



**GOVERNING BOARD MEETING  
WEDNESDAY, MARCH 20, 2019  
1:00 P.M.**

**CalSTRS Headquarters Building  
Boardroom – Lobby, E-124  
100 Waterfront Place  
West Sacramento, California 95605**



Date of Notice: Friday, March 8, 2019

# PUBLIC NOTICE

## A PUBLIC MEETING OF THE GOVERNING BOARD OF THE CALIFORNIA EARTHQUAKE AUTHORITY

**NOTICE IS HEREBY GIVEN** that the Governing Board of the California Earthquake Authority ("CEA") will meet in West Sacramento, California. Pursuant to California Insurance Code §10089.7, subdivision (j), the Bagley-Keene Open Meeting Act applies generally to meetings of the Board, and the meeting is open to the public—public participation, comments, and questions will be welcome for each agenda item. All items are appropriate for action if the Governing Board wishes to take action. Agenda items may be taken out of order.

**LOCATION: CalSTRS Headquarters Building  
Boardroom (Lobby: E-124)  
100 Waterfront Place  
West Sacramento, California**

**DATE: Wednesday, March 20, 2019**

**TIME: 1:00 p.m.**

**AGENDA:**

- 1. Call to order and member roll call:
  - Governor
  - Treasurer
  - Insurance Commissioner
  - Speaker of the Assembly
  - Chair of the Senate Rules Committee

*Establishment of a quorum*

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



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

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

2. Consideration and approval of the minutes of the December 12, 2018 Governing Board meeting.
3. Executive Report by Chief Executive Officer Glenn Pomeroy, which will include an update for the Board on legislative activities of interest to CEA.
4. Chief Financial Officer Tom Hanzel will present to the Board the quarterly CEA financial report.
5. Mr. Hanzel will seek Board authorization to set the CEA participating insurers' respective maximum earthquake-loss funding assessment levels, effective April 1, 2019.
6. Mr. Hanzel will seek Board approval to contract with additional investment managers.
7. Kapil Bhatia, Managing Director of Public Finance for Raymond James & Associates, Inc.—CEA's independent financial advisor—will present to the Board the annual report on the state of the economy.
8. Mr. Pomeroy will propose, for Board approval, a routine update to CEA's Governing Board resolutions pertaining to certain CEA bank accounts.
9. Enterprise & Strategic Risk Advisor Laurie Johnson will update the Board on planning and progress of the CEA enterprise-risk-management-program.
10. Chief Communications Officer Chris Nance will present, and seek Board approval of, the 2020 CEA advertising budget.
11. Chief Operations Officer Kellie Schneider will seek Board approval for CEA to contract for and purchase Enterprise Resource Planning software in 2019.
12. 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.
13. Ms. Maffei will update the Board on the CEA Research Program.
14. Acting Chief Information Officer Michael Melavic will report to the Board on CEA insurance and information-technology initiatives.
15. Ms. Schneider will update the Board on the quantitative business metrics report.
16. 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.
17. 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.
18. Adjournment.

For further information about this notice or its contents:

**General Information:**

Shannon McEuen  
(916) 661-5430 (Direct)  
Toll free: (877) 797-4300

California Earthquake Authority  
801 K Street, Suite 1000  
Sacramento, CA 95814  
Toll free: (877) 797-4300

**Media Contact:**

Sarah Sol  
Media Relations Manager  
(916) 661-5502 (Direct)  
[ssol@calquake.com](mailto:ssol@calquake.com)

**To view this notice on the CEA website or to learn more about CEA, please visit [www.EarthquakeAuthority.com](http://www.EarthquakeAuthority.com)**

**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 CEA prepares for its Board meetings. Please contact Shannon McEuen by telephone, toll free, at (877) 797-4300 or by email at [CEABoardLiaison@calquake.com](mailto:CEABoardLiaison@calquake.com). We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.**

**NOTE: You might have received this notice because your name, or that of your organization, appears on a public-notice list maintained by CEA. If in the future you do not wish to receive public notices pertaining to CEA, please send your request by email to [CEABoardLiaison@calquake.com](mailto:CEABoardLiaison@calquake.com).**

## DRAFT

# CALIFORNIA EARTHQUAKE AUTHORITY GOVERNING BOARD MEETING MINUTES

Wednesday, December 12, 2018  
12:00 p.m.

Location: CalSTRS Headquarters Building  
Board Room – Lobby, E-124  
100 Waterfront Place  
West 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  
Insurance Commissioner Dave Jones  
Craig Fry, designee of Chair of the Senate Rules Committee Toni Atkins

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  
Danny Marshall, General Counsel  
Shannon McEuen, Governing Board Liaison  
Chris Nance, Chief Communications Officer  
Tracy Palombo, Reinsurance and Risk-Transfer Director  
Tim Richison, Chief Financial Officer  
Kellie Schneider, Chief Operations Officer

Also present:

No members of the public addressed the Governing Board.

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

Chair Mark Ghilarducci called the meeting to order at 12:02 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 12:03 p.m. and resumed its proceedings in open session at 1:28 p.m. No action was announced as having been taken.

**3. Consideration and approval of the minutes of the September 12, 2018, CEA Governing Board meeting.**

**MOTION:** Mr. Jones moved approval of the September 12, 2018, California Earthquake Authority Governing Board Meeting Minutes as presented. Mr. Brown seconded. 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.**

Glenn Pomeroy, Chief Executive Officer, presented his report:

- New members have been added to the CEA Advisory Panel. The Advisory Panel met in November to begin discussing ways to more actively engage and provide advice to the Board, such as how to retrofit more CEA policyholder homes.
- Shawna Ackerman was elected President of the American Academy of Actuaries last November. Her inaugural address is posted on the website.
- The Earthquake Brace + Bolt program continues to grow with over 7,000 retrofits to date.
- With the passage of AB2927, the CEA Surcharge Layer will be added to the claims-paying tower beginning in 2019 and is expected to save the CEA approximately \$30 million in reinsurance costs annually.
- Consideration continues to be given to further reform of CEA's financial structure which would result in a significant increase in funding available for mitigation. This consideration will continue into the upcoming legislation.
- A CEA downstream impact of the recent fires is that homeowner insurance prices will go up in the future, especially in certain areas where reconstruction values will go up.

Mr. Jones stated the media has misreported that homeowner insurance has capped in California. He stated insurance prices will continue to go up in the wildland urban interface where there are about 3 million homes, 1 million of which are rated at a very high risk by insurers.

**5. Chief Financial Officer Tim Richison will present the quarterly CEA financial report.**

Tim Richison, Chief Financial Officer, provided an overview, with a slide presentation, of the CEA financial information as of September 30, 2018. He stated the risk-transfer program is a large component of the claims-paying

capacity, which is now displayed on three pages instead of one due to the number of contracts within the risk-transfer community.

**6. Mr. Pomeroy and Mr. Richison will present the proposed 2019 CEA insurance-services budget for Board consideration and approval.**

Mr. Pomeroy stated the proposed budget for 2019 is \$543 million. 65 percent of the budget is devoted to risk-transfer costs, 21 percent to agent commissions and participating insurers (PIs), 8 percent to statutory expenses, and 6 percent to marketing expenses, engineering research, outside legal fees, and investment and marketing service fees. He stated AB2927 bill that was enacted this year will save the CEA \$30 million in reinsurance costs annually beginning next year.

Mr. Richison provided an overview, with a slide presentation, of the anticipated expenditures for 2018, the proposed budget for 2019, the 6 percent expense cap, and the comparison between the 2018 and 2019 budgets.

Board Member Brown asked about the Capital Market reduction. Mr. Richison stated Capital Market is the expenditures due to being a sponsor for catastrophe bonds and selling revenue bonds. The last of the revenue bonds will be paid off in July; therefore, there will be a reduction in Capital Market expenditures for the second half of the year.

Staff Recommendations:

- Approve the proposed 2019 insurances-services budget as presented.
- Direct staff to operate the CEA business within the total approved budget amounts.

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

**7. Mr. Richison will seek Board approval for CEA to contract for and purchase Enterprise Resource Planning ("ERP") software in 2019.**

Mr. Richison stated the need to update the internal operating system so that the finance shop and human resources can better access data between the two departments. He stated a Request for Proposals and Qualifications was sent out in April for a platform to bring the financial shop and human resources into an operations shop for economy and efficiency. Staff received seven bids. He suggested that the final decision of award be made when his successor can be part of the evaluation panel.

Staff Recommendations:

- Select and implement an ERP software and services solution.
- Authorize CEO Glenn Pomeroy to evaluate and approve the selection panel's final procurement choices, and then negotiate and execute related required contracts on behalf of the CEA.

Chair Ghilarducci asked how the system is tied into the overall IT strategy. Mr. Coombes stated the ERP system, even though it is accessed through the internet, will be under the CEA's jurisdiction to ensure it adheres to the IT system security and other operating standards.

Mr. Jones moved approval of the staff recommendations with the amendment that the selection panel make a recommendation with regard to an ERP software and services solution, upon the seating of a new CFO, and authorize CEO Glenn Pomeroy to evaluate and approve the selection panel's final procurement choices, and then negotiate and execute related required contracts on behalf of the CEA subject to a cost not to exceed \$1.2 million.

Board Member Fry asked if the ongoing maintenance for the program would have a cap. Mr. Richison stated those numbers were not currently available.

Board Member Brown asked if the maintenance would be included in the annual budget. Mr. Richison stated it would.

Mr. Jones clarified that the Board could approve or disapprove the annual maintenance in each budget. Mr. Richison stated the motion could contain a caveat that the annual maintenance amount must be brought back to the Board after the contract is settled.

Chair Ghilarducci stated negotiations will include the long-term maintenance agreement but the costs are yet to be decided. Danny Marshall, General Counsel, stated the contract to be negotiated will be for a multi-year term with a built-in maintenance fee – the numbers will be set contractually at that time. While the annual budgets will take the cost into account, the CEA will be committed to a maintenance price pursuant to the contract and any further changes will be subject to negotiation with the provider.

Mr. Jones clarified that the \$1.2 million cap only covers the purchase, installation, and training related to the software, not the maintenance and operational costs.

Mr. Coombes stated the \$1.2 million will be divided between the software license and implementation. Ongoing maintenance is typically 20 to 25 percent of the annual license fee; a projected maintenance cost would be between \$100,000 and \$150,000 annually.

Mr. Jones asked if the motion should include a cap on maintenance costs. Chair Ghilarducci stated it is difficult to accurately estimate the costs before negotiations are settled. He asked whether potential vendors were able to give estimates. Mr. Coombes stated all of the companies that participated in the procurement process included specific responses regarding their charges; however, since the vendor is undecided, that information was not ready to be discussed yet.

Mr. Jones stated the desire to have the input of a new CFO in the first few months of the next year creates a challenge since the numbers are not yet concrete.

Chair Ghilarducci suggested tabling the item until the next meeting due to lack of information to make a financial decision.

Mr. Jones withdrew his motion.

**8. Reinsurance and Risk-Transfer Director Tracy Palombo will present to the Board the CEA staff's proposed 2019 Risk-Transfer Strategy.**

Tracy Palombo, Reinsurance and Risk-Transfer Director, reviewed the risk-transfer program Board-approved minimum 1-in-400-year return period strategy for 2018 and proposed risk-transfer strategy for 2019. She stated the proposed 12-month risk-transfer strategy will be made up of both traditional and transformer reinsurance.

Mr. Jones asked about the National Association of Insurance Commissioners (NAIC) Credit for Reinsurance Model Law, which reduced collateral requirements associated with reinsurance treaties, and the federal government's collateral agreement to supplant state regulation of reinsurance and substitute a zero-collateral provision nationally. He asked about the impact that the trend of states adopting zero-collateral requirements associated with reinsurance treaties would have on the CEA costs.

Mr. Richison stated the CEA has guidelines that were developed prior to the NAIC rules. The CEA only requires collateral as one of the mechanisms to initiate a contract between the CEA and the reinsurer if those guidelines are not met.

Mr. Jones asked for verification that the change in law occurring state by state will not necessarily provide a reduction in cost. Mr. Richison agreed that it will not.

Mr. Jones asked for verification that the CEA is not precluded from requiring collateral in the event that the CEA guidelines are not met, by virtue of the enactment of the Credit for Reinsurance Model Law. Mr. Richison stated that is correct.

**MOTION:** Mr. Jones moved approval of the proposed 12-month Risk-Transfer Strategy as presented. Mr. Brown seconded. Motion passed unanimously.

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

Mr. Pomeroy stated the need for the CEA to update the banking resolutions submitted to the CEA's custody and trustee banks upon the retirement of Mr. Richison.

Mr. Marshall stated the signature card for a corporate entity or organization takes the form of board resolutions. The updated resolutions confer banking authority to the Chief Executive Officer, the Chief Operations Officer, and the Chief Insurance and Technology Officer.

**MOTION:** Mr. Jones moved to adopt the resolutions attached as *Attachment A* and *Attachment B* to these minutes as presented. Mr. Brown seconded. Motion carried unanimously.

**10. Mr. Pomeroy will update the Board on the national search and recruitment efforts currently underway for two CEA executive positions: Chief Financial Officer and General Counsel. Mr. Pomeroy will seek Board authorization to negotiate and enter into, on behalf of the CEA, executive employment agreements with the selected candidate for each position.**

Mr. Pomeroy stated two search firms were retained to conduct a national search for the replacements for Tim Richison and Danny Marshall, who will be retiring soon. Heidrick and Struggles has been retained to do the Chief Financial Officer search and Major Lindsey and Africa has been retained to do the General Counsel search. He stated approximately 100 candidates have been identified for each position and a number of interviews have been conducted.

**MOTION:** Mr. Jones moved to authorize CEO Glenn Pomeroy to negotiate and enter into, on behalf of the CEA, executive employment agreements with the selected candidates for the Chief Financial Officer and General Counsel positions. Mr. Brown seconded. Motion carried unanimously.

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

Janiele Maffei, Chief Mitigation Officer, stated the CRMP Earthquake Brace + Bolt (EBB) has now completed over 7,000 seismic retrofits during the life of the program. She provided an overview, with a slide presentation, of the regional costs for Northern versus Southern California programs, the 2018 and 2019 EBB programs, FEMA funding, the 2019 CEA Brace + Bolt program, the CEA nonprofit charitable foundation, and the single- and multi-family mitigation challenge. She noted that there is a high retrofit completion rate once the homeowner obtains the permit.

Mr. Jones asked about the import of the legislative proposal in terms of the potential for it to pass additional availability of funds for Earthquake Brace + Bolt. Mr. Pomeroy stated, if the state of California through the Legislature would create some form of financial backstop, it would allow the CEA to reduce the amount of reinsurance that is purchased up-front. He stated the CEA's proposal would be unique in that it would pay for the backstop in the form of taking approximately half of the savings accrued and creating a sum of money that would be paid back to the state in the form of mitigation dollars. If the legislation is successful, it would increase the amount of dollars to accomplish mitigation by 15- to 20-fold. The CEA would then leverage those federal dollars to help communities that cannot afford to put up their own match.

**12. Ms. Maffei and Mr. Richison will present the proposed 2019 CEA mitigation-program budget for Board consideration and approval.**

Mr. Richison provided an overview of budgeted and actual mitigation-programming-related expenditures for the 2018 budget year, the proposed 2019 mitigation budget, and the comparison between the 2018 and 2019 budgets.

Chair Ghilarducci asked about the Other Expenses, Investment Services line item. Mr. Richison stated the money in the Earthquake Loss Mitigation Fund (ELMF) must be managed and invested. The line item is for the third-party investment manager for the fund.

Mr. Brown asked if the revenue sources for the budget are varied. Mr. Richison stated they are not. The revenue for this budget comes from the ELMF. The funding for the ELMF is 5 percent of the CEA's investment income.

Mr. Jones asked about the total amount of funding available for the mitigation budget, based on that 5 percent base. Mr. Richison stated the ELMF is currently at approximately \$8.9 million. Funding the CRMP will draw that down to \$3.4 million. He anticipated that the ELMF will get approximately \$5 million of additional income in either June or September of 2019.

Mr. Jones asked if the possible \$8 million surplus in the ELMF can be used to fund grants. Mr. Richison stated it cannot because the funds are used to pay off the operating expenses in future years. It is crucial that the CRMP locate other kinds of funding efforts, such as FEMA grants. Without additional funding for the CRMP to do the grants, the ELMF will run out in three years.

Chair Ghilarducci stated his understanding that the fund was never predicated on the revenue from the disaster grants, but was designed to support the mitigation effort, regardless of hazard mitigation grants. Mr. Richison agreed but stated the funding is limited at only \$5 million annually. Over the years, the CRMP has been drawing down on that fund to do grants. If the grants continue, without FEMA funding there would not be enough funds in the ELMF to continue the CRMP mitigation efforts. It was never intended to be used at the level it now is. He provided a summary of the 1996 statute that put the ELMF in place.

Mr. Pomeroy added his historical perspective. He stated \$25 million had accumulated into the ELMF by 2008 because the CEA had yet to determine how to best use the funds. He stated many things had to be put into place before that could happen – a reference to CEA programming in the State Hazard Mitigation Plan had to be established, a statewide building code to retrofit older homes had to be created, grant administration needed to be researched, and the CEA had to hire a Chief Mitigation Officer with engineering expertise. The retrofit pilot program began in 2014, which started to draw down on the ELMF at \$3,000 per home retrofitted. The goal is to grow the program, retrofit as many homes as possible with these grants, and continue to try to access additional sources of funding.

Mr. Jones stated it would be useful for staff to annually present the sources and uses of the funds for this program for the Board to better determine how to manage this fund.

Staff Recommendations:

- Approve the proposed 2019 mitigation-program budget.
- Direct staff to operate CEA’s mitigation-related activities within the total approved budget amounts.

**MOTION:** Mr. Jones moved approval of the staff recommendations as presented. Mr. Brown seconded. Motion passed unanimously.

**13. 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 the CRMP to date to support and fund grants and operations of the CRMP. He stated the CRMP Governing Board approved the 2019 budget and consented to a transfer of funds from the CEA Earthquake Loss Mitigation Fund in the amount of \$6.3 million for their activities for 2019.

Staff recommendation:

- Approve the proposed transfer, by the CEA to the CRMP, of funds in the amount of \$6.3 million, to expand the CRMP-EBB program in 2019, as described.

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

**14. Ms. Maffei will update the Board on the CEA Research Program.**

Ms. Maffei provided an overview, with a slide presentation, of the current activities of the CUREE General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Wood-Frame Buildings and the CEA-PEER Quantifying the Performance of Retrofit of Cripple Walls and Sill Anchorage in Single Family Wood-Frame Buildings research projects. She stated the FEMA P-1100, formerly ATC 110, has now been published on the FEMA website.

Mr. Fry asked if the research looks at improving early notification for earthquakes. He asked if the CEA has looked into funding research into early notification systems and if it has looked what other countries such as Japan have done in these areas. Ms. Maffei stated the CEA is peripherally looking into the earthquake early warning system. She stated staff has talked to the California Geological Survey, the U.S. Geological Survey, and others about the increasing improvement and reduction in cost in the technology to get sensors into single family homes. The last research forum had a panel made up of ten speakers on

that issue. The CEA continues to consider if the CEA has both a business interest and the funding available to be part of that. She stated the greater the number of sensors, the greater amount of information can be gathered.

**15. Chief Insurance and Technology Officer Todd Coombes will report to the Board on CEA insurance and information technology initiatives.**

Todd Coombes, Chief Insurance and Technology Officer, provided an overview, with a slide presentation, of the performance reports of the CEA's insurance education and sales-support, insurance operations, and information technology in dashboard format. He stated his department has rolled out an Agent Portal since the last Board meeting. The Agent Portal is a website that includes training, reference and marketing materials, various communications, and software tools.

Mr. Coombes introduced the visual graphic metric, the Microsoft Secure Score. Microsoft assigns a number, through a series of formulas, on cyber-security. As of the printing of the dashboard, the CEA's score was 322, and today's score was 337. The goal is 500.

Mr. Coombes pointed out a drop in the predictability category on the Information Technology dashboard. He stated the drop is primarily due to the release of the Agent Portal, since it is a new tool with new architecture. He stated he expected to see the percent back up into the 90s in the near future.

**16. Chief Actuary Shawna Ackerman will seek Board approval to renew and extend the term of CEA's existing contract with earthquake-risk-modeling firm Risk Management Solutions ("RMS").**

Shawna Ackerman, Chief Actuary, provided an overview, with a slide presentation, of the background, analysis, and a comparative analysis of contract provisions for the current term versus the proposed three-year extension.

Staff recommendation:

- Approve CEA-RMS contract renewal for a three-year term, through December 31, 2021.

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

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

Laurie Johnson, Ph.D., the Enterprise and Strategic Risk Advisor, provided the Enterprise Risk Management (ERM) Quarterly Report and update on the ERM framework development progress and program plan. During the last quarter of 2018, all 12 priority risks that the CEA is monitoring were within their established risk checkpoints and limits with one exception. A contracting matter has not yet been resolved for the IT Systems and Data Security risk, but should be by the next Board meeting. She also stated the ERM program will be formally organized and staffed under the new CEA Chief Financial Officer in the coming year.

Mr. Jones asked if it would be useful for staff to prepare a NAIC Own Risk and Solvency Assessment (ORSA) report. Dr. Johnson stated the CEA can elect to do a Voluntary ORSA (VORSA).

Mr. Jones asked if a VORSA report could be prepared within the existing budget. Mr. Richison stated the need for additional resources to make a report available.

**18. Chief Operations Officer Kellie Schneider will present to the Board the quantitative business metrics report.**

Kellie Schneider, Chief Operations Officer, provided an overview of the quantitative business metrics that align with the CEA strategic goals: educate, mitigate, insure, and organizational resilience. She stated the strategic goal categories are on track, although the insure category is slightly off because the rate and form filing was not completed by the end of 2018. She showed a presentation slide of the metric activity chart and noted that there is now full compliance in the sexual harassment prevention training category, and improvement has been seen in the performance evaluation and probation reports categories.

**19. Ms. Schneider will provide the Board with an update on CEA's internal operations.**

Ms. Schneider provided a general overview of the accomplishments of the internal operations department in 2018. She stated a Business Continuity Coordinator has been hired who is developing a roadmap, engaging in formal training, testing, and exercise programs, and implementing the incident-command system within the CEA.

**20. Chief Communications Officer Chris Nance will recap CEA's 2018 advertising campaign and discuss CEA's participation in support of the October 2018 Great California ShakeOut.**

Chris Nance, Chief Communications Officer, provided an overview, with a slide presentation, of the policy growth, 2018 new advertising campaign, paid media impressions, and 2018 communications results.

Mr. Jones asked, although the advertising drives individuals to the website, what accounts for the decline in the website utilization percentages. Mr. Nance stated the 2018 Year of the Renter strategy targeted renters, who represent less than 20 percent of the marketplace.

**21. Mr. Pomeroy will present for Board consideration and approval the 2019 Governing Board meeting calendar.**

Governing Board members agreed with the proposed 2019 meeting dates.

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

There was no public comment.

**23. Adjournment.**

Mr. Pomeroy thanked Governor Brown, Commissioner Jones, and Commissioner Chiang for their support. He summarized his letter of appreciation and list of accomplishments and growth achieved by the CEA over the past eight years, which is attached as Exhibit 1 to these minutes and will be posted on the website.

Mr. Pomeroy recognized Danny Marshall and Tim Richison for their over two decades of work with the CEA. He thanked them for their contributions and wished them all the best in their future endeavors. The Board adopted separate resolution expressing appreciation to Mr. Marshall and Mr. Richison for their years of service to the CEA, which are attached as Exhibit 2 and Exhibit 3 to the minutes.

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

## **Governing Board Memorandum**

March 20, 2019

Agenda Item 3:                      Executive Report by Chief Executive Officer Glenn Pomeroy

Recommended Action:            No action required—information only

---

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



# **FINANCIAL REPORT**

**December 31, 2018**

## Financial Report Table of Contents

	Page
<b>Financial Statements &amp; Budgets</b>	
Balance Sheet as of December 31, 2018	1
Statement of Revenues, Expenses and Changes in Net Position Period Ended December 31, 2018	2
Insurance Services Budgeted and Actual Expenditures for 2018 Budget Year as of December 31, 2018	3
Mitigation Budgeted and Actual Expenditures for 2018 Budget Year as of December 31, 2018	4
<b>Investments</b>	
Investment Distribution at Market Value CEA Liquidity & Primary Funds, Claim(s)-Paying Funds, Mitigation Funds as of December 31, 2018	5
<b>Debt</b>	
Schedule of Outstanding Debt as of December 31, 2018	6
<b>Claim-Paying Capacity</b>	
Statement of Available Capital as of December 31, 2018	7
Claim-Paying Capacity as of December 31, 2018	8
<b>Risk-Transfer Programs</b>	
Current Risk-Transfer Program Summary as of December 31, 2018	9

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

# **Financial Statements & Budgets**

**California Earthquake Authority**  
**Balance Sheet**  
**as of December 31, 2018**

**Assets**

Cash and investments:	
Cash and cash equivalents	\$ 157,085,079
Restricted cash and equivalents	67,186,031
Restricted investments	360,913,199
Investments	<u>6,024,893,235</u>
Total cash and investments	6,610,077,544
Premiums receivable, net of allowance for doubtful accounts of \$5,346,462	69,456,437
Capital contributions receivable	7,742,000
Risk capital surcharge receivable	-
Interest receivable	25,314,888
Securities receivable	-
Restricted securities receivable	-
Prepaid reinsurance premium	19,854,113
Transformer reinsurance premium deposit	-
Prepaid transformer maintenance premium	1,268,123
Equipment, net	208,044
Other assets	<u>326,008</u>
Total assets	<u><u>\$ 6,734,247,157</u></u>

**Liabilities and Net Position**

Unearned premiums	\$ 417,448,201
Accounts payable and accrued expenses	10,632,004
Deferred grant revenue	-
Accrued reinsurance premium expense	-
Loss and loss adjustment expense reserves	115,114
Securities payable	-
Revenue bond payable	105,000,000
Revenue bond interest payable	<u>1,472,625</u>
Total liabilities	<u>534,667,944</u>
Net position:	
Restricted, expendable	322,653,944
Unrestricted, participating insurer contributed capital	790,656,796
Unrestricted, State of California contributed capital	274,593,169
Unrestricted, all other remaining	<u>4,811,675,304</u>
Total net position	<u>6,199,579,213</u>
Total liabilities and net position	<u><u>\$ 6,734,247,157</u></u>

**California Earthquake Authority**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year Ended December 31, 2018**

Underwriting income:	
Premiums written	\$ 778,340,984
Less premiums ceded - reinsurance	(366,630,729)
Less risk capital surcharge	<u>-</u>
Net premiums written	<u>411,710,255</u>
Change in unearned premiums	<u>(43,992,185)</u>
Net premiums earned	<u>367,718,070</u>
Expenses:	
Losses and loss adjustment expenses	148,833
Participating Insurer commissions	77,838,382
Participating Insurer operating costs	25,280,833
Reinsurance broker commissions	2,800,000
Pro forma premium taxes equivalent	18,301,952
Other underwriting expenses	<u>53,300,280</u>
Total expenses	<u>177,670,280</u>
Underwriting profit	190,047,790
Net investment income	92,745,187
Other income	468,363
Grant revenue	4,050
Financing expenses, net	1,262,290
Earthquake Loss Mitigation Fund expenses	(11,293,918)
Participating Insurer Contributed Capital	13,272,000
State of California premium tax contribution equivalent	<u>18,301,952</u>
Increase in net position	304,807,714
Net position, beginning of year	<u>5,894,771,499</u>
Net position, end of year	<u><u>\$ 6,199,579,213</u></u>

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Budgeted and Actual Expenditures**  
**As of December 31, 2018**

	(a)	(b)	(b2)	(c)	(d) (d=a+b+b2+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	<b>Approved 2018 Budget 1/1/2018</b>	<b>Adjustments <sup>A</sup></b>	<b>Adjustments 2 <sup>A</sup></b>	<b>Augmentations</b>	<b>2018 Budget after Augmentations and Adjustments</b>	<b>Actual Expenditures</b>	<b>Augmented &amp; Adjusted Approved Budget (d) vs. Actual Expenditures (e)</b>	<b>Percentage used of Augmented &amp; Adjusted 2018 Budget</b>
Human Resources:								
Compensation and Benefits	\$ 27,292,437	\$ (1,616,629)			\$ 25,675,808	\$ 23,893,201	\$ 1,782,607	93.06%
Travel	709,346	(237,294)			472,052	394,068	77,984	83.48%
Other	692,667	(14,605)			678,062	670,828	7,234	98.93%
Board Meeting	24,480	(7,397)			17,083	11,664	5,419	68.28%
Administration & Office	807,975	(269,862)			538,113	564,928	(26,815)	104.98%
EDP Hardware	205,500	67,199			272,699	681,441	(408,742)	249.89%
EDP Software	2,050,188	(483,242)			1,566,946	966,719	600,227	61.69%
Information Technology	1,613,106	1,356,387			2,969,493	2,181,758	787,735	73.47%
Telecommunications	418,000	(25,799)			392,201	272,966	119,235	69.60%
Rent/Lease	1,446,842	(54,380)			1,392,462	1,315,226	77,236	94.45%
Compliance	30,000	(17,500)			12,500	-	12,500	0.00%
Government Affairs <sup>1</sup>	146,000	-		842,000	988,000	899,288	88,712	91.02%
Insurance	215,000	(28,000)			187,000	121,483	65,517	64.96%
Internal Audit	30,000	(17,500)			12,500	-	12,500	0.00%
Other	71,450	(2,202)			69,248	7,748	61,500	11.19%
Regulatory Expenses	330,000	(192,487)			137,514	63,855	73,659	46.44%
Risk Management	139,500	(51,824)			87,676	60,313	27,363	68.79%
<b>Total Statutory Expenditures <sup>2</sup></b>	<b>\$ 36,222,491</b>	<b>\$ (1,595,136)</b>	<b>\$ -</b>	<b>\$ 842,000</b>	<b>\$ 35,469,355</b>	<b>\$ 32,105,486</b>	<b>\$ 3,363,869</b>	<b>90.52%</b>
Audit Services	119,500	-			119,500	108,509	10,991	90.80%
Capital Market	4,864,855	(6,928)			4,857,927	4,881,214	(23,287)	100.48%
Claims	164,000	4,925			168,925	15,614	153,311	9.24%
Grants	11,700,000	(525,000)			11,175,000	177,663	10,997,337	1.59%
Investment Services	3,436,588	(208,312)			3,228,276	3,198,091	30,185	99.06%
Legal Services	2,043,650	(468,986)			1,574,664	1,219,226	355,438	77.43%
Loss-Modeling	1,156,500	(311,000)			845,500	981,825	(136,325)	116.12%
Marketing Services	14,705,465	(207,244)			14,498,221	10,724,469	3,773,752	73.97%
Producer Compensation <sup>3</sup>	69,000,000	-		4,000,000	73,000,000	77,693,567	(4,693,567)	106.43%
Participating Insurer Operating Costs <sup>3</sup>	26,672,800	-		1,170,105	27,842,905	30,104,245	(2,261,340)	108.12%
Seismic Related Research	380,000	(230,000)			150,000	-	150,000	0.00%
Engineering Related Research	1,920,000	541,901			2,461,901	1,335,393	1,126,508	54.24%
Risk Transfer <sup>4</sup>	315,600,000	-	3,005,780	34,194,220	352,800,000	369,643,811	(16,843,811)	104.77%
<b>Total Non-Statutory Expenditures</b>	<b>\$ 451,763,358</b>	<b>\$ (1,410,644)</b>	<b>\$ 3,005,780</b>	<b>\$ 39,364,325</b>	<b>\$ 492,722,819</b>	<b>\$ 500,083,627</b>	<b>\$ (7,360,808)</b>	<b>101.49%</b>
<b>Total Budget Expenditures</b>	<b>\$ 487,985,849</b>	<b>\$ (3,005,780)</b>	<b>\$ 3,005,780</b>	<b>\$ 40,206,325</b>	<b>\$ 528,192,173</b>	<b>\$ 532,189,113</b>	<b>\$ (3,996,940)</b>	<b>100.76%</b>

<sup>1</sup>Augmentation for contract adjustments for lobbying agreements from July 19, 2018 Governing Board Meeting Agenda Item 5.

<sup>2</sup>Total 2018 Statutory Expenditures of \$32.1 million were 4.12% of written premium. This is in compliance with the maximum permitted ratio of 6.0%.

<sup>3</sup>Proposed augmentation to account for increased projection of premiums written for 2018.

<sup>4</sup>Proposed augmentation for additional risk transfer needs.

<sup>A</sup>Adjustments to meet insurance services end of year projections.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Budgeted Expenditures and Actual Expenditures**  
**As of December 31, 2018**

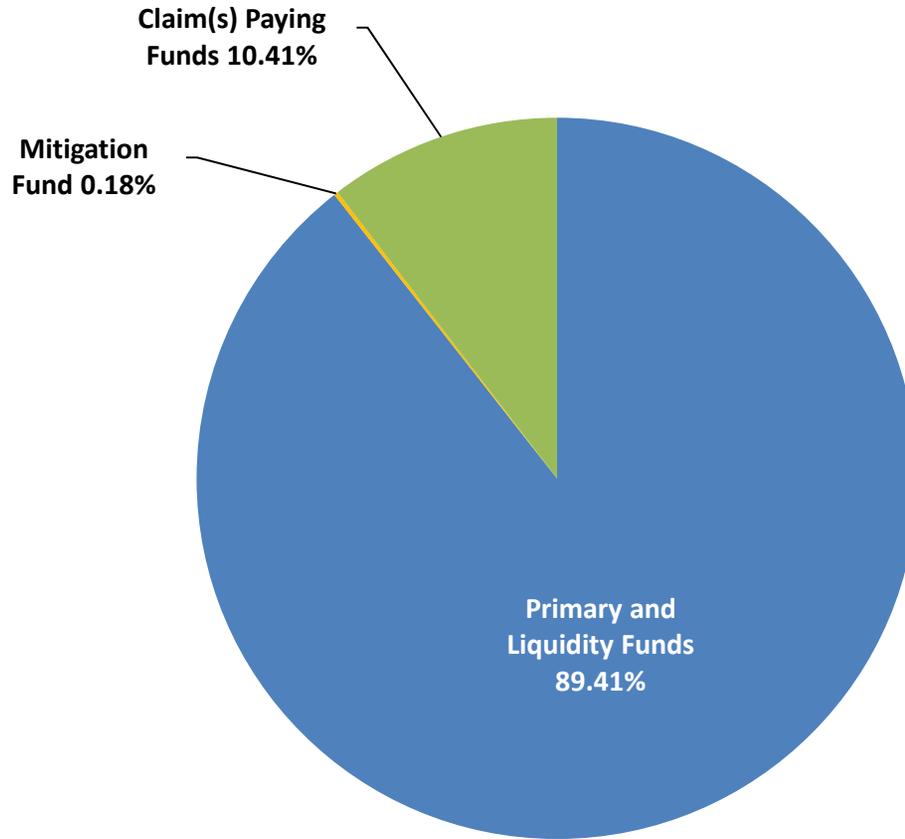
	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	<b>Approved 2018 Budget 1/1/2018</b>	<b>Adjustments <sup>A</sup></b>	<b>Augmentations</b>	<b>2018 Budget after Augmentations and Adjustments</b>	<b>Actual Expenditures</b>	<b>Augmented &amp; Adjusted Approved Budget (d) vs. Actual Expenditures (e)</b>	<b>Percentage used of Augmented &amp; Adjusted 2018 Budget</b>
Human Resources:							
Compensation and Benefits	\$ 1,378,515	\$ (95,000)	\$ -	\$ 1,283,515	\$ 1,261,968	\$ 21,547	98.32%
Travel	54,594	(22,620)	-	31,974	23,900	8,074	74.75%
Other	19,515	147	-	19,662	15,107	4,555	76.83%
Administration & Office	68,803	(28,389)	-	40,414	19,303	21,111	47.76%
Information Technology	840	(70)	-	770	840	(70)	109.09%
Telecommunications	33,400	(9,813)	-	23,587	15,258	8,329	64.69%
Rent/Lease	109,700	(2,030)	-	107,670	104,894	2,776	97.42%
<b>Total Operating Expenditures</b>	<b>\$ 1,665,367</b>	<b>\$ (157,775)</b>	<b>\$ -</b>	<b>\$ 1,507,592</b>	<b>\$ 1,441,270</b>	<b>\$ 66,322</b>	<b>95.60%</b>
Investment Services	11,200	(940)	-	10,260	10,489	(229)	102.24%
Legal Services	10,000	(10,000)	-	-	-	-	0.00%
Marketing	4,500	2,394	-	6,894	6,021	873	87.34%
Engineering - Related	1,140,000	(584,771)	-	555,229	927,837	(372,608)	167.11%
<b>Total Other Expenditures</b>	<b>\$ 1,165,700</b>	<b>\$ (593,318)</b>	<b>\$ -</b>	<b>\$ 572,382</b>	<b>\$ 944,347</b>	<b>\$ (371,965)</b>	<b>164.99%</b>
<b>Total Expenditures</b>	<b>\$ 2,831,067</b>	<b>\$ (751,093)</b>	<b>\$ -</b>	<b>\$ 2,079,974</b>	<b>\$ 2,385,617</b>	<b>\$ (305,643)</b>	<b>114.69%</b>

<sup>A</sup>Adjustments to meet mitigation end of year projections.

# **Investments**

**California Earthquake Authority  
Investment Distribution at Market Value  
as of December 31, 2018**

<b>Market Value</b>	<b>\$6,629,743,256</b>
Primary and Liquidity Funds	89.41%
Mitigation Fund	0.18%
Claim(s) Paying Funds	10.41%
<b>Total:</b>	<b>100.00%</b>



# Debt

**California Earthquake Authority  
Schedule of Outstanding Debt**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2014 Revenue Bonds 5 year bond CUSIP 13017HAE6	\$ 250,000,000	2.805%	\$ 247,910,261	\$ 105,000,000	31-Dec-2018	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

Debt	Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
Series 2014 Revenue Bonds 5 year bond	1-Jan-17	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
	1-Jul-17	\$210,000,000	\$40,000,000	\$3,506,250	\$43,506,250	
	2017- Paid					\$47,012,500
	1-Jan-18	\$210,000,000	\$0	\$2,945,250	\$2,945,250	
	1-Jul-18	\$105,000,000	\$105,000,000	\$2,945,250	\$107,945,250	
	2018- Paid					\$110,890,500
	1-Jan-19	\$105,000,000	\$0	\$1,472,625	\$1,472,625	
	1-Jul-19	\$0	\$105,000,000	\$1,472,625	\$106,472,625	
	2019- Outstanding					\$107,945,250

\*Moody's rating since November 2018.

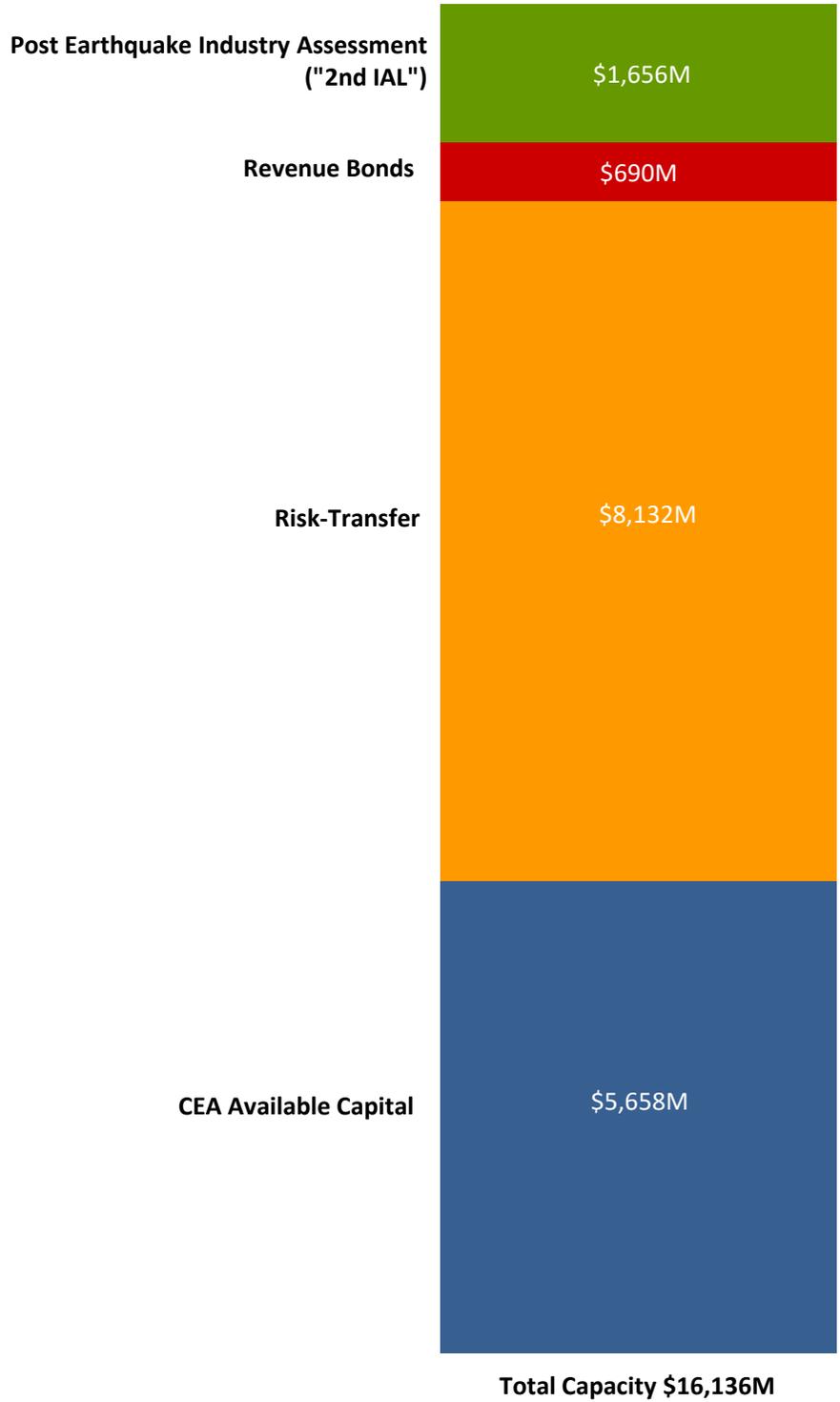
\*\*Fitch rating affirmed December 2018.

# **Claim-Paying Capacity**

**California Earthquake Authority  
Available Capital Report  
as of December 31, 2018**

Cash & Investments (includes capital contributions and premiums)	\$	6,610,077,544
Earthquake Loss Mitigation Fund Cash and Investments	\$	(11,751,892)
Interest & Securities Receivable	\$	25,314,888
Premium Receivable	\$	69,456,437
Risk Capital Surcharge & Capital Contributions Receivable	\$	7,742,000
Other Assets	\$	326,008
Revenue Bonds	\$	(690,258,518)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	\$	(53,972,628)
Unearned Premium Collected	\$	(287,951,372)
Accrued Reinsurance Premium Expense	\$	-
Accounts and Securities Payable, and Accrued Expenses	\$	(10,632,004)
Loss Reserves	\$	(115,114)
CEA Available Capital	<b>\$</b>	<b>5,658,235,349</b>

**California Earthquake Authority  
Claim-Paying Capacity  
as of December 31, 2018**



Note: Not drawn to scale

# **Risk-Transfer Programs**

**California Earthquake Authority  
Current Risk-Transfer Program Summary  
as of December 31, 2018**

<b>Traditional Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>
2018 January Program Contract 1	January 1, 2018 - December 31, 2018	884,725,560
2018 January Program Contract 2	January 1, 2018 - December 31, 2018	274,324,320
2018 January Program Contract 3	January 1, 2018 - December 31, 2018	75,000,000
2018 January Program Contract 4	January 1, 2018 - December 31, 2018	21,250,000
2018 January Program Contract 5	January 1, 2018 - December 31, 2018	8,850,000
2018-2019 January Program Contract 1 (21 Month)	January 1, 2018 - September 30, 2019	89,899,920
2018-2019 January Program Contract 2 (21 Month)	January 1, 2018 - September 30, 2019	23,700,000
2018-2019 January Program Contract 1	January 1, 2018 - December 31, 2019	165,337,440
2018-2019 January Program Contract 2	January 1, 2018 - December 31, 2019	74,623,680
2018-2019 January Program Contract 3	January 1, 2018 - December 31, 2019	120,004,990
2018-2019 January Program Contract 4	January 1, 2018 - December 31, 2019	50,000,000
2017-2018 January Program Contract 1	January 1, 2017 - December 31, 2018	472,170,373
2017-2018 January Program Contract 2	January 1, 2017 - December 31, 2018	240,999,850
2017-2018 January Program Contract 3	January 1, 2017 - December 31, 2018	135,000,000
2017-2018 January Program Contract 4	January 1, 2017 - December 31, 2018	5,000,000
2018-2019 April Program Contract 1	April 1, 2018 - March 31, 2019	820,323,400
2018-2019 April Program Contract 1 (18 Month)	April 1, 2018 - September 30, 2019	280,130,000
2017-2019 April Program Contract 1	April 1, 2017 - March 31, 2019	186,780,000
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	124,999,920
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	200,000,000
2017-2020 August Program Contract 2	August 1, 2017 - July 31, 2020	200,000,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000
2018-2019 December Program Contract 1	December 1, 2018 - November 30, 2019	60,000,000
2018-2019 December Program Contract 2	December 1, 2018 - November 30, 2019	80,000,000
2018 January Program Contract 6	January 1, 2018 - December 31, 2018	165,000,000
2018-2019 January Program Contract 5	January 1, 2018 - December 31, 2019	164,999,800
2018-2019 January Program Contract 6	January 1, 2018 - December 31, 2019	279,999,840
2018-2020 June Program Contract 1	June 1, 2018 - May 31, 2020	69,999,990
2017-2020 August Program Contract 1	August 1, 2017 - July 31, 2020	93,750,000
2017-2019 December Program Contract 1	December 1, 2017 - November 30, 2019	124,999,994
2018-2019 December Program Contract 3	December 1, 2018 - November 30, 2019	49,999,950
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	93,750,000
2018-2019 August Program Contract 1	August 1, 2018 - July 31, 2019	118,750,000
2018-2021 August Program Contract 1	August 1, 2018 - July 31, 2021	93,750,000
2017-2019 July Program Contract 1	July 1, 2017 - June 30, 2019	70,000,000
<b>Total Traditional Reinsurance</b>		<b>6,057,119,027</b>
<b>Transformer Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>
2016-2019 Transformer Reinsurance Contract 1	December 1, 2016 - November 30, 2019	500,000,000
2017-2020 Transformer Reinsurance Contract 2	May 16, 2017- May 15, 2020	425,000,000
2017-2020 Transformer Reinsurance Contract 1	May 16, 2017- May 15, 2020	500,000,000
2017-2020 Transformer Reinsurance Contract 4	December 1, 2017 - November 30, 2020	200,000,000
2017-2020 Transformer Reinsurance Contract 3	December 1, 2017 - November 30, 2020	200,000,000
2018-2021 Transformer Reinsurance Contract 1	September 14, 2018 - September 13, 2021	250,000,000
<b>Total Transformer Reinsurance</b>		<b>2,075,000,000</b>
<b>Total Risk-Transfer Program</b>		<b>\$ 8,132,119,027</b>

# Governing Board Memorandum

March 20, 2019

Agenda Item 5: CEA Participating Insurers: Maximum-Earthquake-Loss Funding-Assessment Levels

Recommended Action: Approve April 2019, CEA Participating Insurer Maximum-Earthquake-Loss Funding-Assessment Levels

---

## Background:

California Insurance Code section 10089.25 states:

*Beginning December 31, 1997, and annually thereafter on the 30<sup>th</sup> of April, the board shall notify each participating insurer of the maximum earthquake loss funding assessment level that it may be required to meet.*

Insurance Code section 10089.30 sets forth the calculations for determining the maximum aggregate assessments for the so-called “Second Industry Assessment Layer” (Second IAL) of the California Earthquake Authority (CEA) financial structure.<sup>1</sup>

## Analysis:

The assessment capacity for the Second IAL is adjusted when a new company begins participating in the CEA. That adjustment takes into consideration the new participating insurer’s residential property insurance market share at the time it started transferring exposure to CEA and adds that percentage to the combined percentage of the existing participating insurers when they started transferring exposure to CEA. During 2018, Amica Mutual Insurance Company became a new CEA participating insurer that had residential property insurance market share. The aggregate total of the Second IAL capacity for 2019 remains unchanged until Amica Mutual completes the year-long onboarding process, at which time CEA will include Amica Mutual in the second IAL capacity calculation for April 2020.

CEA staff has calculated each CEA participating insurer’s respective CEA earthquake market-share percentage, based on the insurer’s written CEA premium level. From this calculation, CEA determines each insurer’s maximum earthquake-loss-funding-assessment level for 2019 under the Second IAL.

---

<sup>1</sup> Both the “first industry assessment layer” authorized under Insurance Code section 10089.23 and the “new industry assessment layer” authorized under Insurance Code section 10089.31 have sunsetted and thus are no longer available to provide claims paying capacity to CEA.

*Attachment A* shows, for each participating insurer, the maximum earthquake-loss-funding-assessment-level it may be required to meet, upon appropriate assessment duly made by CEA.

Recommendation:

Staff recommends that:

- The Board adopt the CEA market-share percentages shown in *Attachment A*, which are to be used to determine the maximum earthquake-loss-funding-assessment levels for CEA participating insurers, effective April 30, 2019.
- The Board authorize CEA staff to notify each participating insurer prior to April 30, 2019 of its respective maximum earthquake-loss-funding-assessment-level responsibility for 2019.

**CEA Participating Insurers**  
**2019 Maximum Earthquake-Loss-Funding-Assessment Levels**  
**(Based on CEA Written-Premium Market Share as of December 31, 2018)**

<u>Company Name</u>	<u>CEA Market Share</u>	<u>Written Premium</u>	<u>Max Assessment 2nd Layer</u>	<u>CA Residential Market Share*</u>
State Farm Group	33.326534%	\$ 258,911,457	\$ 551,749,427	15.442549%
USAA	13.234936%	\$ 102,821,271	\$ 219,115,747	4.661717%
Farmers	13.145963%	\$ 102,130,047	\$ 217,642,725	13.735830%
Allstate	9.300907%	\$ 72,258,079	\$ 153,984,509	4.903439%
Inter-Ins. Exchange	7.373317%	\$ 57,282,769	\$ 122,071,597	5.805484%
Safeco	6.002906%	\$ 46,636,149	\$ 99,383,275	2.030251%
CSAA	5.621100%	\$ 43,669,924	\$ 93,062,145	6.421480%
Mercury	4.458014%	\$ 34,633,993	\$ 73,806,258	4.481851%
Nationwide	2.792328%	\$ 21,693,400	\$ 46,229,399	5.484559%
Liberty Mutual	2.427105%	\$ 18,856,003	\$ 40,182,806	4.505325%
Foremost	0.717215%	\$ 5,571,993	\$ 11,874,113	1.605862%
FAIR Plan	0.543546%	\$ 4,222,771	\$ 8,998,874	0.874417%
Encompass	0.496402%	\$ 3,856,512	\$ 8,218,363	0.439035%
Homesite	0.346224%	\$ 2,689,790	\$ 5,732,037	1.144578%
ASI	0.118394%	\$ 919,793	\$ 1,960,111	0.083358%
Armed Forces	0.068591%	\$ 532,881	\$ 1,135,588	0.046545%
MAPFRE	0.020804%	\$ 161,625	\$ 344,429	0.086453%
Golden Eagle	0.005392%	\$ 41,887	\$ 89,263	0.000039%
Hyundai	0.000322%	\$ 2,503	\$ 5,334	0.001195%
<b>Total</b>	<b>100.000000%</b>	<b>\$ 776,892,847</b>	<b>\$ 1,655,586,000</b>	<b>71.753969%</b>

\* Based on California Department of Insurance 2017 California Market-Share Report. The Department's 2018 California Market-Share Report will not be publicly available until May 2019.

CEA Written Premium	778,340,984
Amica Mutual	1,448,137
<b>CEA Written Premium Excluding Amica Mutual</b>	<b>776,892,847</b>

## Governing Board Memorandum

March 20, 2019

Agenda Item 6: Contract for Investment Management Services (CEA procurement: RFQ #02-18 and RFQ #04-18)

Recommended Action: Approve investment firm recommended by staff to perform investment management services for CEA's investment portfolios

---

### Background:

In October 2018, CEA began a formal process of seeking investment managers to replace the seven contracts that are set to expire during the second quarter of 2019.

This memorandum describes the competitive process CEA used to select the investment managers and the results of the process.

### Analysis:

CEA staff identified the need, from a best-practices standpoint, to retain investment managers to invest funds in CEA's growing investment portfolio.

On October 29, 2018, CEA issued two Request for Qualifications (RFQ) documents. The first RFQ sought qualifications from small asset managers. To qualify as a small asset manager, a firm must have less than \$10 billion in assets under management (Small Manager). The second RFP sought qualifications from large asset managers. To qualify as a large asset manager, a firm must have more than \$10 billion in assets under management (Large Manager).

The RFQs were published on CEA's website and advertised in *The Wall Street Journal*.

CEA received responses from seven investment management firms: five responses for Large Manager and two responses for Small Manager.

The RFQ responses were evaluated by a selection panel consisting of:

Ben Kirwan: CEA Controller  
Trudi Miller: CEA Accounting Manager  
Paolo Gonzalez: CEA Investment Officer  
Andrea Wheeler: CEA Governing, Risk and Reports Manager, Finance  
Kapil Bhatia: Raymond James & Associates, Inc. (CEA's Independent Financial Advisor)

The selection panel ranked the firms that responded to the RFQs based on their proposals:

Small Manager:

- Emergent Financial Services, LLC
- Miles Capital, Inc.

Large Manager

- American Beacon Advisors, Inc.
- Chandler Asset Management
- Goldman Sachs Asset Management
- Longfellow Investment Management Co.
- RBC Global Asset Management (U.S.) Inc.

All seven respondents are existing CEA investment managers. Evaluating these seven firms did not require site visits to validate qualifications since CEA staff have visited the firms as part of CEA's quality-assurance program and all managers are in good standing.

Through the proposals and quality-assurance site visits, staff was able to confirm that the seven firms met CEA's stringent requirements as set forth in the RFQ, displaying satisfactory systems for trading, compliance, reporting, and disaster recovery. In addition, the RFQ panel was comfortable with the expertise demonstrated and the depth of experience of the team members who would be assigned to CEA's account from each of the seven firms.

CEA staff is recommending to the Board that CEA be authorized to enter into asset management agreements with these seven firms. If the Board approves the staff recommendation, staff will negotiate the updated terms and conditions, contract term, and fees that were included in the published RFQs.

Investment Managers: Duties and Compensation:

Below is a summary of key investment-manager duties that will be included in the contracts:

- Contract Term: Five years, with an option for CEA to extend for two additional years.
- Services to be performed:
  - Invest funds according to law, in a manner compliant with California Government Code section 16430 and CEA's investment policies and guidelines as they may exist from time to time.
  - Conduct thorough investment analysis and provide advice on market conditions, including both positive and negative trends.
  - Analyze the fixed-income financial markets.
  - Monitor the performance of investments in the relevant CEA portfolio.
  - Provide a *Daily Holdings Report*.

- Retain in their systems sufficient data in appropriate electronic format(s) to allow CEA to verify historical investment transactions and balances and to measure historical portfolio performance.
- The maximum annual contractual compensation for each manager, as stipulated in the RFQ, was four basis points for large managers and six basis points for small managers of CEA investments under management. The recommended firms all proposed fees at or below the maximum compensation for their respective categories.

Recommendation:

Staff recommends that:

Authorize CEA staff to:

1. Negotiate for investment-management services with  
Small Manager
  - Emergent Financial Services, LLC
  - Miles Capital, Inc.Large Manager
  - American Beacon Advisors, Inc.
  - Chandler Asset Management
  - Goldman Sachs Asset Management
  - Longfellow Investment Management Co.
  - RBC Global Asset Management (U.S.) Inc.
2. Authorize CEO Glenn Pomeroy to execute the resulting contracts on behalf of CEA.

## **Governing Board Memorandum**

March 20, 2019

Agenda Item 7:                      Annual Report on the state of the economy by Raymond James & Associates, Inc., CEA's independent financial advisor

Recommended Action:            No action required—information only

---

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

## Governing Board Memorandum

March 20, 2019

Agenda Item 8: CEA banking resolutions

Recommended Action: Adopt resolutions

---

### Background:

On account of the resignation of Todd Coombes, Chief Insurance and Technology Officer, CEA must update banking resolutions submitted to CEA's custody and trustee banks, to establish and confirm the authority of identified CEA executives to perform routine banking transactions on behalf of the CEA.

*Attachment A* and *Attachment B* are forms of resolution, which require CEA Governing Board adoption to accomplish the above. In accordance with the terms of those resolutions, as of March 20, 2019, banking authority will be conferred on the following CEA executives:

CEO Glenn Pomeroy  
CFO Tom Hanzel  
COO Kellie Schneider

### Recommendation:

Staff recommends the Board adopt the resolutions in substantially the form attached as *Attachment A* and *Attachment B*.

# Governing Board Memorandum

March 20, 2019

Agenda Item 9: CEA Enterprise Risk Management Program update

Recommended Action: No action required—information only

The CEA Enterprise Risk Management (ERM) Program is focused on monitoring and managing 12 priority risks:

Financial Risks	Insurance Risks	Operational Risks	Strategic Risks
<ul style="list-style-type: none"> <li>• Risk Transfer</li> <li>• Financial Management – Investments and Accounting</li> </ul>	<ul style="list-style-type: none"> <li>• Policy Contracting and Servicing</li> <li>• Claim Handling</li> <li>• Earthquake Science and Modeling</li> <li>• CEA Residential Mitigation programs</li> </ul>	<ul style="list-style-type: none"> <li>• Business Continuity</li> <li>• IT Systems and Data Security</li> <li>• Legal – Compliance and Litigation</li> <li>• Workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Legislative/Regulatory</li> <li>• Reputation</li> </ul>

For each priority risk, risk drivers have been identified, each with corresponding risk checkpoints and limits that are regularly monitored by priority-risk owners, the CEA Enterprise and Strategic Risk Advisor, and the CEA ERM Committee. Also, since a major, damaging earthquake occurring in California would constitute an overarching risk consideration, each priority risk is assessed from both a “steady-state” perspective and a post-earthquake perspective.

The following scorecard represents CEA ERM risk-reporting for first quarter 2019 and includes all activity since the immediately past CEA Governing Board meeting. The column “Q1 2019” indicates risk status and whether a risk escalation occurred during the preceding three months. The column named Outlook indicates the potential future direction of the risk status—as either positive, negative, or stable—until the CEA Governing Board next meets. The final column is a brief summary of actions taken and risk-escalation status.

Since December 2018, three new risk checkpoints and one new risk limit were approached or reached. In all cases, ERM-based risk controls and responses were appropriately applied and each priority risk has a positive outlook for Q2 2019. There is also one continuing issue from prior reports: The IT Systems and Data Security priority risk remains at “red” status while the CEA continues working to complete a contracting-related matter. It also has a positive outlook for Q2 2019.

ERM Quarterly Report	Status		27-Feb-19
Priority Risk	Q1 2019	Outlook	Activity Last Quarter/ Comments
Risk Transfer	●	Stable	
Financial Management - Investments and Accounting	◆	Positive	An ERM-based investment limit was reached. The matter was quickly corrected without harm, and new controls were designed and implemented.
Policy Sales and Servicing	●	Stable	
Business Continuity	●	Stable	
IT Systems and Data Security	◆	Positive	A required contracting matter is in progress, but has not been completed within the intended time frame.
Legislative/Regulatory	▲	Positive	CEA is actively engaged in the legislative process, seeking to enhance its claim-paying capacity and ensure the availability of future additional capacity to meet growth needs and accomplish other program goals. That process, because it could affect key CEA features, has triggered ERM-related monitoring, outreach, and documentation controls.
Claim Handling	●	Stable	
Legal - Compliance and Litigation	●	Stable	
Reputation	●	Stable	
Earthquake Science and Modeling	●	Stable	
Workforce	▲	Positive	A CEA human resources matter triggered a risk-checkpoint response. Risk responses and controls are being reviewed.
CEA Residential Mitigation Programs	▲	Positive	A retrofit-contractor matter triggered a risk-checkpoint response. Risk controls were applied, and program staff continues to closely monitor.

Legend	
●	No risk checkpoints or limits reached.
▲	Approaching or reached a risk checkpoint.
◆	Approaching or reached a risk limit.

The Enterprise & Strategic Risk Advisor and support staff are continuing their work with the ERM Committee to develop risk-appetite and risk-tolerance statements for all priority risks and incorporate all policies and protocols into an enterprise-wide risk-management framework, in accordance with principles of the Own Risk and Solvency Assessment (“ORSA”) guidance of the National Association of Insurance Commissioners.

The 2019 ERM Program Plan includes transferring ERM program management and oversight to the Chief Financial Officer, auditing ERM risk controls, evaluating risk capital and solvency assessment approaches, and addressing post-earthquake response-planning priorities revealed through the ERM efforts.

Recommendations: None—information only.

# Governing Board Memorandum

March 20, 2019

Agenda Item 10:

Proposed 2020 CEA Advertising Budget

Recommended Action:

Approve proposed funding to implement 2020 CEA advertising program

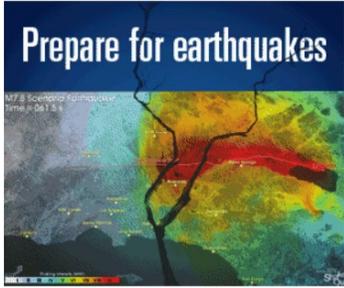
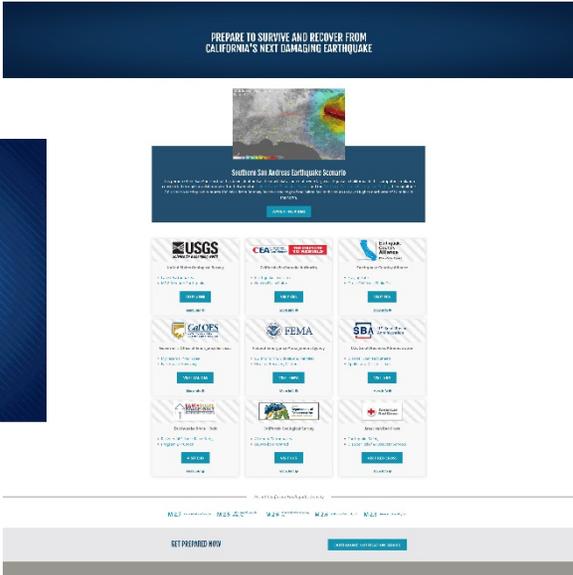
CEA’s fourth advertising campaign, called “It could happen today,” will enter its second year in 2019. Following eight years of cumulative advertising impressions delivered through annualized programming beginning in 2011, nearly half of those recently surveyed are both favorable to, and familiar with earthquake insurance. Moreover, those who have seen CEA advertising are more likely to view CEA favorably and most likely to purchase a CEA policy.

Different from previous 2018 CEA media-buying plans that generally ran campaign “anthem” spots statewide for three weeks in the spring, and another three weeks in the fall, CEA instead will be advertising regionally in 2019 for three weeks during the first three quarters of the year, and statewide during the last quarter. Plans for 2019 also include a product ad in the mix.



And unlike previous advertising plans from several years ago that concurrently promoted earthquake preparedness for a combined six weeks through TV PSAs featuring 21 news anchors across four networks and in six markets, this year CEA will increase the number of news organizations participating through the promotion of a landing page now featured by 166 TV stations, radio stations and newspapers. Most importantly, these landing pages will be accessible 365 days a year, 24 hours a day. These news anchor PSAs will be delivered through both open inventory at no cost to CEA, and through varying percentages of CEA’s advertising budget.





These landing pages on news websites will offer California residents helpful pre- and post-event information from CEA and its partners, including USGS, FEMA, SBA, Cal OES, CGS, American Red Cross, Earthquake Country Alliance (based at USC), and EBB.

CEA also will continue working with individual TV stations and networks that share CEA’s mission to help more residents get ready for California’s next damaging earthquake through educational news-talent vignettes produced by stations for presentation to their viewers.



In addition to TV, radio, newspaper, and direct mail advertising in English, Spanish and Chinese, CEA also will be promoting the purchase of earthquake insurance to consumers through out-of-home and digital advertising, as well as email trigger campaigns.

Background:

CEA communications are based on research results. Ongoing research studies listed below have enabled CEA to evolve programming messaging necessary to remain “in touch” with primary audiences, including consumers (B2C) and agents (B2B).

- Consumer/Agent Survey (2008)
- Social Science (2008)
- Branding (2009)
- Market (2010)
- Policyholder (2010)
- Economic (2010)
- Message (2011, 2017 and 2019)
- Agent Training (2011)
- Advertising Performance (2012)
- Mandatory Offer (2013)
- Product (2014)
- Ad concepts (2013 and 2015)

For example, according to the Omnibus Survey in 2013:

- Potential cost of EQ damage is the top reason for obtaining earthquake insurance.
- Misinformation, lack of clear understanding of coverage for EQ damage is pronounced.
- Seventy three percent believe they should get more information about EQ insurance.

CEA communication planning addresses evolving barriers-to-purchase for earthquake insurance:

- Most people don't perceive risk from high-consequence, low-probability events.
- Many people believe earthquake damage is covered by their home-insurance policy.
- Many CEA policies are purchased without an agent recommendation.

Leveraging multiple channels, CEA seeks to amplify and reinforce research-based messaging through effective advertising:

- TV advertising delivers the power of sight, sound, and motion, and provides more reach-and-frequency efficiencies than any other platform.  
*\* Recent survey results show that consumers are far more likely to see CEA advertising via television versus any other promotional channel.*
- Radio stations offer varying formats that appeal to different segments of residents.
- Online ads target residents geographically, demographically, contextually, behaviorally.  
*\*The internet continues to deliver a primary research channel for insurance shoppers.*
- Print ads/inserts deliver reach numbers both large and small, reinforce branding, and can remain with target audiences for extended periods of time.
- Out-of-home advertising reaches people on-the-go.
- Direct mail offers marketing support for agents seeking to sell CEA policies.
- Email-trigger campaigns prompt delivery of direct mail to consumers who engage.

Central to CEA's plan for all its advertising includes strategically connecting with CEA's annual *Get Prepared, California!* Auction to benefit American Red Cross in April (which raised more than \$1.2 million so far), and the Great California ShakeOut drill in October (which prompted more than 10 million participants last year).

CEA's first annualized advertising budget of \$5 million was approved to support rollout of the Marketing Value Program (MVP) to additionally engage participating insurer agents in 2011. Through 2019, CEA rolled out new advertising campaigns every two years, respectively called *Blueprint*, *California Rocks*, *Earthquake Risk is Real*, and *It Could Happen Today*.

#### Analysis:

While roughly one-third of recent survey respondents say they are likely to purchase earthquake insurance in the future, with highly engaged residents more likely to purchase within the next two years, more than 80 percent had not seen or heard an ad from CEA recently.

And over half of these respondents reported that their insurance agent had not recommended earthquake insurance. Moreover, while a majority of respondents had not been recommended earthquake insurance by their agents, nearly one-in-five respondents had gone against their agent recommendation not to buy.

These survey results indicate that CEA advertising must remain a top priority, at the highest level appropriate. While CEA’s early advertising budgets increased by about \$1 million annually during CEA’s first five years of annualized programming, budgets have increased by only about 1 percent during the last four years of annualized programming.

According to Nielsen Ad Intel, insurance category spending has increased 10 percent from 2016 through 2018 – moving from a total of \$6.8 billion to \$7.91 billion.

Therefore, CEA is proposing a 2020 advertising budget designed to combine awareness and education with policy acquisition and retention through a larger advertising budget approved for 2019, but under a lower percent of projected premium.

More specifically, CEA is recommending a 2020 advertising budget at \$13,200,000, which is 1.6 percent of projected premium, compared to 1.8 percent for 2018 and 2017, and 1.7 percent for 2019. By comparison, at a P&C industry standard percent-of-premium of about 3.4 percent, CEA would be seeking about \$28 million, and at a 2.24 percent average for participating insurer ad budgets within the greater P&C industry, CEA would be seeking about \$18 million.

	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Television	\$ 2,533,900	\$ 2,575,000	\$ 2,800,000	\$ 3,420,750
Radio	\$ 2,250,000	\$ 2,200,000	\$ 2,560,000	\$ 2,907,230
Out-of-Home	*	*	\$ 840,000	\$ 229,000
Digital	\$ 3,942,000	\$ 4,800,000	\$ 3,450,000	\$ 3,535,520
Direct Mail	\$ 2,530,000	\$ 2,510,000	\$ 1,829,500	\$ 2,062,500
Trade	\$ 102,100	\$ 155,000	\$ 310,000	\$ 482,500
Ethnic	*	*	\$ 450,000	\$ 562,500
<b>TOTAL Budget</b>	<b>\$11,358,000</b>	<b>\$12,240,000</b>	<b>\$12,239,500</b>	<b>\$13,200,000</b>

Recommendation:

Approve proposed budget up to \$13,200,000 to implement CEA’s 2020 advertising plan.

## Governing Board Memorandum

March 20, 2019

Agenda Item 11: Request for budget approval for Enterprise Resource Planning (ERP) software solution.

Recommended Action: Approve Enterprise Resource Planning (ERP) software solution budget

---

### Background:

In April 2018, CEA began a formal process of seeking an integrated, off-the-shelf Enterprise Resource Planning (ERP) solution to replace manual processes for accounting, budgeting, human resources, procurement, and asset management, among other functions. The ERP solution will: (a) meet core requirements as an off-the-shelf product that requires minimal modifications, (b) minimize or eliminate manual processes, and (c) consolidate current systems and processes that are provided by single or multiple vendors.

### Analysis:

CEA staff identified the need to replace current manual methods for tracking and managing core non-information technology operational activities with an off-the-shelf software solution that will allow CEA to conduct day-to-day operations in a more efficient manner, while considering growth and complexity of CEA business in the future.

On April 6, 2018, CEA issued a Request for Proposal and Qualifications (RFP/Q) for Enterprise Resource Planning Software #1-18v2. CEA received proposals from seven firms for the ERP software solution.

All responses were evaluated by a selection panel of:

Tim Richison: (Former) Chief Financial Officer  
Kellie Schneider: Chief Operations Officer  
Todd Coombes: (Former) Chief Insurance and Technology Officer

With input provided by CEA subject matter experts:

Trudi Miller: Accounting Manager  
Tyler Morris-Seekins: Administrative Services Manager

Michael Melavic: Assistant Chief Information Officer

The selection panel ranked the firms that responded to the RFP/Q based solely on their responses to the specific criteria identified in the RFP/Q, invited the top three firms to provide an on-site demonstration of their Enterprise Resource Planning (ERP) software solution, and is in the process of preparing a scored, consensus recommendation.

While the selection panel has not made a final selection, based upon the finalists, the panel members are requesting budget approval to implement a system, starting in 2019, at a cost of up to \$1.2 million. This figure includes license and maintenance fees, upgrades and versioning, training, cloud hosting, and managed services. There may be periodic annual maintenance costs thereafter as the selected system is configured and implemented.

Recommendation:

Staff recommends that:

1. Approve staff's recommendation to authorize \$1.2 million in budget authority to select and implement an enterprise resource planning software and services solution.
2. Authorize CEO Glenn Pomeroy to execute a contract with the selected vendor.

# Governing Board Memorandum

March 20, 2019

- Agenda Item 12: Mitigation-program projects, including:
- California Residential Mitigation Program incentive program (CRMP Earthquake Brace + Bolt)
  - CEA Charitable Foundation Update
  - Ongoing mitigation related research projects
  - CEA Seismic Retrofit Verification Program

Recommended Action: No action required—information only

---

## A. CRMP Earthquake Brace + Bolt Programs

### 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. EBB is operated by the California Residential Mitigation Program (CRMP), a joint powers authority whose members are CEA and the Governor’s Office of Emergency Services (Cal OES).

CRMP’s pace continues at a record rate, with more than 3,107 retrofits completed for the 2018 program, more than 7,500 for all programs, and more than 3,267 retrofits paid in 2018. The 2018 program is slated to close on April 1, 2019, with 282 homeowners remaining in the program. The 2019 program (registration closed on November 13, 2018) set a new record with 8,688 homeowners applying, and is awaiting FEMA approval before the program can begin. The program is available in 255 ZIP Codes.

<b><i>Earthquake Brace + Bolt Programs (2/12/2019): CRMP and CEA</i></b>			
<b>Program</b>	<b>Completed</b>	<b>In Progress</b>	<b>Status</b>
2013-14 EBB Pilot	9	N/A	Closed
2015 EBB	528	N/A	Closed
2016 EBB	1,555	N/A	Closed
2017 EBB	2,185	N/A	Closed
2018 EBB	3,107	276	7,546 registered 6 extensions
2019 EBB	N/A	N/A	8,688 registered
Napa EBB	84	N/A	Closed
CEA BB	98	N/A	Closed
Total	7,566	276	n/a

As of February 12, 2019, there were 1,087 FEMA-trained contractors in the EBB directory, an increase of 3% since the December board meeting. CRMP began intensive outreach efforts to contractors beginning in early February that included postcards to more than 12,000 contractors, emails, social media ads and information packets. While efforts were concentrated in the ZIP Codes added for the 2019 program, outreach also was conducted in all areas the program serves.

The number of contractors that have completed at least one retrofit remains constant at 26%, with almost 4% having completed more than 20 retrofits. The 6-10 completed retrofit group had the largest increase, with the addition of nine contractors.

<b>Contractors in EBB Directory—range of retrofits paid (as of 02/12/2019 COB)</b>										
Completed retrofits	0	1	2-5	6-10	11-20	21-49	50-99	100-399	400+	Total
7,067	805	106	86	35	17	17	8	12	5	1,087

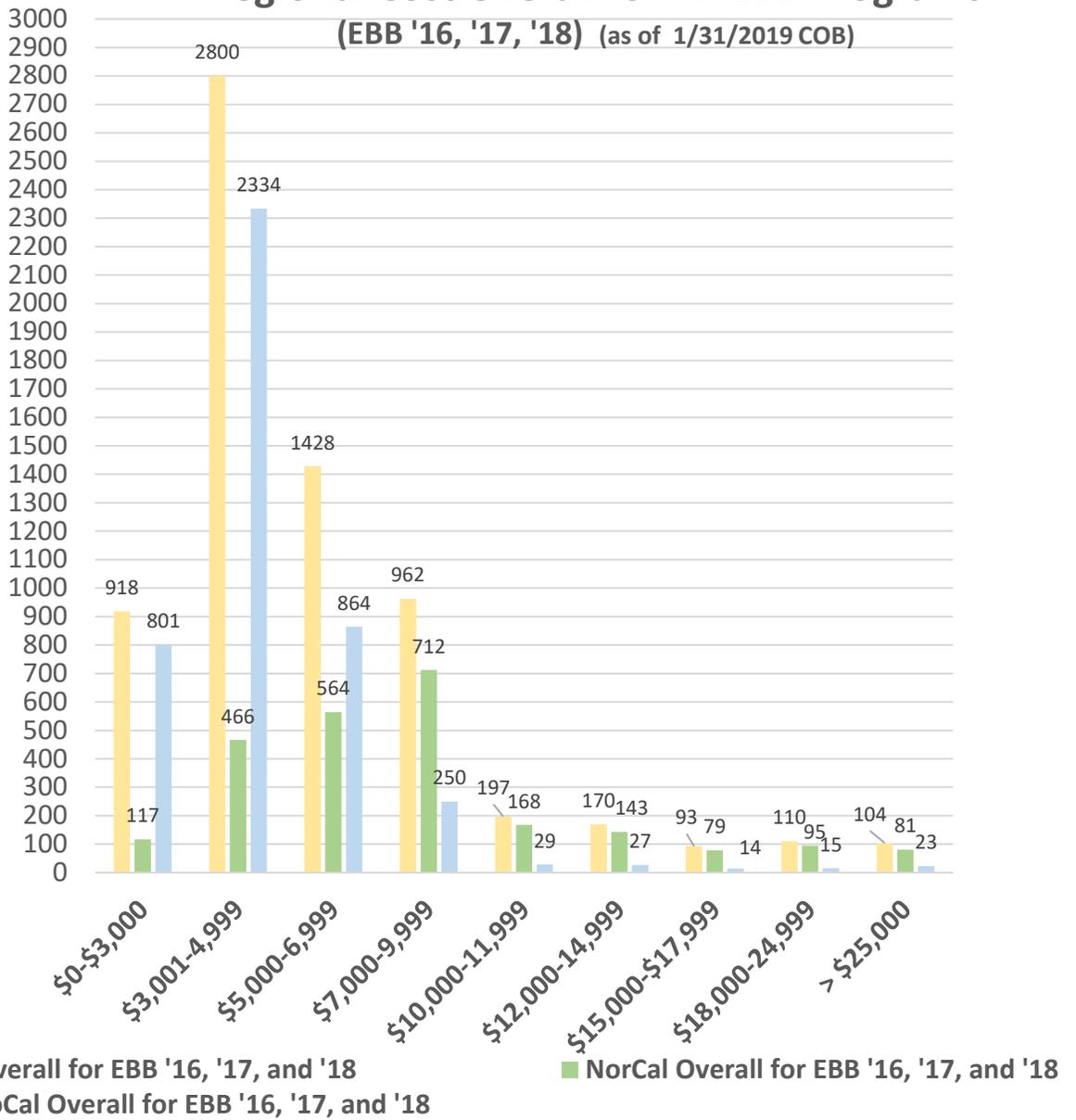
During the recent 2019 EBB registration period, EBB communicated with all contractors who have completed a retrofit and/or are on the directory. EBB encouraged all contractors who had completed a retrofit, but were not on the directory, to register. In addition, EBB will be conducting targeted outreach to the contractor community in all of the new cities that the 2019 EBB program will be available.

### **EBB Northern and Southern Regional Differences**

Analyses of 2016, 2017, and 2018 completed retrofits continue to highlight regional differences. The average and median costs continue to remain relatively stable, while across program years some costs went down slightly in 2017 and 2018. Retrofits in Northern California continue to be more expensive than in Southern California, with median and average costs almost double. This can be attributed to the type of retrofit completed and labor costs. In Southern California, more bolt-only retrofits are completed, while Northern California has more engineered retrofits with a greater need for repair/replacement of foundations and brace-and-bolt retrofits. As the 2018 program nears completion, the average cost in Southern California has increased by almost \$40 while in Northern California the cost has decreased by more than \$500.

## Regional Cost Overall for All EBB Programs

(EBB '16, '17, '18) (as of 1/31/2019 COB)



Northern CA Retrofits (as of 1/31/2019 COB)				Southern CA Retrofits (as of 1/31/2019 COB)			
Program Year:	2016	2017	2018	Program Year:	2016	2017	2018
Total # of Retrofits:	585	828	1012	Total # of Retrofits:	970	1357	2030
Average Cost:	\$9,167	\$8,899	\$8,377	Average Cost:	\$4,597	\$4,726	\$4,763
Median Cost:	\$7,500	\$7,361	\$6,718	Median Cost:	\$3,950	\$3,934	\$4,090
Min Cost:	\$928	\$1,143	\$955	Min Cost:	\$562	\$1,197	\$913
Max Cost:	\$75,465	\$54,362	\$60,844	Max Cost:	\$46,664	\$45,390	\$54,096
*only includes EBB 2016, EBB 2017, and EBB 2018				*only includes EBB 2016, EBB 2017, and EBB 2018			

### Engineered and Non-Engineered Retrofits

For the 2017 EBB program, more than 90% of retrofits were non-engineered and for the 2018 program, for retrofits completed by 1/31/19, 92% were non-engineered. Engineered retrofits have risen since reporting in December, as anticipated, because engineered retrofits often take longer to complete than non-engineered. Costs, as expected, continue to be substantially more for engineered retrofits, while the costs for non-engineered retrofits have dropped slightly compared to the 2017 program. The minimum costs for engineered and non-engineered retrofits were similar because the engineered retrofit was completed by a homeowner who also was an engineer. For the 2018 EBB program, the maximum cost for non-engineered retrofits has so far exceeded the cost of an engineered retrofit because the non-engineered retrofit included a foundation replacement. Across both program years, most cost indicators are lower in 2018.

Retrofits by Type (as of 1/31/19)				
Type of Retrofit	2017 Program		2018 Program	
	Engineered	Non-Engineered	Engineered	Non-Engineered
Total # of Retrofits:	227	1,958	241	2,801
Average Cost:	\$15,335	\$5,263	\$14,994	\$5,188
Median Cost:	\$28,876	\$4,500	\$12,112	\$4,500
Min Cost:	\$1,887	\$1,143	\$2,927	\$913
Max Cost:	\$54,362	\$40,200	\$60,440	\$60,844

### Withdrawn Applications

During each program cycle, a significant number of applicants withdraw from the program. During the 2016 and 2017 program cycle, a higher percentage of applicants withdrew from their respective programs in Northern California, which is likely attributable to the cost of a retrofit being higher than anticipated. To date, the 2018 program has reversed the trend with a larger percentage of withdrawals in Southern California. While CEA expected the trend to normalize once additional retrofits were

completed, it has not.

Withdrawn Homeowners (as of 1/31/2019 COB)								
Program	Bay and LA 2016		Bay and LA 2017		Bay and LA 2018		Total	
Southern California	1,110	39%	1,435	40%	2,173	53%	4,718	44%
Northern California	1,772	61%	2,153	60%	1,966	47%	5,891	56%
<b>Total</b>	<b>2,882</b>	<b>100%</b>	<b>3,588</b>	<b>100%</b>	<b>4,139</b>	<b>100%</b>	<b>10,609</b>	<b>100%</b>

### **2018 CRMP EBB program**

The 2018 EBB program is winding down with less than 300 homeowners remaining. With more than 3,107 retrofits completed, the 2018 EBB program has far surpassed the 2017 program in the total number of retrofits completed.. Staff anticipate the program will close with more than 3,350 retrofits, which is slightly fewer than forecasted at the last board meeting.

### **Future Funding Opportunities**

More than 1.2 million houses in California’s high-seismic-hazard areas would qualify for an EBB retrofit, so the need far exceeds present funding. But because more funding means more incentive payments for more homeowners, CRMP continues to look beyond present funding sources—the primary source has been the CEA Earthquake Loss Mitigation Fund—to find additional EBB funding, including available FEMA Hazard Mitigation Grant Program (HMGP) grants.

CEA has been awarded a \$3 million grant, which will partially fund the 2019 program, and is awaiting determination from Cal OES for FEMA-funding consideration on 13 additional applications.

### **CEA Brace + Bolt Program**

CEA’s pilot program, CEA Brace + Bolt (CEA BB), which closed in December, provided 98 selected CEA policyholders with grants of up to \$3,000 toward a retrofit, in order to encourage them to strengthen their CEA-insured older houses in CEA-identified higher-seismic-activity areas.

The new program, available in 202 ZIP Codes, will encourage retrofit-program participation by the more than 14,000 CEA policyholders who may experience upward premium impacts of 15 % or more due to CEA’s recent rate and form filing (RFF), now pending with the Department of Insurance.

Basic program eligibility criteria will continue, and the program will be available to CEA policyholders who (1) have insured their house with CEA for at least the last three consecutive years, (2) own a pre-1940 house, (3) live in selected ZIP Codes where there will be an RFF-caused rate increase of 15 % or greater, and (4) own a house that is within established criteria for a code-compliant EBB retrofit.

The program opened on February 19<sup>th</sup>, with the invitation to 4,000 policyholders. The remaining policyholders, approximately 4,000 each quarter, will be invited to participate over the next year.

## **B. CEA Charitable Foundation Update**

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

## **C. Ongoing Research Projects**

### **Guidelines Development:**

The first phase of the ATC 110 earthquake-guidelines-development project was completed on June 20, 2018. Now called FEMA P-1100, *Vulnerability-Based Seismic Assessment and Retrofit of One- and Two-Family Dwellings*, the document has been published and is available on the FEMA website.

CEA has begun to work with FEMA and the International Code Council (ICC) to adopt the guidelines as industry standards, which will pave the way for adoption into the California Building Code.

### **CEA Seismic Retrofit Verification Program**

In 2017, CEA launched QuakeGrade<sup>®</sup>, a web-based application based on FEMA P50, for use by home inspectors. QuakeGrade<sup>®</sup> may be used on computers and mobile devices.

CEA is currently modifying QuakeGrade<sup>®</sup> to include options for users to conduct HRD inspections and complete CEA Dwelling Retrofit Verification (DRV) forms for policyholders seeking verified retrofit discounts on their CEA earthquake policy premiums.

### **Authorized Inspection Professional (AIP) Portal search feature**

With the launch of a Rate & Form Filing (RFF) on July 1, policyholders will be seeking Authorized Inspection Professionals (AIP) to conduct HRD inspections in

order to complete the DRV form. Any California licensed general contractor, civil engineer, or structural engineer (herein referenced as AIP) is authorized to conduct these inspections and complete the DRV form. There are approximately 70,000 general contractors in California who could perform these inspections. However, policyholders at present are left to their own devices to find an AIP who will conduct the inspection and complete the form. CEA is developing a portal for interested AIPs to register to be included in a searchable database, which policyholders will be able to access from EarthquakeAuthority.com. Policyholders need only enter their ZIP Code on CEA's premium discount information page, and they will be provided a list of AIPs available to conduct the HRD inspection and complete the DRV form.

Recommendation: No recommendation—information only.

# Governing Board Memorandum

March 20, 2019

Agenda Item 13: CEA Research Program: Projects

Recommended Actions: No action required—information only

---

## Cripple-Wall-Performance Effects

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

Progress to date on the seven project tasks:

1. Literature Review. **Completed**
2. Analysis of Building Inventory and Defining Representative “Index Buildings.” **Completed**
3. Selecting Ground-Motion Records and Developing Loading Protocols. **Completed**
4. Experimental Program. **In Progress**
5. Analytical modeling. **In Progress**
6. Loss Model Calibration Framework. **In Progress**
7. Reporting, including regular progress reports: three reports have been received, and the project is on track.

The Task 6 project team held a web-based workshop in February bringing representatives from the CEA’s three modeling consultants: CoreLogic, RMS, and Air; claim adjusters; and the project team together to discuss the claim adjustment process. The intent is to implement a damage assessment and loss calculation process that best represents actual post-event conditions.

With this project, CEA will have refined scientific data to inform CEA rate levels and premium discounts.

Recommendation:

No action required – information only.

## **Governing Board Memorandum**

March 20, 2019

Agenda Item 14:                    CEA Insurance & Technology Update

Recommended Action:        No action required—information only

---

Acting Chief Information Officer, Michael Melavic, will provide the Governing Board with an update from Insurance Education and Sales Support, Insurance Operations, and Information Technology.

## **Governing Board Memorandum**

March 20, 2019

Agenda Item 15: Quantitative business metrics report update

Recommended Action: No action required—information only

---

Chief Operations Officer Kellie Schneider will present to the Board the periodic CEA operations business-metrics report.



# **HISTORICAL REPORT**

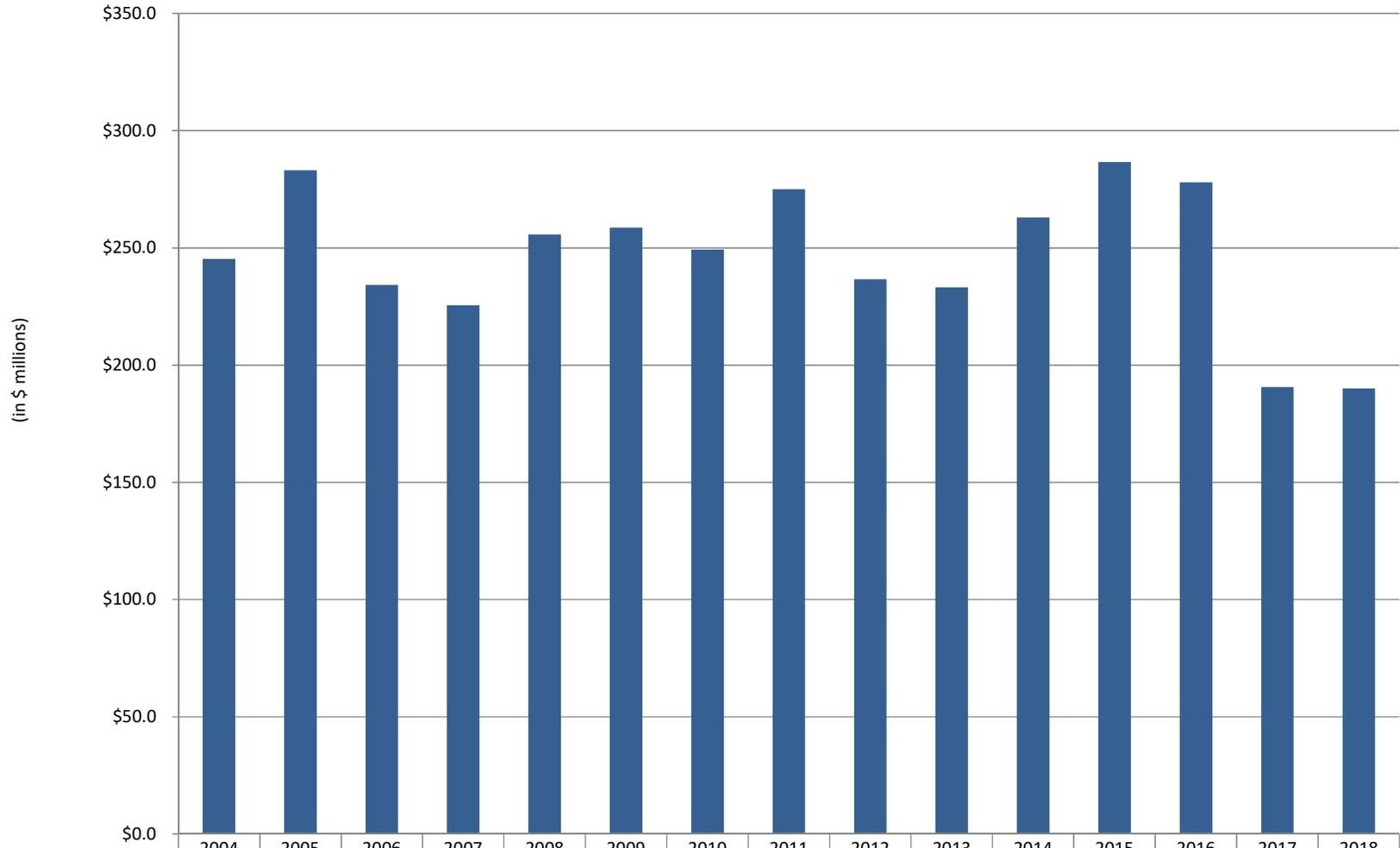
**December 31, 2018**

## Historical Report Table of Contents

	Page
<b>Financial Statements &amp; Budgets</b>	
Historical Annual Capital Accumulated from Premium as of December 31, 2018	1
<b>Investments</b>	
Historical Annual Investment Income as of December 31, 2018	2
<b>Debt</b>	
Schedule of Expired Debt 2006 Revenue Bond as of December 31, 2018	3
Schedule of Expired Debt 2014 Revenue Bond as of December 31, 2018	4 & 4A
<b>Claim-Paying Capacity</b>	
Historical Claim-Paying Capacity (CPC) December 31, 1997 through December 31, 2005	5
Historical Claim-Paying Capacity (CPC) December 31, 2006 through December 31, 2018	6
<b>Risk-Transfer Programs</b>	
Annual Risk-Transfer Premium December 31, 1997 through December 31, 2004	7
Annual Risk-Transfer Premium December 31, 2005 through December 31, 2018	8
Annual Risk-Transfer Premium and Limit December 31, 1997 through December 31, 2004	9
Annual Risk-Transfer Premium and Limit December 31, 2005 through December 31, 2018	10

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

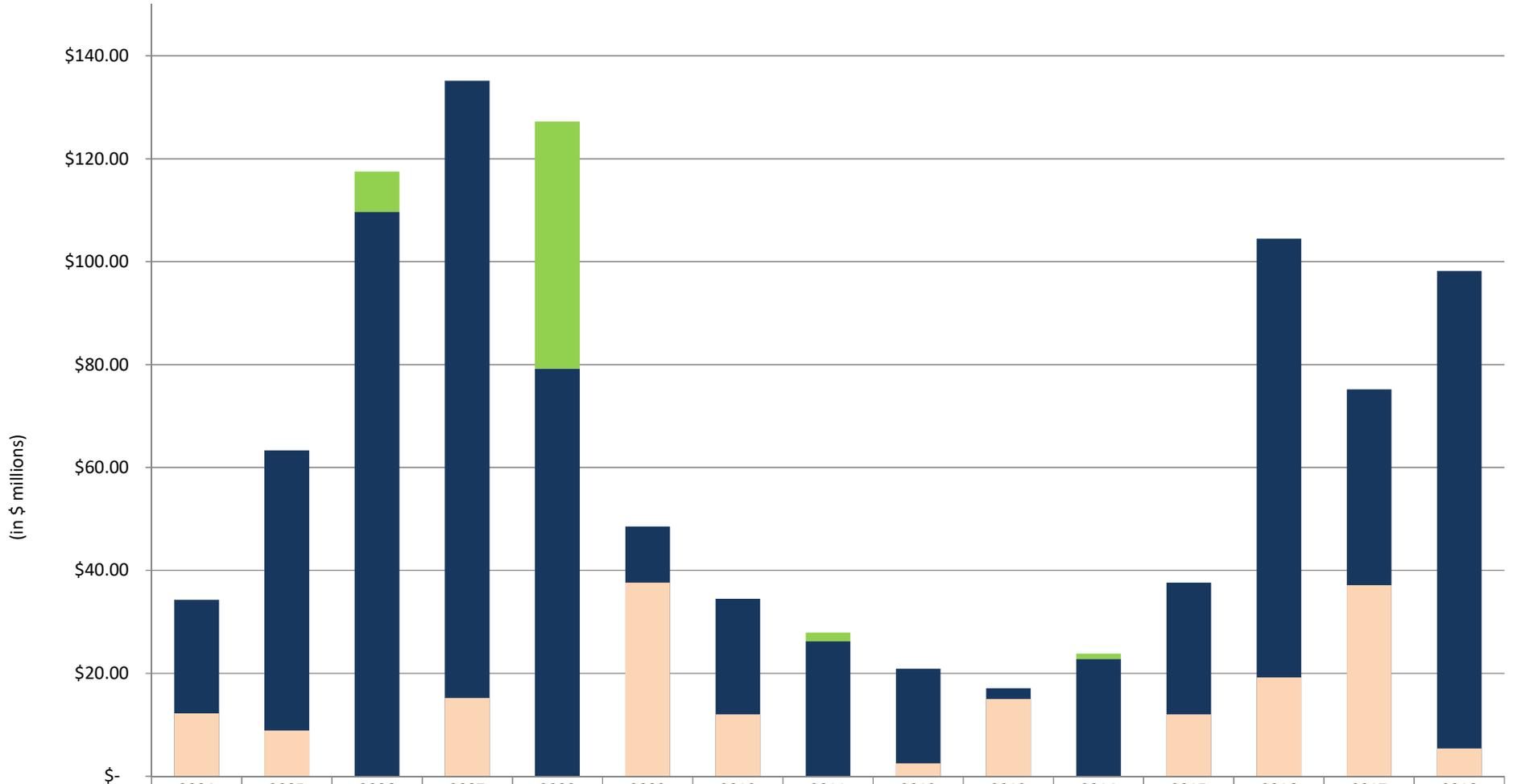
**California Earthquake Authority  
 Historical Annual Capital Accumulated from Premium  
 as of December 31, 2018**



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
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	\$286.6	\$277.9	\$190.6	\$190.0

# **Investments**

**California Earthquake Authority  
Historical Annual Investment Income  
as of December 31, 2018**



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Net Investment Income*	\$22.10	\$54.40	\$117.50	\$119.90	\$127.20	\$10.90	\$22.50	\$27.90	\$18.40	\$2.10	\$23.80	\$25.60	\$85.29	\$38.07	\$92.75
Change Unrealized Gain	\$-	\$-	\$7.90	\$-	\$48.00	\$-	\$-	\$1.70	\$-	\$-	\$1.00	\$-	\$-	\$-	\$-
Investment Income	\$34.30	\$63.30	\$109.60	\$135.10	\$79.20	\$48.50	\$34.50	\$26.20	\$20.90	\$17.10	\$22.80	\$37.60	\$104.46	\$75.17	\$98.16
Change Unrealized Loss	\$12.20	\$8.90	\$-	\$15.22	\$-	\$37.60	\$12.00	\$-	\$2.50	\$15.00	\$-	\$12.00	\$19.17	\$37.10	\$5.41

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

# Debt

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

<b>DEBT</b>	<b>ISSUANCE AMOUNT</b>	<b>INTEREST RATE</b>	<b>NET PROCEEDS</b>	<b>OUTSTANDING PRINCIPAL</b>	<b>AS OF DATE</b>	<b>MOODY'S RATING*</b>	<b>FITCH RATING**</b>
Series 2006 Revenue Bonds <sup>1</sup>	\$ 315,000,000	6.169%	\$ 310,829,067	\$ -	31-Dec-2016	A3 Outlook Stable	A Outlook Stable

<sup>1</sup>As 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.

<b>Payment Date</b>	<b>Outstanding Principal</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Annual Debt Service</b>
1-Jan-16	\$31,500,000	\$0	\$971,618	\$971,618	
1-Jul-16	\$0	\$ 31,500,000	\$971,618	\$32,471,618	
2016					\$33,443,236

\*Moody's rating since May 2015.

\*\*Fitch rating affirmed October 2016.

**California Earthquake Authority  
Schedule of Outstanding Debt**

<b>DEBT</b>	<b>ISSUANCE AMOUNT</b>	<b>INTEREST RATE</b>	<b>NET PROCEEDS</b>	<b>OUTSTANDING PRINCIPAL</b>	<b>AS OF DATE</b>	<b>MOODY'S RATING*</b>	<b>FITCH RATING**</b>
Series 2014 Revenue Bonds 2 year bond CUSIP 13017HAC0	\$ 40,000,000	1.194%	\$ 39,665,642	\$ -	31-Dec-2016	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

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

<b>Payment Date</b>	<b>Outstanding Principal</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Annual Debt Service</b>
1-Jan-16	\$40,000,000	\$0	\$238,800	\$238,800	
1-Jul-16	\$0	\$40,000,000	\$238,800	\$40,238,800	
2016					\$40,477,600

\*Moody's rating since May 2015.

\*\*Fitch rating affirmed October 2016.

**California Earthquake Authority  
Schedule of Outstanding Debt**

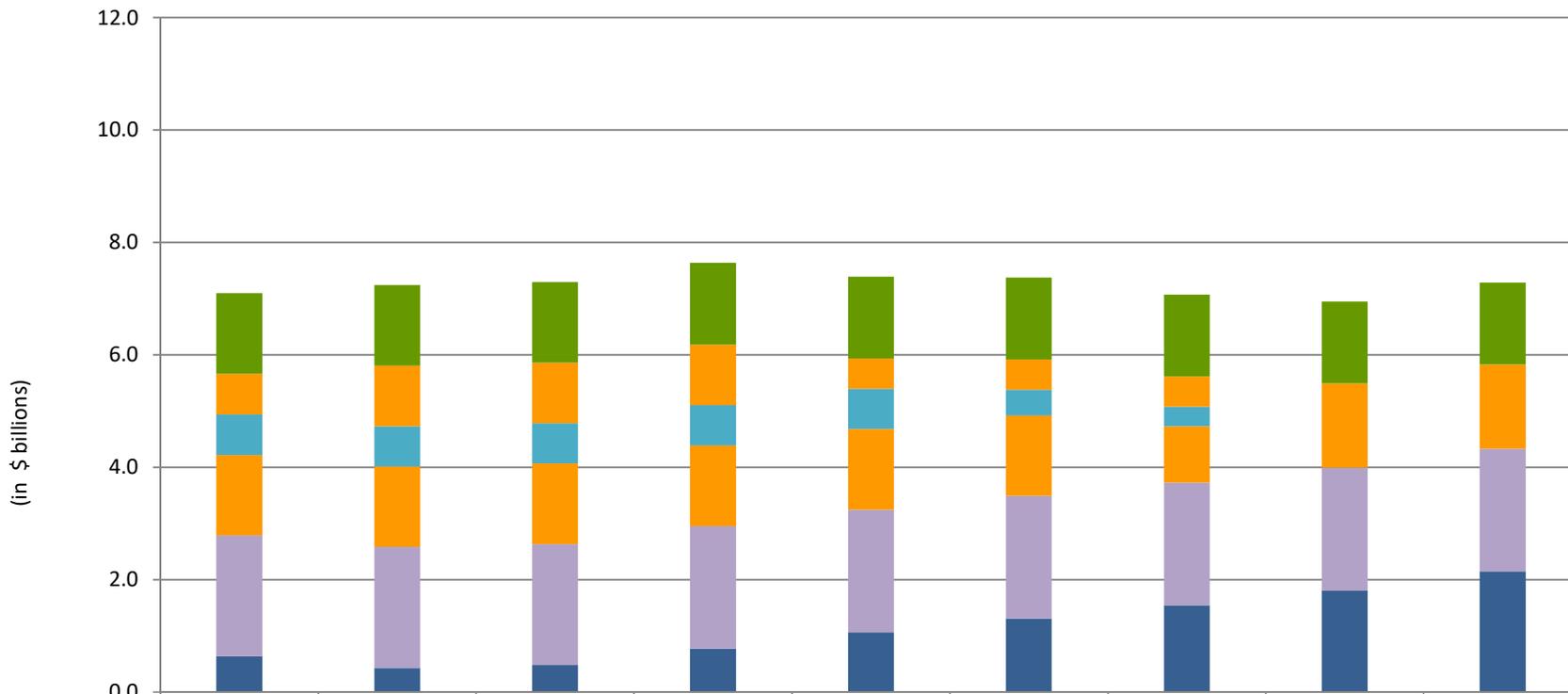
<b>DEBT</b>	<b>ISSUANCE AMOUNT</b>	<b>INTEREST RATE</b>	<b>NET PROCEEDS</b>	<b>OUTSTANDING PRINCIPAL</b>	<b>AS OF DATE</b>	<b>MOODY'S RATING*</b>	<b>FITCH RATING**</b>
Series 2014 Revenue Bonds 3 year bond CUSIP 13017HAD8	\$ 60,000,000	1.824%	\$ 59,498,463	\$ -	31-Dec-2018	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

<b>Debt</b>	<b>Payment Date</b>	<b>Outstanding Principal</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service</b>	<b>Annual Debt Service</b>
Series 2014 Revenue Bonds	1-Jan-17	\$60,000,000	\$0	\$547,200	\$547,200	
3 year bond	1-Jul-17	\$0	\$60,000,000	\$547,200	\$60,547,200	
	2017					\$61,094,400

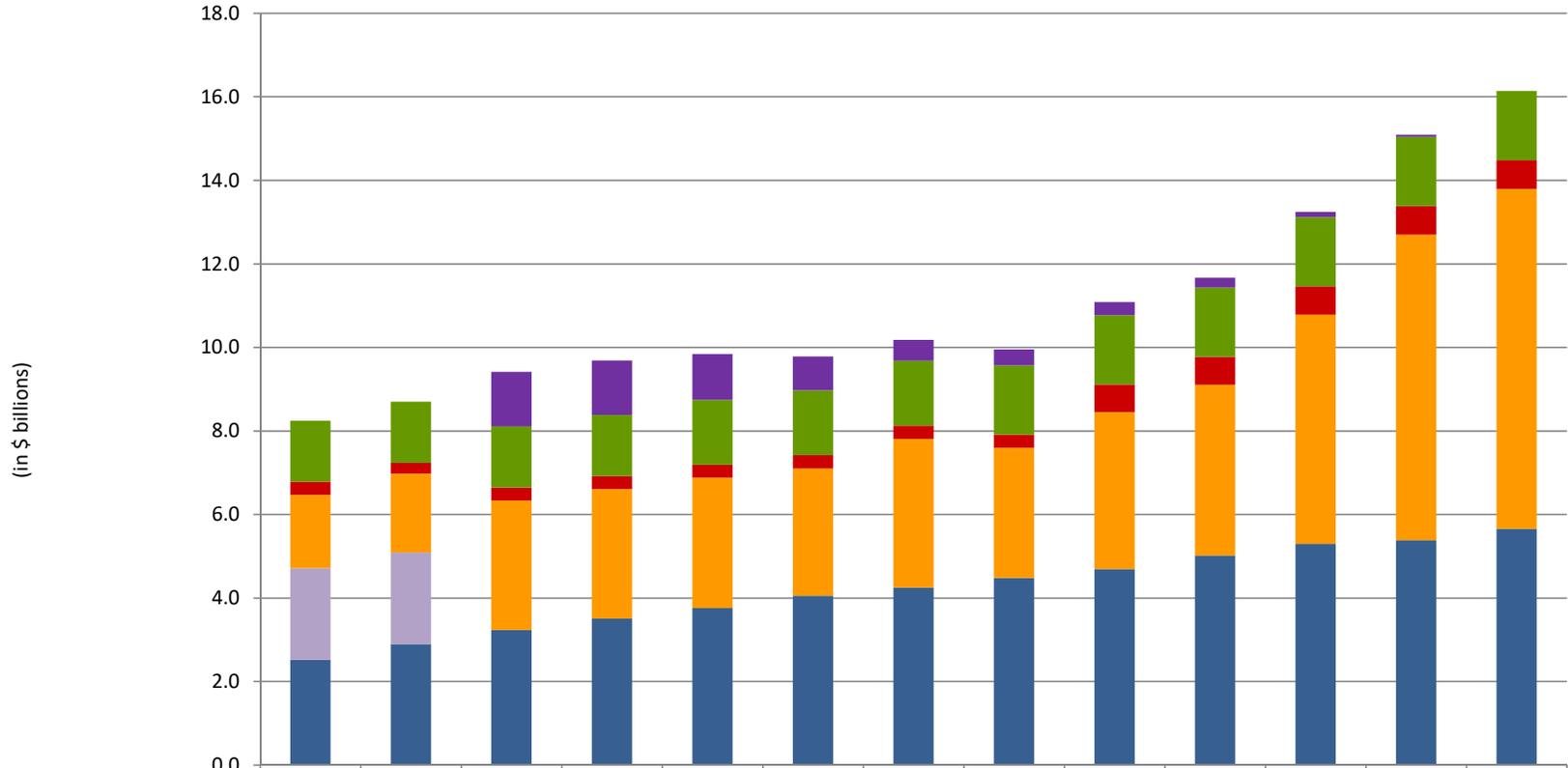
# **Claim-Paying Capacity**

**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	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
2nd Industry Assessment	\$1.434	\$1.434	\$1.434	\$1.456	\$1.456	\$1.456	\$1.456	\$1.456	\$1.456
Revenue Bonds	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Risk-Transfer, 2nd Layer	\$0.727	\$1.075	\$1.075	\$1.075	\$0.538	\$0.538	\$0.538	\$-	\$-
Line of Credit	\$0.716	\$0.716	\$0.716	\$0.716	\$0.716	\$0.456	\$0.348	\$-	\$-
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 December 31, 2018**

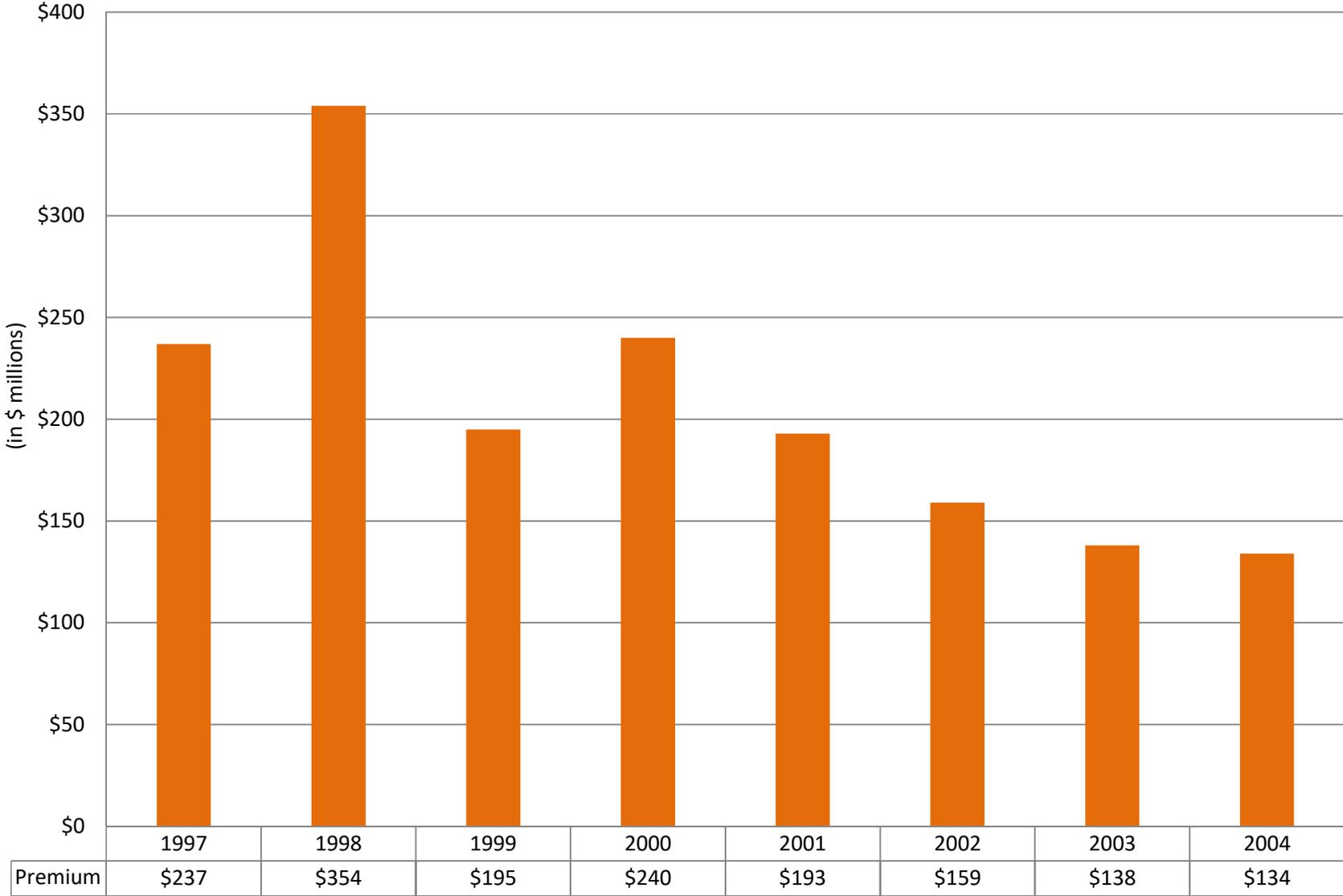


	2006	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total CPC	\$8.244	\$8.695	\$9.411	\$9.685	\$9.840	\$9.777	\$10.179	\$9.949	\$11.081	\$11.667	\$13.242	\$15.090	\$16.136
New Industry Assessment	\$-	\$-	\$1.304	\$1.304	\$1.095	\$0.804	\$0.500	\$0.385	\$0.312	\$0.238	\$0.128	\$0.054	\$-
2nd Industry Assessment	\$1.465	\$1.465	\$1.465	\$1.465	\$1.558	\$1.558	\$1.558	\$1.656	\$1.656	\$1.656	\$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	\$0.673	\$0.683	\$0.690
Risk-Transfer, 2nd Layer	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Line of Credit	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Risk Transfer, 1st Layer	\$1.756	\$1.885	\$3.100	\$3.100	\$3.123	\$3.050	\$3.557	\$3.115	\$3.759	\$4.091	\$5.488	\$7.312	\$8.132
1st Industry Assessment	\$2.197	\$2.197	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
CEA Available Capital	\$2.515	\$2.894	\$3.231	\$3.505	\$3.753	\$4.048	\$4.250	\$4.478	\$4.689	\$5.014	\$5.297	\$5.385	\$5.658

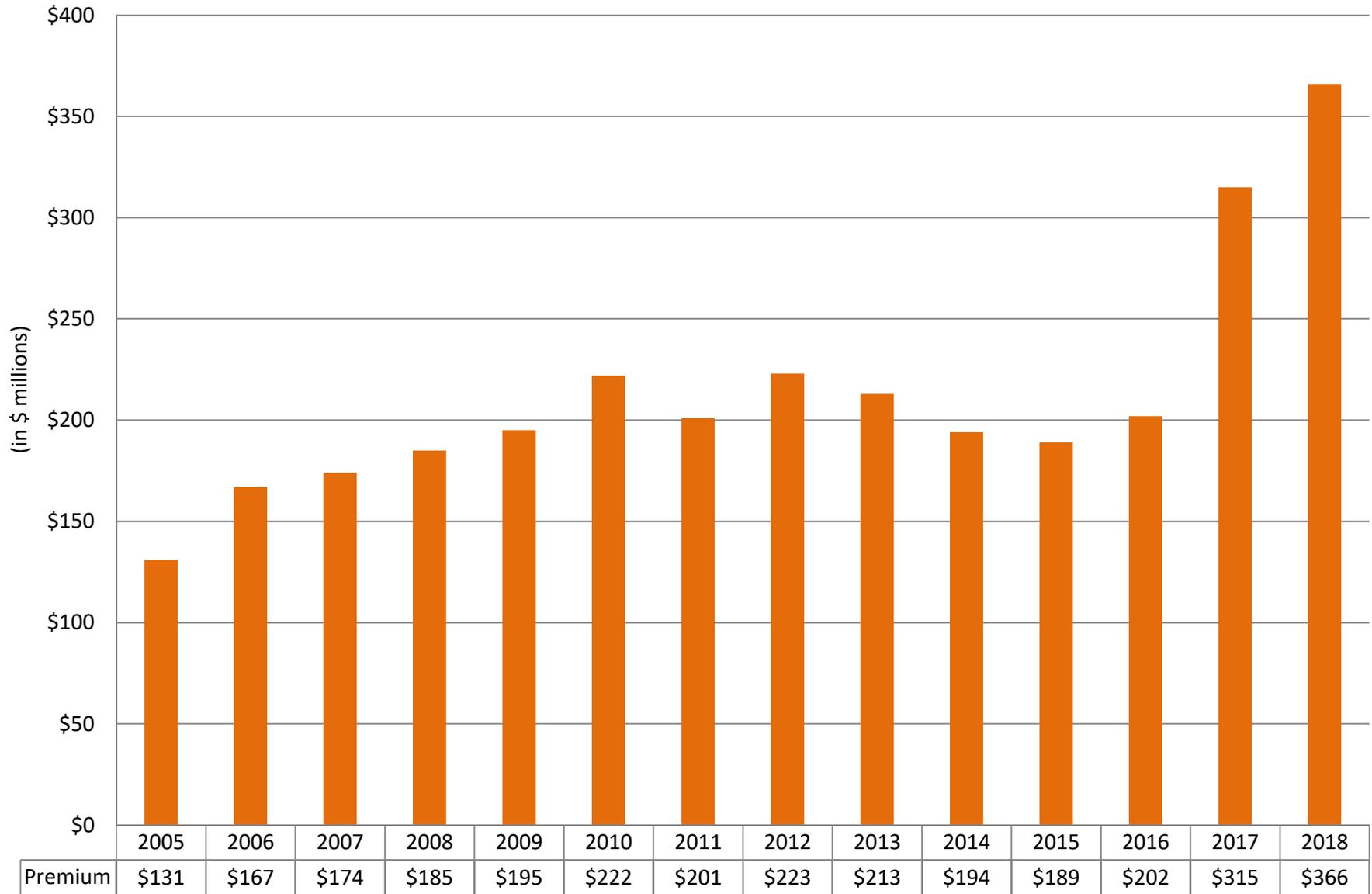
NOTE: In 2007 Revenue Bond Proceeds were split between the base-limits and supplement programs

# **Risk-Transfer Programs**

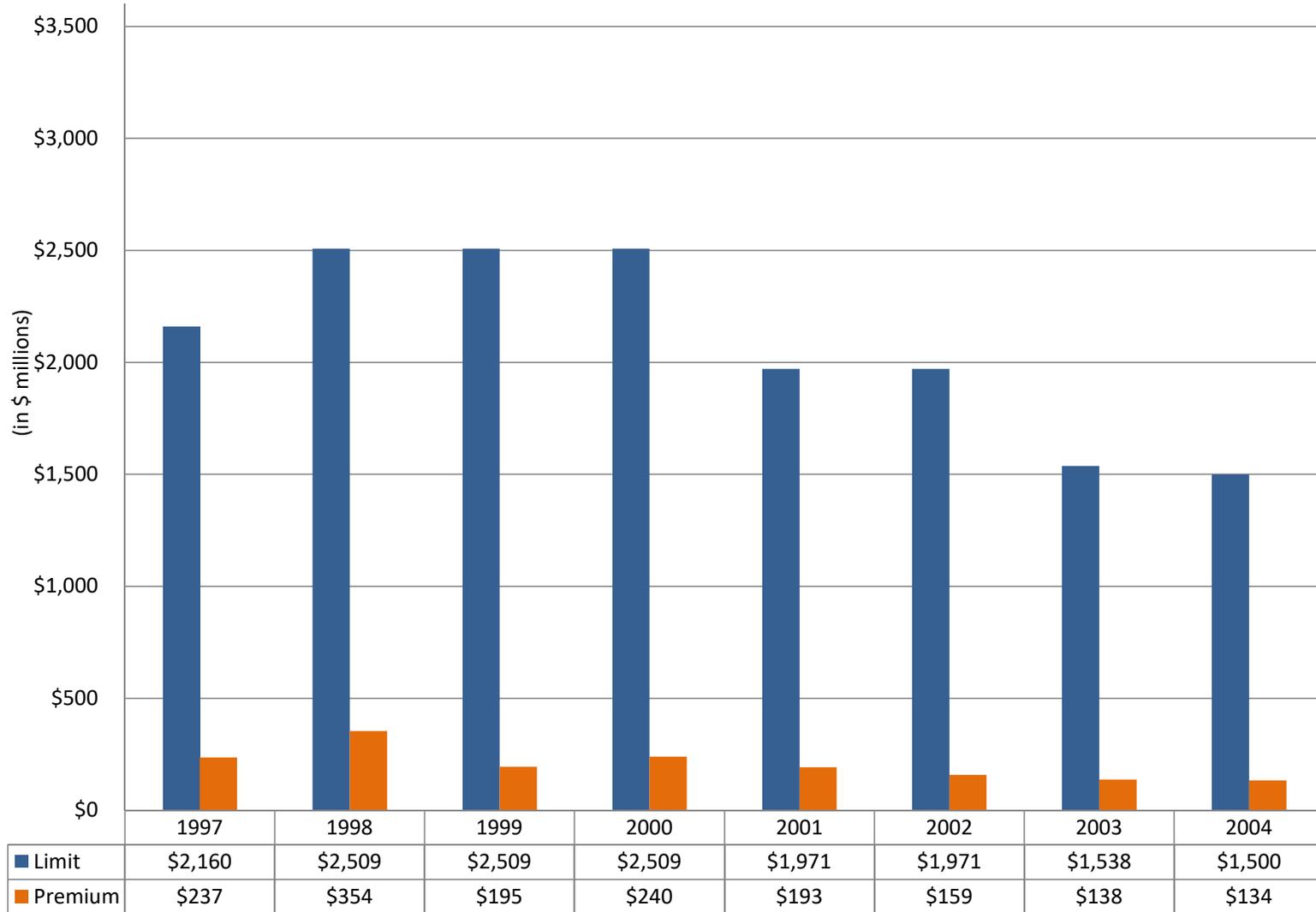
**California Earthquake Authority  
Annual Risk-Transfer Premium  
December 31, 1997 - December 31, 2004**



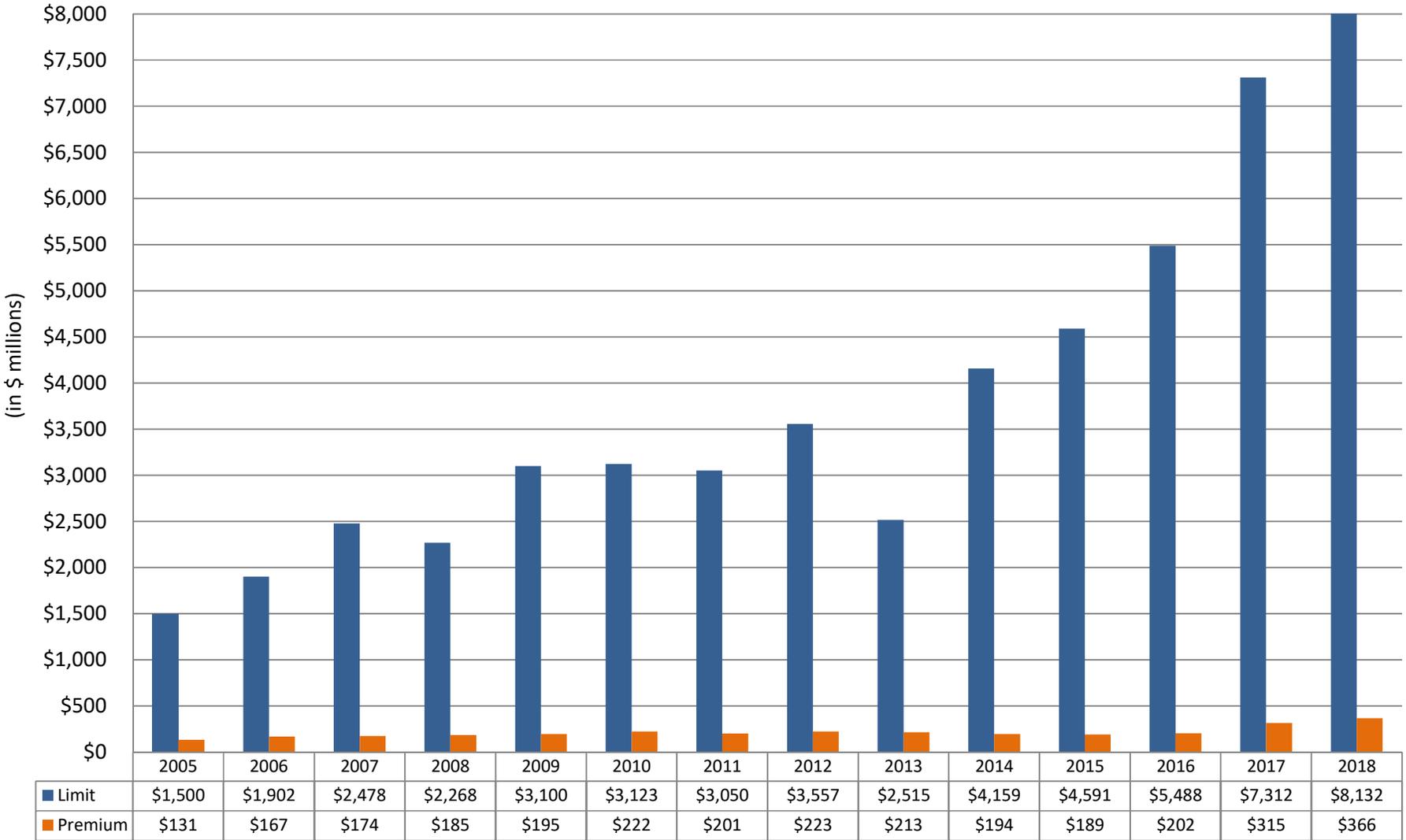
**California Earthquake Authority  
Annual Risk-Transfer Premium  
December 31, 2005 - December 31, 2018**



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



**California Earthquake Authority  
Annual Risk-Transfer Premium and Limit  
December 31, 2005 - December 31, 2018**



## California Earthquake Authority

### Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to December 31, 2018

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
98010	Chino	1/5/1998	4.3	3 mi. W of Chino	1	\$1,385.72	\$124.71	\$1,510.43
98050	San Juan Bautista	8/12/1998	5.3	7 mi. SSE of San Juan Bautista	1	161,204.93	13,643.13	\$174,848.06
98070	Redding	11/26/1998	5.2	3 mi. NNW of Redding	1	4,029.72	362.67	\$4,392.39
	1998 Minor Quakes				2	4,199.20	377.93	\$4,577.13
99050	Hector Mine	11/16/1999	7.0	28 mi. N of Joshua Tree (near Palm Springs)	25	137,361.81	12,362.47	\$149,724.28
	1999 Minor Quakes				1	4,037.26	363.35	\$4,400.61
00030	Napa	9/3/2000	5.2	17 mi. ESE of Santa Rosa; 6 mi. NNE of Sonoma; 3 mi. WSW of Yountville	15	278,130.07	25,031.71	\$303,161.78
01010	Ferndale	1/13/2001	5.4	53 mi. WNW of Ferndale	1	34,764.54	3,128.79	\$37,893.33
	2001 Minor Quakes				1	52,896.82	4,760.70	\$57,657.52
01040	West Hollywood	9/9/2001	4.2	West Hollywood	10	67,044.15	6,033.94	\$73,078.09
	2002 Minor Quakes				1	8,361.24	752.51	\$9,113.75
03090	San Simeon	12/22/2003	6.4	7 mi. NE of San Simeon	86	2,692,628.02	242,339.74	\$2,934,967.76
04120	Parkfield	9/28/2004	6.0	7 mi SSE of Parkfield	1	7,032.59	632.93	\$7,665.52
07240	Chatsworth	8/9/2007	4.5	4 mi NNW of Chatsworth	1	7,813.88	703.24	\$8,517.12
07250	Alum Rock	10/30/2007	5.6	5 mi NNE of Alum Rock	1	6,149.20	553.42	\$6,702.62
08280	Chino Hills	7/29/2008	5.4	5.5 mi SE of Diamond Bar	8	145,967.19	13,089.08	\$159,056.27
09320	Calexico	12/30/2009	5.9	22.7 mi SE of Calexico	1	275.88	24.83	\$300.71
	2009 Minor Quakes				2	8,627.67	776.49	\$9,404.16

## California Earthquake Authority

### Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to December 31, 2018 (continued)

Event Code	Event Name	Date of Event	Magnitude	Location	# of Paid Claims	Losses Paid	LAE Paid	Total Paid Losses & LAE
10330	Ferndale	1/9/2010	6.5	27 mi W of Ferndale	3	23,901.50	2,151.13	\$26,052.63
10360	Baja California Mexico	4/4/2010	7.2	16 mi SW from Guadalupe Victoria, Mexico	17	81,066.58	7,296.00	\$88,362.58
	2010 Minor Quakes				1	225,000.00	0.00	\$225,000.00
12410	Brawley	8/26/2012	5.3	4 mi North of Brawley, CA	2	23,833.24	2,145.00	\$25,978.24
	2012 Minor Quakes				3	146,471.18	13,182.41	\$159,653.59
13430	Greenville	5/23/2013	5.7	7 mi WNW of Greenville, CA	1	1,500.00	135.00	\$1,635.00
14460	Westwood	3/17/2014	4.4	6mi NNW of Westwood, CA	6	67,989.89	6,119.09	\$74,108.98
14470	La Habra	3/28/2014	5.1	1mi S of La Habra, CA	84	458,354.56	41,251.91	\$499,606.47
14480	American Canyon	8/24/2014	6.0	4mi NW of American Canyon, CA	195	3,533,174.00	317,985.66	\$3,851,159.66
	2014 Minor Quakes				3	18,859.35	1,697.34	\$20,556.69
	2015 Minor Quakes				2	5,877.69	529.00	\$6,406.69
	2018 Minor Quakes				3	6,058.71	545.28	\$6,603.99
<b>Total</b>					<b>479</b>	<b>\$8,213,996.59</b>	<b>\$718,099.46</b>	<b>\$8,932,096.05</b>

## 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

## Insurance Operations - Governing Board Report

All Companies - As Of 2/23/2019 - Policies in Force on: 01/31/2019

TOTALS	Policies In Force	%Total	Exposure	%Total	Written Premium	% Total	Avg Written Premium
Homeowners	714,493	67.8 %	386,375,864,900	81.0 %	575,325,266	75.1 %	805
Homeowners Choice	112,493	10.7 %	69,036,168,897	14.5 %	117,227,457	15.3 %	1,042
<b>All Homeowners Total</b>	826,986	78.5 %	455,412,033,797	95.5 %	692,552,723	90.4 %	837
Manufactured Homes (Mobilehomes) - Homeowners	26,475	2.5 %	3,643,627,779	0.8 %	3,843,879	0.5 %	145
Manufactured Homes (Mobilehomes) - Homeowners Choice	3,025	0.3 %	581,844,531	0.1 %	722,053	0.1 %	239
<b>All Manufactured Homes (Mobilehomes) - Homeowners Total</b>	29,500	2.8 %	4,225,472,310	0.9 %	4,565,932	0.6 %	155
Condo	116,228	11.0 %	14,094,745,000	3.0 %	59,518,865	7.8 %	512
Renters	80,433	7.6 %	3,206,376,500	0.7 %	9,116,544	1.2 %	113
<b>Grand Total</b>	1,053,147	100.0 %	476,938,627,607	100.0 %	765,754,064	100.0 %	727

# California Earthquake Authority

## Insurance Operations - Governing Board Report

All Companies - As Of 2/23/2019 - Policies in Force on: 01/31/2019

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Homeowners - by Cov A Ded</b>							
25% Total	6,590	0.6 %	3,972,803,354	0.8 %	5,172,318	0.7 %	785
20% Total	6,155	0.6 %	3,748,198,970	0.8 %	5,995,974	0.8 %	974
15% Total	551,118	52.3 %	294,085,955,496	61.7 %	441,076,849	57.6 %	800
10% Total	102,619	9.7 %	57,903,561,254	12.1 %	85,636,257	11.2 %	835
5% Total	48,011	4.6 %	26,665,345,826	5.6 %	37,443,868	4.9 %	780
<b>Homeowners Total</b>	<b>714,493</b>	<b>67.8 %</b>	<b>386,375,864,900</b>	<b>81.0 %</b>	<b>575,325,266</b>	<b>75.1 %</b>	<b>805</b>
<b>Homeowners Choice - by Cov A Ded</b>							
25% Total	4,648	0.4 %	3,010,635,715	0.6 %	4,195,173	0.5 %	903
20% Total	3,422	0.3 %	2,318,902,281	0.5 %	3,990,244	0.5 %	1,166
15% Total	48,599	4.6 %	31,309,434,103	6.6 %	53,732,102	7.0 %	1,106
10% Total	30,396	2.9 %	18,488,660,094	3.9 %	31,757,182	4.1 %	1,045
5% Total	25,428	2.4 %	13,908,536,704	2.9 %	23,552,756	3.1 %	926
<b>Homeowners Choice Total</b>	<b>112,493</b>	<b>10.7 %</b>	<b>69,036,168,897</b>	<b>14.5 %</b>	<b>117,227,457</b>	<b>15.3 %</b>	<b>1,042</b>
<b>All Homeowners Total</b>	<b>826,986</b>	<b>78.5 %</b>	<b>455,412,033,797</b>	<b>95.5 %</b>	<b>692,552,723</b>	<b>90.4 %</b>	<b>837</b>

# California Earthquake Authority

## Insurance Operations - Governing Board Report

All Companies - As Of 2/23/2019 - Policies in Force on: 01/31/2019

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Manufactured Homes (Mobilehomes) - Homeowners - by Cov A Ded</b>							
25% Total	21	0.0 %	4,301,102	0.0 %	4,354	0.0 %	207
20% Total	24	0.0 %	4,544,760	0.0 %	4,780	0.0 %	199
15% Total	20,265	1.9 %	2,548,655,820	0.5 %	2,647,328	0.3 %	131
10% Total	4,218	0.4 %	733,679,905	0.2 %	763,007	0.1 %	181
5% Total	1,947	0.2 %	352,446,192	0.1 %	424,410	0.1 %	218
<b>Manufactured Homes (Mobilehomes) - Homeowners Total</b>	26,475	2.5 %	3,643,627,779	0.8 %	3,843,879	0.5 %	145
<b>Manufactured Homes (Mobilehomes) - Homeowners Choice - by Cov A Ded</b>							
25% Total	27	0.0 %	4,781,053	0.0 %	5,699	0.0 %	211
20% Total	17	0.0 %	3,246,313	0.0 %	3,144	0.0 %	185
15% Total	1,055	0.1 %	188,663,296	0.0 %	237,329	0.0 %	225
10% Total	933	0.1 %	184,951,515	0.0 %	237,465	0.0 %	255
5% Total	993	0.1 %	200,202,354	0.0 %	238,416	0.0 %	240
<b>Manufactured Homes (Mobilehomes) - Homeowners Choice Total</b>	3,025	0.3 %	581,844,531	0.1 %	722,053	0.1 %	239
<b>All Manufactured Homes (Mobilehomes) - Homeowners Total</b>	29,500	2.8 %	4,225,472,310	0.9 %	4,565,932	0.6 %	155

# California Earthquake Authority

## Insurance Operations - Governing Board Report

All Companies - As Of 2/23/2019 - Policies in Force on: 01/31/2019

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Condo - by Cov A Ded</b>							
25% Total	1,581	0.2 %	242,424,000	0.1 %	892,905	0.1 %	565
20% Total	1,121	0.1 %	173,425,000	0.0 %	720,733	0.1 %	643
15% Total	70,808	6.7 %	8,880,512,500	1.9 %	37,755,267	4.9 %	533
10% Total	8,408	0.8 %	1,454,767,000	0.3 %	5,503,612	0.7 %	655
5% Total	13,565	1.3 %	2,239,153,000	0.5 %	7,620,991	1.0 %	562
No Cov A	20,745	2.0 %	1,104,463,500	0.2 %	7,025,357	0.9 %	339
<b>Condo Total</b>	<b>116,228</b>	<b>11.0 %</b>	<b>14,094,745,000</b>	<b>3.0 %</b>	<b>59,518,865</b>	<b>7.8 %</b>	<b>512</b>

# California Earthquake Authority

## Insurance Operations - Governing Board Report

All Companies - As Of 2/23/2019 - Policies in Force on: 01/31/2019

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Renters - by Cov C Ded</b>							
25% Total	2,230	0.2 %	44,233,000	0.0 %	106,384	0.0 %	48
20% Total	823	0.1 %	29,438,000	0.0 %	54,967	0.0 %	67
15% Total	24,381	2.3 %	651,322,000	0.1 %	1,583,263	0.2 %	65
10% Total	6,452	0.6 %	361,837,000	0.1 %	894,649	0.1 %	139
5% Total	46,547	4.4 %	2,119,546,500	0.4 %	6,477,281	0.8 %	139
<b>Renters Total</b>	<b>80,433</b>	<b>7.6 %</b>	<b>3,206,376,500</b>	<b>0.7 %</b>	<b>9,116,544</b>	<b>1.2 %</b>	<b>113</b>
<b>Grand Total</b>	<b>1,053,147</b>	<b>100.0 %</b>	<b>476,938,627,607</b>	<b>100.0 %</b>	<b>765,754,064</b>	<b>100.0 %</b>	<b>727</b>

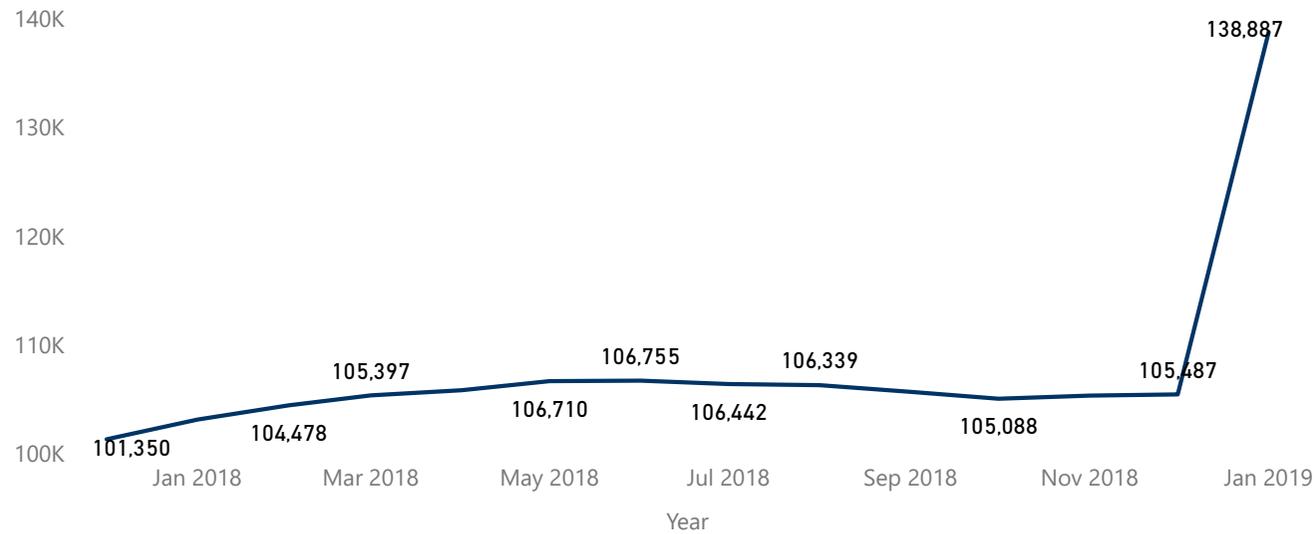
**CEA Project Portfolio**

Schedule	Scope	External Resources	Project Cost	Overall Score	Portfolio #	Project Name	PM	Status	Target Start Date	Start Date	Project % Complete	Target End Date	End Date
✔	✔	✔	✔	✔	2016-01	Agent Sales Tool	Danica Wallin	Active	10/25/18	10/25/18	50%	12/31/19	
✔	✔	✔	✔	✔	2017-03	Business Continuity Program	Paul Stubbles	Active	01/03/17	01/03/17	50%	12/31/19	
⚠	✔	✔	✔	⚠	2017-05	Enterprise Resource Planning	Terri Kletzman	Active	02/01/17	02/01/17	15%	12/31/19	
✔	✔	✔	✔	✔	2017-09	EQA Redesign	Danica Wallin	Completed	01/03/17	01/03/17	100%	03/29/18	03/29/18
✔	✔	✔	✔	✔	2017-12	eDiscovery	Jason Haxton	Active	01/03/17	01/03/17	93%	03/11/19	
✔	✔	✔	✔	✔	2017-13	Rate and Form Filing Project 2019	Terri Kletzman	Active	06/05/17	06/05/17	80%	07/01/19	
✔	✔	✔	✔	✔	2018-01	Agent Portal	Danica Wallin	Active	10/25/18	10/25/18	60%	12/31/19	
⚠	✔	✔	✔	✔	2018-02	EBB Redesign	Terri Kletzman	Active	08/27/18	08/27/18	10%	10/01/19	

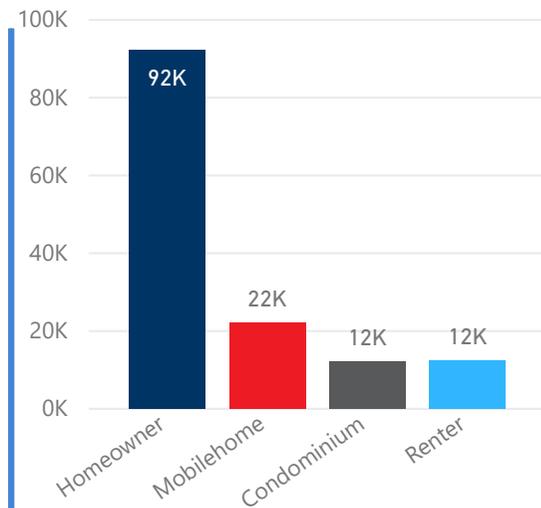
Legend	
●	Project Status is at 0 - 2
●	Project Status is at 3 - 5
●	Project Status is at 6 - 7
●	Project Status is at 8 - 10

# Insurance Education and Sales-Support

### CPP Policy Growth



### Policy Type Composition



### CPP Policy Activity

9	138,887	13%
# of CPP PIs	CPP Policy Count	% of Total Book
33,400	33,400	
MTD Growth	Growth YTD	

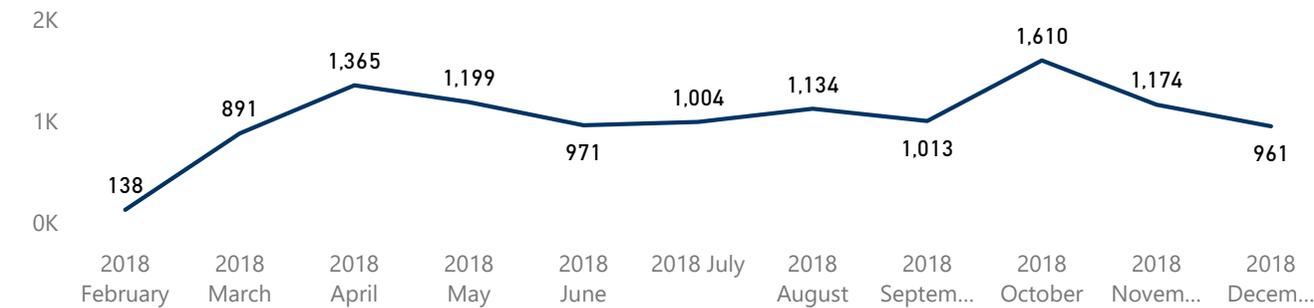
### MVP Agent Snapshot

1,263
Trained Agents
752
MVP Trained Agents
60%
% MVP Trained Agents

### Agent Training

California
26
Out-of-state
15
Webinar
47

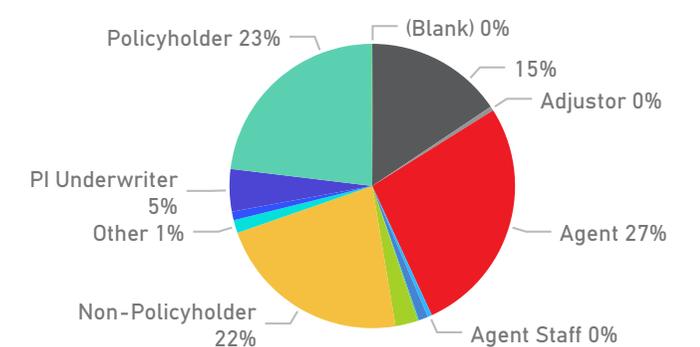
### Information Desk Case Trend



### Who's Calling?

### Quarter % of Total Cases YTD

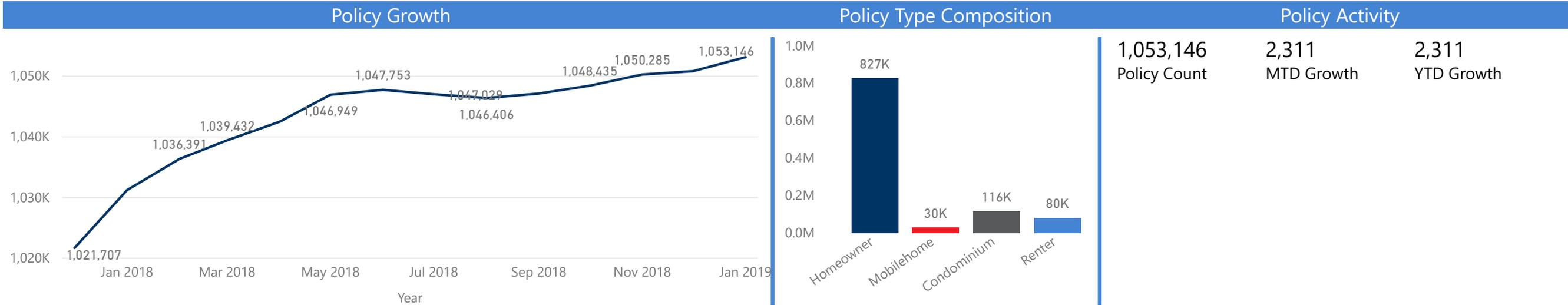
First	13.49%
Second	28.52%
Third	26.59%
Fourth	31.40%
<b>Total</b>	<b>100.00%</b>



## Progress and Planning

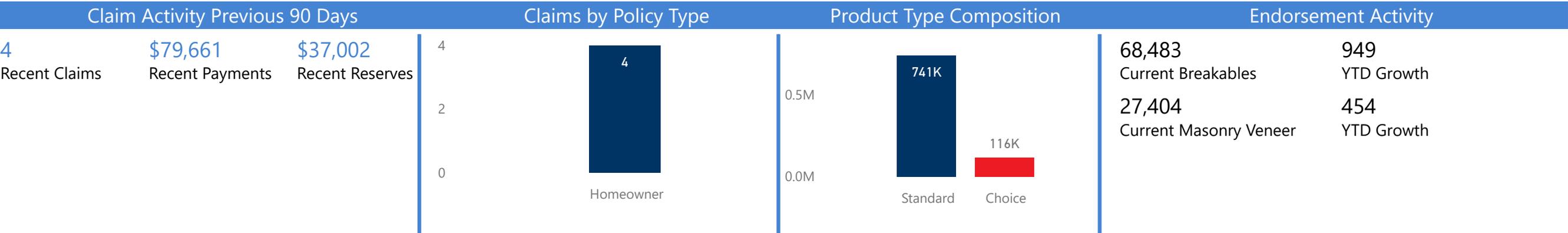
Completed end user evaluations with 75 agents for the Agent Sales Tool application currently in development. We are aiming for release of the Sales Tool to all agents in late spring/early summer 2019.

# Insurance Operations



**Policy Activity**

1,053,146 Policy Count	2,311 MTD Growth	2,311 YTD Growth
---------------------------	---------------------	---------------------



## Progress and Planning

Insurance Operations PI Analysts continue to work with participating insurers on implementation of the approved rate and form changes effective July 1, 2019. PI Analysts are currently scheduling their 2018 year-end presentations with participating insurers, as part of the CEA's semi-annual reporting metric. California Department of Insurance has approved the Procedures and Accounting Manual for distribution to participating insurers. CEA is proud to acknowledge the growth in policies of 29,128 for 2018 year-end.

# Information Technology

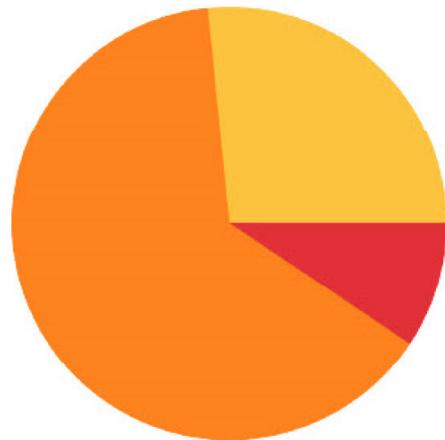
## Cybersecurity Report

	Total Mitigated	Mitigated <10d	Mitigated 10-30d	Mitigated >30d
<b>Total Vulnerabilities</b>	8086	29 %	39 %	32 %
<b>Critical</b>	1094	32 %	27 %	40 %
<b>High</b>	5428	29 %	41 %	30 %
<b>Medium</b>	1353	31 %	31 %	37 %
<b>Low</b>	211	5 %	88 %	8 %

## Release User Story Performance

Release	Accepted	% Accepted	Not Accepted	% Not Accepted	Removed	% Removed
38	118	86%	16	12%	4	3%
39	84	89%	10	11%		
40	73	94%	5	6%		
<b>Total</b>	<b>275</b>	<b>89%</b>	<b>31</b>	<b>10%</b>	<b>4</b>	<b>1%</b>

## Vulnerability Composition



Critical	182	9.42%
High	1237	63.99%
Medium	514	26.59%
Low	0	0.00%
Info	0	0.00%

## Release Quality

Point of Detection	Code	Environment	Requirements	Total
Integration Testing	7			7
QA Testing	46	5	6	57
Unit Testing			1	1
<b>Total</b>	<b>53</b>	<b>5</b>	<b>7</b>	<b>65</b>

## QA Capacity Planning

103%

QA Utilization %

## Development Capacity Planning

102%

Dev Utilization %

## Progress and Planning

Implemented a new Artificial Intelligence (AI) network behavior tracking system called 'Darktrace'

Microsoft Secure Score monthly average has increased to 333 from 321

No security incidents to report; 8,086 individual vulnerabilities mitigated as of 12/31/2018; 1,933 patches and remediation steps taken as of 12/31/2018



## **CEA GOVERNING BOARD MEETING DATES FOR - 2019**

~~March 13, 2019 – Wednesday~~ **(Rescheduled)**

**March 20, 2019 – Wednesday (Added)**

**June 12, 2019 – Wednesday**

**September 11, 2019 – Wednesday**

**December 11, 2019 – Wednesday**

## **CEA ADVISORY PANEL MEETING DATES FOR - 2019**

**May 14, 2019 – Tuesday (Added)**

**August 13, 2019 – Tuesday (Added)**

**November 19, 2019 – Tuesday (Added)**

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