



Date of Notice: Friday, August 14, 2015

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 Mather, 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: Headquarters Building, Governor’s Office of Emergency Services
Multipurpose Room 1 & 2
3650 Schriever Avenue
Mather, California

DATE: Wednesday, August 26, 2015

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 either icon:


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

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

2. Consideration and approval of the minutes of the May 28, 2015, CEA Governing Board meeting.
3. Executive Report by Chief Executive Officer Glenn Pomeroy and members of the CEA executive staff. Mr. Pomeroy's report will include an update for the Board on legislative activities of interest to the CEA.
4. CEA Advisory Panel member Mark Simmonds will provide a summary of the proceedings of the July 23, 2015, Panel meeting.
5. Chief Financial Officer Tim Richison will present the CEA financial report.
6. Mr. Richison will seek the Board's approval of staff's proposed selection of new risk-transfer intermediaries, pursuant to a competitive procurement.
7. Mr. Richison will present to the Board the California Department of Insurance "Audit Report of Examination" of the CEA.
8. CEA independent financial auditor Plante Moran will present to the Board the results of its most recent audit of the CEA, conducted pursuant to standards of the Governmental Accounting Standards Board (GASB).
9. Chief Communications Officer Chris Nance will propose to the Board a service-program budget and describe reimbursement protocols for the new Mandatory Marketing Document.
10. 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 Loss Mitigation Fund.
11. Chief Mitigation Officer Janiele Maffei will update the Board on the CEA mitigation program's projects.
12. Ms. Maffei will update the Board on the California Residential Mitigation Program incentive program, operated by a joint power authority whose members are the California Governor's Office of Emergency Services and the CEA.
13. Mr. Pomeroy and Chief Actuary Shawna Ackerman will describe and propose the concept of a "CEA Loyalty Mitigation Program" to the Board.
14. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2015 CEA IT initiative and project portfolio.
15. Mr. Coombes will update the Board on progress toward the concept of centralizing CEA insurance-policy processing and request approval for associated contracting and contracted expenditures for policy-administration and claim-system software, and vendor services.
16. Director of Research and Special Projects Bruce Patton will present to the Board the results of a competitive procurement which sought teams to engage on the CEA's Cripple Wall Performance Effects Research Project; Mr. Patton will request approval for contract funding.
17. Mr. Pomeroy will request Board approval to acquire limited additional office space on the floor immediately above the CEA's main office, to accommodate CEA staff and related operations.

18. Mr. Pomeroy will update the Board on the completion of the Metrics Project and the commencement of data collection and reporting.
19. If required, CEA Senior Counsel Joe Zuber will brief the Board on the CEA's Directors and Officers and Employment Practices Liability Insurance coverage and request the Board's approval to renew the policy and pay the annual premium.
20. Mr. Richison will present for Board approval 2015-budget mid-year revisions, which will take account of budget augmentation approved in the course of today's Board meeting as well as those approved in prior 2015 meetings.
21. 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.
22. 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.
23. Adjournment.

For further information about this notice or its contents:

General Information:

Carlos Martinez
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Toll free: (877) 797-4300

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Media Contact:

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Chief Communications Officer
(916) 661-5521 (Direct)
nancec@calquake.com

<p>To view this notice on the CEA website or to learn more about the CEA, please visit www.EarthquakeAuthority.com</p>
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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 carlos_martinez@calquake.com. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.

<p>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 carlos_martinez@calquake.com.</p>
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Draft Meeting Minutes are not available.

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

Governing Board Memorandum

August 26, 2015

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; assisted by CEA executive staff, Mr. Pomeroy will update the Board on federal and state legislative activities of interest to the CEA.

Governing Board Memorandum

August 26, 2015

Agenda Item 4: CEA Advisory Panel update—Mark Simmonds

Recommended Action: No action required—information only

CEA Advisory Panel Chair Mark Simmonds will provide a summary of the proceedings from the July 23, 2015, Advisory Panel meeting.



FINANCIAL REPORT

Wednesday, August 26, 2015

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

Financial Statements & Budgets

California Earthquake Authority
Balance Sheet
as of June 30, 2015

Assets

Cash and investments:

Cash and cash equivalents	\$ 130,297,865
Restricted cash and equivalents	23,092,658
Restricted investments	350,350,953
Investments	<u>5,255,821,658</u>

Total cash and investments 5,759,563,134

Premiums receivable, net of allowance for doubtful accounts of \$7,401,992	51,018,119
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	14,477,628
Securities receivable	-
Restricted securities receivable	-
Prepaid reinsurance premium	7,880,395
Transformer reinsurance premium deposit	4,201,325
Prepaid transformer maintenance premium	1,437,856
Equipment, net	475,181
Other assets	<u>12,122</u>

Total assets \$ 5,839,065,760

Liabilities and Net Position

Unearned premiums	\$ 321,388,179
Accounts payable and accrued expenses	2,882,386
Payable to California Residential Mitigation Program	2,000,000
Accrued reinsurance premium expense	2,463,227
Loss and loss adjustment expense reserves	1,525,074
Securities payable	7,075,376
Revenue bond payable	350,000,000
Revenue bond interest payable	<u>4,292,250</u>

Total liabilities 691,626,492

Net position:

Restricted, expendable	24,905,949
Unrestricted, participating insurer contributed capital	777,384,796
Unrestricted, State of California contributed capital	217,604,789
Unrestricted, all other remaining	<u>4,127,543,734</u>

Total net position 5,147,439,268

Total liabilities and net position \$ 5,839,065,760

California Earthquake Authority
Statement of Revenues, Expenses and Changes in Net Position
Year-To-Date June 30, 2015

Underwriting income:	
Premiums written	\$ 314,921,085
Less premiums ceded - reinsurance	(99,727,079)
Less risk capital surcharge	<u>-</u>
Net premiums written	<u>215,194,006</u>
Change in unearned premiums	<u>(10,542,289)</u>
Net premiums earned	<u>204,651,717</u>
Expenses:	
Losses and loss adjustment expenses	1,601,455
Participating Insurer commissions	31,502,236
Participating Insurer operating costs	9,724,337
Reinsurance broker commissions	1,833,333
Pro forma premium taxes equivalent	7,405,368
Other underwriting expenses	<u>12,627,490</u>
Total expenses	<u>64,694,219</u>
Underwriting profit	139,957,498
Net investment income	25,684,297
Other income	202,017
Financing expenses, net	(3,131,229)
Earthquake Loss Mitigation Fund expenses	(549,104)
Participating Insurer Contributed Capital	-
State of California premium tax contribution equivalent	<u>7,405,368</u>
Increase in net position	169,568,847
Net position, beginning of year	<u>4,977,870,421</u>
Net position, end of year to date	<u><u>\$ 5,147,439,268</u></u>

CALIFORNIA EARTHQUAKE AUTHORITY
Insurance Services
Budgeted and Actual Expenditures
2015 Budget Year
as of June 30, 2015

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f)	(g) (g=e/d)
	<u>Approved 2015 Budget 1/1/2015</u>	<u>Adjustments</u>	<u>Augmentations</u>	<u>2015 Budget after Augmentations and Adjustments</u>	<u>Actual Expenditures</u>	<u>Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)</u>	<u>Percentage used of Augmented & Adjusted Approved 2015 Budget</u>
Human Resources:							
Compensation and Benefits	\$ 16,670,520	\$ -	\$ -	\$ 16,670,520	\$ 7,113,248	\$ 9,557,272	42.67%
Travel	472,338	-	-	472,338	112,162	360,176	23.75%
Other	1,094,827	-	-	1,094,827	151,689	943,138	13.86%
Board Meeting	33,000	-	-	33,000	5,104	27,896	15.47%
Administration & Office	1,198,429	-	-	1,198,429	520,616	677,813	43.44%
EDP Hardware	115,270	-	-	115,270	83,753	31,517	72.66%
EDP Software	1,204,490	-	-	1,204,490	516,358	688,132	42.87%
Information Technology	1,255,830	-	-	1,255,830	902,916	352,914	71.90%
Telecommunications	241,714	-	-	241,714	106,993	134,721	44.26%
Rent/Lease	876,749	-	-	876,749	294,148	582,601	33.55%
Compliance	10,000	-	-	10,000	-	10,000	0.00%
Government Affairs	298,000	-	-	298,000	20,000	278,000	6.71%
Insurance	189,138	-	-	189,138	1,073	188,065	0.57%
Internal Audit	50,000	-	-	50,000	(6,381)	56,381	0.00%
Intervener Fees	-	-	-	-	-	-	0.00%
Other	3,000	-	-	3,000	15,481	(12,481)	>100%
Regulatory Expenses	150,000	-	-	150,000	214,397	(64,397)	>100%
Total Statutory Expenditures	\$ 23,863,305	\$ -	\$ -	\$ 23,863,305	\$ 10,051,557	\$ 13,811,748	42.12%
Audit Services	109,000	-	-	109,000	86,600	22,400	79.45%
Capital Market	9,400,500	-	-	9,400,500	4,577,216	4,823,284	48.69%
Claims	10,000	-	-	10,000	116,425	(106,425)	>100%
Loans	-	-	-	-	-	-	0.00%
Grants	-	-	-	-	-	-	0.00%
Investment Services	3,174,856	-	-	3,174,856	1,503,936	1,670,920	47.37%
Legal Services	6,967,920	-	-	6,967,920	438,710	6,529,210	6.30%
Loss-Modeling	961,500	-	-	961,500	233,000	728,500	24.23%
Marketing Services ¹	11,179,355	-	290,400	11,469,755	598,949	10,870,806	5.22%
Producer Compensation	61,684,374	-	-	61,684,374	31,502,236	30,182,138	51.07%
Participating Insurer Operating Costs ²	19,060,471	-	181,650	19,242,121	9,724,337	9,517,784	50.54%
Seismic Related Research	100,000	-	-	100,000	-	100,000	0.00%
Engineering Related Research	250,000	-	-	250,000	-	250,000	0.00%
Risk Transfer	210,213,580	-	-	210,213,580	101,560,412	108,653,168	48.31%
Total Non-Statutory Expenditures	\$ 323,111,556	\$ -	\$ 472,050	\$ 323,583,606	\$ 150,341,821	\$ 173,241,785	46.46%
Total Budget Expenditures	\$ 346,974,861	\$ -	\$ 472,050	\$ 347,446,911	\$ 160,393,378	\$ 187,053,533	46.16%

¹Augmentation to fund an additional marketing project in the 2015 IT project portfolio from February 19, 2015 Governing Board Meeting Agenda Item 12

²Augmentation to cover immediate research and creative costs to directly support marketing-document development from February 19, 2015 Governing Board Meeting Agenda Item 6

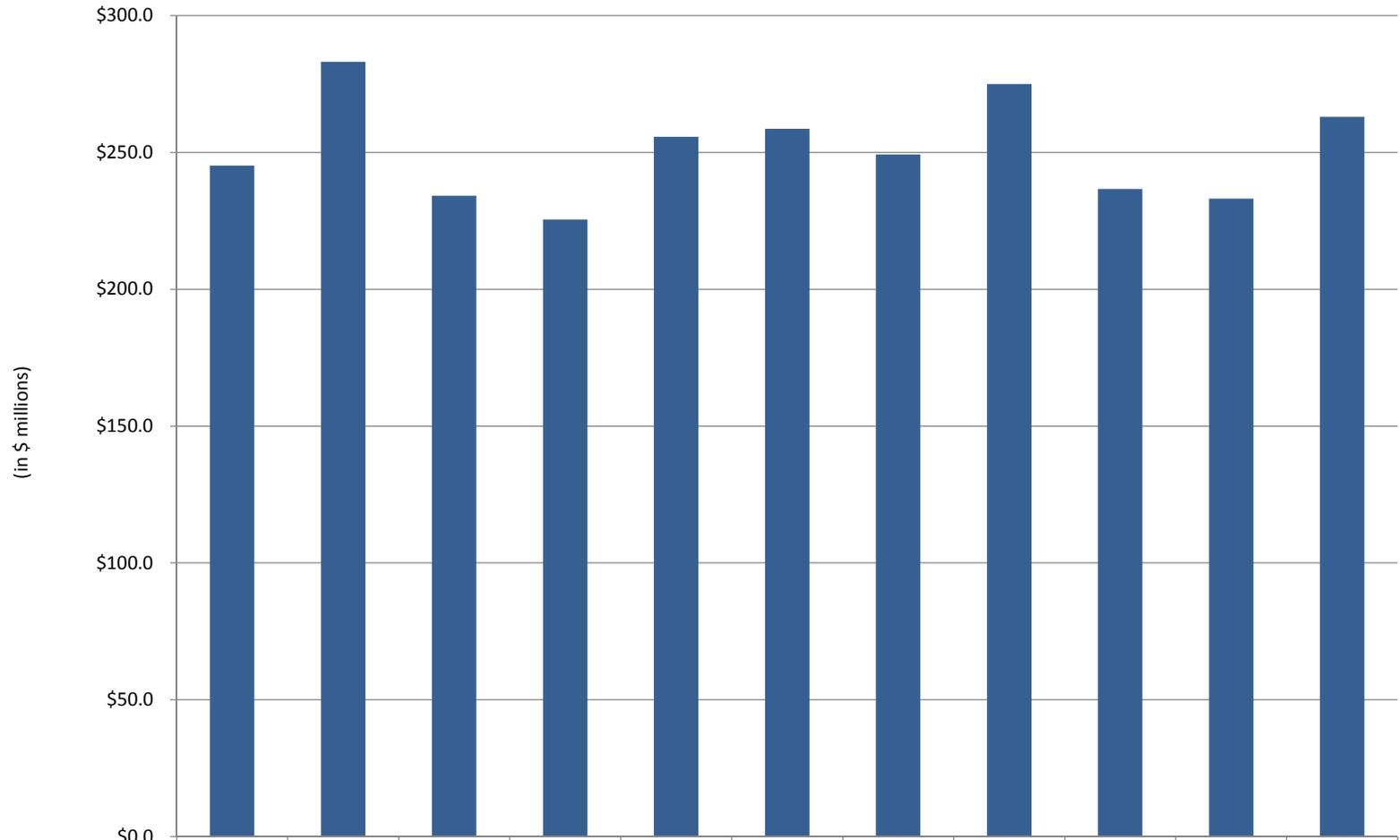
CALIFORNIA EARTHQUAKE AUTHORITY
Mitigation
Budgeted Expenditures and Actual Expenditures
2015 Budget Year
as of June 30, 2015

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	Approved 2015 Budget 1/1/2015	Adjustments	Augmentations	2015 Budget after Augmentations and Adjustments	Actual Expenditures	Augmented & Adjusted Approved Budget (d) vs. Actual Expenditures (e)	Percentage used of Augmented & Adjusted Approved 2015 Budget
Human Resources:							
Compensation and Benefits	\$ 1,219,169	\$ -	\$ -	\$ 1,219,169	\$ 462,313	\$ 756,856	37.92%
Travel	47,500	-	-	47,500	10,833	36,667	22.81%
Other	19,000	-	-	19,000	2,708	16,292	14.25%
Administration & Office	69,600	-	-	69,600	7,870	61,730	11.31%
Information Technology	-	-	-	-	45	(45)	>100.00%
Telecommunications	1,500	-	-	1,500	6,420	(4,920)	>100.00%
Rent/Lease	700	-	-	700	19,678	(18,978)	>100.00%
Total Operating Expenditures	\$ 1,357,469	\$ -	\$ -	\$ 1,357,469	\$ 509,867	\$ 847,602	37.56%
Investment Services	28,400	-	-	28,400	7,882	20,518	27.75%
Legal Services	50,000	-	-	50,000	3,900	46,100	7.80%
Marketing ¹	38,000	38,000	48,675	124,675	48,906	75,769	39.23%
Seismic - Related	19,000	(19,000)	-	-	-	-	0.00%
Engineering - Related ²	1,019,000	(19,000)	20,000	1,020,000	(12,763)	1,032,763	0.00%
Total Other Expenditures	\$ 1,154,400	\$ -	\$ 68,675	\$ 1,223,075	\$ 47,925	\$ 1,175,150	3.92%
Total Expenditures	\$ 2,511,869	\$ -	\$ 68,675	\$ 2,580,544	\$ 557,792	\$ 2,022,752	21.62%

¹Augmentation to cover research fees, a house-inspector focus group, and report development/publication from May 15, 2015 Governing Board Meeting Agenda Item 14

²Augmentation to cover home inspectors conducting inspections in Phase II from May 15, 2015 Governing Board Meeting Agenda Item 14

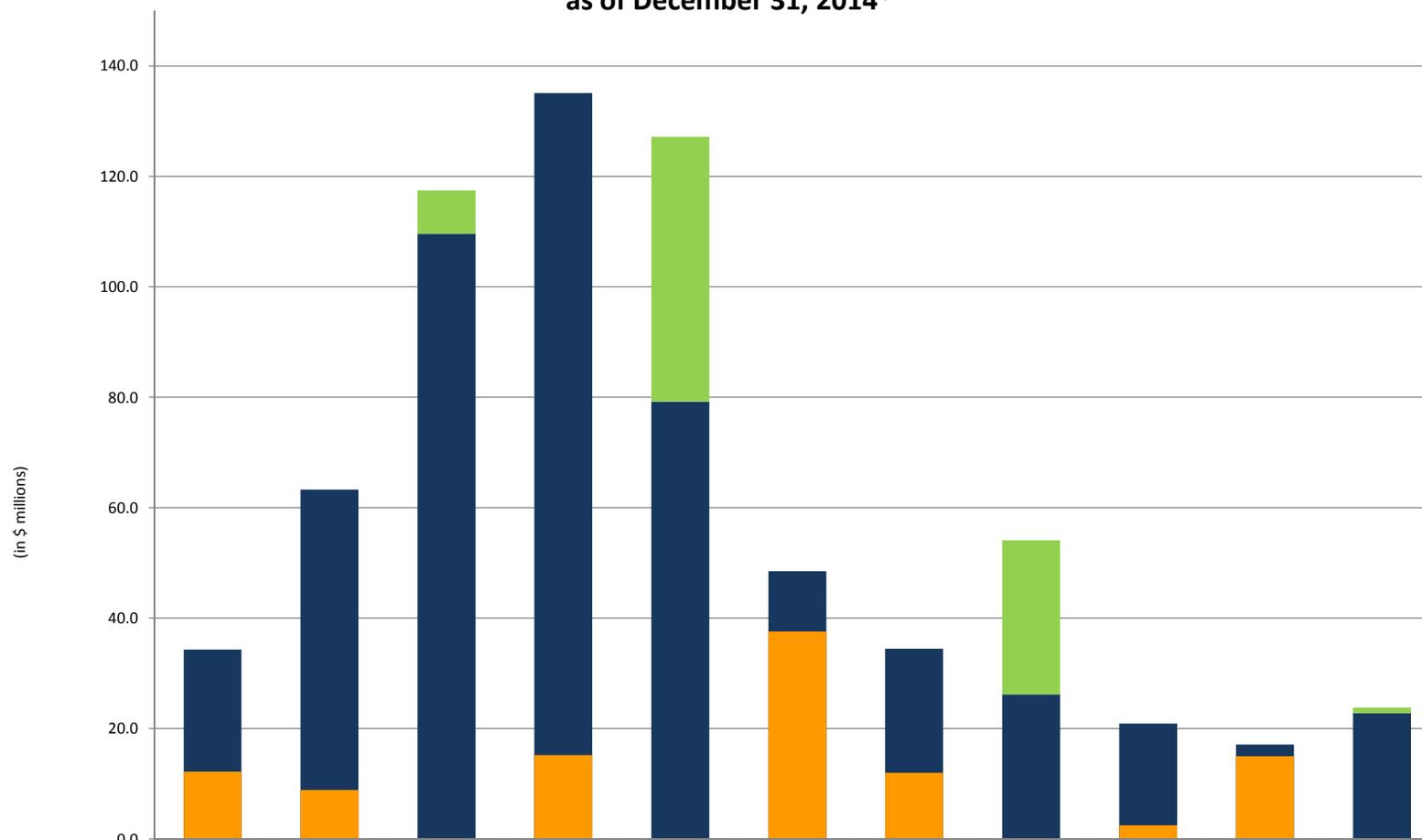
**California Earthquake Authority
Annual Capital Accumulated from Premium
as of December 31, 2014**



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Capital Accumulated from Premium	\$245.2	\$283.1	\$234.1	\$225.5	\$255.7	\$258.6	\$249.3	\$275.0	\$236.7	\$233.1	\$263.0

Investments

California Earthquake Authority Annual Investment Income as of December 31, 2014*

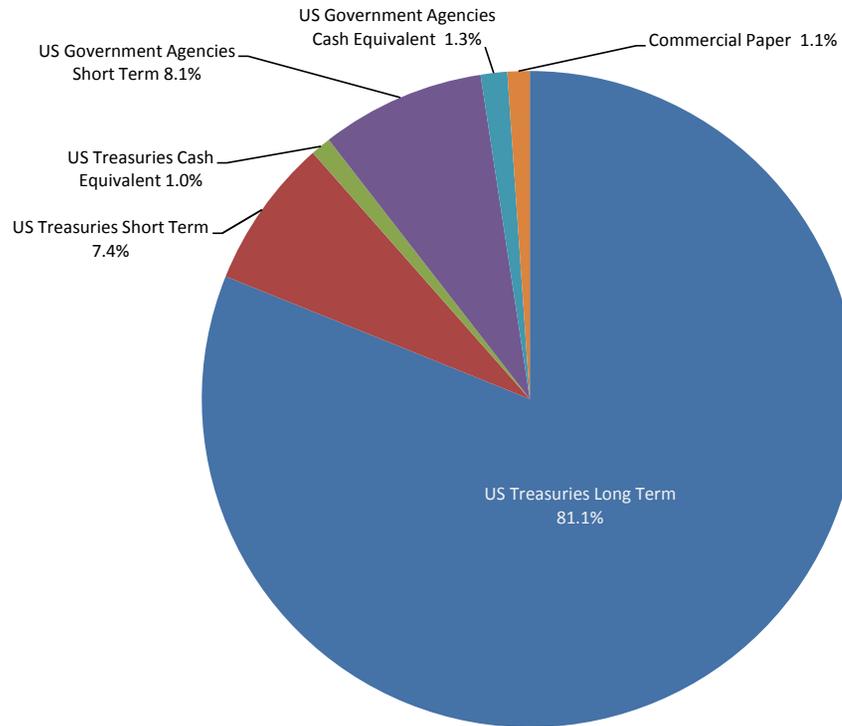


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net Investment Income*	\$22.1	\$54.4	\$117.5	\$119.9	\$127.2	\$10.9	\$22.5	\$54.1	\$18.4	\$2.1	\$23.8
Change Unrealized Gain	0.0	0.0	7.9	0.0	48.0	0.0	0.0	27.9	0.0	0.0	1.0
Investment Income	34.3	63.3	109.6	135.1	79.2	48.5	34.5	26.2	20.9	17.1	22.8
Change Unrealized Loss	12.2	8.9	0.0	15.2	0.0	37.6	12.0	0.0	2.5	15.0	0.0

*Net Investment Income is investment income net of unrealized gain or unrealized loss and ties to the financial statements.

**California Earthquake Authority
Investment Portfolio Distribution at Market Value
as of June 30, 2015**

CEA Liquidity & Primary Funds:	\$5,053,146,746
US Treasuries Long Term	81.1%
US Treasuries Short Term	7.4%
US Treasuries Cash Equivalent	1.0%
US Government Agencies Short Term	8.1%
US Government Agencies Cash Equivalent	1.3%
Commercial Paper	1.1%
Total:	100.0%

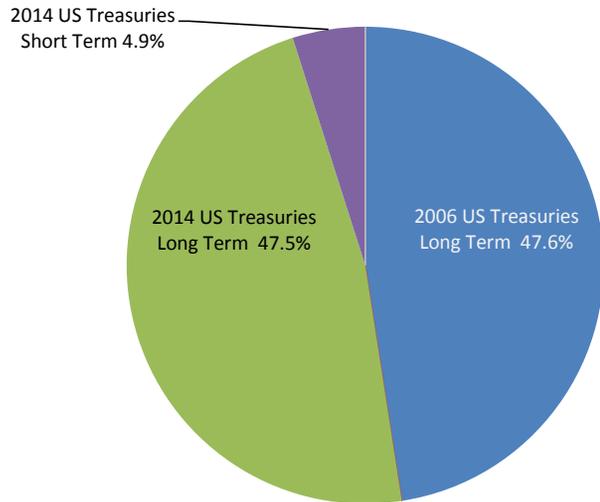


**California Earthquake Authority
Investment Portfolio Distribution at Market Value
as of June 30, 2015**

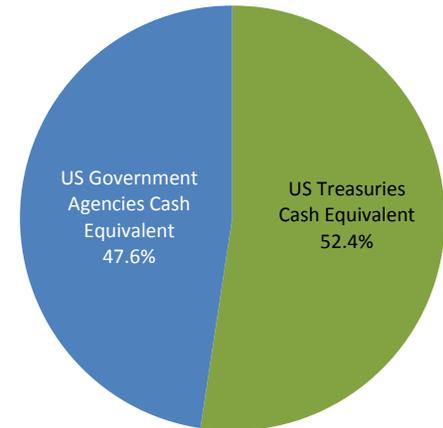
Claim(s)-Paying Funds:	\$667,874,218
2006 US Treasuries Long Term	47.6%
2014 US Treasuries Long Term	47.5%
2014 US Treasuries Short Term	4.9%
Total:	100.0%

Mitigation Fund:	\$20,325,095
US Treasuries Cash Equivalent	52.4%
US Government Agencies Cash Equivalent	47.6%
Total:	100.0%

Claim(s)-Paying Funds



Mitigation Fund



Debt

**California Earthquake Authority
Schedule of Outstanding Debt - Defeased**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING*
Series 2006 Revenue Bonds ¹	\$ 315,000,000	6.169%	\$ 310,829,067	\$ 63,000,000	30-Jun-2015	A3 Outlook Stable	A Outlook Stable

¹As of November 6, 2014, interest and principal are fully funded in escrow for remaining interest and principal payments.

DEBT-SERVICE SCHEDULE

The table below shows the annual-debt-service requirements for the Series 2006 Bonds.

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-15	\$63,000,000		\$1,943,235	\$1,943,235	
1-Jul-15	\$31,500,000	\$31,500,000	\$1,943,235	\$33,443,235	
2015					\$35,386,470
1-Jan-16	\$31,500,000		\$971,618	\$971,618	
1-Jul-16		\$31,500,000	\$971,618	\$32,471,618	
2016					\$33,443,236

*Ratings of 'A3' and 'A' since 2014

**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 2 year bond CUSIP 13017HAC0	\$ 40,000,000	1.194%	\$ 39,665,642	\$ 40,000,000	30-Jun-2015	A3 Outlook Stable	A Outlook Stable

DEBT-SERVICE SCHEDULE

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

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-15	\$40,000,000		\$72,967	\$72,967	
1-Jul-15	\$40,000,000		\$238,800	\$238,800	
2015					\$311,767
1-Jan-16	\$40,000,000		\$238,800	\$238,800	
1-Jul-16		\$40,000,000	\$238,800	\$40,238,800	
2016					\$40,477,600

*Ratings of 'A3' and 'A' since 2014

**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	\$ 60,000,000	30-Jun-2015	A3 Outlook Stable	A Outlook Stable

DEBT-SERVICE SCHEDULE

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

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-15	\$60,000,000		\$167,200	\$167,200	
1-Jul-15	\$60,000,000		\$547,200	\$547,200	
2015					\$714,400
1-Jan-16	\$60,000,000		\$547,200	\$547,200	
1-Jul-16	\$60,000,000		\$547,200	\$547,200	
2016					\$1,094,400
1-Jan-17	\$60,000,000		\$547,200	\$547,200	
1-Jul-17		\$60,000,000	\$547,200	\$60,547,200	
2017					\$61,094,400

*Ratings of 'A3' and 'A' since 2014

**California Earthquake Authority
Schedule of Outstanding Debt**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING*
Series 2014 Revenue Bonds 5 year bond CUSIP 13017HAE6	\$ 250,000,000	2.805%	\$ 247,910,261	\$ 250,000,000	30-Jun-2015	A3 Outlook Stable	A Outlook Stable

DEBT-SERVICE SCHEDULE

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

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-15	\$250,000,000		\$1,071,354	\$1,071,354	
1-Jul-15	\$250,000,000		\$3,506,250	\$3,506,250	
2015					\$4,577,604
1-Jan-16	\$250,000,000		\$3,506,250	\$3,506,250	
1-Jul-16	\$250,000,000		\$3,506,250	\$3,506,250	
2016					\$7,012,500
1-Jan-17	\$250,000,000		\$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		\$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		\$1,472,625	\$1,472,625	
1-Jul-19		\$105,000,000	\$1,472,625	\$106,472,625	
2019					\$107,945,250

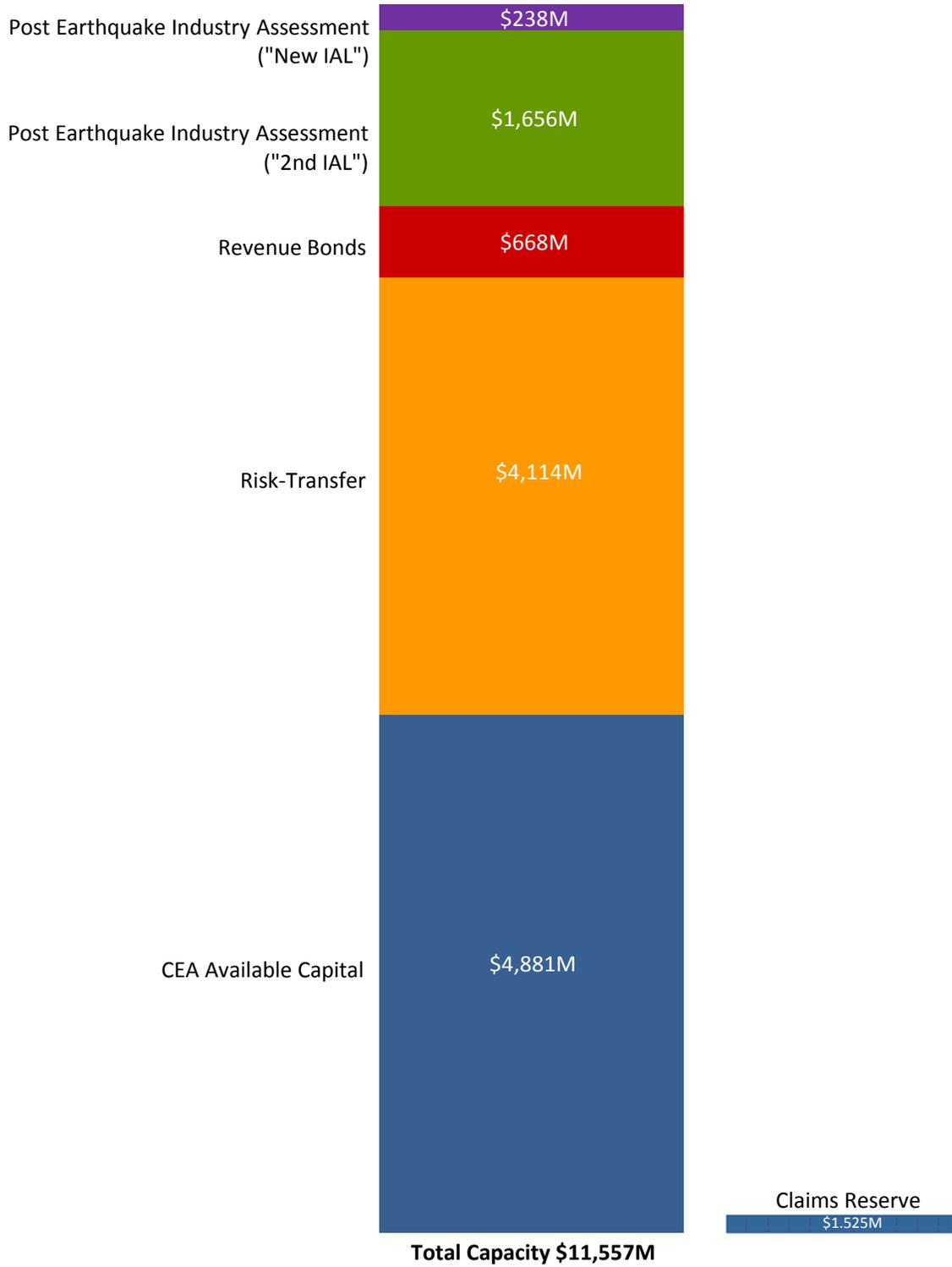
*Ratings of 'A3' and 'A' since 2014

Claim-Paying Capacity

California Earthquake Authority
Available Capital Report
as of June 30, 2015

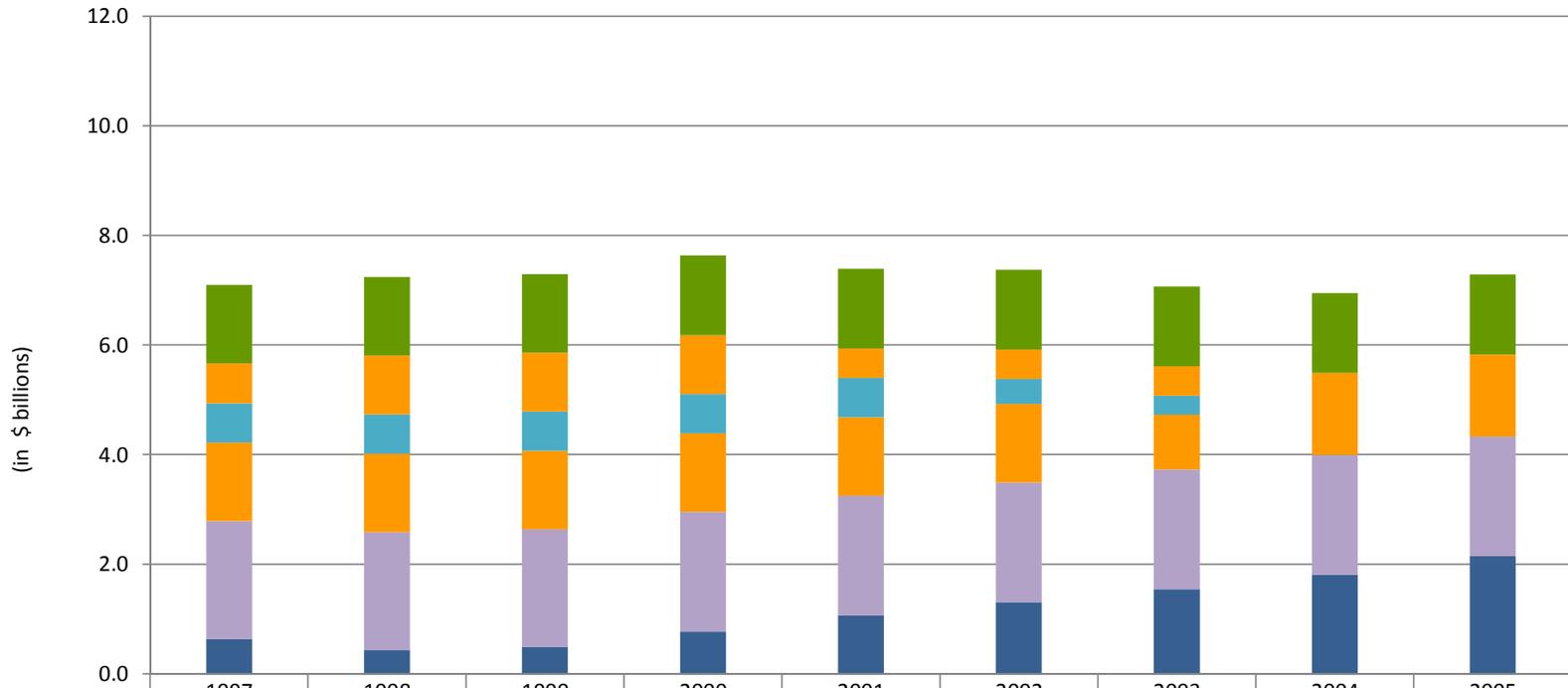
Cash & Investments (includes capital contributions and premiums)	\$ 5,759,563,134
Earthquake Loss Mitigation Fund cash and investments	\$ (23,091,015)
Interest, Securities & Restricted Securities Receivable	\$ 14,477,628
Premium Receivable	\$ 51,018,119
Risk Capital Surcharge & Capital Contributions Receivable	\$ -
Other Assets	\$ 12,122
Revenue Bonds	\$ (667,874,218)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	\$ (4,292,250)
Unearned Premium Collected	\$ (234,525,503)
Accrued Reinsurance Premium Expense	\$ (2,463,227)
Accounts and Securities Payable, and Accrued Expenses	\$ (9,957,762)
Loss Reserves	\$ (1,525,074)
CEA Available Capital	<u><u>\$ 4,881,341,954</u></u>

**California Earthquake Authority
Claim-Paying Capacity
as of June 30, 2015**



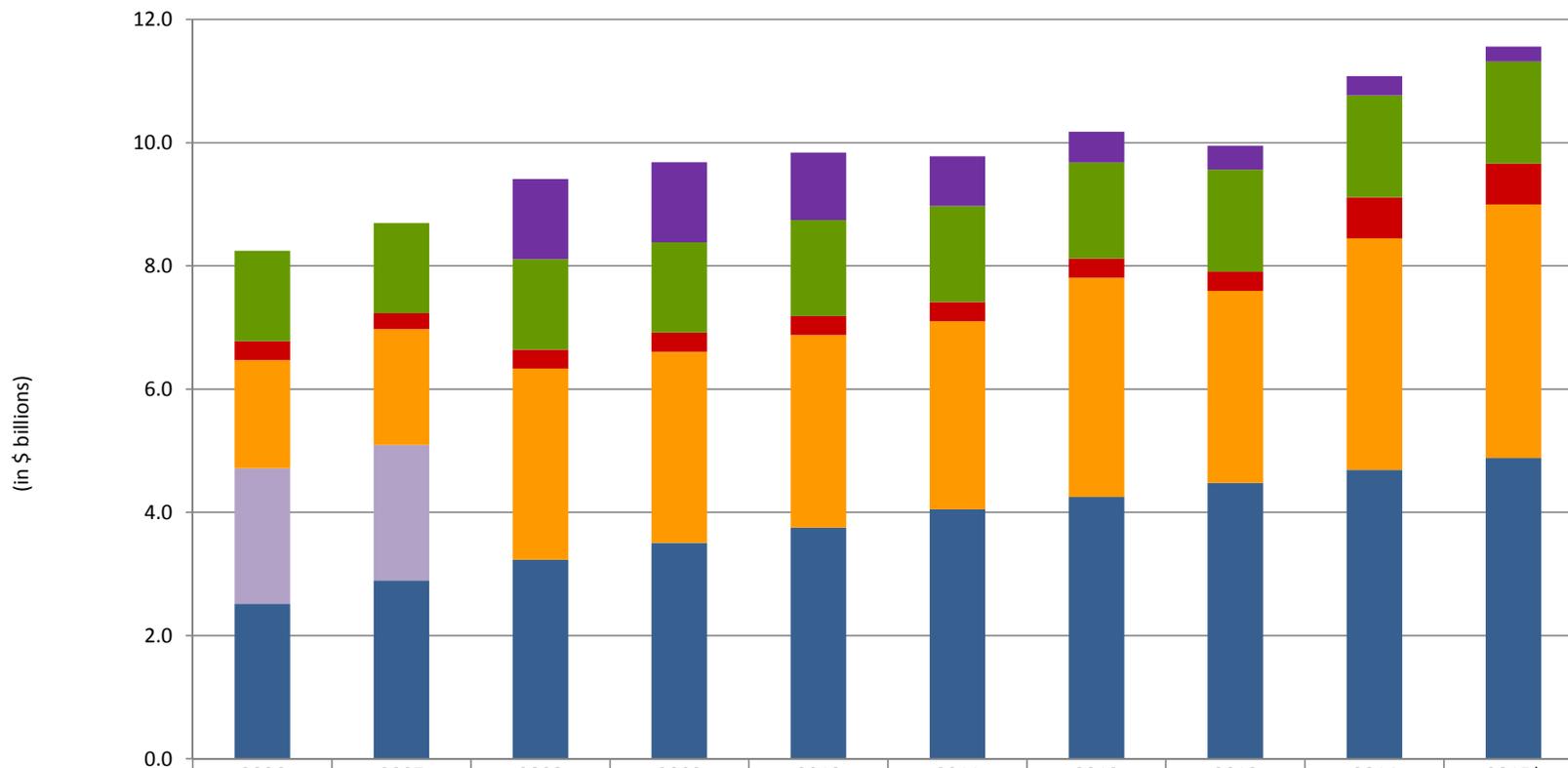
Note: Not drawn to scale

**California Earthquake Authority
Historical Claim-Paying Capacity (CPC)
December 31, 1997 through December 31, 2005**



	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total CPC	\$7.095	\$7.240	\$7.293	\$7.635	\$7.390	\$7.373	\$7.069	\$6.948	\$7.284
■ New Industry Assessment	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
■ 2nd Industry Assessment	1.434	1.434	1.434	1.456	1.456	1.456	1.456	1.456	1.456
■ Revenue Bonds	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
■ Risk-Transfer, 2nd Layer	0.727	1.075	1.075	1.075	0.538	0.538	0.538	0.000	0.000
■ Line of Credit	0.716	0.716	0.716	0.716	0.716	0.456	0.348	0.000	0.000
■ Risk Transfer, 1st Layer	1.433	1.433	1.433	1.433	1.433	1.433	1.000	1.500	1.500
■ 1st Industry Assessment	2.150	2.150	2.150	2.183	2.183	2.183	2.183	2.183	2.183
■ CEA Available Capital	0.635	0.432	0.485	0.772	1.064	1.307	1.544	1.809	2.145

**California Earthquake Authority
Historical Claim-Paying Capacity (CPC)
December 31, 2006 through June 30, 2015***



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*
Total CPC	\$8.244	\$8.695	\$9.411	\$9.685	\$9.840	\$9.777	\$10.179	\$9.949	\$11.081	\$11.557
New Industry Assessment	0.000	0.000	1.304	1.304	1.095	0.804	0.500	0.385	0.312	0.238
2nd Industry Assessment	1.465	1.465	1.465	1.465	1.558	1.558	1.558	1.656	1.656	1.656
Revenue Bonds	0.311	0.254	0.311	0.311	0.311	0.317	0.314	0.314	0.664	0.668
Risk-Transfer, 2nd Layer	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Line of Credit	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Risk Transfer, 1st Layer	1.756	1.885	3.100	3.100	3.123	3.050	3.557	3.115	3.759	4.114
1st Industry Assessment	2.197	2.197	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
CEA Available Capital	2.515	2.894	3.231	3.505	3.753	4.048	4.250	4.478	4.689	4.881

*as of June 30, 2015

Risk-Transfer Programs

**California Earthquake Authority
Risk-Transfer Program Summary
as of June 30, 2015**

Traditional Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
2015 January Program Contract 1	January 1, 2015 - December 31, 2015	315,491,770	4.50%	14,197,130
2015 January Program Contract 2	January 1, 2015 - December 31, 2015	178,387,500	3.25%	5,797,594
2015 January Program Contract 3	January 1, 2015 - December 31, 2015	99,999,960	6.00%	5,999,998
2015-2016 January Program Contract 1	January 1, 2015 - December 31, 2016	156,431,990	4.55%	7,117,656
2015-2016 January Program Contract 2	January 1, 2015 - December 31, 2016	146,871,900	3.30%	4,846,773
2015-2016 January Program Contract 3	January 1, 2015 - December 31, 2016	24,999,990	5.40%	1,349,999
2014-2015 January Program Contract 1	January 1, 2014 - December 31, 2015	454,227,620	5.50%	24,982,519
2014-2015 January Program Contract 2	January 1, 2014 - December 31, 2015	49,999,995	6.45%	3,225,000
2015-2016 April Program Contract 1	April 1, 2015 - March 31, 2016	624,992,490	3.00%	18,749,775
2014-2016 April Program Contract 1	April 1, 2014 - March 31, 2016	253,099,320	3.85%	9,744,324
2014-2016 April Program Contract 2	April 1, 2014 - March 31, 2016	122,499,960	3.75%	4,593,749
2012-2015 September Program	September 1, 2012 - August 31, 2015	100,000,000	5.70%	5,700,000
2015-2016 June Program	June 1, 2015 - May 31, 2016	25,000,000	3.60%	900,000
2013-2015 August Program Contract 3	August 1, 2013 - July 31, 2015	250,000,000	5.90%	14,750,000
2013-2016 May Program	May 1, 2013 - April 30, 2016	100,000,000	5.60%	5,600,000
2014-2015 August Program Contract 1	August 1, 2014 - July 31, 2015	187,500,000	6.00%	11,250,000
2014-2015 August Program Contract 2	August 1, 2014 - July 31, 2015	187,500,000	4.80%	9,000,000
2014-2015 August Program Contract 3	August 1, 2014 - July 31, 2015	136,500,000	4.50%	6,142,500
Total Traditional Reinsurance		\$ 3,413,502,495		

Transformer Reinsurance Contracts	Contract Period	Reinsurance Limit	12-Month Rate-on-Line	12-Month Premium
Transformer Contract 3 (2012 - II)	August 1, 2012 – August 7, 2015	300,000,000	5.64%	11,333,614
2014-2017 Transformer Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%	10,120,791
2014-2017 Transformer Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%	7,084,554
Total Transformer Reinsurance		700,000,000		

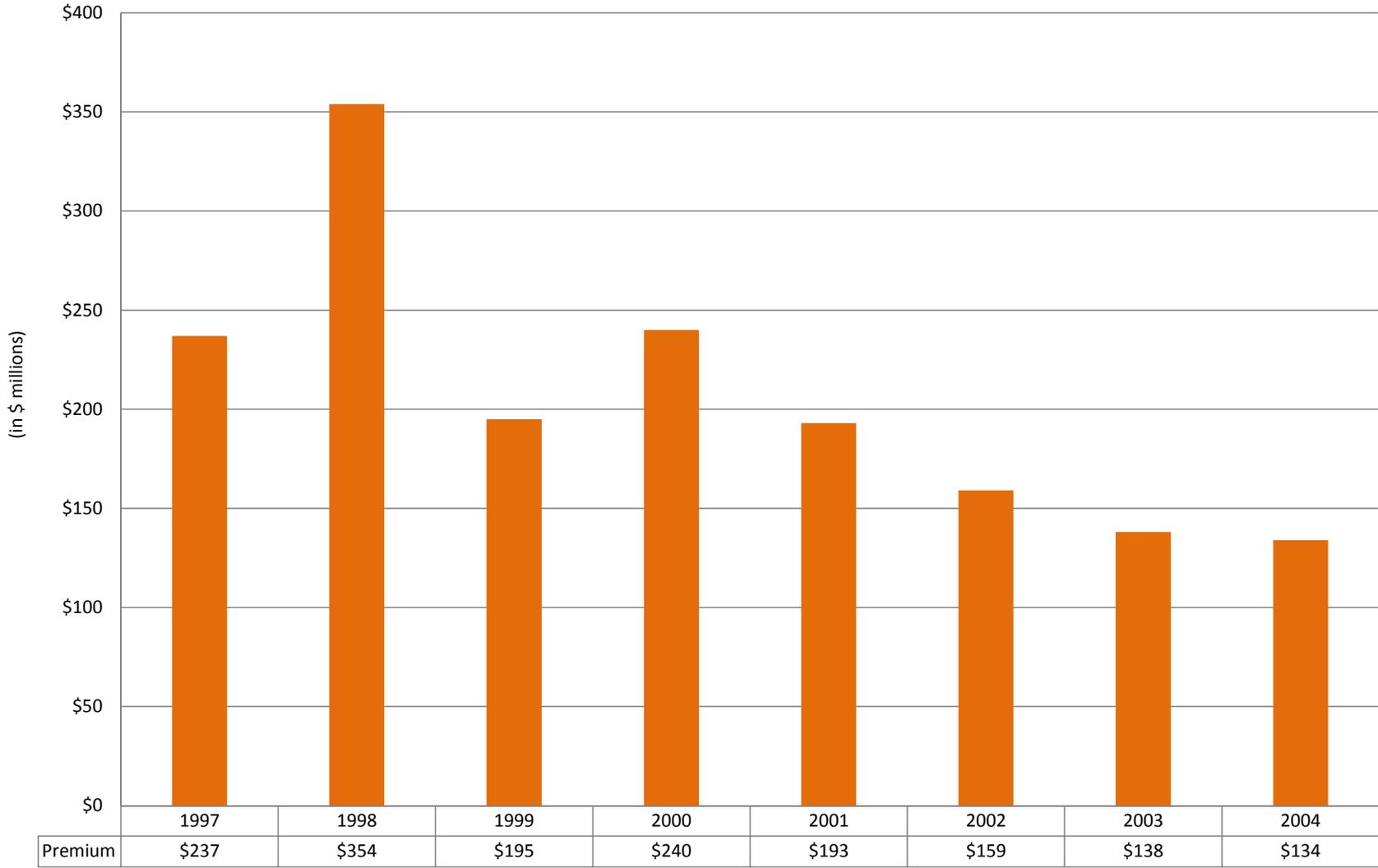
Total Risk-Transfer Program	\$ 4,113,502,495
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**California Earthquake Authority
2015 Total Premium Risk-Transfer Program
as of June 30, 2015**

Traditional Reinsurance Contracts	Contract Period	2015 Premium
2015 January Program Contract 1	January 1, 2015 - December 31, 2015	14,197,130
2015 January Program Contract 2	January 1, 2015 - December 31, 2015	5,797,594
2015 January Program Contract 3	January 1, 2015 - December 31, 2015	5,999,998
2015-2016 January Program Contract 1	January 1, 2015 - December 31, 2016	7,117,656
2015-2016 January Program Contract 2	January 1, 2014 - December 31, 2016	4,846,773
2015-2016 January Program Contract 3	January 1, 2014 - December 31, 2016	1,349,999
2014-2015 January Program Contract 1	January 1, 2014 - December 31, 2015	24,982,519
2014-2015 January Program Contract 2	January 1, 2014 - December 31, 2015	3,225,000
2015-2016 April Program Contract 1	April 1, 2015 - March 31, 2016	14,062,331
2013-2015 April Program Contract 2	April 1, 2013 - March 31, 2015	1,126,249
2014-2015 April Program Contract 1	April 1, 2014 - March 31, 2015	4,796,893
2014-2015 April Program Contract 1 ADDL	October 1, 2014 - March 31, 2015	1,877,745
2014-2016 April Program Contract 1	April 1, 2014 - March 31, 2016	9,744,324
2014-2016 April Program Contract 2	April 1, 2014 - March 31, 2016	4,593,749
2012-2015 September Program	September 1, 2012 - August 31, 2015	3,800,000
2015-2016 June Program	June 1, 2015 - May 31, 2016	525,000
2013-2015 August Program Contract 3	August 1, 2013 - July 31, 2015	8,604,167
2013-2016 May Program	May 1, 2013 - April 30, 2016	5,600,000
2013-2015 June Program	June 1, 2013 - May 31, 2015	1,177,083
2014-2015 August Program Contract 1	August 1, 2014 - July 31, 2015	5,250,000
2014-2015 August Program Contract 2	August 1, 2014 - July 31, 2015	6,562,500
2014-2015 August Program Contract 3	August 1, 2014 - July 31, 2015	3,583,125
Total Traditional Reinsurance Premium		138,819,835
Transformer Reinsurance Contracts	Contract Period	2015 Premium
Transformer Contract 2 (2012 - I)	February 7, 2012 - February 13, 2015	2,815,956
Transformer Contract 3 (2012 - II)	August 1, 2012 – August 7, 2015	11,333,614
2014-2017 Transformer Contract 1	December 1, 2014 - November 30,2017	10,120,791
2014-2017 Transformer Contract 2	December 1, 2014 - November 30,2017	7,084,554
Total Transformer Reinsurance Premium		\$ 31,354,915
Total Risk-Transfer Program Premium		\$ 170,174,750

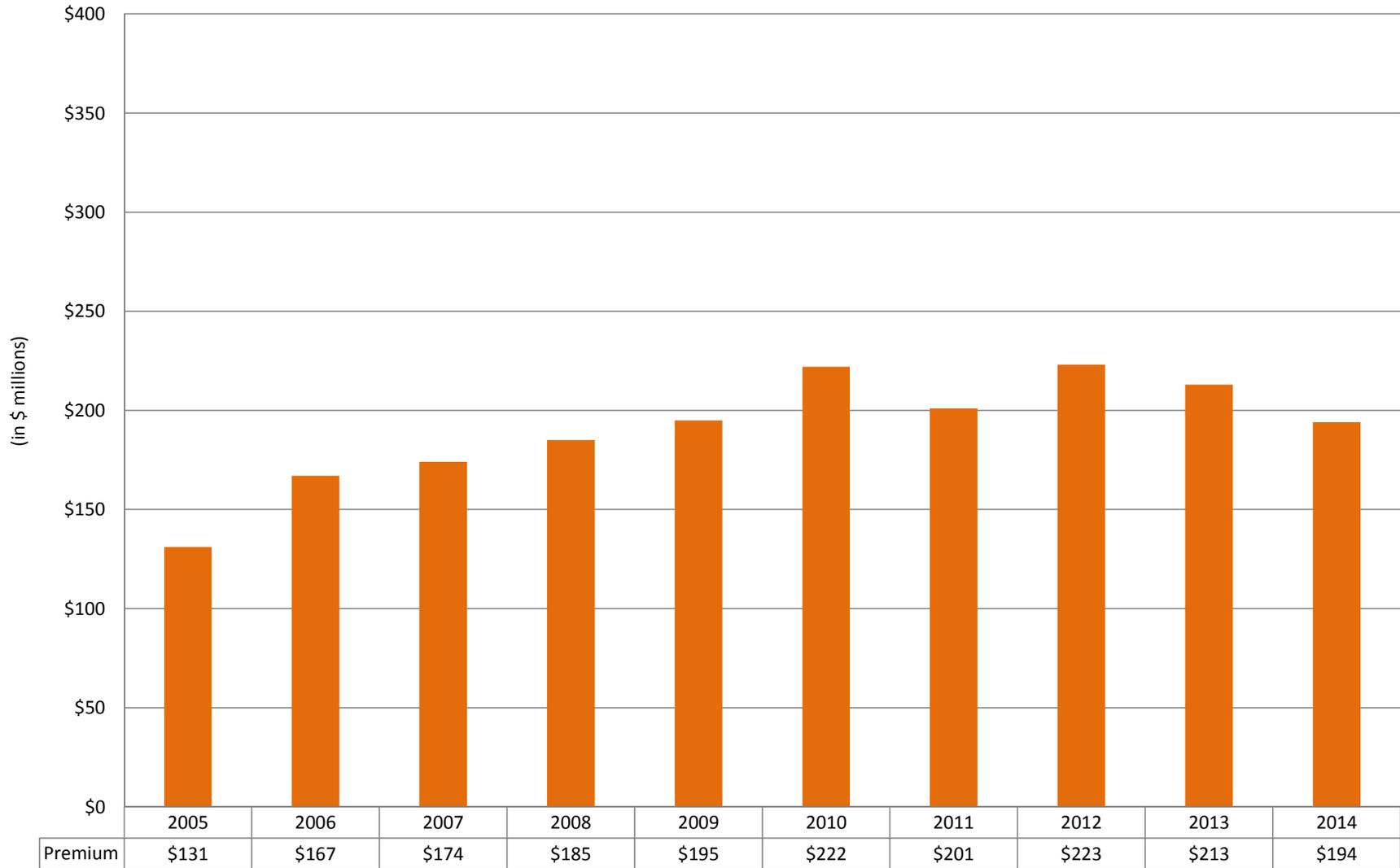
Note: Additional risk-transfer program contracts expected in 2015

**California Earthquake Authority
Annual Risk-Transfer Premium
December 31, 1997 - December 31, 2004**



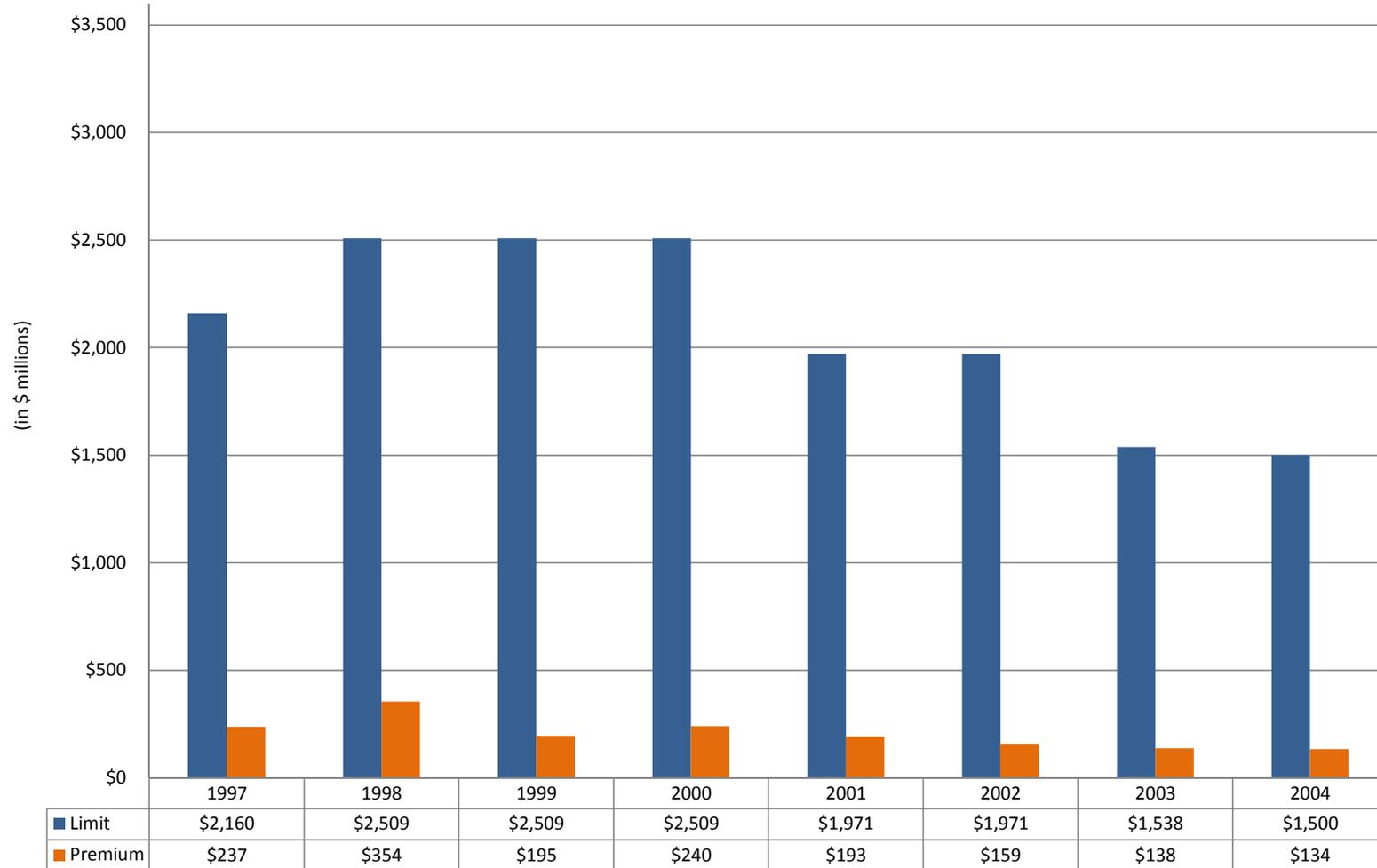
(in \$ millions)

**California Earthquake Authority
Annual Risk-Transfer Premium
December 31, 2005 -December 31, 2014**



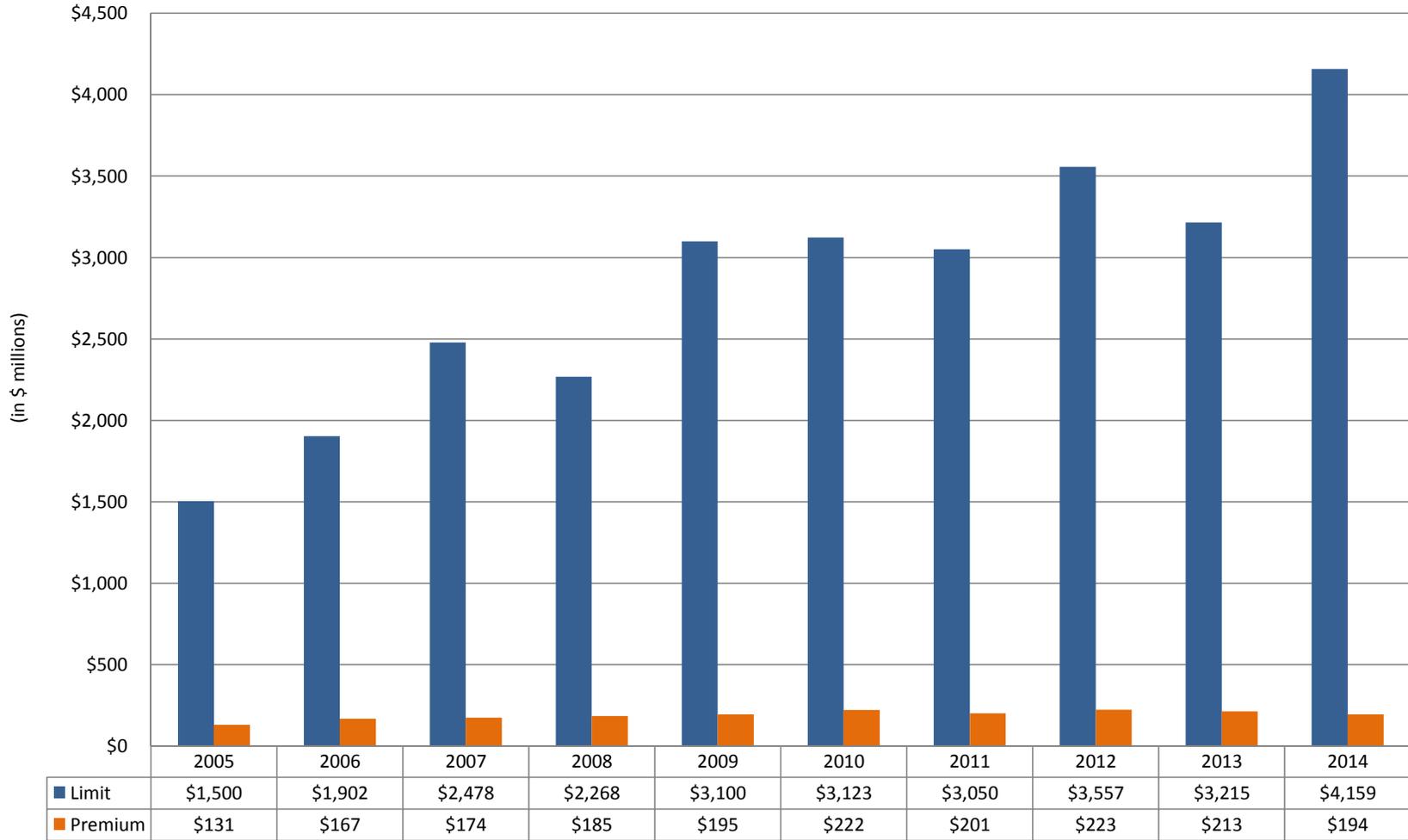
(in \$ millions)

**California Earthquake Authority
Annual Risk-Transfer Premium and Limit
December 31, 1997 - December 31, 2004**



(in \$ millions)

**California Earthquake Authority
Annual Risk-Transfer Premium and Limit
December 31, 2005 - December 31, 2014**



(in \$ millions)

Governing Board Memorandum

August 26, 2015

Agenda Item 6: Proposed Selection of New Risk-Transfer Intermediaries

Recommended Action: Approve the selected risk-transfer intermediaries

Background:

The CEA has historically purchased reinsurance from the global marketplace as one method to transfer its insurance risk to third parties. Currently, the CEA places more than \$4 billion in catastrophe risk-transfer products, including reinsurance.¹

Such a large risk-transfer program necessitates selecting quality risk-transfer intermediary services² to help the CEA find sufficient worldwide risk-transfer capacity and to assist the CEA in analyzing the global reinsurance market, assess the creditworthiness of potential reinsurers, and determine and negotiate the lowest possible price to acquire its risk-transfer capacity.

The Authority's risk-transfer program is large and complex, and to a great degree the CEA has used variations of the same highly experienced reinsurance-intermediary team since 1996. The CEA's most recent Request for Qualifications ("RFQ"), which is the subject of today's presentation to the Governing Board, sought the services of qualified firms to act in two distinct capacities:

- two reinsurance intermediaries to assist the CEA in purchasing reinsurance and other risk-transfer contracts from entities that are not Lloyd's syndicates (called here the "worldwide intermediaries"), and
- one reinsurance intermediary to assist the CEA in purchasing reinsurance and risk-transfer contracts from Lloyd's syndicates (called "Lloyd's intermediary").

Analysis:

Competitive Procurement Process—CEA Request for Qualifications

The CEA's RFQ sought intermediary firms with the experience, skills, and global presence to reliably place the CEA's reinsurance program at the most competitive

¹ The CEA uses several different forms of risk-transfer products, which operate in different ways to provide the claim-paying capacity that supports the CEA's insurance operation. One form of risk-transfer is reinsurance, which may be structured, financed, and provided in various ways. The terms "reinsurance" and "risk-transfer" may be used here somewhat interchangeably.

² Intermediaries are entities that solicit, negotiate, or place reinsurance on behalf of a ceding insurer (in this case, on behalf of the CEA) without having authority or power to bind reinsurance on behalf of that insurer.

terms, conditions, and rates on line (“ROL”)³, in return for payment by the CEA of the lowest, most cost-effective intermediary fees. To ensure attracting only the most qualified candidates, the RFQ required the following information:

- Relevant experience in providing reinsurance intermediary services to property and casualty insurers, especially with respect to earthquake catastrophe risk, including earthquake reinsurance placements by both the proposing firm and by actual personnel proposed to handle the CEA account.
- Demonstrated ability to assist ceding insurance companies in timely collecting reinsurance recoveries for catastrophe-loss claims.
- The resources and capability to give reinsurance markets⁴ all necessary CEA financial analysis to expedite reinsurance placement.
- The ability to place new reinsurance and other risk-transfer products (1) in a wide variety of domestic and international markets, for the worldwide intermediaries, and (2) in the London market⁵, for the Lloyd’s intermediary.
- Business history and location of each team member proposed to work on the CEA account. In the case of worldwide intermediaries, the primary CEA contacts must operate from the United States; for the Lloyd’s intermediary, the primary CEA contacts must operate in London.
- The ability to evaluate financial soundness of potential reinsurance and risk-transfer markets. For worldwide intermediaries, the ability applies to evaluating insurance-linked capital-market participants.

Services: Worldwide intermediaries and Lloyd’s intermediaries

Reinsurance Placement

- a. Assist CEA staff in developing reinsurance strategies.
- b. Assist and support CEA staff in preparing reinsurance contracts and legal documentation related to reinsurance contracts. (Currently, most reinsurance contracts and associated legal documents are prepared by

³ A rate on line or ROL is a percentage derived by dividing reinsurance premium by reinsurance limit. For example, a \$10 million catastrophe cover with a premium of \$1 million would have an ROL of 10 percent.

⁴ Reinsurance “markets” are reinsurance companies or groups of companies.

⁵ The “London market” and the “Lloyd’s market” are essentially synonymous.

CEA staff, but intermediaries must be able to assume responsibility for document preparation on request.)

- c. Provide the CEA a reinsurance with information on intended marketing of CEA reinsurance placements. The marketing activity is conducted under suitable confidentiality arrangements.
- d. The worldwide intermediaries would secure reinsurance on the CEA's behalf with traditional reinsurers and "alternative-market" risk-transfer entities (such as capital-market investors).
- e. The Lloyd's intermediary secures any placement of reinsurance with Lloyd's syndicates.
- f. Participate in meetings with prospective reinsurers, capital-market firms, and others, including with CEA staff.
- g. Keep the CEA fully informed during planning and placement of a CEA reinsurance program.

- Administration

Accept reinsurance premiums from the CEA and properly disburse the premiums to reinsurers, within the terms and time limits provided in the relevant reinsurance contracts

- Analytics (includes modeling of CEA portfolio) at the direction of the CEA
 - a. Perform analytics on the CEA portfolio, which includes modeling the CEA's business portfolio using (1) one or more commercial models: AIR, EQECAT, RMS; or (2) the intermediary's own earthquake-loss model.
 - b. Analyze the CEA's insured portfolio for various, stated purposes.
 - c. Generate and furnish the CEA analyses of the reinsurance marketplace and capital markets.
 - d. Provide continuous financial analysis of reinsurers in the CEA's risk-transfer program.

NOTE: The RFQ stated a total payment cap of \$5 million per year for all intermediary firms combined.

Advertising and Response

The CEA released RFQ #04-15 on June 1, 2015, and immediately published it on the CEA's website. In addition, CEA advertised the RFQ for six weeks through insurance and reinsurance publications (daily emails to subscribers of Carrier Management and banner ads on the websites of Financial Times and Insurance Insider).

The CEA received four proposals:

- one firm submitted a proposal to act as solely a worldwide intermediary,
- one firm submitted a proposal to act as solely a Lloyd's intermediary, and
- each of two firms submitted a proposal to act as both a worldwide intermediary and a Lloyd's intermediary.

The Selection Process

Evaluation Panel

CEA staff assembled an RFQ-evaluation panel to review and score the proposals. All panel members are currently directly and continuously involved in CEA's risk-transfer program:

Tim Richison – Chief Financial Officer, CEA
Joe Zuber – Senior Counsel, CEA
Tracy Palombo – Risk-Transfer Program Manager, CEA
Andrea Wheeler – Risk-Transfer Analyst, CEA

Scoring

Each panelist evaluated each proposal and assigned scores in four areas, weighted as follows:

- | | |
|--|-----------|
| 1) Qualifications; Firm Background and History | 20 points |
| 2) Work Plan and Methodology | 50 points |
| 3) Finalist Presentation | 40 points |
| 4) Value offered CEA by Fees Proposed | 20 points |

A proposal received a score for both worldwide intermediary and Lloyd's intermediary if the proposer submitted a response on both positions. Staff calculated separate scores for the worldwide intermediary and the Lloyd's intermediary positions, if the firm submitted a proposal for both.

Selection

Staff determined that hiring two worldwide intermediaries and one Lloyd's intermediary is ideal for the new intermediary team.

The two firms with the highest-ranking intermediary proposal for the worldwide intermediary and one firm for the Lloyd's intermediary were selected to be offered an opportunity to negotiate contract terms.

The two firms selected for the worldwide intermediary position were:

- Guy Carpenter & Company, LLC and
- Willis Re Inc.,

The one firm selected for the Lloyd's intermediary position was:

- JLT Re.

Guy Carpenter & Company and Willis Re currently work with the CEA reinsurance program, but JLT Re would be new to the CEA intermediary team.

Staff also determined that hiring an outside reinsurance consultant would benefit CEA in handling the risk-transfer program. AonBenfield was selected for this role.

Fee Schedule

The total annual compensation for the intermediary team (that is, the intermediaries and the risk-transfer consultant)—as a flat fee—is proposed at no more than \$3,000,000.

The current fee for intermediary services is \$4,800,000.

Conclusion:

The process for selecting the CEA's new reinsurance-intermediary team was competitive, open, and fair and resulted in a representative response. Once contracting is completed, the CEA should realize a reduction in annual intermediary fees of \$1,800,000.

The new team well positions the CEA to access the broadest worldwide risk-transfer capacity, analyze global reinsurance markets, assess the creditworthiness of potential reinsurers, and negotiate the lowest possible price for capacity, all in keeping with statutory guidance on reinsurance purchases.

Recommendation:

1. Consistent with the descriptions of the RFQ and related processes above:
 - a. Approve awarding to Guy Carpenter & Company, LLC, and Willis Re, Inc., the opportunity to negotiate with the CEA for the worldwide intermediary contract.

- b. Approve awarding to JLT Re the opportunity to negotiate with the CEA for the Lloyd's intermediary contract.
2. Approve awarding to AonBenfield the opportunity to negotiate with the CEA for contract to provide reinsurance-consultant services, on terms and conditions the CEA finds appropriate.
3. Approve the written Board resolution presented this day, authorizing CEO Glenn Pomeroy, CFO Tim Richison, General Counsel Danny Marshall, and CEA staff to negotiate the above contracts, incorporating all necessary and appropriate terms and conditions and taking into account any additional material presented to the Board or present in the written resolution of this date.
4. Authorize Mr. Pomeroy to execute the final, negotiated contracts.

Governing Board Memorandum

August 26, 2015

Agenda Item 7: California Department of Insurance *Audit Report of Examination* of the CEA

Recommended Action: No action required—information only

Background:

The California Department of Insurance (CDI), the state regulatory agency for insurance providers operating in California, has performed an examination of CEA's annual financial statements covering the period of January 1, 2010, to December 31, 2013.

- The CDI examined the CEA and its financial statements in accordance with the National Association of Insurance Commissioners *Financial Condition Examiners Handbook*.

Report of Examination of CEA is found in *Attachment A*.

Analysis:

CDI made three recommendations to the CEA, to which the CEA has responded and is currently complying.

REPORT OF EXAMINATION
OF THE
CALIFORNIA EARTHQUAKE AUTHORITY
AS OF
DECEMBER 31, 2013

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San Francisco, California
May 7, 2015

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

CALIFORNIA EARTHQUAKE AUTHORITY

(hereinafter referred to as the CEA) at its home office located at 801 K Street, Sacramento, California 95814.

SCOPE OF EXAMINATION

We have performed our examination of the CEA. The previous examination of the CEA was made as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook (Handbook). The Handbook requires the planning and performance of the examination to evaluate the CEA's financial condition, to identify prospective risks, and to obtain information about the CEA, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with Statutory Accounting Principles and Annual Statement instructions. All accounts and activities of the CEA were considered in accordance with the risk-focused examination process.

In addition to those items specifically commented upon in this report, other phases of the CEA's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, and insurance plans; growth of the CEA; loss experience; and accounts and records.

SUBSEQUENT EVENTS

New Participating Insurers

On August 28, 2014, the Governing Board approved Hyundai Marine and Fire Insurance (Hyundai) as a participating insurer with the CEA. Hyundai is anticipated to begin writing earthquake policies in May 2015.

California Assembly Bill 2064 (AB 2064)

AB 2064 was signed into law by the Governor on September 18, 2014. The bill updates and improves the delivery of information to California homeowners and renters about earthquake insurance options. Specifically, this legislation replaces the existing periodic mandatory offer of earthquake insurance with a new, plain-English letter and a solicitation to apply for CEA earthquake insurance. The bill also requires the CEA's participating insurers to provide annually CEA-created and produced marketing documents to each of their residential property insureds. The above changes are effective January 1, 2016.

AB 2064 also raises the cap on CEA operating expenses from 3 percent to 6 percent of premium income and includes language to define operating expenses that are subject to the cap. This part of the bill is effective January 1, 2015.

Revenue Bonds

The CEA issued a series of revenue bonds with a market value of approximately \$350 million in November of 2014. The issuance is made pursuant to CIC Section 10089.10(b) and is comprised of three serial bonds: 2-year Series Bond issued at \$40 million with a 1.194% interest rate; 3-year Series Bond issued at \$60 million with a 1.824% interest rate; and 5-year Series Bonds issued at \$250 million with a 2.805% interest rate.

Rate Filing and New Policy Coverages

On December 17, 2014, the CEA's Governing Board approved a new rate and form application that included the following changes:

- 10% statewide average rate change
- Expanded coverage, limit, and deductible options
- Enhanced hazard reduction discount rules
- Added new limitations

The above rate and form application was submitted to the California Department of Insurance on December 18, 2014 and was approved on April 23, 2015. The targeted implementation of all proposed changes is for policies with new or renewal effective dates of January 1, 2016, or later.

CEA HISTORY

The CEA was created in 1996 pursuant to California Insurance Code (CIC) Section 10089.6 to transact insurance in California as necessary to sell policies of basic residential earthquake insurance in the manner set forth in CIC Sections 10089.26 through 10089.28, and commenced operations in December 1996.

Previously, under CIC Section 10089.7(h)(1) the total number of people, subject to civil service provisions, the CEA could employ was limited to 25. On June 27, 2013, the Governor approved Senate Bill 71 which amended CIC Section 10089.7(h)(1) and removed the limit on the number of people, subject to civil service provisions, that the CEA can employ.

MANAGEMENT AND CONTROL

Pursuant to California Insurance Code (CIC) Section 10089.7(a), the CEA is governed by a three-member Governing Board consisting of the Governor, the State Treasurer, and the Insurance Commissioner, each of whom may name designees to serve as board members in their place. The Speaker of the Assembly and the Chairperson of the Senate Rules Committee serve as nonvoting, ex officio members of the Governing Board, and may name designees to serve in their place.

CIC Section 10089.7(c) provides that the Governing Board shall have the power to conduct the affairs of the CEA, and may perform all acts necessary or convenient in the exercise of that power.

A listing of the members of the Governing Board and principal officers serving on December 31, 2013 follows:

Governing Board

<u>Name and Location</u>	<u>Principal Business Affiliation</u>
Edmund G. Brown, Jr. Oakland, California	Governor State of California
William W. Lockyer ^(A) Hayward, California	Treasurer State of California
Dave E. Jones Sacramento, California	Insurance Commissioner State of California

Governing Board (continued)

John Pérez* ^(B)
Los Angeles, California

Speaker of the Assembly
State of California

Darrell S. Steinberg* ^(C)
Sacramento, California

Chairman of the Senate Rules Committee
State of California

**Non-voting members*

^(A) Effective January 5, 2015, John Chiang replaced William W. Lockyer as the Treasurer.

^(B) Effective May 12, 2014, Toni G. Atkins replaced John Pérez as the Speaker of the Assembly.

^(C) Effective December 17, 2014, Kevin de León replaced Darrell S. Steinberg as the Chairman of the Senate Rules Committee.

Principal Officers

Name

Title

Glenn Pomeroy

Chief Executive Officer

Timothy Richison

Chief Financial Officer

Robert Stewart

Chief Operations Officer

Todd Coombes

Chief Information Officer

Christopher Nance

Chief Communications Officer

Jeniele Maffei

Chief Mitigation Officer

Participating Insurer Agreements

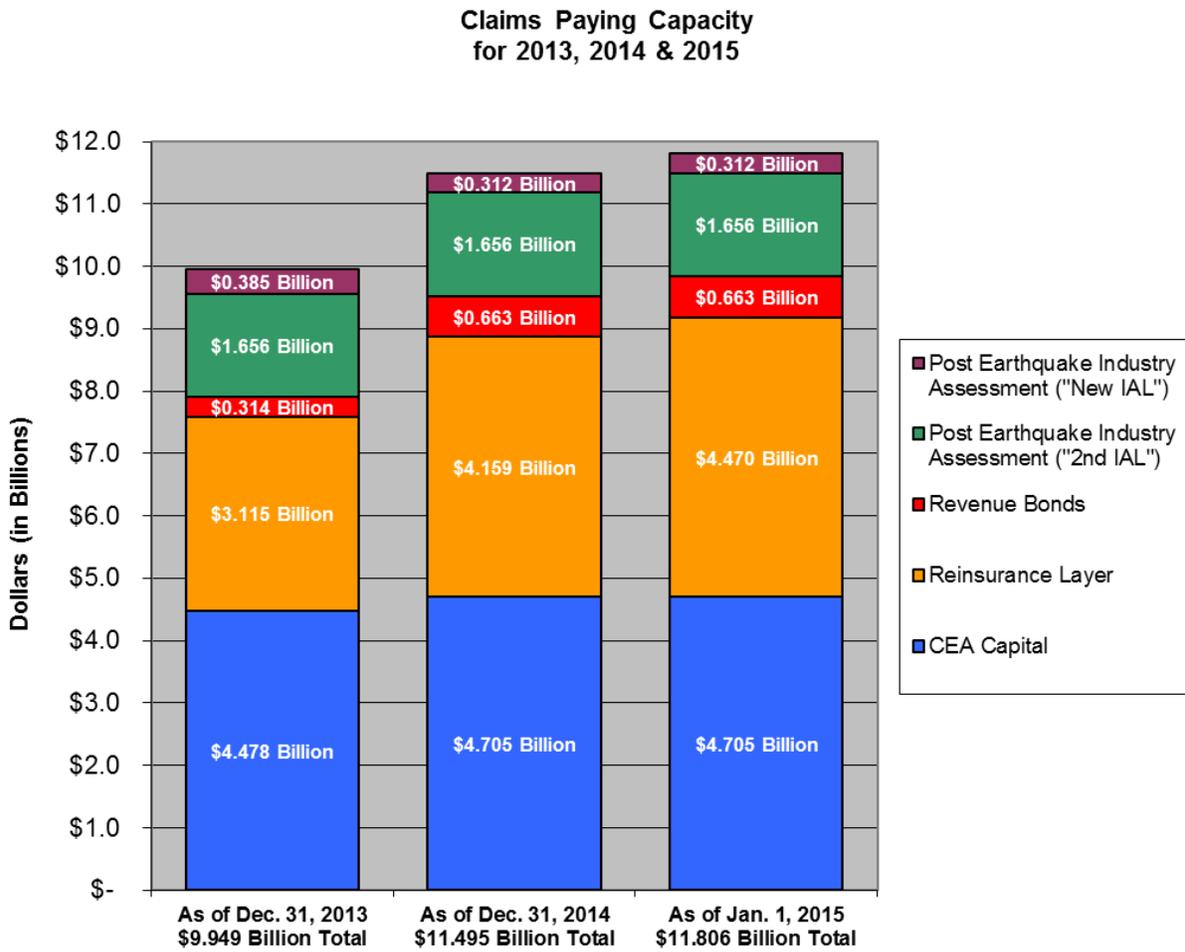
Services are performed on behalf of the CEA by the participating insurers pursuant to the terms of the Participating Insurer Agreements signed by the CEA and each participating insurer. These services include policy administration and claims settlement. Refer to the "TERRITORY AND PLAN OF OPERATION" section for more information on the participating insurers.

CLAIMS PAYING CAPACITY

As of December 31, 2013 the CEA reported a total claims paying capacity of \$9.949 billion. The CEA's claims paying capacity comes from the CEA's available capital (\$4.478

billion), reinsurance coverage (\$3.115 billion), revenue bonds (\$0.314 billion), post-earthquake industry assessments under California Insurance Code (CIC) Section 10089.30 (\$1.656 billion), and post-earthquake industry assessments under CIC Section 10089.31 (\$0.385 billion).

As of December 31, 2014, the CEA's claim-paying capacity increased to \$11.495 billion. The increase is primarily due to increases in the CEA's available capital, reinsurance coverage and revenue bonds. A chart illustrating the sources of the claims paying capacity for 2013, 2014 and 2015 is shown below:



Revenue Bonds

CIC Section 10089.10(b) authorizes the CEA, through the Treasurer, to enter capital market contracts for the purpose of expanding CEA's capacity and achieving maximum capacity for writing earthquake coverage. In 2006, the CEA issued \$315 million in revenue bonds pursuant to CIC Section 10089.10(b), of which \$94.5 million in principal was outstanding as of December 31, 2013. The 2006 revenue bonds will mature on July 1, 2016.

In November 2014, the CEA issued \$350 million in revenue bonds. The issuance is comprised of three serial bonds that mature in 2016, 2017, and 2019. Refer to the "SUBSEQUENT EVENTS" section for more information.

Post-Earthquake Industry Assessments

The CEA is authorized to levy assessments on participating insurers if claims and claim expenses paid by the CEA due to earthquake events exhaust the total of the available capital, reinsurance, policyholder assessments, and proceeds from debt financing. These assessments are authorized pursuant to CIC Sections 10089.30 (2nd IAL) and 10089.31 (New IAL). Assessments levied under the 2nd IAL shall not exceed \$2 billion and assessments levied under the New IAL shall not exceed \$1.78 billion. The amounts available for assessment under both industry assessment layers are subject to periodic reduction as described in CIC Section 10089.30 and 10089.13. At December 31, 2013, the amount available for assessment under the 2nd IAL was \$1.656 billion and under the New IAL was \$0.385 billion.

EARTHQUAKE LOSS MITIGATION FUND

Pursuant to California Insurance Code (CIC) Section 10089.37, the CEA is to set aside in each calendar year an amount equal to 5 percent of investment income accruing on the CEA's invested funds, or \$5 million, whichever is less, if deemed actuarially sound

by a consulting actuary employed for, or hired by the CEA, to be maintained as a sub-account in the California Earthquake Authority Fund. The CEA shall use those funds to fund the establishment and operation of an Earthquake Loss Mitigation Fund. CIC Section 10089.38 states that the Earthquake Loss Mitigation Fund may be applied by supply grants and loans or loan guarantees to dwelling owners who wish to retrofit their homes to protect against earthquake losses.

The following table illustrates the amounts set aside pursuant to CIC Section 10089.37 during the examination period:

<u>Year</u>	<u>Loss Mitigation Fund Contribution</u>
2013	\$1,238,300
2012	1,584,672
2011	2,019,253
2010	2,772,498

TERRITORY AND PLAN OF OPERATION

The CEA is authorized to write residential earthquake insurance in California pursuant to California Insurance Code (CIC) Section 10089.6(a). Earthquake insurance policies are available for homeowners, condominium owners, mobile homeowners, and renters in California.

The CEA offers two earthquake products for both homeowners and mobile homeowners: Standard Homeowners and Homeowners Choice. Standard Homeowners bundles all the coverages into one package: home (dwelling), personal property, building code upgrades, loss of use and emergency repairs (subject to exclusions and deductibles). Coverages, except for loss of use, are subject to the dwelling deductible. Homeowners Choice offers coverage for dwelling, building code upgrades and emergency repairs. There are two optional coverages: personal property which has under a separate, lower deductible, and loss of use which has no deductible.

The condominium policy covers building code upgrades and emergency repair coverage with optional coverage for building property, personal property and loss of use, as well as earthquake loss assessment. The renters' policy covers personal property, loss of use and emergency repairs.

The CEA's earthquake business is placed through its participating insurers. Pursuant to CIC Section 10089.9, each insurer participating in the CEA shall execute a contract with the Commissioner that sets forth its rights and responsibilities as a CEA participant, and such contract shall be part of the CEA's plan of operations and shall be uniform for every participating insurer. Insurers writing in the CEA represent approximately 80 percent of California's residential property insurance market. As of the examination date, there were 19 insurers participating in the CEA.

According to the Insurer Participation Agreements, participating insurers act as independent contractor agents on behalf of the CEA by performing policy and claims services which include underwriting, policy issuance, premium collection, and claims adjustment. Participating insurers receive a producer commission equal to 10 percent of written premium for all new and renewal CEA policies and non-claims related operating cost reimbursement equal to 6 percent of net written premiums. Participating insurers also are reimbursed for claims expenses associated with the CEA's earthquake claims equal to 9 percent of the total amount of the claim paid out.

The CEA imposes an eligibility requirement for earthquake policies as follows: (1) The risk must be a qualified residential property; (2) The risk must be insured by a companion policy issued by a CEA participating insurer that will act as the servicing carrier for the earthquake policy; (3) The risk must be insured to the value of the companion policy; and (4) All prior earthquake structural damage must be repaired before an application for coverage is accepted.

The following table is the direct premiums written during the examination period:

<u>Year</u>	<u>Written Premiums</u>
2013	\$573,959,642
2012	566,664,072
2011	614,308,227
2010	602,411,960

During the examination period, the CEA's operating expenses were capped at 3 percent of the premium income received by the CEA pursuant to CIC Section 10089.6(c). Beginning January 1, 2015, CIC Section 10089.6(c) was amended to increase the operating expense cap to 6 percent of the premium income received.

REINSURANCE

Assumed

The CEA has no assumed reinsurance.

Ceded

The CEA has multiple catastrophe aggregate excess of loss treaties with various reinsurers. As of December 31, 2013, CEA's largest reinsurers based on reinsurance premiums are: Embarcadero Re (18.9%); Swiss Reinsurance America Corporation (15.9%); Munich Reinsurance America (4.7%); SCOR Global P&C SE, Paris, Zurich Branch (4.6%); and Munchener Rueckversicherungs-Gesellschaft (3.9%).

The following table is an outline of the CEA's ceded reinsurance program as of December 31, 2013:

Contract	Reinsurers	Effective Date	Expiration Date	Retention	Limit	Amount Placed
2013 January Program	Various Reinsurers	1/1/2013	12/31/2013	\$3.4 Billion	\$4.5 Billion	\$715,595,320
2013-2014 April Program Contract 1	Various Reinsurers	4/1/2013	3/31/2014	\$5 Billion	\$6.2 Billion	\$759,900,000
2013-2015 April Program Contract 2	SCOR Global P&C SE, Paris, Zurich Branch	4/1/2013	3/31/2015	\$5 Billion	\$6.2 Billion	\$84,999,960
2013-2014 August Program Contract 1	Swiss Reinsurance America Corporation	8/1/2013	7/31/2014	\$3.4 Billion	\$4.5 Billion	\$299,999,920
2013-2014 August Program Contract 2	Various Reinsurers	8/1/2013	7/31/2014	\$4 Billion	\$4.5 Billion	\$130,000,000
2013-2015 August Program Contract 3	Various Reinsurers	8/1/2013	7/31/2015	\$4 Billion	\$4.5 Billion	\$250,000,000
2013-2014 August Program Contract 4	Hannover Ruck SE	8/1/2013	7/31/2014	\$3 Billion	\$3.3 Billion	\$24,999,000
2013-2016 May Program Contract 1	Poseidon Re Ltd	5/1/2013	4/30/2016	\$4.4 Billion	\$4.5 Billion	\$100,000,000
2013-2015 June Program Contract 1	Horseshoe Re Limited (EA0010 & OP0013)	6/1/2013	5/31/2015	\$4.6 Billion	\$4.65 Billion	\$50,000,000
2012-2015 September Program Contract 1	Allianz Global Risks US Insurance Company	9/1/2012	8/31/2015	\$4.49 Billion	\$4.59 Billion	\$100,000,000
Transformer Contract 1 (2011-I)	Embarcadero Reinsurance Ltd.	8/2/2011	8/8/2014	\$3.46 Billion	\$3.61 Billion	\$150,000,000
Transformer Contract 2 (2012-I)	Embarcadero Reinsurance Ltd.	2/7/2012	2/13/2015	\$3.045 Billion	\$3.34 Billion	\$150,000,000
Transformer Contract 3 (2012-II)	Embarcadero Reinsurance Ltd.	8/1/2012	8/7/2015	\$6.441 Billion	\$6.741 Billion	\$300,000,000

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders from December 31, 2009 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 3,851,830,002	\$	\$3,851,830,002	
Cash, cash equivalents, and short-term investments	1,141,361,188		1,141,361,188	
Investment income due & accrued	14,076,465		14,076,465	
Uncollected premiums and agents' balances in course of collection	47,776,029	7,928,771	39,847,258	(1)
Electronic data processing equipment and software	970,252		970,252	
Furniture and equipment, including health care delivery assets	46,840	46,840		
Aggregate write-ins for other than invested assets	<u>15,057,329</u>	<u>386,460</u>	<u>14,670,869</u>	
Total assets	<u>\$ 5,071,118,105</u>	<u>\$ 8,362,071</u>	<u>\$5,062,756,034</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Losses			\$ 36,250	(2)
Loss adjustment expenses			3,263	(2)
Other expenses (excluding taxes, licenses and fees)			7,809,243	
Borrowed money and interest thereon			97,414,853	
Unearned premiums			288,464,329	
Advance premium			3,112,722	
Ceded reinsurance premiums payable			<u>384,989</u>	
Total liabilities			397,225,649	
Aggregate write-ins for special surplus funds		\$ (37,736,297)		
Gross paid-in and contributed surplus		777,394,246		
Unassigned funds (surplus)		<u>3,925,872,436</u>		
Surplus as regards policyholders			<u>4,665,530,385</u>	
Total liabilities, surplus and other funds			<u>\$5,062,756,034</u>	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2013

Statement of Income

Notes

Underwriting Income

Premiums earned		\$ 355,987,589
Deductions:		
Losses incurred	\$ 249,407	
Loss expenses incurred	123,904	
Other underwriting expenses incurred	<u>123,647,015</u>	
Total underwriting deductions		<u>124,020,326</u>
Net underwriting gain		231,967,263

Investment Income

Net investment income earned	\$ 11,953,842	
Net realized capital gains	<u>327</u>	
Net investment gain		11,954,169

Other Income

Net gain from agents' or premium balances charged off	\$ 451,894	
Finance and service charges not included in premiums	412,957	
Aggregate write-ins for miscellaneous income	<u>51,304</u>	(1)
Total other income		<u>916,155</u>

Net income		<u>\$ 244,837,587</u>
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Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		\$ 4,408,116,393
Net income	\$ 244,837,587	
Change in nonadmitted assets	508,660	
Aggregate write-ins for gains and losses in surplus	<u>12,067,745</u>	(1)
Change in surplus as regards policyholders for the year		<u>257,413,992</u>
Surplus as regards policyholders, December 31, 2013		<u>\$ 4,665,530,385</u>

Reconciliation of Surplus as Regards Policyholders
from December 31, 2009 through December 31, 2013

Surplus as regards policyholders, December 31, 2009, per Examination			\$3,498,293,003
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$1,104,705,598	\$ 0	
Change in nonadmitted assets	2,028,440		
Surplus adjustments: Paid in	26,242,000		
Aggregate write-ins for gains and losses in surplus	<u>34,261,344</u>		
Total gains and losses	<u>\$1,167,237,382</u>	<u>\$ 0</u>	
Net increase in surplus as regards policyholders			<u>1,167,237,382</u>
Surplus as regards policyholders, December 31, 2013, per Examination			<u>\$4,665,530,385</u>

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Premiums and Agents' Balances in Course of Collection

The CEA is not in compliance with Statement of Statutory Accounting Principles (SSAP) No. 6, paragraph 7, because it does not follow the guidance when aging premiums for the purpose of nonadmitting amounts over 90 days due. The CEA's current practice is to age the premium receivable from the last date that a payment was received on the policy. SSAP No. 6, paragraph 7, requires the aging to be computed from the due date, which is defined as the policy effective date for original and deposit premiums and from the contractual due date for installment premiums. No exam adjustment was made for this finding because the amount involved is not material. It is recommended that the CEA comply with SSAP No. 6, paragraph 7. Similar comments were made in the prior examination.

The CEA's accounting for uncollectible premiums and agents' balances charged off is not in compliance with SSAP No. 6, paragraph 10. It was observed that the amount reported as uncollectible premiums and agents' balances charged off consists of the change in nonadmitted premiums and agents' balances over 90 days due only and does not include any premiums or agents' balances that were actually written off. SSAP No. 6, paragraph 10, requires that any uncollectible receivable be written off and charged to income in the period the determination is made. The change in nonadmitted agents' and premium balances over 90 days due is already included in the "Change in nonadmitted assets" line under the "Capital and Surplus Account" section of the Statement of Income and accounting for this amount as a "net gain/loss from agents' or premium balances charged off" is unnecessary. In addition, the amount that is charged off should not be added back to policyholders' surplus through the "Aggregate write-in for gains and losses in surplus" line under the "Capital and Surplus Account" section of the Statement of Income. Any amounts that are written off should be charged to income in the period the determination is made in accordance with SSAP No. 6, paragraph 10. No examination adjustment was made because the amount involved is not material. It is

recommended that the CEA comply with SSAP No. 6, paragraph 10. Similar comments were made in the prior examination.

(2) Losses and Loss Adjustment Expenses

The CEA only writes residential earthquake insurance, which has a fast reporting and payment development period. The CEA has only paid out approximately \$4.3 million in losses and loss adjustment expenses (LAE) since its inception. The CEA's net paid losses and LAE were less than \$380,000 for the examination period as no major earthquakes have occurred in CEA's territories that resulted in material insured losses. Due to the same reason, only \$39,513 loss and LAE reserves were reported as of December 31, 2013.

The CEA's financial modeling process was reviewed and analyzed with the assistance of a Casualty Actuary from the California Department of Insurance (CDI). The analysis covered three parts: 1) the quality and completeness of the CEA's exposure data, 2) the appropriateness of the CEA's use of commercial catastrophe models in monitoring and managing its exposure, and 3) the ability of the CEA to maintain its capital structure going forward. The CDI concurs that the CEA's claims paying capacity at December 31, 2013 of \$9.949 billion is adequate to cover CEA's losses from a 1-in-500 year earthquake event. However, there are concerns as to whether the CEA would be able to recapitalize once the CEA's capital layer is exhausted. It is observed that all of the CEA's available capital would be exhausted by the modeled 1-in-75 year event of \$4.5 billion (a somewhat more likely scenario than the 1-in-500 year event the CEA uses as a benchmark for solvency assessment). It is recommended that management develop a mechanism for recapitalizing the CEA. Similar comments were made in the prior examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comment on Financial Statement Items - Premiums and Agents' Balances in Course of Collection (Page 15): It is again recommended that the CEA comply with Statement of Statutory Accounting Principles (SSAP) No. 6, paragraphs 7 and 10.

Comments on Financial Statement Items - Loss and Loss Adjustment Expenses (Page 16): It is again recommended that management develop a mechanism for recapitalizing the CEA.

Previous Report of Examination

Comments on Financial Statement Items – Premiums and Agents' Balances in Course of Collection (Page 20): It was recommended that the CEA comply with SSAP No. 6, paragraph 7 and 10. The CEA has not complied with this recommendation.

Comments on Financial Statement Items – Loss and Loss Adjustment Expenses (Page 21): It was recommended that management develop a mechanism for recapitalizing the CEA. The CEA needs to continually develop mechanism for recapitalization.

Comments on Financial Statement Items – Advance Premiums (Page 22): It was recommended that the CEA comply with SSAP No. 53, paragraph 13. The CEA has complied with SSAP No. 53, paragraph 13.

Comments on Financial Statement Items – Loss Mitigation Fund Liability (Page 22): It was recommended that the CEA accrue a liability at year end for its Loss Mitigation Fund obligation under California Insurance Code (CIC) Section 10089.37. The CEA has complied with CIC Section 10089.37.

Comments on Financial Statement Items – Pro Forma Premium Taxes (Page 23): It was recommended that the CEA follow the California premium tax filing instructions when computing the pro forma premium taxes pursuant to CIC Section 10089.44 and report the pro forma premium taxes in its statutory financial statements. The pro forma premium taxes have been properly calculated and reported in the statutory financial statements.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the CEA's officers and employees during the course of this examination.

Respectfully submitted,

Mei Gu, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California

Governing Board Memorandum

August 26, 2015

Agenda Item 8: Report of Audit on CEA Annual Financial Statements (2014) by independent financial auditor Plante Moran

Recommended Action: No action required—information only

Background:

Plante Moran (<http://www.plantemoran.com/pages/default.aspx>), the California Earthquake Authority's independent financial auditor, has audited CEA's financial statements for the year ended December 31, 2014, prepared in accordance with generally accepted accounting principles (GAAP) in the United States of America.

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

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

Analysis:

According to the Plante Moran *Independent Auditor's Report*, CEA's 2014 audited GAAP financial statements present fairly, in all material respects, the financial position of CEA, in conformity with accounting principles generally accepted in the United States of America.

Governing Board Memorandum

August 26, 2015

Agenda Item 9: Reimbursement protocols and budget for the new Mandatory Marketing Document

Recommended Action: Approve 2015 budget expenditure for first quarter 2016 MMD costs to be incurred during fourth quarter 2015

Background:

Under a law enacted through CEA-sponsored legislation that is becoming effective in 2016, CEA participating insurers (PIs) must send a CEA-insurance marketing document to all their residential property insurance policyholders “at least once each year.” The new law provides that this new marketing document will be “produced at the authority’s expense.”¹ While there was not a detailed discussion about how exactly this phrase would be defined, all parties involved in passing this legislation intended that the CEA would generally pay the costs associated with placing this document in the hands of consumers—including development, production, and distribution costs.

During fourth quarter 2015, CEA PIs will begin distributing this Mandatory Marketing Document (MMD) and a cover letter to policyholders who have first-quarter-2016 renewal dates. PIs’ distribution of the MMD will coincide with their sending residential-insurance-renewal packets, though in a separate mailing.

This memorandum proposes a 2015 budget expenditure to permit (1) the CEA to reimburse PIs for MMD production and distribution and (2) payment of CEA’s costs for producing and distributing the MMD for several PIs that have arranged for CEA to do so on their behalf.

Analysis:

At the May 2015 Governing Board meeting, staff proposed the following reimbursement guide for PI production and distribution costs:

Proposed Reimbursement Rates for MMD	
Number of residential property insureds	Reimbursement rate per mailing
Large (over 800k)	\$0.39
Medium (300k-799k)	\$0.42
Small (50k-299k)	\$0.53
Micro (under 50k)	\$0.81

¹ This portion of the new law is codified at Insurance Code section 10089.42, subdivision (a).

High-level MMD reimbursement protocols for CEA and PIs will include:

- Per-mailing reimbursement rates based on PI's number of policies-in-force
- CEA must approve cover letter and MMD proofs before printing.
- PIs will use the CEA-developed invoice for MMD-reimbursement requests.
- PIs may request monthly reimbursement.
- PIs must maintain either USPS form 3062 for proof of mailing or other proof for the number of MMD mailings that entered the mail stream.
- PIs must maintain a list of the policyholders receiving the MMD mailing that corresponds with the number of mailings that have entered the mail stream for those policyholders, for verification by CEA's audit team.
- Returned mail is the responsibility of the PIs. In other words, CEA will not reimburse a PI for costs associated with re-mailing the MMD to a policyholder.

In December 2015, CEA staff will request Board approval of MMD funding to support PI and CEA production and distribution through the remainder of 2016.

Based on PI-supplied estimates, CEA staff now requests \$1,028,000 to produce and distribute about 2.3 million MMD mailings during the fourth quarter 2015.

Recommendation:

Approve spending \$1,028,000 within the CEA budget sub-category "Statutory Market Support and Promotion" under "Participating Insurer Operating Costs," for production and distribution of a cover letter and MMD to policyholders with residential policies renewing during the first quarter 2016.

Governing Board Memorandum

August 26, 2015

Agenda Item 10: Request for Annual Set-Aside for the CEA Loss Mitigation Fund

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

Background:

California Insurance Code section 10089.37 states, in pertinent part:

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

The Governing Board last approved annual set-aside funding for the CEA Loss Mitigation Fund in October 2014 in the amount of \$1,064,575.

Analysis:

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

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

Staff requests Board authorization and approval to set aside \$1,268,767 for the CEA Loss Mitigation Fund, as calculated and shown on *Attachment B*.

Recommendation:

Staff recommends the Board authorize a 2015 set-aside of \$1,268,767 for the CEA Loss Mitigation Fund.

MEMORANDUM

DATE: August 12, 2015
TO: Tim Richison, Chief Financial Officer
FROM: Shawna Ackerman, Chief Actuary 
RE: 2014 Earthquake Loss Mitigation Fund

Pursuant to California Insurance Code §10089.37, the California Earthquake Authority (CEA) shall set aside an amount equal to the lesser of 5% of its annual investment income or \$5,000,000 for the Earthquake Loss Mitigation Fund, if deemed actuarially sound. The amount under review for calendar year 2014 is \$1,268,767.

The term “actuarially sound” is often applied to rates. The current rate structure considers and provides for a sufficient provision for the mitigation fund.

In the context of the statute for the mitigation fund, the term may also apply to the CEA’s solvency. I have reviewed the financial data provided to me including the provision for the mitigation fund. The CEA available capital at March 31, 2015 is \$4.799 billion and the total claims paying capacity is \$11.754 billion. The mitigation funds available to set aside are approximately 0.03% of the CEA’s available capital and 0.01% of the CEA’s total claims paying capacity. Because the mitigation fund represents a small percentage of the CEA’s total claims paying capacity, the absence of the funds for claims paying will not impair the CEA’s solvency. Additionally, the mitigation funds can increase the CEA’s ability to pay 100% of claims liabilities to the extent that the funds are used to support activities that reduce the CEA’s losses in the event of a damaging earthquake. Therefore, I conclude that the mitigation fund amount as proposed is actuarially sound as contemplated in the statute.

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

Year	Investment Income	5% of Investment Income	A	B	C	(A + B + C)
			Beginning-of-Year Remaining Funds Available for Set Aside	Lesser of 5% of Investment Income or \$5 million **	Funds Set Aside by the Governing Board	End-of-Year Remaining Funds Available for Set Aside
Balance as of December 31, 2000						\$ -
2001	\$ 44,184,990.04	\$ 2,209,249.50	\$ -	\$ 2,209,249.50	\$ (309,275.55)	\$ 1,899,973.95
2002	\$ 24,782,830.64	\$ 1,239,141.53	\$ 1,899,973.95	\$ 1,239,141.53	\$ (2,509,232.25)	\$ 629,883.23
2003	\$ 25,562,896.69	\$ 1,278,144.83	\$ 629,883.23	\$ 1,278,144.83	\$ -	\$ 1,908,028.07
2004	\$ 35,851,094.85	\$ 1,792,554.74	\$ 1,908,028.07	\$ 1,792,554.74	\$ -	\$ 3,700,582.81
2005	\$ 64,786,415.96	\$ 3,239,320.80	\$ 3,700,582.81	\$ 3,239,320.80	\$ (3,700,582.81)	\$ 3,239,320.80
2006	\$ 118,647,844.32	\$ 5,932,392.22	\$ 3,239,320.80	\$ 5,000,000.00	\$ (3,239,320.80)	\$ 5,000,000.00
2007	\$ 125,616,215.18	\$ 6,280,810.76	\$ 5,000,000.00	\$ 5,000,000.00	\$ (5,000,000.00)	\$ 5,000,000.00
2008	\$ 84,700,308.00	\$ 4,235,015.40	\$ 5,000,000.00	\$ 4,235,015.40	\$ (5,000,000.00)	\$ 4,235,015.40
2009	\$ 55,449,955.00	\$ 2,772,497.75	\$ 4,235,015.40	\$ 2,772,497.75	\$ (4,235,015.40)	\$ 2,772,497.75
2010	\$ 40,385,063.00	\$ 2,019,253.15	\$ 2,772,497.75	\$ 2,019,253.15	\$ (2,772,497.75)	\$ 2,019,253.15
2011	\$ 31,693,442.00	\$ 1,584,672.10	\$ 2,019,253.15	\$ 1,584,672.10	\$ (2,019,253.15)	\$ 1,584,672.10
2012	\$ 24,766,000.00	\$ 1,238,300.00	\$ 1,584,672.10	\$ 1,238,300.00	\$ (1,584,672.10)	\$ 1,238,300.00
2013	\$ 21,291,499	\$ 1,064,574.96	\$ 1,238,300.00	\$ 1,064,574.96	\$ (1,238,300.00)	\$ 1,064,574.96
2014	\$ 25,375,330	\$ 1,268,766.51	\$ 1,064,574.96	\$ 1,268,766.51	\$ (1,064,574.96)	\$ 1,268,766.51
Balance as of December 31, 2014						\$ 1,268,766.51

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

Governing Board Memorandum

August 26, 2015

Agenda Item 11: CEA Mitigation Program: Projects

Recommended Actions: No action required—information only

Background and Analysis:

The CEA Mitigation Department currently manages multiple projects focused on expanding mitigation resources to homeowners and technical professionals, as well as collecting data to further mitigation efforts.

Guidelines Development:

The Earthquake Guidelines Development project will create statewide retrofit standards that can be applied to reduce earthquake damage in single-family dwellings. When complete and adopted, the guidelines will extend Chapter A3 of the International Building Code, currently adopted (by reference) into the California Building Code, which provide the current (limited) standards for retrofitting cripple-wall dwellings.

In addition to creating uniform standards 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 funds the project, and CEA Chief Mitigation Officer Janiele Maffei and Mike Mahoney of FEMA are jointly managing the project.

The Applied Technology Council ("ATC") has been chosen as the entity to manage the guidelines project. The program technical committee, managed by ATC, has completed an outline of the guideline document. It is currently developing a schedule and budget for the second year of the project.

CEA Mitigation Research Project:

The CEA mitigation-research project is intended to accomplish three goals:

1. To permit the CEA to calculate appropriate mitigation-related earthquake-insurance-premium discounts.
2. To support the seismic-building-code-related guideline-development process.
3. To inform other strategic mitigation endeavors by the CEA and the California Residential Mitigation Program (the CEA/CalOES joint powers authority).

- The first step in the Mitigation Research Project was to use existing modeling programs to determine a mitigation discount for the 2014 CEA insurance rate filing.
- The second step was to issue a Request for Qualifications and Proposal (“RFQ&P”) in order to contract with a qualifying organization to develop fragility-function-modification factors for use by loss modelers in evaluating raised-foundation houses that have had a cripple-wall and sill-anchorage retrofit.

The RFQ&P was made public in early January 2015, submittals from prospective contractors were reviewed in April, and interviews were held in June. CEA Research Director Bruce Patton will present a contracting proposal at today’s Board meeting.

FEMA P-50 and P-50-1 Training:

FEMA developed the *Simplified Seismic Assessment Form for Detached, Single-Family, Wood-Framed Dwellings* (FEMA P-50), a simple, standard assessment form to evaluate a house’s resistance to earthquake damage, based on:

- The house’s structural attributes; and
- The proximity of the house to earthquake hazards

The assessment form, and the accompanying FEMA P-50-1, help homeowners identify how to strengthen their houses and lower their earthquake risk.

The CEA was a contributing source of funding to FEMA P-50. The tool has been available for use by house inspectors, but it has not been widely distributed or used. CEA has taken the initiative to bring the evaluation tool (and training on how to use the tool) to home inspectors in California. The purpose for this is threefold:

1. To identify for homeowners the risks and vulnerabilities to be addressed by completing a retrofit
2. To provide homeowners information at the time of sale of potential risks and vulnerabilities
3. To provide an additional inspection resource for the Hazard Reduction Discount available to may CEA policyholders

The first FEMA P-50 training took place in May 2015 at the California Real Estate Inspection Association’s (CREIA) annual conference. The two sessions were coordinated through CalOES and funded by FEMA National Earthquake Hazards Reduction Program (NEHRP) funds, with training provided by Applied Technology Council (ATC). Up to 75 house inspectors participated and received continuing-education units.

An additional two sessions will be held with NEHRP funding in January 2016 at the American Society of Home Inspectors (ASHI) annual conference in San Diego.

Both CREIA and ASHI member classifications are quite specific. Each classification has prerequisites for membership status and education requirements. In lieu of licensing (since California does not license home inspectors), CEA's focus will be to engage CREIA and ASHI certified inspectors. CEA plans to contract directly with ATC to conduct four sessions for CREIA and ASHI members in September and October 2015 in San Bernardino, Los Angeles, Stockton, and Mather.

The goal is to create a resource of 200 trained home inspectors throughout the state by the end of 2016.

South Napa Earthquake Survey:

On August 24, 2014, at 3:20 a.m., a magnitude 6.0 earthquake struck in the American Canyon area, just south of Napa. It was the largest quake to hit California since the 1994 Northridge earthquake. According to *The Press Democrat* (Santa Rosa), the quake killed one person and injured 200.

The South Napa Earthquake research project seeks to compile data on how single-family dwellings performed during the earthquake—no data now exists that would identify seismically retrofitted and non-retrofitted dwelling performance in Napa, Solano, or Sonoma counties.

CEA collaborated with a qualified research consultant in developing the project plan. The consultant developed the survey tool, managed data collection, and has provided preliminary data analysis, which is now under review by CEA, which plans to release parts of the results.

Survey Phase I was an online survey offered February 22–March 15, 2015, to homeowners in the 94558 and 94559 ZIP Codes—primarily the city (and county) of Napa. In survey materials distributed in both English and Spanish, homeowners learned of the survey through door hangers and local media. The mayor of Napa recorded a public service announcement for local radio, and both the city and county of Napa advertised the survey on their websites and social media.

Participation was high, with over 633 survey respondents. Of those, 200 qualified for Phase II, which will involve inspecting up to 50 houses that respondents identified as seismically retrofitted when the August 2014 earthquake occurred.

California Real Estate Inspection Association (CREIA) affiliated home inspectors who have completed training in the FEMA P-50 *Simplified Seismic Assessment Form for Detached, Single-Family, Wood-Frame Dwellings* will conduct the inspections in August–September 2015, and a final report is expected in December 2015.

Governing Board Memorandum

August 26, 2015

Agenda Item 13: 'CEA Loyalty Mitigation Program,' to permit the CEA to provide retrofit incentives to selected policyholders

Recommended Action: No action required—information only

Background:

Beginning January 1, 2016, the CEA will offer a 20% hazard-reduction premium discount to qualifying policyholders who live in pre-1940 wood-frame construction on a raised foundation.

The 20% discount is intended to recognize that retrofitting houses in accordance with the California Building Code reduces expected losses—policyholders who have retrofitted their houses should be rewarded. The 20% discount is also intended to provide an incentive to policyholders who have not completed a retrofit to undertake retrofitting measures.

Based on the success of the pilot California Residential Mitigation Program (CRMP), CEA staff sees a concrete opportunity to advocate mitigation within its policyholder base—this proposal would result in a cash incentive to tenured policyholders in higher-risk areas who live in pre-1940 wood-frame construction on a raised foundation.

Analysis:

Retrofitting a single house provides a direct benefit to the homeowner: it reduces expected damage and insurance loss from seismic risk. The CEA recognizes the expected reduction in insurance losses through a premium discount.

Retrofitting a larger and sufficient number of houses reduces the CEA's need for risk transfer, if the retrofitted houses are in higher-risk areas where the CEA has an exposure concentration. If the CEA can identify and provide retrofit incentives to such selected houses, the savings in risk-transfer needs has the potential, over time, to offset the cost of providing the incentives.

CEA staff has worked to identify approximately 5,000 houses in high-risk and high-exposure ZIP Codes that, if retrofitted, could reduce the CEA's current risk-transfer needs by approximately \$60 million—while still maintaining target claim-paying capacity.

Assuming that CEA provides a retrofit incentive of \$3,000 per house, the expected net annual risk-transfer savings (at current prices) is \$1.6–2.0 million per year.

If these annual risk-transfer savings can be said to "repay" the cost to CEA of providing

retrofit incentives, the pay-back period is under 10 years, on a nominal (unadjusted) basis. If we consider a range of discount rates to reflect the time value of money, the pay-back period would be 10–14 years.

While this initial analysis is promising, a number of details must be explored before the CEA could roll-out a first phase of a CEA Loyalty Mitigation Program. Suitable answers to questions such as the following are key to a successful program:

- Who would qualify?

Based on initial analysis, the greatest reduction in risk-transfer needs arises from retrofitting pre-1940 wood-frame construction on a raised foundation, in high-risk and high-exposure ZIP Codes. This reduction in risk transfer assumes that the CEA risk profile “improves.”

In order to maintain an “improved” risk profile, the CEA proposes a “tenure requirement,” which serves the dual purpose of (1) increasing the likelihood that the owners of the retrofitted houses will remain CEA policyholders and (2) ameliorating the likelihood that the CEA’s portfolio would experience an influx of higher-risk houses whose owners are seeking retrofit grants.

- What is the best source of funding for the program?

The CEA currently provides mitigation funding based on an annual transfer of an amount equal to 5% of its investment income, subject to an annual transfer limit of \$5 million.

Funds from investment income are used for the benefit of all Californians—this funding is a key component of the CEA’s public mission and federal-income-tax status (the CEA does not pay federal income tax).

A new program for CEA policyholders could be funded initially by an additional set-aside of investment income, by an allocation of available capital or retained earnings. The method of funding the program, of course, must not compromise the CRMP or the CEA’s tax status.

- How should the program be administered?

The potential success of the CEA’s “loyalty” mitigation program is informed by the successes of the CRMP. The new program would seek to leverage successful CRMP approaches and techniques by use of similar approach, including a thoughtful and gradual roll-out of the program, with appropriate communication to potentially eligible policyholders.

- What is a reasonable size for the program?

The initial internal analysis reported above looked at the reduction in risk-transfer needs by focusing on the top 20 ZIP Codes. There are likely additional ZIP Codes in which policyholder houses, if retrofitted, would decrease CEA's risk-transfer needs.

- What is the structure of future CEA rates?

In order to offset the cost of providing the retrofit incentives described, the CEA would need to continue to charge premiums as though the risk-transfer reduction had (effectively) not occurred.

This could be achieved with a separate rate load to recover the retrofit investment. The load would be created such that a policyholder who did not receive the retrofit incentive would not pay more than previously, all else being equal. The structure and amount of such a load would be subject to regulatory approval.

Board approval of the proposed concept would be a key prerequisite to CEA staff's preparing an implementation plan, with the intent to begin to roll out a CEA Loyalty Mitigation Program during 2016.

CEA Governing Board Memorandum

August 26, 2015

Agenda Item 12: Update on the California Residential Mitigation Program incentive program: *Earthquake Brace + Bolt*

Recommended Action: No action required—information only

Background:

Homeowners in *Earthquake Brace + Bolt* (EBB) program ZIP Codes are eligible for an incentive payment of up to \$3,000 to help pay costs associated with seismically retrofitting their houses.

Analysis:

In the first six months of 2015, CRMP has launched program expansions to these two areas:

- 1) Oakland, San Francisco, San Leandro, Los Angeles, Pasadena, Santa Monica: The goal is 575 retrofits.
- 2) Napa: The goal is 75 retrofits.

As of August 20, 2015:

- 190 retrofits have been completed
- 185 additional retrofits have building permits

In August, EBB added the last member of the homeowner wait-list to the active program list, which consisted of 692 people who had registered and had qualified in February 2015. It appears the program is on track to achieve 600 completed retrofits by the end of 2015.

Additional Funding: State of California

The 2015–2016 California budget included a one-time \$3 million appropriation that was aimed at expanding EBB services, in the following way: The CEA is not in the state budget, so the funds were not appropriated to the CEA but to the California Department of Insurance (“CDI”). And then, under an agreement to be put in place between the CEA and CDI, those appropriated funds would be granted by CDI to the CEA, for placement in the CEA’s Earthquake Loss Mitigation Fund. As with other funding supplied by CEA to CRMP, monies would be transferred by CEA to the CRMP to support retrofit activity, according to a contract.

Significantly, and as part of the legislative initiative described immediately above and at the suggestion of the CEA, the new California legislation now excludes CRMP grants and benefits from individual income for California income-tax purposes, for taxable years beginning on and after July 1, 2015.

Additional Funding: FEMA Hazard Mitigation Grant Program

The CEA, with an intention to secure further funding for CRMP's EBB program, has submitted a "Hazard Mitigation Grant Program" application to Cal OES and FEMA, to secure funds to retrofit 100 additional houses in Napa.

The application is currently under review by Cal OES and FEMA, and word on its acceptance is anticipated soon.

Scaling EBB Successfully

The CRMP staff, collaborating with CEA staff, are taking steps to handle the increased workload that will result from work performed with the additional funding secured from the sources identified above:

- increased staffing (paid from CEA's Earthquake Loss Mitigation Fund)
- expedited website development
- expanding the responsibilities of call-center personnel
- additional program consultants and strategic assessment

Governing Board Memorandum

August 26, 2015

Agenda Item 14: Progress Report on the 2015 CEA IT Project Portfolio

Recommended Action: No action required—Information only

Chief Information Officer Todd Coombes will present an update on the 2015 CEA IT Project Portfolio including progress, changes, and expenditures.

Governing Board Memorandum

August 26, 2015

Agenda Item 15: Centralized Policy Processing update
Request for approval of contracting and expenditure for administration and claim-system software and related vendor services

Recommended Action: Approve finalizing Insuresoft *Diamond Suite* software and services contracts, execution of those agreements by CEO Glenn Pomeroy, and the related expenditure of \$1,600,000

Background:

In the December 2014 Governing Board meeting, staff introduced the Board to the concept of centralizing processing of CEA policies.

Since the CEA opened its doors, each participating insurer has been responsible for its own system to administer and process CEA earthquake policies and claims. Each PI has a different and unique approach, and each PI must incur all costs and expenses to operate and maintain its own system—including the significant costs associated with system changes each time the CEA adjusts its rates or modifies its policy.

The CEA has proposed *centralizing* many of these system functions, in pursuit of the following objectives:

- One system of record for CEA policy information, across PIs
- Cost reduction through economies of scale
- Minimize impacts on PIs and CEA alike of future CEA policy changes
- Create a standard, configurable solution, with processing options that allow for individual variations in PI needs
- Built-in data synchronization
- Information visibility and integration
- Use of new technologies and best practices
- Make it easier for PIs to do business with the CEA and remove many barriers to their selling CEA policies

In September 2014 the CEA formed a Working Group, consisting of CEA staff and representatives from participating insurers, to collaboratively explore the concept of Centralized Policy Processing (CPP) and to identify the best approach for moving CPP from an idea to reality.

The CEA worked with the Group to understand and evaluate solution alternatives, and then took the following actions:

- Sent a CPP questionnaire, and conducted follow-up calls, with PIs to determine the various CEA-policy-processing approaches and options currently in use
- Issued a software/service vendor Request for Information (RFI) to identify solution approaches used in the insurance industry
- Reviewed questionnaire responses and RFI feedback and identified possible solution models
- Developed a Request for Proposals (RFP) for the solution models identified and published the RFP in February 2015
- Received 12 vendor responses to the RFP, and evaluated and scored each based on the selection criteria laid out in the RFP
- Based on the RFP response evaluations, formulated a CPP recommendation on March 30, 2015, shared it with the CPP Working Group on April 30, 2015, and shared it with the CEA Governing Board in its May 2015 meeting.

Analysis:

Based on staff's evaluation of the RFP responses, CEA recommended to the Board a three-part software-based solution for CPP, consisting of the following:

- Customer Communications Management System
- CEA Policy Administration and Claim System
- PI Data-Sharing Agreement

Customer Communications Management System

This part of the CPP solution creates large-scale mail and electronic communications in the form of marketing documents, statements, forms, and correspondence. It can work with an Administration and Claims System to provide centralized output of policy correspondence, statements, and declaration pages.

The system selected through the RFP process was *HP ExStream* from vendor Hewlett Packard.

CEA has worked with HP to define a “proof of concept” to validate the functionality of the system for the intended CPP use. HP successfully executed the proof of concept by demonstrating how CEA could use the *ExStream* software to centrally produce the CEA Mandatory Marketing Document that new law requires each PI to send to its residential property insurance policyholders, beginning in 2016.

CEA then negotiated a software agreement with HP to license and implement the software, and train staff on the *ExStream* system, for a total cost of \$307,959. The Governing Board

approved the contracting and expenditure for the *HP ExStream* solution during its May 2015 meeting.

Several PIs will be using this part of the CPP solution to satisfy their legal requirement of sending a Mandatory Marketing Document, and a project is underway at CEA to provide this capability in the fourth quarter of 2015.

CEA Policy Administration and Claim System

The CEA Policy Administration and Claim System portion of the CPP solution is software that performs centralized functional processing of CEA earthquake policies and related claims (not including the claim adjusting function).

Both CEA and PIs would use the system, which will include all technical functionality needed by each PI to securely administer CEA policies to either a full or partial extent, based on PI preference.

The system selected on account of the RFP process was the *Diamond Suite* from Insuresoft (<http://www.insuresoft.com/>).

The CEA has completed a successful, technical due-diligence process with Insuresoft to validate the architecture, design, viability, and supportability of the *Diamond Suite* software. In addition, a functional proof-of-concept process has allowed the CEA and Insuresoft to identify gaps in processing requirements for both the current CEA policy and the significantly updated CEA policy that will begin to take effect on January 1, 2016. Gaps identified during this process have been analyzed and Insuresoft has priced CEA-specified modification-solutions to the base version of the software.

Based on the success of the technical due diligence and the functional proof of concept and resulting gap analysis, the CEA staff has negotiated the software license and services terms and pricing for the *Diamond Suite* solution with Insuresoft. Staff recommends Governing Board approval to allow CEA to finalize and execute the resulting contracts and make the recommended expenditure, below:

Insuresoft initial costs are:

- Perpetual license fee: \$500,000
- Annual maintenance and support: \$100,000*
- System configuration and implementation: \$675,000 (\$200,000/2015, \$475,000/2016)
- Interfaces and gap modifications to base system: \$300,000
- Training: \$25,000 (2016)

Total cost: \$1,600,000 (\$1,100,000 in 2015, \$500,000 in 2016)

*Annual maintenance and support are included in initial costs, but these items are a recurring expense in future years.

Several PIs have expressed interest in early adoption of this solution, pending Governing Board approval for the CEA to proceed. One PI is currently working with Insuresoft on an implementation plan.

PI Data-Sharing Agreement

The CEA is in process of finalizing a standard agreement to be put in place between the CEA and each respective PI, which will set out terms and conditions of data-sharing. Data shared between the CEA and a PI would be subject to data-use as defined within the agreement.¹

The CEA has completed a legal review of the PI Data-Sharing Agreement and has sent the agreement to PIs for review and feedback.

Before the CEA can proceed with implementing either the *HP ExStream* Customer Communications Management System or the Insuresoft *Diamond Suite* Administration and Claim System, PI Data-Sharing Agreements should be in place between the CEA and the PIs that are involved in those solutions.

Recommendation:

CEA staff is asking the Governing Board to approve and authorize (1) CEA staff's finalizing the Insuresoft *Diamond Suite* software and services contracts, including appropriate internal legal review; (2) execution of those agreements by CEO Glenn Pomeroy, and (3) approval and authorization of the resulting \$1,600,000 contractual expenditures.

¹ Examples of provisions of the proposed PI Data-Sharing Agreement are data security, access, encryption, transport, validation, privacy, term of use, persistency, restrictions, audit, third-party access, backups, data destruction, and regulatory requirements.

Governing Board Memorandum

August 26, 2015

Agenda Item 16: Governing Board authorization to (1) finalize negotiation of 42-month, \$3.4 million contract to research the performance effects of cripple-wall and sill-anchorage retrofits and (2) execute the negotiated contract

Recommended Action: Authorize CEA staff to negotiate the above-described research contract and authorize CEO Glenn Pomeroy to execute the finalized contract on behalf of the CEA

Background:

At the December 17, 2014, Governing Board meeting, CEA staff presented a Request for Qualifications and Proposal (RFQ&P 08-14) for research to quantify the effects, in both dollars of damage and dollars of insured loss, for cripple-wall and sill-anchorage retrofits. The Board was told in a prior briefing that cripple-wall houses are vulnerable to major damage in earthquakes—the impacts are very well known and are repeatedly observed after earthquakes, including the August 24, 2014, South Napa earthquake.

In fact, FEMA Publication 232 (*Homebuilders' Guide to Earthquake Resistant Design and Construction* (2006)) notes, at page 156: “Cripple walls are very susceptible to damage during an earthquake but are also one of the easiest portions of a house to upgrade for improved performance.”

These kinds of houses also have a significant presence in California’s residential building stock. The CEA estimates that there may be more than 1 million houses (both insured by CEA and not) that have cripple-wall vulnerability and are located in higher-hazard seismic areas. The CEA, under the leadership of Chief Mitigation Officer Janiele Maffei, is actively pursuing programs and research to promote the retrofit of those houses.

The CEA now proposes to commission rigorous scientific and engineering research and testing, to quantify the damage reduction and insured loss reduction in retrofitted versus non-retrofitted cripple-wall houses. The research results will be expressed clearly in a dollar value, making those results highly accessible to the CEA’s insurance needs.

More specifically, in addition to the CEA’s hazard-reduction discount (discussed in the next paragraph), the research will provide cost/benefit information to quantify the dollar savings, on average, from retrofits done in different areas of California. This information can help answer the question: When and where does it make the most *economic* sense to retrofit?

When calculating and then quantifying the *benefits* of mitigation compared to its cost, seismic mitigation is a real challenge—perhaps the most challenging of all natural-catastrophe mitigation techniques, primarily because damaging earthquakes rarely happen. There is a dearth of research quantifying dollar savings from seismic retrofits.

This project is aimed squarely and definitively at helping to fill that gap.

Since it opened its doors in 1996, the CEA has offered a modest (but statutorily limited) 5% premium discount for self-declared retrofits. But as noted in a previous Board memorandum, the CEA’s premium discount for policyholders who perform cripple-wall-bracing and sill-bolting retrofits will increase—to up to 20%—beginning January 1, 2016. These higher discounts, already approved by the regulator, are based on loss data from the Loma Prieta and Northridge earthquakes, supplemented with engineering studies.

But most experts would agree that much deeper study is warranted. This project will represent a major effort to quantify damage reduction from retrofits, providing the depth of study required. And the further data produced will be available to incorporate into the CEA’s future rates.

Analysis:

CEA legal and program staff are deeply involved in the complex process of finalizing a proposed contract with one of the responders to the CEA’s RFQ&P (the Pacific Earthquake Engineering Research Center or “PEER”). Although contract negotiations are not complete—and therefore a final agreement may not be reached with the identified responder—a detailed scope of work and supporting budget are essentially complete.

- The research plan for the work proceeds through a 42-month project.
- The projected cost is \$3.4 million dollars.
- The essential deliverable is a set of damage functions that will quantify pre- and post-retrofit damage for selected, representative index buildings.
- Those damage functions would then be made available to commercial loss modeling firms (and others) to permit calculating insured loss, pre- and post-retrofit. And the CEA would use that calculation to set its rates and determine its necessary total claim-paying capacity.

Scope of work.

The scope of work for the research will include (for more detail, see the draft scope of work, labeled *Attachment A*):

1. Reviewing the literature on past research (including CEA-contracted research) and providing a written report.
2. Defining the representative “index buildings” to be tested: This involves identifying the most common building configurations for these houses and selecting and describing the variants that could have the largest effect on

- damage. This process will result in index-home drawings as well as a digital database of the buildings, both useful for further research.
3. Selecting representative ground-motion records for the buildings to be tested, to determine the most likely ground motions houses in various areas of California are subject to. Correlated to that will be identification of where in California the most damage occurs.
 4. Performing laboratory tests on building components/sections.
 - a. Cripple-wall sub-assemblies will be tested on a shake table.
 - b. The tests will be captured digitally for a database.
 - c. The tests will validate the next task: numerical computer-modeling to predict the building's performance.
 5. Perform numerical computer-modeling on the buildings and their components (modeling with a computer can conveniently impose a variety of conditions, ground motions, and site conditions on the subject buildings).
 6. As a final step, develop appropriate functions that capture the damage from retrofitted and un-retrofitted cripple-wall houses: CEA's commercial loss modelers (and others) would use this information to calculate the impacts from retrofitting on insured loss.

Future research could place actual index buildings—un-retrofitted and retrofitted—and shake them on a shake table to simulate earthquake motion. And the research will presage future projects that focus on retrofits for other features of a house, quantifying the savings.

Attachments.

Also attached to this memorandum: Drafts of a Budget Summary (*Attachment B*); Timelines, Milestones, Workshops and Meetings (*Attachment C*); and an organization chart (*Attachment D*).¹

Because this is a long and complex project, CEA staff has secured and is relying on the advice of additional experts.

- Dr. Badie Rowshandel of the California Geological Survey was introduced to the Board at its December 2015 meeting.
- John Oстераas, Ph.D., of long-time CEA contractor Exponent is an engineer with substantial experience in earthquake damage to wood-frame structures.
- On a going-forward basis, CEA staff may hire additional experts to staff an “internal advisory panel,” to assist in this very important, very technical,

¹ The attachments to this Governing Board Memorandum are draft documents, not final documents. They are provided publicly to facilitate Governing Board and public discussion and deliberations. If a final agreement is reached with PEER, the proposer identified above, on this retrofit research project, provisions of that agreement may contain partially or wholly different versions of the information provided in draft form today. All documents and information so provided as draft “Attachments” are the property of the California Earthquake Authority.

project. That panel could include (besides Dr. Rowshandel and Dr. Osteraas):

- a structural engineer with expertise in wood-frame construction, retrofits, and earthquake damage,
- an engineer with particular expertise in numerical modeling,
- the author of the CEA's prior mitigation-related study, and
- an earth scientist with expertise in ground-motion parameters.
- Any costs associated with retaining and compensating panel members would be presented to the Board for budget approval.

2015 costs.

The CEA Research Department has \$350,000 available in its 2015 budget for this project. That amount should be sufficient to pay for work done in 2015, should the Board approve moving forward and a final contract is successfully negotiated.

Recommendation:

CEA staff requests that the Board:

1. Staff recommends that the Board authorize CEO Glenn Pomeroy (with the assistance of CEA staff) to negotiate and finalize the 42-month, \$3.4 million contract with PEER, to fund research on the performance effects of cripple-wall and sill-anchorage retrofits.
2. If the CEA staff determines that it is unable to negotiate and finalize what in its discretion it determines an acceptable contract with PEER, staff is directed to return to the Board at its next meeting in December 2015 to present an alternative proposal to accomplish the needed research.

PEER Tasks and Deliverables Draft

Task 1.1: Preliminary Report and Workshop

Deliverable: Draft literature review report and workshop.

Task 1.2: Final Report

Deliverable: Final literature review report.

Task 2.1: Develop Initial List of Building Variants

Deliverable: In collaboration with CEA's IT department, development and delivery of a digital archive that will enable both CEA and the project team to collect, manage and access information on typical index houses, earthquake damage to houses, typical cripple wall construction details, and images from prior tests. The format of the database will be established in Year 1 and updated throughout the project.

Task 2.2: Refine Variant List

Deliverable: A refined list of variants. This list will be used by Task Groups 4 and 5 in testing and modeling.

Task 2.3: Develop Index Buildings to be Tested and Modeled

Deliverable: Drawings and tables of index buildings, described in sufficient detail to develop structural analysis and loss models. This task will be completed by midway through Year 2 to enable the development of analysis models and loss assessment.

Task 3.1: Selecting and Scaling Ground-Motion Records

Deliverable: Sets of selected and scaled ground motions appropriate for testing and analytical investigations, and a written report documenting the process and outcome.

Task 3.2: Adoption of a Loading Protocol

Deliverable: Loading protocols appropriate for testing and analysis studies will be developed, and a written report documenting the process and outcomes.

Task 4.1: Development of an Experimental Database and Validation of Numerical Models

Deliverable: Digital database of past experimental data (photos, video, and measured data) and validated numerical (retrofit and un-retrofit) cripple wall component models (coordinated with Task 5)

Task 4.2: Dynamic Shake Table Tests of Diaphragm-Cripple Wall Subassemblies

Deliverable: Dynamic performance data (measurements, photographic and video documentation) of the earthquake response of the floor diaphragm-cripple wall subassembly with direct comparisons of un-retrofit and retrofit configurations.

Task 4.3 Hybrid Tests to Understand the Damage Propagation during Shaking

Deliverable: Dynamic performance data (measurements, photographic and video documentation) of the response of the cripple wall-superstructure, considering different earthquake intensity levels.

Task 4.4: Quasi-Static Component and Subassembly Tests

Deliverable: Digital database of quasi-static cyclic performance data (measurements, photographic and video documentation) of the response of the cripple wall components with a variety of variants and including unretrofit and retrofit detailing.

Task 4.5: Development of a Comprehensive Shake Table Test Plan of a Full-Size Cripple Wall Supported House

Deliverable: Preliminary plans and details (in digital report format) of a full-size cripple wall-supported house specimen shake table test program. When developed, the test plan will assess the feasibility and usefulness of performing other large-scale tests such as ambient or in-situ testing of existing archaic houses.

Task 5.1: Model Validation and Calibration

Deliverable: Validated component and building system models to reliably simulate the response of index houses (and effectiveness of retrofit) under varying ground motion intensity. Initial models developed by end of Year 1. PEER will update the models throughout the project as test data becomes available.

Task 5.2 Sensitivity Analyses of Short-Period Response

Deliverable: Approaches to incorporating site hazard characteristics into the nonlinear analysis of stiff short- period residential houses will be incorporated into the analysis of index house configurations conducted in related activities in Task 5.

Task 5.3: Development of Index House Numerical Models

Deliverable: Validated analysis models of index buildings that are ready for the subsequent task to develop index building response data for loss models. A few early trial models will be developed in Year 1, scaling up to development of multiple index buildings by the end of Year 2. The index building model development and validation will be documented in the corresponding scheduled progress report under Task 7.1.

Task 5.4: Conduct Nonlinear Analyses

Deliverable: Database and supporting information of demand parameters for index buildings under increasing ground motion intensity. Most of these will be completed by early Year 3, to allow time for use of the data to develop loss models in Task 6. The final database will be completed by mid-Year 3.

Task 6.1: Loss Model Calibration Framework

Deliverable: A framework for calibrating damage functions and loss estimates that will be agreed upon by PEER, CEA, and its loss modeling partners. Work on this task will commence immediately and conclude by the end of Year 1.

Task 6.2: Fragility Function Database

Deliverable: A database of fragility functions that will form the basis of the development of the damage functions. Work on this task will commence following the Task 4 and conclude by the end of Year 2.

Task 6.3: Contractor-Estimator Workshop

Deliverable: Written report of the workshop that will augment the fragility functions derived from Task 4 and Task 6.2, and inform the development of loss functions in Task 6.5. This workshop is planned for the end of Year 2 after there is sufficient data available but early enough to utilize the results in the loss studies.

Task 6.4: Engineering Demand Parameter (EDP) Function Database

Deliverable: A database of EDP functions that will form the basis of the development of the damage functions. Work on this task will commence following the Task 5 and conclude by the middle of Year 3.

Task 6.5: Damage Function Development

Deliverable: Damage functions—representations of damage as a function of ground motion input intensity—for all of the index buildings and variants considered. This will be completed mid-Year 3.

Task 6.6: PEER-Proprietary Model Calibration

Deliverable: Summary report on baseline calibration between PEER's damage function and that of CEA's loss modeling partners. This will be completed in Year 3.

Task 6.7: Damage Function Adjustment Factors

Deliverable: Summary report on the proposed damage functions and adjustment factors for use by loss modelers. This will be completed in Year 3.

Task 7.1: Progress Reports

Deliverables: Written progress reports and PowerPoint presentations to CEA personnel at least at six-month intervals.

Task 7.2: Report 1 for Portfolio Modelers

Deliverables: The key elements of this report are:

- Damage curves for the combination of index buildings (including primary and secondary characteristics) and retrofit solutions considered. PEER believes that this format compares most closely with the format in which loss modeling firms develop their software, and will most easily facilitate the direct comparison of these functions with their models.
- All necessary background information supporting the results, including details of the constituent components used to develop loss functions and modifiers (from Tasks 4, 5, and 6). The background information will provide (i) assurance to modelers as to the rigor of the proposed models, and (ii) information that portfolio modelers could use to revise or calibrate their in-house loss models.
- Mathematical descriptions of functions to translate between existing and retrofitted conditions for each of the index buildings considered. These functions would be intended for modelers who apply an adjustment factor to the hard coded DFs within their proprietary models, rather than replace their DFs outright. Because PEER anticipates that the value of the retrofit strategies may vary with earthquake intensity, PEER will provide adjustment factors that are a function of ground motion input parameters.

Task 7.3: Report 2 for Lay Audience

Deliverables: The key elements of the report are:

- Background on the general response of residential buildings in earthquakes including basic information on earthquake engineering
- Descriptions of index buildings, and primary and secondary characteristics that affect performance
- A discussion of how seismic retrofit of cripple walls and sill anchorage improve seismic performance
- Summaries of the loss modeling results that include not only how insurance rates might be affected by implementing the mitigation solutions, but also the potential reductions in damage that may not be covered by insurance (i.e. deductibles) and downtime
- Rough order cost information for the implementation of the retrofit solutions considered, along with benefit- cost and return on investment data"

Task 7.4: Repository of the Data

Deliverables: Relevant experimental and analytical data

DRAFT ONLY

DRAFT ONLY

Budget Summary—Draft

The **\$3.4 million** dollar budget is described below, in the form of proposed allocations.

UC San Diego \$450,000, Tara Hutchinson, P.E., Ph.D. is a Professor in the Department of Structural Engineering at UCSD and is one of the PIs (along with Gilberto Mosqueda, Ph.D. and Chia-Ming Uang, Ph.D.) for the work done at UCSD. In addition to doing work on the loading protocols, UCSD will be extensively involved in the experimental program (actual physical testing of the cripple walls and their components) as they have substantial experience in this area and have their own shake table (the largest in the U.S.). Professor Hutchinson has directed more than 25 research projects that include large and full-scale shake table and quasi-static testing of components, subsystems and systems;

Stanford \$330,000, Principal Investigator Professor Greg Deierlein, Ph.D. at the Department of Civil and Environmental Engineering and Director of the Blume Earthquake Engineering Center. Professor Deierlein was the PI for a multi-university NEES study involving the full-scale and detailed nonlinear analysis of wood-frame residential construction.

UCLA \$212,500, Assistant Professor and PI Henry Burton Ph.D., S.E. in the Department of Civil and Environmental Engineering at UCLA will be primarily working on the loss modeling task of the research. He is currently working on projects for the Seismic Safety Commission involving modeling of multi-family wood frame residential issues and has co-published a paper in Earthquake Engineering Structural Dynamics on procedures for developing earthquake damage fragility curves;

UC Irvine \$90,000, PI Associate Professor Farzin Zarelan, Ph.D. main task is on loading protocols which he has substantial experience in.

\$1 million to UC Berkeley faculty and employees including:

Principal Investigator Yousef Bozorgnia, Ph.D., P.E., F.ASCE, Executive Director of PEER and Adjunct Professor, Dept. of Civil and Environmental Engineerin, Stephen Mahin, Ph.D., current PEER Director, Grace Kang, S.E., Sharyl Rabinovici, MPP, Ph.D., Evan Reis, S.E; Khalid Mosalam, Ph.D., P.E., Silvia Mazzoni, Ph.D., Frank McKenna, Ph.D., and Charles Scawthorn, Ph.D.

\$453,000 to consultants: Colin Blaney, S.E., Seb Ficcadenti, S.E., Doug Hohbach, S.E., John Hooper, P.E., S.E., Charlie Kircher, Ph.D., P.E., Bret Lizundia, S.E., Thor Matteson, S.E. and John van de Lindt, Ph.D., F. ASCE

Other major categories of costs include: Indirect costs **\$467,000**, Testing **\$280,000**, Travel **\$60,000**, and **\$54,000** for meetings and workshops.

Timelines, Milestones, Workshops, and Meetings

The timelines of the seven tasks and working groups (WGs), along with key interdependencies among working groups, are illustrated in Table 1. The table also presents timing for workshops and formal meetings, which will be held with CEA and stakeholders representatives. Meetings among the project consultants and PEER will be held throughout the project as necessary to complete the tasks and provide quality control as described above.

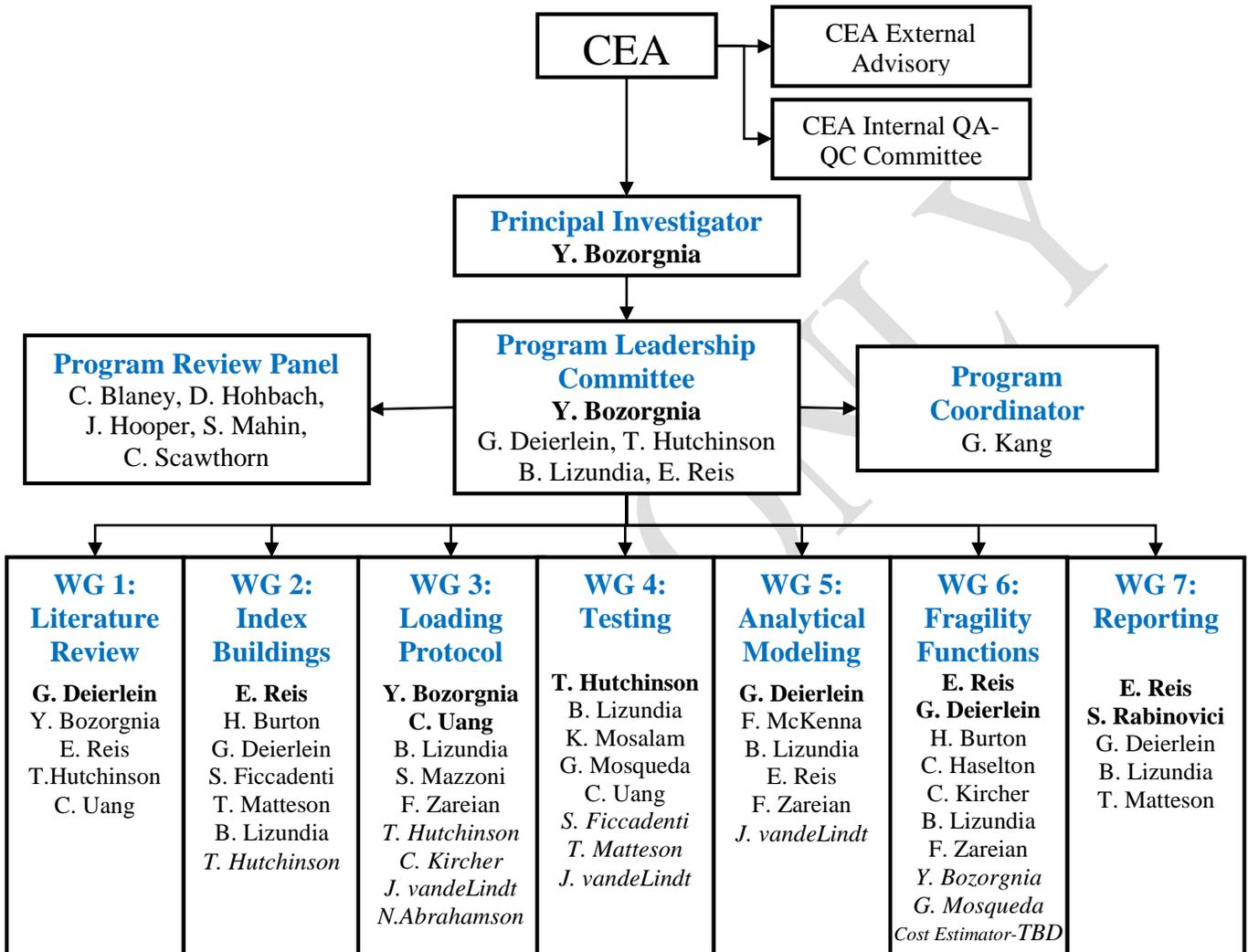
Table 1 - Project Timelines

Task	Year 1		Year 2		Year 3		Year 4	Deliverables
	0-6mo	6-12mo	0-6mo	6-12mo	0-6mo	6-12mo	0-6mo	
Formal Meetings	F			F		F		
ATC110	W							
WG 1	P							
1.1	o							Draft report Final report & glossary
1.2		o						
WG2	W		P		P			
2.1	o							Digital archive
2.2			o					Variant list
2.3					o			Index buildings
WG 3								
3.1	o	o						Sets of selected EQ records
3.2		o						Loading protocols
WG 4			P					
4.1		o						Database of test data
4.2			o	o				Dynamic performance data
4.3				o				Dynamic performance data
4.4					o			Cyclic performance data
4.5						o		Future full scale testing plan
WG 5	P							
5.1		o						Validated component models
5.2		o	o					Short period approach
5.3				o				Validated analysis models
5.4					o			EDP parameters
WG 6		W		W		W		
6.1		o						Calibration framework
6.2			o					Fragility database
6.3				o				Contractor workshop
6.4					o			EDP database
6.5						o		Damage functions
6.6						o	o	Model calibration
6.7							o	Fragility adjustment factors
WG 7							P	
7.1	o	o	o	o	o			Progress reports
7.2						o	o	Draft and final report & glossary
7.3						o	o	Draft and final report & glossary
7.4							o	Data: CEA & website

P = Project meeting (PEER+CEA), **W** = Workshop (PEER+CEA+outside groups), **F**=Formal meeting/presentation (PEER+CEA), **o** = Outcome: internal milestone, **arrows** = key interdependencies between tasks.

DRAFT ONLY

Organization Chart



Governing Board Memorandum

August 26, 2015

Agenda Item 17: Proposal to acquire limited, additional office space on the floor immediately above the CEA's main office, to accommodate CEA staff and related operations

Recommended Action: Approve the plan; authorize CEO Glenn Pomeroy to negotiate, approve, and execute an amendment to the CEA's present lease

Background:

The CEA's evolution is accelerating with the implementation of significant Board supported mitigation, information technology, and research initiatives—these are coupled with continued innovations in financial strategies, insurance products, actuarial analysis and workload, and marketing.

While the number of strategic projects continues to grow, staff is also making notable progress in implementing the workforce-planning project, which is further driving recruitment and hiring of additional permanent staff who require suitable work space.

Most notably, the 2012 decision to manage in-house the California Residential Mitigation Program (CRMP) program (conducted under the joint powers authority between CEA and CalOES) has proven very rewarding. The rapid evolution of the highly successful Earthquake Brace + Bolt (EBB) program commands additional staff and work space to perform the important work that is required to keep pace with the program's growth. EBB has recently acquired the services of two additional developers, an accounting supervisor, and a customer-service representative and will require additional staffing in 2016 to successfully expand program operations in a timely and efficient manner.

In addition, numerous IT projects including those that support the centralized-policy-processing concept are underway and will require additional staff and work space. In fact, the vast majority of the CEA's strategic projects include a significant information technology component, which efforts will require more staff and space in 2016 and beyond.

An essential feature of the CEA's continuing investment in human and intellectual capital is the requirement of a safe, quality work environment.

Analysis:

The CEA's numerous strategic projects require accommodating both additional staff and a flow of consultants, which creates a growing need for more work space. The CEA's recently expanded 11th-floor office space (designed in 2012) is already operating at capacity because of

the additional staff required to implement projects already underway, including the expansion of EBB. A number of additional activities support implementation of the rate and form changes that will begin to become effective January 1, 2016.

CEA IT is managing multiple projects focused on easing the impact of managing CEA-related reporting requirements and initiatives on CEA participating insurers. Projects include offering technology alternatives for implementing and managing the new, statutorily required CEA “mandatory marketing document,” effective January 1, 2016, and collaborating with participating insurers who have expressed an interest in exploring early adoption of centralized policy processing.

The need to accommodate a growing team—and evolving impacts on downtown real estate market conditions from the new sports/entertainment arena—provide ample motivation to move quickly to expand into convenient work space that is contiguous with and convenient to both CEA’s existing 11th-floor office space—and the completely full 10th-floor office space—at 801 K Street.

As a result, staff seeks the Board’s support to begin working with the landlord on business terms to prepare to expand into space adjacent to the existing 11th-floor CEA office space (which currently houses the Executive Office, California Residential Mitigation Program (CRMP), CEA IT, and CEA Research and Special Projects).

To support this effort, we will continue to use the expertise of leading real estate broker Devon Atlee of *Cornish & Carey Commercial/Newmark Knight Frank*. Mr. Atlee has been skillful in previous negotiations. He knows the CEA, this property and its other tenants, and building management/ownership, and he and his firm bring the knowledge and experience of having worked for years with the California Department of General Services.

In support of CEA’s office of general counsel is our expert local counsel, Robert McCormick, who brings a commercial real estate specialty.

With Mr. Atlee’s expertise and the legal backing of Mr. McCormick, staff proposes to negotiate with the landlord to add to the CEA’s lease:

- Additional work space, not to exceed 5,299 rentable square feet on the 11th floor, providing space for:
 - Staff and on-site consultants and vendors, designed primarily of modular work stations for flexibility.
 - Substantial allowances for tenant improvements at the landlord’s sole expense.

Staff will incorporate the expense into the 2016 CEA-budget process, with a goal of negotiating and executing the lease amendment by year-end 2015.

The CEA’s combined expense under this plan (office expansion and required furniture and equipment) likely will exceed the landlord-provided tenant-improvements allowance.

Recommendation:

Staff recommends that the Board authorize CEO Glenn Pomeroy (with the assistance of the general counsel and outside counsel, as well as professional brokerage services) to negotiate and execute an amendment to the CEA's lease to acquire and equip additional office space on the 11th Floor of 801 K Street, Sacramento, consistent with the narrative in this memorandum.

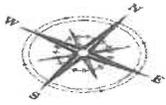
Governing Board Memorandum

August 26, 2015

Agenda Item 18: Update on the completion of the Metrics Project and the commencement of data collection and reporting

Recommended Action: No action required—information only

Chief Executive Officer Glenn Pomeroy will update the Board on the completion of the Metrics Project and the commencement of data collection and reporting.



July 27, 2015

California Earthquake Authority Governing Board
801 K Street, Suite 1000
Sacramento, CA 95814

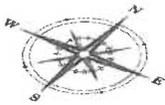
The Hatton Management Consultant (HMC) team was contracted in the fall of 2014 to provide facilitation and business consulting services to the CEA to craft performance metrics for the recently drafted 5-year Strategic Plan. The HMC team worked collaboratively with Glenn Pomeroy, CEO, and his executive team in the fulfillment of the charge. The scope of work included reviewing documents, facilitating strategic planning sessions with the CEA executive leadership team, facilitating multidepartment sessions, facilitating working sessions with department managers and key subject matter experts, and coordinating all activities with the designated CEA project director.

During the period January through June 2015 multiple working sessions were conducted with the executive leadership team, department managers and their key subject matter experts, project management office staff, and project director. The working sessions with the executive leadership team were utilized to overview and adopt enterprise Goals, SMART Objectives, and measures that were developed in concert with department managers and their key subject matter experts. SMART is an acronym for specific, measurable, attainable, results oriented, and timeline for the key elements of objectives. Department objectives and measures were developed that align with the CEA goals. Some objectives and measures are enterprise-wide applicable while others are specific to each department. Objectives that are specific to departments are contained in the Business Implementation Plans (BIPs) that include action plans. Regardless, there are uniformly applicable objectives and measures that each department will contribute to advance the achievement of the CEA goals.

In addition to the three goals of educate, mitigate, and insure, a fourth goal focusing on organizational health was developed. The organizational health goal was designed with an internal perspective to support and develop the staff as well as garner a strong work environment culture. Objectives and measures were also developed to track performance for the new goal.

The objectives and measures for each goal represent the culmination of the strategy formulation phase. Mr. Pomeroy, CEO, and the executive leadership team are equipped to proceed to the implementation phase. It is anticipated that ongoing sessions will be conducted to track progress, evaluate need for adjustments to the strategic plan and performance metrics, and report results annually. Further, it is conventional to track progress during the first year by conducting quarterly sessions and semi-annual sessions in each of the subsequent years thereafter.

The HMC team is prepared to assist CEA in the initial implementation phase as they proceed should they desire. The support from our team includes training, conducting, and evaluating the work product on a quarterly basis to set the pattern for future reviews.



HATTON MANAGEMENT CONSULTANTS
Leading the Way

Dr. Lindle Hatton, Principal
1834 Sunningdale Dr. Roseville, CA 95747

The response and effort from the CEA executive leadership team and staff in this initiative has been excellent. They have embraced the opportunity to craft relevant metrics that are meaningful and which they have control and responsibility to implement, track, and achieve. All of the metrics were developed collaboratively with each department manager and their subject matter experts to ensure greater acceptance among staff. Conventionally, organizations that employ a more engaging approach beyond the executive leadership achieve greater results than those who do not engage staff. The CEA is equipped to move more confidently into the next phase of actualizing desired goals and objectives while tracking meaningful metrics that will produce desired results.

The HMC team is appreciative of the opportunity to work with Mr. Pomeroy, the executive leadership team, and staff during this project. We look forward to tracking with great interest the results from this project that will shape and guide the future strategic direction of the CEA and its leadership.

Respectfully,

Dr. Lindle Hatton
Hatton Management Consultants

CEA Governing Board Meeting: August 26, 2015

Agenda Item 19: CEA Senior Counsel Joe Zuber will brief the Board on the CEA's Directors and Officers and Employment Practices Liability Insurance coverage and request the Board's approval to renew the policy and pay the annual premium.

Should this subject be required as an agenda item at the meeting noted above, related explanatory materials will be provided at or before the meeting is convened.

Governing Board Memorandum

August 26, 2015

Agenda Item 20: Mid-Year 2015 CEA Budget Revisions: Insurance Services

Recommended Action: Approve Mid-Year 2015 Insurance Services Budget Revisions

Background:

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

The 2015 budget for CEA Insurance Services was presented and approved by the Board at its December 2014 meeting. Since the 2015 CEA budget was approved, the project-mix for CEA has changed as new projects have been added and existing projects have been modified, resulting in a change of anticipated CEA expenditures.

Analysis:

2015 Insurance Services Budget

Two Board-approved 2015-budget augmentations are shown in *Attachment A* (Budget Augmentations and Adjustments), in the column titled “Augmentation as of May Board Meeting.”

- The augmentation the Board approved at its February meeting supported the design and development of a CEA mobile Web application.
- The augmentation the Board approved at its May 2015 meeting supported new “mandatory marketing documents,” which in connection with legislation successfully sponsored by the CEA in 2014 are to be produced and distributed, at the CEA’s expense—distribution to all participating insurer policyholders is to commence with policies new and renewing effective on or after January 1, 2016.

Column three of *Attachment A* shows the results of staff analysis at mid-year to determine remaining 2015 budget expenses for all budget categories.

Column four of *Attachment A* shows budget changes made necessary by the Board’s approval of August agenda items 9 and 15.

- For agenda item 9, the 2015 cost for the Mandatory Marketing Document will be \$1,028,000. There is no need for budget augmentation for this item—the additional

¹ The CEA fiscal year is the calendar year.

expenditure will offset the mid-year adjustments for Non-Statutory Expenditures. This is reflected in the column labeled Participating Insurer Operating Costs.

- For agenda item 15, the 2015 budget augmentation for policy-administration and claim-system and vendor services will be \$619,189. This is less than the projected overall project cost, because it also reflects mid-year budget savings in Statutory Expenditures of \$712,811.
- (Without these two items, budget adjustments would have resulted in a savings of \$5,302,301. With these two items included in the budget, overall budget savings will be \$2,942,301.)

Column five of *Attachment A*, labeled “Actual 6/30/2015,” shows actual expenses, by budget category, through June 2015.

Column six of *Attachment A*, labeled “Remaining Projected,” shows remaining budget for the last six months of 2015, by budget category, using revisions and augmentations approved and represented in *Attachment A*.

In addition to expense modifications from the original, proposed 2015 budget, staff has revised projected written premium for 2015.

The box below shows a revised 2015 CEA operating-expense cap, based on (revised) projected 2015 written premium.

**Summary of Proposed Mid-Year 2015 CEA Operating Expenses/Expense Cap
[Projected operating expense compared to projected statutory cap]**

The projected operating-expense portion of the proposed Mid-Year 2015 budget (\$24,482,494) is less than the projected 6% cap of \$37,776,000:

Projected 2015 written premium:	\$ 629,600,000
<i>Statutory operating-expense cap 2015 (percentage)</i>	<i>6%</i>
<i>Statutory operating-expense cap 2015 (dollars)</i>	<i>\$ 37,776,000</i>
Proposed, augmented 2015 operating expense budget	\$ 24,482,494
Amount by which 6% cap exceeds proposed budget	\$ 13,293,506

Recommendation:

- Approve the proposed mid-year 2015 Insurance Services budget with the revisions described by staff, including augmentation needed to pursue a policy-administration and claim-system, as approved by the Board.
- Direct staff to operate CEA business operations within the total approved, revised budget amounts.

California Earthquake Authority
2015 Budget Augmentations and Adjustments
Insurance Services

	Approved 2015 Budget 1/1/2015	+	Augmentations as of May Board Meeting	+	August Board Meeting Adjustments ^A	+	August Board Meeting Agenda Items ^A	=	Projected End of Year Budget	=	Actuals 6/30/2015	+	Remaining Projected
Statutory Expenditures													
Human Resources:													
Compensation and Benefits ³	\$ 16,670,520				\$ 51,624		\$ 232,000		\$ 16,954,144		\$ 7,113,248		\$ 9,840,896
Travel	472,338				(96,475)				375,863		112,162		263,701
Other	1,094,827				(406,266)				688,561		151,689		536,872
Board Meeting	33,000				(16,571)				16,429		5,104		11,325
Administration & Office	1,198,429				(369,367)				829,062		520,616		308,446
EDP Hardware	115,270				43,000				158,270		83,753		74,517
EDP Software	1,204,490				(110,500)				1,093,990		516,358		577,632
Information Technology ³	1,255,830				218,593		1,100,000		2,574,423		902,916		1,671,507
Telecommunications	241,714				4,483				246,197		106,993		139,204
Rent/Lease	876,749				(50,425)				826,324		294,148		532,176
Compliance	10,000				(10,000)				-		-		-
Government Affairs	298,000				(122,000)				176,000		20,000		156,000
Insurance	189,138				30,862				220,000		1,073		218,927
Internal Audit	50,000				15,000				65,000		(6,381)		71,381
Intervener Fees	-				-				-		-		-
Other	3,000				30,231				33,231		15,481		17,750
Regulatory Expenses	150,000				75,000				225,000		214,397		10,603
Total Statutory Expenditures	\$ 23,863,305		\$ -		\$ (712,811)		\$ 1,332,000		\$ 24,482,494		\$ 10,051,558		\$ 14,430,936
Non-Statutory Expenditures													
Audit Services	109,000		-		-				109,000		86,600		22,400
Capital Market	9,400,500		-		(2,700)				9,397,800		4,577,216		4,820,584
Claims	10,000		-		239,620				249,620		116,425		133,195
Loans	-		-		-				-		-		-
Grants	-		-		-				-		-		-
Investment Services	3,174,856		-		(73,000)				3,101,856		1,503,936		1,597,920
Legal Services	6,967,920		-		(4,033,500)				2,934,420		438,710		2,495,710
Loss-Modeling	961,500		-		34,000				995,500		233,000		762,500
Marketing Services ¹	11,179,355		290,400		(705,265)				10,764,490		598,949		10,165,541
Producer Compensation	61,684,374		-		115,626				61,800,000		31,502,236		30,297,764
Participating Insurer Operating Costs ^{2,4}	19,060,471		181,650		35,729		1,028,000		20,305,850		9,724,337		9,553,513
Seismic Related Research	100,000		-		(100,000)				-		-		-
Engineering Related Research	250,000		-		100,000				350,000		-		350,000
Risk Transfer	210,213,580		-		(200,000)				210,013,580		101,560,412		108,453,168
Total Non-Statutory Expenditures	\$ 323,111,556		\$ 472,050		\$ (4,589,490)		\$ 1,028,000		\$ 320,022,116		\$ 150,341,821		\$ 168,652,295
Total Budgeted Expenditures	\$ 346,974,861		\$ 472,050		\$ (5,302,301)		\$ 2,360,000		\$ 344,504,610		\$ 160,393,379		\$ 183,083,231

¹ Augmentation to fund an additional marketing project, marketing application, in the 2015 IT project portfolio from February 19, 2015 Governing Board Meeting Agenda Item 12

²⁺⁴ Augmentation to cover immediate research and creative costs to directly support marketing-document development from February 19, 2015 Governing Board Meeting Agenda Item 6 and from Governing Board meeting agenda item 9 for the expenses for the production and distribution of new marketing-documents.

³ Augmentation for expenses for administration and claim system software and vendor services (CPP project).

^A Proposed adjustment to meet insurance services end-of-year projections

California Earthquake Authority

Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to July 31, 2015

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	84	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 July 31, 2015 (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	418,980.16	37,708.22	\$456,688.38
14480	American Canyon	8/24/2014	6.0	4mi NW of American Canyon, CA	192	2,290,087.87	206,107.94	\$2,496,195.81
	2014 Minor Quakes				1	1,500.00	135.00	\$1,635.00
Total					467	\$6,902,240.31	\$600,041.43	\$7,502,281.74

Claims History Report Glossary

Event Code: A 5 digit code that the CEA assigns to all earthquakes expected to produce paid losses. This code is used to track statistics for a particular earthquake.

Event Name: This is generally the name given to the earthquake by the USGS (United States Geological Survey).

Date of Event: Date that the earthquake occurred.

Magnitude: Richter scale magnitude assigned by USGS.

Location: This is assigned by USGS and is usually a city close to the earthquake.

of Paid Claims: A numeric count of the claims that received a payment for damage caused by a particular earthquake.

Losses Paid: Total dollar amount of all claims paid to the policyholders for a particular earthquake.

LAE Paid: "LAE" stands for Loss Adjustment Expense which is always 9% of paid losses. This is the amount paid to the Participating Insurers for handling the claim.

Total Paid Losses and ALE: The sum of Losses Paid and LAE Paid.

Minor Quakes: Losses paid for damage from minor earthquakes that were initially not expected to generate a claim and therefore were not issued a CEA event code.

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2015 - Policies in Force on: 06/30/2015

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Homeowners							
15% Total	570,176	65.5 %	271,508,849,864	78.3 %	465,408,513	75.7 %	816
10% Total	80,194	9.2 %	40,337,906,327	11.6 %	66,462,451	10.8 %	829
Homeowners Total	650,370	74.7 %	311,846,756,191	89.9 %	531,870,965	86.5 %	818
Homeowners Choice							
15% Total	19,084	2.2 %	11,482,634,863	3.3 %	20,380,136	3.3 %	1,068
10% Total	13,503	1.6 %	7,637,950,195	2.2 %	12,008,219	2.0 %	889
Homeowners Choice Total	32,587	3.7 %	19,120,585,058	5.5 %	32,388,355	5.3 %	994
Manufactured Homes (Mobilehomes)- Homeowners							
15% Total	21,680	2.5 %	2,429,947,014	0.7 %	2,543,503	0.4 %	117
10% Total	5,077	0.6 %	795,395,782	0.2 %	709,224	0.1 %	140
Manufactured Homes (Mobilehomes)- Homeowners Total	26,757	3.1 %	3,225,342,796	0.9 %	3,252,727	0.5 %	122
Manufactured Homes (Mobilehomes)- Homeowners Choice							
15% Total	329	0.0 %	52,156,254	0.0 %	60,388	0.0 %	184
10% Total	423	0.0 %	72,193,309	0.0 %	63,943	0.0 %	151
Manufactured Homes (Mobilehomes)- Homeowners Choice Total	752	0.1 %	124,349,563	0.0 %	124,331	0.0 %	165
Condo Total	105,798	12.2 %	10,458,052,000	3.0 %	40,805,715	6.6 %	386
Renters Total	54,270	6.2 %	2,125,104,000	0.6 %	6,590,722	1.1 %	121
Grand Total	870,534	100.0 %	346,900,189,608	100.0 %	615,032,815	100.0 %	707

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2015 - Policies in Force on: 06/30/2015

HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	570,176	87.7 %	263,130,521,864	84.4 %	434,141,207	81.6 %	761
BCU 20k	78,704	12.1 %	787,040,000	0.3 %	1,310,122	0.2 %	17
Coverage C 25k	34,612	5.3 %	692,240,000	0.2 %	4,993,033	0.9 %	144
Coverage C 50k	21,309	3.3 %	958,905,000	0.3 %	5,005,015	0.9 %	235
Coverage C 75k	8,985	1.4 %	628,950,000	0.2 %	2,659,325	0.5 %	296
Coverage C 100k	34,698	5.3 %	3,296,310,000	1.1 %	12,420,945	2.3 %	358
Coverage D 10k	38,589	5.9 %	328,006,500	0.1 %	968,462	0.2 %	25
Coverage D 15k	61,610	9.5 %	831,735,000	0.3 %	2,282,312	0.4 %	37
Coverage D 25k	36,389	5.6 %	855,141,500	0.3 %	1,628,092	0.3 %	45
15% Total	570,176	87.7 %	271,508,849,864	87.1 %	465,408,513	87.5 %	816
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	80,194	12.3 %	36,267,756,327	11.6 %	53,899,548	10.1 %	672
BCU 20k	26,084	4.0 %	260,840,000	0.1 %	348,182	0.1 %	13
Coverage C 25k	12,660	1.9 %	253,200,000	0.1 %	1,840,665	0.3 %	145
Coverage C 50k	8,929	1.4 %	401,805,000	0.1 %	1,778,282	0.3 %	199
Coverage C 75k	4,026	0.6 %	281,820,000	0.1 %	991,799	0.2 %	246
Coverage C 100k	21,129	3.2 %	2,007,255,000	0.6 %	6,239,791	1.2 %	295
Coverage D 10k	13,954	2.1 %	118,609,000	0.0 %	250,225	0.0 %	18
Coverage D 15k	21,984	3.4 %	296,784,000	0.1 %	573,046	0.1 %	26
Coverage D 25k	19,142	2.9 %	449,837,000	0.1 %	540,913	0.1 %	28
10% Total	80,194	12.3 %	40,337,906,327	12.9 %	66,462,451	12.5 %	829
Homeowners Total	650,370	100.0 %	311,846,756,191	100.0 %	531,870,965	100.0 %	818

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2015 - Policies in Force on: 06/30/2015

HOMEOWNERS CHOICE	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k ¹	19,084	58.6 %	10,781,389,363	56.4 %	17,344,596	53.6 %	909
BCU 20k	7,395	22.7 %	73,950,000	0.4 %	137,233	0.4 %	19
Coverage C 25k	2,505	7.7 %	50,100,000	0.3 %	542,739	1.7 %	217
Coverage C 50k	1,870	5.7 %	84,150,000	0.4 %	513,593	1.6 %	275
Coverage C 75k	632	1.9 %	44,240,000	0.2 %	190,347	0.6 %	301
Coverage C 100k	2,563	7.9 %	243,485,000	1.3 %	994,282	3.1 %	388
Coverage D 10k	2,258	6.9 %	19,193,000	0.1 %	94,393	0.3 %	42
Coverage D 15k	1,233	3.8 %	16,645,500	0.1 %	66,015	0.2 %	54
Coverage D 25k	7,212	22.1 %	169,482,000	0.9 %	496,938	1.5 %	69
15% Total	19,084	58.6 %	11,482,634,863	60.1 %	20,380,136	62.9 %	1,068
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k ¹	13,503	41.4 %	6,887,449,195	36.0 %	9,450,564	29.2 %	700
BCU 20k	6,005	18.4 %	60,050,000	0.3 %	87,349	0.3 %	15
Coverage C 25k	2,531	7.8 %	50,620,000	0.3 %	443,812	1.4 %	175
Coverage C 50k	2,162	6.6 %	97,290,000	0.5 %	462,441	1.4 %	214
Coverage C 75k	700	2.1 %	49,000,000	0.3 %	167,355	0.5 %	239
Coverage C 100k	3,281	10.1 %	311,695,000	1.6 %	1,011,904	3.1 %	308
Coverage D 10k	2,287	7.0 %	19,439,500	0.1 %	64,559	0.2 %	28
Coverage D 15k	1,100	3.4 %	14,850,000	0.1 %	38,818	0.1 %	35
Coverage D 25k	6,279	19.3 %	147,556,500	0.8 %	281,417	0.9 %	45
10% Total	13,503	41.4 %	7,637,950,195	39.9 %	12,008,219	37.1 %	889
Homeowners Choice Total	32,587	100.0 %	19,120,585,058	100.0 %	32,388,355	100.0 %	994

¹Includes policies with Coverage A, C and D, Coverage A and C, Coverage A and D, and Coverage A only

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2015 - Policies in Force on: 06/30/2015

MANUFACTURED HOMES (MOBILEHOMES)- HOMEOWNERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k	21,680	81.0 %	2,228,926,514	69.1 %	2,420,482	74.4 %	112
Coverage C 25k	1,655	6.2 %	33,100,000	1.0 %	38,207	1.2 %	23
Coverage C 50k	1,050	3.9 %	47,250,000	1.5 %	34,807	1.1 %	33
Coverage C 75k	344	1.3 %	24,080,000	0.7 %	12,946	0.4 %	38
Coverage C 100k	512	1.9 %	48,640,000	1.5 %	21,526	0.7 %	42
Coverage D 10k	1,499	5.6 %	12,741,500	0.4 %	5,478	0.2 %	4
Coverage D 15k	1,212	4.5 %	16,362,000	0.5 %	5,518	0.2 %	5
Coverage D 25k	802	3.0 %	18,847,000	0.6 %	4,540	0.1 %	6
15% Total	21,680	81.0 %	2,429,947,014	75.3 %	2,543,503	78.2 %	117
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k	5,077	19.0 %	565,227,782	17.5 %	609,583	18.7 %	120
Coverage C 25k	1,659	6.2 %	33,180,000	1.0 %	28,195	0.9 %	17
Coverage C 50k	1,180	4.4 %	53,100,000	1.6 %	26,717	0.8 %	23
Coverage C 75k	387	1.4 %	27,090,000	0.8 %	11,756	0.4 %	30
Coverage C 100k	618	2.3 %	58,710,000	1.8 %	20,200	0.6 %	33
Coverage D 10k	1,400	5.2 %	11,900,000	0.4 %	3,555	0.1 %	3
Coverage D 15k	1,228	4.6 %	16,578,000	0.5 %	4,054	0.1 %	3
Coverage D 25k	1,260	4.7 %	29,610,000	0.9 %	5,164	0.2 %	4
10% Total	5,077	19.0 %	795,395,782	24.7 %	709,224	21.8 %	140
Manufactured Homes (Mobilehomes)-Homeowners Total	26,757	100.0 %	3,225,342,796	100.0 %	3,252,727	100.0 %	122

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2015 - Policies in Force on: 06/30/2015

MANUFACTURED HOMES (MOBILEHOMES)- HOMEOWNERS CHOICE	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Deductible - 15%							
CovA/C5k/D1.5k/BCU10k ¹	329	43.8 %	39,725,254	31.9 %	49,137	39.5 %	149
Coverage C 25k	76	10.1 %	1,520,000	1.2 %	2,770	2.2 %	36
Coverage C 50k	66	8.8 %	2,970,000	2.4 %	3,698	3.0 %	56
Coverage C 75k	22	2.9 %	1,540,000	1.2 %	1,242	1.0 %	56
Coverage C 100k	26	3.5 %	2,470,000	2.0 %	1,182	1.0 %	45
Coverage D 10k	48	6.4 %	408,000	0.3 %	427	0.3 %	9
Coverage D 15k	19	2.5 %	256,500	0.2 %	182	0.1 %	10
Coverage D 25k	139	18.5 %	3,266,500	2.6 %	1,750	1.4 %	13
15% Total	329	43.8 %	52,156,254	41.9 %	60,388	48.6 %	184
Deductible - 10%							
CovA/C5k/D1.5k/BCU10k ¹	423	56.3 %	51,279,309	41.2 %	51,922	41.8 %	123
Coverage C 25k	155	20.6 %	3,100,000	2.5 %	3,949	3.2 %	25
Coverage C 50k	99	13.2 %	4,455,000	3.6 %	2,997	2.4 %	30
Coverage C 75k	33	4.4 %	2,310,000	1.9 %	887	0.7 %	27
Coverage C 100k	47	6.3 %	4,465,000	3.6 %	1,509	1.2 %	32
Coverage D 10k	87	11.6 %	739,500	0.6 %	707	0.6 %	8
Coverage D 15k	43	5.7 %	580,500	0.5 %	290	0.2 %	7
Coverage D 25k	224	29.8 %	5,264,000	4.2 %	1,681	1.4 %	8
10% Total	423	56.3 %	72,193,309	58.1 %	63,943	51.4 %	151
Manufactured Homes (Mobilehomes)-Homeowners Choice Total	752	100.0 %	124,349,563	100.0 %	124,331	100.0 %	165

¹Includes policies with Coverage A, C and D, Coverage A and C, Coverage A and D, and Coverage A only

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2015 - Policies in Force on: 06/30/2015

CONDO	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage A/BCU 10k	80,301	75.9 %	2,809,905,000	26.9 %	8,446,451	20.7 %	105
Coverage C 5k/D 1.5k	32,240	30.5 %	209,560,000	2.0 %	2,292,260	5.6 %	71
Coverage C 5k ¹	11,929	11.3 %	59,525,000	0.6 %	735,370	1.8 %	62
Coverage C 25k	16,378	15.5 %	409,450,000	3.9 %	1,848,298	4.5 %	113
Coverage C 50k	13,029	12.3 %	651,450,000	6.2 %	1,620,917	4.0 %	124
Coverage C 75k	5,581	5.3 %	418,575,000	4.0 %	742,626	1.8 %	133
Coverage C 100k	12,603	11.9 %	1,260,300,000	12.1 %	1,734,914	4.3 %	138
Coverage D 1.5k ²	7,282	6.9 %	10,887,000	0.1 %	93,986	0.2 %	13
Coverage D 10k	14,060	13.3 %	140,600,000	1.3 %	358,080	0.9 %	25
Coverage D 15k	21,055	19.9 %	315,825,000	3.0 %	572,963	1.4 %	27
Coverage D 25k	17,123	16.2 %	428,075,000	4.1 %	475,831	1.2 %	28
Coverage E 25k	3,577	3.4 %	88,775,000	0.8 %	774,889	1.9 %	217
Coverage E 50k	58,701	55.5 %	2,935,050,000	28.1 %	17,392,839	42.6 %	296
Coverage E 75k	9,601	9.1 %	720,075,000	6.9 %	3,716,291	9.1 %	387
Condo Total	105,798	100.0 %	10,458,052,000	100.0 %	40,805,715	100.0 %	386

¹Policies that have a Coverage C limit of 5k and a Coverage D limit >1.5k

²Policies that have a Coverage D limit of 1.5k and a Coverage C limit >5k

California Earthquake Authority

Operations - Governing Board Report

All Companies - As Of 7/23/2015 - Policies in Force on: 06/30/2015

RENTERS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
Coverage C 5k/D 1.5k	20,408	37.6 %	132,652,000	6.2 %	1,472,488	22.3 %	72
Coverage C 5k ¹	4,100	7.6 %	20,500,000	1.0 %	287,418	4.4 %	70
Coverage C 25k	14,120	26.0 %	353,000,000	16.6 %	1,747,559	26.5 %	124
Coverage C 50k	8,012	14.8 %	400,600,000	18.9 %	1,084,011	16.4 %	135
Coverage C 75k	2,422	4.5 %	181,650,000	8.5 %	350,477	5.3 %	145
Coverage C 100k	5,208	9.6 %	520,800,000	24.5 %	740,204	11.2 %	142
Coverage D 1.5k ²	5,318	9.8 %	7,977,000	0.4 %	72,111	1.1 %	14
Coverage D 10k	8,701	16.0 %	87,010,000	4.1 %	244,658	3.7 %	28
Coverage D 15k	7,516	13.8 %	112,740,000	5.3 %	222,490	3.4 %	30
Coverage D 25k	12,327	22.7 %	308,175,000	14.5 %	369,306	5.6 %	30
Renters Total	54,270	100.0 %	2,125,104,000	100.0 %	6,590,722	100.0 %	121

¹Policies that have a Coverage C limit of 5k and a Coverage D limit >1.5k

²Policies that have a Coverage D limit of 1.5k and a Coverage C limit >5k



CEA GOVERNING BOARD MEETING DATES - 2015

February 19, 2015 – Thursday

April 8, 2015 – Wednesday - **ADDED**

~~May 21, 2015 – Thursday~~ – **RESCHEDULED** for ~~May 28, 2015 - Thursday~~

~~August 27, 2015 – Thursday~~ – **RESCHEDULED** for ~~August 26, 2015 - Wednesday~~

~~December 17, 2015 – Thursday~~ – **RESCHEDULED** for ~~December 16, Wednesday~~

IMPORTANT NOTE: *This schedule is for future meetings that have been proposed and approved by the CEA Governing Board. Meeting dates, times, and locations are subject to change. The final dates, times, and locations will be announced on an 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*