

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, March 20, 2019
1:00 p.m.**

Location: CalSTRS Headquarters Building
Board Room – Lobby, E-124
100 Waterfront Place
West Sacramento, California

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Gavin Newsom, Board Chair
Fiona Ma, State Treasurer
Michael Martinez, designee of Insurance Commissioner Ricardo Lara
Jeffrey Wood, designee of Speaker of the Assembly Anthony Rendon
Craig Fry, designee of Chair of the Senate Rules Committee Toni Atkins

Members of the CEA Staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Sheri Aguirre, Strategic Advisor
Tom Hanzel, Chief Financial Officer
Laurie Johnson, PhD, Enterprise & Strategic Risk Advisor
Janiele Maffei, Chief Mitigation Officer
Michael Melavic, Acting Chief Information Officer
Chris Nance, Chief Communications Officer
Kellie Schneider, Chief Operations Officer
Colby Tunick, Acting Governing Board Liaison
Tom Welsh, General Counsel

Also present:

Kapil Bhatia, Director of Public Finance, Raymond James & Associates, Inc.
Kasey O'Connor, Legislative Director, Office of the State Treasurer

1. Call to order and member roll call.

Chair Mark Ghilarducci called the meeting to order at 1:01 p.m. A quorum was achieved.

2. Consideration and approval of the minutes of the December 12, 2018, CEA Governing Board meeting.

MOTION: Chair Ghilarducci moved approval of the December 12, 2018, California Earthquake Authority Governing Board Meeting Minutes as presented. Ms. Ma seconded. Motion carried unanimously.

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

Glenn Pomeroy, Chief Executive Officer, welcomed new CEA Governing Board members Fiona Ma, State Treasurer, and Michael Martinez, designee of Insurance Commissioner Ricardo Lara.

Mr. Pomeroy welcomed new staff members Tom Welsh, General Counsel, Tom Hanzel, Chief Financial Officer, and Michael Melavic, Acting Chief Information Officer. He noted that the Insurance Operations role was moved back under the Chief Financial Officer responsibilities.

Mr. Pomeroy provided a summary, with a slide presentation, of the CEA policies in force, policy growth, mitigation retrofits, claim-paying capacity, restructuring of the financial tower to create sustainability, federal legislation, and community outreach efforts.

Questions and Discussion

Ms. Ma asked if there will be an opportunity for the Board to weigh in on legislation. Mr. Pomeroy stated the next Board meeting is scheduled for June 12th but Board members may ask for an additional Board meeting at any time for issues such as taking positions on legislation.

Ms. Ma stated supporting legislation would help bills move forward. She asked about meeting times for the Listening Sessions in Los Angeles, San Francisco, and Sacramento. Sheri Aguirre, CEA Strategic Advisor, stated the meeting times will be 11:30 a.m. to 1:30 p.m.

Chair Ghilarducci asked about the venues for the Listening Session events.

Ms. Aguirre stated the Listening Sessions will be held at the City Hall in Los Angeles and the City Hall in San Francisco. The venue for the Sacramento Listening Session has yet to be determined.

Mr. Wood stated the City Hall in downtown Los Angeles is not convenient for the other 87 cities in Los Angeles County. He asked if Listening Sessions will be planned in additional cities. Mr. Pomeroy stated the idea is to learn the level of interest by holding Listening Sessions in three parts of the state.

4. Chief Financial Officer Tom Hanzel will present to the Board the quarterly CEA Financial Report.

Tom Hanzel, Chief Financial Officer, provided an overview, with a slide presentation, of the CEA financial information as of December 31, 2018. He stated the Mitigation budget is over budget due to the Engineering line item but this is money well spent. He stated the importance of working with engineers to

better understand what happens to housing at different earthquake magnitudes to ensure that mitigation programs will work properly during an event.

5. Mr. Hanzel will seek Board authorization to set the CEA participating insurers' respective maximum earthquake loss funding assessment levels, effective April 1, 2019.

Mr. Hanzel provided an overview of the background and analysis of the annual CEA Participating Insurer maximum earthquake loss funding assessment levels and showed slides of Attachment A: 2019 Maximum Earthquake Loss Funding Assessment Levels.

Staff recommendations:

- Adopt the CEA market-share percentages shown in Attachment A, which are to be used to determine the maximum earthquake loss funding assessment levels for CEA participating insurers, effective April 30, 2019.
- Authorize CEA staff to notify each participating insurer of its respective April 30, 2019, maximum earthquake loss funding assessment level responsibility.

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

6. Mr. Hanzel will seek Board approval to contract with additional investment managers.

Mr. Hanzel stated the CEA went through a Request for Qualifications (RFQ) process during the third and fourth quarters of last year for investment management companies that manage \$10 billion or more and \$10 billion or less. The management limits are \$1.25 billion maximum CEA assets for the larger managers and \$250 million for the smaller managers. Seven responses were received – five from large managers and two from small managers.

Staff recommendations:

- Approval of the investment firms listed below to provide investment management services for the CEA Fund:
 - Small Manager
 - Emergent Financial Services, LLC
 - Miles Capital, Inc.
 - Large Manager
 - American Beacon Advisors, Inc.
 - Chandler Asset Management
 - Goldman Sachs Asset Management

- Longfellow Investment Management Co.
- RBC Global Asset Management (U.S.) Inc.
- Authorize CEO Glenn Pomeroy to negotiate and execute the contracts on behalf of CEA.

Questions and Discussion

Ms. Ma asked if additional contracts would have been approved if more responses were received and passed the selection panel process. Mr. Hanzel stated he would be willing to consider more than ten managers for increased distribution, although there can be too many managers based on infrastructure.

Mr. Martinez stated the need for a robust and competitive process that attracts as many individuals as possible. He questioned that the RFQ was only published on the CEA website and advertised in one periodical and that the seven respondents are the current investment managers. Individuals may not have known about the existence of the RFQ. He stated he appreciated that Mr. Hanzel will be looking into this to improve the RFQ process in the future.

Chair Ghilarducci agreed with the need to reach a greater audience during the RFQ process. He asked about the length of the contracts. Mr. Hanzel stated they are five-year contracts with an option to extend them by two years.

MOTION: Ms. Ma moved approval of the staff recommendations as presented. Mr. Martinez 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.

Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc., provided an overview, with a slide presentation, of the economic, financial, investment, and risk-transfer market in his annual report on the state of the economy. He concluded the following:

- Interest rates are low.
- Economic growth is slow with lower productivity.
- Capital is cheap.
- Financial markets are strong.
- Reinsurance markets are stable.
- The CEA portfolio is strong and stable.

Questions and Discussion

Mr. Martinez asked when the Board last reviewed the investment policy strategy. Mr. Bhatia stated the Board made minor changes last year and it is currently under review. He anticipated presenting updates at the June or September Board meeting.

Chair Ghilarducci asked that Mr. Bhatia include an in-depth discussion on the strategies during his future presentation. He referred to Slide 63, which lists the total estimated loss, insured losses, and uninsured losses for the 2018 wildfires. He asked about government costs. Mr. Bhatia stated government losses are difficult to estimate and are not included in the estimates.

Ms. Ma asked about the market for catastrophe bonds and what California should be doing to protect against further unexpected losses. Mr. Bhatia stated the catastrophe bond market is strong if it is structured right. It is a non-collateralized market that is expected to continue to grow. He stated investors are looking for diversified perils.

8. Mr. Pomeroy will propose, for Board approval, a routine update to CEA's Governing Board resolutions pertaining to certain CEA bank accounts.

Mr. Pomeroy stated the need to update the list of signatories on the banking documents. Mr. Hanzel's name will replace Todd Coombes' name, who recently resigned from the CEA, on the list of CEA executives with the authority to perform routine banking transactions on behalf of the CEA.

Staff recommendation:

- Adopt the resolutions in substantially the forms attached as Attachment A and Attachment B.

MOTION: Mr. Martinez moved approval of the staff recommendation as presented. Ms. Ma seconded. Motion carried unanimously.

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

Laurie Johnson, Enterprise and Strategic Risk Advisor, provided an overview, with a slide presentation, of the progress to date, framework, priority risks, quarterly report, and 2019 program plan of the Enterprise Risk Management program.

10. Chief Communications Officer Chris Nance will present, and seek Board approval of, the 2020 CEA advertising budget.

Chris Nance, the Chief Communications Officer, provided an overview, with a slide presentation, of the background, current programming, outreach and media marketing expansion, and barriers and challenges of CEA marketing. He stated the plan to change from spring and fall advertising to quarterly advertising with a regional emphasis – Los Angeles, Bay Area, San Diego, and statewide. He showed videos of the new product advertisement theme and a news talent educational vignette PSA. He stated the proposed modest 8 percent increase in the advertising budget is to support greater sophistication and further extension of the program.

Staff recommendation:

- Approve proposed advertising budget up to \$13,200,000 to implement CEA's 2020 advertising plan.

Questions and Discussion

Mr. Martinez asked about high-level metrics for advertising such as market penetration and the increase of policies in force. Mr. Nance offered to meet offline to discuss the CEA marketing strategies and metrics in detail. He stated the CEA has never gone over the marketing budget.

Mr. Pomeroy welcomed the Insurance Commissioner's input in the marketing program and on meaningful metrics.

Mr. Fry complimented Mr. Nance and his team that the advertising does not scare individuals into buying earthquake policies but instead makes them think. It is a better way to get the message through. Mr. Pomeroy stated social scientists agree that people cannot be scared into action but must be informed of the consequences of not acting and educated on what they can do to feel safer. This is the underlying effort behind all of CEA advertising.

Ms. Ma asked about the Out-of-Home and Trade categories of the budget. Mr. Nance stated Out-of-Home is billboard and transit shelter advertising. The Trade category is the Business-to-Business (B2B) side as opposed to the Business-to-Consumer (B2C) side. The B2B side is a very important area to further explore. It enables the CEA to work with agents who are eager to sell CEA policies and attracts interest from more agents who currently may not have an interest in selling CEA policies. The marketing to reach agents is different from the marketing to reach consumers. The advertising budget is separated accordingly.

Ms. Ma noted that the Trade category has increased. Mr. Nance stated the CEA has worked exclusively with agents in the past. He stated that investment has been increased because efforts will be expanded to include realtors, mortgage bankers, and financial planners.

Chair Ghilarducci asked if Mr. Nance has assessed how advertising correlates to an increase in policies. Mr. Nance stated the monthly website analytics in web traffic and A/B testing of digital advertising are informative.

Ms. Ma asked why agents are not incentivized to sell the product. Mr. Nance stated it is prohibited in statute.

MOTION: Mr. Martinez moved approval of the staff recommendation as presented. Ms. Ma seconded. Motion carried unanimously.

11. Chief Operations Officer Kellie Schneider will seek Board approval for CEA to contract for and purchase Enterprise Resource Planning software in 2019.

(Item Withdrawn)

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

Mr. Pomeroy presented this agenda item for Janiele Maffei, Chief Mitigation Officer, who was out of the office on jury duty. He provided an overview, with a slide presentation, of the goals and status of the CRMP Earthquake Brace + Bolt and 2019 CEA Brace + Bolt programs. He stated the CRMP has several applications in for additional Federal Emergency Management Agency (FEMA) grants for proactive risk-reduction mitigation work.

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

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

14. Acting Chief Information Officer Michael Melavic will report to the Board on CEA insurance and information-technology initiatives.

Michael Melavic, Acting Chief Information Officer, deferred to Mr. Hanzel to present the first two presentation slides. Mr. Hanzel gave an overview of the insurance education and sales support activities and insurance operations of the CEA. He stated the natural catastrophe team will meet next week in Sacramento for a few days and do a Camp Fire site visit.

Mr. Melavic continued the slide presentation and discussed the status of the information-technology initiative. He stated the IT portion of the Department of Insurance financial audit that is done every three years was successfully completed, the results of which will be published in one month.

Questions and Discussion

Chair Ghilarducci asked if the insurance operations team makes projections on potential growth or looks at policy growth in arrears. Mr. Pomeroy stated the previous month's activity is captured by the 24th of the following month.

Mr. Melavic stated there are metrics from prior years to use as a comparison.

15. Ms. Schneider will update the Board on the quantitative business metrics report.

Kellie Schneider, Chief Operations Officer, provided an overview, with a slide presentation, of the four strategic goals and the performance metrics to accomplish this year.

Questions and Discussion

Mr. Martinez suggested that this agenda item be presented at the beginning of each Board meeting to help provide context for subsequent conversations and approvals.

16. 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.

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

There was no public comment.

18. Adjournment.

There being no further business, the meeting was adjourned at 3:16 p.m.