rate stability and 50 percent for a new Natural Catastrophe Resiliency Initiative Fund, to be overseen by the CEA Governing Board.

Mr. Pomeroy asked Kapil Bhatia (of Raymond James & Associates, the CEA's independent financial advisor) to explain post-event assessment mechanisms.

Mr. Bhatia provided a post-event assessment overview, comparing similar assessment mechanisms in other states, post-event examples, and views of rating agencies on such statewide insurance-policy assessments.

Mr. Bhatia said government entities use bonds to address timing and frequency risk. Post-event bonding (contingent capital) can solve the timing risk of large-catastrophe events. The intent is to provide a “multi-capital strategy.” The CEA’s multi-capital strategy is surplus, risk-transfer, and the CEA industry assessment layer. Post-event assessments provide a way to use reinsurance capacity effectively while allocating the monies not spent on reinsurance more efficiently.

Other states have used the “savings” differently, but the objective is the same: managing the timing and the risk level while providing the best benefit for state residents.

Mr. Pomeroy said that what is unique about the proposal is its use of savings: reinvesting some of the savings, not in ongoing reinsurance costs, but in resiliency projects for the state—bringing funds to communities to help reduce losses associated with catastrophes.

Mr. Pomeroy then asked Laurie Johnson to discuss the proposed National Catastrophe Resiliency Fund.

Dr. Johnson discussed outreach feedback, the focus on key natural hazards, natural disaster resilience investments, and implementing the resilience fund. She said the California Natural Disaster Resilience Fund would aim to ensure that all Californians could withstand natural disasters and thrive afterward, whether natural disasters or changing climatic conditions. She termed resiliency the “holistic way” of looking at disaster management, noting that a statewide investment in resilience could save California billions of dollars in losses and that the CEA has the experience to establish and manage a statewide risk-reduction program.

Mr. Pomeroy stated a great deal of thought has been put into this important work. He stated the governor called for creativity, boldness, and action in his last State of the State address, in response to the recent natural disasters—those concepts are embodied in this legislative concept.

Mr. Pomeroy thanked the Chief Resiliency Officers for the City and County of San Francisco and the City of Los Angeles, who sent letters of encouragement to support this legislative concept (letters included in the meeting packet). He stated AB 2927 would enable the CEA to continue to provide valuable, affordable earthquake insurance while establishing a sustainable revenue stream of up to \$100 million per year for natural disaster resiliency.

Public Comment

Fiona Ma, Second District, California State Board of Equalization, described her first experience with earthquakes and her background in disaster-relief planning. She said that AB 2927 is creative and adapts to the changes in California to ensure that policyholders can keep policies affordable.

Ross Buckley, Personal Insurance Federation of California (“PIFC”), stated his organization will make more detailed comments at a future date. Initially, he said, PIFC members had

concerns about (1) the proposed increase to the industry assessment layer, (2) the one percent assessment on all P&C policies, and (3) using earthquake premium dollars for the resiliency fund. He asked how much staff and expertise the CEA would require to run this proposed new program.

Mr. Brown stated this proposal is a dramatic change from the original CEA law. State Treasurer John Chiang supports several of the principles but is concerned about the growth of the reinsurance and the related costs. Mr. Brown said that, on behalf of State Treasurer Chiang, he would abstain on voting, until there has been more time to vet it.

Mr. Ghilarducci, for the Chair, stated the necessity of moving forward with the opportunity to provide expertise. He stated, without endorsing or not endorsing, the CEA must continue the process to move forward.

Upon hearing Board members' respective remarks, Mr. Pomeroy noted sufficient Board support for the legislative recommendation, as presented, to allow the CEA staff sufficient authority to work with Assembly Member Nazarian and legislative staff. He said staff will continue to work on the proposal and report progress to the Board at its next meeting.

CEA staff recommended the following substance for a Board motion:

- Support the principles in Assembly Bill 2927 (Nazarian), which, if enacted, would provide the CEA additional cost-efficient sources of financial capacity that would reduce the CEA's reliance on reinsurance and enable the CEA to continue to protect more California homes and families with affordable, sustainable earthquake insurance and fund resiliency projects throughout the state. Because the CEA is best able to provide informed, authoritative advice on the impact on CEA of this bill as it moves through the legislative process, CEA is authorized to provide any advice and assistance reasonably requested by or of the author of AB 2927.

MOTION: Ms. Landsman-Smith moved approval of the staff recommendation, as presented. Mr. Ghilarducci seconded, with the caveat that the motion, if carried, would be for approval to move the bill forward through the legislative process. Motion carried with one abstention (Mr. Brown).

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

Mr. Richison provided an overview of CEA financial information as of December 31, 2017. He showed a five-year financial-comparison chart.

6. Mr. Richison will seek Board authorization to set the CEA participating insurers' respective maximum-earthquake-loss funding-assessment levels, effective April 1, 2018.

Mr. Richison provided an overview of the annual CEA participating insurer (PI) maximum earthquake-loss-funding-assessment levels and showed slides of Attachment A: Calculation of New Industry Assessment Layer and Attachment B: 2018 Maximum Earthquake-Loss-Funding Assessment Levels. The New Industry Assessment Layer will have been reduced to zero, by law and without loss, as of April 1, 2018.

Staff recommendation was:

- Recognize that the power and authority of the CEA to assess participating insurers in what is generally known as the “New IAL” has been reduced to zero, effective April 1, 2018, by operation of law. [No action requested.]
- Adopt the CEA market-share percentages shown in Attachment B, which are to be used to determine the maximum earthquake-loss-funding-assessment levels for CEA participating insurers, effective April 30, 2018.
- Authorize CEA staff to notify each participating insurer of its respective April 30, 2018, maximum earthquake-loss-funding-assessment level responsibility.

MOTION: Mr. Brown moved approval of the staff recommendation as presented. Ms. Landsman-Smith seconded. Motion carried unanimously.

7. Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc.—the CEA’s independent financial advisor—will present to the Board the annual report on the state of the economy.

Mr. Bhatia provided an overview of the economic, financial, investment, and risk-transfer market in his annual report on the state of the economy. He concluded the following:

- Low unemployment and inflation rates and improving global growth.
- Expected that the federal government will increase rates twice this year.
- Low interest rates, strong corporate issuance and fixed income markets, and stable reinsurance markets.
- Expected mergers and acquisitions in 2018 to keep issuance strong.
- Strong investment portfolio and increase in income returns.
- Reinsurance rates more or less unchanged.

8. Chief Communications Officer Chris Nance will present, and seek Board approval of, the 2019 CEA advertising budget.

Mr. Nance provided an overview of the market strength; policy growth; success stories; outreach and media marketing; barriers, including advertising competition; and 2018 advertising campaign that will roll out statewide on April 1, 2018. He showed a video of a CEA advertisement, noting that visuals in the ads will differ by geographic region.

He discussed the proposed CEA marketing and advertising budget for 2019.

Mr. Wood asked how the CEA might overcome the perception of high cost for earthquake insurance and whether there are plans to share testimonials of CEA policyholders who have benefited from their policies.

Mr. Nance described the plans to roll out a series of testimonials.

Staff recommendation was:

- Approve proposed a CEA 2019 marketing and advertising budget of \$12,239,500 and requested that the Board vote to authorize expenditures up to that level to implement the CEA’s 2019 advertising plan.

MOTION: Mr. Brown moved approval of the staff recommendation as presented. Ms. Landsman-Smith seconded. Motion carried unanimously.

9. Janiele Maffei, Chief Mitigation Officer, 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.

Ms. Maffei provided an overview of the upcoming Guideline/Standard development, QuakeGrade, the California Real Estate Inspection Association (CREIA) certification takeover, the Dwelling Verification Form, the California Residential Mitigation Program (CRMP), the Napa Earthquake Brace + Bolt program, 2018 EBB registration, CEA FEMA applications, and the CEA Mitigation Incentive Program.

10. Mr. Richison will recommend to the Board transferring money from the CEA’s Earthquake Loss Mitigation Fund to the California Residential Mitigation Program (“CRMP”), a joint powers authority whose members are the California Governor’s Office of Emergency Services and the CEA.

Mr. Richison stated the CRMP governing board had approved the 2018 CRMP budget during its most recent meeting. He noted, however, that if the CRMP budget changes or CRMP is able to support and provide grants for more retrofits, additional funds may be necessary. For present purposes, he asked for the sum of \$5.6 million to be transferred from the CEA Earthquake Loss Mitigation Fund to the CRMP, to permit CRMP to fund its approved budget and carry out its programs.

Staff recommendation was:

- Approve the proposed transfer to CRMP of funds in the amount of \$5.6 million – the funds would be used to expand the CRMP EBB program in 2018, as described.

MOTION: Mr. Brown moved approval of the staff recommendation as presented. Ms. Landsman-Smith seconded. Motion carried unanimously with no abstentions.

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

Ms. Maffei provided an overview of the CEA Research Program, the Damage Assessment and Repair Document update, the PEER Project, and the February Research Forum. She stated the CEA is contracting with the Applied Technology Council (ATC) to update the Damage Assessment and Repair Document (generally known as the CUREE Guidelines) and draft a companion “guidelines” document for use by engineers.

12. Ms. Maffei will update the Board on CEA’s progress in establishing a nonprofit charitable foundation, whose functions would include receiving contributions and disbursing accumulated funds for clearly defined grant programs and other appropriate mitigation-related purposes.

Ms. Maffei stated no funding has been sought, arranged, or accepted. Staff is doing the legal setup to the Foundation and will return with further information about the Foundation in later meetings.

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

Todd Coombes, Chief Insurance and Technology Officer, provided an overview, with a slide presentation, of CEA's insurance-education and sales-support activities; insurance operations; and information technology.

Ms. Landsman-Smith asked how many PIs are in the CPP program. Mr. Coombes replied that six PIs are currently in the program and at least three are scheduled for this year, though he expected four or five.

Public comment

Mr. Buckley stated his organization's members have asked for twelve months of implementation time for the most recent CEA rate and form filing, now pending with the Department of Insurance. Mr. Coombes recommended that PIs move forward with draft information. He stated staff will continue to work with PIs to help them complete implementation within the projected time frame.

14. Mr. Coombes will present to the Board the application of Amica Mutual Insurance Company to become a CEA participating insurer, recommending (a) Board acceptance of that application and (b) execution of the CEA Insurer Participation Agreement by CEO Glenn Pomeroy, with further action dependent on Amica's continued compliance with CEA-participation-related data, legal, and related requirements, in the manner required by the Authority.

Mr. Coombes provided an overview of Amica Mutual Insurance Company.

Staff recommendation was:

- Approve Amica Mutual Insurance Company's application to become a CEA participating insurer.
- Authorize the Authority's CEO Glenn Pomeroy, assisted by the CEA general counsel, to negotiate and execute on the Authority's behalf an Insurer Participation Agreement with Amica Mutual Insurance Company that meets the description and requirements above, and to take any and all additional, related, and necessary steps to accomplish the related and supporting acts contemplated and described above.

MOTION: Ms. Landsman-Smith moved approval of the staff recommendation as presented. Mr. Brown seconded. Motion carried unanimously with no abstentions.

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

Dr. Johnson provided an overview of the background, framework and progress to date, Enterprise Risk Management (ERM) process completion, and ERM framework development and next steps.

16. Chief Operations Officer Kellie Schneider will update the Board on the quantitative business metrics report.

Kellie Schneider, Chief Operations Office, provided a report based on performance metrics introduced at the December 2017 Board meeting, including an overview of the four strategic goals and the performance metrics to accomplish in 2018; the status of the enterprise workforce plan; and the increase in call volume.

17. The Board will meet in closed session to discuss personnel matters and litigation matters, as permitted by California Government Code section 11126, subdivisions (a) and (e), respectively.

There was no closed session.

18. 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.

19. Adjournment.

There being no further business, the meeting was adjourned at 3:29 p.m.

Governing Board Memorandum

July 19, 2018

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

Recommended Action: No action required—information only

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

July 19, 2018

Agenda Item 5: Authorize extension of agreements for government-affairs and legal contractors presently assisting CEA in key legislation-related activities

Recommended Action: Authorize extending contract duration and set continuing funding levels for government-affairs and legal services

Background:

In connection with a set of essential legislative initiatives, the CEA is working with two experienced government-affairs firms headquartered in Sacramento and two of the CEA's experienced outside law firms, all of which work under contract with CEA executive, legal, and legislative staff to provide key strategic assistance on those initiatives. Members of these firms have proved invaluable in helping to promote and communicate the CEA's interests and viewpoints, in both strategic advising and lobbying, as well as assisting in essential stakeholder outreach and contacts.

To retain the firms' services, the CEA originally committed to certain funding levels and contract terms. But as the CEA's legislative activities have succeeded in 2018, and the CEA's legislation this year has become much more narrowly focused, major legislative initiatives are clearly still ahead—and it has become apparent that these firms' expert services will continue to be required, both to complete work on AB 2927 (Nazarian) in 2018 and work on substantial legislative initiatives in the 2019 and 2020 legislative years.

Analysis:

At its March 18, 2018, meeting, the Board supported the principles of in AB 2927, originally a multi-part bill intended to (1) reduce CEA's reliance on expensive reinsurance by providing for post-event debt supported by broad-based assessments; (2) establish substantial, consistently funded resilience-activity funding for use throughout the State; and (3) strengthen CEA's longstanding statutory ability, after a serious earthquake, to place limited surcharges on its policyholders, to be used to repay additional post-event debt incurred for claim payments.

Since March, AB 2927 has been substantially narrowed to focus on a single issue, as the following description provides:

- The CEA law since 1996 has provided that CEA may borrow after a significant earthquake to supplement its claim-paying capacity—by issuing revenue bonds or forming a debt-facility—and then repay that debt by limited surcharges placed on CEA policies. The surcharge/debt layer is intended to provide up to \$1 Billion to the CEA’s capacity tower. But the original legislative grant of authority is widely seen as flawed, and so it has not provided rated claim-paying capacity for the CEA.
- CEA staff, with invaluable help from its government-affairs contractors, has worked closely with the AB 2927 author, key legislative staff, and all CEA stakeholders to negotiate a narrowly targeted 2018 proposal that would smooth the way to suitable credit ratings for post-quake borrowing, by (1) removing an extra approval requirement, cited repeatedly by rating agencies as an obstacle to regarding surcharge-supported debt as rated capacity, and (2) making the full \$1 Billion layer available for claims and claim expenses.
- The CEA’s government-affairs consulting team has been instrumental in all key aspects of preserving and advancing AB 2927—which, if enacted in 2018, will immediately save the CEA \$30 million each year in reduced reinsurance costs.

The legislative initiatives planned for 2019 and 2020, on the other hand, will embody larger-scale, highly important concepts, which will be CEA-mission-critical—absolutely crucial for CEA’s financial health and its ability to continue its Board-directed public-policy initiatives, from research to mitigation grants, and of course, providing the highest-quality, most affordable earthquake insurance for Californians.

Recommendations:

- Authorize the following contract adjustments:
 - Extend lobbying agreement with Third House, LLC to August 31, 2020, and set annual contract funding at \$120,000 per year.
 - Extend lobbying agreement with Manatt, Phelps & Phillips, LLP to August 31, 2020, and set annual contract funding at \$300,000 per year.
 - Extend lobbying agreement with Orrick, Herrington & Sutcliffe LLC to August 31, 2020, and set annual contract funding at \$240,000 per year; for the Orrick

legal services agreement, regarding CEA legislation, set annual contract funding at (not to exceed) \$600,000 per year.

- Extend lobbying agreement with Townsend Calkin Tapio Inc. to August 31, 2020, and set annual contract funding at \$240,000 per year.



FINANCIAL REPORT

March 31, 2018

Financial Report Table of Contents

	Page
Financial Statements & Budgets	
Balance Sheet as of March 31, 2018	1
Statement of Revenues, Expenses and Changes in Net Position Period Ended March 31, 2018	2
Insurance Services Budgeted and Actual Expenditures for 2018 Budget Year as of March 31, 2018	3
Mitigation Budgeted and Actual Expenditures for 2018 Budget Year as of March 31, 2018	4
Investments	
Investment Distribution at Market Value CEA Liquidity & Primary Funds, Claim(s)-Paying Funds, Mitigation Funds as of March 31, 2018	5
Debt	
Schedule of Outstanding Debt as of March 31, 2018	6
Claim-Paying Capacity	
Available Capital Report as of March 31, 2018	7
Claim-Paying Capacity as of March 31, 2018	8
Risk-Transfer Programs	
Current Risk-Transfer Program Summary as of March 31, 2018	9
Total Risk-Transfer Program Premiums as of March 31, 2018	10

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

Financial Statements & Budgets

California Earthquake Authority
Balance Sheet
as of March 31, 2018

Assets

Cash and investments:	
Cash and cash equivalents	\$ 183,014,304
Restricted cash and equivalents	17,964,538
Restricted investments	435,084,441
Investments	<u>5,747,636,534</u>
Total cash and investments	6,383,699,817
Premiums receivable, net of allowance for doubtful accounts of \$4,934,708	72,479,326
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	22,223,118
Securities receivable	46,193,066
Restricted securities receivable	3,179,686
Prepaid reinsurance premium	18,891,043
Transformer reinsurance premium deposit	-
Prepaid transformer maintenance premium	2,757,306
Equipment, net	251,495
Other assets	<u>20,277</u>
Total assets	<u>\$ 6,549,695,134</u>

Liabilities and Net Position

Unearned premiums	\$ 373,351,453
Accounts payable and accrued expenses	4,567,706
Deferred grant revenue	-
Accrued reinsurance premium expense	-
Loss and loss adjustment expense reserves	42,079
Securities payable	33,494,714
Revenue bond payable	210,000,000
Revenue bond interest payable	<u>1,472,625</u>
Total liabilities	<u>622,928,577</u>
Net position:	
Restricted, expendable	248,518,423
Unrestricted, participating insurer contributed capital	777,384,796
Unrestricted, State of California contributed capital	260,449,846
Unrestricted, all other remaining	<u>4,640,413,492</u>
Total net position	<u>5,926,766,557</u>
Total liabilities and net position	<u>\$ 6,549,695,134</u>

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Position
Year-to-Date March 31, 2018

Underwriting income:	
Premiums written	\$ 176,846,653
Less premiums ceded - reinsurance	(90,189,728)
Less risk capital surcharge	-
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Net premiums written	86,656,925
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Change in unearned premiums	104,563
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Net premiums earned	86,761,488
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Expenses:	
Losses and loss adjustment expenses	(21,877)
Participating Insurer commissions	17,685,697
Participating Insurer operating costs	5,743,589
Reinsurance broker commissions	700,000
Pro forma premium taxes equivalent	4,158,630
Other underwriting expenses	8,987,617
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Total expenses	37,253,656
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Underwriting profit	49,507,832
Net investment income	(21,268,470)
Other income	119,024
Grant revenue	4,050
Financing expenses, net	(137,225)
Earthquake Loss Mitigation Fund expenses	(388,783)
Participating Insurer Contributed Capital	-
State of California premium tax contribution equivalent	4,158,630
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Increase in net position	31,995,058
Net position, beginning of year	5,894,771,499
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Net position, end of year to date	\$ 5,926,766,557
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CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budgeted and Actual Expenditures
2018 Budget Year
as of March 31, 2018

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
				(d=a+b+c)		(f=d-e)	(g=e/d)
	<u>Approved 2018 Budget 1/1/2018</u>	<u>Adjustments</u>	<u>Augmentations</u>	<u>2018 Budget after Augmentations and Adjustments</u>	<u>Actual Expenditures</u>	<u>Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)</u>	<u>Percentage used of Augmented & Adjusted Approved 2018 Budget</u>
Human Resources:							
Compensation and Benefits	\$ 27,292,438	\$ -	\$ -	\$ 27,292,438	\$ 5,681,966	\$ 21,610,472	20.82%
Travel	709,346	-	-	709,346	68,312	641,034	9.63%
Other	692,667	-	-	692,667	99,273	593,394	14.33%
Board Meeting	24,480	-	-	24,480	3,904	20,576	15.95%
Administration & Office	807,975	-	-	807,975	175,959	632,016	21.78%
EDP Hardware	205,500	-	-	205,500	105,791	99,709	51.48%
EDP Software	2,050,188	-	-	2,050,188	298,117	1,752,071	14.54%
Information Technology	1,613,106	-	-	1,613,106	301,262	1,311,844	18.68%
Telecommunications	418,000	-	-	418,000	67,914	350,086	16.25%
Rent/Lease	1,446,842	-	-	1,446,842	313,106	1,133,736	21.64%
Compliance	30,000	-	-	30,000	-	30,000	0.00%
Government Affairs	146,000	-	-	146,000	16,000	130,000	10.96%
Insurance	215,000	-	-	215,000	-	215,000	0.00%
Internal Audit	30,000	-	-	30,000	-	30,000	0.00%
Other	71,450	-	-	71,450	1,998	69,452	2.80%
Regulatory Expenses	330,000	-	-	330,000	-	330,000	0.00%
Risk Management	139,500	-	-	139,500	10,416	129,084	7.47%
Total Statutory Expenditures	\$ 36,222,492	\$ -	\$ -	\$ 36,222,492	\$ 7,144,018	\$ 29,078,474	19.72%
Audit Services	119,500	-	-	119,500	6,000	113,500	5.02%
Capital Market	4,864,855	-	-	4,864,855	1,511,747	3,353,108	31.07%
Claims	164,000	-	-	164,000	3,274	160,726	2.00%
Grants	11,700,000	-	-	11,700,000	15,200	11,684,800	0.13%
Investment Services	3,436,588	-	-	3,436,588	796,639	2,639,949	23.18%
Legal Services	2,043,650	-	-	2,043,650	311,248	1,732,402	15.23%
Loss-Modeling	1,156,500	-	-	1,156,500	131,000	1,025,500	11.33%
Marketing Services	14,705,465	-	-	14,705,465	485,090	14,220,375	3.30%
Producer Compensation	69,000,000	-	-	69,000,000	17,685,697	51,314,303	25.63%
Participating Insurer Operating Costs	26,672,800	-	-	26,672,800	5,960,465	20,712,335	22.35%
Seismic Related Research	380,000	-	-	380,000	-	380,000	0.00%
Engineering Related Research	1,920,000	-	-	1,920,000	150,935	1,769,065	7.86%
Risk Transfer	315,600,000	-	-	315,600,000	90,889,728	224,710,272	28.80%
Total Non-Statutory Expenditures	\$ 451,763,358	\$ -	\$ -	\$ 451,763,358	\$ 117,947,023	\$ 333,816,335	26.11%
Total Budget Expenditures	\$ 487,985,850	\$ -	\$ -	\$ 487,985,850	\$ 125,091,041	\$ 362,894,809	25.63%

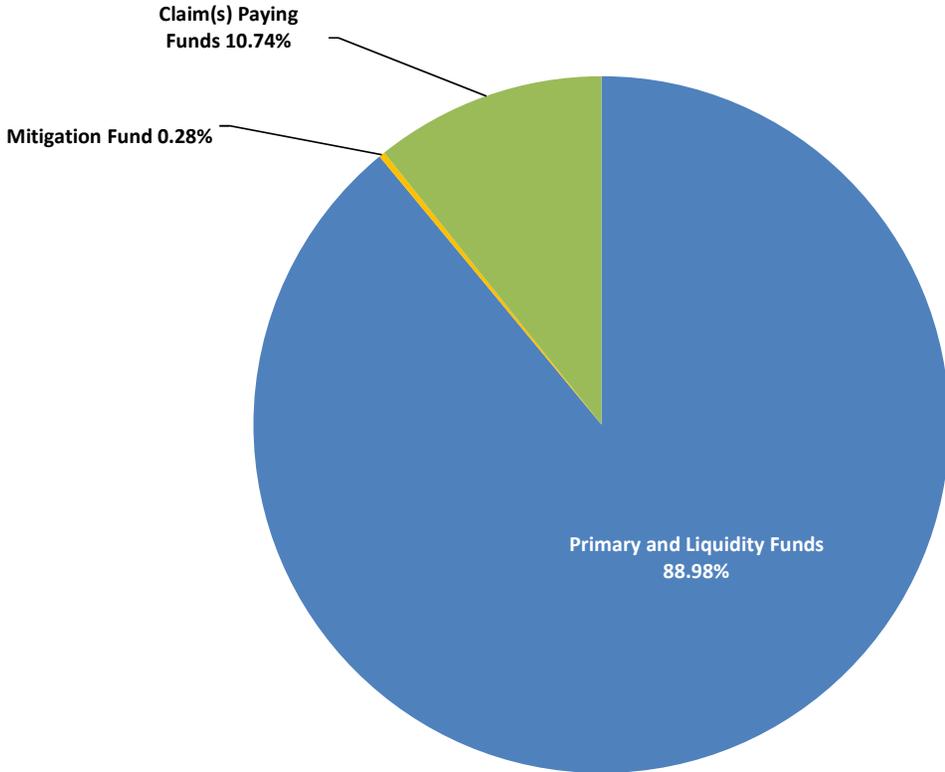
CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budgeted Expenditures and Actual Expenditures
2018 Budget Year
as of March 31, 2018

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2018 Budget 1/1/2018	Adjustments	Augmentations	2018 Budget after Augmentations and Adjustments	Actual Expenditures	Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)	Percentage used of Augmented & Adjusted Approved 2018 Budget
Human Resources:							
Compensation and Benefits	\$ 1,378,515	\$ -	\$ -	\$ 1,378,515	\$ 325,649	\$ 1,052,866	23.62%
Travel	54,594	-	-	54,594	4,966	49,628	9.10%
Other	19,515	-	-	19,515	10,030	9,485	51.40%
Administration & Office	68,803	-	-	68,803	1,963	66,840	2.85%
Information Technology	840	-	-	840	140	700	16.67%
Telecommunications	33,400	-	-	33,400	4,314	29,086	12.92%
Rent/Lease	109,700	-	-	109,700	24,762	84,938	22.57%
Total Operating Expenditures	\$ 1,665,367	\$ -	\$ -	\$ 1,665,367	\$ 371,824	\$ 1,293,543	22.33%
Investment Services	11,200	-	-	11,200	2,203	8,997	19.67%
Legal Services	10,000	-	-	10,000	-	10,000	0.00%
Marketing	4,500	-	-	4,500	-	4,500	0.00%
Engineering - Related	1,140,000	-	-	1,140,000	-	1,140,000	0.00%
Total Other Expenditures	\$ 1,165,700	\$ -	\$ -	\$ 1,165,700	\$ 2,203	\$ 1,163,497	0.19%
Total Expenditures	\$ 2,831,067	\$ -	\$ -	\$ 2,831,067	\$ 374,027	\$ 2,457,040	13.21%

Investments

**California Earthquake Authority
Investment Distribution at Market Value
as of March 31, 2018**

Market Value	\$6,335,755,186
Primary and Liquidity Funds	88.98%
Mitigation Fund	0.28%
Claim(s) Paying Funds	10.74%
Total:	100.00%



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	\$ 210,000,000	31-Mar-2018	A3 Outlook Stable	A Outlook Stable

DEBT-SERVICE SCHEDULE

Series 2014 Revenue Bonds	1-Jan-18	\$210,000,000	\$0	\$2,945,250	\$2,945,250	
5 year bond	1-Jul-18	\$105,000,000	\$105,000,000	\$2,945,250	\$107,945,250	
	2018					\$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					\$107,945,250

*Moody's rating since May 2015.

**Fitch rating affirmed December 2017.

Claim-Paying Capacity

**California Earthquake Authority
Available Capital Report
as of March 31, 2018**

Cash & Investments (includes capital contributions and premiums)	\$	6,383,699,817
Earthquake Loss Mitigation Fund Cash and Investments	\$	(17,957,958)
Interest & Securities Receivable	\$	68,416,184
Premium Receivable	\$	72,479,326
Risk Capital Surcharge & Capital Contributions Receivable	\$	-
Other Assets	\$	20,277
Revenue Bonds	\$	(680,084,822)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	\$	(80,222,625)
Unearned Premium Collected	\$	(257,434,551)
Accrued Reinsurance Premium Expense	\$	-
Accounts and Securities Payable, and Accrued Expenses	\$	(38,062,423)
Loss Reserves	\$	(42,079)
CEA Available Capital	<u>\$</u>	<u>5,450,811,146</u>

California Earthquake Authority Claim-Paying Capacity



Note: Not drawn to scale

Risk-Transfer Programs

**California Earthquake Authority
Current Risk-Transfer Program Summary
as of March 31, 2018**

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
2018 January Program Contract 1	January 1, 2018 - December 31, 2018	884,725,560	4.75%	42,024,464
2018 January Program Contract 2	January 1, 2018 - December 31, 2018	274,324,320	2.90%	7,955,405
2018 January Program Contract 3	January 1, 2018 - December 31, 2018	75,000,000	2.45%	1,837,500
2018 January Program Contract 4	January 1, 2018 - December 31, 2018	21,250,000	6.35%	1,349,375
2018 January Program Contract 5	January 1, 2018 - December 31, 2018	8,850,000	5.60%	495,600
2018-2019 January Program Contract 1 (21 Month)	January 1, 2018 - September 30, 2019	89,899,920	4.85%	4,360,146
2018-2019 January Program Contract 2 (21 Month)	January 1, 2018 - September 30, 2019	23,700,000	3.00%	711,000
2018-2019 January Program Contract 1	January 1, 2018 - December 31, 2019	165,337,440	4.90%	8,101,535
2018-2019 January Program Contract 2	January 1, 2018 - December 31, 2019	74,623,680	3.05%	2,276,022
2018-2019 January Program Contract 3	January 1, 2018 - December 31, 2019	120,004,990	5.70%	6,840,284
2018-2019 January Program Contract 4	January 1, 2018 - December 31, 2019	50,000,000	2.60%	1,300,000
2017-2018 January Program Contract 1	January 1, 2017 - December 31, 2018	472,170,373	4.59%	21,672,620
2017-2018 January Program Contract 2	January 1, 2017 - December 31, 2018	240,999,850	3.39%	8,169,895
2017-2018 January Program Contract 3	January 1, 2017 - December 31, 2018	135,000,000	6.35%	8,572,500
2017-2018 January Program Contract 4	January 1, 2017 - December 31, 2018	5,000,000	5.72%	286,000
2017-2018 April Program Contract 1	April 1, 2017 - March 31, 2018	738,633,400	3.00%	22,159,002
2017-2019 April Program Contract 1	April 1, 2017 - March 31, 2019	186,780,000	3.21%	5,995,638
2016-2018 April Program Contract 1	April 1, 2016 - March 31, 2018	259,876,500	3.10%	8,056,172
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	124,999,920	3.42%	4,274,997
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	200,000,000	4.15%	8,300,000
2017-2020 August Program Contract 2	August 1, 2017 - July 31, 2020	200,000,000	3.60%	7,200,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000	4.25%	5,907,500
2017-2018 December Program Contract 1	December 1, 2017 - November 30, 2018	80,000,000	4.95%	3,960,000
2017-2018 December Program Contract 2	December 1, 2017 - November 30, 2018	50,000,000	6.25%	3,125,000
2018 January Program Contract 6	January 1, 2017 - December 31, 2018	165,000,000	5.55%	9,157,500
2018-2019 January Program Contract 5	January 1, 2018 - December 31, 2019	164,999,800	6.10%	10,064,988
2018-2019 January Program Contract 6	January 1, 2018 - December 31, 2019	279,999,840	5.40%	15,119,991
2016-2018 June Program Contract 1	June 1, 2016 - May 31, 2018	49,999,980	5.40%	2,699,999
2017-2018 August Program Contract 1	August 1, 2017 - July 31, 2018	93,750,000	5.57%	5,221,875
2017-2020 August Program Contract 1	August 1, 2017 - July 31, 2020	93,750,000	5.87%	5,503,125
2016-2018 December Program Contract 1	December 1, 2016 - November 30, 2018	74,998,000	5.67%	4,252,387
2017-2019 December Program Contract 1	December 1, 2017 - November 30, 2019	124,999,994	6.15%	7,687,500
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.87%	5,503,125
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	93,750,000	5.87%	5,503,125
2017-2019 July Program Contract 1	July 1, 2017 - June 30, 2019	70,000,000	5.65%	3,955,000
2017-2018 July Program Contract 1	July 1, 2017 - June 30, 2018	20,000,000	4.15%	830,000
Total Traditional Reinsurance		5,945,173,567		
Transformer Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
2015-2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	250,000,000	5.05%	6,883,219
2016-2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	500,000,000	4.04%	20,308,929
2017-2020 Transformer Reinsurance Contract 2	May 16, 2017 - May 15, 2020	425,000,000	3.54%	15,080,011
2017-2020 Transformer Reinsurance Contract 1	May 16, 2017 - May 15, 2020	500,000,000	6.06%	30,363,070
2017-2020 Transformer Reinsurance Contract 4	December 1, 2017 - November 30, 2020	200,000,000	4.04%	8,100,958
2017-2020 Transformer Reinsurance Contract 3	December 1, 2017 - November 30, 2020	200,000,000	5.30%	10,625,958
Total Transformer Reinsurance		2,075,000,000		
Total Risk-Transfer Program		\$ 8,020,173,567		

**California Earthquake Authority
Total Risk-Transfer Program Premiums
as of March 31, 2018**

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	2018 Premium
2018 January Program Contract 1	January 1, 2018 - December 31, 2018	884,725,560	4.75%	42,024,464
2018 January Program Contract 2	January 1, 2018 - December 31, 2018	274,324,320	2.90%	7,955,405
2018 January Program Contract 3	January 1, 2018 - December 31, 2018	75,000,000	2.45%	1,837,500
2018 January Program Contract 4	January 1, 2018 - December 31, 2018	21,250,000	6.35%	1,349,375
2018 January Program Contract 5	January 1, 2018 - December 31, 2018	8,850,000	5.60%	495,600
2018-2019 January Program Contract 1 (21 Month)	January 1, 2018 - September 30, 2019	89,899,920	4.85%	4,360,146
2018-2019 January Program Contract 2 (21 Month)	January 1, 2018 - September 30, 2019	23,700,000	3.00%	711,000
2018-2019 January Program Contract 1	January 1, 2018 - December 31, 2019	165,337,440	4.90%	8,101,535
2018-2019 January Program Contract 2	January 1, 2018 - December 31, 2019	74,623,680	3.05%	2,276,022
2018-2019 January Program Contract 3	January 1, 2018 - December 31, 2019	120,004,990	5.70%	6,840,284
2018-2019 January Program Contract 4	January 1, 2018 - December 31, 2019	50,000,000	2.60%	1,300,000
2017-2018 January Program Contract 1	January 1, 2017 - December 31, 2018	472,170,373	4.59%	21,672,620
2017-2018 January Program Contract 2	January 1, 2017 - December 31, 2018	240,999,850	3.39%	8,169,895
2017-2018 January Program Contract 3	January 1, 2017 - December 31, 2018	135,000,000	6.35%	8,572,500
2017-2018 January Program Contract 4	January 1, 2017 - December 31, 2018	5,000,000	5.72%	286,000
2017-2018 April Program Contract 1	April 1, 2017 - March 31, 2018	738,633,400	3.00%	5,539,751
2017-2019 April Program Contract 1	April 1, 2017 - March 31, 2019	186,780,000	3.21%	5,995,638
2016-2018 April Program Contract 1	April 1, 2016 - March 31, 2018	259,876,500	3.10%	2,014,043
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	124,999,920	3.42%	4,274,997
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	200,000,000	4.15%	8,300,000
2017-2020 August Program Contract 2	August 1, 2017 - July 31, 2020	200,000,000	3.60%	7,200,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000	4.25%	5,907,500
2017-2018 December Program Contract 1	December 1, 2017 - November 30, 2018	80,000,000	4.95%	3,630,000
2017-2018 December Program Contract 2	December 1, 2017 - November 30, 2018	50,000,000	6.25%	2,864,583
2018 January Program Contract 6	January 1, 2017 - December 31, 2018	165,000,000	5.55%	9,157,500
2018-2019 January Program Contract 5	January 1, 2018 - December 31, 2019	164,999,800	6.10%	10,064,988
2018-2019 January Program Contract 6	January 1, 2018 - December 31, 2019	279,999,840	5.40%	15,119,991
2016-2018 June Program Contract 1	June 1, 2016 - May 31, 2018	49,999,980	5.40%	1,125,000
2017-2018 August Program Contract 1	August 1, 2017 - July 31, 2018	93,750,000	5.57%	3,046,094
2017-2020 August Program Contract 1	August 1, 2017 - July 31, 2020	93,750,000	5.87%	5,503,125
2016-2018 December Program Contract 1	December 1, 2016 - November 30, 2018	74,998,000	5.67%	3,898,021
2017-2019 December Program Contract 1	December 1, 2017 - November 30, 2019	124,999,994	6.15%	7,687,500
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.87%	3,210,156
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	93,750,000	5.87%	5,503,125
2017-2019 July Program Contract 1	July 1, 2017 - June 30, 2019	70,000,000	5.65%	3,955,000
2017-2018 July Program Contract 1	July 1, 2017 - June 30, 2018	20,000,000	4.15%	415,000
Total Traditional Reinsurance Premium				230,364,358
Transformer Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	2018 Premium
2015-2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	250,000,000	5.05%	6,883,219
2016-2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	500,000,000	4.040%	20,308,929
2017-2020 Transformer Reinsurance Contract 2	May 16, 2017 - May 15, 2020	425,000,000	3.54%	15,080,011
2017-2020 Transformer Reinsurance Contract 1	May 16, 2017 - May 15, 2020	500,000,000	6.060%	30,363,070
2017-2020 Transformer Reinsurance Contract 4	December 1, 2017 - November 30, 2020	200,000,000	4.04%	8,100,958
2017-2020 Transformer Reinsurance Contract 3	December 1, 2017 - November 30, 2020	200,000,000	5.3025%	10,625,958
Total Transformer Reinsurance Premium				91,362,145
Total Risk-Transfer Program Premium				321,726,503

Governing Board Memorandum

July 19, 2018

Agenda Item 7: CEA Participating Insurers – Maximum Earthquake-Loss-Funding-Assessment Levels (Revised)

Recommended Action: Approve Revised CEA Participating Insurer Maximum Earthquake-Loss-Funding-Assessment Levels

Background:

California Insurance Code section 10089.25 states,

“Beginning December 31, 1997, and annually thereafter on the 30th of April, the board shall notify each participating insurer of the maximum earthquake loss funding assessment level that it may be required to meet.”

Insurance Code sections 10089.30 and 10089.31 set forth the calculation for determining the maximum aggregate assessments for the so-called “Second Industry Assessment Layer” and “New Industry Assessment Layer” of the California Earthquake Authority (CEA) financial structure.

Analysis:

The 2018 Maximum Earthquake-Loss-Funding-Assessment Levels presented by staff at the March 14, 2018, Board meeting require revision due to the inclusion of an extra week of written premium in the December 31, 2017, CEA financial statements.

The assessment level is determined using each CEA participating insurer’s respective CEA earthquake market-share percentage, based on the insurer’s CEA written premium. From this calculation, the CEA determines each insurer’s maximum earthquake-loss-funding-assessment level for 2018.

Because of the error mentioned above, however, all CEA participating insurers’ respective CEA earthquake market-share percentages have been recalculated and are now presented next to the originally approved percentages from the March 2018 Governing Board meeting included in *Attachment A*.

Attachment B shows the revised calculation for each participating insurer and the resulting maximum earthquake-loss-funding-assessment level.

Recommendations:

Staff recommends that:

- The Board adopt the revised CEA market-share percentages shown in *Attachment B*, which are to be used to determine the maximum earthquake-loss-funding-assessment levels for CEA participating insurers, effective April 2, 2018.
- The Board authorize CEA staff to notify all CEA participating insurers of their respective, revised maximum earthquake-loss-funding-assessment-level responsibilities.

CEA Participating Insurers
Revised 2018 Maximum Earthquake-Loss-Funding-Assessment Levels
(Based on CEA Written-Premium Market Share as of December 31, 2017)

<u>Company Name</u>	Approved 3/14/2018 CEA <u>Market Share</u>	Revised CEA <u>Market Share</u>
State Farm Group	32.6396110%	32.6377358%
USAA ²	14.5579642%	14.5070098%
Farmers	13.1095327%	13.1385622%
Allstate	9.6502643%	9.6712789%
Inter-Ins. Exchange	7.3355781%	7.2948151%
Safeco	5.9229458%	5.9534872%
CSAA ¹	5.0210622%	5.0020408%
Mercury	4.1208380%	4.1283605%
Nationwide	2.9051110%	2.9226664%
Liberty Mutual	2.4908949%	2.4891885%
Foremost	0.6612879%	0.6623591%
FAIR Plan	0.5746297%	0.5830186%
Encompass	0.5429195%	0.5432341%
Homesite	0.3123022%	0.3119540%
Armed Forces	0.0716069%	0.0716454%
ASI	0.0515380%	0.0505933%
MAPFRE	0.0238090%	0.0241980%
Golden Eagle	0.0078885%	0.0076828%
Hyundai	0.0002161%	0.0001696%
TOTAL	<u>100.00000%</u>	<u>100.00000%</u>

* Based on California Department of Insurance 2016 California Market-Share Report. The Department's 2017 California Market-Share Report will not be publicly available until May 2018.

¹ ACA was combined with CSAA

² Garrison was combined with USAA

**CEA Participating Insurers
2018 Maximum Earthquake-Loss-Funding-Assessment Levels
(Based on CEA Written-Premium Market Share as of December 31, 2017)**

<u>Company Name</u>	<u>CEA Market Share</u>	<u>CA Residential Market Share*</u>	<u>Max Assessment 2nd Layer</u>	<u>Max Assessment New Layer</u>	<u>Total Max Assessments</u>	<u>Written Premium</u>
1 State Farm Group	32.6377358%	17.181702%	\$ 540,345,783	\$ -	\$ 540,345,783	\$ 230,602,026
4 USAA ²	14.5070098%	4.323273%	\$ 240,176,024	\$ -	\$ 240,176,024	\$ 102,499,324
5 Farmers	13.1385622%	13.853212%	\$ 217,520,196	\$ -	\$ 217,520,196	\$ 92,830,553
2 Allstate	9.6712789%	5.084173%	\$ 160,116,340	\$ -	\$ 160,116,340	\$ 68,332,452
6 Inter-Ins. Exchange	7.2948151%	5.696912%	\$ 120,771,937	\$ -	\$ 120,771,937	\$ 51,541,539
7 Safeco	5.9534872%	2.028999%	\$ 98,565,101	\$ -	\$ 98,565,101	\$ 42,064,383
8 CSAA ¹	5.0020408%	6.424441%	\$ 82,813,087	\$ -	\$ 82,813,087	\$ 35,341,935
9 Mercury	4.1283605%	4.155604%	\$ 68,348,558	\$ -	\$ 68,348,558	\$ 29,168,944
11 Nationwide	2.9226664%	5.482587%	\$ 48,387,256	\$ -	\$ 48,387,256	\$ 20,650,109
10 Liberty Mutual	2.4891885%	4.261608%	\$ 41,210,656	\$ -	\$ 41,210,656	\$ 17,587,369
13 Foremost	0.6623591%	1.509077%	\$ 10,965,924	\$ -	\$ 10,965,924	\$ 4,679,900
12 FAIR Plan	0.5830186%	0.829477%	\$ 9,652,375	\$ -	\$ 9,652,375	\$ 4,119,320
3 Encompass	0.5432341%	0.435214%	\$ 8,993,707	\$ -	\$ 8,993,707	\$ 3,838,222
14 Homesite	0.3119540%	0.963140%	\$ 5,164,667	\$ -	\$ 5,164,667	\$ 2,204,112
15 Armed Forces	0.0716454%	0.049324%	\$ 1,186,152	\$ -	\$ 1,186,152	\$ 506,211
19 ASI	0.0505933%	0.000000%	\$ 837,615	\$ -	\$ 837,615	\$ 357,467
17 MAPFRE	0.0241980%	0.125047%	\$ 400,619	\$ -	\$ 400,619	\$ 170,971
16 Golden Eagle	0.0076828%	0.000257%	\$ 127,196	\$ -	\$ 127,196	\$ 54,283
18 Hyundai	0.0001696%	0.001746%	\$ 2,807	\$ -	\$ 2,807	\$ 1,198
TOTAL	100.00000%	72.40579%	\$ 1,655,586,000	\$ 0	\$ 1,655,586,000	\$ 706,550,318

* Based on California Department of Insurance 2016 California Market-Share Report. The Department's 2017 California Market-Share Report will not be publicly available until May 2018.

¹ ACA was combined with CSAA

² Garrison was combined with USAA

Governing Board Memorandum

July 19, 2018

Agenda Item 8: Report of Audit on CEA Annual Financial Statements (2017)

Recommended Action: No action required – information only

Background:

Plante & Moran, PLLC, California Earthquake Authority's independent auditor, has performed audit of CEA's financial statements for the year ended December 31, 2017.

- The independent auditor conducted an audit of CEA's financial statements prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America.

Report of Audit for GAAP financial statements are found in *Attachment A* and consist of:

- Independent Auditor's Report
- Management's Discussion and Analysis (MD&A)
- Audited Financial Statements and accompanying notes
- Supplementary Information

Analysis:

According to the Independent Auditor's Reports, CEA's 2017 audited GAAP financial statements present fairly, in all material respects, the financial position of CEA, in conformity with accounting principles generally accepted in the United States of America.

Recommended Action: No action required – information only.

Governing Board Memorandum

July 19, 2018

Agenda Item 9: Request for Annual Set-Aside for the CEA Loss Mitigation Fund

Recommended Action: Approve the Annual Set-Aside for the CEA Loss Mitigation Fund

Background:

California Insurance Code section 10089.37 states, in pertinent part:

The board shall set aside in each calendar year an amount equal to 5 percent of investment income accruing on the authority's invested funds, or five million dollars (\$5,000,000), whichever is less, if deemed actuarially sound by a consulting actuary employed or hired by the authority, to be maintained as a subaccount in the California Earthquake Authority Fund. The authority shall use those funds to fund the establishment and operation of an earthquake Loss Mitigation Fund.

The Governing Board last approved set-aside funding for the CEA Loss Mitigation Fund in June 2017. The Board authorized a set-aside amount of \$5,000,000.

Analysis:

The CEA Loss Mitigation Fund is established by law to hold the money to be used for the CEA mitigation activities' operational and program expenses. The Board, however, must approve the mitigation programs before CEA Loss mitigation Fund money can be expended on program activities.

The Insurance Code also requires that the set-aside of monies for the CEA Loss Mitigation Fund be reviewed "by a consulting actuary employed or hired by the authority" to determine if it will impair the CEA's actuarial soundness—the CEA's Chief Actuary has reviewed the staff proposal to transfer funds and has determined that the requested transfer will not impair the CEA's actuarial soundness, as stated in *Attachment A*.

Staff requests Board authorization and approval to set aside \$4,088,500 for the CEA Loss Mitigation Fund, as calculated and shown on *Attachment B*.

Recommendation:

Staff recommends the Board authorize a set-aside of \$4,088,500 for the CEA Loss Mitigation Fund.

MEMORANDUM

DATE: June 21, 2018
TO: Tim Richison, Chief Financial Officer
FROM: Shawna Ackerman, Chief Actuary
RE: 2017 Earthquake Loss Mitigation Fund

Pursuant to California Insurance Code §10089.37, the California Earthquake Authority (CEA) shall set aside in each calendar year an amount equal to the lesser of 5% of its annual investment income or \$5,000,000 for the Earthquake Loss Mitigation Fund, if deemed actuarially sound. The amount under review for calendar year 2017 is \$4,088,500.

The term “actuarially sound” is often applied to rates. When used in this context “actuarially sound” means that the rate covers the expected future costs for the transfer of risk. In this context, the current rate structure considers and provides for a sufficient provision for the mitigation fund.

In the context of the statute for the mitigation fund, the term may also apply to the CEA’s solvency. I have reviewed the financial data provided to me including the provision for the mitigation fund. As of December 31, 2017, CEA available capital is \$5.385 billion and total claims paying capacity is \$15.090 billion. The mitigation funds available to set aside are approximately 0.08% of the CEA’s available capital and 0.03% of the CEA’s total claims paying capacity. Because the mitigation fund represents a small percentage of the CEA’s total claims paying capacity, the absence of the funds for claims paying will not impair the CEA’s solvency. Additionally, the mitigation funds can increase the CEA’s ability to pay 100% of claims liabilities to the extent that the funds are used to support activities that reduce the CEA’s losses in the event of a damaging earthquake. Therefore, I conclude that the mitigation fund amount as proposed is actuarially sound as contemplated in the statute.

**California Earthquake Authority
Calculation of Available Set-Aside Amount for Loss Mitigation Fund
For the Years Ended December 31**

Year	Investment Income	5% of Investment Income	A	B	C	(A + B + C)
			Beginning-of-Year Remaining Funds Available for Set Aside	Lesser of 5% of Investment Income or \$5 million **	Funds Set Aside by the Governing Board	End-of-Year Remaining Funds Available for Set Aside
Balance as of December 31, 2000						\$ -
2001	\$ 44,184,990.04	\$ 2,209,249.50	\$ -	\$ 2,209,249.50	\$ (309,275.55)	\$ 1,899,973.95
2002	\$ 24,782,830.64	\$ 1,239,141.53	\$ 1,899,973.95	\$ 1,239,141.53	\$ (2,509,232.25)	\$ 629,883.23
2003	\$ 25,562,896.69	\$ 1,278,144.83	\$ 629,883.23	\$ 1,278,144.83	\$ -	\$ 1,908,028.07
2004	\$ 35,851,094.85	\$ 1,792,554.74	\$ 1,908,028.07	\$ 1,792,554.74	\$ -	\$ 3,700,582.81
2005	\$ 64,786,415.96	\$ 3,239,320.80	\$ 3,700,582.81	\$ 3,239,320.80	\$ (3,700,582.81)	\$ 3,239,320.80
2006	\$ 118,647,844.32	\$ 5,932,392.22	\$ 3,239,320.80	\$ 5,000,000.00	\$ (3,239,320.80)	\$ 5,000,000.00
2007	\$ 125,616,215.18	\$ 6,280,810.76	\$ 5,000,000.00	\$ 5,000,000.00	\$ (5,000,000.00)	\$ 5,000,000.00
2008	\$ 84,700,308.00	\$ 4,235,015.40	\$ 5,000,000.00	\$ 4,235,015.40	\$ (5,000,000.00)	\$ 4,235,015.40
2009	\$ 55,449,955.00	\$ 2,772,497.75	\$ 4,235,015.40	\$ 2,772,497.75	\$ (4,235,015.40)	\$ 2,772,497.75
2010	\$ 40,385,063.00	\$ 2,019,253.15	\$ 2,772,497.75	\$ 2,019,253.15	\$ (2,772,497.75)	\$ 2,019,253.15
2011	\$ 31,693,442.00	\$ 1,584,672.10	\$ 2,019,253.15	\$ 1,584,672.10	\$ (2,019,253.15)	\$ 1,584,672.10
2012	\$ 24,766,000.00	\$ 1,238,300.00	\$ 1,584,672.10	\$ 1,238,300.00	\$ (1,584,672.10)	\$ 1,238,300.00
2013	\$ 21,291,499.16	\$ 1,064,574.96	\$ 1,238,300.00	\$ 1,064,574.96	\$ (1,238,300.00)	\$ 1,064,574.96
2014	\$ 25,375,330.26	\$ 1,268,766.51	\$ 1,064,574.96	\$ 1,268,766.51	\$ (1,064,574.96)	\$ 1,268,766.51
2015	\$ 42,808,825.00	\$ 2,140,441.25	\$ 1,268,766.51	\$ 2,140,441.25	\$ -	\$ 3,409,207.76 *
2016	\$ 110,719,225.00	\$ 5,535,961.25	\$ 3,409,207.76	\$ 5,000,000.00	\$ (3,409,207.76)	\$ 5,000,000.00
2017	\$ 81,770,000.00	\$ 4,088,500.00	\$ 5,000,000.00	\$ 4,088,500.00	\$ (5,000,000.00)	\$ 4,088,500.00
Balance as of December 31, 2017						\$ 4,088,500.00

***Note: The 2014 set-aside amount \$1,268,766.51 was transferred March 2016.**

**By law, "(t)he board shall set aside in each calendar year an amount equal to 5 percent of investment income accruing on the authority's invested funds, or five million dollars (\$5,000,000), whichever is less..." Insurance Code section 10089.37.

Governing Board Memorandum

July 19, 2018

Agenda Item 10: Recommended transfer of additional funds from the CEA Earthquake Loss Mitigation Fund to the California Residential Mitigation Program to fund additional retrofit grants

Recommended Action: Approve recommended transfer of money

Background:

The California Residential Mitigation Program (CRMP) is a joint powers authority, organized under California law, whose members are the California Governor's Office of Emergency Services and the CEA. CRMP operates the highly successful Earthquake Brace + Bolt program (EBB), which provides grants of up to \$3,000 to California homeowners whose houses are in areas of higher seismic risk to assist in paying for a code-based seismic retrofit.

CEA staff periodically asks that funds be transferred from the CEA Earthquake Loss Mitigation Fund to the CRMP—those funds constitute a primary means of funding and operating CRMP mitigation programs.

To date, the following transfers have been made by the CEA to the CRMP, all to support, and fund grants awarded by, the EBB program:

- December 2010 \$500,000 (initial funding)
- May 2013 \$1,000,000 (to complete EBB pilot program and begin expansion)
- December 2014 \$3,000,000 (to expand EBB in 2015)
- June 2016 \$1,000,000 (to expand EBB in 2016)
- March 2017 \$5,400,000 (to expand EBB in 2017)
- March 2018 \$5,600,000 (to expand EBB in 2018)

Attachment A is the proposed, updated budget for which approval by the CRMP governing board will have been sought at its July 16, 2018 meeting.

Analysis:

CRMP staff will attend this Board meeting to provide an update on EBB accomplishments.

At the March CEA Governing Board meeting, CRMP-related funding was requested, to complete 400 retrofits that had been started but remained incomplete as of December 31, 2017, and to support 1,600 additional retrofits in 2018.

Interest in the EBB program has grown over the years, with a record 7,500 applicants registering in 2018. To ensure as many Californians as possible complete retrofits before the next damaging earthquake, CRMP is requesting all Wait-listed applicants be accepted into the program.

- As of July 5, CRMP anticipates that approximately 2,600 retrofits will be completed in 2018 (approximately 371 from the 2017 program and 2,200 from 2018 program).
 - More applicants are completing retrofits than in previous program years and are completing them sooner:
 - In early-November 2016 and mid-September 2017, 1,000 retrofits had been completed and paid by the program.
 - CRMP anticipates 1,000 retrofits will be completed and paid by mid-July 2018—four months and two months sooner than in 2016 and 2017, respectively.
- The 2016 and 2017 programs had completion rates of 36% and 38%, respectively. CRMP anticipates a completion rate between 40-44% for the 2018 program.
- In 2016 and 2017, all applicants on the wait list were brought into the program.
- For the 2018 program, approximately 2,500 applicants remain on the wait list. CRMP needs additional funding to accept all remaining householders on the wait list into the program.

CRMP anticipates 500 wait-listed applicants would complete retrofits by December 31, 2018. In addition, approximately 600 more applicants than anticipated will complete retrofits in 2018.

In order that CRMP fund the additional retrofit grants and to allow the wait-listed applicants to participate in the program, CRMP will require additional funding from the CEA Earthquake Loss Mitigation Fund in the amount of \$3.3 million.

By continuing agreement with Cal OES, the CEA remains, as between those two entities, the sole funder of CRMP.

Recommendation:

Staff recommends the Governing Board approve a transfer to CRMP of funds from the CEA Earthquake Loss Mitigation Fund in the amount of \$3.3 million, to fund additional retrofit grants and expand the CRMP EBB program in 2018, as fully described in this memorandum.

California Residential Mitigation Program
Proposed Augmentation - August CRMP Board Meeting
2018 Budget Year

	Approved 2018 Budget 1/1/2018	Adjustments	Augmentations	2018 Budget after Augmentations and Adjustments
Revenue				
Contribution from Members	\$ -	\$ -	\$ -	\$ -
Total Revenue	-	-	-	-
 CRMP Administration Expenses				
Travel	32,000			32,000
Professional Dues and Memberships	800			800
Board Services	2,300			2,300
Administration & Office	79,050			79,050
Insurance	38,000			38,000
Financial Audit	50,000			50,000
Legal Services	100,000			100,000
Total Administration Expenses	302,150	-	-	302,150
 EBB Program Expenses				
Software/Information Technology	25,250			25,250
Call Center	120,000			120,000
Home Inspection Services	95,000			95,000
EBB Marketing	325,000			325,000
EBB Program Education	75,000			75,000
Grants to Homeowners (2,000 payments at \$3,000)	6,000,000		3,300,000	9,300,000
Total EBB Program Expenses	6,640,250	-	3,300,000	9,940,250
 Total Administrative and Program Expenses	 \$ 6,942,400	 \$ -	 \$ 3,300,000	 \$ 10,242,400

Governing Board Memorandum

July 19, 2018

Agenda Item 11: Extend software-license agreement with CoreLogic (EQECAT) by three years, to permit the CEA to continue essential in-house earthquake-loss modeling

Recommended Action: Approve CEA’s extending EQECAT software license by three years, to July 2021

Background:

There are three widely recognized commercial earthquake models/modelers: AIR Worldwide Corporation (AIR), EQECAT, and Risk Management Solutions (RMS). Although the CEA has contracted for portfolio-modeling services from each of these modelers since 2004, since its inception in 1996 the CEA has worked consistently with EQECAT to secure detailed rate-development and product-development analyses.

In July 2012, the CEA entered into a three-year licensing agreement with EQECAT following the unanimous approval of the Governing Board at its April 2012 meeting. The licensing agreement was extended for a three-year period following the unanimous approval of the Governing Board at its May 28, 2015, meeting.

CEA staff uses EQECAT earthquake-loss-modeling software (Risk Quantification and Engineering or “RQE”) for regular portfolio analyses and to support new-product development. In fact, CEA staff has used the RQE software extensively to develop the CEA’s current approved rates and the expanded product/deductible options that were effective January 1, 2016. CEA staff relied on the RQE software to develop the rate currently under review by the California Department of Insurance and which the CEA proposes to begin offering January 1, 2019.

A three-year license-agreement extension with EQECAT has been negotiated and reduced to contract terms, and the resulting agreement is now presented to the Board for approval.

Analysis:

In keeping with the CEA’s mission and the Board’s express wishes, the CEA has become active in developing innovative products and rating structures that are attractive to consumers. As a case in point, and because the CEA had licensed EQECAT earthquake-loss-modeling software for in-house use, staff was able to create the many product, limit, and deductible options that the CEA began to offer in January 2016 and which contributed to the increased policy sales the CEA has seen since.

As important, with EQECAT modeling available in-house, the CEA is better situated to design and develop an optimal financial structure: Using the RQE model in-house gives CEA a deeper understanding of how modeled-loss events affect claim-paying capacity, enhancing CEA's ability to monitor exposure growth and assess portfolio changes. This grows in importance as the CEA continues to expand product offerings and build greater marketing abilities.

Staff has negotiated a three-year contract renewal, extending the contract term to July 2021. The cost of the proposed license-extension is included in the CEA budget presented to the Board.

License fees after agreement renewal:

- Annual license fees of \$340,000, \$350,200, and 360,706 for years one, two, and three, respectively.
 - All proposed annual fees are lower than the current annual license fee of \$370,000.
 - Fees for model support, installation, and training are unchanged in the renewal.

Recommendation:

CEA staff recommends that the Governing Board approve CEA's renewing the EQECAT "RQE" licensing agreement, as proposed, and authorize CEO Glenn Pomeroy to execute the renewal on the CEA's behalf.

Governing Board Memorandum

July 19, 2018

Agenda Item 12: CEA Enterprise Risk Management Program update

Recommended Action: No action required—information only

The CEA Enterprise & Strategic Risk Advisor and members of the CEA Enterprise Risk Management (ERM) Committee are continuing to develop the CEA’s enterprise-wide risk-management framework and program.

Since the March 2018 CEA Governing Board meeting, the Committee has focused on developing the policies, protocols, and tools for risk monitoring, risk escalation for priority risks, and quarterly reporting:

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

The Committee, with support from the CEA Executive Team, has determined that a major, damaging earthquake occurring in California would constitute an overarching risk consideration, intensifying substantially all risks in each risk category. So, rather than treating a major earthquake as a separate risk, each priority risk is assessed from a “steady-state” perspective and a post-earthquake perspective. The monitoring and reporting working group, composed of priority-risk owners, has met regularly to refine risk-control checkpoints, limits, and responses for each priority risk.

The following scorecard indicates the completion status of the major elements of all priority risks. Risk drivers, risk controls and mitigation actions, risk measures and assessments, and risk checkpoints and limits are now well defined, although further refinement of priority-risk monitoring, reporting, and responses is expected.

Risk Driver Defined	Controls/ Mitigation	Measurement / Assessment	Checkpoints / Limits	Monitoring / Reporting	Response	Risk Name
●	●	●	●	●	●	Risk Transfer
●	●	●	▲	●	●	Financial Mgmt (Investments, Accounting)
●	●	●	●	●	●	Policy Sales and Servicing
●	●	▲	▲	▲	▲	Business Continuity
●	▲	▲	▲	▲	▲	Cyber / Data Breach
●	●	●	▲	▲	●	Legislative/Regulatory
▲	●	●	●	▲	▲	Claim Handling
●	●	●	●	▲	▲	Legal - Compliance and Litigation
●	●	▲	●	▲	▲	Reputation
●	●	●	●	●	●	Earthquake Science and Modeling
▲	●	●	▲	●	●	Workforce
●	▲	▲	▲	▲	▲	Information Systems
▲	▲	●	▲	▲	▲	Residential Mitigation Programs

Legend	
●	Complete
▲	Progressing
◆	Initiated

The CEA ERM Committee has just launched its risk-monitoring and reporting process. The policies, protocols, and tools have been implemented, so that when a risk checkpoint or limit is approached or reached, the risk owner notifies the Committee (and other appropriate staff) of the risk responses undertaken, as described in ERM risk-control summaries. The ERM Committee reviews any risk-escalation reports and advises, as needed.

The following scorecard represents CEA ERM risk-reporting for 2nd quarter 2018 and includes all activity since the last CEA Governing Board meeting. The column named “Q2 2018” indicates risk status and whether a risk escalation occurred during the past three months. The column named Outlook indicates the potential future direction of the risk status—as positive, negative, or stable—until the CEA Board next meets. The final column is a brief summary of actions taken and risk-escalation status.

ERM Quarterly Report	Status		June 28 2018
Priority Risk	Q2 2018	Outlook	Activity Last Quarter/ Comments
Risk Transfer		Stable	
Financial Mgmt (Investments, Accounting)		Positive	An ERM-based accounting checkpoint was reached. The matter was corrected without loss, and new controls were designed and implemented.
Policy Sales and Servicing		Stable	
Business Continuity		Stable	
Cyber / Data Breach		Positive	A required contracting matter is in progress, but it was not completed within the intended time frame.
Legislative/Regulatory		Positive	CEA is actively engaged in the legislative process, seeking to enhance its claim-paying capacity and ensure the availability of future additional capacity to meet growth needs and accomplish other program goals. That process, because it could affect key CEA features, has triggered ERM-related monitoring, outreach, and documentation controls.
Claim Handling		Stable	
Legal - Compliance and Litigation		Stable	
Reputation		Stable	
Earthquake Science and Modeling		Stable	
Workforce		Positive	A CEA human resources matter triggered an ERM risk-limit control response. Risk responses and controls are being reviewed.
IT Systems		Stable	
Residential Mitigation Programs		Positive	A retrofit-contractor matter triggered a risk-checkpoint response. ERM-based controls were applied, and program staff continues to monitor.

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

The Enterprise & Strategic Risk Advisor and support staff are continuing their work with the ERM Committee to place all developed data, policies, and protocols into an enterprise-wide risk-management framework, in accordance with principles of the Own Risk and Solvency Assessment (“ORSA”) guidance of the National Association of Insurance Commissioners. CEA’s ERM framework observes these ORSA principles:

- Risk Culture and Governance
- Risk Identification and Prioritization
- Risk Appetite, Tolerances, and Limits
- Risk Management and Controls
- Risk Reporting and Communication.

The ERM Committee expects to complete its work on the ERM program plan this year. As the CEA’s ERM Framework is built out, additions will include creating dashboard analytics, initiating risk-capital and solvency assessments, and addressing post-earthquake response-planning priorities revealed through the ERM efforts.

Recommendations: None—information only.

Governing Board Memorandum

July 19, 2018

- Agenda Item 13: CEA Mitigation Program projects, including:
- California Residential Mitigation Program incentive program (CRMP Earthquake Brace + Bolt)
 - Ongoing mitigation-related research projects

Recommended Actions: No action required—information only

1. CRMP Earthquake Brace + Bolt Programs:

Background:

Homeowners in *Earthquake Brace + Bolt* (EBB) program ZIP Codes are eligible for an incentive payment of up to \$3,000 to help pay costs associated with seismically retrofitting their houses. EBB is operated by the California Residential Mitigation Program, a joint powers authority whose members are the CEA and California Governor’s Office of Emergency Services (Cal OES).

On June 7, 2018, CRMP reached a significant milestone, with the completion of 5,000 retrofits.

Earthquake Brace + Bolt Programs (as of 6/21/18): CRMP and CEA

Program	Completed	In Progress	Status
2013-14 EBB Pilot	9	N/A	Closed
2015 EBB	528	N/A	Closed
2016 EBB	1,555	N/A	Closed
2017 EBB	2,175	26	Closes July 2018
2018 EBB	750	1,683	7,546 registered
Napa EBB	84	0	Closed
CEA BB	89	14	Open
Total	5,190	1,723	n/a

2016 Napa Earthquake Brace + Bolt (CRMP):

The Napa Earthquake Brace + Bolt program (Napa EBB) was launched in February 2017 and is funded by funds sub-granted to CEA from FEMA’s Hazard Mitigation Grant Program (HMGP) and by a partial EBB-funding match provided with CEA funding support. Program

funding was capped, to provide retrofit grants for up to 100 houses, and the program closed on May 31, 2018, with 84 retrofits completed. CEA is finalizing the close-out reports and will send them to FEMA shortly.

2017 CRMP EBB program:

For the 2017 CRMP EBB program, funding came from: CEA's Loss Mitigation Fund, FEMA, and a state-budget appropriation to the California Department of Insurance, with legislative direction to the Department to grant the appropriated funds to CEA for contribution to CRMP EBB. The 2017 CRMP EBB program will close in July, and with 2,190 retrofits completed, it will well exceed its goal of 2,000 retrofits.

2018 CRMP EBB program—:

The 2018 EBB program is off to a speedy start, with homeowners completing retrofits at a more rapid rate than in previous years. In 2016 and 2017, 1,000 retrofits were completed by November 3rd and September 19th, respectively, and for the 2018 program CRMP EBB expects 1,000 retrofits to be completed by early or mid-July. The record number of California homeowners applying for the 2018 program and who are on track to complete their retrofits shows growing awareness for these retrofits. Additional retrofit-grant funding is requested in meeting Agenda Item 10, to allow the wait-listed applicants to participate in the EBB program.

Future Funding Opportunities:

More than 1.2 million houses in California's high-seismic-hazard areas would qualify for an EBB retrofit, so the need far exceeds present funding. But because more funding means more incentive payments for more homeowners, CRMP continues to look beyond present funding sources—the primary source has been the CEA Earthquake Loss Mitigation Fund—to find additional EBB funding, including available FEMA HMGP grants.

CEA has submitted 13 “Notices of Interest” (NOI) to Cal OES for funding through the Hazard Mitigation Grant Program (HMGP). Eight NOIs have been approved, and five additional NOIs have been submitted. Staff is finalizing the four applications due on July 2. The remaining applications will be submitted in early September.

CEA expects to receive a decision on one submitted application shortly.

2. CEA Brace + Bolt Program:

Background:

CEA's pilot program, CEA Brace + Bolt (“CEA BB”), grants each selected CEA policyholder up to \$3,000 toward a retrofit, to encourage them to strengthen their older houses in CEA-identified high-seismic-activity areas. Once the brace-and-bolt retrofit is complete and verified, each participating policyholder would qualify for CEA's 20 percent Hazard Reduction Discount on their CEA-insurance premium.

This initiative has a sound financial basis: Retrofitting sufficient numbers of older houses in California's higher-seismic-risk areas can reduce the CEA's long-term need for, and therefore its expense for, risk-transfer.

The program has been offered in 10 ZIP Codes. As of June 21, 2018, in progress or completed were:

- Retrofits completed 89
- Permits received 14
- Extensions granted 6

Additional information and analysis:

To increase the number of retrofits completed, staff is exploring other strategies:

- CEA is requesting approval (see Agenda Item 13) to change program rules to encourage retrofit-program participation by the more than 10,000 CEA policyholders who may experience upward rate impacts of 15 percent or more from the CEA's recent Rate and Form Filing (RFF). Basic program eligibility criteria would continue and the program would be available to CEA policyholders who (1) have insured their house with CEA for at least three years, (2) own a pre-1940 house in selected ZIP Codes, (3) have an RFF-caused rate increase greater than of 15 percent or greater, and (4) whose houses are within established criteria for a code-compliant EBB retrofit.

3. Guidelines Development:

The ATC 110 earthquake-guidelines-development project, first phase, completed on June 20, 2018. Now called FEMA P-1100, *Vulnerability-Based Seismic Assessment and Retrofit of One- and Two-Family Dwellings*, the document is currently under review by FEMA. The bulk publication consists of three volumes:

- Volume 1, Prestandard publication (available online estimated September 2018 and softcover estimated December 2018)
- Volume 2, FEMA plan set
- Volume 3, background documents

ATC managed the project budget so as to permit a contract extension for 12 months at no additional cost. The additional work and remaining funds will be used to develop training materials for the guidelines and to archive the data used in developing the guidelines.

With FEMA P-1100, CEA can work with FEMA and the International Code Council (ICC) to adopt the guidelines as industry standards, which paves the way for adoption into California's building code. Additionally, by creating a uniform seismic-retrofit-design method for homeowners, contractors, and engineers, the new guidelines will help the CEA and others (1) establish and expand incentive programs to encourage seismic retrofits, such as that of the California Residential Mitigation Program, and (2) enhance the CEA's ability to develop and provide suitable mitigation discounts for CEA-insured homeowners.

CEA provided the funding for this project, and CEA's Chief Mitigation Officer Janiele Maffei and FEMA's Mike Mahoney jointly manage the project.

4. FEMA P-50/P-50-1 Training, Simplified Seismic Assessment Certification, and QuakeGrade™

CEA contributed funds to develop FEMA P-50 and FEMA P-50-1 tools. While the tools have been available for use by home inspectors, it was not widely distributed or used.

CEA took the initiative and brought the FEMA P-50 evaluation tool—and related training—to California home inspectors in 2015:

- To help homeowners interested in retrofits learn associated risks and vulnerabilities.
- To provide home buyers information at time of sale regarding potential seismic risks, in light of structure vulnerabilities.
- To provide additional inspection resources in support of CEA's Hazard Reduction Discount program.

In the past three years, CEA has collaborated with the California Real Estate Inspection Association (CREIA) and the American Society of Home Inspectors (ASHI) to bring the training to home inspectors. CEA's goal was to train the intended audience but also to encourage those trade organizations to work with ATC, the designated provider for FEMA P-50 training.

The baton was passed in late spring 2018, and CREIA and ASHI are now working with ATC to continue to bring the training to their members.

Simplified Seismic Assessment Certification:

With CEA's assistance, CREIA worked with ATC to develop a training curriculum to support CREIA's implementation of a Simplified Seismic Assessor (SSA) certification. The training program was launched at CREIA's annual conference in April 2018. CREIA is promoting the SSA and the related training and will be the lead in coordinating the training.

Mobile Application – QuakeGrade™:

In 2017, CEA launched a web-based application based on FEMA P50 for use by home inspectors. QuakeGrade™ may be used on Macs or PCs running Safari, Chrome, or Internet Explorer browsers and on mobile devices running iOS or Android operating systems.

QuakeGrade™ uses data the inspector inputs as they note certain structural and geological conditions of the house. From these data points, the application calculates a seismic-vulnerability score, which supports a report that describes the inspected house's seismic vulnerabilities and identifies potential retrofit options—implementing the retrofit options can mitigate the vulnerabilities and improve the vulnerability score.

Earlier this year CEA was told that one data source used in calculating hazard would no longer be accessible (as programmed) because of budget cuts at USGS. But the data

remain available, and CEA was able to work with USGS to identify an alternative method to access the data.

But QuakeGrade™ is on hiatus while this and other upgrades are developed, with an estimated date for full operational status of August 2018.

Governing Board Memorandum

July 19, 2018

Agenda Item 14: Changes to pilot risk-reduction program and proposed [new] program to provide retrofit incentives to selected CEA policyholders

Recommended Action: Approve phase-out of pilot risk-reduction program and approve budget allocation of \$11.5 for new CEA risk-reduction program

Background:

On January 1, 2016, the CEA began offering a 20% hazard-reduction premium discount to qualifying policyholders who live in pre-1940 wood-frame houses built on raised foundations (called in this memo, “target houses”).

The 20% discount—four times larger than the minimum statutory retrofit discount of 5% the CEA had offered for many years—recognized that (1) retrofitting older houses according to the *California Existing Building Code* significantly reduces expected losses, and (2) policyholders who have retrofitted their houses should benefit from the reduced risk exposure.

On March 16, 2016, the Board approved the pilot-risk reduction program allocating \$12 million to support mitigation within its policyholder base by providing a cash incentive to seismically retrofit from the CEA, paid to tenured policyholders in 10 ZIP codes in higher-risk areas who live in target houses. The program provides up to \$3,000 for each verified seismic retrofit and was initially available to 3,200 CEA policyholders. Upon completion of a retrofit and submission of the Discount Verification Form to their participating insurer, an eligible policyholder would receive a 20% hazard-reduction premium discount.

In February 2018, CEA submitted a Rate and Form Filing (RFF) to the California Department of Insurance (CDI), regarding which CEA anticipates a response sometime later this year. The filing proposes to increase statewide average rates by 0.04%; provide an enhanced hazard-reduction discount to qualified CEA homeowners policies with a verified seismic retrofit; establish additional rating factors and additional rating territories; and publish new forms and other refinements to coverages, definitions, and policy language.

If the RFF is approved as submitted, about 20 percent of CEA’s policyholders would see a rate increase of more than 10 percent. But many of those CEA policyholders with an increase of more than 10 percent also would be eligible for the enhanced hazard-reduction discount if their houses had a verified seismic retrofit.

Analysis:

CEA staff believes that policyholders receiving a 15% or greater premium increase, who reside in a CEA-insured house with defined characteristics, should be eligible to a new CEA brace and bolt (CEA BB) program. Completing a CEA BB retrofit would afford those policyholders a significant Hazard Reduction Discount on their CEA earthquake insurance premiums.

CEA's pilot-risk reduction program now operates in 10 ZIP Codes—five in Northern California and five in Southern California. At the time of implementation there were approximately 3,200 target houses in those ZIP Codes, for which 89 verified seismic retrofits are complete; those policyholders have a CEA-policy retention rate of 92.1%, which is higher than CEA's overall book-of-business retention rate. An additional 14 policyholders have retrofits in process. While CEA staff expected more policyholders to participate in the pilot risk-reduction program, it has learned valuable lessons on engaging potential future participants, including additional outreach and individualized help through the process.

Analysis of CEA's book of business reveals that more than 10,000 policyholders would be eligible to participate in a new CEA BB program that is based on the following criteria:

- Three or more years tenure with the CEA;
- Pre-1940 wood-frame construction on a raised foundation, lacking adequate bolting or bracing (or lacking both); and
- Located in ZIP Codes where policyholders will have a 15% or greater increase in premium if the recent CEA RFF filing is approved.

Staff's initial analysis, from the August 26, 2015, Board meeting, shows that when policyholder retrofits improve the CEA's risk profile, then CEA risk-transfer capacity can be reduced. Based on the above-described experience, CEA staff now recommends that the current pilot-risk reduction program be phased-out—allowing the 14 policyholders in process to complete their retrofits—and that implementation of a new CEA BB program commence.

1. Close-out of Pilot-Risk Reduction Program

- 89 seismic retrofits have been completed at a total cost of \$426,000. Should the 14 retrofits currently in-process be completed, CEA would incur an additional estimated \$42,000 in retrofit costs. Of the \$12 million originally allocated for this program, approximately \$11,500,000 would be available for reallocation.
- The average total cost for the completed retrofits is \$9,624, with a low of \$2,999.96 (a bolt-only retrofit) and a high of \$61,411 (a fully engineered brace-and-bolt retrofit). Regardless of the costs incurred by the policyholder, CEA provides a grant of up to \$3,000 to reimburse eligible seismic-retrofit costs.
- The CRMP's other program, *Earthquake Brace + Bolt* (EBB), is available to the public, without regard to CEA-policyholder status. Only 40% of homeowners accepted for the program follow through to a completed retrofit.

It was reasonable, then, that fewer than 100% of the selected CEA policyholders would participate in the pilot risk-reduction program.

- Funding for a new CEA BB program would come from a reallocation of funds already approved and allocated to the original pilot-risk reduction program.

2. CEA Brace & Bolt (CEA BB) Program

The new CEA BB program would leverage successful CRMP EBB techniques and use a similar approach, including a gradual roll-out of the program. Appropriate communication to potentially eligible CEA policyholders and dedicated staff to guide participants through the retrofit process are key. In addition, CEA will work closely with participating insurers and their agents to engage with eligible CEA policyholders and encourage their participation.

Staff recommends providing the same incentive as the pilot-risk reduction and Earthquake Brace + Bolt programs: a \$3,000 incentive, paid upon completion of a qualifying retrofit.

The potential success of the CEA risk-reduction program must be a measured success, using program-success metrics, including:

- The number of policyholders who register for the program after receiving notice that they own a CEA-insured target house.
- The number of policyholders who secure a building permit for the retrofit work.
- Program participants' respective tenure as a CEA policyholder (this would include whether (and on what terms) the policyholder remains a CEA policyholder, post-retrofit).
- Cost per retrofit.

Recommendation:

1. Approve phase-out of the current CEA pilot-risk reduction program, in the manner described.
2. Approve, and authorize CEA staff to develop and implement, a new CEA BB program, with a goal of commencing implementation by third quarter 2018:
 - Phase-out pilot-risk reduction and re-allocate remaining funds to the new CEA BB program.
 - Support the following eligibility parameters for policyholders participating in the new CEA BB program:
 - three or more years tenure with the CEA;
 - pre-1940 wood-frame construction on a raised foundation, lacking adequate bolting or bracing (or lacking both); and

- located in ZIP Codes where policyholders will have a 15% or greater increase in premium, based on the pending CEA RFF filing.
- Direct staff to develop an implementation plan, to be reported to the Board, and program rules.

Governing Board Memorandum

July 19, 2018

Agenda Item 15: Proposal to contract with Risk Management Solutions, Inc., for Cripple Wall Research Project collaboration

Recommended Actions: Action requested: Contract approval

Background:

Since 2004, and with the Governing Board’s support and approval, CEA has contracted with the three widely recognized, commercially available catastrophe-loss models/modelers: AIR-Worldwide (“AIR”), CoreLogic (EQECAT), and Risk Management Solutions, Inc. (“RMS”).

The CEA thus has had the benefit of widely used, tested models at their highest level of development—a critical factor in supporting CEA’s sophisticated operational and financial needs, including research needs.

In August 2016 CEA competitively contracted with Pacific Earthquake Engineering Research Institute (PEER) through the University of California, Berkeley, to develop factors for use by loss modeling firms in evaluating raised-foundation houses with cripple-wall and sill-anchorage retrofits (the “PEER project”). In the simplest terms and from the CEA’s perspective, the PEER project will authoritatively establish the *value* of various retrofit methods for purposes of assigning the right earthquake-insurance rate to a retrofitted structure. That project is ongoing and proceeding satisfactorily.

Since the PEER Project began, however, CEA has engaged each of the aforementioned loss modelers in various, ongoing discussions about the project. To ensure the PEER-developed factors are usable by the loss modelers and ultimately by the CEA, and to maximize the effectiveness of project-task deliverables, the input and collaboration of loss modelers during the project is critical.

To date, of the CEA’s three modelers, RMS has submitted the only formal proposal. But CEA staff is actively working with the other two modelers (AIR and CoreLogic/EQECAT) to secure additional proposals. The goal is to secure full PEER-project participation from all three modelers, not just one.

To reduce uncertainty in the usability of PEER-developed functions, modelers would work alongside PEER to ensure the functions are fit for the desired purposes, developing vulnerability functions to quantify the risk presented by the insured structure, both before and after mitigation steps are completed.

According to the RMS proposal, the RMS-collaboration project (“RMS Project”) would be delivered in five phases, each with deliverables.

Collaboration Project Phases:

1. Development of weighting
2. Hazard validation
3. Evaluation and adjustment of PEER-developed vulnerability functions
4. Quantifying impacts of modeling assumptions (by analyzing the CEA in-force portfolio and providing key exposure and loss metrics)
5. Educating the market to promote acceptance and drive adoption

The RMS agreement would have a term of 36 months for a total RMS-proposed, three-year flat fee of \$432,000—the full RMS proposal is attached for convenient reference.

Staff finds the proposed fee reasonable for the work involved and value to be derived.

The proposed RMS collaboration (and the collaborations with the other two modelers, pending) will be opportunities for the CEA to view modeled results using updated vulnerability functions. This allows much more accurate assessments better assessing earthquake performance of a retrofitted, raised-foundation house and allowing more accurate results across all commercial models to which CEA has access. Also, because the main goal of the project is to develop fragility-function-modification factors that can be used by CEA’s loss modelers, engaging modelers at this project juncture will allow PEER to complete the project as planned, and ensure both the usefulness of the fragility-function-modification factors and CEA’s ability to use the PEER-project information and deliverables in the desired manner.

Staff expects to bring proposals and contracts from the CEA’s other two modelers (AIR, CoreLogic/EQECAT) to the Board at its September 2018 meeting.

Recommendation:

Action requested: Approve contracting with RMS in connection with the PEER project, and authorize CEO Glenn Pomeroy to execute the negotiated contracts on behalf of the CEA.

Governing Board Memorandum

July 19, 2018

Agenda Item 16: CEA Research Program: Projects

Recommended Actions: No action required—information only

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.

1. Grant Program

Grants for professional and academic development comprise two of the tiers of the grant program. 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.

Grant contracts would be made with the university, which distributes grant funds to the ultimate recipient. NOTE: Universities often add substantial overhead costs, reducing net funds to the researcher—this may have impacts on the grant awards.

CEA Research and Legal Department staff have collaborated on (draft) program policies and procedures, including best options for contracting with university faculty who may be awarded a CEA grant, and are finding the goal more complex than anticipated.

In addition to the CEA Legal Department, input from CEA Finance and Accounting will ensure funding requests and distribution meet audit requirements. As well, clear contracting criteria and a process to administer the contracts and distribute funds must be set before program launch. As a result, the grant program will not launch until late 2018 or early 2019.

2. Research Projects

Cripple-Wall-Performance Effects

The 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:

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

* Task 6 has presented an opportunity for CEA and PEER to collaborate with catastrophe loss modelers to develop fragility-function modification factors, used by loss modelers to evaluate raised-foundation houses that have a cripple-wall and sill-anchorage retrofit—this is the type of house and retrofit method studied in the PEER project. In a separate agenda item, approval to contract with CEA loss-modeler RMS for this work, which will inform CEA’s sophisticated operational and financial needs.

With this project, CEA will have refined scientific data to inform CEA rate levels and premium discounts.

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 Guidelines were last updated in 2010. As part of the 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.

Work was performed by academic institutions, commercial research laboratories, and practicing professionals under contract to CUREE, led by project manager John Osteraas, Ph.D. Technical guidance and project oversight were provided by an Advisory Group, consisting of engineering professionals in the public, private, and academic sectors, as well as building-inspection personnel, insurance-claim personnel, and the Alfred E. Alquist California Seismic Safety Commission.

The target audiences of the Guidelines are homeowners, contractors, insurance claim representatives, and other non-engineers involved in post-earthquake damage assessment of wood-frame construction. The primary object of the project was to bring sound science and engineering to the important, but infrequent, undertaking of earthquake-damage assessment and repair of typical single- and multi-family wood-frame residential buildings.

CUREE also had planned to develop guidelines targeted to the engineering community, to provide objective guidance for important post-earthquake decisions regarding assessing and repairing earthquake damage to wood-frame residential buildings. Such assessments would determine whether observed damage was earthquake-caused, and, if so, whether the damage is cosmetic or structural. Due to lack of funding, however, the engineering guidelines were not developed.

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 (renaming them to the “CEA Damage Assessment Guidelines”) and to develop companion engineering guidelines.

A project kick-off meeting was held Monday, June 18.

UCERF 3 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 the CEA's best interests to do so on a voluntary basis. Seismic research underpins many of the 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 the CEA contract with the Southern California Earthquake Center (SCEC) to manage and carry out with 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 completed SCEC contract negotiations in June, and the project is slated to begin in August 2018.

Recommendation:

No action required—information only.

Governing Board Memorandum

July 19, 2018

Agenda Item 17: Results of CEA’s new 2018 statewide advertising campaign and annual *Get Prepared, California!* Auction to benefit American Red Cross

Recommended Action: No action required—information only

CEA Communications & External Affairs fulfilled dual roles in the first half of 2018. While launching its fourth statewide advertising campaign, designed to prompt new CEA policy sales, the CEA also promoted participation in its seventh annual *Get Prepared, California!* Auction to benefit American Red Cross.

Background:

Beginning with the CEA’s “Blueprint” advertising campaign in 2012, the CEA sought to brand its name alongside the “Strength to Rebuild®.” In 2014, through its “California Rocks®” campaign, CEA worked to connect buying earthquake insurance with other responsibilities Californians must meet in their daily lives, like applying sunscreen when visiting the beach. Then in 2016, CEA rolled out its “Risk Is Real” campaign, which focused on household recovery from expensive earthquake damage.

This year, the CEA launched its fourth advertising campaign, “It could happen today,” which taps into the worries that tug at us at night while we’re trying to sleep—such as our kids’ safety, our health, and retirement. CEA’s new campaign ads show how decisions made are revealed in the light of a new day: have we provided for our family’s earthquake recovery or will we risk coming back from a damaging earthquake?

Analysis:

2018 Statewide Advertising Campaign

CEA launched its “Today” multi-media advertising campaign in early April and May, and it already has generated more than 253 million impressions. Media channels included:

- Television advertising in California’s three largest TV markets (Los Angeles, San Francisco and San Diego) generated about 64 million impressions:
 - Excludes extended engagement through brief on-camera vignettes with CEA executives, news-talent PSAs, station microsites, homepage takeovers, and related social media.
 - Extended engagement boosted TV ad value by an estimated 63 percent.

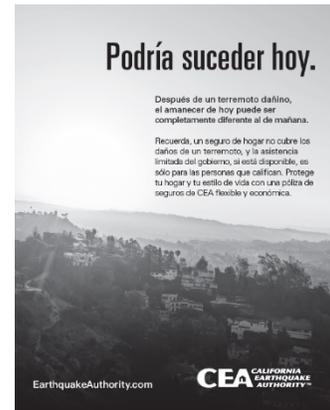


- Radio advertising airing statewide across 15 radio markets delivered 69 million impressions.
 - In March, NPR ran CEA ads in 10 markets for the first time.
- Digital ads served statewide generated 69 million impressions.



- Ethnic advertising delivered more than 7 million impressions:
 - New ethnic ads were produced in both Spanish and Chinese.
 - Spanish TV and digital delivered about 4.1 million impressions.
 - Chinese radio and digital delivered about 2.9 million impressions.

- Spanish and Chinese print delivered about 450,000 impressions through *La Opinion*, *Sing Tao Daily*, *Chinese Daily News*, *World Journal*, and *Hoy Los Angeles*.



- Email trigger advertising reached 1.4 million homeowners.
 - Follow-up direct mail was sent to 112,000 potential policyholders.
 - For every 100 emails opened, CEA sold one new policy.

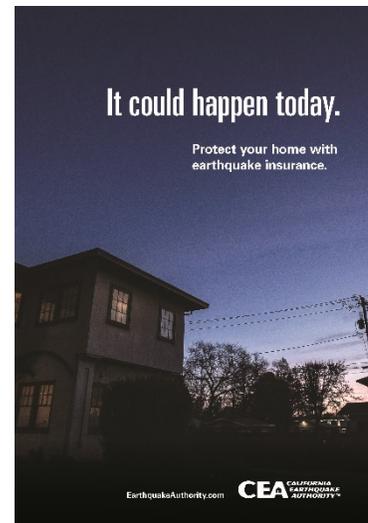
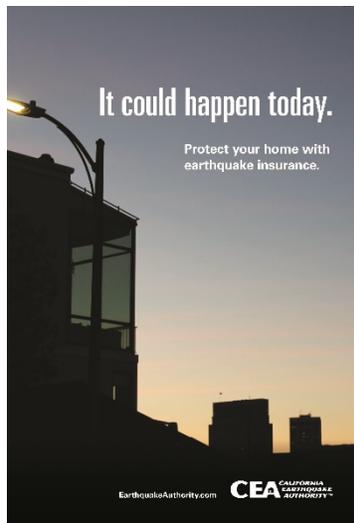


- Marketing Value Program (MVP) direct mail reached 65,100 potential policyholders.

- 166 participating insurer agents distributed MVP direct mail.



- Transit advertising, in 130 bus shelters, delivered about 44 million impressions.
 - Posters appealing to renters were displayed only in San Francisco and Oakland.



While advertising spending for May and April in 2018 was about the same as spending in April-May 2017, CEA generated about 22 million more advertising impressions during the same period in 2018. Since the new campaign launched, monthly new-policy sales increased, year over year, by 19 percent in April and 128 percent in May.

2018 Get Prepared, California! Auction:

Rollout of CEA’s fourth advertising campaign ran alongside promotion of the seventh annual *Get Prepared, California!* Auction through 58 radio stations in April, again sponsored by CEA and coordinated by iHeartMedia. Like previous years’ promotions, the 2018 Auction featured meet-and-greets with numerous celebrities and other unique experiences, like a ride in the Goodyear® Blimp.

This year’s auction generated \$175,978, which increased the seven-year total raised to \$1,236,333 for 32 American Red Cross chapters to deliver disaster-preparedness and relief efforts in California.

Total auction proceeds to-date were announced through a check presentation from CEA to the American Red Cross, on stage during iHeartMedia’s KIIS FM Wango Tango concert in Los Angeles on June 2.

Recommendation:

No action required—information only



Governing Board Memorandum

July 19, 2018

Agenda Item 18: CEA Insurance & Technology Update*

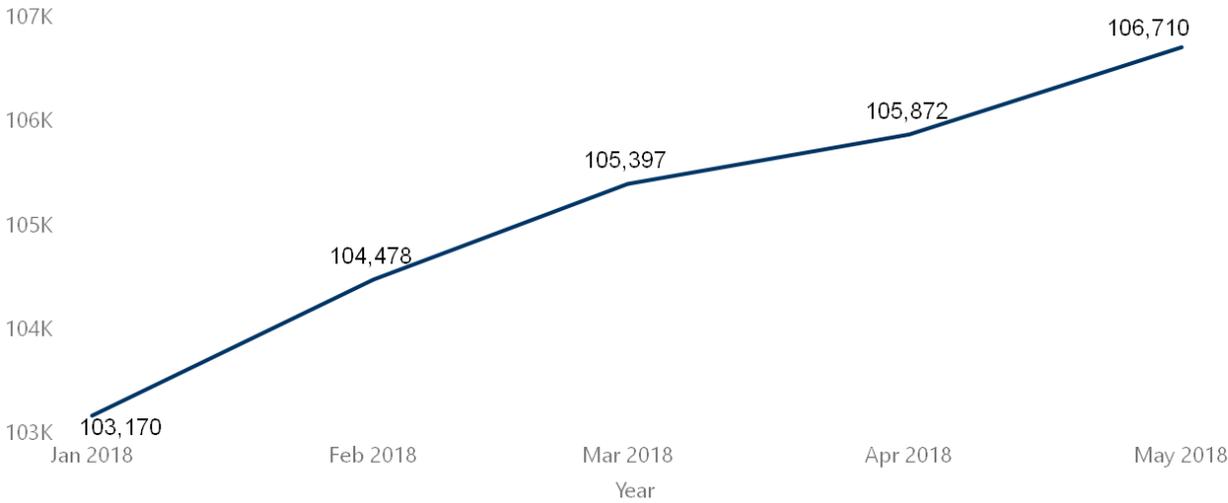
Recommended Action: No action required – information only

CEA Chief Insurance & Technology Officer Todd Coombes will provide the Governing Board an update on Insurance Education and Sales Support, Insurance Operations, and Information Technology.

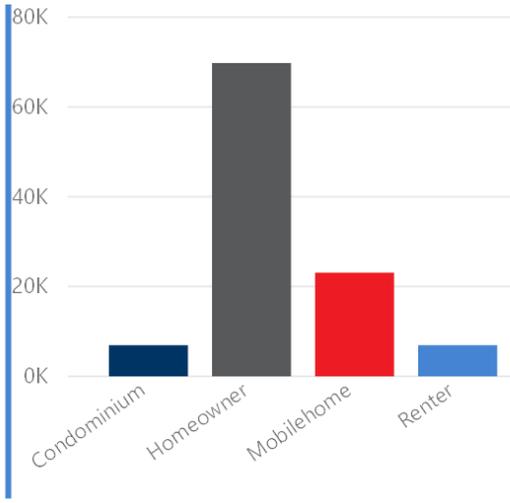
*A metrics-driven reporting format for the update is being used for the first time. Mr. Coombes would appreciate any feedback Board members might have regarding the new format and related content.

Insurance Education and Sales-Support

CPP Policy Growth



Policy Type Composition



CPP Policy Activity

6	106,710	10%
# of CPP PIs	CPP Policy Count	% of Total Book
838	5,360	
MTD Growth	Growth YTD	

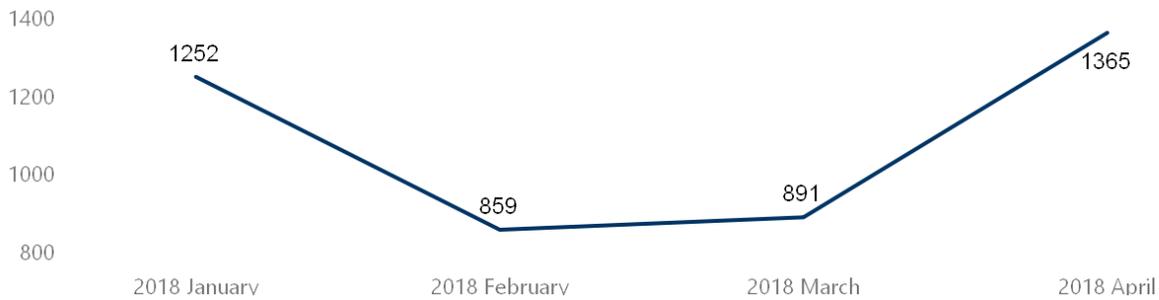
MVP Agent Snapshot

707
Trained Agents
445
MVP Trained Agents
63%
% MVP Trained Agents

Agent Training

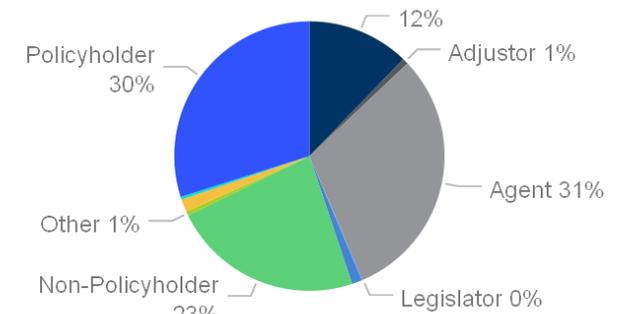
Northern California
7
Southern California
2
Webinar
10

Information Desk Case Trend



Month	% of Total Cases YTD
January	28.67%
February	19.67%
March	20.40%
April	31.26%
Total	100.00%

Who's Calling?



Progress and Planning

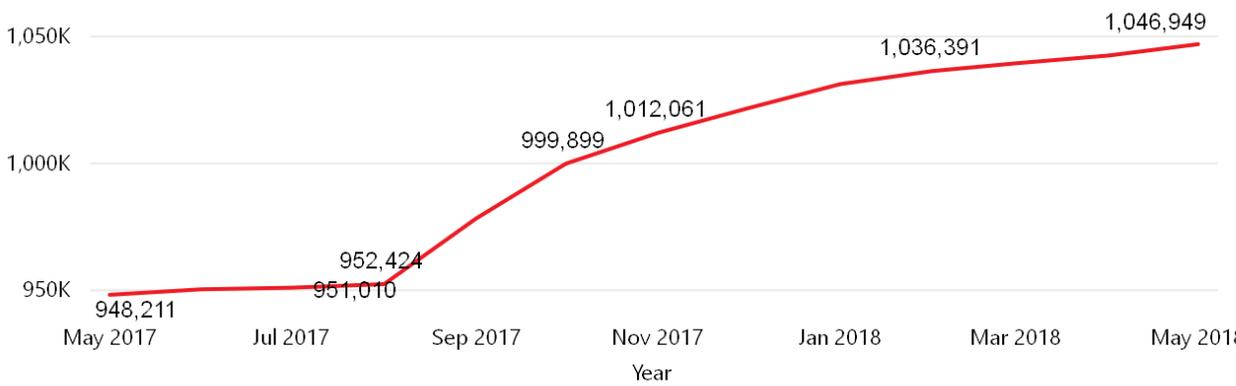
Six participating insurers (PIs) using the Centralized Policy Processing administration and claim system (CPP Diamond), with three more planned for 2018. CEA staff continues to work with the CPP Diamond vendor to ensure a smooth adoption of the 2019 CEA rate and form filing (RFF) changes as many PIs joined CPP to avoid updating their own systems when the CEA policy changes.

Updated the CEA website with a clean, modern look, and a more user-friendly navigation experience.

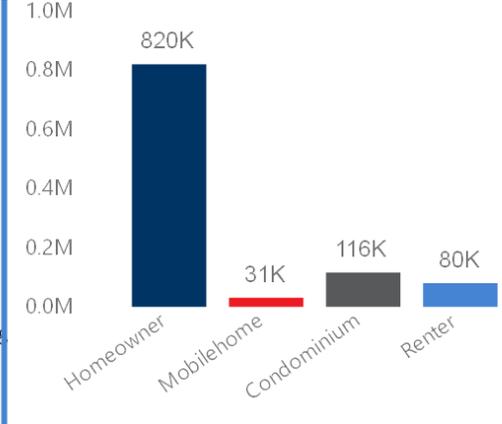
Continuing work on an online agent sales tool to assist agents beyond selling policies by providing planning, comparison, and presentation capabilities beyond the current premium calculator.

Insurance Operations

Policy Growth



Policy Type Composition



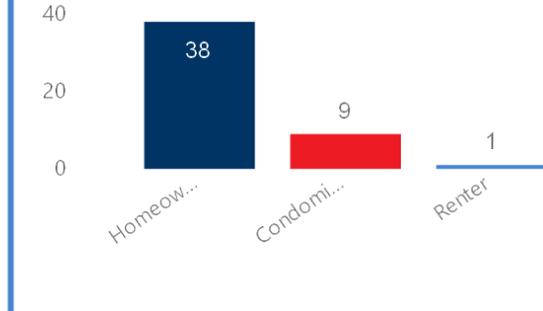
Policy Activity

1,046,949	4,452	25,242
Policy Count	MTD Growth	YTD Growth

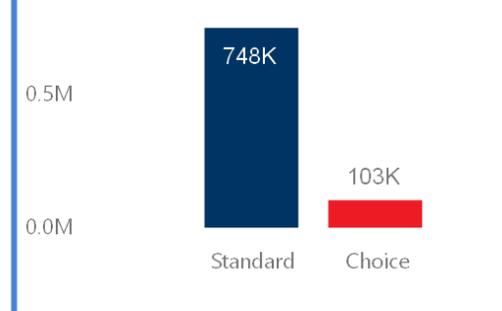
Claim Activity Previous 90 Days

48	\$9,950	\$332,316
Recent Claims	Recent Payments	Recent Reserves

Claims by Policy Type



Product Type Composition



Endorsement Activity

61,381	7,204
Current Breakables	YTD Growth
24,162	3,129
Current Masonry Veneer	YTD Growth

Current Projects

The Insurance Operations team collaborates with and supports other CEA departments on the 2019 CEA RFF, CPP onboarding and hosting, agent outreach, and insurance-related communications content.

Staff conducted the 2019 Claim Manager and Adjuster Meeting at CAL OES on May 22nd. There were 88 attendees.

Information Technology

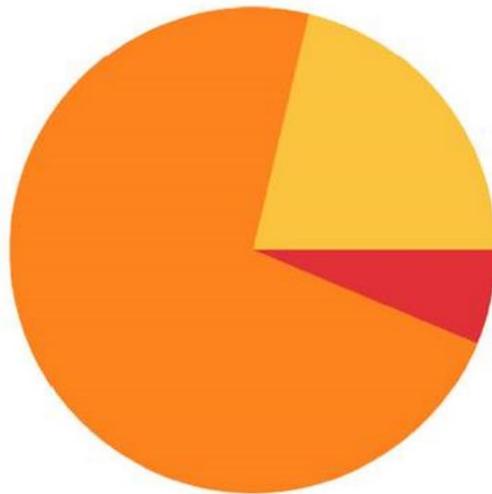
Cybersecurity Report

	Total Mitigated	Mitigated <10d	Mitigated 10-30d	Mitigated >30d
Total Vulnerabilities	6531	22 %	49 %	29 %
Critical	891	16 %	74 %	10 %
High	4747	25 %	47 %	28 %
Medium	888	9 %	37 %	54 %
Low	5	0	0	100 %

Release User Story Performance

Release	% Accepted	% Not Accepted	% Removed
33	92%	6%	1%
34	82%	13%	5%
35	90%	7%	3%
Total	88%	9%	3%

Vulnerability Composition



Critical	118	6.29%
High	1359	72.40%
Medium	400	21.31%
Low	0	0.00%
Info	0	0.00%

Point of Defect Detection



QA Capacity Planning

Development Capacity Planning

102%

% Utilization

97%

% Utilization

Progress and Planning

No security incidents to report.

Staying current on mitigating cybersecurity vulnerabilities.

Delivered initial system changes in support of the 2019 Rate and Form Filing.

Continued to make progress implementing CEA hosting of CPP Diamond - expect this to be in place by the next Governing Board Meeting.

Governing Board Memorandum

July 19, 2018

Agenda Item 19: Quantitative business metrics report update

Recommended Action: No action required—information only

Chief Operations Officer Kellie Schneider will present to the Board the periodic CEA-operations business metrics report.

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to May 31, 2018

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 May 31, 2018 (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	196	3,439,038.83	309,513.50	\$3,748,552.33
	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
Total					480	\$8,119,861.42	\$709,627.30	\$8,829,488.72

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.

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 6/23/2018 - Policies in Force on: 05/31/2018

TOTALS	Policies In Force	%Total	Exposure	%Total	Written Premium	% Total	Avg Written Premium
Homeowners	720,029	68.8 %	375,457,397,314	82.4 %	553,738,811	76.4 %	769
Homeowners Choice	100,056	9.6 %	59,320,385,271	13.0 %	99,333,689	13.7 %	993
All Homeowners Total	820,085	78.3 %	434,777,782,585	95.4 %	653,072,499	90.2 %	796
Manufactured Homes (Mobilehomes) - Homeowners	28,052	2.7 %	3,751,624,030	0.8 %	3,847,237	0.5 %	137
Manufactured Homes (Mobilehomes) - Homeowners Choice	2,820	0.3 %	521,589,473	0.1 %	641,626	0.1 %	228
All Manufactured Homes (Mobilehomes) - Homeowners Total	30,872	2.9 %	4,273,213,503	0.9 %	4,488,863	0.6 %	145
Condo	115,818	11.1 %	13,613,955,500	3.0 %	57,929,915	8.0 %	500
Renters	80,174	7.7 %	3,109,329,000	0.7 %	8,841,730	1.2 %	110
Grand Total	1,046,949	100.0 %	455,774,280,588	100.0 %	724,333,008	100.0 %	692

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 6/23/2018 - Policies in Force on: 05/31/2018

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowners - by Cov A Ded							
25% Total	5,697	0.5 %	3,294,629,939	0.7 %	4,191,719	0.6 %	736
20% Total	5,186	0.5 %	3,066,288,732	0.7 %	4,752,683	0.7 %	916
15% Total	561,825	53.7 %	289,382,085,674	63.5 %	430,437,414	59.4 %	766
10% Total	102,891	9.8 %	55,877,785,358	12.3 %	81,248,230	11.2 %	790
5% Total	44,430	4.2 %	23,836,607,611	5.2 %	33,108,765	4.6 %	745
Homeowners Total	720,029	68.8 %	375,457,397,314	82.4 %	553,738,811	76.4 %	769
Homeowners Choice - by Cov A Ded							
25% Total	3,757	0.4 %	2,323,718,537	0.5 %	3,183,037	0.4 %	847
20% Total	2,759	0.3 %	1,794,886,064	0.4 %	3,068,323	0.4 %	1,112
15% Total	43,479	4.2 %	27,061,238,267	5.9 %	45,787,682	6.3 %	1,053
10% Total	28,267	2.7 %	16,611,709,202	3.6 %	27,807,776	3.8 %	984
5% Total	21,794	2.1 %	11,528,833,201	2.5 %	19,486,871	2.7 %	894
Homeowners Choice Total	100,056	9.6 %	59,320,385,271	13.0 %	99,333,689	13.7 %	993
All Homeowners Total	820,085	78.3 %	434,777,782,585	95.4 %	653,072,499	90.2 %	796

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 6/23/2018 - Policies in Force on: 05/31/2018

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Manufactured Homes (Mobilehomes) - Homeowners - by Cov A Ded							
25% Total	18	0.0 %	2,544,092	0.0 %	2,554	0.0 %	142
20% Total	20	0.0 %	3,219,392	0.0 %	3,638	0.0 %	182
15% Total	21,594	2.1 %	2,645,158,658	0.6 %	2,667,934	0.4 %	124
10% Total	4,516	0.4 %	767,779,985	0.2 %	778,248	0.1 %	172
5% Total	1,904	0.2 %	332,921,903	0.1 %	394,863	0.1 %	207
Manufactured Homes (Mobilehomes) - Homeowners Total	28,052	2.7 %	3,751,624,030	0.8 %	3,847,237	0.5 %	137
Manufactured Homes (Mobilehomes) - Homeowners Choice - by Cov A Ded							
25% Total	22	0.0 %	3,822,067	0.0 %	4,363	0.0 %	198
20% Total	9	0.0 %	1,318,561	0.0 %	1,531	0.0 %	170
15% Total	959	0.1 %	164,712,574	0.0 %	203,909	0.0 %	213
10% Total	893	0.1 %	171,687,807	0.0 %	217,895	0.0 %	244
5% Total	937	0.1 %	180,048,464	0.0 %	213,928	0.0 %	228
Manufactured Homes (Mobilehomes) - Homeowners Choice Total	2,820	0.3 %	521,589,473	0.1 %	641,626	0.1 %	228
All Manufactured Homes (Mobilehomes) - Homeowners Total	30,872	2.9 %	4,273,213,503	0.9 %	4,488,863	0.6 %	145

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 6/23/2018 - Policies in Force on: 05/31/2018

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Condo - by Cov A Ded							
25% Total	1,320	0.1 %	202,419,500	0.0 %	739,499	0.1 %	560
20% Total	930	0.1 %	142,277,000	0.0 %	579,764	0.1 %	623
15% Total	72,326	6.9 %	8,897,961,500	2.0 %	37,999,866	5.2 %	525
10% Total	7,381	0.7 %	1,248,681,500	0.3 %	4,676,946	0.6 %	634
5% Total	12,217	1.2 %	1,989,644,500	0.4 %	6,692,820	0.9 %	548
No Cov A	21,644	2.1 %	1,132,971,500	0.2 %	7,241,020	1.0 %	335
Condo Total	115,818	11.1 %	13,613,955,500	3.0 %	57,929,915	8.0 %	500

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 6/23/2018 - Policies in Force on: 05/31/2018

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Renters - by Cov C Ded							
25% Total	1,616	0.2 %	33,580,500	0.0 %	71,222	0.0 %	44
20% Total	612	0.1 %	21,352,000	0.0 %	40,591	0.0 %	66
15% Total	23,025	2.2 %	570,030,500	0.1 %	1,355,147	0.2 %	59
10% Total	5,668	0.5 %	308,154,500	0.1 %	760,875	0.1 %	134
5% Total	49,253	4.7 %	2,176,211,500	0.5 %	6,613,896	0.9 %	134
Renters Total	80,174	7.7 %	3,109,329,000	0.7 %	8,841,730	1.2 %	110
Grand Total	1,046,949	100.0 %	455,774,280,588	100.0 %	724,333,008	100.0 %	692

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	CEA Agent Sales Tool	Danica Wallin	Active	03/08/18	03/08/18	15%	10/25/18	
					2016-02	Training and Registration Form	Stephenie Dagata	Completed	01/04/16	01/04/16	100%	08/03/17	08/03/17
					2016-03	Combine Agent Databases	Stephenie Dagata	Completed	01/04/16	01/04/16	100%	08/03/17	08/03/17
					2017-01	CPP Data Warehouse & Reporting	Paul Stubbles	Completed	01/03/17	01/03/17	100%	07/31/17	07/31/17
					2017-02	Written Premium Write Off	Terri Kletzman	Completed	02/01/17	02/01/17	100%	12/31/17	09/01/17
					2017-03	Business Continuity	Paul Stubbles	Active	01/03/17	01/03/17	50%	12/31/18	
					2017-04	ECMS	Jason Haxton	Completed	01/03/17	01/03/17	85%	12/31/17	12/31/17
					2017-05	Enterprise Resource Planning	Terri Kletzman	Active	02/01/17	02/01/17	15%	12/31/18	
					2017-06	End to End Website	Terri Kletzman	Cancelled	02/01/17	02/01/17	5%	09/29/17	04/14/17
					2017-07	QuakeGrade (SVIMA P2)	Terri Kletzman	Completed	01/03/17	01/03/17	100%	09/01/17	06/08/17
					2017-08	Self Service BI Reporting	Paul Stubbles	Completed	01/03/17	01/03/17	100%	12/31/17	12/22/17
					2017-09	EQA Redesign	Danica Wallin	Completed	01/03/17	01/03/17	100%	03/29/18	03/29/18
					2017-10	ZIP Code Validation	Terri Kletzman	Completed	01/03/17	12/01/16	100%	02/01/17	01/03/17
					2017-12	eDiscovery	Jason Haxton	Active	01/03/17	01/03/17	44%	12/31/18	
					2017-13	Rate and Form Filing Project 2019	Terri Kletzman	Active	06/05/17	06/05/17	65%	12/31/18	



CEA GOVERNING BOARD MEETING DATES FOR - 2018

January 25, 2018 – Thursday (Added)

March 14, 2018 – Wednesday

~~June 13, 2018~~ – Wednesday (Rescheduled)

July 19, 2018 – Thursday (Added)

September 12, 2018 – Wednesday

December 12, 2018 – Wednesday

CEA ADVISORY PANEL MEETING DATES FOR - 2018

January 23, 2018 – 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]*