

As approved by the CEA Governing Board at its meeting on Wednesday, September 12, 2018

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

**Thursday, July 19, 2018
12:15 p.m.**

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

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Jerry Brown, Board Chair
Vincent Brown, designee of State Treasurer John Chiang
Kenneth Schnoll, designee of Insurance Commissioner Dave Jones
Jeffrey Wood, designee of Speaker of the Assembly Anthony Rendon

Members of the CEA staff in attendance:

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Actuary
Todd Coombes, Chief Insurance and Technology Officer
Laurie Johnson, Ph.D., Enterprise and Strategic Risk Advisor
Janiele Maffei, Chief Mitigation Officer
Shannon McEuen, Governing Board Liaison
Chris Nance, Chief Communications Officer
Tim Richison, Chief Financial Officer
Kellie Schneider, Chief Operations Officer
Danny Marshall, General Counsel

Also present:

Ross Buckley, Personal Insurance Federation of California
Annde Ewertsen, Managing Director, California Residential Mitigation Program (CRMP)
Kevin Krause, Plante Moran, PLLC
Dan VanDreumel, Plante Moran, PLLC

1. Call to order and member roll call.

Mr. Ghilarducci called the meeting to order at 12:19 p.m. A quorum was achieved.

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

The Board entered closed session at 12:20 p.m. and resumed its proceedings in open session at 1:38 p.m. No action was announced as having been taken.

3. Consideration and approval of the minutes of the March 14, 2018, CEA Governing Board meeting.

MOTION: A motion was made and seconded to approve the March 14, 2018, California Earthquake Authority Governing Board meeting minutes, as presented. Motion carried unanimously.

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

Mr. Pomeroy provided a summary of CEA policies in force, policy growth, claim-paying capacity, mitigation retrofits, federal legislation, and community-outreach efforts in 2018. He said that Assembly Bill 2927, which will afford CEA an additional \$1 billion layer in claim-paying capacity, has passed unanimously in the Assembly and will go before the Senate in August.

Discussing AB 2927, Mr. Pomeroy added that the bill's \$1 billion layer of non-risk-transfer capacity would be supported by a post-event surcharge on CEA policyholders only—a surcharge that could occur only after an extremely large earthquake, one causing more than double the losses of Northridge. But each and every year the layer is in the CEA structure, the CEA would reduce its annual risk-transfer expense by at least \$30 million.

Mr. Pomeroy announced that Tim Richison, Chief Financial Officer, and Danny Marshall, General Counsel, will retire in December 2018. A national search will begin soon to find their replacements.

5. Mr. Pomeroy will seek Board authorization to extend agreements for government affairs contractors presently assisting CEA in legislation-related activities.

Mr. Pomeroy provided a summary of the CEA risk-transfer and CEA's need to find additional forms of capacity to diversify its portfolio, and in connection with those capacity needs, the continued advisability of contracting with the CEA's present team of government-affairs advisors and lobbyists, to help the CEA continue making progress and grow at rates consumers can afford.

Staff recommendations:

- Authorize the following contract adjustments:
 - Extend lobbying agreement with Third House, LLC to August 31, 2020, and set annual contract funding at \$120,000 per year.
 - Extend lobbying agreement with Manatt, Phelps & Phillips, LLP to August 31, 2020, and set annual contract funding at \$300,000 per year.

- Extend lobbying agreement with Orrick, Herrington & Sutcliffe LLC to August 31, 2020, and set annual contract funding at \$240,000 per year; for the Orrick legal services agreement, regarding CEA legislation, set annual contract funding at (not to exceed) \$600,000 per year.
- Extend lobbying agreement with Townsend Calkin Tapio Inc. to August 31, 2020, and set annual contract funding at \$240,000 per year.

MOTION: Mr. Brown moved approval of the staff recommendations as presented. Mr. Schnoll seconded. Motion carried unanimously.

6. Chief Financial Officer Tim Richison will present to the Board the CEA financial report.

Mr. Richison provided an overview of CEA financial information as of March 31, 2018. He said that at the September 2018 Board meeting, he would again bring the Board the mid-year CEA budget adjustment.

7. Mr. Richison will seek Board approval to set the CEA participating insurers' respective maximum earthquake-loss-funding-assessment levels, effective July 19, 2018.

Mr. Richison discussed the annual CEA participating insurer (PI) maximum earthquake-loss-funding-assessment levels and stated there had been an error in the industry-assessment calculations presented to the Board at its March 14, 2018, meeting. He presented revised market share percentages and assessment levels and asked for the Board's approval of those revisions.

Staff recommendation:

- Adopt the revised CEA market-share percentages shown in Attachment B, which are to be used to determine the maximum earthquake loss funding assessment levels for CEA participating insurers, effective April 2, 2018.
- Authorize CEA staff to notify each participating insurer of its respective April 2, 2018, revised maximum earthquake-loss-funding-assessment level responsibility.

MOTION: Mr. Schnoll moved approval of the staff recommendation as presented. Mr. Brown seconded. Motion carried unanimously.

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

Andrew Rouse, Senior Manager, Plante & Moran, PLLC, provided an overview of the audit process.

Dan VanDreumel, Assurance Manager, Plante & Moran, PLLC, provided an overview and a slide presentation of the background, analysis, and timeline of the 2017 CEA audited financial statements.

He stated there were no significant findings or issues.

Plante & Moran has issued a clean, unmodified opinion of the 2017 financial statements.

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

Mr. Richison provided an overview of the background and analysis for the annual set-aside for the CEA Earthquake Loss Mitigation Fund. He stated that staff’s proposal had been reviewed by CEA Chief Actuary Shawna Ackerman, as required by law, and Ms. Ackerman had concluded in a written letter that the proposed set-aside is actuarially sound; her letter with that conclusion was included as *Attachment A* in the meeting packet.

Staff recommendation:

- Authorize a 2018 set-aside of \$4,088,500 for the CEA Earthquake Loss Mitigation Fund (in accordance with the calculation on Attachment B).

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

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

Mr. Richison reviewed the historical transfers that have been made by the CEA to CRMP to date to support and fund grants and operations of CRMP. He told the Board that the CRMP governing board had approved an updated budget on July 16, 2018, and thereby consented to receipt by CRMP of a transfer of funds from the CEA Earthquake Loss Mitigation Fund of \$3.3 million, to fund additional retrofit grants and expand the CRMP EBB program in 2018.

Staff recommendation:

- Approve a transfer to the CRMP of funds from the CEA Earthquake Loss Mitigation Fund in the amount of \$3.3 million to fund additional retrofit grants and expand the CRMP EBB program in 2018, as fully described in the staff memorandum.

MOTION: Mr. Brown moved approval of the staff recommendation as presented. Mr. Schnoll seconded. Motion carried unanimously.

11. Chief Actuary Shawna Ackerman will seek Board approval to renew and extend the term of CEA’s existing CoreLogic software license.

Ms. Ackerman asked the Board for approve renewing, and extend the term of, the existing CoreLogic software contract to allow the CEA to continue to use the CoreLogic modeling capabilities that CEA has developed for in-house use. The proposed three-year contract reflects licensing fees five percent lower than past years.

Staff recommendation:

- Approve CEA’s renewing the EQECAT “RQE” licensing agreement as proposed and authorize CEO Glenn Pomeroy to execute the renewal on the CEA’s behalf.

MOTION: Mr. Schnoll moved approval of the staff recommendation as presented. Mr. Brown seconded. Motion carried unanimously.

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

Dr. Johnson, Enterprise and Strategic Risk Advisor, provided an overview of the Enterprise Risk Management (ERM) framework and progress to date, risk-management process completion, the ERM quarterly report, and commentary on the CEA’s ERM framework development and next steps. She stated the ERM quarterly reports will replace the risk-management process-completion charts, going forward.

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

Ms. Maffei presented her report:

- The ATC 110 prestandard to provide simplified and cost-effective means to analyze and retrofit single family dwellings is complete and will be published this fall as FEMA P-1100.
- The CRMP Earthquake Brace + Bolt Program (EBB) has retrofitted over 5,000 houses over the five years the program has operated.
- The 2017 EBB program retrofitted 2,182 homes, four permits still outstanding.
- The 2018 EBB program has retrofitted 944 homes and has 1,491 permits outstanding, as of July 10, 2018.

14. Ms. Maffei will seek Board approval to bring to an end the existing risk-reduction (pilot) program for CEA policyholders and roll out a new program providing financial incentives to CEA policyholders who own, and live in, vulnerable houses in designated higher-seismic-risk areas and wish to benefit from structural retrofits and resulting CEA-premium discounts.

Ms. Maffei explained that the CEA Brace + Bolt Program received a small response from CEA policyholders approached to participate, with 89 houses retrofitted and 15 permits outstanding.

But she also said that CEA staff has learned much since establishing the EBB programs, and staff is now prepared to propose a new CEA Brace + Bolt program to help make CEA policyholders’ houses in high seismic areas more resilient for earthquakes. She proposed revamping and operating the program, for the same cripple-wall-type house and the same three-year persistency criterion, but aim program benefits specifically at those policyholders who will see a premium increase greater than 15 percent as a result of the CEA’s latest rate and form filing, now pending with the Department of Insurance.

Mr. Richison suggested that the Board add to the list of staff recommendations, a direction to staff to reallocate any remaining funds from the CEA Brace + Bolt pilot program to the new CEA Brace + Bolt Program.

Staff recommendations:

- Approve and authorize CEA staff to develop and implement a new CEA-BB program, with a goal of commencing implementation by the end of the third quarter of 2018:
 - Phase out pilot risk reduction and reallocate remaining funds to the new CEA-BB program.
 - Support the following eligibility parameters for policyholders participating in the new CEA-BB program:
 - Three or more years with the CEA;
 - pre-1940 wood-frame construction on a raised foundation, lacking adequate bolting or bracing (or lacking both); and
 - located in ZIP Codes where policyholders will have a 15 percent or greater increase in premium, based on the pending CEA RFF filing.
 - Direct staff to develop an implementation plan, to be reported to the Board, and program rules.

MOTION: Mr. Brown moved approval of the staff recommendations, including reallocating any remaining funds from the pilot program to the new CEA Brace + Bolt Program. Mr. Schnoll seconded. Motion carried unanimously.

15. Ms. Maffei will seek Board authorization to enter into an agreement with Risk Management Solutions, Inc. (RMS), to develop fragility-function-modification factors in collaboration with CEA and Pacific Earthquake Engineering Research Institute (PEER), which is an existing CEA contractor on a multi-year project.

Ms. Maffei stated the CEA has received a proposal from RMS for portfolio-modeling services for the CEA-PEER research project. RMS's participation in the PEER project will ensure the project produces vulnerability functions that are fit for the desired purpose, which is to quantify the risk presented by the insured structure before and after mitigation.

Staff recommendation:

- Approve contracting with RMS in connection with the PEER project and authorize CEO Glenn Pomeroy to execute the negotiated contracts on behalf of the CEA.

MOTION: Mr. Brown moved approval of the staff recommendation, with the parameters of 36 months and \$432,000. Mr. Schnoll seconded. Motion carried unanimously.

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

Ms. Maffei stated the Research Department is managing two special projects: the update to the CUREE Guidelines document and the CEA-PEER project. The CEA and the

Applied Technology Council (ATC), the contractor for the update to the CUREE document, held a kick-off meeting in June. The project is scheduled for 18 months.

Ms. Maffei stated the CEA-PEER project tests the performance of seismic retrofits. She stated claim adjusters who are knowledgeable in hurricane and wind damage are usually called into California, since California does not often have earthquakes, but wind and flood issues are slightly different and forensic engineers require additional information.

17. Chief Communications Officer Chris Nance will update the Board on the current CEA marketing and advertising campaign and discuss CEA's recent participation in support of the April 2018 *Get Prepared, California!* Auction to benefit American Red Cross.

Mr. Nance provided an overview of past CEA advertising campaigns and the television, radio, digital, newspaper, direct-mail, and station vignette advertising impressions of the 2018 CEA statewide advertising campaign, entitled "It could happen to you."

He showed a video clip of sample TV advertising in Spanish, which is part of the ethnic advertising component of the 2018 campaign.

Mr. Nance stated the CEA joined the Red Cross in promoting the seventh annual *Get Prepared, California!* auction. He stated approximately \$175,000 is raised annually through CEA's auction-related efforts, and that as of 2018, efforts have helped raise a total of \$1.2 million for disaster relief in California. Ryan Seacrest, radio personality, television host, and producer, participated in the announcement of the annual commitment and delivery of the check at a concert in Los Angeles.

Mr. Wood stated people talk about preparedness but may not do anything about it. The first thing people tell him when talking about earthquake insurance is that it is too expensive. He asked what the CEA is planning to show the public that it is not that expensive.

Mr. Nance stated there are 30-second TV spots, digital advertising, and weekly speaking engagements statewide, all promoting visits by individuals to come to the CEA website and use the premium calculator. That is complemented with CEA's staff's visits with the public throughout the state and conducting useful conversations.

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

Mr. Coombes provided an overview of the performance reports of CEA's insurance-education and sales-support activities, insurance operations, and information technology in a new dashboard format. He reported that there had been no cybersecurity incidents since the immediately past Governing Board meeting.

Public Comment

Ross Buckley, Personal Insurance Federation of California (PIFC), stated his member companies continue to be concerned with the effective date of the CEA's pending rate and form filing. He noted that CEA's previous estimate had been January 1, 2019, and he said PIFC would like an effective date that would work for both the CEA and PIFC's member insurance companies.

Mr. Coombes noted that CEA staff is monitoring this and is in contact with all PIs on this issue. The CEA is currently awaiting approval of the filing from the Department of Insurance, and, as the January 1, 2019, date approaches, the effective date could potentially be moved back.

19. Chief Operations Officer Kellie Schneider will update the Board on the quantitative business metrics report.

Ms. Schneider provided an overview of the four strategic goals, the performance metrics to accomplish in 2018, and the Business Metrics Report. She stated the operational metrics are on track.

20. 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.

There was no public comment.

21. Adjournment.

There being no further business, the meeting was adjourned at 3:20 p.m.