

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Wednesday, June 7, 2017
1:00 p.m.**

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

Members of the Governing Board in attendance:

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

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Todd Coombes, Chief Insurance and Technology Officer
Janiele Maffei, Chief Mitigation Officer
Carlos Martinez, Governing Board Liaison
Tim Richison, Chief Financial Officer
Kellie Schneider, Chief Operations Officer
Danny Marshall, General Counsel

Also present:

Sherri Aguirre, Managing Director, Earthquake Brace + Bolt Program
Dawna Gallagher-Stroeh
Professor Paula Jarzabkowski, Ph.D.
Andrew Rouse, CPA: Senior Manager, Plante Moran
Dan VanDreumel, CPA: Assurance Manager, Plante Moran

1. Call to order and member roll call.

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

Mr. Ghilarducci announced the passing of J. Dietrich Stroeh, the long-time Board designee of the Chair of the Senate Rules Committee. He introduced Mr. Stroeh's widow, Dawna Gallagher-Stroeh. Mrs. Gallagher-Stroeh was accompanied by Mr. Stroeh's favorite cat, Champagne, and presented the Board with a copy of Mr. Stroeh's obituary appearing in *The Press Democrat* of Santa

Rosa. Commissioner Jones asked that the obituary be appended to the minutes of the Board meeting, so it will be a part of the official records of the California Earthquake Authority.

MOTION: Mr. Ghilarducci moved that the Board formally express its deep gratitude for Dietrich Stroeh’s dedication and service to the seismic safety of California’s communities, the spirit that underlies the public mission of the California Earthquake Authority. Mr. Jones seconded. Motion carried unanimously.

2. Consideration and approval of the minutes of the March 15, 2017, CEA Governing Board meeting.

MOTION: Mr. Jones moved approval of the March 15, 2017, California Earthquake Authority Governing Board meeting minutes, as presented. Mr. Brown seconded. Motion carried unanimously.

3. Executive Report by Chief Executive Officer Glenn Pomeroy.

CEO Glenn Pomeroy introduced Professor Paula Jarzabkowski, noted researcher and author, who has been studying catastrophe-risk-bearing entities around the world, including the CEA. She is the author of a book, *Making a Market for Acts of God*.

Professor Jarzabkowski explained that her research looks at how governments and markets work together to address the “protection gap,” noting the nexus between supply, demand, and affordability. She told the Board her present report will be available in April 2018.

Mr. Pomeroy recognized the CEA executive team for their recent individual accomplishments and gave an update on the statewide public-outreach events he had completed thus far in 2017.

Mr. Wood asked how organizations can contact the CEA to present before their organizations, suggesting the CEA website would serve well. Mr. Pomeroy agreed, noting that a website feature to request a presentation is a good idea—the current process, however, is simply to contact any member of the CEA team. He said he would look into adding a presentation feature to the website.

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

CFO Tim Richison gave an overview of CEA financial information as of March 31, 2017. He stated that CEA claim-paying capacity would have to grow to support increasing numbers of policyholders in order that CEA maintain requisite financial strength.

He said the CEA budget is on target through the first quarter.

Mr. Richison told the Board he will present a mid-year budget revise at the September Board meeting.

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

Mr. Richison proposed updating CEA's banking-institution resolutions to permit Todd Coombes (Chief Insurance and Technology Officer) and Kellie Schneider (Chief Operations Officer) to have a role in CEA banking transactions.

Danny Marshall, CEA General Counsel, disseminated copies of the resolutions to the Board for the members' review. He recommended, based on the resolutions' acceptable form and the stated need as explained by the CFO, that the Board approve the resolutions presented for each of the two depository banks.

MOTION: Mr. Jones moved approval of the staff recommendations; seconded by Mr. Brown. Motion passed unanimously.

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

Andrew Rouse of Plante Moran introduced Dan VanDreumel, also of Plante Moran – Plante Moran is the CEA's independent financial auditing firm.

He provided an overview of the background, analysis, audit process, and timeline of the 2016 CEA audited financial statements. He stated there were no significant findings or issues and that Plante Moran had issued a clean, unmodified opinion of the 2016 CEA financial statements in its Independent Auditor's Report, as of June 2, 2017.

Mr. VanDreumel discussed the testing and confirmation procedures taken in areas where possible significant risk of material misstatement may occur, such as investment valuations and reinsurance.

Mr. Jones referred to page 19 of the Financial Report and asked about the percentage of traditional reinsurance that is from non-U.S. reinsurers.

Mr. Richison stated only 22 percent are U.S. reinsurers; the remaining reinsurance markets accessed by CEA are domiciled outside of the United States.

Mr. Jones stated the proposed "border tax" advanced by the current [presidential] administration may have implications on the pricing of non-U.S. reinsurance. He asked what the implications would be for the price to CEA of reinsurance. He also asked whether the proposed border tax would have implications on pricing or cost to the CEA associated with using "special purpose vehicles" to issue catastrophe bonds.

Mr. Richison said there are few public details on how the proposed border tax would be implemented, but that CEA staff is aware of the proposal and is observing.

Mr. Jones suggested drafting a letter expressing concern about the potential implications that the border tax, if written in a particular way, could end up increasing costs for the CEA and its policyholders.

Mr. Brown stated the Treasurer would support that effort.

Staff commented that they would take up this effort.

7. Mr. Richison will seek the Board's approval for the annual set-aside of a statutory portion of CEA investment income for transfer into the CEA Earthquake Loss Mitigation Fund.

Mr. Richison provided background and analysis for the annual set-aside for the CEA Earthquake Loss Mitigation Fund. He stated staff's proposal had been reviewed by Shawna Ackerman, the CEA Chief Actuary, as required by law.

Ms. Ackerman's conclusion was that the proposed set-aside is actuarially sound. Her letter stating her conclusion is an attachment in the Board-meeting packet.

Recommendation

That the Board approve a set-aside from CEA's investment income in the sum of \$5,000,000 for the CEA Loss Mitigation Fund.

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

8. Chief Insurance and Technology Officer Todd Coombes will give a report to the Board on CEA insurance and information technology initiatives.

Todd Coombes, Chief Insurance and Technology Officer, told the Board that the internal reorganization of the Insurance and Technology Department is now complete. He provided updates on insurance operations, insurance technology, and centralized policy processing (CPP) activities as of the first quarter 2017.

9. Mr. Coombes will propose, for Board approval, to update the CEA Procedures and Accounting Manual.

Mr. Coombes stated the *CEA Procedures and Accounting Manual*, provided to participating insurers to direct certain of their CEA-related activities, has not been updated since 1999.

The proposed updates, drafted by the Insurance Operations team, had been distributed to the Board for its review.

Recommendation

That the Board approve the updated *2017 CEA Procedures and Accounting Manual* and authorize staff to send the Board-approved Manual to the California Department of Insurance for the Insurance Commissioner's review and approval.

MOTION: Mr. Brown moved approval of the staff recommendation; seconded by Mr. Ghilarducci. Motion passed unanimously.

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

financial-incentive and mitigation program (CEA Brace + Bolt), and ongoing mitigation-related research projects.

Janiele Maffei, Chief Mitigation Officer, updated the Board on the CEA Mitigation and Incentive Programs.

Mr. Wood asked if inspectors will be trained to do QuakeGrade™ analyses. Ms. Maffei stated QuakeGrade™ is based on a Federal Emergency Management Agency (FEMA) consensus document that is intended to be used by California Real Estate Inspection Association (CREIA)-trained home inspectors. CREIA has five trainers and plans to begin a certification program.

Mr. Wood asked the average age of houses in target areas of the CRMP Earthquake Brace + Bolt program. Ms. Maffei stated that target houses were built in the 1920s to 1950s.

Mr. Brown asked about the source for the \$1 million in-kind funding for the FEMA Hazard Mitigation Grant. Ms. Maffei replied that CEA plans to meet the \$1 million qualification of the FEMA grant through the value of CEA staff-time.

Mr. Brown asked if the \$1 million is already budgeted or if the in-kind contributed will be counted towards the grant. Ms. Maffei replied that the \$3 million from FEMA would go directly into grants and that the CEA would fund the administration costs, which may exceed \$1 million. Mr. Richison stated the intent is to do in-kind services by tying existing, committed staff costs to the program purposes.

Mr. Jones spoke in support of the FEMA Hazard Mitigation Grant and requested an update on the application process at the next Board meeting. He stated the need to devise additional resources for greater program expansion to seismically retrofit as many homes as possible.

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

Ms. Maffei provided an overview of the CEA's three-tiered research program and its projects to update the Consortium of Universities for Research in Earthquake Engineering (CUREE) *General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Wood-frame Buildings* and the CEA and Pacific Earthquake Engineering Research (PEER) *Quantifying the Performance of Retrofit of Cripple Walls and Sill Anchorage in Single Family Wood-frame Buildings*.

12. As a means to promote and expand funding for loss-mitigation (retrofit) grants and related projects, Mr. Pomeroy will introduce for discussion purposes the establishment by CEA of 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.

Mr. Pomeroy provided an overview of the purpose, potential corporate donors, and next steps to establish a nonprofit charitable foundation to support CEA mitigation efforts. He stated he will present a proposal at the September Board meeting.

Mr. Brown asked if the proposal will include a deduction from state personal income tax. Mr. Pomeroy stated the proposal would support federal tax and state tax deductions resulting from contributions.

13. Mr. Pomeroy will update the Board on CEA enterprise-risk-management-program planning and progress.

Mr. Pomeroy provided an overview of the CEA Enterprise Risk Management (ERM) framework development, progress to date, priority risks, and next steps of the CEA ERM program. He stated the risk assessment and profile management will be in compliance with the National Association of Insurance Commissioners (NAIC) Own Risk and Solvency Assessment (ORSA) program guidelines

14. Chief Operations Officer Kellie Schneider will give a progress report, to the Board, on updating the CEA Strategic Plan and Business Implementation Plan, and provide the quantitative metrics report.

Kellie Schneider, Chief Operations Officer, provided a progress report on plans underway to update the CEA Strategic Plan and CEA Business Implementation Plan, as well as current status of the CEA Performance Metrics. She stated the CEA is achieving its goals, as expected.

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

The Board entered closed session at 2:48 p.m. and resumed its proceedings in open session at 3:49 p.m. No action was announced.

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

No members of the public addressed the Board.

17. Adjournment.

There being no further business, the meeting was adjourned at 3:49 p.m.