



Date of Notice: Wednesday, November 22, 2017

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

DATE: Wednesday, December 6, 2017

TIME: 1:00 p.m.

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

This CEA Governing Board meeting will be broadcast live on the Internet. Please wait until the official start time of the meeting before clicking on this icon:



[Video \(with audio\)](#)

If you are unable to view and hear the meeting please call the CEA directly at (916) 661-5001 for further assistance.

2. Consideration and approval of the minutes of the September 20, 2017, CEA Governing Board meeting.
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.
4. Chief Financial Officer Tim Richison will present to the Board the quarterly CEA financial report.
5. Mr. Richison will present to the Board the CEA staff's proposed 2018 Risk-Transfer Strategy.
6. Mr. Pomeroy and Mr. Richison will present the proposed 2018 CEA insurance-services budget for Board consideration and approval.
7. Chief Operations Officer Kellie Schneider will present performance-management categories to the Board, which will drive the CEA's 2018 metrics reporting.
8. Chief Mitigation Officer Janiele Maffei and Mr. Richison will present the proposed 2018 CEA mitigation-program budget for Board consideration and approval.
9. Ms. 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.
10. Ms. Maffei will update the Board on the CEA Research Program.
11. Ms. Maffei will seek Board approval of a proposed contract with the Applied Technology Council, which will coordinate and manage an important update to the current Consortium of Universities for Research in Earthquake Engineering ("CUREE") Guidelines.
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.
13. Chief Insurance and Technology Officer Todd Coombes will report to the Board on CEA insurance and information-technology initiatives.
14. Chief Actuary Shawna Ackerman will update the Board on staff's progress on the proposed 2019 CEA rate and form filing.
15. Chief Communications Officer Chris Nance will recap CEA's 2017 advertising campaign and discuss CEA's participation in support of the October 2017 *Great California ShakeOut*.
16. Enterprise & Strategic Risk Advisor Laurie Johnson will update the Board on CEA enterprise-risk-management-program planning and progress.
17. Mr. Pomeroy will present for Board consideration and approval the 2018 Governing Board meeting calendar.

18. 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.
19. 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.
20. Adjournment.

For further information about this notice or its contents:

General Information:

Carlos Martinez
(916) 661-5549 (Direct)
Toll free: (877) 797-4300

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Media Contact:

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To view this notice on the CEA website or to learn more about the CEA, please visit www.EarthquakeAuthority.com
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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. Please contact Carlos Martinez by telephone, toll free, at (877) 797-4300 or by email at cmartinez@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

NOTE: You might have received this notice because your name, or that of your organization, appears on a public-notice list maintained by the California Earthquake Authority. If in the future you do not wish to receive public notices pertaining to the California Earthquake Authority, please send your request by email to cmartinez@calquake.com.



Draft Meeting Minutes are not available.

Please see CEA Governing Board Meeting
[Approved Minutes.](#)

Governing Board Memorandum

December 6, 2017

Agenda Item 3: 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.



FINANCIAL REPORT

September 30, 2017

Financial Report Table of Contents

	Page
Financial Statements & Budgets	
Balance Sheet as of September 30, 2017	1
Statement of Revenues, Expenses and Changes in Net Position as of September 30, 2017	2
Insurance Services Budgeted and Actual Expenditures for 2017 Budget Year as of September 30, 2017	3
Mitigation Budgeted and Actual Expenditures for 2017 Budget Year as of September 30, 2017	4
Investments	
Investment Distribution at Market Value CEA Liquidity & Primary Funds, Claim(s)-Paying Funds, Mitigation Funds as of September 30, 2017	5
Debt	
Schedule of Outstanding Debt 2014 Revenue Bond 3-year & 5-year as of September 30, 2017	6
Claim-Paying Capacity	
Statement of Revenues, Expenses and Changes in Net Position as of September 30, 2017	7
Claim-Paying Capacity as of September 30, 2017	8
Risk-Transfer Programs	
Current Risk-Transfer Program Summary as of September 30, 2017	9
Total Risk-Transfer Program Premiums as of September 30, 2017	10

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

Financial Statements & Budgets

California Earthquake Authority
Balance Sheet
as of September 30, 2017

Assets

Cash and investments:	
Cash and cash equivalents	\$ 235,335,534
Restricted cash and equivalents	22,571,601
Restricted investments	385,173,812
Investments	5,676,028,669
	<hr/>
Total cash and investments	6,319,109,616
Premiums receivable, net of allowance for doubtful accounts of \$4,461,462	73,885,234
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	21,301,196
Securities receivable	32,720,182
Restricted securities receivable	3,135,499
Prepaid reinsurance premium	21,160,293
Transformer reinsurance premium deposit	-
Prepaid transformer maintenance premium	5,043,041
Equipment, net	285,369
Other assets	47,292
	<hr/>
Total assets	<u>\$ 6,476,687,722</u>

Liabilities and Net Position

Unearned premiums	\$ 364,042,926
Accounts payable and accrued expenses	4,938,526
Deferred grant revenue	250,112
Accrued reinsurance premium expense	-
Loss and loss adjustment expense reserves	69,002
Securities payable	24,152,886
Revenue bond payable	210,000,000
Revenue bond interest payable	1,472,625
	<hr/>
Total liabilities	604,926,077
Net position:	
Restricted, expendable	193,670,730
Unrestricted, participating insurer contributed capital	777,384,796
Unrestricted, State of California contributed capital	251,920,161
Unrestricted, all other remaining	4,648,785,958
	<hr/>
Total net position	5,871,761,645
	<hr/>
Total liabilities and net position	<u>\$ 6,476,687,722</u>

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Position
as of September 30, 2017

Underwriting income:	
Premiums written	\$ 520,661,021
Less premiums ceded - reinsurance	(229,351,352)
Less risk capital surcharge	-
	<hr/>
Net premiums written	291,309,669
	<hr/>
Change in unearned premiums	(46,577,562)
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Net premiums earned	244,732,107
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Expenses:	
Losses and loss adjustment expenses	(110,886)
Participating Insurer commissions	52,068,168
Participating Insurer operating costs	16,908,021
Reinsurance broker commissions	2,100,000
Pro forma premium taxes equivalent	12,242,775
Other underwriting expenses	22,417,642
	<hr/>
Total expenses	105,625,720
	<hr/>
Underwriting profit	139,106,387
Net investment income	58,065,399
Other income	345,888
Grant revenue	2,905,030
Financing expenses, net	(2,074,068)
Earthquake Loss Mitigation Fund expenses	(6,539,925)
Participating Insurer Contributed Capital	-
State of California premium tax contribution equivalent	12,242,775
	<hr/>
Increase in net position	204,051,486
Net position, beginning of year	5,667,710,159
	<hr/>
Net position, end of year to date	<u><u>\$ 5,871,761,645</u></u>

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budgeted and Actual Expenditures
2017 Budget Year
as of September 30, 2017

	(a)	(b)	(b2)	(c)	(d)	(e)	(f)	(g)
					(d=a+b+b2+c)		(f=d-e)	(g=e/d)
	Approved 2017 Budget 1/1/2017	Adjustments ^A	Adjustments 2 ^A	Augmentations	2017 Budget after Augmentations and Adjustments	Actual Expenditures	Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)	Percentage used of Augmented & Adjusted Approved 2017 Budget
Human Resources:								
Compensation and Benefits	\$ 25,359,916	\$ (158,496)	\$ -	\$ -	\$ 25,201,420	\$ 15,068,335	\$ 10,133,085	59.79%
Travel	707,298	(244,232)	-	-	463,066	207,768	255,298	44.87%
Other	766,310	(332,838)	-	-	433,472	175,349	258,123	40.45%
Board Meeting	22,100	(13,004)	-	-	9,096	4,826	4,270	53.06%
Administration & Office	1,351,140	(44,179)	-	-	1,306,961	981,349	325,612	75.09%
EDP Hardware	470,950	-	-	-	470,950	110,795	360,155	23.53%
EDP Software	1,099,915	-	-	-	1,099,915	420,766	679,149	38.25%
Information Technology	1,775,205	-	-	-	1,775,205	1,635,158	140,047	92.11%
Telecommunications	268,324	(3,278)	-	-	265,046	216,168	48,878	81.56%
Rent/Lease	1,693,900	(2,050)	-	-	1,691,850	869,728	822,122	51.41%
Compliance	60,000	(50,000)	-	-	10,000	-	10,000	0.00%
Government Affairs	146,000	-	-	-	146,000	76,769	69,231	52.58%
Insurance	175,000	-	-	-	175,000	117,705	57,295	67.26%
Internal Audit	100,000	(75,000)	-	-	25,000	-	25,000	0.00%
Intervener Fees	-	-	-	-	-	-	-	0.00%
Other	78,000	(1,000)	-	-	77,000	10,060	66,940	13.06%
Regulatory Expenses	50,000	(10,000)	-	-	40,000	20,746	19,254	51.87%
Risk Management	-	95,000	-	-	95,000	58,472	36,528	61.55%
Total Statutory Expenditures	\$ 34,124,058	\$ (839,077)	\$ -	\$ -	\$ 33,284,981	\$ 19,973,994	\$ 13,310,987	60.01%
Audit Services	116,000	-	-	-	116,000	74,500	41,500	64.22%
Capital Market	7,583,695	(112,922)	-	-	7,470,773	5,954,605	1,516,168	79.71%
Claims	124,000	(14,000)	-	-	110,000	672	109,328	0.61%
Loans	-	-	-	-	-	-	-	0.00%
Grants	12,000,000	(83,547)	-	-	11,916,453	214,086	11,702,367	1.80%
Investment Services	3,234,043	129,740	-	-	3,363,783	2,385,281	978,502	70.91%
Legal Services	3,567,500	(2,047,082)	-	-	1,520,418	827,863	692,555	54.45%
Loss-Modeling	1,123,500	-	-	-	1,123,500	674,440	449,060	60.03%
Marketing Services ¹	14,925,725	(229,454)	-	360,000	15,056,271	4,065,065	10,991,206	27.00%
Producer Compensation	67,500,000	(3,000,000)	-	-	64,500,000	52,068,168	12,431,832	80.73%
Participating Insurer Operating Costs	28,306,360	(2,175,000)	-	-	26,131,360	17,725,464	8,405,896	67.83%
Seismic Related Research	200,000	(180,000)	-	-	20,000	-	20,000	0.00%
Engineering Related Research	1,620,000	(1,290,000)	-	-	330,000	228,427	101,573	69.22%
Risk Transfer ²	246,947,682	-	9,841,342	56,010,976	312,800,000	231,451,352	81,348,648	73.99%
Total Non-Statutory Expenditures	\$ 387,248,505	\$ (9,002,265)	\$ 9,841,342	\$ 56,370,976	\$ 444,458,558	\$ 315,669,923	\$ 128,788,635	71.02%
Total Budget Expenditures	\$ 421,372,563	\$ (9,841,342)	\$ 9,841,342	\$ 56,370,976	\$ 477,743,539	\$ 335,643,917	\$ 142,099,622	70.26%

¹Augmentation to fund user experience and user interface website design from March 15, 2017 Governing Board Meeting Agenda Item 9.

²Augmentation to fund additional risk transfer needs from September 20, 2017 Governing Board Meeting Agenda Item 6.

^AAdjustments to meet insurance services end of year projections

CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budgeted Expenditures and Actual Expenditures
2017 Budget Year
as of September 30, 2017

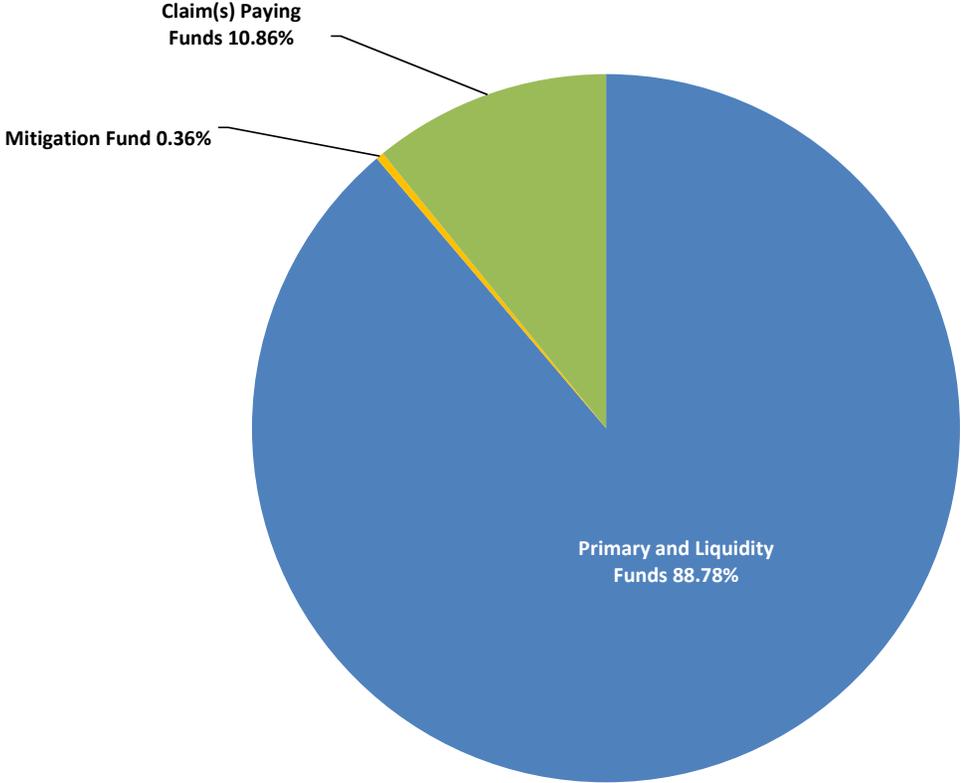
	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2017 Budget 1/1/2017	Adjustments^A	Augmentations	2017 Budget after Augmentations and Adjustments	Actual Expenditures	Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)	Percentage used of Augmented & Adjusted Approved 2017 Budget
Human Resources:							
Compensation and Benefits	\$ 1,602,015	\$ (235,263)	\$ -	\$ 1,366,752	\$ 867,967	\$ 498,785	63.51%
Travel	79,900	(34,900)	-	45,000	19,498	25,502	43.33%
Other	34,595	(17,800)	-	16,795	10,079	6,716	60.01%
Administration & Office	73,798	(100)	-	73,698	13,122	60,576	17.81%
EDP Software	100	(100)	-	-	-	-	0.00%
Information Technology	1,200	-	-	1,200	682	518	56.83%
Telecommunications	23,000	-	-	23,000	14,170	8,830	61.61%
Rent/Lease	140,700	(49,700)	-	91,000	70,363	20,637	77.32%
Total Operating Expenditures	\$ 1,955,308	\$ (337,863)	\$ -	\$ 1,617,445	\$ 995,881	\$ 621,564	61.57%
Investment Services	11,200	(400)	-	10,800	7,327	3,473	67.84%
Legal Services	10,000	(5,000)	-	5,000	-	5,000	0.00%
Marketing	384,000	(230,000)	-	154,000	-	154,000	0.00%
Seismic - Related	-	-	-	-	-	-	0.00%
Engineering - Related	750,000	100,000	-	850,000	288,099	561,901	33.89%
Total Other Expenditures	\$ 1,155,200	\$ (135,400)	\$ -	\$ 1,019,800	\$ 295,426	\$ 724,374	28.97%
Total Expenditures	\$ 3,110,508	\$ (473,263)	\$ -	\$ 2,637,245	\$ 1,291,307	\$ 1,345,938	48.96%

^AAdjustments to meet mitigation services end of year projections

Investments

**California Earthquake Authority
Investment Distribution at Market Value
as of September 30, 2017**

Market Value	\$6,309,086,997
Primary and Liquidity Funds	88.78%
Mitigation Fund	0.36%
Claim(s) Paying Funds	10.86%
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 3 year bond CUSIP 13017HAD8	\$ 60,000,000	1.824%	\$ 59,498,463	\$ -	30-Sep-2017	A3 Outlook Stable	A Outlook Stable
Series 2014 Revenue Bonds 5 year bond CUSIP 13017HAE6	\$ 250,000,000	2.805%	\$ 247,910,261	\$ 210,000,000	30-Sep-2017	A3 Outlook Stable	A Outlook Stable

DEBT-SERVICE SCHEDULE

The table below shows the annual-debt-service requirements for the Series 2014 Bonds.

Debt	Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
Series 2014 Revenue Bonds 3 year bond	1-Jan-17	\$60,000,000	\$0	\$547,200	\$547,200	
	1-Jul-17	\$0	\$60,000,000	\$547,200	\$60,547,200	
	2017					\$61,094,400
Series 2014 Revenue Bonds 5 year bond	1-Jan-17	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
	1-Jul-17	\$210,000,000	\$40,000,000	\$3,506,250	\$43,506,250	
	2017					\$47,012,500
	1-Jan-18	\$210,000,000	\$0	\$2,945,250	\$2,945,250	
	1-Jul-18	\$105,000,000	\$105,000,000	\$2,945,250	\$107,945,250	
	2018					\$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.

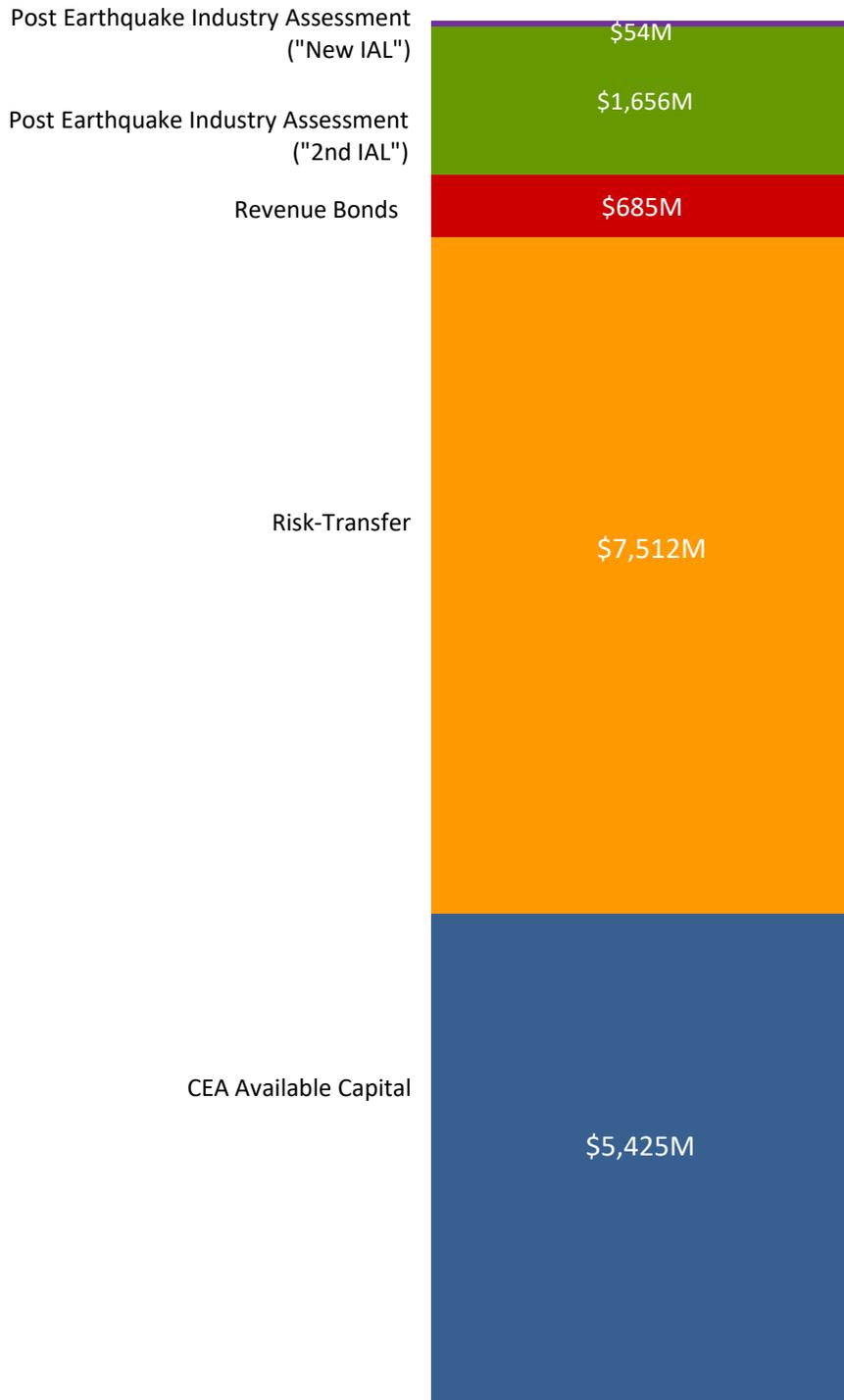
**Fitch rating affirmed April 2017.

Claim-Paying Capacity

**California Earthquake Authority
Available Capital Report
as of September 30, 2017**

Cash & Investments (includes capital contributions and premiums)	\$	6,319,109,616
Earthquake Loss Mitigation Fund Cash and Investments	\$	(22,565,743)
Interest & Securities Receivable	\$	54,021,378
Premium Receivable	\$	73,885,234
Risk Capital Surcharge & Capital Contributions Receivable	\$	-
Other Assets	\$	47,292
Revenue Bonds	\$	(685,295,715)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	\$	(27,722,625)
Unearned Premium Collected	\$	(256,821,990)
Accrued Reinsurance Premium Expense	\$	-
Accounts and Securities Payable, and Accrued Expenses	\$	(29,341,524)
Loss Reserves	\$	(69,002)
CEA Available Capital	<u>\$</u>	<u>5,425,246,922</u>

**California Earthquake Authority
Claim-Paying Capacity
as of September 30, 2017**



Total Capacity \$15,332M

Note: Not drawn to scale

Risk-Transfer Programs

**California Earthquake Authority
Current Risk-Transfer Program Summary
as of September 30, 2017**

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
2017 January Program Contract 1	January 1, 2017 - December 31, 2017	614,317,300	4.40%	27,029,961
2017 January Program Contract 2	January 1, 2017 - December 31, 2017	290,405,830	3.20%	9,292,987
2017 January Program Contract 3	January 1, 2017 - December 31, 2017	15,000,000	6.25%	937,500
2017 January Program Contract 4	January 1, 2017 - December 31, 2017	25,000,000	5.60%	1,400,000
2016-2017 January Program Contract 1	January 1, 2016 - December 31, 2017	472,799,040	4.40%	20,803,158
2016-2017 January Program Contract 2	January 1, 2016 - December 31, 2017	99,999,970	5.70%	5,699,998
2016-2017 January Program Contract 4	January 1, 2016 - December 31, 2017	49,999,995	5.00%	2,500,000
2017-2018 January Program Contract 1	January 1, 2016 - December 31, 2017	50,000,000	2.60%	1,300,000
2017-2018 January Program Contract 2	January 1, 2017 - December 31, 2018	472,170,373	4.50%	21,247,667
2017-2018 January Program Contract 3	January 1, 2017 - December 31, 2018	240,999,850	3.30%	7,952,995
2017-2018 January Program Contract 4	January 1, 2016 - December 31, 2018	135,000,000	6.35%	8,572,500
2017-2018 January Program Contract 4	January 1, 2016 - December 31, 2018	5,000,000	5.70%	285,000
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	3.10%	5,790,180
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	3.25%	4,062,497
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
2016-2017 December Program Contract 1	December 1, 2016 - November 30, 2017	80,000,000	5.75%	4,600,000
2017 January Program Contract 5	January 1, 2017 - December 31, 2017	72,000,000	5.30%	3,816,000
2016-2017 May Program Contract 1	May 1, 2016 - November 30, 2017	100,000,000	3.55%	3,550,000
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
2015-2017 December Program Contract 1	December 1, 2015 - November 30, 2017	124,999,980	5.50%	6,874,999
2015-2017 December Program Contract 1 ADDL	December 1, 2016 - November 30, 2017	99,988,000	5.50%	5,499,340
2016-2018 December Program Contract 1	December 1, 2016 - November 30, 2018	74,998,000	5.60%	4,199,888
2015-2017 December Program Contract 2	December 1, 2015 - November 30, 2017	49,999,950	5.60%	2,799,997
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		5,436,968,088		

Transformer Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
2014 - 2017 Transformer Reinsurance Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%	10,126,970
2014 - 2017 Transformer Reinsurance Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%	7,220,177
2015 - 2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	250,000,000	5.05%	12,712,517
2016 - 2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	500,000,000	4.04%	20,287,517
2017 - 2020 Transformer Reinsurance Contract 2	May 16, 2017 - May 15, 2020	425,000,000	3.54%	17,406,285
2017 - 2020 Transformer Reinsurance Contract 1	May 16, 2017 - May 15, 2020	500,000,000	6.06%	33,094,316
Total Transformer Reinsurance		2,075,000,000		

Total Risk-Transfer Program	\$ 7,511,968,088
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**California Earthquake Authority
Total Risk-Transfer Program Premiums
as of September 30, 2017**

Traditional Reinsurance Contracts	Contract Period	12-Month Rate-on-Line	2017 Premium
2017 January Program Contract 1	January 1, 2017 - December 31, 2017	4.40%	27,029,961
2017 January Program Contract 2	January 1, 2017 - December 31, 2017	3.20%	9,292,987
2017 January Program Contract 3	January 1, 2017 - December 31, 2017	6.25%	937,500
2017 January Program Contract 4	January 1, 2017 - December 31, 2017	5.60%	1,400,000
2016-2017 January Program Contract 1	January 1, 2016 - December 31, 2017	4.40%	20,803,158
2016-2017 January Program Contract 2	January 1, 2016 - December 31, 2017	5.70%	5,699,998
2016-2017 January Program Contract 3	January 1, 2016 - December 31, 2017	5.00%	2,500,000
2016-2017 January Program Contract 4	January 1, 2016 - December 31, 2017	2.60%	1,300,000
2017-2018 January Program Contract 1	January 1, 2017 - December 31, 2018	4.50%	21,247,667
2017-2018 January Program Contract 2	January 1, 2017 - December 31, 2018	3.30%	7,952,995
2017-2018 January Program Contract 3	January 1, 2016 - December 31, 2018	6.35%	8,572,500
2017-2018 January Program Contract 4	January 1, 2016 - December 31, 2018	5.70%	285,000
2016-2017 April Program Contract 1	April 1, 2016 - March 31, 2017	3.00%	5,677,733
2017-2018 April Program Contract 1	April 1, 2017 - March 31, 2018	3.00%	14,772,668
2017-2019 April Program Contract 1	April 1, 2017 - March 31, 2019	3.10%	3,860,120
2016-2018 April Program Contract 1	April 1, 2016 - March 31, 2018	3.10%	8,056,172
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	3.25%	4,062,497
2015-2017 August Program Contract 2	August 1, 2015 - July 31, 2017	4.50%	5,250,000
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	4.15%	8,300,000
2017-2020 August Program Contract 2	August 1, 2017 - July 31, 2020	3.60%	3,000,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	4.25%	5,907,500
2016-2017 December Program Contract 1	December 1, 2016 - November 30, 2017	5.75%	4,600,000
2017 January Program Contract 5	January 1, 2017 - December 31, 2017	5.30%	3,816,000
2016-2017 May Program Contract 1	May 1, 2016 - November 30, 2017	3.55%	3,254,167
2016-2018 June Program Contract 1	June 1, 2016 - May 31, 2018	5.40%	2,699,999
2015-2017 August Program Contract 1	August 1, 2015 - July 31, 2017	5.60%	3,062,500
2016-2017 August Program Contract 1	August 1, 2016 - July 31, 2017	5.50%	3,007,813
2017-2018 August Program Contract 1	August 1, 2017 - July 31, 2018	5.57%	2,175,781
2017-2020 August Program Contract 1	August 1, 2017 - July 31, 2020	5.87%	2,292,969
2015-2017 December Program Contract 1	December 1, 2015 - November 30, 2017	5.50%	6,302,082
2015-2017 December Program Contract 1 ADDL	December 1, 2016 - November 30, 2017	5.50%	5,041,062
2016-2018 December Program Contract 1	December 1, 2016 - November 30, 2018	5.60%	4,199,888
2015-2017 December Program Contract 2	December 1, 2015 - November 30, 2017	5.60%	2,566,664
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	5.87%	5,503,125
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	5.87%	5,503,125
2017-2019 July Program Contract 1	July 1, 2017 - June 30, 2019	5.65%	1,977,500
2017-2018 July Program Contract 1	July 1, 2017 - June 30, 2018	4.15%	415,000
Total Traditional Reinsurance Premium			222,326,131
Transformer Reinsurance Contracts	Contract Period	12-Month Rate-on-Line	2017 Premium
2014 - 2017 Transformer Reinsurance Contract 1	December 1, 2014 - November 30, 2017	5.05%	7,609,589
2014 - 2017 Transformer Reinsurance Contract 2	December 1, 2014 - November 30, 2017	3.535%	5,326,712
2015 - 2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	5.05%	12,625,000
2016 - 2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	4.04%	20,200,000
2017 - 2020 Transformer Reinsurance Contract 2	May 16, 2017 - May 15, 2020	3.54%	11,360,425
2017 - 2020 Transformer Reinsurance Contract 1	May 16, 2017 - May 15, 2020	6.06%	22,911,781
Total Transformer Reinsurance Premium			80,033,506
Total Risk-Transfer Program Premium			302,359,637

Note: Additional risk transfer program contract expected in 2017

Governing Board Memorandum

December 6, 2017

Agenda Item 5: Proposed 12-month CEA Risk-Transfer Strategy for 2018

Recommended Action: Approve proposed 12-month CEA Risk-Transfer Strategy for 2018

Background:

At the December 13, 2012, Governing Board meeting, CEA staff proposed to the Board new guidelines for procuring risk transfer and claim-paying capacity, including traditional reinsurance and alternative risk-transfer methods. At the same meeting, the Board approved a resolution adopting *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer* (the *Guidelines*), which was revised and approved by the Board on March 15, 2017.

In accordance with the *Guidelines*, CEA staff provides the Board for review and approval, on at least an annual basis, a comprehensive risk-transfer strategy that sets forth the CEA's basic risk-transfer goals and benchmarks for the following year.

In its search for optimal sources of claim-paying capacity, staff has balanced the following objectives:

1. The CEA must remain financially sound, by securing and maintaining claim-paying capacity sufficient for policyholder claims in the event of an earthquake while retaining essential financial-strength and credit ratings.
2. The CEA must honor its value proposition with its customers, by establishing a financial structure that makes CEA insurance as affordable as possible and while supporting the claim-paying capacity that is both necessary and appropriate to providing secure earthquake coverage to existing policyholders while providing for reasonable growth.
3. Generate stability and longevity for the Authority through a financial structure that ensures the CEA's continuation and enhances its ability to serve policyholders after a significant earthquake or series of earthquakes.

The staff analysis and recommendations, below, focus on these priorities.

Analysis:

Historically, the CEA has relied on reinsurance—predominantly, traditional reinsurance—for about a third of its total claim-paying capacity. The cost of CEA's risk-transfer purchases (both traditional and non-traditional reinsurance, such as transformer arrangements) that are required to

meet CEA's capacity needs is a significant periodic expense that, according to principles of actuarial soundness followed by CEA, must be accounted for as an expense in the premium rates charged CEA policyholders.

CEA has worked hard to reduce its premium rates charged its customers, in the face of rising reconstruction costs, an unpredictable risk-transfer marketplace, and our statutory call to use actuarially sound rates and the best available science. When CEA buys risk-transfer from the reinsurance marketplace or by accessing the global capital markets, it pays a premium to obtain that cover. CEA's current risk-transfer rates are quite low. In fact, they are historically low—on average, less than a third of the rate CEA was able to obtain 20 years ago. So, while insuring catastrophe loss in a responsible manner involves considerable expense, CEA's risk-transfer programs and pricing assure that CEA customers pay no more than is necessary for dependable CEA earthquake insurance policies.

Available risk-transfer capacity and price are subject to wide swings—potentially upward or downward—caused by market conditions, global catastrophes, and other factors beyond CEA's control.

- For example, since 2013, reinsurance market-capacity has expanded, so buyers such as CEA have demanded and received lower pricing.
- Multiyear reinsurance contracts (such as CEA's transformer-reinsurance transactions) relieve CEA of some year-to-year capacity and pricing uncertainty, but there remain significant risks.

So, while staff believes the risk-transfer limits CEA is likely to require for the next 12 months should be obtainable at an acceptable price and on reasonable terms, there is no guarantee that the capacity the CEA requires in the future will be obtainable at CEA's desired pricing and on CEA's desired terms.

Because CEA has a relatively rigid financial structure that depends heavily on risk-transfer, any potential limits on traditional and transformer reinsurance-market capacity will affect, and may constrain, the overall claim-paying capacity of the CEA—and that, in turn, could hinder CEA's ability to provide affordable earthquake insurance.

With three successful transformer-reinsurance transactions in 2011 and 2012, one transaction per year in 2014, 2015, and 2016, and two in 2017 (one of which was CEA's largest transaction to date at \$925 million and one that renewed the expiring 2014 transaction), CEA has well established access to the capital markets for risk-transfer, which means CEA can access additional, strong sources of claim-paying capacity and risk-transfer, going forward.

As has been discussed frequently and at length with the Board in connection with its approvals of past risk-transfer proposals and transactions, the risk-transfer market is dynamic: Coordinating CEA's risk-transfer needs with current market conditions is crucial, meaning the CEA must be positioned to execute risk-transfer transactions efficiently and effectively, when market conditions in the reinsurance and capital markets are, in the judgment of CEA financial staff and CEA's retained professional financial, legal, reinsurance, and risk-transfer experts, likely to be receptive to the CEA's participation and unique requirements.

The Board has recognized these needs by taking action: On December 13, 2012, it authorized CEA staff to accomplish these ends in a flexible, yet prudent, manner, to allow CEA to act quickly when market conditions are favorable to meet the tight time limits and deadlines inherent in highly time-sensitive risk-transfer transactions, in amounts and at pricing according to the staff's discretion, so long as they are conducted in full compliance with the *Guidelines* and under documented conditions.

Results of the 2017 Risk-Transfer Strategy (Board-approved in 2016)

During 2017, CEA was able to obtain sufficient capacity to maintain the approved minimum claim-paying capacity of a 1-in-400-year level.

Reinsurance capacity in traditional reinsurance markets and capital markets remains strong and well capitalized, which should allow CEA the continued ability to purchase risk-transfer at the lower end of the pricing scale and still obtain desired capacity levels.

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The 2017 CEA risk-transfer program (as of November 1, 2017) is represented below, with pricing:

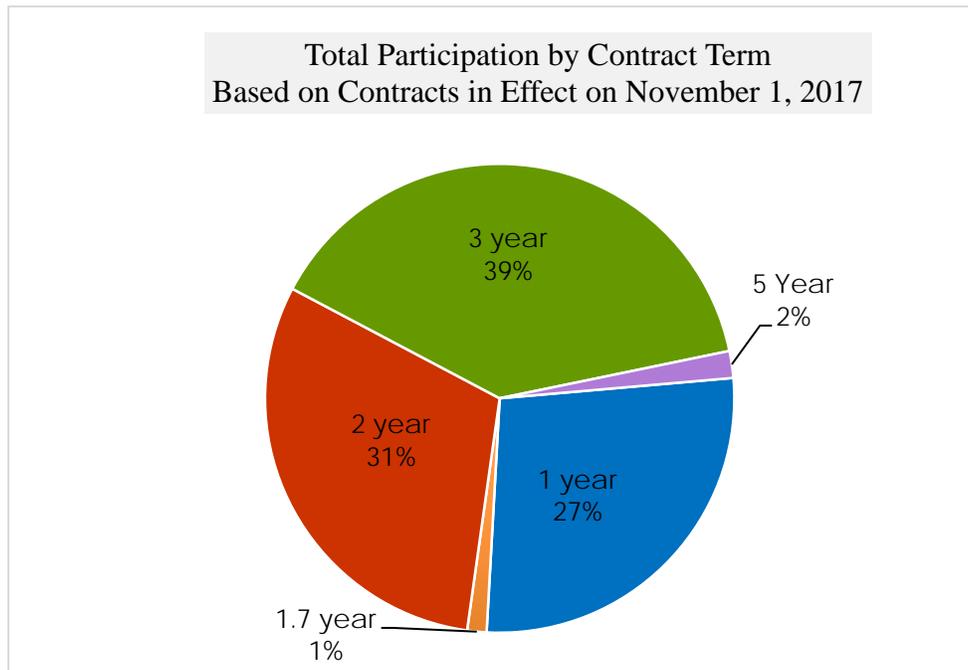
Risk-Transfer Contracts as of 11/1/2017	Contract Period	Reinsurance Limit	12-Month Rate-on-Line
2017 January Program Contract 1	January 1, 2017 - December 31, 2017	614,317,300	4.40%
2017 January Program Contract 2	January 1, 2017 - December 31, 2017	290,405,830	3.20%
2017 January Program Contract 3	January 1, 2017 - December 31, 2017	15,000,000	6.25%
2017 January Program Contract 4	January 1, 2017 - December 31, 2017	25,000,000	5.60%
2016-2017 January Program Contract 1	January 1, 2016 - December 31, 2017	472,799,040	4.40%
2016-2017 January Program Contract 2	January 1, 2016 - December 31, 2017	99,999,970	5.70%
2016-2017 January Program Contract 4	January 1, 2016 - December 31, 2017	49,999,995	5.00%
2017-2018 January Program Contract 1	January 1, 2016 - December 31, 2017	50,000,000	2.60%
2017-2018 January Program Contract 2	January 1, 2017 - December 31, 2018	472,170,373	4.50%
2017-2018 January Program Contract 3	January 1, 2017 - December 31, 2018	240,999,850	3.30%
2017-2018 January Program Contract 4	January 1, 2016 - December 31, 2018	135,000,000	6.35%
2017-2018 January Program Contract 4	January 1, 2016 - December 31, 2018	5,000,000	5.70%
2017-2018 April Program Contract 1	April 1, 2017 - March 31, 2018	738,633,400	3.00%
2017-2019 April Program Contract 1	April 1, 2017 - March 31, 2019	186,780,000	3.10%
2016-2018 April Program Contract 1	April 1, 2016 - March 31, 2018	259,876,500	3.10%
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	124,999,920	3.25%
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	200,000,000	4.15%
2017-2020 August Program Contract 2	August 1, 2017 - July 31, 2020	200,000,000	3.60%
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000	4.25%
2016-2017 December Program Contract 1	December 1, 2016 - November 30, 2017	80,000,000	5.75%
2017 January Program Contract 5	January 1, 2017 - December 31, 2017	72,000,000	5.30%
2016-2017 May Program Contract 1	May 1, 2016 - November 30, 2017	100,000,000	3.55%
2016-2018 June Program Contract 1	June 1, 2016 - May 31, 2018	49,999,980	5.40%
2017-2018 August Program Contract 1	August 1, 2017 - July 31, 2018	93,750,000	5.57%
2017-2020 August Program Contract 1	August 1, 2017 - July 31, 2020	93,750,000	5.87%
2015-2017 December Program Contract 1	December 1, 2015 - November 30, 2017	124,999,980	5.50%
2015-2017 December Program Contract 1 ADDL	December 1, 2016 - November 30, 2017	99,988,000	5.50%
2016-2018 December Program Contract 1	December 1, 2016 - November 30, 2018	74,998,000	5.60%
2015-2017 December Program Contract 2	December 1, 2015 - November 30, 2017	49,999,950	5.60%
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.87%
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	93,750,000	5.87%
2017-2019 July Program Contract 1	July 1, 2017 - June 30, 2019	70,000,000	5.65%
2017-2018 July Program Contract 1	July 1, 2017 - June 30, 2018	20,000,000	4.15%
2014 - 2017 Transformer Reinsurance Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%
2014 - 2017 Transformer Reinsurance Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%
2015 - 2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	250,000,000	5.05%
2016 - 2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	500,000,000	4.04%
2017 - 2020 Transformer Reinsurance Contract 2	May 16, 2017 - May 15, 2020	425,000,000	3.54%
2017 - 2020 Transformer Reinsurance Contract 1	May 16, 2017 - May 15, 2020	500,000,000	6.06%
Total Risk-Transfer in effect as of 11/1/2017		7,511,968,088	
Contracts effective in 2017			

The table above shows CEA's risk-transfer contracts in effect, including those purchased, in 2017. The program diversity achieved serves to minimize risks of adverse economic conditions having negative effects on pricing. And because it buys throughout the year, the CEA is well positioned to acquire risk-transfer products to respond to exposure changes that require capacity adjustments.

CEA entered into 16 new risk-transfer contracts in 2017, of which 8 were multi-year. In 2017, the CEA continued to diversify its risk-transfer program by executing multi-year reinsurance contracts, which provide the CEA with uninterrupted, long-term financing at lower prices. Multi-

year contracts reduce the risk that a single year's market conditions would prevent CEA from obtaining risk-transfer capacity at suitable pricing, on favorable terms.

CEA returned to the capital markets in 2017 with a \$925,000,000 transformer reinsurance contract with Ursa Re, Ltd., in May and a renewing \$400,000,000 transformer reinsurance contract with Ursa Re, Ltd., effective December 1, 2017.



12-Month Risk-Transfer Strategy

Staff proposes a 2018 risk-transfer strategy that will include risk-transfer programs of both traditional and transformer reinsurance, contributing appropriately and efficiently to CEA's claim-paying capacity. In determining total 2018 claim-paying capacity, CEA will be making a transition to earthquake models modified by application of new science and will maintain its claim-paying capacity at no less than a 1-in-400-year level and no greater than a 1-in-550-year level.

CEA staff will strive in each 2018 transaction to obtain the most advantageous pricing and contract terms (extending over multiple years, as appropriate), accessing both the worldwide reinsurance market and the other capital markets that provide reliable risk-transfer.

In keeping with past practices and Board preferences, staff will report each transaction to the Board at the first Board meeting following the effective date of each transaction.

Recommendation:

Staff recommends the Board approve the proposed 12-month Risk-Transfer Strategy that is described above.

Governing Board Memorandum

December 6, 2017

Agenda Item 6: 2018 CEA Budget: Insurance Services

Recommended Action: Approve 2018 CEA Insurance Services Budget

Background:

Each year, the CEA staff prepares and submits to the Governing Board a proposed annual budget, based on all anticipated expenses for the next calendar year.¹

Analysis:

2018 Insurance Services Budget

Staff has prepared three attachments to assist the Board in comparing and analyzing the 2017 and proposed 2018 budgets for insurance services.

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2017 Budget Year**
 - This attachment shows:
 - a. The December (2016) Board-approved Budget for 2017;
 - b. 2017 budget adjustments throughout the year;
 - c. 2017 budget augmentations throughout the year;
 - d. augmented/adjusted approved 2017 budget;
 - e. actual expenses through October 31, 2017;
 - f. projected expenses for the months of November and December 2017;
 - g. actual and projected expenses at December 31, 2017;
 - h. comparison of augmented, adjusted, approved budget to actual and projected expenses at December 31, 2017; and
 - i. percentage of used augmented and adjusted approved 2017 budget.
- **Attachment B: Proposed 2018 Insurance Services Budget**
 - Attachment B shows the proposed 2018 insurance services budget, constructed to support the business activities planned for 2018.
- **Attachment C: Approved 2017 Insurance Services Budget after Augmentations and Mid-Year Adjustment Compared to Proposed 2018 Budget**
 - Attachment C compares the 2017 Insurance Services Budget after Augmentations and Mid-Year Adjustments to the proposed 2018 Budget

¹ The CEA fiscal year is the calendar year.

- **Attachment D: Approved 2017 Insurance Services Original Budget Compared to Proposed 2018 Budget**
 - Attachment D compares the 2017 Insurance Services Original Budget approved in December 2016 by the Board to the proposed 2018 Budget

**Summary of Proposed 2018 CEA Statutory Expenses/Expense Cap
[projected statutory expense compared to projected statutory cap]**

The projected statutory-expense portion of the proposed 2018 budget is \$36,222,491, which is less than the projected 6% cap of \$41,400,000:

Projected 2018 written premium:	\$690,000,000
Statutory operating-expense cap 2018 (percentage)	6%
Statutory operating-expense cap 2018 (dollars)	\$41,400,000
Proposed 2018 operating expense budget	\$36,222,491
Amount by which 6% cap exceeds proposed budget	\$5,177,509

Recommendation:

Staff recommends the following Board actions:

- Approve the proposed 2018 Insurance Services budget; and
- Direct staff to operate CEA business operations within the total approved budget amounts.

**CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budgeted-Actual-Projected Expenditures
2017 Budget Year**

	(a)	(b)	(b2)	(c)	(d) (d=a+b+b2+c)	(e)	(f)	(g) (g=e+f)	(h) (h=d-g)	(i) (i=g/d)
	Approved 2017 Budget 1/1/2017	Adjustments ^A thru 12/31/17	Adjustments 2 ^A thru 12/31/17	Augmentations thru 12/31/17	2017 Budget after Augmentations and Mid-Year Adjustments	Actual Expenditures as of 10/31/17	Projected Expenditures 11/1/17 to 12/31/17	Actual and Projected Expenses at 12/31/17	Augmented & Adjusted Approved Budget (d) vs. Actual & Projected Expenses (g) at 12/31/17	Percentage used of Augmented & Adjusted Approved 2017 Budget
Human Resources:										
Compensation and Benefits	\$ 25,359,916	\$ (158,496)		\$ -	\$ 25,201,420	\$ 17,610,177	\$ 7,591,243	\$ 25,201,420	\$ -	100.00%
Travel	707,298	(244,232)		-	463,066	243,518	106,186	349,704	113,362	75.52%
Other	766,310	(332,838)		-	433,472	196,876	133,759	330,635	102,837	76.28%
Board Meeting	22,100	(13,004)		-	9,096	5,745	2,237	7,982	1,114	87.75%
Administration & Office	1,351,140	(44,179)		-	1,306,961	993,491	305,103	1,298,594	8,367	99.36%
EDP Hardware	470,950	-		-	470,950	113,725	357,225	470,950	-	100.00%
EDP Software	1,099,915	-		-	1,099,915	477,881	622,034	1,099,915	-	100.00%
Information Technology	1,775,205	-		-	1,775,205	1,413,044	362,265	1,775,309	(104)	100.01%
Telecommunications	268,324	(3,278)		-	265,046	238,987	25,954	264,941	105	99.96%
Rent/Lease	1,693,900	(2,050)		-	1,691,850	985,113	706,457	1,691,570	280	99.98%
Compliance	60,000	(50,000)		-	10,000	-	10,000	10,000	-	100.00%
Government Affairs	146,000	-		-	146,000	84,769	61,231	146,000	-	100.00%
Insurance	175,000	-		-	175,000	117,705	57,295	175,000	-	100.00%
Internal Audit	100,000	(75,000)		-	25,000	-	25,000	25,000	-	100.00%
Intervener Fees	-	-		-	-	-	-	-	-	0.00%
Other	78,000	(1,000)		-	77,000	10,085	41,915	52,000	25,000	67.53%
Regulatory Expenses	50,000	(10,000)		-	40,000	20,746	(18,246)	2,500	37,500	6.25%
Risk Management	-	95,000		-	95,000	60,172	34,828	95,000	-	100.00%
Total Statutory Expenditures	34,124,058	(839,077)		-	33,284,981	22,572,034	10,424,486	32,996,520	288,461	99.13%
Audit Services	116,000	-		-	116,000	74,500	41,500	116,000	-	100.00%
Capital Market	7,583,695	(112,922)		-	7,470,773	6,458,389	1,012,384	7,470,773	-	100.00%
Claims	124,000	(14,000)		-	110,000	672	109,328	110,000	-	100.00%
Loans	-	-		-	-	-	-	-	-	0.00%
Grants	12,000,000	(83,547)		-	11,916,453	223,286	(223,286)	-	11,916,453	0.00%
Investment Services	3,234,043	129,740		-	3,363,783	2,687,162	668,621	3,355,783	8,000	99.76%
Legal Services	3,567,500	(2,047,082)		-	1,520,418	975,640	459,778	1,435,418	85,000	94.41%
Loss-Modeling	1,123,500	-		-	1,123,500	765,440	358,060	1,123,500	-	100.00%
Marketing Services ¹	14,925,725	(229,454)		360,000	15,056,271	5,099,709	9,866,562	14,966,271	90,000	99.40%
Producer Compensation	67,500,000	(3,000,000)		-	64,500,000	59,798,377	4,701,623	64,500,000	-	100.00%
Participating Insurer Operating Costs	28,306,360	(2,175,000)		-	26,131,360	21,065,975	5,065,385	26,131,360	-	100.00%
Seismic-Related Research	200,000	(180,000)		-	20,000	-	-	-	20,000	0.00%
Engineering-Related Research	1,620,000	(1,290,000)		-	330,000	229,363	100,637	330,000	-	100.00%
Risk Transfer ²	246,947,682	-	9,841,342	56,010,976	312,800,000	260,107,864	52,692,136	312,800,000	-	100.00%
Total Non-Statutory Expenditures	387,248,505	(9,002,265)	9,841,342	56,370,976	444,458,558	357,486,377	74,852,728	432,339,105	12,119,453	97.27%
Total Budget Expenditures	\$ 421,372,563	\$ (9,841,342)	\$ 9,841,342	\$ 56,370,976	\$ 477,743,539	\$ 380,058,411	\$ 85,277,214	\$ 465,335,625	\$ 12,407,914	97.40%

¹Augmentation to fund user experience and user interface website design from March 15, 2017 Governing Board Meeting Agenda Item 9.

²Augmentation to fund additional risk transfer needs from September 20, 2017 Governing Board Meeting Agenda Item 6.

^AAdjustments to meet insurance services end of year projections

**California Earthquake Authority
Insurance Services
Proposed 2018 Budget**

Statutory Expenses

Human Resources:	
Compensation and Benefits	\$ 27,292,438
Travel	709,346
Other	692,667
Board Meeting	24,480
Administration & Office	807,975
EDP Hardware	205,500
EDP Software	2,050,188
Information Technology	1,613,106
Telecommunications	418,000
Rent/Lease	1,446,842
Compliance	30,000
Government Affairs	146,000
Insurance	215,000
Internal Audit	30,000
Intervener Fees	-
Other	71,450
Regulatory Expenses	330,000
Risk Management	139,500

Total Statutory Expenses	36,222,491
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Non-Statutory Expenses

Audit Services	119,500
Capital Market	4,864,855
Claims	164,000
Loans	-
Grants	11,700,000
Investment Services	3,436,588
Legal Services	2,043,650
Loss-Modeling	1,156,500
Marketing Services	14,205,465
Producer Compensation	69,000,000
Participating Insurer Operating Costs	26,672,800
Seismic Related Research	380,000
Engineering Related Research	1,920,000
Risk Transfer	315,600,000

Total Non-Statutory Expenses	451,263,358
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Total Budgeted Expenditures	\$ 487,485,849
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CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budget Comparison
2017 Original Budget to Proposed 2018 Budget

	(a)	(b)	(c)	(d)
	Original Budget 2017*	Proposed Budget 2018	(c=b-a) Difference	(d=c/a) % Change
Statutory Expenses				
Human Resources:				
Compensation and Benefits	\$ 25,359,916	\$ 27,292,438	\$ 1,932,521	7.62%
Travel	707,298	709,346	2,048	0.29%
Other	766,310	692,667	(73,643)	(9.61%)
Board Meeting	22,100	24,480	2,380	10.77%
Administration & Office	1,351,140	807,975	(543,165)	(40.20%)
EDP Hardware	470,950	205,500	(265,450)	(56.36%)
EDP Software	1,099,915	2,050,188	950,273	86.40%
Information Technology	1,775,205	1,613,106	(162,100)	(9.13%)
Telecommunications	268,324	418,000	149,676	55.78%
Rent/Lease	1,693,900	1,446,842	(247,058)	(14.59%)
Compliance	60,000	30,000	(30,000)	(50.00%)
Government Affairs	146,000	146,000	-	0.00%
Insurance	175,000	215,000	40,000	22.86%
Internal Audit	100,000	30,000	(70,000)	(70.00%)
Intervener Fees	-	-	-	0.00%
Other	78,000	71,450	(6,550)	(8.40%)
Regulatory Expenses	50,000	330,000	280,000	560.00%
Risk Management	-	139,500	139,500	100.00%
Total Statutory Expenses	34,124,058	36,222,491	2,098,433	6.15%
Non-Statutory Expenses				
Audit Services	116,000	119,500	3,500	3.02%
Capital Market	7,583,695	4,864,855	(2,718,840)	(35.85%)
Claims	124,000	164,000	40,000	32.26%
Loans	-	-	-	0.00%
Grants	12,000,000	11,700,000	(300,000)	(2.50%)
Investment Services	3,234,043	3,436,588	202,545	6.26%
Legal Services	3,567,500	2,043,650	(1,523,850)	(42.71%)
Loss-Modeling	1,123,500	1,156,500	33,000	2.94%
Marketing Services	14,925,725	14,205,465	(720,260)	(4.83%)
Producer Compensation	67,500,000	69,000,000	1,500,000	2.22%
Participating Insurer Operating Costs	28,306,360	26,672,800	(1,633,560)	(5.77%)
Seismic Related Research	200,000	380,000	180,000	100.00%
Engineering Related Research	1,620,000	1,920,000	300,000	18.52%
Risk Transfer	246,947,682	315,600,000	68,652,318	27.80%
Total Non-Statutory Expenses	387,248,505	451,263,358	64,014,853	16.53%
Total Budgeted Expenditures	\$ 421,372,563	\$ 487,485,849	\$ 66,113,286	15.69%

* 2017 Original Budget approved by the CEA Board in December 2016

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budget Comparison
2017 Mid-Year Adjusted Budget to Proposed 2018 Budget

	(a)	(b)	(c) (c=b-a)	(d) (d=c/a)
	Budget after Augmentation and Mid-Year Adjustments 2017	Proposed Budget 2018	Difference	% Change
Statutory Expenses				
Human Resources:				
Compensation and Benefits	\$ 25,201,420	\$ 27,292,438	\$ 2,091,018	8.30%
Travel	463,066	709,346	246,280	53.18%
Other	433,472	692,667	259,195	59.80%
Board Meeting	9,096	24,480	15,384	169.13%
Administration & Office	1,306,961	807,975	(498,986)	(38.18%)
EDP Hardware	470,950	205,500	(265,450)	(56.36%)
EDP Software	1,099,915	2,050,188	950,273	86.40%
Information Technology	1,775,205	1,613,106	(162,100)	(9.13%)
Telecommunications	265,046	418,000	152,954	57.71%
Rent/Lease	1,691,850	1,446,842	(245,008)	(14.48%)
Compliance	10,000	30,000	20,000	200.00%
Government Affairs	146,000	146,000	-	0.00%
Insurance	175,000	215,000	40,000	22.86%
Internal Audit	25,000	30,000	5,000	20.00%
Intervener Fees	-	-	-	0.00%
Other	77,000	71,450	(5,550)	(7.21%)
Regulatory Expenses	40,000	330,000	290,000	725.00%
Risk Management	95,000	139,500	44,500	46.84%
Total Statutory Expenses	33,284,981	36,222,491	2,937,510	8.83%
Non-Statutory Expenses				
Audit Services	116,000	119,500	3,500	3.02%
Capital Market	7,470,773	4,864,855	(2,605,918)	(34.88%)
Claims	110,000	164,000	54,000	49.09%
Loans	-	-	-	0.00%
Grants	11,916,453	11,700,000	(216,453)	(1.82%)
Investment Services	3,363,783	3,436,588	72,805	2.16%
Legal Services	1,520,418	2,043,650	523,232	34.41%
Loss-Modeling	1,123,500	1,156,500	33,000	2.94%
Marketing Servies	15,056,271	14,205,465	(850,806)	(5.65%)
Producer Compensation	64,500,000	69,000,000	4,500,000	6.98%
Participating Insurer Operating Costs	26,131,360	26,672,800	541,440	2.07%
Seismic Related Research	20,000	380,000	360,000	100.00%
Engineering Related Research	330,000	1,920,000	1,590,000	481.82%
Risk Transfer	312,800,000	315,600,000	2,800,000	0.90%
Total Non-Statutory Expenses	444,458,558	451,263,358	6,804,800	1.53%
Total Budgeted Expenditures	\$ 477,743,539	\$ 487,485,849	\$ 9,742,310	2.04%

CEA Governing Board Memorandum

December 6, 2017

Agenda Item 7: Performance-management categories, which will drive the CEA's 2018 metrics reporting

Recommended Action: No action required—information only

Chief Operations Officer Kellie Schneider will present to the Board the periodic CEA-operations metrics report, and propose Board adoption of a new Performance Management category document, tied to the current Strategic Plan and intended to drive staff's metrics reporting for 2018.

California Earthquake Authority

Performance Management
Categories ▫ 2018–2019

Educate

Performance Metrics:

- Train 1,500 agents annually
- Schedule 25 agent outreach events annually
- Train 1,000 claim adjusters annually
- Increase premium calculator hits by 5% annually
- Increase in priority social media channels by 5% annually
- Coordinate 50 community-organization events annually
- Develop, and implement in the first quarter of the year, an advertising campaign that targets renters
- Develop, and implement in the first quarter of the year, a communications strategy for the rollout of the Rate and Form Filing
- Create 700 million advertising impressions statewide, annually

Mitigate

Performance Metrics:

- Complete 2,000 retrofits across CEA Brace + Bolt, Earthquake Brace + Bolt, and FEMA-supported Brace + Bolt programs
- Implement a centralized contractor and verification program for Brace + Bolt and Hazard Reduction Discount inspection

Insure

Performance Metrics:

- Maintain 90% retention of December 2017 policies-in-force
- Add 30,000 (net) new policies annually
- Increase Marketing Value Program participation by 10% annually
- Enroll three (net) new Participating Insurers in Centralized Policy Processing
- Achieve 100% completion and implementation of Rate and Form Filing
- Maintain no lower than 1-in-400-year claim-paying capacity
- For Insurance Operations and Finance, achieve 100% completion rate for end-to-end claim-payment reimbursement within 14 days following date of receipt of complete information from a participating insurer supporting claim-payment reimbursement
- Complete one mid-year and one year-end rate analysis annually for all CEA Insurance products, by June 1 and November 1, respectively, to achieve and maintain actuarially sound rates

Organizational Resilience

Performance Metrics:

- Complete procurement and implementation of Enterprise Resource Planning system to upgrade accounting, investment, reinsurance, procurement, and human resources systems
- Perform annual review of, and update as required, enterprise policies
- Develop standards for, and implement and perform bi-annually, a review of enterprise workforce plan
- Review annually, and update as required, executive-succession plan

- Attain 100% completion of annual performance appraisals for contract employees and individual development plans for civil service employees
- Complete 100% of civil service performance reports for probationary employees
- Annually update and continuously implement CEA business continuity plan
- Implement a Product Approval Form intake and processing system that includes service-level agreements for processing documents requiring legal review
- Achieve 100% completion and implement continuous evaluation of enterprise risk management plan to support risk-based decision-making
- Achieve 100% completion of required civil service compliance training (e.g., new supervisor, ethics, leadership, sexual harassment prevention)
- Conform actual annual expenditures to within 95% of Governing Board-approved annual budget
- Sustain 99.99% IT-systems availability each quarter
- Answer by in-house staff 99% of incoming calls placed to CEA's main telephone line

Governing Board Memorandum

December 6, 2018

Agenda Item 8: 2018 CEA Budget: Mitigation Program

Recommended Action: Approve 2018 CEA Mitigation Program Budget

Background:

The CEA staff has prepared for the Governing Board the annual CEA mitigation budget, based on all anticipated mitigation-related expenses for the 2018 calendar year¹.

Analysis:

2018 Mitigation Budget

Staff has prepared three attachments to assist the Board in analyzing the proposed 2018 mitigation budget and comparing it to the 2017 mitigation budget:

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2017 Budget Year**
 - This attachment shows:
 - a. the December 2016 Board-approved Budget for calendar year 2017;
 - b. 2017-budget adjustments during the year;
 - c. 2017-budget augmentations during the year;
 - d. the 2017 mitigation budget, as adjusted and approved;
 - e. actual 2017 mitigation expenses (through October 31, 2017 (latest available figures));
 - f. projected expenses for November and December 2017;
 - g. total actual and projected expenses at December 31, 2017;
 - h. comparison of augmented, adjusted, approved budget to actual and projected expenses at December 31, 2017; and
 - i. percentages spent of augmented, adjusted, approved 2017 budget.

- **Attachment B: Proposed 2018 Mitigation Budget**
 - This attachment shows the proposed 2018 mitigation budget, constructed as necessary to fulfill mitigation-related business responsibilities and operations.

¹ The CEA fiscal year for both insurance services and the mitigation program is the calendar year.

- **Attachment C: Approved 2017 Mitigation Budget Expenses Compared to Proposed 2018 Mitigation Budget**
 - This attachment shows the approved 2017 Mitigation Budget after Augmentations and Adjustments and compares it to the proposed 2018 budget.

Recommendation:

Staff recommends that the Board take the following actions:

- Approve the proposed 2018 mitigation budget.
- Direct staff to operate the CEA's mitigation-related business activities within the approved budget.

CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budgeted-Actual-Projected Expenditures
2017 Budget Year

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f)	(g) (g=e+f)	(h) (h=d-g)	(i) (i=g/d)
	Approved 2017 Budget 1/1/2017	Adjustments ^A thru 12/31/17	Augmentations thru 12/31/17	2017 Budget after Augmentations and Adjustments	Actual Expenditures as of 10/31/17	Projected Expenditures 11/1/17 to 12/31/17	Actual and Projected Expenses at 12/31/17	Augmented & Adjusted Approved Budget (d) vs. Actual & Projected Expenses (g) at 12/31/17	Percentage used of Augmented & Adjusted Approved 2017 Budget
Operating Expenses									
Human Resources:									
Compensation and Benefits	\$ 1,602,015	\$ (235,263)	\$ -	\$ 1,366,752	\$ 1,003,648	\$ 363,104	\$ 1,366,752	\$ -	100.00%
Travel	79,900	(34,900)	-	45,000	19,145	10,455	29,600	15,400	65.78%
Other	34,595	(17,800)	-	16,795	10,429	571	11,000	5,795	65.50%
Administration & Office	73,798	(100)	-	73,698	13,458	50,642	64,100	9,598	86.98%
EDP Software	100	(100)	-	-	-	-	-	-	100.00%
Information Technology	1,200	-	-	1,200	752	448	1,200	-	100.00%
Telecommunications	23,000	-	-	23,000	15,451	7,549	23,000	-	100.00%
Rent/Lease	140,700	(49,700)	-	91,000	78,861	12,139	91,000	-	100.00%
Total Operating Expenses	1,955,308	(337,863)	-	1,617,445	1,141,744	444,908	1,586,652	30,793	98.10%
Investment Services	11,200	(400)	-	10,800	8,779	2,021	10,800	-	100.00%
Legal Services	10,000	(5,000)	-	5,000	-	-	-	5,000	0.00%
Marketing	384,000	(230,000)	-	154,000	-	4,000	4,000	150,000	2.60%
Seismic-Related	-	-	-	-	-	-	-	-	0.00%
Engineering-Related	750,000	100,000	-	850,000	288,099	461,901	750,000	100,000	88.24%
Total Other Expenditures	1,155,200	(135,400)	-	1,019,800	296,878	467,922	764,800	255,000	75.00%
Total Expenditures	\$ 3,110,508	\$ (473,263)	\$ -	\$ 2,637,245	\$ 1,438,622	\$ 912,830	\$ 2,351,452	\$ 285,793	89.16%

^A Adjustments to meet mitigation services end of year projections.

**California Earthquake Authority
Mitigation
Proposed 2018 Budget**

Operating Expenses

Human Resources:

Compensation and Benefits	\$ 1,378,515
Travel	54,594
Other	19,515
Administration & Office	68,803
EDP Software	-
Information Technology	840
Telecommunications	33,400
Rent/Lease	109,700

Total Operating Expenses	1,665,366
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Other Expenses

Investment Services	11,200
Legal Services	10,000
Marketing Services	4,500
Seismic Related Research	-
Engineering Related Research	1,140,000

Total Other Expenses	1,165,700
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Total Budgeted Expenditures	\$ 2,831,066
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CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budget Comparison
2017 Budget to 2018 Budget

	(a)	(b)	(c) (c=b-a)	(d) (d=c/a)
	Budget after Augmentation and Adjustments 2017	Proposed Budget 2018	Difference	% Change
Operating Expenses				
Human Resources:				
Compensation and Benefits	\$ 1,366,752	\$ 1,378,515	\$ 11,763	0.86%
Travel	45,000	54,594	9,594	21.32%
Other	16,795	19,515	2,720	16.20%
Administration & Office	73,698	68,803	(4,895)	(6.64%)
EDP Software	-	-	-	0.00%
Information Technology	1,200	840	(360)	(30.00%)
Telecommunications	23,000	33,400	10,400	45.22%
Rent/Lease	91,000	109,700	18,700	20.55%
Total Operating Expenses	1,617,445	1,665,366	47,921	2.96%
Other Expenses				
Investment Services	10,800	11,200	400	3.70%
Legal Services	5,000	10,000	5,000	100.00%
Marketing Services	154,000	4,500	(149,500)	(97.08%)
Seismic Related Research	-	-	-	0.00%
Engineering Related Research	850,000	1,140,000	290,000	34.12%
Total Other Expenses	1,019,800	1,165,700	145,900	14.31%
Total Budgeted Expenditures	\$ 2,637,245	\$ 2,831,066	\$ 193,821	7.35%

Governing Board Memorandum

December 6, 2017

Agenda Item 9: CEA-supported mitigation-related projects and activities

Recommended Action: No action required—information only

Background:

The CEA Mitigation Department manages multiple projects, focusing on expanding mitigation resources for homeowners and technical professionals statewide, as well as developing and collecting data to broaden those mitigation efforts.

1. Guidelines Development

ATC 110, the earthquake-guidelines-development project, will create additional statewide retrofit standards that can be used to reduce earthquake damage in single-family dwellings.

In addition to creating a uniform seismic-retrofit-design methodology 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.

The CEA is providing the funding, and CEA's Chief Mitigation Officer Janiele Maffei and FEMA's Mike Mahoney are jointly managing the project.

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

FEMA P-50/P-50-1 Training:

CEA contributed funds to develop FEMA P-50 and FEMA P-50-1. While the tool has been available for use by inspection professionals, so far it has not been widely distributed or used.

CEA took the initiative and brought the FEMA P-50 evaluation tool—and related training—to California inspection professionals in 2015, for the following reasons:

- 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.

As of May 2017, 240 inspectors had completed the CEA-supported FEMA P-50 training. In collaboration with the California Real Estate Inspection Association (CREIA) and the American Society of Home Inspectors (ASHI), outreach for the training targeted home inspectors, since the tool would naturally extend the services they already provide.

Simplified Seismic Assessment Certification

With CEA’s assistance, CREIA is currently working with the Applied Technology Council (ATC) to develop a training curriculum to support CREIA’s implementation of a Simplified Seismic Assessor (SSA) certification. It is anticipated the program and certification process will be in place by year-end 2017.

Mobile Application – QuakeGrade™

CEA launched a web-based application, based on FEMA P50, for use by inspection professionals at the 2017 CREIA annual conference in May. The application is called QuakeGrade™, and it may be used on Macs/PCs and laptops 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 conduct a simplified seismic-assessment, noting certain structural and geological conditions of the house. From these data points, the application calculates a seismic-vulnerability score. A report is generated that describes the inspected house’s seismic vulnerabilities and identifies potential retrofit options that could mitigate the vulnerabilities and improve the vulnerability score.

There is potential for the application to incorporate the CEA Hazard Reduction Discount (HRD) form. CEA staff is working with CEA Technology and Insurance Operations to identify any needed modifications to QuakeGrade™, as well as any corresponding changes to the HRD form.

3. CRMP Earthquake Brace + Bolt Program:

Homeowners in the CRMP’s *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 the California Governor’s Office of Emergency Services.

The initial CRMP EBB pilot program ran in 2013 and 2014 in four ZIP Codes; eight retrofits were completed.

In 2015, CRMP EBB was available in 28 ZIP Codes, in seven cities: Oakland, San Francisco, San Leandro, Los Angeles, Pasadena, Santa Monica, and Napa; 528 retrofits were completed.

For the 2016 CRMP EBB program, funds provided by CEA from its Loss Mitigation Fund allowed for 600 retrofits. In addition, the 2015–2016 State budget included an appropriation of \$3,000,000 to the California Department of Insurance, with direction that the Department grant that money to the CEA, which would then contribute the funds to CRMP EBB—that process was completed and the funds were provided.

Additional information and analysis:

EBB will close out its 2016 program by the end of 2017. As of September 11, 2017, the following 2016-program retrofits have been completed or, in one case, remain in progress:

1. Completed 1,554
2. Permits received 1

All funds appropriated to the CDI, and then granted to the CEA for mitigation-grant purposes in the 2016 program, have been expended.

Napa Earthquake Brace + Bolt (CRMP):

CRMP’s Napa Earthquake Brace + Bolt program (Napa EBB) launched in February 2017.

Napa EBB is funded by the FEMA Hazard Mitigation Grant Program (HMGP) and by a partial CRMP EBB funding match provided with CEA support. Napa EBB will provide retrofit grants for 100 houses.

As of September 11, 2017:

Completed retrofits	82
Permits received (retrofit not completed)	2
Extensions (program is considering)	6

CRMP expects that the Napa program will reach its goal of 100 retrofits.

2017 CRMP EBB:

The 2016–2017 State budget included an appropriation of \$3,000,000 to the California Department of Insurance, with legislative direction that those funds be granted to CEA, which would contribute them to the CRMP EBB program. With the infusion of state-sourced funds, the goal for 2017 CRMP EBB is 2,000 retrofits.

Homeowner registration for the 2017 CRMP EBB program was open from January 25 through February 27 (2017), in 33 cities and more than 140 ZIP Codes. A total of 5,760 California homeowners registered for the 2017 program. A random selection was conducted in March 2017, accepting 4,000 qualified homeowners into the program. In June 2017, 1,700 homeowners on the waiting list were brought into the program.

As of November 28, 2017:

Completed retrofits	1710
Permits received (retrofit not completed)	519
Extensions (program is considering)	73

Retrofits to date (all programs)

Program Year	Number of Retrofits Completed by Program Year	Current Program + Prior Programs
2014	9	9
2015	526	535
2016	1,637	2,172
2017	1,779 (in progress)	3,951 (in progress)

2018 CRMP EBB:

At the May CRMP governing board meeting, additional cities were approved for the 2018 EBB program: Glendale, Monrovia, San Fernando, Sierra Madre, Colton, La Verne, Montecito, Santa Paula, Fillmore and Los Gatos. In addition, five more ZIP Codes will be included in Los Angeles (91607, 90025, 91352, 90043, 90037).

While State funding is not anticipated in 2018, in keeping with the program’s goal of continued annual growth, EBB’s goal will be to complete more than 2,000 retrofits in 2018.

Future Funding Opportunities:

CRMP continues to look beyond present funding sources, which include the CEA Loss Mitigation Fund, to find additional EBB funding: more funding means more incentive payments for more homeowners. The number of houses statewide that need retrofits far exceeds funding now available or identified.

6. CEA Brace + Bolt

Program: Background:

CEA’s pilot program, *CEA Brace + Bolt* (“CEA BB”), provides each selected CEA policyholder up to \$3,000 toward a retrofit, as a grant to encourage strengthening their older houses located in CEA-identified high-seismic-activity areas. Once the brace-and-bolt retrofit is complete and verified, each participating policyholder will qualify for CEA’s new 20 percent Hazard Reduction Discount on their earthquake 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 cost of, risk-transfer.

Operating within CEA Governing Board-approved program rules, the CEA BB program offers benefits to eligible CEA policyholders who:

- own a pre-1940 house in one of the 10 selected ZIP Codes whose characteristics qualify for a code-compliant brace-and-bolt retrofit; and
- have insured their house with CEA for at least three years.

The 10 ZIP Codes, five each in Northern and Southern California, are:

Northern California	Southern California
94501	90027
94602	90048
94611	91030
94705	91104
94707	91108

Additional information and analysis:

The CEA Brace + Bolt (CEA BB) pilot program launched with the delivery of letters of invitation mailed in October 2016 to approximately 3,200 CEA policyholders.

As of November 28, 2017, in progress were:

- Completed retrofits 69
- Permits received 12
- Extensions (considering) 16

To increase the number of completed retrofits, staff is considering using other strategies, including a professionally managed construction package, overseen by CEA, to provide both retrofit inspections and the requisite code-based retrofit work.

Recommendation:

No action required—information only.

Governing Board Memorandum

December 9, 2017

Agenda Item 10: 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 includes 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.

CEA Research and Legal staff have been collaborating on draft policies and procedures for the program, including research into best options for contracting with university faculty who may apply and be awarded a CEA Research Grant.

Grant recipients will most likely be research specialists, possibly private sector but more likely faculty of public and private university systems in California and in the U.S. Such grants are administered through contracts with the employing academic institution, which distributes grant funds and collect overhead fees and costs, often reducing net grant proceeds.

CEA Research and Legal staff are exploring options including other types of funding mechanisms (i.e. fellowships), as well as identifying standard contract language and criteria among public and private universities in-an-effort to develop a uniform guide in the contracting process for Research Grants.

In addition to the Legal department, input from CEA Accounting is necessary to ensure requirements for fund requests and distribution meet audit requirements. It is critical clear contracting criteria, and a process for administering the contracts and disseminating funds, is established prior to the launch of the program to ensure expedited contract execution and fund distribution. These efforts are intended to create a consistent and expeditious process for initiating, executing, and funding grant contracts. As a result, the launch of the Grant Program will likely be delayed until mid-2018.

CEA Research Forum

The CEA Grant Program will be amplified and extended by CEA's continuing to organize and sponsor the annual CEA Research Forum, which includes both academic and professional earthquake communities.

The 2018 Research Forum is scheduled for February 22–23 at the Sacramento Convention Center. The agenda is in process, with a draft scheduled to be sent out with registration information by December 15, 2017.

Research Projects

Cripple-Wall Performance Effects

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

The project consists of seven tasks, to be accomplished over 42 months, of which the first task, a literature review, is complete.

The PEER project team is moving on to analyzing building inventory and defining representative “index buildings,” as well as identifying criteria and developing loading protocols necessary to test structural components. These tests are integral to the project goal of comparing damage levels of non-retrofitted and retrofitted components in the standard house with raised concrete-perimeter foundation, with or without a cripple wall.

The ultimate results of this research will provide a broader, more refined basis for CEA’s premium rates and retrofit premium discounts.

Recommendation:

No action required—information only.

Governing Board Memorandum

December 6, 2017

Agenda Item 11: Approval of negotiating an agreement with the Applied Technology Council (following internally approved sole-source procurement) to update and draft key CUREE Guidelines to support CEA claim evaluation and adjustment

Recommended Action: Approve CEA staff to negotiate contract opportunity

Background:

In the 1970s and 1980s, the earthquake engineering community focused research, evaluation, analysis, code development, and other efforts on large, residential and commercial structures that posed serious life-safety concerns in damaging earthquakes. Few organizations tackled the challenges associated with the expected earthquake performance of single-family wood-framed structures. And earthquake hazard and damage modeling was in its infancy—the risks associated with incomplete or improper modeling were that estimates of expected damage to residential construction would be grossly underestimated, including by the residential property insurance industry.

On January 1, 1985, California law began requiring insurers selling residential property insurance to offer earthquake coverage to policy applicants and purchasers wishing to insure any California residential property, as defined in law. California Insurance Code sec. 10087, subd. (a). (The same mandatory offer requirement applies today, forming the basis for most sales of CEA residential earthquake insurance.)

Nearly a decade later, damage to residential property caused by the 1994 Northridge earthquake had significant impacts on California's homeowners insurers and the statewide residential-property-insurance market. Hit by unprecedented losses from this quake, many insurers saw quake coverage as risky enough to suspend writing it. But because state law required them to offer it, and the industry was unsuccessful in seeking a statutory suspension of their quake-insurance-offer obligation, most insurers severely restricted writing new homeowners policies in California—at its peak, the market constriction affected nearly 95% of that market.

Without straightforward access to homeowners insurance, Californians seeking to buy new residential property or sell their existing property were faced with serious problems.

In response to an almost frozen homeowners-insurance market, the State of California (led by the Insurance Commissioner and the California Department of Insurance staff (CDI), aided by financial and insurance industry leaders) established the California Earthquake Authority (CEA) to offer a legally sufficient form of residential earthquake insurance that the private insurance industry was not willing to provide.

As the residential-insurance-market constriction abated because of CEA's market presence, and CEA operations proved successful and broadly beneficial, the CEA began providing essential support for scientific, engineering, and social-science research that would advance understandings of how earthquake damage affects residential properties (particularly single-family dwellings) and their occupants.

In 2007, the CUREE 1 Assessment and Repair of Earthquake Damage project developed a set of general guidelines whose declared intention was to provide " ... 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." CEA provided major funding for development of the Guidelines.

The Guidelines were last updated in 2010. As part of CEA's funding agreement with CUREE, the Guidelines were made available for free download and have been widely distributed as part of California Department of Insurance-required training for insurance-claim adjusters who are called on to adjust earthquake-insurance claims.

Guidelines-project work was divided among academic institutions, commercial research laboratories, and practicing professionals, under contract to CUREE and led by project manager John Oстераas, Ph.D. (Exponent, Inc.). An Advisory Group (engineers in the public, private, and academic sectors; building inspectors; insurance claim personnel; and the Alfred E. Alquist California Seismic Safety Commission) provided project technical guidance and oversight.

The Guidelines target-audience consists of homeowners, contractors, insurance claim adjusters/managers, and other non-engineers involved in earthquake-damage assessment of wood-frame construction. Participating insurers adjusting CEA earthquake insurance claims are required by CEA to use the CUREE Guidelines and its damage-assessment forms. In addition to furnishing Guidelines, CUREE had planned additional, companion guidelines for the engineering community, to provide objective guidance on residential wood-frame damage assessment and repair decisions after an earthquake, primarily toward determining whether observed damage is cosmetic or structural. But CUREE lacked adequate funding and did not develop the additional engineering guidelines.

In 2015, following the 2014 magnitude-6.0 earthquake near Napa, California, CEA recognized the need to re-evaluate the original CUREE document and complete the proposed supplementary engineering assessment document. But for reasons unrelated to the CEA's intentions and requirements ("a persistent lack of funding opportunities" was the reason, according to the present CUREE website, which still offers access to a digital archive), CUREE was disbanded, effective December 2016.

Insurance and mitigation staff from CEA looked for other consortia or organizations that would assume responsibility for additional, needed work on the CUREE document. But since no other organizations appeared likely to assume that responsibility, CEA decided that it needed to take

on the responsibility of completing the Guidelines update, including the related/ supplemental engineering-focused document.

On that basis, in April 2017 CEA issued RFQ&P #07-16, seeking a qualifying person or entity ("Contractor") to coordinate and manage a project team to perform the described work. The Contractor would work under the direction of, and in consultation with, CEA management and the CEA Research Department.

RFQ&P #07-16 listed project expectations and proposal requirements:

1. *Project Expectations*

a. *Update CUREE Guidelines to reflect:*

- i. *current best practices,*
- ii. *building-code requirements, and*
- iii. *lessons learned from recent earthquakes.*

b. *Develop companion engineering guidelines (the "Engineering Guidelines") specifically for the engineering community to provide objective guidance regarding engineering aspects of the assessment and repair of earthquake damage to single-family woodframe residential buildings, including identifying whether observed damage has non-structural ("cosmetic") or structural implications.*

2. *Proposal Requirements:*

CEA preferred to receive proposals from "Project Teams" that offer and clearly describe a combination of expertise and qualifications to perform the technical aspects of the project tasks (testing and analysis), adding a clear description of the Team's capability to manage and control the project to successful and timely completion.

Project Teams should be composed of individuals or organizations with expertise in:

- *Field investigations*
- *Building codes and standards*
- *Economic applications, and*
- *Education and outreach*
- *It is permissible to describe other, relevant fields of research*

CEA expected responders to find the desired expertise among professionals and practitioners in the construction industry, insurance/finance/risk modeling, building code development and enforcement, geotechnical and structural engineering, state and local regulatory agencies, and other disciplines/ professions that would contribute value to the project.

CEA advertised the RFQ&P as follows:

1. CEA made broad, direct contact with 176 research specialists, identified from the CEA Research Forum—a good match to prospective research leaders. Of those, over 30% appear to have reviewed the invitation to propose.

2. CEA posted the RFQ&P announcement on the Natural Hazards Center website, which is well known and accessible to researchers in the U.S. and throughout the world.
3. CEA posted the RFQ&P announcement on its own website.

These advertising options were selected because they represented an adequate breadth of effort and an appropriate/adequate access to the subject-matter expertise desired for this project.

CEA received one full response, from the Applied Technology Council (ATC), already well known to CEA and which engages successfully with CEA on other important and Board-supported projects.

CEA interviewed the (proposed) ATC project team on September 7, 2017.

Application of CEA Sole-Source Criteria:

Because this procurement effort—despite its having been appropriately advertised and otherwise appropriately disseminated to likely, qualified potential respondents—produced only one active respondent, the procurement would cease unless one or more of the CEA's sole-source criteria are fairly and reasonably applicable. Yet having appropriate CUREE Guidelines (and the important, new engineering supplement) in place at the earliest possible opportunity is highly important to the CEA's mission: promptly, fairly, and efficiently adjusting its earthquake-insurance claims.

The primary focus of this justification effort is the CEA sole-source criterion of "unique qualifications." But the existence of a sole respondent, in and of itself, does not constitute a "uniquely qualified" respondent: That criterion focuses on the *unique abilities* of the respondent (the respondent's *qualifications*) and not on whether the respondent is the only one who wanted to do the advertised work.

So, in this case, other CEA sole-source criteria must be analyzed.

In that light, three other sole-source criteria are reasonably met:

1. The existence of exigent circumstances. The outdated CUREE Guidelines, coupled with their lack of needed engineering-specific supplemental material, reasonably creates an urgency for CEA that qualifies as an exigent circumstance.
2. Lack of potential availability of other bidders. Because of the very broad effort to reach out to so many likely respondents, it is reasonable to conclude that, in the desired exigent timeframe for the work, no other "bidders" seem likely to arise.
3. Other factors. (From the sole-source criteria: "Any other factor or factors that are relevant to the prudent exercise and oversight of the CEA's business.") As explained, updating and implementing appropriate and current CUREE Guidelines (and the needed engineering-specific supplement) is a key to CEA's properly and efficiently adjusting its earthquake-insurance claims and to avoiding additional liabilities that would or could arise from its inability to adjust those claims according to internal and legal standards.

For those reasons, there are fairly present other factors that are "relevant to the prudent exercise and oversight of the CEA's business" and which present a strong basis on which to move forward on a sole-source basis. The procurement was therefore recommended by the CEA's chief mitigation officer, and then was approved by the CEA's general counsel and chief executive officer.

ATC's qualifications to accomplish the project:

ATC's declared mission is to develop state-of-the-art engineering resources and applications to mitigate the effects of natural and other hazards on the built environment. ATC fulfills this mission through the implementation of applied research and technology transfer activities, and the development of nonproprietary consensus opinions on structural engineering issues.

ATC's approach is to engage the services of highly qualified expert consultants in design practice, engineering research, building regulation, code development, and other specialty areas, throughout the United States and internationally. Implementation of this approach results in products that are nonproprietary, immediately acceptable to the engineering profession, and hold lasting value to engineering practitioners. ATC clients have included all four agencies of the National Earthquake Hazards Reduction Program (NEHRP), including the Federal Emergency Management Agency (FEMA), the National Institute of Standards and Technology (NIST), the U.S. Geological Survey (USGS), and the National Science Foundation (NSF).

ATC has developed more than 200 major reports, guidelines, and other engineering applications that have formed the basis current building codes and standards, and served to define seismic (and other hazard) engineering design practice in the United States. In addition, many past projects and reports have been specifically targeted toward research and practice in wood, light-frame residential construction.

ATC is an internationally recognized nonprofit corporation founded in 1973 by the Structural Engineers Association of California (SEAOC) to perform work whose benefits include protecting life and property through advancement of science and engineering technologies.

ATC proposes a team composed of (a) highly qualified engineering practitioners in this narrow field of expertise, supported by (b) experts who led and helped develop the original CUREE Guidelines. Proposed team members have extensive experience from the Northridge earthquake and the CUREE Woodframe Project, as well as experience with past and current CEA engineering-related projects.

ATC consultants for this project have direct experience in developing CUREE EDA-02, *General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings* (Osteraas et al., 2010), and CUREE EDA06, *Engineering Guidelines for the Assessment and Repair of Earthquake Damage in Residential I-S Woodframe Buildings* (Osteraas et al., 2005), which are subject of RFP #07-16.

In addition, ATC proposes to use a highly qualified Project Technical Committee, all of whose members are well known in relevant professional communities, which is responsible for planning, coordination, and execution of the work across all tasks. ATC also proposes to use a qualified Project Review Panel, responsible for review and oversight of work at key stages of development.

Contract Essentials (Proposed):

1. Deliverables. ATC's proposal outlined the project in two phases conducted simultaneously. Phase One is centered around the General CUREE Guidelines update, while Phase Two focuses on developing the companion Engineering Guidelines. Deliverables for both phases include:
 - a. Review workshops for external-stakeholder input, including members of the ATC-110 Guidelines Development project and the Cripple Wall Project team from PEER;
 - b. Final documents in a form to facilitate sharing; and
 - c. Production of accompanying training modules.

2. Proposed fees and expenses.
 - a. ATC estimated a total budget expenditure of \$776,630, of which \$101,500 is for Phase One and \$675,130 is for Phase Two.
 - b. The project should be completed within 18 months after contract execution.

Recommendations:

1. Authorize CEA staff to commence the process of negotiating a project agreement with the Applied Technology Council, for the update of the current CUREE guidelines and the development of companion engineering guidelines.
2. Authorize CEO Glenn Pomeroy or his designee to conduct the negotiation and execute the contract on behalf of CEA.

Governing Board Memorandum

December 6, 2017

Agenda Item 12: Update on CEA’s establishment of a nonprofit charitable foundation, formed to increase funding and other support for earthquake-loss-mitigation activities and related financial incentives

Recommended Action: No action required—information only

At its September 2017 meeting, the CEA Governing Board approved the establishment by CEA of a nonprofit charitable foundation, which would operate as a public-benefit corporation organized and regulated under California law.

Background:

Established by law, CEA’s Earthquake Loss Mitigation Fund holds monies CEA devotes to carrying out earthquake-loss-mitigation programming and activities for the benefit of all Californians, including:

- Funding most Earthquake Brace + Bolt (EBB) grants paid by the California Residential Mitigation Program (“CRMP”)
- Paying personnel and administrative costs to support EBB programming
- Funding research on retrofit performance of single-family houses
- Paying to support and develop new “pre-engineered standards,” to enable cost-effective retrofits of more types of seismically vulnerable houses

To accelerate the pace of strengthening the most vulnerable housing stock in California, CEA must consider stimulating and fostering significant, additional funding sources. The foundation, for which the Governing Board has already authorized initial formation steps, is considered a promising source of funding for the CEA’s broad mitigation efforts.

Update:

At the September 2017 Board meeting, staff projected that, in December 2017, the Board would be asked to consider a detailed foundation business plan and bylaws—after that approval step, an application for federal and state tax-exempt status would be made and the results reported, and additional activity phases would be considered.

Following that September meeting, however, the managing director of the California Residential Mitigation Program—who was directing foundation development—resigned. For that reason, progress on the bylaws and business plan has been quite limited.

But as first concrete steps consistent with the Board's September 2017 discussion and authorizations, the following actions have been accomplished:

- Certain necessary intellectual property, considered key to successful foundation operations and promotion, have been secured by the CEA at a reasonable cost: the Internet domain name (i.e., the Web address), as well as the Twitter handle for the preferred organizational name.
- Articles of incorporation have been formally filed with the California Secretary of State—that filing establishes the foundation's legal existence (but not the foundation's operating or business rules, which remain under development).

Recommendation:

No action required—information only.

Governing Board Memorandum

December 6, 2017

Agenda Item 13: CEA Insurance & Technology Update

Recommended Action: No action required—information only

Insurance-Education and Sales-Support Update:

- The fifth participating insurer has been onboarded onto the Centralized Policy Processing administration and claim system (CPP Diamond), with the sixth expected to come on board in December.
- New agent/sales training approach is underway, with more focus on participating-insurer-specific and regional engagements and a new outreach program.
- The number of agents trained so far in 2017 is up 27% from 2016, with most 2017 activity resulting from a realignment and expansion of agent training personnel.
- The first round of updates and improvements to the CEA Marketing Value Program (MVP) has been implemented to enhance participation and efficiency of providing useful CEA marketing materials as incentives for agent training.
- 76% of agents trained in 2017 are participating in MVP.
- The CEA website is undergoing a redesign which will result in a simpler, more modern look, as well as a more user-friendly navigation experience.
- The number of Information Desk cases year-to-date as of October 31 was 10,236, with monthly activity spikes over 50% in September and October caused in part by the Northern California wildfires and other national and international natural catastrophes.
- 48% of Information Desk cases came from agents, 29% from policyholders, 16% from prospective policyholders, and 7% from other sources. This information helps determine training and education needs.

Insurance Operations Update:

- The CEA's annual Claim Manager Meeting scheduled for October 3, 2017, was cancelled because ongoing natural disasters and will be rescheduled for 2018.
- Staff is concentrating a significant operational focus on supporting and collaborating with other CEA departments on the 2019 CEA rate and form filing, CPP onboarding and hosting, agent outreach, and insurance-related communications content.
- Unprecedented growth in net CEA policies-in-force in September and October meant CEA is now approaching the one-million-policy milestone, with positive increases in net CEA policy counts from almost all participating insurers.

- Trends show that customers are selecting a wider variety of policy coverage and deductible options as agents and consumers become more aware of, and knowledgeable about, available choices.

Information Technology Update:

- No cybersecurity incidents to report.
- Software development and maintenance: Staff implemented release 27.0 on October 12, 2017, affecting 10 of the 14 CEA developed/maintained software systems, with 45 of 47 planned user stories successfully deployed.
- Staff continues to work with CPP Diamond vendor to transfer CPP Diamond hosting for participating insurers to the CEA cloud environment. The work includes new testing and model-office and production environments, with corresponding change-control and formal operating procedures.
- Department staff created the initial CEA-policy and claim-transaction standardized testbed, which will be used across CEA software systems for automated functional and regression testing and certification. Next steps include developing utilities to effectively use the testbed and compare actual system and processing results to expected results.
- Working with staff from other CEA departments, Information Technology continued preparation for the 2019 rate-and-form-filing software updates across the CEA-application portfolio.

Governing Board Memorandum

December 6, 2017

Agenda Item 14: Planning for the next CEA Rate and Form Filing

Recommended Action: No action required—information only

Background:

CEA changes its policy forms and premium rates periodically to reflect (approved) new policy features, adjust rates to keep them actuarially sound (required by law), or recognize accepted changes in “best available” earthquake science (also required by law). This process is accomplished through staff preparation of a detailed “rate and form filing” (RFF); gaining Governing Board acceptance and approval of the RFF; and submitting the RFF to, and obtaining the approval of, the California Department of Insurance (CDI).

CEA’s most recent RFF became effective on January 1, 2016, and introduced new coverage and limit options and additional policy deductibles that, together, provide CEA policyholders more choices to meet for their earthquake-insurance needs.

The RFF process is lengthy and requires significant work by CEA staff, CEA participating insurers, California Department of Insurance staff, and others. Bearing that in mind, CEA always strives to provide as much notice as possible to its stakeholders, to keep them aware of any new RFF; permit appropriate planning, review, and approvals; and best provide for a successful implementation.

CEA staff first informed the Board of its intent to file a new RFF at its March 15, 2017, meeting. Since then, staff has completed nearly all supporting analyses.

Analysis:

Need for RFF:

Newly available science, now accepted by the United States Geological Survey (USGS), is the primary driver of the next CEA RFF. By law, CEA premium rates must be established based on the best available scientific information for assessing the risk of earthquake frequency, severity, and loss.

The new science, expressed in expected updates from CEA’s earthquake-loss modelers, will help determine new CEA policy rates and may also support development and addition of one or more new rating factors for CEA policies.

CEA staff has determined that the upcoming RFF will require only minor changes to CEA policy forms. CEA staff expects an implementation date of January 1, 2019.

Timing:

The table below summarizes estimated key dates in the RFF process:

Estimated Completion**	Activities
January–March 2018	Finalize analyses, seek any needed Advisory Panel and Governing Board approvals, and file with the CDI.
May–August 2018	The CDI requires adequate time to review and approve (estimated 4–6 months).
January–April 2018	CEA—and its participating insurers, software vendors, and other stakeholders—require sufficient time from notification (estimated 9–12 months) to plan system changes.
March–September 2018	CEA—and its participating insurers, software vendors, and other stakeholders—typically require 3–6 months to implement system changes from the date specifications become available.
August–September 2018	Final testing and certification of system changes.
October 2018	Production release of system changes for renewal business.
December 2018	Production release of system changes for new business.

IMPORTANT NOTES**

- The timeframes for these activities are estimates based on CEA’s present knowledge.
- All estimated dates of CEA’s intended RFF are subject to various factors and may change. Implementation requires receipt of appropriate approvals.
- CEA intends this status update to permit stakeholders to begin to plan and appropriately prepare for a January 1, 2019, implementation date.

Recommendation: No action required—information only

Governing Board Memorandum

December 6, 2017

Agenda Item 15: 2017 program results from CEA Communications & External Affairs

Recommended Action: No action required—information only

CEA again exceeded expectations for overall marketing efficiency in 2017. Its marketing success is not due to overperformance of a single tactic. Rather, CEA's strategic integration of maturing marketing components has worked successfully to deliver a positive cumulative effect. This view of CEA's marketing success is no doubt part of why CEA has surpassed one million policies-in-force for the first time.

Components of various types that support this successful and maturing marketing formula through 2017 included:

- Four product improvements (1999, 2006, 2012, 2016)
- Four rate reductions (1999, 2006, 2012, 2016)
- Multiple publicized, damaging earthquakes since 2003
- Twelve marketing and messaging research studies since 2008
- Agent education through the Marketing Value Program (MVP) since 2011
- Consumer-friendly website and agent portal introduced in 2012
- Annual budgets supporting three different statewide advertising campaigns since 2012
- Statewide marketing opportunities through the Great California ShakeOut since 2008, and through the *Get Prepared, California!* Auction to benefit American Red Cross since 2012
- Rollout of a Cooperative Marketing Venture with Participating Insurers (PIs) in 2014
- Distribution of a marketing document through PIs to all home insureds since 2016
- Statewide outreach through community groups since 2016
- Media relations capabilities solidified in 2016
- Rollout of a social media strategy in 2016

Background:

CEA's 2017 annual paid-media budget for advertising breaks into four categories:

1. Television in eight markets
2. Radio in 15 markets
3. Print in two markets
4. Digital search, display, and video-streaming, statewide

Analysis:

Annual Paid Media:

- Delivered more than 983 million advertising impressions:
 - TV – about 181 million impressions
 - Radio – about 437 million impressions
 - Print – circulation of more than 424,000
 - Digital – more than 365 million impressions
- Dedicated 25 percent of CEA media-buy for two weeks to promote ShakeOut participation
- Sponsored KCBS TV Earthquake Scenario news segment in Los Angeles, as well as Disaster Preparedness guides in the San Diego Union Tribune and San Francisco Chronicle.

Annual Earned Media:

- CEA personally communicated with more than 229 journalists since January 1, 2017.
- CEA distributed 11 press releases, plus others related to the *Get Prepared, California!* Auction and the Great California ShakeOut.
- In September and October 2017 alone, CEA was interviewed for or appeared in 138 news stories (82 related to ShakeOut and 56 on other topics).
- Earned media coverage of CEA in 2017 included publications and broadcast outlets in Spanish, Chinese, Korean, German, and Italian, as well stories in English for Philippines, United Kingdom, and New Zealand audiences.

Annual Social Media (through November 2017):

- Increased customer service support for California consumers and agents through Tweets, Twitter direct messages, and Facebook messenger.
- Gained an average of two new followers per day on Twitter in 2017; doubled likes and followers over the past year on Facebook.
- Participated in branded content posts with local CBS, ABC, and FOX stations, and affiliates, to promote earthquake preparedness in 2017 Q2 and Q4.
- During ShakeOut week, organic tweets earned nearly 20,000 impressions and Facebook posts earned 215,387 impressions, with CEA earning 72,681 impressions on Facebook alone ShakeOut day itself.
- Starting in June 2017, twice-monthly blog posts on CEA's website engaged agents in the MVP.

Annual Community Outreach (through November):

- Delivered 97 presentations to Chambers of Commerce; Rotary and Kiwanis Clubs; real estate, homeowner and renter associations; and city and neighborhood councils.
- Reached 82 ZIP Codes.

Year-Over-Year Owned Media (CEA website, through November 2017):

- Total site sessions up 17 percent
- New users up 29 percent

- Total page views up 33 percent
- Total unique page views up 28 percent
- Total premium calculator hits up 33 percent

Recommendation:

No action required—information only

Governing Board Memorandum

December 6, 2017

Agenda Item 16: CEA Enterprise Risk Management Program: Progress update in developing the CEA enterprise risk management framework and program plan

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 their work in developing an enterprise-wide risk-management framework and program plan.

Since the September 2017 CEA Governing Board meeting, program work has focused on developing a monitoring and reporting plan for the CEA’s 14 priority risks:

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 • Succession Planning • Information Systems 	<ul style="list-style-type: none"> • Legislative/Regulatory • Reputation

A monitoring and reporting working group has been formed to develop the plan, comprising the respective risk owners of each priority risk. As previously reported, the CEA Executive Team and ERM Committee see the occurrence of a major, damaging earthquake in California as an overarching risk consideration. Risk owners have also considered the risk drivers, checkpoints and limits, controls, and responses for each priority risk in both normal (steady-state) conditions and for a range of earthquake scenarios.

The following scorecard shows the completion status the major elements of the risk-control summaries for each of 14 priority risks. The work on defining risk drivers, risk controls and mitigation steps, and risk measures and assessments is now fairly complete, and work is progressing to refine the risk checkpoints and limits, monitoring and reporting, and responses for each priority risk.

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
■	■	■	■	■	■	Succession Planning
■	■	▲	▲	■	■	Information Systems
■	■	■	■	▲	▲	CEA B&B programs

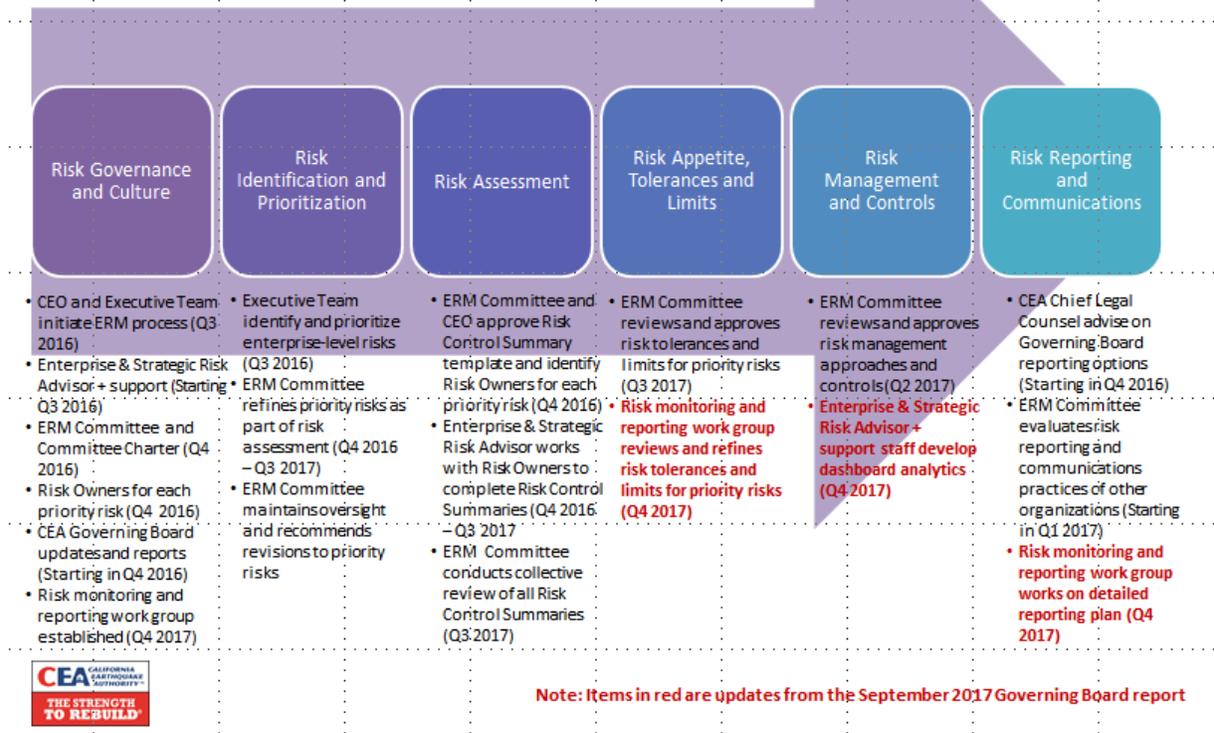
Legend	
■	Complete
▲	Progressing
■	Initiated

As 2017 ends, the Enterprise & Strategic Risk Advisor, support staff, and ERM Committee are continuing to integrate all the data developed so far into an enterprise-wide risk-management framework, which will be operationalized in 2018. The framework is being developed in accordance with the Own Risk and Solvency Assessment (ORSA) guidance from the National Association of Insurance Commissioners. CEA’s ERM Framework incorporates the following key principles:

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

Below is a graphical summary of the activities undertaken to date by CEA staff in each of the five areas.

ERM Framework and Progress to Date



The ERM Committee is also developing an ERM program plan for 2018, to build out the CEA’s ERM Framework and create “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

December 6, 2017

Agenda Item 17: (Proposed) 2018 CEA Governing Board Quarterly Meeting Schedule

Recommended Action: Approve 2018 CEA Governing Board Quarterly Meeting Schedule

Staff recommends approval of the following dates for the CEA Governing Board’s 2018 regular business meetings:

**All meetings are on
Wednesdays
and will begin at
1:00 p.m.**

2018 MEETING DATES
March 14
June 13
September 12
December 12

2018																																								
January						February						March						April						May						June										
	1	2	3	4	5	6					1	2	3						1	2	3										1	2	3							
7	8	9	10	11	12	13	4	5	6	7	8	9	10	4	5	6	7	8	9	10	7	8	9	10	11	12	13	14	15	16	17									
14	15	16	17	18	19	20	11	12	13	14	15	16	17	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31						
21	22	23	24	25	26	27	18	19	20	21	22	23	24	18	19	20	21	22	23	24	25	26	27	28	29	30	31													
28	29	30	31				25	26	27	28				25	26	27	28	29	30	31																				



CEA GOVERNING BOARD MEETING DATES FOR - 2018

March 14, 2018 – Wednesday

June 13, 2018 – Wednesday

September 12, 2018 – Wednesday

December 12, 2018 – Wednesday

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

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 11/23/2017 - Policies in Force on: 10/31/2017

TOTALS	Policies In Force	%Total	Exposure	%Total	Written Premium	% Total	Avg Written Premium
Homeowners	699,439	69.95%	356,218,374,317	83.85%	520,299,479	77.86%	744
Homeowners Choice	84,399	8.44%	49,181,730,645	11.58%	80,655,343	12.07%	956
All Homeowners Total	783,838	78.39%	405,400,104,962	95.43%	600,954,822	89.93%	767
Manufactured Homes (Mobilehomes) - Homeowners	26,477	2.65%	3,481,165,569	0.82%	3,557,361	0.53%	134
Manufactured Homes (Mobilehomes) - Homeowners Choice	2,298	0.23%	408,871,944	0.1%	493,258	0.07%	215
All Manufactured Homes (Mobilehomes) - Homeowners Total	28,775	2.88%	3,890,037,513	0.92%	4,050,618	0.61%	141
Condo	112,333	11.23%	12,728,542,500	3.0%	54,986,659	8.23%	489
Renters	74,953	7.5%	2,806,678,500	0.66%	8,233,993	1.23%	110
Grand Total	999,899	100.0%	424,825,363,475	100.0%	668,226,092	100.0%	668

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 11/23/2017 - Policies in Force on: 10/31/2017

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowners - by Cov A Ded							
25% Total	4,369	0.44%	2,440,331,998	0.57%	3,004,235	0.45%	688
20% Total	3,745	0.37%	2,095,015,959	0.49%	3,132,545	0.47%	836
15% Total	557,801	55.79%	281,056,683,473	66.16%	415,762,297	62.22%	745
10% Total	98,181	9.82%	52,058,009,116	12.25%	73,489,925	11.0%	749
5% Total	35,343	3.53%	18,568,333,771	4.37%	24,910,477	3.73%	705
Homeowners Total	699,439	69.95%	356,218,374,317	83.85%	520,299,479	77.86%	744
Homeowners Choice - by Cov A Ded							
25% Total	2,798	0.28%	1,677,369,441	0.39%	2,247,350	0.34%	803
20% Total	1,963	0.2%	1,217,428,391	0.29%	2,024,853	0.3%	1,032
15% Total	37,803	3.78%	23,056,737,085	5.43%	38,527,435	5.77%	1,019
10% Total	25,114	2.51%	14,518,796,579	3.42%	23,465,608	3.51%	934
5% Total	16,721	1.67%	8,711,399,149	2.05%	14,390,098	2.15%	861
Homeowners Choice Total	84,399	8.44%	49,181,730,645	11.58%	80,655,343	12.07%	956
All Homeowners Total	783,838	78.39%	405,400,104,962	95.43%	600,954,822	89.93%	767

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 11/23/2017 - Policies in Force on: 10/31/2017

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Manufactured Homes (Mobilehomes) -							
25% Total	14	0.0%	1,875,462	0.0%	2,197	0.0%	157
20% Total	16	0.0%	2,771,056	0.0%	2,789	0.0%	174
15% Total	20,359	2.04%	2,454,518,367	0.58%	2,500,352	0.37%	123
10% Total	4,580	0.46%	763,963,436	0.18%	760,542	0.11%	166
5% Total	1,508	0.15%	258,037,248	0.06%	291,481	0.04%	193
Manufactured Homes (Mobilehomes) - Homeowners Total	26,477	2.65%	3,481,165,569	0.82%	3,557,361	0.53%	134
Manufactured Homes (Mobilehomes) -							
25% Total	10	0.0%	1,646,011	0.0%	1,609	0.0%	161
20% Total	7	0.0%	1,419,508	0.0%	1,335	0.0%	191
15% Total	804	0.08%	131,452,085	0.03%	166,293	0.02%	207
10% Total	779	0.08%	145,262,113	0.03%	174,505	0.03%	224
5% Total	698	0.07%	129,092,227	0.03%	149,516	0.02%	214
Manufactured Homes (Mobilehomes) - Homeowners Choice Total	2,298	0.23%	408,871,944	0.1%	493,258	0.07%	215
All Manufactured Homes (Mobilehomes) - Homeowners Total	28,775	2.88%	3,890,037,513	0.92%	4,050,618	0.61%	141

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 11/23/2017 - Policies in Force on: 10/31/2017

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Condo - by Cov A Ded							
25% Total	1,021	0.1%	152,553,500	0.04%	564,780	0.08%	553
20% Total	674	0.07%	101,357,000	0.02%	412,180	0.06%	612
15% Total	72,942	7.29%	8,811,684,500	2.07%	37,848,313	5.66%	519
10% Total	5,735	0.57%	956,181,500	0.23%	3,509,234	0.53%	612
5% Total	9,785	0.98%	1,565,859,000	0.37%	5,217,115	0.78%	533
No Cov A	22,176	2.22%	1,140,907,000	0.27%	7,435,038	1.11%	335
Condo Total	112,333	11.23%	12,728,542,500	3.0%	54,986,659	8.23%	489

California Earthquake Authority

Insurance Operations - Governing Board Report

All Companies - As Of 11/23/2017 - Policies in Force on: 10/31/2017

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Renters - by Cov C Ded							
25% Total	1,285	0.13%	22,474,000	0.01%	56,530	0.01%	44
20% Total	442	0.04%	12,809,500	0.0%	28,106	0.0%	64
15% Total	19,875	1.99%	452,167,500	0.11%	1,142,567	0.17%	57
10% Total	4,306	0.43%	227,924,000	0.05%	563,668	0.08%	131
5% Total	49,045	4.9%	2,091,303,500	0.49%	6,443,122	0.96%	131
Renters Total	74,953	7.5%	2,806,678,500	0.66%	8,233,993	1.23%	110
Grand Total	999,899	100.0%	424,825,363,475	100.0%	668,226,092	100.0%	668

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to September 30, 2017

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 September 30, 2017 (continued)

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	3	23,901.50	2,151.13	\$26,052.63
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	17	81,066.58	7,296.00	\$88,362.58
	2010 Minor Quakes				1	225,000.00	0.00	\$225,000.00
12410	Brawley	8/26/2012	5.3	4 mi North of Brawley, CA	2	23,833.24	2,145.00	\$25,978.24
	2012 Minor Quakes				3	146,471.18	13,182.41	\$159,653.59
13430	Greenville	5/23/2013	5.7	7 mi WNW of Greenville, CA	1	1,500.00	135.00	\$1,635.00
14460	Westwood	3/17/2014	4.4	6mi NNW of Westwood, CA	6	67,989.89	6,119.09	\$74,108.98
14470	La Habra	3/28/2014	5.1	1mi S of La Habra, CA	84	458,354.56	41,251.91	\$499,606.47
14480	American Canyon	8/24/2014	6.0	4mi NW of American Canyon, CA	195	3,415,890.83	307,430.18	\$3,723,321.01
	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
Total					474	\$8,090,654.71	\$706,998.70	\$8,797,653.41

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 App	Stephenie Dagata	Active	01/04/16	01/04/16	12%	02/15/18	
✔	✔	✔	✔	✔	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	Emerg Mgmt/Bus Continuity	Paul Stubbles	Active	01/03/17	01/03/17	45%	06/30/18	
⚠	✔	✔	✔	⚠	2017-04	ECMS	Jason Haxton	Active	01/03/17	01/03/17	60%	12/31/17	
✔	✔	✔	✔	✔	2017-05	Procurement Tracking System	Terri Kletzman	Active	02/01/17	02/01/17	10%	12/29/17	
✔	✔	✔	✔	✔	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	Active	01/03/17	01/03/17	50%	12/31/18	
✔	✔	✔	✔	✔	2017-09	EQA Redesign	Stephenie Dagata	Active	01/03/17	01/03/17	7%	02/15/18	
✔	✔	✔	✔	✔	2017-10	ZIP Code Validation	Terri Kletzman	Completed	01/03/17	12/01/16	100%	02/01/17	01/03/17
✔	✔	✔	✔	✔	2017-11	Human Resource Information Systems	Terri Kletzman	Active	02/01/17	02/01/17	10%	11/01/17	
⚠	✔	✔	✔	⚠	2017-12	eDiscovery	Jason Haxton	Active	01/03/17	01/03/17	71%	12/31/17	
✔	✔	✔	✔	✔	2017-13	Rate and Form Filing Project 2019	Terri Kletzman	Active	06/05/17	06/05/17	5%	12/31/18	

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