

**CALIFORNIA EARTHQUAKE AUTHORITY  
GOVERNING BOARD MEETING  
MINUTES**

**Wednesday, March 15, 2017  
1:00 p.m.**

Location: California Department of Food and Agriculture  
Auditorium, Room 130  
1220 N Street  
Sacramento, California

Members of the Governing Board in attendance:

Vincent Brown, designee of State Treasurer John Chiang  
Chris Shultz, designee of Insurance Commissioner Dave Jones  
Dietrich Stroeh, designee of Chair of the Senate Rules Committee Kevin de León  
Jeffrey Wood, designee of Speaker of the Assembly Anthony Rendon

Members of the CEA staff in attendance:

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

Also present:

Kapil Bhatia, Director of Public Finance, Raymond James & Associates, Inc.  
Renee Webster-Hawkins, California Pollution Control Financing Authority

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

Acting Chair Chris Shultz called the meeting to order at 1:03 p.m. A quorum was achieved.

Mr. Shultz welcomed new Governing Board member Jeffrey Wood and asked him to introduce himself; Mr. Wood did so.

**2. Consideration and approval of the minutes of the December 14, 2016, CEA Governing Board meeting.**

**MOTION:** Mr. Brown moved approval of the December 14, 2016, California Earthquake Authority Governing Board meeting minutes, as presented. Mr. Shultz seconded. Motion carried unanimously.

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

Chief Executive Officer Glenn Pomeroy provided a summary, with slide presentation, of the CEA's policies in force, policy growth, and community outreach efforts in 2016.

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

Chief Financial Officer Tim Richison provided an overview, with slide presentation, of CEA financial information as of December 31, 2016. He showed a five-year comparison chart of significant financial categories to illustrate quantitative changes over years.

**5. Mr. Richison will seek Board authorization to set the CEA participating insurers' respective maximum earthquake loss funding assessment levels, effective April 1, 2017.**

Mr. Richison provided background and analysis of the annual CEA Participating Insurer (PI) maximum earthquake loss funding assessment levels and projected two documents: a Calculation of New Industry Assessment Layer (IAL) and 2017 Maximum Earthquake Loss Funding Assessment Levels.

Recommendations:

- The Governing Board adopt the New IAL aggregate assessment amount in Attachment A, effective April 1, 2017.
- The Board adopt the CEA market-share percentages shown in Attachment B, which are to be used to determine the maximum earthquake loss funding assessment levels for CEA participating insurers, effective April 30, 2017.
- The Board authorize CEA staff to notify each participating insurer of its respective April 30, 2017, maximum earthquake loss funding assessment level responsibility.

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

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

Mr. Richison presented the number of EBB retrofits both completed and in progress during operation of the 2016 EBB Program, the number of retrofits planned for the 2017 EBB Program, and the cost to fund them. He stated the first 1,000 retrofits completed in 2017 will be funded by a \$3 million grant to CEA from the California Department of Insurance. To complete the number of retrofits approved by the CRMP governing board, additional funds in the sum of \$5.4 million must be transferred to CRMP. Assuming Board approval of the recommended \$5.4 million transfer, approximately \$15 million remains in CEA’s Earthquake Loss Mitigation Fund.

Recommendation:

Staff recommends the Governing Board approve a transfer to CRMP of funds from the CEA Earthquake Loss Mitigation Fund in the amount of \$5.4 million to fund and expand the CRMP EBB program in 2017.

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

**7. Mr. Richison will present, for Board approval, modifications to the CEA Guidelines for Securing Risk-Transfer**

Mr. Richison summarized proposed revisions to the CEA’s official *Guidelines for Securing Risk Transfer*, included in the Board-meeting packet. He withdrew the second proposal in the staff memorandum regarding expatriate reinsurers, noting that the topic and any recommendation would be presented in greater detail at a future meeting.

Mr. Shultz confirmed that the Department of Insurance has no concerns with the proposed *Guidelines* elimination of a separate financial analysis for Lloyd’s of London syndicates.

Recommendation:

Staff recommends the Board approve the revised CEA Guidelines for Securing Risk-Transfer: Traditional Reinsurance and Alternative Risk-Transfer (without original staff recommendations re “expatriate” reinsurers).

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

**8. Chief Communications Officer Chris Nance will present, and seek Board approval of, the 2018 CEA advertising budget.**

Chief Communications Officer Chris Nance provided an overview, with slides, of strategic communications goals; 2016 policy sales; marketing-mix

considerations; and the next CEA marketing/advertising campaign—direct mail, digital, and broadcast advertising—of the proposed 2018 advertising budget.

Mr. Wood asked if staff is tracking which marketing strategies work better than others. Mr. Nance stated he will present the results of the current study at the June meeting. The goal is to move individuals to the website for information.

Mr. Shultz asked if advertising year-round for the first time in 2016 contributed to the policy growth. Mr. Nance stated year-round advertising was achieved due to digital advertising.

Recommendation:

Staff recommends the Board approve the proposed budget of up to \$12,240,000 to implement CEA’s 2018 advertising programs.

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

**9. Chief Insurance and Technology Officer Todd Coombes will seek Board approval to contract services in support of CEA website design projects.**

Chief Insurance and Technology Officer Todd Coombes provided an overview, with slides, of the background, analysis, and purpose of new design projects for CEA websites.

Recommendation:

Staff recommends the Board approve augmenting CEA’s 2017 (“non-statutory”) budget by an anticipated expenditure amount not to exceed \$360,000, to fund User Experience and User Interface website-design work by a competitively procured website-design firm; and authorize contract negotiations and execution by CEO Glenn Pomeroy.

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

**10. Mr. Coombes will give a report to the Board on CEA insurance and information technology initiatives.**

Mr. Coombes provided an overview, with slides, of CEA’s new Insurance and Technology Department (as of February 2017), Insurance Operations Team, and Centralized Policy Processing (CPP) initiative.

Mr. Brown asked if there are project management professionals (PMPs) on the team. Mr. Coombes said there are several PMPs on board, confirming that education for PMP certification is extensive and worthwhile.

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

Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc., provided an overview, with slides (included in the Board

meeting packet), of the economic, financial, investment, and risk-transfer markets, forming a part of his annual report to the CEA Governing Board on the state of the economy. He concluded the following:

- Slow global growth to continue
- Slow, but marginally improving, U.S. growth
- Low interest rates but expected to increase marginally
- Strong investment portfolio and increase in investment income
- Reinsurance rates to remain low

Mr. Bhatia stated current market and economic conditions are conducive for the CEA to meet its obligations. He thanked the Board for approving the investment policy change in December 2015, noting that staff's implementation of the approved changes have worked to CEA's financial and economic advantage.

Mr. Brown asked if recession-driven analyses have been done. Mr. Bhatia stated his firm has run them, adding that, considering the slow growth rate and barring tax-policy changes, there may be a recession, but it is at least one year away.

Mr. Brown asked if there are derivatives inside the treasuries. Mr. Bhatia pointed to his Slide 19 and confirmed that CEA's investments are in direct Treasury securities with no derivatives.

Mr. Brown asked if pension funds coming into the reinsurance market are European. Mr. Bhatia confirmed that such funds are indeed European pension funds and a Canadian pension fund choosing to investing indirectly through ILS funds, but that U.S. pension funds are beginning to step in.

Mr. Shultz asked what other boards across the country are asking or considering that the CEA might also want to consider. Mr. Bhatia stated that there are no additional considerations from an investment perspective. Explaining, he said that most such investment portfolios are conservative, like CEA's, but some clients have corporate-securities allocations or buy more reinsurance. He stated some clients have flexibility to go into the debt market, so they do, but those clients also have a post-event financing capability, which permits them to rely on contingent capital, not just reinsurance. He concluded that while there are small differences, the objectives are generally similar.

**12. Renee Webster-Hawkins, Executive Director of the California Pollution Control Financing Authority, will provide the Board an overview of that financing authority's "California Capital Access Program."**

Mr. Pomeroy told the Board he had invited Renee Webster-Hawkins to the CEA Governing Board meeting to describe a program on earthquake mitigation housed in the State Treasurer's Office.

Ms. Webster-Hawkins, executive director of the California Pollution Control Financing Authority (CPCFA), stated the \$10 million California Seismic Safety

Capital Access Loan Program (CalCAP), running since 1994, could harmonize with CEA's goals. She provided an overview, with slides, of the CalCAP program's legislative background, as well as its key components and requirements. She explained that CalCAP incentivizes lenders to provide private loans to residential property owners and small businesses to support seismic-safety retrofits through loan-loss coverage made available through the program to participating lenders to cover loans enrolled in the program. Several versions of the CalCAP program target slightly different markets, but mostly within the small-business sector.

Mr. Brown asked what the \$10 million appropriate from the state's general fund leverages up to—Ms. Webster-Hawkins estimated that the \$10 million leverages up to \$50 million in private lending.

Mr. Richison asked how many lenders currently use the program. Ms. Webster-Hawkins said that while no lenders have yet signed up, many are interested. She asked the Board's help in referring lenders to the website.

Mr. Pomeroy said that opportunities to collaborate with CPCFA and link CalCAP and the CRMP retrofit programs, which could provide funds to retrofit more homes for seismic safety.

Mr. Shultz asked if the excess cost of retrofits above the CRMP/CEA \$3,000 grant level could be funded by the CalCAP program. Ms. Webster-Hawkins answered in the affirmative and stated they could work well together.

Mr. Shultz asked if condominium-owner associations are eligible for loans under CalCAP. Ms. Webster-Hawkins said they could be, depending on their corporate structure.

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

Chief Mitigation Officer Janiele Maffei provided an update, with slides, on CEA Mitigation Programs: ATC 110 Earthquake Guidelines Development and the QuakeGrade Mobile Application projects; the South Napa Earthquake Study findings; and the CRMP Earthquake Brace + Bolt (EBB), CEA Brace + Bolt (CEA BB), and Napa Brace + Bolt programs.

Mr. Stroeh asked if any management system lists the improvements done to each home for the benefit of future homeowners. Ms. Maffei said the building permit states that the house has been retrofitted, but allowed that there is a need for a management system to document retrofit steps taken, to add to an MLS when houses are sold.

Mr. Shultz asked about funding flexibility should Napa retrofits exceed EBB grants supplied using available FEMA-sourced funding. Ms. Maffei said that because grants supported by FEMA funding are not taxable at the federal (or

state) level, homeowners would likely have a lower federal tax liability for having been a grant recipient.

**14. Ms. Maffei will update the Board on the CEA Research Program, including a recap of the February 2017 CEA Research Forum.**

Ms. Maffei provided an update, with slides, of the existing CUREE document, the three-tiered research program, and the Cripple Wall Mitigation Research Project. She stated the Request for Proposals (RFP) for the update of the assessment and repair guideline and creation of supplementary engineering guidelines are soon to be released.

Ms. Maffei stated the first annual CEA Research Forum was held in Sacramento in February 2017 and was attended by members of both academic and professional earthquake-related communities. Over 80 participants attended the forum.

Mr. Shultz said he had attended part of the Research Forum and found it interesting. He thanked Ms. Maffei for the invitation.

**15. Chief Actuary Shawna Ackerman and Mr. Coombes will present and recommend to the Board a strategy in preparation for the next CEA Insurance Policy Rate and Form Filing.**

Chief Actuary Shawna Ackerman provided an overview, with slides, of the background and need for the next CEA policy rate and form filing.

Mr. Coombes continued that slide presentation and discussed the estimated timeline for the next CEA policy rate and form filing, noting that the timing is subject to change. He said CEA had released the timeline far in advance of its commencement in order to give stakeholders as much time as possible to prepare, plan, and execute the next rate and form filing. He said the target date is presently January 1, 2019, noting that CEA staff would reach out to participating insurers to answer questions as early as today.

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

General Counsel Danny Marshall gave the report for Dr. Laurie Johnson, CEA's contracted Enterprise and Strategic Risk Advisor, who was unable to attend the meeting. He provided an update of progress in developing the CEA Enterprise Risk Management Program, such as developing individual risk-control summaries for each of CEA's priority risks, which eventually will be integrated into an enterprise-wide risk-management program.

**17. Mr. Pomeroy will update the Board on progress in data collection and data reporting, which together support the Metrics.**

Mr. Pomeroy and Mr. Combes provided an update of the data collection and reporting that support the Metrics Project. They noted that because of data limitations, take-up rate information will necessarily be less detailed; to ease the impact, however, Metric 007 now describes work done with each participating

insurer to, establish goals similar to what CEA's Insurance/Technology group is doing.

**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.**

There was no closed session.

Mr. Shultz requested a 30-minute executive [closed] session at the next meeting.

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

There was no public comment.

**20. Adjournment.**

There being no further business, the meeting was adjourned at 3:28 p.m.