



Date of Notice: Friday, December 2, 2016

# 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, December 14, 2016

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

**AGENDA:**

1. Call to order and member roll call:

- Governor
- Treasurer
- Insurance Commissioner
- Speaker of the Assembly
- Chair of the Senate Rules Committee

*Establishment of a quorum*

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



[Audio](#)



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

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

2. Consideration and approval of the minutes of the September 14, 2016, CEA 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 the CEA.
4. Chief Financial Officer Tim Richison will present to the Board the CEA Financial Report.
5. Mr. Richison will present to the Board the CEA's 2017 Risk-Transfer Strategy.
6. Chief Information Officer Todd Coombes will give a progress report to the Board on the 2016 CEA information technology (IT) initiatives and project portfolio, and will seek Board approval for planned 2017 CEA IT initiatives and for the corresponding 2017 IT Project Portfolio.
7. Mr. Coombes will update the Board on progress of the CEA's centralized policy processing (CPP) program.
8. Mr. Coombes will present to the Board a proposal to accelerate Insuresoft "Diamond" implementations, to allow more rapid implementation of the CEA's CPP initiative, seeking approval for both funding and contracting.
9. Mr. Pomeroy will propose the direct CEA-contract-executive hire of Kellie Schneider, presently serving CEA as chief administrative officer, in a new role of chief operations officer, with responsibility for administration and management of CEA's non-insurance operating environment.
10. Mr. Pomeroy will present the 2017 CEA Business Implementation Plan for Board consideration and approval.
11. Mr. Pomeroy and Mr. Richison will present the 2017 CEA insurance-services budget for Board consideration and approval.
12. Chief Mitigation Officer Janiele Maffei and Mr. Richison will present the 2017 CEA mitigation-program budget for Board consideration and approval.
13. Ms. 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.
14. Ms. Maffei will seek Board approval for a new (and, potentially, ongoing) project to update the "General Guidelines for the Assessment and Repair of Earthquake Damage in Residential Woodframe Buildings," developed with substantial support from CEA by the Consortium of Universities for Research in Earthquake Engineering (which has ceased operating), including a proposal to (a) update and expand the CUREE Guidelines, well proven to be invaluable to CEA, and (b) develop a more specialized set of guidelines, directed to the engineering community and its key role in pre-event mitigation, as well as post-event rebuilding and both individual and community recovery.
15. Ms. Maffei will update the Board on the CEA Research Program, including the planned February 2017 CEA Research Forum.
16. Chief Communications Officer Chris Nance will recap CEA's 2016 advertising campaign, including the October 2016 *Great California ShakeOut* and CEA's participation and support.

17. Mr. Nance will seek Board approval to negotiate and contract with advertising and marketing firms competitively selected through the CEA procurement process.
18. Chief Actuary Shawna Ackerman will seek Board approval to renew and extend the term of CEA's existing contract with earthquake-loss-modeling firm AIR Worldwide.
19. Enterprise & Strategic Risk Advisor Laurie Johnson will update the Board on CEA enterprise-risk-management-program planning and progress.
20. Mr. Pomeroy will update the Board on progress in implementing a "CEA Stakeholders Outreach" program.
21. Mr. Pomeroy will update the Board on progress in data collection and data reporting, which together support the Metrics Project.
22. Mr. Pomeroy will present for Board consideration and approval the 2017 Governing Board meeting calendar.
23. 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.
24. 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.
25. Adjournment.

For further information about this notice or its contents:

**General Information:**

Carlos Martinez  
(916) 661-5549 (Direct)  
Toll free: (877) 797-4300

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**Media Contact:**

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Media Relations Manager  
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<p><b>To view this notice on the CEA website or to learn more about the CEA, please visit <a href="http://www.EarthquakeAuthority.com">www.EarthquakeAuthority.com</a></b></p>
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<p><b>Persons with disabilities may request special accommodations at this or any future Governing Board meeting or may request the accommodation necessary to receive agendas or materials the CEA prepares for its Board meetings. Please contact Carlos Martinez by telephone, toll free, at (877) 797-4300 or by email at <a href="mailto:cmartinez@calquake.com">cmartinez@calquake.com</a>. We would appreciate hearing from you at least five days before the meeting date to best allow us to meet your needs.</b></p>
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**NOTE: You might have received this notice because your name, or that of your organization, appears on a public-notice list maintained by the California Earthquake Authority. If in the future you do not wish to receive public notices pertaining to the California Earthquake Authority, please send your request by email to [cmartinez@calquake.com](mailto:cmartinez@calquake.com).**



Draft Meeting Minutes are not available.

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

## **Governing Board Memorandum**

December 14, 2016

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

Recommended Action: No action required—information only

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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

September 30, 2016

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

# **Financial Statements & Budgets**

**California Earthquake Authority**  
**Balance Sheet**  
**as of September 30, 2016**

**Assets**

Cash and investments:	
Cash and cash equivalents	\$ 6,872,601
Restricted cash and equivalents	25,047,703
Restricted investments	383,865,154
Investments	5,814,747,599
Total cash and investments	6,230,533,057
Premiums receivable, net of allowance for doubtful accounts of \$8,835,381	45,380,962
Capital contributions receivable	-
Risk capital surcharge receivable	-
Interest receivable	18,852,866
Securities receivable	-
Restricted securities receivable	-
Prepaid reinsurance premium	11,562,701
Transformer reinsurance premium deposit	-
Prepaid transformer maintenance premium	109,664
Equipment, net	178,830
Other assets	8,614
Total assets	\$ 6,306,626,694

**Liabilities and Net Position**

Unearned premiums	\$ 322,602,704
Accounts payable and accrued expenses	3,751,516
Deferred grant revenue	3,000,000
Accrued reinsurance premium expense	-
Loss and loss adjustment expense reserves	172,418
Securities payable	-
Revenue bond payable	310,000,000
Revenue bond interest payable	2,026,725
Total liabilities	641,553,363

Net position:

Restricted, expendable	93,673,697
Unrestricted, participating insurer contributed capital	777,384,795
Unrestricted, State of California contributed capital	236,073,218
Unrestricted, all other remaining	4,557,941,621
Total net position	5,665,073,331
Total liabilities and net position	\$ 6,306,626,694

**California Earthquake Authority**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Year-To-Date September 30, 2016**

Underwriting income:	
Premiums written	\$ 465,867,886
Less premiums ceded - reinsurance	(146,710,935)
Less risk capital surcharge	-
	<hr/>
Net premiums written	319,156,951
	<hr/>
Change in unearned premiums	4,110,225
	<hr/>
Net premiums earned	323,267,176
	<hr/>
Expenses:	
Losses and loss adjustment expenses	(21,236)
Participating Insurer commissions	46,586,055
Participating Insurer operating costs	15,127,902
Reinsurance broker commissions	2,568,587
Pro forma premium taxes equivalent	10,954,911
Other underwriting expenses	29,039,409
	<hr/>
Total expenses	104,255,628
	<hr/>
Underwriting profit	219,011,548
Net investment income	142,665,489
Other income	299,881
Grant revenue	-
Financing expenses, net	(3,865,332)
Earthquake Loss Mitigation Fund expenses	(4,418,036)
Participating Insurer Contributed Capital	-
State of California premium tax contribution equivalent	10,954,911
	<hr/>
Increase in net position	364,648,461
Net position, beginning of year	5,300,424,870
Net position, end of year to date	<u><u>\$ 5,665,073,331</u></u>

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Budgeted and Actual Expenditures**  
**2016 Budget Year**  
**as of September 30, 2016**

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f)	(g) (g=e/d)
	<b>Approved 2016 Budget 1/1/2016</b>	<b>Adjustments<sup>A</sup></b>	<b>Augmentations</b>	<b>2016 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 Approved 2016 Budget</b>
Human Resources:							
Compensation and Benefits	\$ 21,323,212	\$ (1,049,819)	\$ -	\$ 20,273,393	\$ 14,611,823	\$ 5,661,570	72.07%
Travel	623,466	(92,250)	-	531,216	265,898	265,318	50.05%
Other	953,620	(294,212)	-	659,408	244,760	414,648	37.12%
Board Meeting	24,100	(8,100)	-	16,000	3,928	12,072	24.55%
Administration & Office	1,325,506	(49,623)	-	1,275,883	250,524	1,025,359	19.64%
EDP Hardware	325,300	-	-	325,300	273,331	51,969	84.02%
EDP Software	1,260,516	-	-	1,260,516	813,290	447,226	64.52%
Information Technology	1,802,155	-	-	1,802,155	1,489,077	313,078	82.63%
Telecommunications	265,364	(4,950)	-	260,414	173,412	87,002	66.59%
Rent/Lease	1,288,700	(1,420)	-	1,287,280	812,236	475,044	63.10%
Compliance	115,000	(50,000)	-	65,000	6,675	58,325	10.27%
Government Affairs	126,000	-	-	126,000	43,698	82,302	34.68%
Insurance	160,000	-	-	160,000	118,113	41,887	73.82%
Internal Audit	120,000	(60,000)	-	60,000	1,688	58,312	2.81%
Intervener Fees	-	-	-	-	-	-	0.00%
Other	53,000	14,000	-	67,000	14,249	52,751	21.27%
Regulatory Expenses	110,000	-	-	110,000	59,736	50,264	54.31%
<b>Total Statutory Expenditures</b>	<b>\$ 29,875,939</b>	<b>\$ (1,596,374)</b>	<b>\$ -</b>	<b>\$ 28,279,565</b>	<b>\$ 19,182,438</b>	<b>\$ 9,097,127</b>	<b>67.83%</b>
Audit Services	112,500	-	-	112,500	86,000	26,500	76.44%
Capital Market	9,277,995	(256,015)	-	9,021,980	6,977,968	2,044,012	77.34%
Claims	337,000	5,000	-	342,000	141,334	200,666	41.33%
Loans	-	-	-	-	-	-	0.00%
Grants <sup>1</sup>	-	-	12,000,000	12,000,000	-	12,000,000	0.00%
Investment Services	3,078,493	(98,043)	-	2,980,450	2,185,388	795,062	73.32%
Legal Services	7,790,420	(4,352,500)	-	3,437,920	585,640	2,852,280	17.03%
Loss-Modeling	1,039,500	-	-	1,039,500	552,500	487,000	53.15%
Marketing Services	13,710,200	(258,039)	-	13,452,161	5,473,707	7,978,454	40.69%
Producer Compensation	66,040,000	-	-	66,040,000	46,582,688	19,457,312	70.54%
Participating Insurer Operating Costs	24,763,000	-	-	24,763,000	16,316,252	8,446,748	65.89%
Seismic Related Research	100,000	(100,000)	-	-	-	-	0.00%
Engineering Related Research	1,000,000	(500,000)	-	500,000	8	499,992	0.00%
Risk Transfer	193,464,800	7,000,000	-	200,464,800	149,279,522	51,185,278	74.47%
<b>Total Non-Statutory Expenditures</b>	<b>\$ 320,713,908</b>	<b>\$ 1,440,403</b>	<b>\$ 12,000,000</b>	<b>\$ 334,154,311</b>	<b>\$ 228,181,007</b>	<b>\$ 105,973,304</b>	<b>68.29%</b>
<b>Total Budget Expenditures</b>	<b>\$ 350,589,847</b>	<b>\$ (155,971)</b>	<b>\$ 12,000,000</b>	<b>\$ 362,433,876</b>	<b>\$ 247,363,445</b>	<b>\$ 115,070,431</b>	<b>68.25%</b>

<sup>1</sup>Augmentation to fund development of the CEA BB (pilot) program from March 16, 2016 Governing Board Meeting Agenda Item 4.

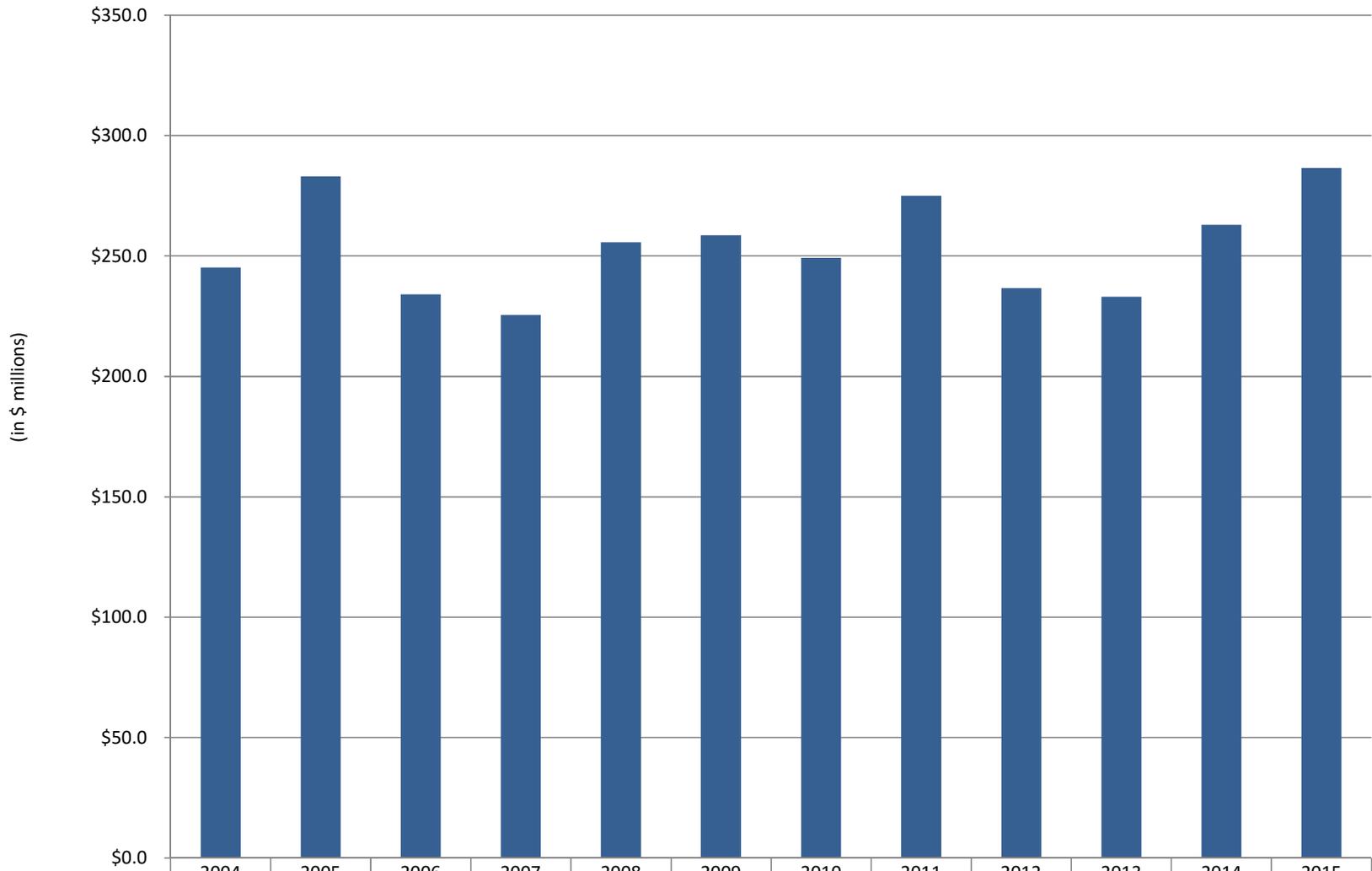
<sup>A</sup> Adjustments to meet insurance services end of year projections.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Budgeted and Actual Expenditures**  
**2016 Budget Year**  
**as of September 30, 2016**

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f) (f=d-e)	(g) (g=e/d)
	<b>Approved 2016 Budget 1/1/2016</b>	<b>Adjustments<sup>A</sup></b>	<b>Augmentations</b>	<b>2016 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 Approved 2016 Budget</b>
Human Resources:							
Compensation and Benefits	\$ 1,039,631	\$ -	\$ -	\$ 1,039,631	\$ 754,100	\$ 285,531	72.54%
Travel	47,900	(3,700)	-	44,200	17,380	26,820	39.32%
Other	29,850	(3,800)	-	26,050	9,424	16,626	36.18%
Administration & Office	102,100	(57,700)	-	44,400	31,500	12,900	70.95%
EDP Software	-	-	-	-	100	(100)	>100%
Information Technology	700	-	-	700	405	295	57.86%
Telecommunications	14,000	-	-	14,000	8,922	5,078	63.73%
Rent/Lease	77,700	-	-	77,700	49,453	28,247	63.65%
<b>Total Operating Expenditures</b>	<b>\$ 1,311,881</b>	<b>\$ (65,200)</b>	<b>\$ -</b>	<b>\$ 1,246,681</b>	<b>\$ 871,284</b>	<b>\$ 375,397</b>	<b>69.89%</b>
Investment Services	11,400	-	-	11,400	7,642	3,758	67.04%
Legal Services	10,000	-	-	10,000	-	10,000	0.00%
Marketing	575,000	(222,000)	-	353,000	61,735	291,265	17.49%
Seismic - Related	-	-	-	-	-	-	0.00%
Engineering - Related	1,500,000	(900,000)	-	600,000	163,573	436,427	27.26%
<b>Total Other Expenditures</b>	<b>\$ 2,096,400</b>	<b>\$ (1,122,000)</b>	<b>\$ -</b>	<b>\$ 974,400</b>	<b>\$ 232,950</b>	<b>\$ 741,450</b>	<b>23.91%</b>
<b>Total Expenditures</b>	<b>\$ 3,408,281</b>	<b>\$ (1,187,200)</b>	<b>\$ -</b>	<b>\$ 2,221,081</b>	<b>\$ 1,104,234</b>	<b>\$ 1,116,847</b>	<b>49.72%</b>

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

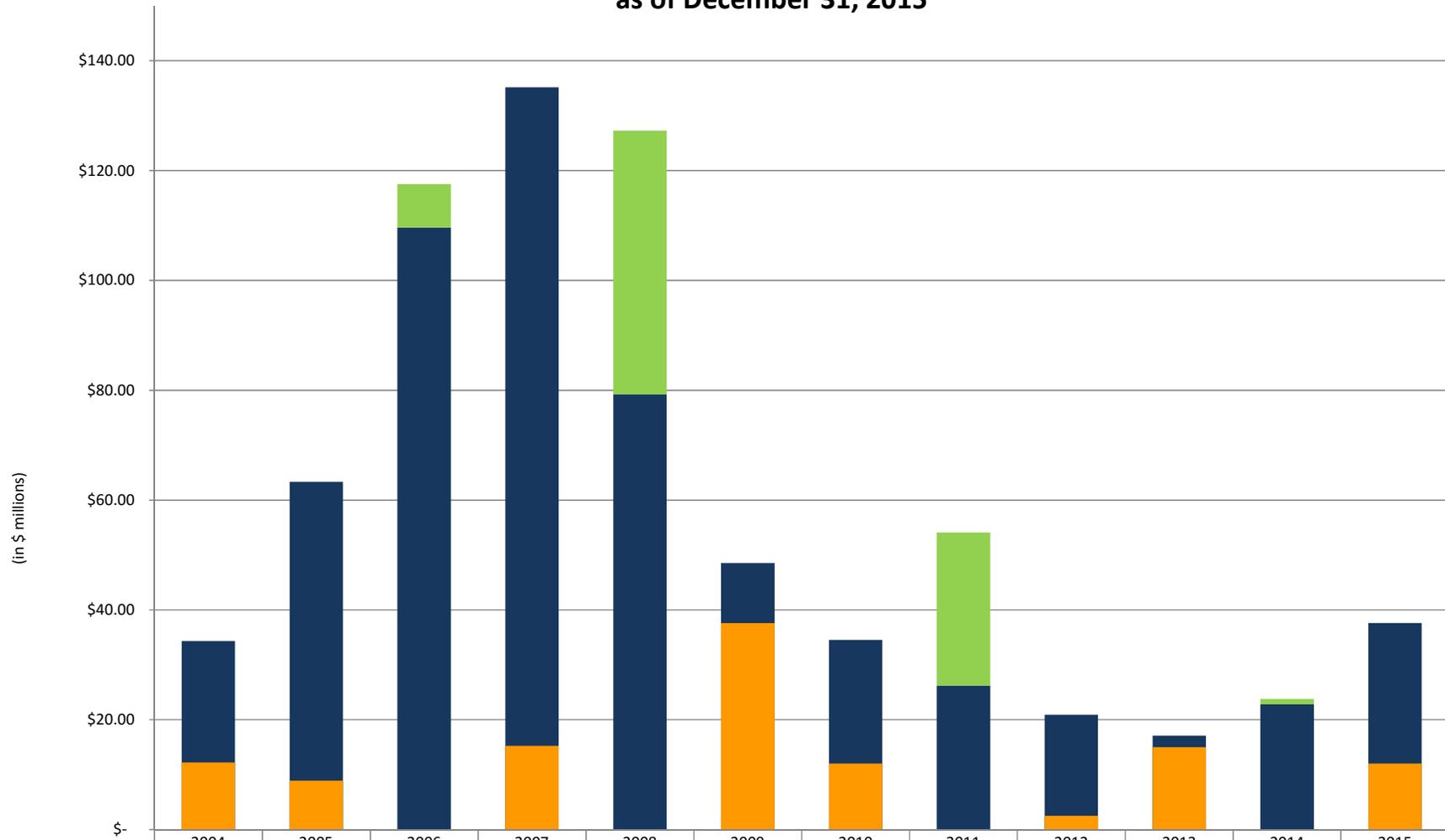
**California Earthquake Authority  
Annual Capital Accumulated from Premium  
as of December 31, 2015**



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
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# **Investments**

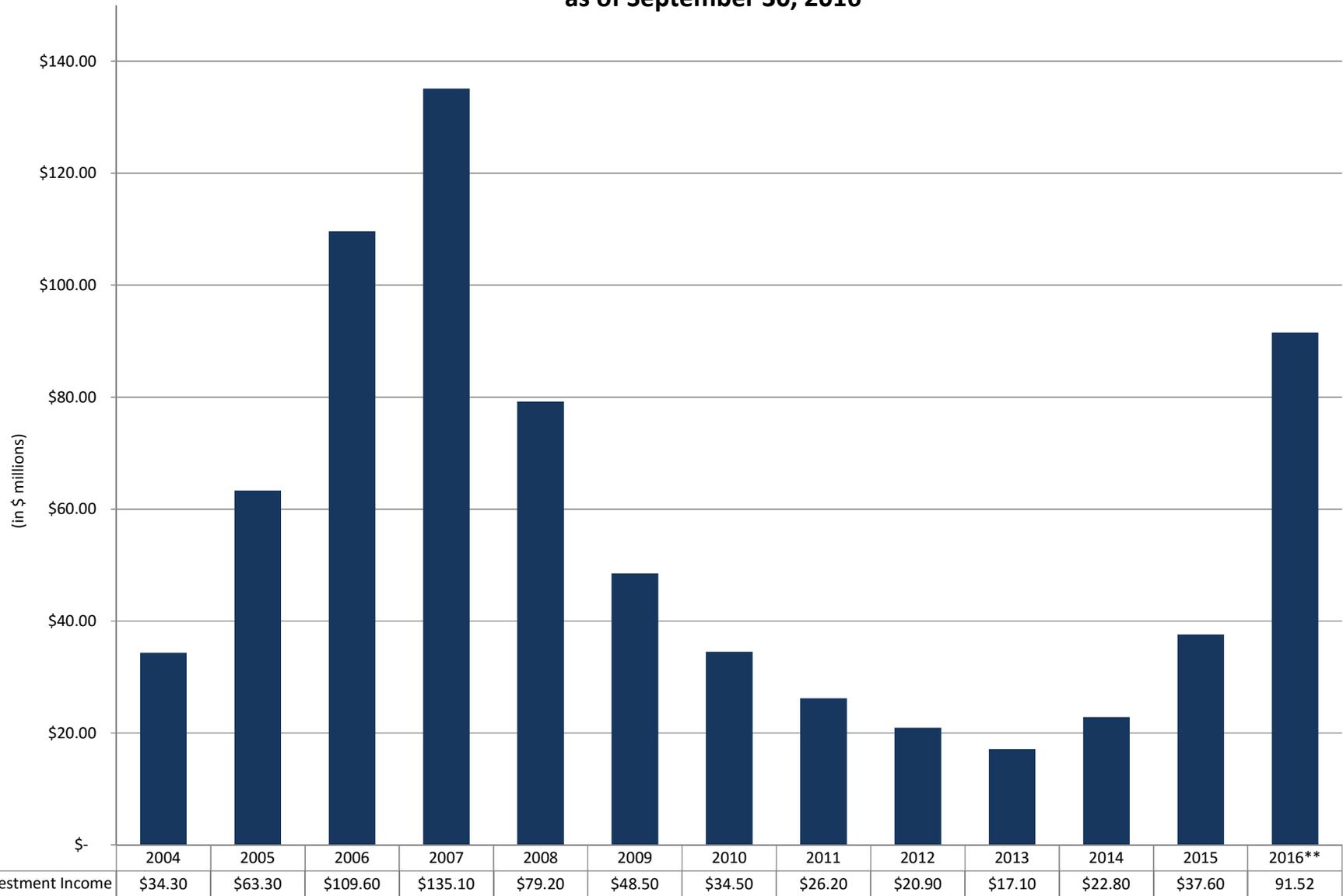
## California Earthquake Authority Annual Investment Income as of December 31, 2015



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net Investment Income*	\$22.10	\$54.40	\$117.50	\$119.90	\$127.20	\$10.90	\$22.50	\$54.10	\$18.40	\$2.10	\$23.80	\$25.60
Change Unrealized Gain	\$-	\$-	\$7.90	\$-	\$48.00	\$-	\$-	\$27.90	\$-	\$-	\$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
Change Unrealized Loss	\$12.20	\$8.90	\$-	\$15.22	\$-	\$37.60	\$12.00	\$-	\$2.50	\$15.00	\$-	\$12.00

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

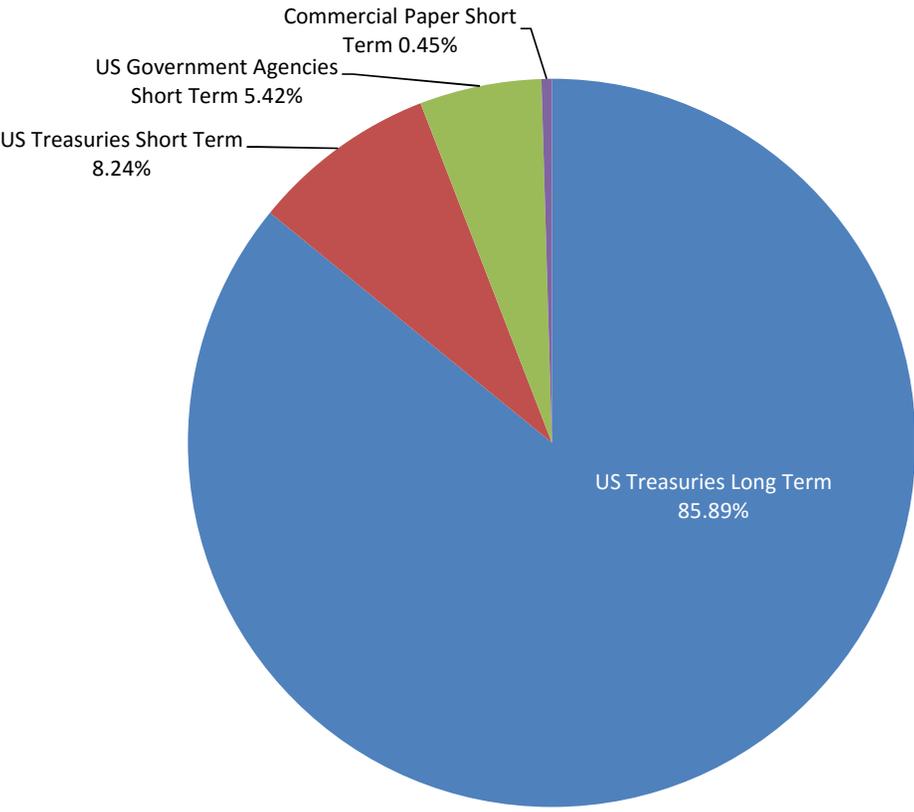
**California Earthquake Authority  
Investment Income  
as of September 30, 2016**



\*\*As of September 30, 2016.

**California Earthquake Authority  
Investment Portfolio Distribution at Market Value  
as of September 30, 2016**

<b>CEA Liquidity &amp; Primary Funds:</b>	<b>\$5,491,290,851</b>
US Treasuries Long Term	85.89%
US Treasuries Short Term	8.24%
US Government Agencies Short Term	5.42%
Commercial Paper Short Term	0.45%
<b>Total:</b>	<b>100.00%</b>

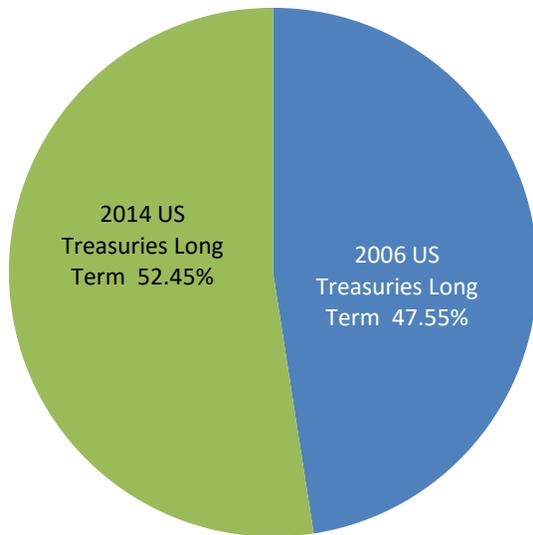


**California Earthquake Authority  
Investment Portfolio Distribution at Market Value  
as of September 30, 2016**

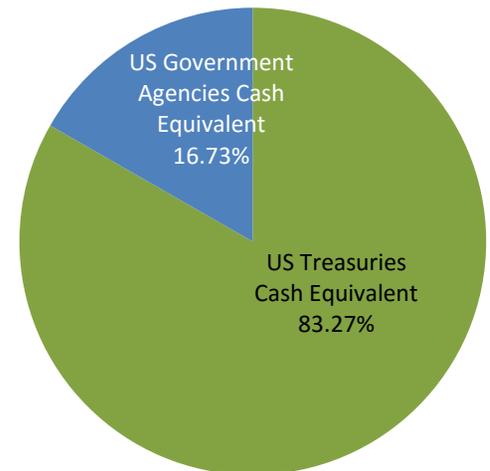
<b>Claim(s)-Paying Funds:</b>	<b>\$680,264,541</b>
2006 US Treasuries Long Term	47.55%
2014 US Treasuries Long Term	52.45%
<b>Total:</b>	<b>100.00%</b>

<b>Mitigation Fund:</b>	<b>\$21,335,611</b>
US Treasuries Cash Equivalent	83.27%
US Government Agencies Cash Equivalent	16.73%
<b>Total:</b>	<b>100.00%</b>

**Claim(s)-Paying Funds**



**Mitigation Fund**



# Debt

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

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2006 Revenue Bonds <sup>1</sup>	\$ 315,000,000	6.169%	\$ 310,829,067	\$ -	30-Sep-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.

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
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 2015.

**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	\$ -	30-Sep-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 2015.

**California Earthquake Authority  
Schedule of Outstanding Debt**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2014 Revenue Bonds 3 year bond CUSIP 13017HAD8	\$ 60,000,000	1.824%	\$ 59,498,463	\$ 60,000,000	30-Sep-2016	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

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

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-16	\$60,000,000	\$0	\$547,200	\$547,200	
1-Jul-16	\$60,000,000	\$0	\$547,200	\$547,200	
2016					\$1,094,400
1-Jan-17	\$60,000,000	\$0	\$547,200	\$547,200	
1-Jul-17	\$0	\$60,000,000	\$547,200	\$60,547,200	
2017					\$61,094,400

\*Moody's rating since May 2015.

\*\*Fitch rating affirmed October 2015.

**California Earthquake Authority  
Schedule of Outstanding Debt**

DEBT	ISSUANCE AMOUNT	INTEREST RATE	NET PROCEEDS	OUTSTANDING PRINCIPAL	AS OF DATE	MOODY'S RATING*	FITCH RATING**
Series 2014 Revenue Bonds 5 year bond CUSIP 13017HAE6	\$ 250,000,000	2.805%	\$ 247,910,261	\$ 250,000,000	30-Sep-2016	A3 Outlook Stable	A Outlook Stable

**DEBT-SERVICE SCHEDULE**

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

Payment Date	Outstanding Principal	Principal	Interest	Debt Service	Annual Debt Service
1-Jan-16	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
1-Jul-16	\$250,000,000	\$0	\$3,506,250	\$3,506,250	
2016					\$7,012,500
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					\$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					\$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					\$107,945,250

\*Moody's rating since May 2015.

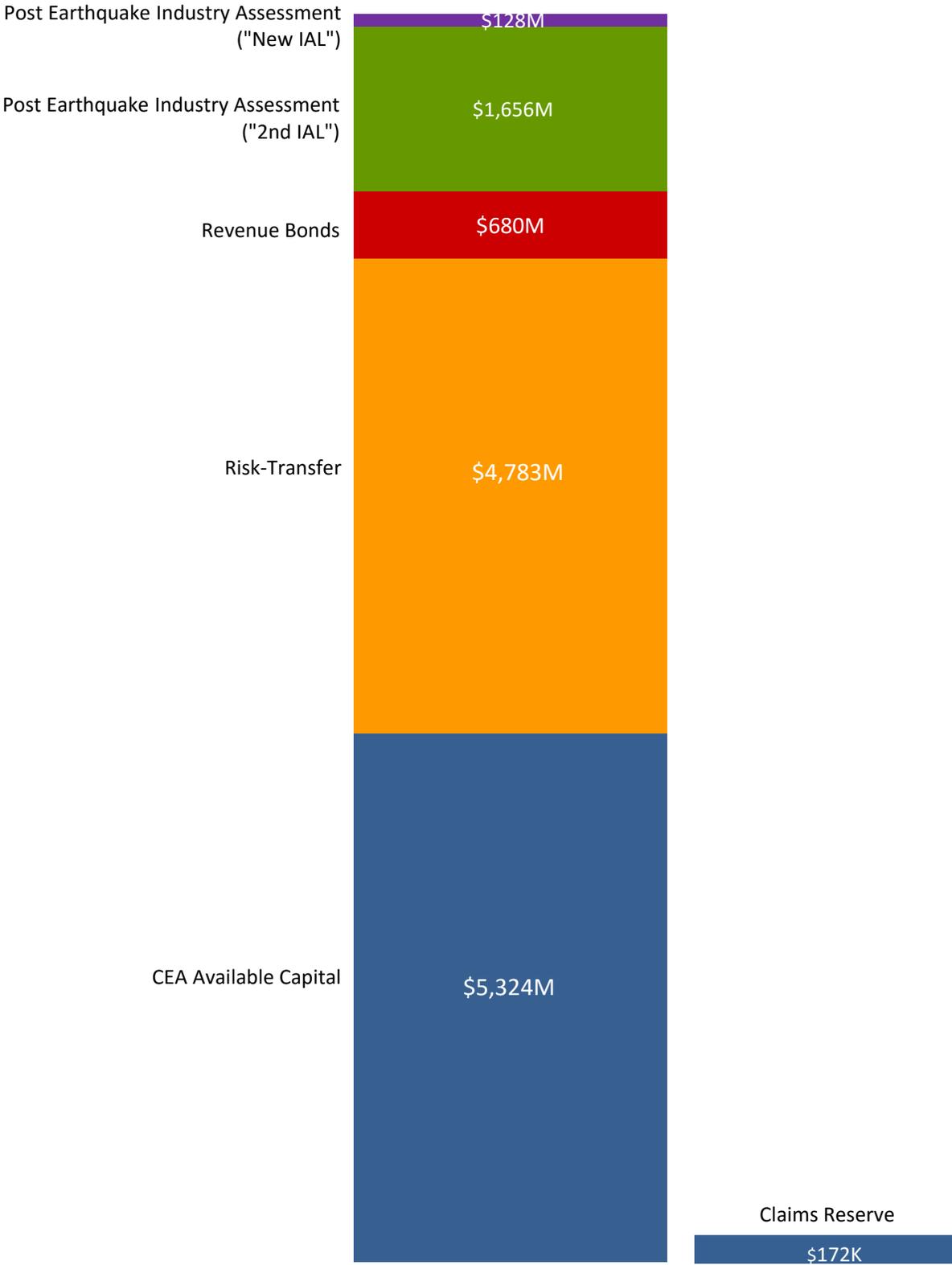
\*\*Fitch rating affirmed October 2015.

# **Claim-Paying Capacity**

**California Earthquake Authority  
Available Capital Report  
as of September 30, 2016**

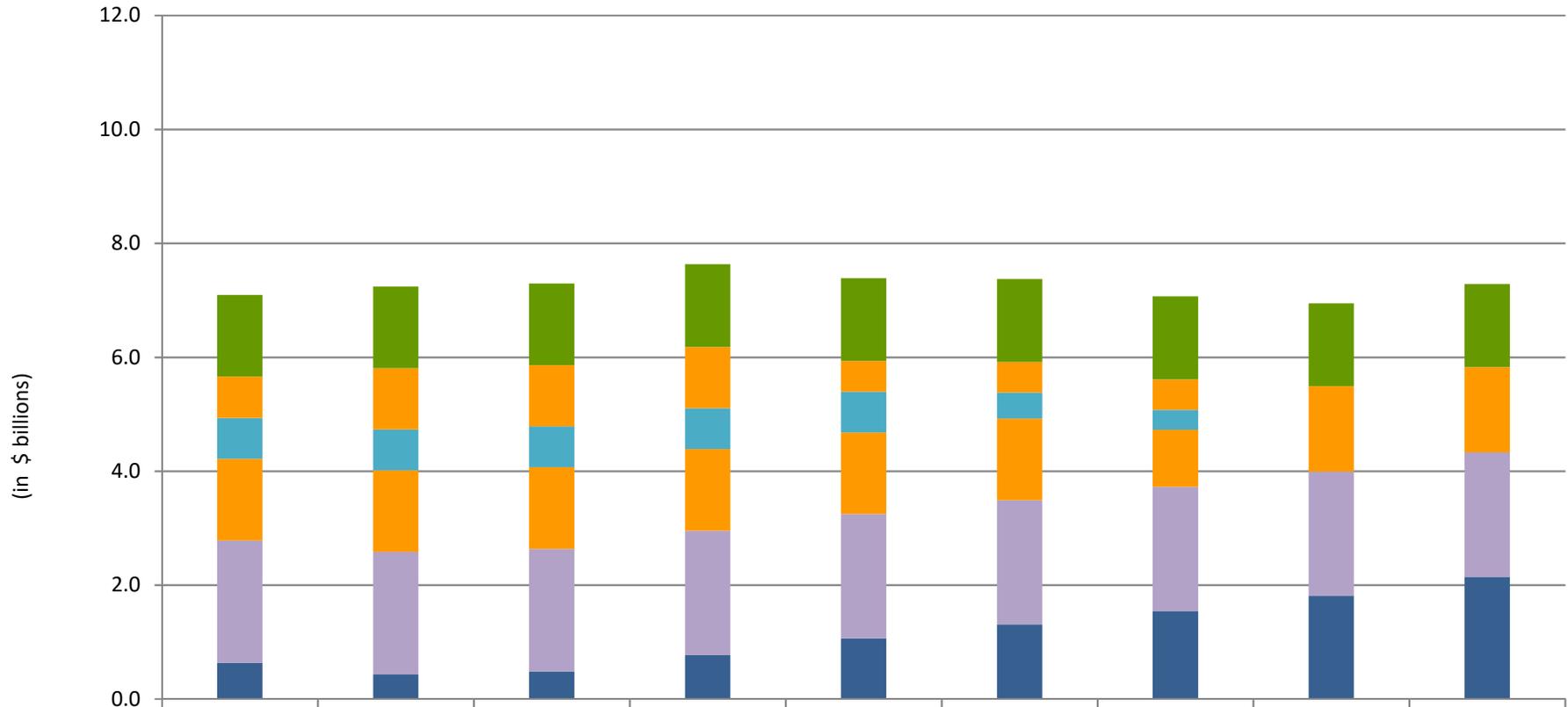
Cash & Investments (includes capital contributions and premiums)	\$	6,230,533,057
Earthquake Loss Mitigation Fund Cash and Investments	\$	(25,045,405)
Interest, Securities & Restricted Securities Receivable	\$	18,852,866
Premium Receivable	\$	45,380,962
Risk Capital Surcharge & Capital Contributions Receivable	\$	-
Other Assets	\$	8,614
Revenue Bonds	\$	(679,547,331)
Debt Service (Interest, Principal & Debt Service (Min. Bal.))	\$	(27,026,725)
Unearned Premium Collected	\$	(235,135,532)
Accrued Reinsurance Premium Expense	\$	-
Accounts and Securities Payable, and Accrued Expenses	\$	(3,751,516)
Loss Reserves	\$	(172,418)
CEA Available Capital	<b>\$</b>	<b>5,324,096,572</b>

**California Earthquake Authority  
Claim-Paying Capacity  
as of September 30, 2016**



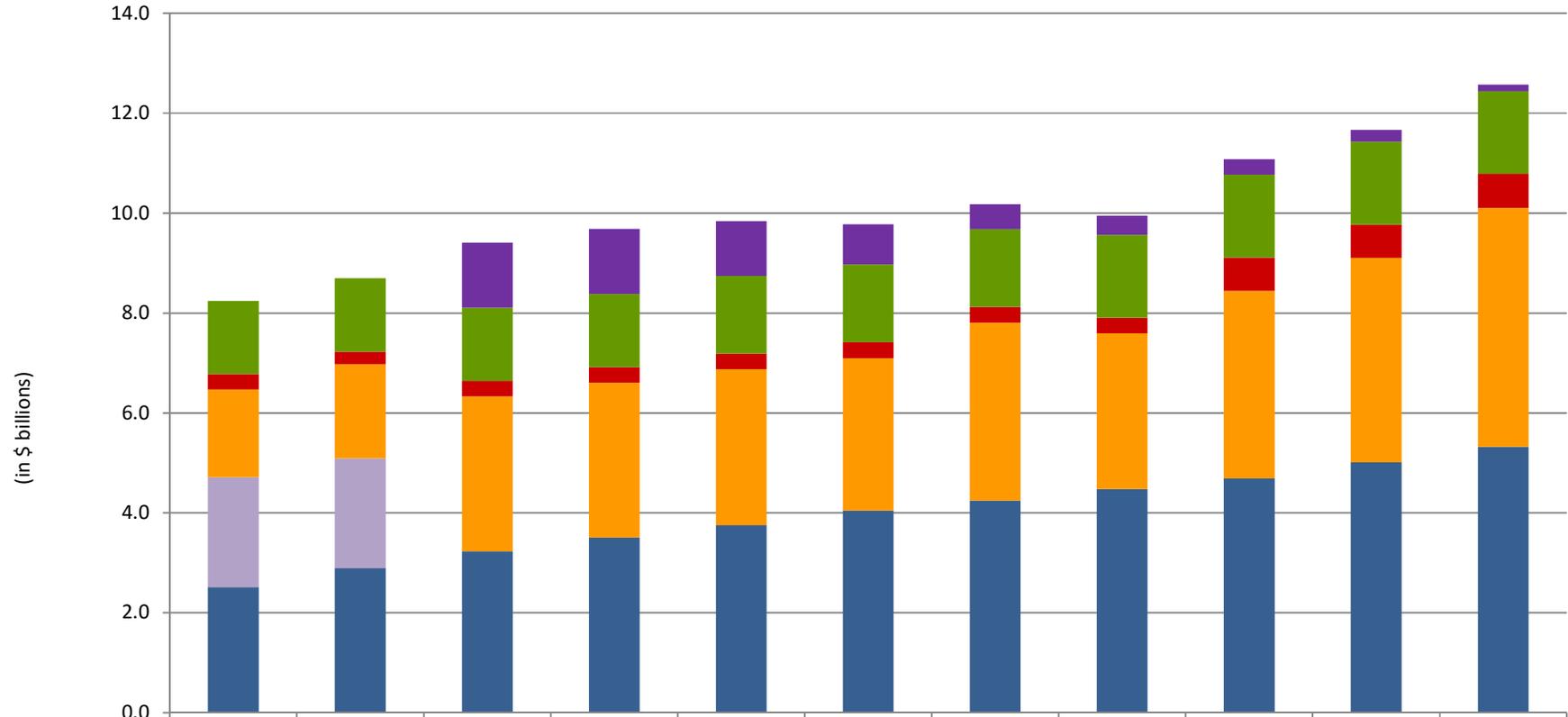
Note: Not drawn to scale

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



	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total CPC	\$7.095	\$7.240	\$7.293	\$7.635	\$7.390	\$7.373	\$7.069	\$6.948	\$7.284
New Industry Assessment	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
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 September 30, 2016**



	2006	2007*	2008	2009	2010	2011	2012	2013	2014	2015	2016**
Total CPC	\$8.244	\$8.695	\$9.411	\$9.685	\$9.840	\$9.777	\$10.179	\$9.949	\$11.081	\$11.667	\$12.571
New Industry Assessment	\$-	\$-	\$1.304	\$1.304	\$1.095	\$0.804	\$0.500	\$0.385	\$0.312	\$0.238	\$0.128
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
Revenue Bonds	\$0.311	\$0.254	\$0.311	\$0.311	\$0.311	\$0.317	\$0.314	\$0.314	\$0.664	\$0.668	\$0.680
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	\$4.783
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	\$5.324

\*In 2007 Revenue Bond proceeds were split between the Base and supplemental programs.

\*\*as of September 30, 2016

# **Risk-Transfer Programs**

**California Earthquake Authority  
Risk-Transfer Program Summary  
as of September 30, 2016**

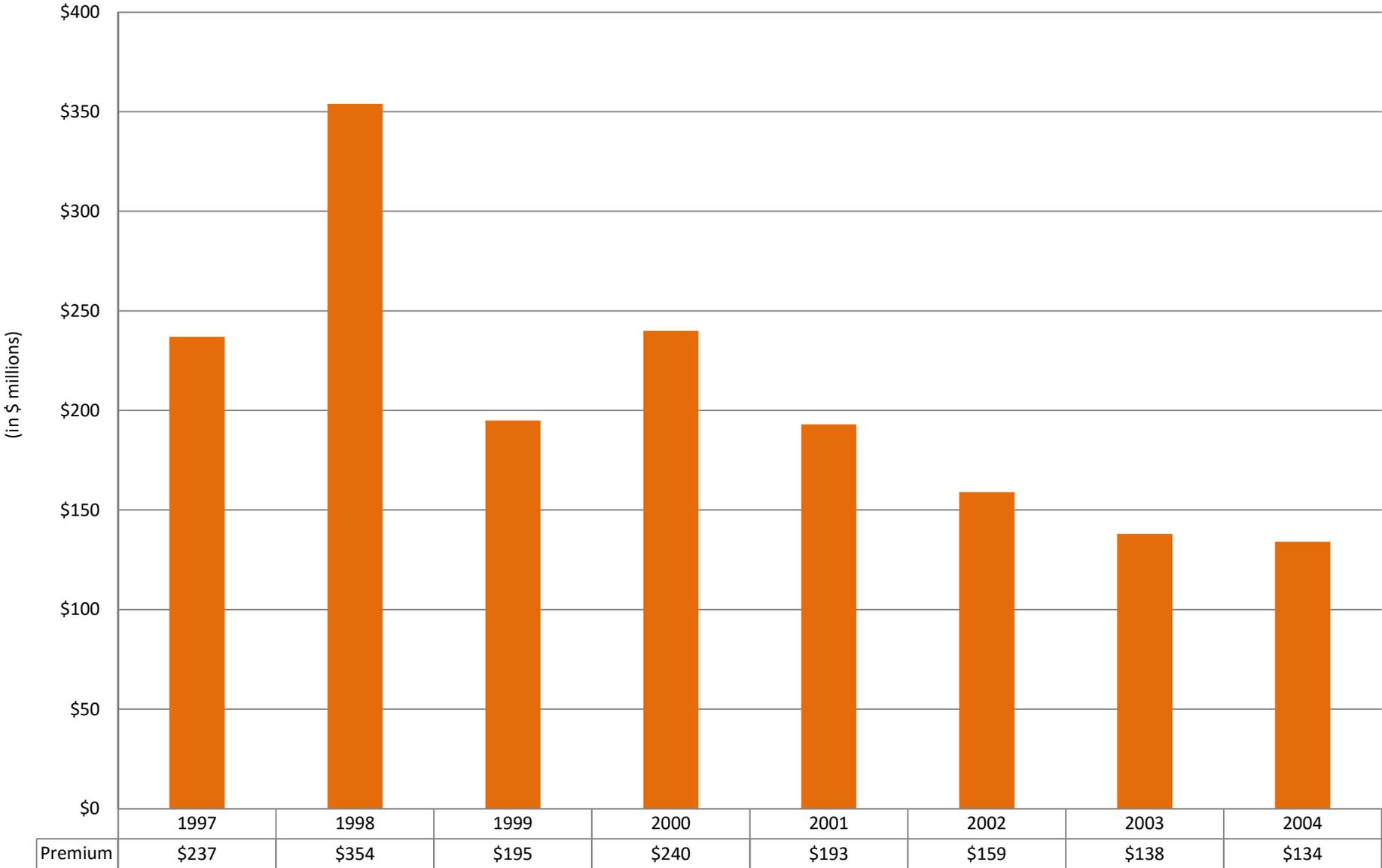
<b>Traditional Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>	<b>12-Month Rate-on-Line</b>	<b>12-Month Premium</b>
2016 January Program Contract 1	January 1, 2016 - December 31, 2016	641,212,680	4.30%	27,572,145
2016 January Program Contract 2	January 1, 2016 - December 31, 2016	60,200,000	5.60%	3,371,200
2015-2016 January Program Contract 1	January 1, 2015 - December 31, 2016	156,431,990	4.55%	7,117,656
2015-2016 January Program Contract 2	January 1, 2015 - December 31, 2016	146,871,900	3.30%	4,846,773
2015-2016 January Program Contract 3	January 1, 2015 - December 31, 2016	24,999,990	5.40%	1,349,999
2016-2017 January Program Contract 1	January 1, 2016 - December 31, 2017	472,799,040	4.40%	20,803,158
2016-2017 January Program Contract 2	January 1, 2016 - December 31, 2017	99,999,970	5.70%	5,699,998
2016-2017 January Program Contract 3	January 1, 2016 - December 31, 2017	49,999,995	5.00%	2,500,000
2016-2017 January Program Contract 4	January 1, 2016 - December 31, 2017	50,000,000	2.60%	1,300,000
2016-2017 April Program Contract 1	April 1, 2016 - March 31, 2017	757,031,100	3.00%	22,710,933
2016-2018 April Program Contract 1	April 1, 2016 - March 31, 2018	259,876,500	3.10%	8,056,172
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	124,999,920	3.25%	4,062,497
2015-2017 August Program Contract 2	August 1, 2015 - July 31, 2017	200,000,000	4.50%	9,000,000
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	200,000,000	4.15%	8,300,000
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000	4.20%	5,838,000
2016-2017 May Program Contract 1	May 1, 2016 - November 30, 2017	100,000,000	3.55%	3,550,000
2016 June Program Contract 2	June 1, 2016 - November 30, 2016	50,000,000	5.50%	2,750,000
2016-2018 June Program Contract 1	June 1, 2016 - May 31, 2018	49,999,980	5.40%	2,699,999
2015-2017 August Program Contract 1	August 1, 2015 - July 31, 2017	93,750,000	5.60%	5,250,000
2016-2017 August Program Contract 1	August 1, 2016 - July 31, 2017	93,750,000	5.50%	5,156,250
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	93,750,000	5.80%	5,437,500
2015-2017 December Program Contract 1	December 1, 2015 - November 30, 2017	124,999,980	5.50%	6,874,999
2015-2017 December Program Contract 2	December 1, 2015 - November 30, 2017	49,999,950	5.60%	2,799,997
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.80%	5,437,500
<b>Total Traditional Reinsurance</b>		<b>4,133,422,995</b>		
<b>Transformer Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>	<b>12-Month Rate-on-Line</b>	<b>12-Month Premium</b>
2014 - 2017 Transformer Reinsurance Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%	10,126,970
2014 - 2017 Transformer Reinsurance Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%	7,230,177
2015 - 2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	250,000,000	5.05%	12,712,517
<b>Total Transformer Reinsurance</b>		<b>650,000,000</b>		
<b>Total Risk-Transfer Program</b>		<b>\$ 4,783,422,995</b>		

**California Earthquake Authority**  
**2016 Total Premium Risk-Transfer Program**  
**as of September 30, 2016**

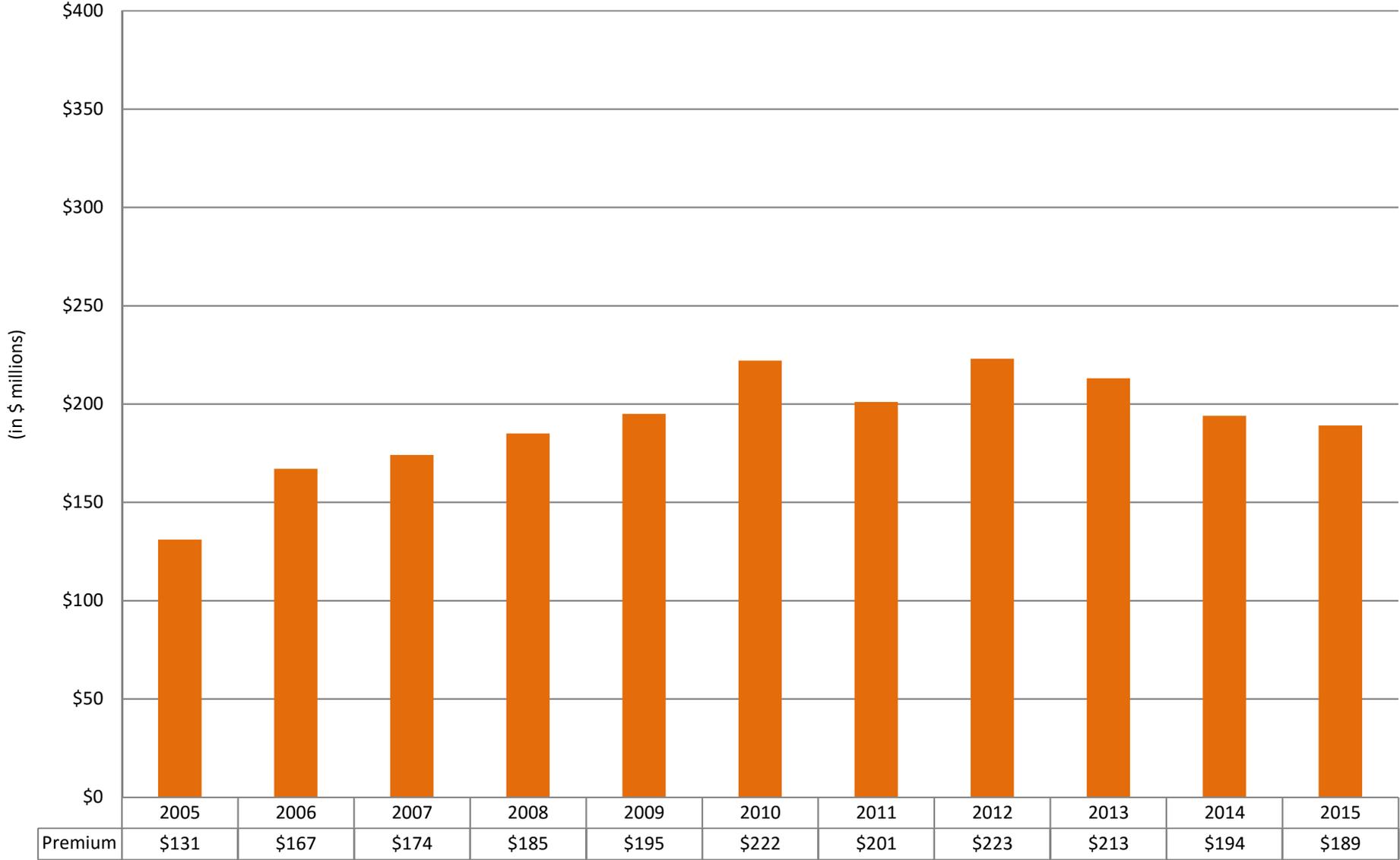
<b>Traditional Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>	<b>12-Month Rate-on-Line</b>	<b>2016 Premium</b>
2016 January Program Contract 1	January 1, 2016 - December 31, 2016	641,212,680	4.30%	27,572,145
2016 January Program Contract 2	January 1, 2016 - December 31, 2016	60,200,000	5.60%	3,371,200
2015-2016 January Program Contract 1	January 1, 2015 - December 31, 2016	156,431,990	4.55%	7,117,656
2015-2016 January Program Contract 2	January 1, 2015 - December 31, 2016	146,871,900	3.30%	4,846,773
2015-2016 January Program Contract 3	January 1, 2015 - December 31, 2016	24,999,990	5.40%	1,349,999
2016-2017 January Program Contract 1	January 1, 2016 - December 31, 2017	472,799,040	4.40%	20,803,158
2016-2017 January Program Contract 2	January 1, 2016 - December 31, 2017	99,999,970	5.70%	5,699,998
2016-2017 January Program Contract 3	January 1, 2016 - December 31, 2017	49,999,995	5.00%	2,500,000
2016-2017 January Program Contract 4	January 1, 2016 - December 31, 2017	50,000,000	2.60%	1,300,000
2015-2016 April Program Contract 1	April 1, 2015 - March 31, 2016	624,992,490	3.00%	4,687,444
2014-2016 April Program Contract 1	April 1, 2014 - March 31, 2016	253,099,320	3.85%	2,436,081
2014-2016 April Program Contract 2	April 1, 2014 - March 31, 2016	122,499,960	3.75%	1,148,437
2016-2017 April Program Contract 1	April 1, 2016 - March 31, 2017	757,031,100	3.00%	17,033,200
2016-2018 April Program Contract 1	April 1, 2016 - March 31, 2018	259,876,500	3.10%	6,042,129
2016-2019 April Program Contract 1	April 1, 2016 - March 31, 2019	124,999,920	3.25%	3,046,873
2015-2017 August Program Contract 2	August 1, 2015 - July 31, 2017	200,000,000	4.50%	9,000,000
2016-2019 August Program Contract 1	August 1, 2016 - July 31, 2019	200,000,000	4.15%	3,458,333
2015-2020 August Program Contract 1	August 1, 2015 - July 31, 2020	139,000,000	4.20%	5,838,000
2016-2017 May Program Contract 1	May 1, 2016 - November 30, 2017	100,000,000	3.55%	2,366,667
2016 June Program Contract 2	June 1, 2016 - November 30, 2016	50,000,000	5.50%	1,375,000
2016-2018 June Program Contract 1	June 1, 2016 - May 31, 2018	49,999,980	5.40%	1,574,999
2015-2016 June Program Contract 1	June 1, 2015 - May 31, 2016	25,000,000	3.60%	375,000
2013-2016 May Program	May 1, 2013 - April 30, 2016	100,000,000	5.60%	1,866,667
2015-2016 August Program Contract 1	August 1, 2015 - July 31, 2016	187,500,000	5.50%	6,015,625
2015-2017 August Program Contract 1	August 1, 2015 - July 31, 2017	93,750,000	5.60%	5,250,000
2016-2017 August Program Contract 1	August 1, 2016 - July 31, 2017	93,750,000	5.50%	2,148,438
2015-2017 December Program Contract 1	December 1, 2015 - November 30, 2017	124,999,980	5.50%	6,874,999
2015-2017 December Program Contract 2	December 1, 2015 - November 30, 2017	49,999,950	5.60%	2,799,997
2015-2018 August Program Contract 1	August 1, 2015 - July 31, 2018	93,750,000	5.80%	5,437,500
2016-2019 August Program Contract 2	August 1, 2016 - July 31, 2019	93,750,000	5.80%	2,265,625
<b>Total Traditional Reinsurance Premium</b>				<b>165,601,943</b>
<b>Transformer Reinsurance Contracts</b>	<b>Contract Period</b>	<b>Reinsurance Limit</b>	<b>12-Month Rate-on-Line</b>	<b>2016 Premium</b>
2014 - 2017 Transformer Reinsurance Contract 1	December 1, 2014 - November 30, 2017	200,000,000	5.05%	10,126,970
2014 - 2017 Transformer Reinsurance Contract 2	December 1, 2014 - November 30, 2017	200,000,000	3.54%	7,230,177
2015 - 2018 Transformer Reinsurance Contract 1	September 16, 2015 - September 15, 2018	250,000,000	5.05%	12,712,517
<b>Total Transformer Reinsurance Premium</b>				<b>30,069,664</b>
<b>Total Risk-Transfer Program Premium</b>				<b>195,671,607</b>

Note: Additional risk-transfer program contracts expected in 2016

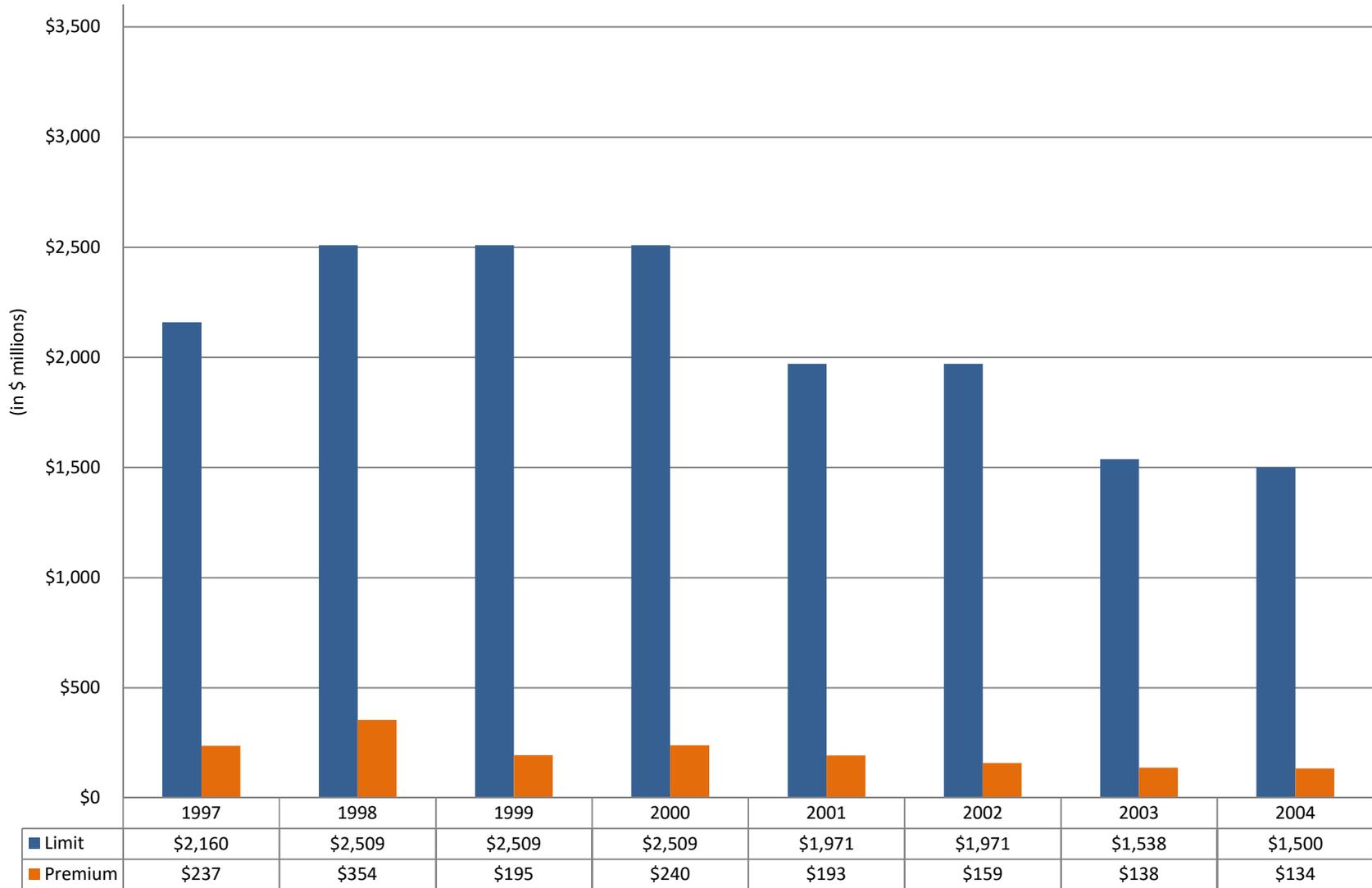
**California Earthquake Authority  
Annual Risk-Transfer Premium  
December 31, 1997 - December 31, 2004**



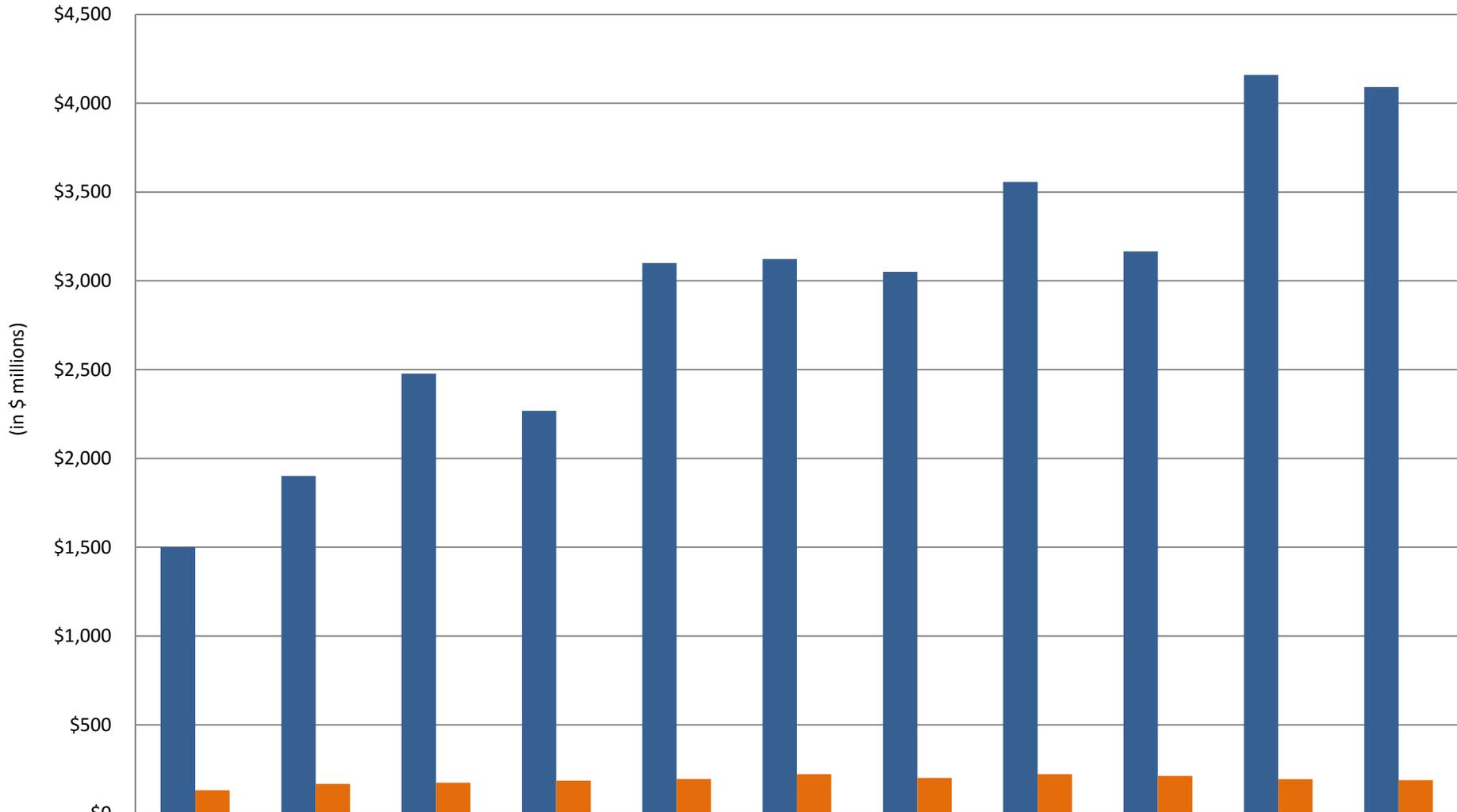
**California Earthquake Authority  
Annual Risk-Transfer Premium  
December 31, 2005 -December 31, 2015**



**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, 2015**



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
■ Limit	\$1,500	\$1,902	\$2,478	\$2,268	\$3,100	\$3,123	\$3,050	\$3,557	\$3,165	\$4,159	\$4,091
■ Premium	\$131	\$167	\$174	\$185	\$195	\$222	\$201	\$223	\$213	\$194	\$189

## Governing Board Memorandum

December 14, 2016

Agenda Item 5: Proposed 12-month CEA Risk-Transfer Strategy for 2017

Recommended Action: Approve proposed 12-month CEA Risk-Transfer Strategy for 2017

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### Background:

At the December 13, 2012, Governing Board meeting, CEA staff proposed to the Board new guidelines for procuring risk transfer and claim-paying capacity, including traditional reinsurance and alternative risk-transfer methods. At the same meeting, the Board approved a resolution adopting *Guidelines for Securing Risk Transfer: Traditional Reinsurance and Alternative Risk Transfer* (the *Guidelines*), which was revised and approved by the Board on December 17, 2014.

In accordance with the *Guidelines*, CEA staff must provide the Board for review and approval, on at least an annual basis, a comprehensive risk-transfer strategy that sets forth the CEA's basic risk-transfer goals and benchmarks for the following year.

In its search for optimal sources of claim-paying capacity, staff has balanced the following objectives:

1. The CEA must remain financially sound, by securing and maintaining claim-paying capacity sufficient for policyholder claims in the event of an earthquake while retaining essential financial-strength and credit ratings.
2. The CEA must honor its value proposition with its customers, by establishing a financial structure that makes CEA insurance as affordable as possible and while supporting the claim-paying capacity that is both necessary and appropriate in order to provide secure earthquake coverage to existing policyholders while providing for reasonable growth.
3. Generate stability and longevity for the Authority through a financial structure that ensures the CEA's continuation and enhances its ability to serve policyholders after a significant earthquake or series of earthquakes.

The staff analysis and recommendations below focus on these priorities.

### Analysis:

Historically, the CEA has relied on reinsurance—predominantly, traditional reinsurance—for about a third of its total claim-paying capacity. The cost of CEA's risk-transfer purchases (both traditional and non-traditional reinsurance, such as transformer arrangements) that are required to

meet CEA's capacity needs is a significant periodic expense that, according to principles of actuarial soundness followed by CEA, must be accounted for as an expense in the premium rates charged CEA policyholders.

CEA has worked hard to reduce its premium rates charged its customers, in the face of rising reconstruction costs, an unpredictable risk-transfer marketplace, and our statutory call to use actuarially sound rates and the best available science. When CEA buys risk-transfer from the reinsurance marketplace or by accessing the global capital markets, it pays a premium to obtain that cover. CEA's current risk-transfer rates are quite low. In fact, they are historically low—on average, less than a third of the rate CEA was able to obtain 20 years ago. So while insuring catastrophe loss in a responsible manner involves considerable expense, CEA's risk-transfer programs and pricing assure that CEA customers pay no more than is absolutely necessary for dependable CEA earthquake insurance policies.

Available risk-transfer capacity and price are subject to wide swings—potentially upward or downward—caused by market conditions, global catastrophes, and other factors beyond CEA's control.

- For example, starting in 2013 reinsurance market-capacity has expanded, so buyers such as CEA have demanded and received lower pricing.
- Multiyear reinsurance contracts (such as CEA's transformer-reinsurance transactions) relieve CEA of some year-to-year capacity and pricing uncertainty, but there remain significant risks.

So while staff believes the risk-transfer limits CEA is likely to require for the next 12 months should be obtainable at an acceptable price and on reasonable terms, there is no guarantee that the capacity the CEA requires in the future will be obtainable at CEA's desired pricing and on CEA's desired terms.

Because CEA has a fairly rigid financial structure that depends heavily on risk-transfer, any potential limits on traditional and transformer reinsurance-market capacity will affect, and may constrain, the overall claim-paying capacity of the CEA—and that, in turn, could hinder CEA's ability to provide affordable earthquake insurance.

With its three successful transformer-reinsurance transactions completed in 2011 and 2012, and three annual transactions—one in 2014, one in 2015, and one in 2016—CEA has well established access to the capital markets for risk-transfer, which means CEA can access additional, strong sources of claim-paying capacity and risk-transfer, going forward.

As has been discussed frequently and at length with the Board in connection with its approvals of past risk-transfer proposals and transactions, the risk-transfer market is dynamic: Coordinating CEA's risk-transfer needs with current market conditions is crucial, meaning the CEA must be positioned to execute risk-transfer transactions efficiently and effectively, when market conditions in the reinsurance and capital markets are, in the judgment of CEA financial staff and CEA's retained professional financial, legal, reinsurance, and risk-transfer experts, likely to be receptive to the CEA's participation and unique requirements.

The Board has recognized these needs by taking action: On December 13, 2012, it authorized CEA staff to accomplish these ends in a flexible, yet prudent, manner, to allow CEA to act quickly when market conditions are favorable to meet the tight time limits and deadlines inherent in highly time-sensitive risk-transfer transactions, in amounts and at pricing according to the staff's discretion, while in full compliance with the Guidelines and under documented conditions.

### **Results of the 2016 Risk-Transfer Strategy (Board-approved in 2015)**

During 2016, the CEA was able to obtain sufficient capacity to maintain the approved minimum claim-paying capacity of a 1-in-450-year level. But as CEA moves into 2017, the three earthquake loss-modeling companies that own the models CEA relies on to determine its claim-paying capacity are modifying those models by incorporating results of new scientific hypotheses and conclusions. Modification timetables vary, so the modified models will be available to CEA at different times. As a result, during 2017 CEA will transition to using the respective outputs of the modified models.

Reinsurance capacity in both traditional reinsurance markets and capital markets remains strong and well capitalized, likely allowing CEA the ability to pay less for its risk-transfer program while obtaining its desired capacity levels.

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The 2016 CEA risk-transfer program (as of December 1, 2016) is represented below, with pricing:

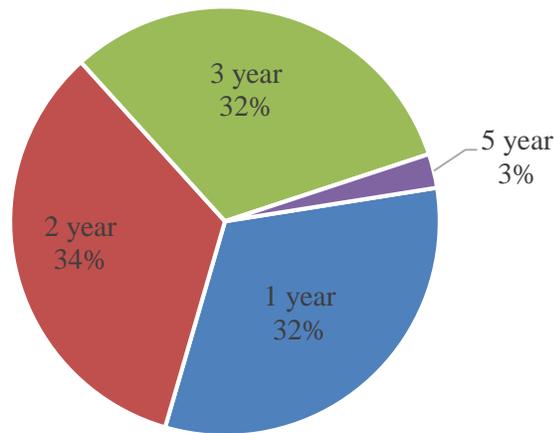
Risk-Transfer Contracts as of 12/1/2016	Contract Period	Reinsurance Limit	Rate-on-Line	2016 Premium
2015-2016 April Program Contract 1	4/1/2015 - 3/31/2016	624,992,490	3.00%	4,687,444
2014-2016 April Program Contract 1	4/1/2014 - 3/31/2016	253,099,320	3.85%	2,436,081
2014-2016 April Program Contract 2	4/1/2014 - 3/31/2016	122,499,960	3.75%	1,148,437
2013-2016 May Program	5/1/2013 - 4/30/2016	100,000,000	5.60%	1,866,667
2015-2016 June Program	6/1/2015 - 5/31/2016	25,000,000	3.60%	375,000
2015-2016 August Program Contract 1	8/1/2015 - 7/31/2016	187,500,000	5.50%	6,015,625
2016 June Program Contract 2	6/1/2016 - 11/30/2016	50,000,000	5.50%	1,375,000
2016 January Program Contract 1	1/1/2016 - 12/31/2016	641,212,680	4.30%	27,572,145
2016 January Program Contract 2	1/1/2016 - 12/31/2016	60,200,000	5.60%	3,371,200
2015-2016 January Program Contract 1	1/1/2015 - 12/31/2016	156,431,990	4.55%	7,117,656
2015-2016 January Program Contract 2	1/1/2015 - 12/31/2016	146,871,900	3.30%	4,846,773
2015-2016 January Program Contract 3	1/1/2015 - 12/31/2016	24,999,990	5.40%	1,349,999
2016-2017 April Program Contract 1	4/1/2016 - 3/31/2017	757,031,100	3.00%	17,033,200
2015-2017 August Program Contract 2	8/1/2015 - 7/31/2017	200,000,000	4.50%	9,000,000
2015-2017 August Program Contract 1	8/1/2015 - 7/31/2017	93,750,000	5.60%	5,250,000
2016-2017 August Program Contract 1	8/1/2016 - 7/31/2017	93,750,000	5.50%	2,148,438
2016-2017 December Program Contract 1	12/1/2016 - 11/30/2017	80,000,000	5.75%	383,333
2016-2017 May Program Contract 1	5/1/2016 - 11/30/2017	100,000,000	3.55%	2,366,667
2015-2017 December Program Contract 1	12/1/2015 - 11/30/2017	124,999,980	5.50%	6,874,999
2015-2017 December Program Contract 2	12/1/2016 - 11/30/2017	99,988,000	5.50%	458,278
2015-2017 December Program Contract 2	12/1/2015 - 11/30/2017	49,999,950	5.60%	2,799,997
2014 - 2017 Transformer Reinsurance Contract 1	12/1/2014 - 11/30/2017	200,000,000	5.05%	10,100,000
2014 - 2017 Transformer Reinsurance Contract 2	12/1/2014 - 11/30/2017	200,000,000	3.54%	7,070,000
2016-2017 January Program Contract 1	1/1/2016 - 12/31/2017	472,799,040	4.40%	20,803,158
2016-2017 January Program Contract 2	1/1/2016 - 12/31/2017	99,999,970	5.70%	5,699,998
2016-2017 January Program Contract 3	1/1/2016 - 12/31/2017	49,999,995	5.00%	2,500,000
2016-2017 January Program Contract 4	1/1/2016 - 12/31/2017	50,000,000	2.60%	1,300,000
2016-2018 April Program Contract 1	4/1/2016 - 3/31/2018	259,876,500	3.10%	6,042,129
2016-2018 June Program Contract 1	6/1/2016 - 5/31/2018	49,999,980	5.40%	1,574,999
2015-2018 August Program Contract 1	8/1/2015 - 7/31/2018	93,750,000	5.80%	5,437,500
2015 - 2018 Transformer Reinsurance Contract 1	9/16/2015 - 9/16/2018	250,000,000	5.05%	12,625,000
2016-2019 April Program Contract 1	4/1/2016 - 3/31/2019	124,999,920	3.25%	3,046,873
2016-2019 August Program Contract 1	8/1/2016 - 7/31/2019	200,000,000	4.15%	3,458,333
2016-2019 August Program Contract 2	8/1/2016 - 7/31/2019	93,750,000	5.80%	2,265,625
2016 - 2019 Transformer Reinsurance Contract 1	12/1/2016 - 11/30/2019	500,000,000	4.05%	1,687,500
2015-2020 August Program Contract 1	8/1/2015 - 7/31/2020	139,000,000	4.23%	5,879,700
<b>Total Risk Transfer in effect as of December 1, 2016</b>		<b>5,413,410,995</b>		<b>197,967,753</b>
Contracts effective in 2016				

The table above shows CEA's risk-transfer contracts in effect, including those purchased, throughout 2016. The achieved program diversity minimizes risks of adverse economic conditions negatively affecting pricing. And because it buys throughout the year, the CEA can better match its need for risk-transfer to changes in exposures that require capacity adjustments.

In 2016, the CEA continued to diversify its risk-transfer program by executing multi-year reinsurance contracts, which together provide the CEA with uninterrupted, long-term financing at lower prices. Multi-year contracts reduce the risk of a single year's market conditions preventing the CEA from obtaining risk-transfer capacity at suitable pricing, on favorable terms. CEA entered into 17 new risk-transfer contracts in 2016, of which 12 were multi-year.

CEA returned to the capital markets in 2016 with a \$500,000,000 transformer reinsurance contract with Ursa Re Ltd.

Total Participation by Contract Terms  
Based on Contracts in Effect on December 1, 2016



### 12-Month Risk-Transfer Strategy

Staff proposes a 2017 risk-transfer strategy that will include risk-transfer programs of both traditional and transformer reinsurance, contributing appropriately and efficiently to CEA's claim-paying capacity. In determining the total claim-paying capacity for 2017, CEA will be transitioning to the modified earthquake models and will maintain its capacity at no less than a 1-in-400-year level and no greater than a 1-in-550-year level.

CEA staff will strive in each 2017 transaction to obtain the most advantageous pricing and contracts extending over multiple years, accessing both the worldwide reinsurance market and those other capital markets that are providers of reliable risk-transfer.

In keeping with past practices and Board preferences, staff will report each transaction to the Board at the first Board meeting following the effective date of each transaction.

### Recommendation:

Staff recommends the Board approve the proposed 12-month Risk-Transfer Strategy that is described above.

## Governing Board Memorandum

December 14, 2016

Agenda Item 6: CEA IT Project Portfolio for 2017

Recommended Action: Approve funding of the CEA IT Project Portfolio for 2017 in an amount not to exceed \$1,400,000

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CEA Chief Information Officer Todd Coombes will update the Governing Board on the 2016 IT Project Portfolio and will seek approval for funding of the IT Project Portfolio for 2017.

### Background:

The CEA Enterprise Project Management Office (EPMO) met with CEA department leaders and executives and identified 12 technology-related projects to add to the proposed IT Project Portfolio for 2017. The 12 new projects are in addition to three projects from 2016 that will carry forward into 2017. The resulting 15-project 2017 portfolio includes projects with the highest priority for each of the CEA departments, taking into account projected internal and external IT capacity.

New portfolio structure. Previously, the IT Project Portfolio concluded at the end of each calendar year and was replaced with a new IT Project Portfolio for the new year. Beginning in 2017 the IT Project Portfolio will be a continuous portfolio, allowing projects to carry forward from one year to the next.

The IT Project Portfolio budget will continue to be based on a the CEA fiscal (calendar) year.

Initial labor estimates and corresponding resource and delivery schedules were prepared by the CEA Enterprise Project Management Office for each of the 15 Portfolio projects. Some of CEA IT's internal-development capacity will be used to support existing CEA systems, but significant 2017 internal capacity also will be dedicated to the IT Project Portfolio.

In order to accomplish all of the work associated with the Portfolio projects, the EPMO determined that additional IT development labor must come from external contractors. The estimated Portfolio expense for external contract labor for 2017 is \$1,400,000.

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Analysis:

Project Name	External Cost
CEA Mobile Agent App	\$ 100,000
Centralize Agent Training & Registration	
Combine Agent Databases - Phase I	
CPP Data Warehouse	
Written Premium Write-off	
Emergency Management & Business Continuity	
Enterprise Content Management (ECMS)	\$ 300,000
Supply Inventory Tracking System	
End to End Mitigation Website Phase II	\$ 300,000
QuakeGrade (SMIMA P2) Mitigation Inspection App	\$ 300,000
Self Service Business Intelligence Reporting	\$ 100,000
Earthquake Authority Website Redesign	\$ 150,000
Zip Code Validation	
HR Personnel Action Center (HRPac) User Interfaces	
Legal Electronic Discovery (eDiscovery)	\$ 150,000
	\$ 1,400,000

- A work estimate for each of the 15 Portfolio projects was established based on scope and effort projections for each internal and external resource in the development process.
- Schedules were planned based on a combination of business needs and resource availability, including IT resources and business subject matter experts.
- External cost estimates were based on planned external contractor hours and projected market rates.

In order to successfully complete the 2017 IT Project Portfolio as planned, external contract labor will be required. To the extent the Board does not approve the 2017 Portfolio expense for external contract labor, the EPMO will work with CEA leadership and staff to reduce and reprioritize the Portfolio to fit within available CEA capacity.

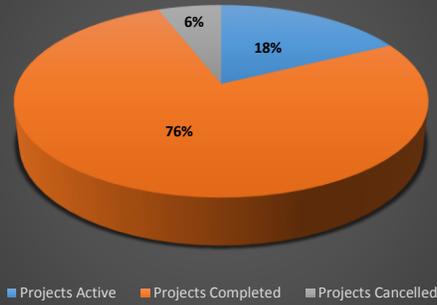
Recommendation:

Approve funding the (non-statutory) expense of external contract labor for the 2017 CEA IT Project Portfolio, in accordance with the 2017 CEA budget, in an amount not to exceed \$1,400,000.

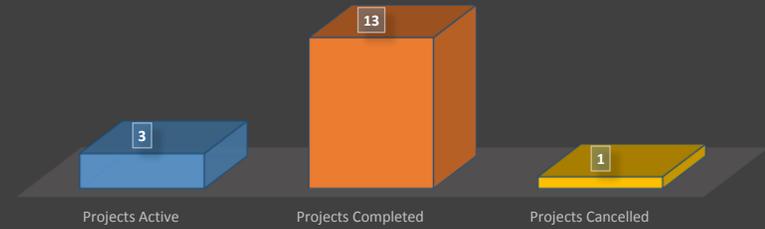
## 2016 Project Portfolio

December 2016

### 2016 IT Project Portfolio



### 2016 IT Project Status



#### Total 2016 Project Portfolio

Project Count	17
Projects Active	3
Projects Completed	13
Projects Cancelled	1

#### Active Projects:

CEA Mobile App	
Centralize Agent Training & Registration	
Combine Agent Databases Phase I	
<b>Total Active Projects</b>	<b>3</b>

#### Projects Cancelled:

Premium Write-offs Before 12/31/08	
<b>Total Projects Cancelled</b>	<b>1</b>

#### Completed Projects:

CPP Insuresoft Implementation	
CPP Data Warehouse & Reporting	
CRM Phase II	
CRM Phase III	
ECM Phase II	
ECM Phase III	
Migrate EQA & MVP the New Platform	
Operations Reports - Claims	
Operations Reports - Business	
Premium Write-offs After 1/1/09	
Seismic Vulnerability Inspection Mobile App	
Single Zip Code Data Source	
Homeowner's End to End Mitigation Website	
<b>Total Completed Projects</b>	<b>13</b>

**2016 Project Portfolio  
December 2016**

		2016												External Cost Budget (Statutory)	External Cost Budget (Non-Statutory)	Actual Total Cost To Date
Portfolio Number	Description	Q1			Q2			Q3			Q4					
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec			
														\$0	\$1,309,000	
	<b>Marketing Technology Support</b>															<b>\$258,424</b>
2016-01	CEA Mobile App													\$0	\$255,000	\$0
2016-02	Centralize Agent Training & Registration													\$0	\$0	\$0
2016-03	Combine Agent Databases Phase I													\$0	\$0	\$0
2016-10	Migrate EQA & MVP the New Platform													\$0	\$0	\$0
	<b>Claim Technology Support</b>															<b>\$274,254</b>
2016-11	Operations Reports - Claims													\$0	\$200,000	\$0
2016-12	Operations Reports - Business													\$0	\$0	\$0
	<b>Legal Technology - Direct Support</b>															<b>\$397,890</b>
2016-08	ECM Phase II													\$0	\$300,000	\$0
2016-09	ECM Phase III													\$0	\$300,000	\$0
	<b>Promote Earthquake-Loss Mitigation</b>															<b>\$335,625</b>
2016-15	Seismic Vulnerability Inspection Mobile App													\$0	\$148,000	\$0
2016-16	Single Zip Code Data Source													\$0	\$0	\$0
2016-17	Homeowner's End to End Mitigation Website													\$0	\$106,000	\$0
	<b>Other Projects</b>															
2016-04	CPP Insuresoft Implementation													\$0	\$0	\$0
2016-05	CPP Data Warehouse & Reporting													\$0	\$0	\$0
2016-06	CRM Phase II													\$0	\$0	\$0
2016-07	CRM Phase III													\$0	\$0	\$0
2016-13	Premium Write-offs After 1/1/09													\$0	\$0	\$0
2016-14	Premium Write-offs Before 12/31/08													\$0	\$0	\$0
																\$1,266,193

\$1,309,000

\$1,266,193

 Completed	 HOLD / Deferred
 Active/Continued	 Cancelled
 Planned	

## 2016 Project Portfolio December 2016

Portfolio #	Project Name	PM	Status	Target Start Date	Start Date	Project % Complete	Target End Date	End Date
2016-01	CEA Mobile App	Stephenie Dagata	Active	01/04/16	01/04/16	10%	03/16/17	03/16/17
2016-02	Centralize Agent Training & Registration	Stephenie Dagata	Active	01/04/16	01/04/16	10%	04/27/17	04/27/17
2016-03	Combine Agent Databases Phase I	Stephenie Dagata	Active	01/04/16	01/04/16	22%	06/08/17	06/08/17
2016-04	CPP Insuresoft Implementation	Marian Love	Complete	01/04/16	01/04/16	100%	07/14/16	12/30/16
2016-05	CPP Data Warehouse & Reporting	Jason Haxton	Complete	01/04/16	01/04/16	100%	12/30/16	12/22/16
2016-06	CRM Phase II	Stephenie Dagata	Complete	04/01/16	04/01/16	100%	08/15/16	08/19/16
2016-07	CRM Phase III	Stephenie Dagata	Complete	08/16/16	08/16/16	100%	12/30/16	12/30/16
2016-08	ECM Phase II	Patrick Hayes	Complete	01/04/16	01/04/16	100%	06/30/16	06/30/16
2016-09	ECM Phase III	Patrick Hayes	Complete	07/01/16	07/01/16	100%	12/30/16	12/30/16
2016-10	Migrate EQA & MVP the New Platform	Stephenie Dagata	Complete	01/04/16	01/04/16	100%	05/26/16	05/26/16
2016-11	Operations Reports - Claims	Terri Kletzman	Complete	01/05/16	01/05/16	100%	12/30/16	08/04/16
2016-12	Operations Reports - Business	Terri Kletzman	Complete	01/11/16	01/11/16	100%	12/26/16	10/03/16
2016-13	Premium Write-offs After 1/1/09	Terri Kletzman	Complete	04/01/16	04/01/16	100%	12/30/16	12/30/16
2016-14	Premium Write-offs Before 12/31/08	Terri Kletzman	Cancelled	04/01/16	04/01/16	0%	12/30/16	12/30/16
2016-15	Seismic Vulnerability Inspection Mobile App	Terri Kletzman	Complete	02/01/16	02/01/16	100%	12/21/16	12/21/16
2016-16	Single Zip Code Data Source	Patrick Hayes	Complete	02/12/16	02/12/16	100%	12/30/16	09/30/16
2016-17	Homeowner's End to End Mitigation Website	Terri Kletzman	Complete	02/15/16	02/15/16	100%	12/30/16	12/30/16

**2016 Project Portfolio  
December 2016**

Portfolio #	Project Title	Risk Category	Risk Description	Risk Response (Strategy)
2016-01	CEA Mobile App	High	Limited internal resource capacity	Accept: Project will not complete in 2016. Mitigate: Utilize external resource for design, complete in 2017
2016-02	Centralize Agent Training & Registration	High	Limited internal resource capacity, dependency on CAD project completion	Accept: Project will not complete in 2016. Mitigate: User story creation and part of design and groom in 2016, rest of work complete in Q2 2017
2016-03	Combine Agent Databases Phase 1	High	Limited internal resource capacity	Accept: Project will not complete in 2016. Mitigate: Phased approach, 2016 data model creation, research data discovery, complete project Q2 2017
2016-04	CPP Insuresoft Implementation	Low	The interest in implementing Insuresoft is increasing with some of the larger PIs faster than anticipated.	Accept: CEA and Insuresoft are clearly communicating expectations to the PIs. Specifically, that there are limitations on how many PIs can be implemented each year.
2016-05	CPP Data Warehouse & Reporting	Medium	Limited resource capacity to complete the first phase of the project by end of Q4, 2016.	Mitigate: We are thoroughly communicating with Release and Development teams and management to ensure that all future deadlines are met. This will allow us to stay on track for 2016.
2016-07	CRM Phase III	High	Limited resources to complete EPICenter integration	Accept: Project is planned to complete in 2016 although resource availability is limited.
2016-08	ECM Phase II	Medium	Availability of SharePoint Resources	Mitigate: Project 2016-10 will move websites from SharePoint in an effort to free up SharePoint resources
2016-15	Seismic Vulnerability Inspection Mobile App	Medium	Challenge to design for maximum usability and user adoption	Mitigate: The key success factor to this project is that Inspectors use the software application. The project will aim to get feedback from users early on and leverage user experience designers.

**2016 Project Portfolio  
December 2016**

<b>Portfolio #</b>	<b>Project Name</b>	<b>Description of Change</b>	<b>Reason</b>
2016-01	CEA Mobile App	Shift external resource budget to this project from other projects.	Skill and experience mix of internal and external resources made it more effective to shift external resource budget to this project.
2016-01	CEA Mobile App	Extend project into 2017	Scope, resources, scheduling, and prioritization of this project resulted in it extending into 2017
2016-02	Centralize Agent Training & Registration	Extend project into 2017	Scope, resources, scheduling, and prioritization of this project resulted in it extending into 2017
2016-03	Combine Agent Databases Phase 1	Extend project into 2017	Scope, resources, scheduling, and prioritization of this project resulted in it extending into 2017
2016-15	Seismic Vulnerability Inspection Mobile App	Shift external resource budget from this project to other projects.	Skill and experience mix of internal and external resources made it more effective to shift external resource budget to other projects.
2016-17	Homeowners End to End Mitigation Website	Shift external resource budget from this project to other projects.	Skill and experience mix of internal and external resources made it more effective to shift external resource budget to other projects.

## **Governing Board Memorandum**

December 14, 2016

Agenda Item 7:                    Centralized Policy Processing Update

Recommended Action:        No action required—information only

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Chief Information Officer Todd Coombes will present an update on the Centralized Policy Processing (CPP) initiative.

## Governing Board Memorandum

December 14, 2016

Agenda Item 8: Accelerate CPP Diamond implementations

Recommended Action: Approve the approach and authorize funding of the “CPP Diamond Implementation Acceleration” project in the amount of \$2.5M, and additional CPP Diamond standard-offering transition services for \$25,000 per implementation and \$5 per policy, and approve related contract negotiations and execution by CEO Glenn Pomeroy

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### Background:

In the December 2015 Governing Board meeting, CEA Chief Information Officer Todd Coombes presented a long-term implementation strategy for the CPP Diamond platform. The strategy was based on a 10-year plan, with a goal of implementing CPP Diamond across all CEA participating insurers for an approximate aggregate cost of \$7.5M.

This aggregate implementation cost was based on contractual fee structures agreed to by CEA and the CPP Diamond vendor, Insuresoft.

- The fees are calculated using a formula that includes a configuration component and a conversion component.
- Each PI implementation of the standard CPP Diamond offering costs \$85,500 for configuration and \$5 per policy for conversion.

The \$7.5M estimated cost over 10 years was calculated using the contractual standard-configuration and conversion-fee structures and based on conservative growth estimates of the CEA book of business (24 PIs and 1.1M CEA earthquake policies in force). Specific, annual, non-statutory budget projections for standard CPP Diamond implementations that make up the 10-year projected \$7.5M total are based on planned efforts for the upcoming budget year.

PI demand for CPP Diamond has been much stronger than originally anticipated, with more than half of PIs currently desiring to schedule implementations in the near term, resulting in a growing backlog and scheduling challenges. Any future rate or form filing, or any other future changes that might have impacts on a PI’s CEA earthquake-policy and claim processing could result in an even larger and more urgent demand for CPP Diamond implementations.

Insuresoft and CEA originally agreed to dedicated capacity for up to five small CPP Diamond implementations per year or two larger implementations. But increased demand and PI-schedule challenges have resulted in reevaluating this approach and led to recommendations on accelerating the implementation process.

## Analysis:

### *Solution Requirements:*

- Speed-up Diamond implementations to meet growing PI demand and urgency.
- Minimize schedule dependencies and conflicts so that PI-implementation delays do not have impacts on other implementations. This would include establishing milestone "gates" that would be attained, in part, through self-service implementation, and reviewed and validated at each gate to allow access to the next gate.
- Standardize and automate implementations to reduce risk and improve quality.
- Solution must be acceptable from a financial perspective.
- Solution must allow for a standardized policy-conversion approach that will accommodate data quality, data accessibility, and complexity issues across PIs.

### *Solution Approach:*

Insuresoft has proposed creating automated utilities and enhancing processes to accelerate CPP Diamond implementations and provide PIs more of a “self-service-implementation” approach.

Insuresoft has also proposed modifying the CPP Diamond standard offering to include transition services for a 60–90-day period, where Insuresoft would provide either initial processing services or additional implementation consulting, depending on each PI’s needs. This enhanced approach to CPP Diamond implementations was based on lessons learned from early implementations and will reduce risks, minimize system-transition impacts, and help ensure a quality start-up for new business and for effectively converting existing CEA policies using one of the following three approaches.

Conversion approaches include the following to address different PI needs:

1. “Big-Bang”: All inforce policies electronically moved from source PI system to CPP Diamond at one time
2. “Renewal”: Renewal offers throughout the year originate from source-PI system, and renewal policies are seamlessly added to CPP Diamond upon policyholder acceptance of the renewal offer.
3. “Hybrid”: Renewal-conversion approach to start, followed by a partial Big-Bang at some point, creating an earlier completion.

If the Board approves this recommendation, Insuresoft will create acceleration utilities and processes during 2017, while continuing to implement scheduled PI CPP Diamond roll-outs.

Once acceleration is in place, new CPP Diamond implementations would use an online checklist with menu options for desired configuration features, providing an auto-configured system for the PI. A PI implementing CPP Diamond would follow the online implementation process at its own desired pace until reaching incremental checkpoints for project review or the need for Insuresoft or CEA assistance.

Conversion, testing, and certifications all would be included in the acceleration, with minimal manual effort required. Production implementations would still be subject to final testing and scheduling with Insuresoft and CEA, but PIs would have more control and fewer dependencies on go-live schedules.

Post-implementation would include, as part of the standard offering, Insuresoft transition services for a 60–90-day period, as needed.

*Financial:*

Insuresoft requires additional CEA payment to create the automated utilities needed to speed-up Diamond implementations.

To provide that funding, CEA staff proposes to accelerate payment to Insuresoft in the sum of \$2.5M (one-third of the \$7.5M projected, long-term aggregate implementation fees) in 2017 to support development of utilities and PI self-service implementation processes. CEA would recoup a significant portion of these proposed acceleration costs over time by Insuresoft's reducing actual, future CPP Diamond implementation fees by 1/3 after the acceleration approach is in place.

The addition of 60–90 days of Insuresoft implementation-transition services to the CPP Diamond standard offering requires funding in the sum of \$25,000 per implementation and \$5 per policy. This added funding will provide for initial implementation-transition services for large and small PIs, and would accommodate any new PIs that have no existing policy base.

CEA staff proposes that CEA fund the expenditures described above in the category of “non-statutory” operating expenses, through the normal CEA annual-expense budget process.

- For 2017, the fees for initial implementation-transition services will be a part of the \$2.5M acceleration funding.
- In future years (2018 and beyond, as needed), however, these fees will be budgeted as a separate line item.

Recommendation:

Approve the approach, and authorize the funding, of the CPP Diamond Implementation Acceleration project in the amount of \$2.5M, and additional CPP Diamond standard offering transition services for \$25,000 per implementation and \$5 per policy, and approve related contract negotiations and execution by CEO Glenn Pomeroy.

## Governing Board Memorandum

December 14, 2016

Agenda Item 9: Proposal to hire a Chief Operations Officer (COO) upon the retirement of current COO Robert Stewart

Recommended Action: Approve recommendation to hire a Chief Operations Officer

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### Background:

In one of the three specific authorizations for executive-management positions that form part of the Governing Board's plenary authority over CEA operations, the CEA law provides for an "Operations Manager" position.

- In 1996, the Governing Board filled this slot by hiring as a contract-executive employee, an individual charged with the responsibility of managing CEA insurance operations. The Board also termed this individual the CEA Chief Operations Officer.
- When this position became vacant several years later, the Board hired Bob Stewart into a position it termed "operations manager," at the recommendation of the then-CEO. The original position duties were essentially unchanged from those of the prior COO. But as Bob's duties quickly expanded with the Board's quickly developing view of a much more active and creative CEA, the position became more complex.
- Ultimately, in 2008, the Board renamed the position as "Chief Operations Officer," an executive level position with responsibility over information technology, research, facilities management, and Human Resources, in addition to insurance operations. This change had been recommended by CEO Glenn Pomeroy.
- As CEA continued to grow, and accelerated its expansion of products and activities, including a substantial and growing need for high-level technology expertise befitting the country's largest earthquake insurer, the Board established a "Chief Information Officer" position in 2013 and hired Todd Coombes. Todd was (and still is) charged with growing CEA's information-technology capacity.
- In 2016, the Board hired its first "Chief Administrative Officer," also the Authority's first executive-level human-resources position.
- The Board is aware that COO Bob Stewart months ago announced his retirement date. His last day of work will be January 31, 2017.
- CEO Glenn Pomeroy has developed a succession plan in anticipation of Bob's upcoming retirement. Under the plan, responsibilities for insurance-operations services—formerly performed by the COO—will be assumed by the current Chief Information Officer (CIO), and the combined position (to be occupied by the incumbent CIO) will be renamed "Chief of Technology and Insurance Services."

- Mr. Pomeroy now proposes to expand and combine important management responsibilities for internal operations (that is, the myriad non-insurance COO duties *not* being transferred to the new Chief of Technology and Insurance Services) and the present duties of the current Chief Administrative Officer, and place them into the Chief Operations Officer position.
- Mr. Pomeroy has concluded that current CEA Chief Administrative Officer Kellie Schneider would be exceptionally qualified to serve as CEA’s Chief Operations Officer, under the new job duties, and recommends her hiring by the Board into a contract-executive position, using the “operations manager”-specific slot.

Analysis:

Effective February 1, 2017, all responsibilities for CEA insurance services—which were formerly headed up by Chief Operations Officer Bob Stewart—will be assumed by the current CIO, Todd Coombes, in a position retitled Chief Technology and Insurance Services Officer.

Combining insurance services with information technology is CEA’s recognition of a growing experience across the insurance industry: that insurance operations and the supporting technology are strongly linked and may be efficiently handled as a single, coordinated effort by adding operational responsibilities to executive IT expertise.

In the case of the CEA, and because the Authority outsources day-to-day policy sales and administration, as well as claim-adjusting, to its participating insurers, the CEA’s insurance operations actually consist in large part of IT-driven/supported processes. Reflecting this reality, the new arrangement will allow the two functions to benefit from close alignment under a single point of management.

Effective February 1, 2017, CEO Glenn Pomeroy proposes that CEA directly contract with Kellie Schneider (currently CEA’s Chief Administrative Officer, a civil service position) to appoint her to the “Chief Operations Officer” position, with a portfolio of responsibilities as outlined below:

The new leadership responsibilities would include:

- Human Resources
- Facilities Management
- Internal Policies and Procedures
- Enterprise Project Management
- Training
- Executive Budget Review
- Enterprise Procurement Services

This move would not require back-filling the CAO position, Kellie’s new position would retain all that functional responsibility, in addition to the new duties as outlined above.

In addition to enterprise-wide internal operations and administration, Kellie would directly assist the Chief Executive Officer in a role not dissimilar to chief of staff, by facilitating coordination and communication across all CEA functions. The need for this role became evident in 2016, when the CEO began spending time traveling throughout California to meet with stakeholders, civic groups, and public organizations; that outreach proved highly successful and is expected to continue in 2017 and beyond.

The new Chief Operations Officer position would be a direct report to the CEO.

Authority: The CEA Governing Board has the authority to “...employ or contract with that staff and those professionals the board deems necessary for its efficient administration.” Calif. Ins. Code sec. 10089.7, subdivision (g).

Certain CEA positions are the subject of express call-outs in the CEA law (e.g., chief executive officer, chief financial officer, operations manager). Those familiar examples of position-specific express authority, which the Board has used for many years to assure (among other things) executive leadership in CEA operations and finance, may be considered part of the Board’s unconditional grant of plenary authority laid out more fully in the same Code section: “The board shall have the power to conduct the affairs of the authority and may perform all acts necessary or convenient in the exercise of that power. Without limitation, the board may: (1) employ or contract with officers and employees to administer the authority; ... and (13) perform all acts that relate to the function and purpose of the authority, whether or not specifically designated in this chapter.” Calif. Ins. Code section 10089.7, subd. (c).

Recommendation:

Authorize CEO Glenn Pomeroy to execute an employment contract with Kellie Schneider, to serve as CEA Chief Operations Officer, with duties to be assigned as described above.

## Governing Board Memorandum

December 14, 2016

Agenda Item 10: 2017 CEA Business Implementation Plan

Recommended Action: Approve the 2017 CEA Business Implementation Plan

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### Background:

The CEA staff has prepared a Business Implementation Plan (BIP), which corresponds to the 2017 CEA budget.

The BIP describes, organizes, and supports the Authority's business activities for both insurance services and mitigation programming.

### Analysis:

This year's BIP (*please see: Attachment A - 2017 CEA Business Implementation Plan*) follows the general concepts set out above as Background.

CEA department directors, supported by staff analysis, have built the proposed 2017 BIP after assessing and accounting for the presence and status of activities in the 2016 BIP.

That is, in addition to CEA insurance and mitigation initiatives new (and newly described) for 2017, the proposed 2017 BIP generally accounts for elements of the 2016 BIP that, on account of changing business priorities, have been delayed or were changed, or are ongoing or expanded processes.

Throughout 2017, CEA staff will update the Board on the BIP-implementation process.

### Recommendation:

Staff recommends the Governing Board approve the proposed 2017 CEA Business Implementation Plan.

# California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<h2>Execute Strategic Mission</h2> <p>The California Earthquake Authority is California’s not-for-profit, public provider of residential earthquake insurance—publicly managed and privately funded, with programs to encourage and support effective action to reduce the risk of earthquake damage and loss.</p>				
<p><b>GOAL ONE: Educate.</b> <i>Help Californians learn about their seismic risks in order to prepare for, survive, and recover from damaging earthquakes.</i></p>				
<p><b>PRIORITY: Innovation.</b> Develop new ways to help Californians understand their earthquake risks, the value of earthquake-risk mitigation, and the financial-preparedness features of CEA earthquake-insurance products.</p>				
<p>1. <b>Expand beyond CEA the use of results from CEA-sponsored message-research study.</b></p>	Ongoing	CEA will seek to motivate more people to prepare for California’s next damaging earthquake; social-science experts recommend being on-message through everyone, everywhere, all the time.	Chris Nance	Advisory Panel Department of Insurance Cal OES SCEC
<p>2. <b>Continue roll-out of new “Risk Is Real” campaign; train more PI agents to sell CEA policies; register more agents in the Marketing Value Program (MVP); distribute Mandatory Marketing Document to help motivate more residents to contact their home insurer to purchase a CEA policy:</b></p> <ul style="list-style-type: none"> <li>• Update CEA website and agent portal with new CEA policy features and rates; offer responsive design features.</li> <li>• Promote need for digital pathway between CEA and PI websites so residents can find information on how to buy CEA policies through their home insurers.</li> <li>• Effectively encourage consideration of CEA policies via advertising campaign (broadcast, online, print, direct mail); promote CEA policy purchases through PIs.</li> </ul>	2017	CEA will seek input from Governing Board, Advisory Panel, and participating insurers.	Chris Nance	Marketing and Strategic Communications Contractor Advisory Panel

# California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<ul style="list-style-type: none"> <li>• Continue CEA social-media involvement under approved policy/strategy.</li> <li>• Update and enhance post-event communications plan.</li> <li>• Promote CEA-policyholder retention through two rounds of direct mail.</li> <li>• Streamline "Joined Forces" programming with earth-sciences partner through annual statewide auction in April and annual "Great California ShakeOut" in October.</li> <li>• Integrate other earthquake preparedness stakeholders, as appropriate.</li> <li>• Manage programming budgets that separate marketing and mitigation funds.</li> <li>• Integrate expansion of Earthquake Brace + Bolt programs.</li> </ul>				
<p><b>PRIORITY: Research.</b> Enhance CEA insurance products and strengthen risk-awareness programs with the depth and knowledge gained from CEA's support of quality, publicly available research in seismic sciences, and engineering.</p>				
<p>1. Establish and maintain <b>communication and response protocols</b> to coordinate CEA involvement in local-area assistance centers.</p>	Ongoing	Support local-area assistance centers.	Mitch Ziemer COMMS manager Kellie Schneider	FEMA/Cal OES CDI Administrative Services
<p>2. Conduct and support <b>research</b> related to CEA insurance products, risk-awareness, and seismic science and seismic engineering.</p>	Ongoing	Make CEA-supported studies (UCERF <sub>3</sub> and NGA West <sub>2</sub> , etc.) more accessible to the public; support and sponsor seismic and engineering research helpful to CEA policyholders' understanding their risk of the occurrence of earthquakes and to damage to home and contents.	Janiele Maffei	CEA-MRT

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b>PRIORITY: Technology.</b> Use technology to present and explain CEA information and to prepare and permit the CEA to make a full and effective response to damaging earthquakes.				
1. CEA Mobile Agent App	March 2017	IT Project Portfolio	Chris Nance Todd Coombes	EPMO, Operations & Technology
2. Centralize Agent Training and Registration	April 2017	IT Project Portfolio	Chris Nance Todd Coombes	EPMO, Operations & Technology
3. Combine Agent Databases Phase 1	June 2017	IT Project Portfolio	Chris Nance Todd Coombes	EPMO, Operations & Technology
4. Earthquake Authority Website Redesign	July 2017	IT Project Portfolio	Chris Nance	EPMO, Operations & Technology

### **GOAL TWO: Mitigate.** *Encourage Californians to take action by strengthening their homes and securing their belongings in order to reduce their risk of earthquake damage.*

**PRIORITY: Innovation.** Lead program development to furnish incentives for residential retrofits and other mitigation measures, and sponsor and lead a building-code-related guideline-development project to extend code-based seismic retrofits to California's single-family houses.

1. Complete analysis of <b>hazard reduction discount.</b> *Also see <b>Goal Two: Mitigate Priority: Research 1. below.</b>	Ongoing	Continue re-evaluation of hazard reduction discount, targeting a more robust mitigation discount.	Shawna Ackerman Janiele Maffei	EQECAT PEER ATC
2. Work with earthquake mitigation stakeholders to earn their consideration of <b>earthquake insurance as a component of financial preparedness.</b>	Ongoing	Continue relationships in support of mitigation program roll-out	Janiele Maffei Chris Nance	Advisory Panel Engineering groups Consumer groups
3. Continue roll-out of the residential <b>Earthquake Brace + Bolt</b> Project.	Ongoing	Complete expansion to 16 cities and 172 ZIP Codes. The goal is to initiate 1600 retrofits.	Janiele Maffei	CRMP Advisory Panel
4. Work with federal, state, and private organizations to obtain additional pre- and post-event <b>funding for earthquake-loss-mitigation programs</b> in order to grow its	Ongoing	The CEA's Earthquake Brace + Bolt project is expressly referred to in the FEMA-approved State of California Multi-Hazard Mitigation Plan (which supports state and other eligibility	Janiele Maffei	Advisory Panel Participating insurers Other public & private sources

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
presence, acceptance, and effectiveness throughout California.		for disaster recovery assistance and mitigation funding). Through FEMA's Hazard Mitigation Grant Program, EBB plans to retrofit 100 houses in Napa.		
<b>PRIORITY: Research.</b> Through prudent, collaborative needs-assessment, support and commission original science and engineering research, to build among all relevant communities a richer and deeper understanding of expected earthquake damage to residential structures.				
1. Begin work of multidisciplinary research team to quantify damage reduction from selected retrofits to support CEA's rates and rating plan for policyholders who mitigate their houses through retrofitting.	Ongoing	The project is presently anticipated to be underway for 42 months.	Janiele Maffei Shawna Ackerman	Program contractor PEER and team Badie Rowshandel, CGS, and CEA Advisory Panel Participating Insurers Reinsurers
2. Conduct contents-mitigation programs (to protect personal property such as TVs and furniture) that reinforce message-research results and complement residential <i>Earthquake Brace + Bolt</i> project.	Ongoing	CEA End-to-End website plan includes providing information about contents mitigation.	Janiele Maffei	CRMP
3. Explore joining forces with relevant private interests in offering financial products to support consumers participating in the CRMP Incentive Program	Ongoing	Current development of ATC-110, retrofit Pre-Standard, essential to securing additional financial products for mitigation.	Janiele Maffei	CEA Mitigation Program Contractors Advisory Panel
<b>PRIORITY: Technology.</b> Use technology to promote innovative residential earthquake-loss-mitigation measures, demonstrating their value in helping families secure their possessions and protect their homes.				
1. Mobile App: Seismic Vulnerability Inspection	Ongoing	The basic QuakeGrade product has been developed in the IT Project Portfolio 2016.	Janiele Maffei	Operations & Technology, EPMO, Communications
2. "End-to-End Mitigation" Website	Ongoing	Preliminary design for a basic E2E website has been developed. Additional elements will be added to E2E in 2017.	Janiele Maffei	Operations & Technology, EPMO, Communications

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b>GOAL THREE: Insure.</b> <i>Help Californians understand—and quantify and actively manage, using CEA insurance products—their risk of financial loss from damaging earthquakes.</i>				
<b>PRIORITY: Innovation.</b> Develop, create, and—collaboratively, with CEA participating insurers—implement and distribute programs and products that enhance the effectiveness of the CEA and its participating insurers in helping Californians understand and manage their earthquake risk.				
1. Explore <b>enhancements to CEA insurance products.</b>	Ongoing	CEA staff is continuously and actively reviewing CEA products—the review includes market research and analysis of policyholders’ purchasing patterns, the results of which will guide and allow enhancement of future product designs.	Todd Coombes Mitch Ziemer Shawna Ackerman	Participating insurers Advisory Panel
2. Continue to study and update <b>financial alternatives.</b> <ul style="list-style-type: none"> <li>• Investigate financial structures, instruments of domestic and international catastrophe programs.</li> <li>• Research and monitor global financial markets for new financing vehicles and techniques. Finalize drafting and implementation of robust compliance guidelines to assist CEA staff and Board in understanding, planning for, and working to mitigate financing and related risks.</li> </ul>	Ongoing	Staff to seek collaboration from outside financial experts and expert colleagues to continue efforts to find and develop financial alternatives for cost-effective claim-paying capacity.	Tim Richison Danny Marshall Joe Zuber Tracy Palombo	CEA Financial Advisor Outside financial and legal experts
3. Pursue legislative activity on federal and state levels.	Ongoing	In California, pursue passage of legislation of importance to CEA and its customers and other stakeholders, which may include (without limitation) law changes to help lower rates, increase coverage, and assist Californians who wish to mitigate their homes.	Glenn Pomeroy Kellie Schneider Danny Marshall Susie Hernandez Janiele Maffei Shawna Ackerman Tim Richison	Co-sponsors Consultants/legal experts Research organizations

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<p><b>PRIORITY: Research.</b> Develop, advocate, and lead targeted research to enhance the effectiveness of the CEA and its business partners in helping Californians understand and manage their earthquake risk.</p>				
1. Complete <b>rate analysis for all products.</b>	Ongoing	Rate analysis is ongoing, with comprehensive analyses annually, at mid-year and year-end.	Shawna Ackerman	
2. Continue working with CEA chief actuary to <b>update CEA's Dynamic Financial Analysis Model and Financial Model</b> and reflect new financial alternatives and products.	Ongoing	Continue to enhance CEA's DFA model.	Tim Richison Shawna Ackerman	
3. Conduct <b>research on CEA-policyholder demographics</b> , to better understand the types of Californians who are purchasing earthquake insurance.	Ongoing	CEA will produce ongoing " <b>SWOT</b> " analyses – in an effort to recognize its <b>Strengths, Weaknesses, Opportunities, and Threats.</b>	Chris Nance	Advisory Panel
4. Monitor and assess updates to catastrophe-loss models.	Ongoing	Completion of CEA-sponsored research (UCERF <sub>3</sub> , NGA-West2, Cripple Wall Project) will result in loss-model updates in 2017.	Shawna Ackerman	
<p><b>PRIORITY: Technology.</b> Implement and continuously improve CEA insurance solutions, to support and provide value to participating insurers, agents and producers, and policyholders.</p>				
1. CPP Data Warehouse	December 2018	IT Project Portfolio	Todd Coombes	EPMO, Operations & Technology
2. Premium Write-Offs	October 2018	IT Project Portfolio	Tim Richison	EPMO, Operations & Technology
3. Emergency Management & Business Continuity	April 2018	IT Project Portfolio	Todd Coombes	EPMO, Operations & Technology, Communications, Administration
4. Enterprise Content Management	December 2018	IT Project Portfolio	Danny Marshall Tim Richison	EPMO, Operations & Technology, Communications

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
5. Procurement Tracking System	April 2017	IT Project Portfolio	Kellie Schneider	EPMO, Operations & Technology
6. Self-Service Business Intelligence Reporting	December 2017	IT Project Portfolio	Todd Coombes	EPMO, Operations & Technology
7. Zip Code Validation	April 2017	IT Project Portfolio	Todd Coombes	EPMO, Operations & Technology
8. HR Personnel Action Center (HRPAC) User Interfaces	September 2017	IT Project Portfolio	Kellie Schneider	EPMO, Operations & Technology
9. Legal Electronic Discovery (eDiscovery)	December 2018	IT Project Portfolio	Danny Marshall	EPMO, Operations & Technology
10. Monitor participating insurer data-submission process.	Ongoing	Monitor data submission and error-management processes to eliminate missing policies and reduce errors.	Todd Coombes Mitch Ziemer	IT

### Governance and Departmental Effectiveness.

Organizational governance opportunities and departmental goals and initiatives to maximize CEA's mission-effectiveness.

#### Governance.

##### Governing Board.

1. Collaborate with CEA Governing Board and stakeholders to <b>analyze and develop action plan for organizational and staffing analyses.</b>	Ongoing	Areas of focus will include building a new business model adding staff members who possess required functional expertise, recruiting and hiring a Chief Risk Officer, and other recommendations from the analysis.	Executive Staff	Governing Board Advisory Panel Participating Insurers
2. Establish and periodically report on <b>CEA performance metrics.</b>	Ongoing	Assess and amend previously identified metrics.	Executive Staff	Governing Board Advisory Panel

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b>Advisory Panel.</b>				
1. Collaborate with CEA Advisory Panel as it continues to work to optimize its appropriate role.	Process	Advisory Panel members periodically review the CEA Business Implementation Plan and respond to staff requests for Panel-member participation.	Danny Marshall	Advisory Panel
2. Update <b>Advisory Panel Handbook</b> .	Process (periodic)	The Handbook is a roll-up of CEA organizational processes and procedures, used primarily to brief new Panelists.	Danny Marshall	
<b>Staff.</b>				
1. <b>Review/update CEA governing documents</b> , including Plan of Operations and the Procedures and Accounting Manual, and CPP procedures.	Process	Governance documents require periodic review and updating, to reflect legal and regulatory revisions, changes in operating procedures, and changes in business goals. The review will aid process improvements.	Todd Coombes Danny Marshall  Kellie Schneider	All CEA department heads
2. <b>Inform external organizations and audiences</b> about CEA.	Ongoing		Executive Staff	Advisory Panel
3. Participate in and contribute to <b>conferences and events</b> that strengthen CEA's reputation and further CEA goals.	Ongoing		Executive Staff	
4. Continue to <b>strengthen communication with external stakeholders</b> (Legislative and Congressional members and staff; consumer groups; participating insurers; federal, state and regional agencies; and university resources).	Ongoing		Executive Staff	Advisory Panel

# California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<b><u>Departmental Effectiveness.</u></b>				
<b>Administration.</b>				
<b>1. CEA Workforce Planning Project</b> Collaborate with CEA Governing Board and other stakeholders to analyze and develop action plan for organizational structure and staffing.	Ongoing	Analysis and work are ongoing.	Glenn Pomeroy Danny Marshall Todd Coombes Tim Richison Kellie Schneider	
<b>2. Office expansion.</b>	2017	Construction started November 2016. Completion anticipated by March 2017.	Kellie Schneider	New building owner and building management
<b>Communications.</b>				
<b>1. Identify measures to track and gauge marketing effectiveness (metrics):</b> <ul style="list-style-type: none"> <li>• Refine year-round media plan: paid-media negotiations and earned-media outreach.</li> <li>• Use of media-buying and media-tracking software.</li> <li>• Develop integrated business-intelligence systems to target and track marketing and sales programming:               <ul style="list-style-type: none"> <li>-Marketing/sales funnel</li> <li>-Content management</li> <li>-Agent/consumer relations</li> </ul> </li> </ul>	Ongoing	CEA will use software and subscriptions to reconcile media buys, develop business-intelligence systems to facilitate marketing and sales decisions, and track number and characteristics of people considering earthquake-insurance purchase.	Chris Nance	Communications Plan contractor Advisory Panel
<b>2. Expand and enhance CEA agent/producer relations:</b> <ul style="list-style-type: none"> <li>• Meet biannually with participating-insurers' marketing liaisons to share MVP updates.</li> </ul>	Ongoing	CEA will collect meaningful input from participating-insurers' marketing liaisons.	Chris Nance	Communications Plan contractor Advisory Panel

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
<ul style="list-style-type: none"> <li>• Coordinate agent-training through participating-insurer liaisons.</li> <li>• Use technology to deliver agent-training more efficiently.</li> <li>• Enhance premium-calculator options on CEA website.</li> <li>• Provide agents/producers with updated and refreshed product information, consistent with newest CEA-marketing-campaign themes.</li> <li>• Continuously evaluate participating insurers' use of CEA marketing materials.</li> </ul>				
3. <b>Further develop product-specific marketing strategies.</b>	Ongoing		Chris Nance Shawna Ackerman	Advisory Panel
<b>Finance.</b>				
1. Propose and secure Board approval of <b>2017 CEA reinsurance and risk-transfer programs.</b>	Throughout 2017	Work with CEA's external contracted reinsurance-intermediary team to plan and achieve required risk-transfer limits at lowest effective cost.	Tim Richison	CEA Independent Financial Advisor Reinsurance Intermediaries Tracy Palombo
2. Annual <b>rating-agency reviews</b> 3. Financial-strength review with A.M. Best 4. Bond-rating review with Moody's and Fitch.	Ongoing	Work with rating agencies to maintain CEA credit and financial-strength ratings, including present financial-strength rating from A.M. Best of "A-minus (Excellent)" and a bond (credit) rating of "A" from Fitch and "A3" from Moody's.	Tim Richison	CEA Independent Financial Advisor
5. Continue to evaluate and strengthen <b>CEA's program for sponsorship of catastrophe bonds</b> , to continually determine the use of cat bonds as a useful, alternative form of risk-transfer.	Ongoing	CEA's cat-bond team is a combination of internal and external talent, and is drawn from CEA staff, staff of the State Treasurer's Office, and other outside experts in cat bonds and capital markets. The CEA's specialized counsel and independent financial advisor is also consulted.	Tim Richison CEA's Alt. Risk Transfer Subcommittee Joe Zuber Tracy Palombo	CEA Independent Financial Advisor Raymond James CEA Cat-Bond Team

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
6. Evaluate effects on CEA of <b>NAIC's Model Audit Rule</b> .	Ongoing	Continue reviewing documentation and attending training to evaluate and decide on any changes necessary to comply with NAIC's Model Audit Rule.	Tim Richison	
7. Continue to completion the <b>investment compliance project</b> .	Ongoing	Procured investment-compliance software; internal team is working to enhance the software's automatic daily portfolio evaluation. Investment-Compliance Committee Charter under management review; Committee has met to discuss policy and charter provisions.	Danny Marshall Niel Hall Rick Contreras Tim Richison	Investment-Compliance Consultant CEA Financial Advisor
8. Implement NAIC's Model Audit Rule into CEA's financial and compliance systems.	December 2017	Develop implementation plan for transition, provide training for affected CEA personnel, and complete implementation of new accounting rules by year-end 2016.	Tim Richison	Administrative Services
<b>Operations &amp; Technology.</b>				
1. Complete merger of CEA's Insurance Operations & Information Technology	February 2017	Combine departments under a new organization that is collocated and functionally aligned	Todd Coombes	Administrative Services
2. Continue to support and expand Centralized Policy Processing (CPP)	Ongoing	Implement PI Diamond and MMD/ADM systems.	Todd Coombes	Legal, Insuresoft, Participating Insurers
3. Accelerate CPP Diamond Implementations	December 2017	Work with vendor to automate Diamond configuration using a "self-service" approach	Todd Coombes	EPMO, Legal, Insuresoft, Participating Insurers
4. Create policy-sales-enhancement software solutions	December 2017	Create a combination of sales and personalized offer software solutions to increase CEA policy sales and consumer value	Todd Coombes	EPMO, Communications, Legal
5. <b>CEA insurance products</b> Explore product enhancements, development of new products.	Ongoing	CEA staff is continuously and actively reviewing CEA products—the review includes market research and analysis of policyholders' purchasing patterns, the results of which will guide and support, and allow enhancements to, future product designs.	Shawna Ackerman Mitch Ziemer Todd Coombes	

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
6. <b>Business requirements</b> - Support development of business requirements to support identification, development, and implementation of data-system fixes and enhancements.	Ongoing	CEA Insurance Operations and Information Technology staffs are collaborating to implement refinements to EPICenter to maximize system effectiveness and promote ease of doing business with the CEA.	Todd Coombes Mitch Ziemer	
7. <b>CEA participating insurer performance</b> - Conduct a semi-annual review of each CEA participating insurer's performance: policy sales, retention, and other relevant measures.	Ongoing	CEA Insurance Operations staff to meet with appropriate staff of participating insurers to review CEA performance based on the insurer's mid-year and year-end CEA Book of Business Report and Claims reports. Staff will also seek insight into insurer-specific initiatives that affect CEA operations, to ensure appropriate CEA planning and goal-setting.	Mitch Ziemer Todd Coombes	
8. <b>New Participating Insurers</b> - Effectively collaborate with insurers who are evaluating becoming a CEA participating insurer – lead the implementation process for those who choose to participate.	Ongoing	CEA Insurance Operations staff will support and provide interested insurers and new applicants with information necessary to evaluate their potential CEA participation, and will seek information, including data, to enable the CEA to complete its own analysis of each applicant's participation.	Mitch Ziemer Todd Coombes	Operations and Technology
9. <b>Business Educators</b> – Train CEA staff and participating insurers based on insurance-industry expertise, related education, and CEA work experience.	Ongoing	CEA Insurance Operations staff will provide other CEA staff members with general insurance training to effectively support the CEA's overall operations; Staff will continue to provide participating-insurer staff (including adjusters) with CEA-specific training. Insurance Operations staff is represented on numerous cross-functional CEA work teams to support implementation of programming and initiatives. CEA Insurance Operations staff must have high-level experience in insurance-industry practices and procedures.	Mitch Ziemer Todd Coombes	Communications

## California Earthquake Authority 2017 Business Implementation Plan

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10. <b>CEA earthquake-response procedures</b> - Review, compare, and update internal protocols for CEA earthquake-response procedures.	January 2017	EARLE process has been updated to incorporate the latest technology.	Mitch Ziemer Todd Coombes	Administrative Services Communications
11. <b>Claim Audit</b> Conduct claim file review of La Habra and Napa earthquakes.	August 2017	Conducted claim review for three of six targeted participating insurers.	Mitch Ziemer	Participating Insurers
12. <b>California Department of Insurance (CDI) Rating and Underwriting Examination</b>	1st Quarter - 2017	Awaiting final report from the CDI.	Todd Coombes	
<b>Legal and Compliance.</b>				
1. Continue to implement <b>CEA records management and retention program.</b>	Ongoing	Implementation continuing, based on recommendations from expert consultant, beginning with review and appropriate disposition of departmental records; will progress to implementing automated system for records and retention management.	Danny Marshall Niel Hall Rick Contreras Todd Coombes	Administrative Services
2. <b>Complete review of CEA internal-audit program; re-establish internal audit program</b> (based on and responding to external and internal input).	Ongoing	CEA internal-audit program evaluation is ongoing.	Danny Marshall Rick Contreras	PwC, as needed
<b>Mitigation.</b>				
1. Ensure CEA mitigation programs are <b>evaluated for program- and cost-effectiveness.</b>	Ongoing	Current CRMP <i>Earthquake Brace + Bolt</i> roll-out includes detailed evaluation and quality-control processes.	Janiele Maffei	CRMP
2. Support roll-out of <b>CRMP mitigation program</b>	Ongoing	Support program and stakeholders to ensure successful roll-out.	Janiele Maffei	CRMP
3. Participate in and fund <b>conferences, seminars, and workshops</b> to support collaborative mitigation efforts.	Ongoing	Guideline, research, and mitigation workshops and conferences.	Janiele Maffei	CRMP FEMA

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
4. Explore and establish relationships with other recognized natural-hazard mitigation opinion leaders and stakeholders.	Ongoing	Collaboration with FEMA: FEMA P-50 completed and Retrofit Guidelines (Pre-standard) process started and underway.	Janiele Maffei	Advisory Panel

## California Earthquake Authority 2017 Business Implementation Plan

Business Activity	Date	Status/Comments	Sponsor/ Owner	Other Resources
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### Abbreviations:

ATC	Applied Technology Council
Cal OES	California Governor's Office of Emergency Services
CDI	California Department of Insurance
CEA	California Earthquake Authority
CEA-MRT	California Earthquake Authority – Multidisciplinary Research Team
CGS	California Geological Survey
CPP	Centralized Policy Processing
CRMP	California Residential Mitigation Program
EARLE	Earthquake Loss Estimation
EPICenter	CEA database
FEMA	Federal Emergency Management Agency
NAIC	National Association of Insurance Commissioners
NGA	Next-Generation Attenuation
NGA West <sup>2</sup>	Enhancement of Next Generation Attenuation Relationships for Western US
PEER	Pacific Earthquake Engineering Research Center
PwC	PricewaterhouseCoopers
SCEC	Southern California Earthquake Center
STO	California State Treasurer's Office
TBD	To be determined
UCERF	Uniform California Earthquake-Rupture Forecast
UCERF <sup>3</sup>	Uniform California Earthquake-Rupture Forecast Version 3

## Governing Board Memorandum

December 14, 2016

Agenda Item 11: 2017 CEA Budget: Insurance Services

Recommended Action: Approve 2017 CEA Insurance Services Budget

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### Background:

Each year, the CEA staff prepares and submits to the Governing Board a proposed annual budget, based on all anticipated expenses for the next calendar year.<sup>1</sup>

### Analysis:

#### **2017 Insurance Services Budget**

Staff has prepared three attachments to assist the Board in comparing and analyzing the 2016 and proposed 2017 budgets for insurance services.

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2016 Budget Year**
  - This attachment shows:
    - a. The December (2015) Board-approved Budget for 2016;
    - b. 2016 budget adjustments throughout the year;
    - c. 2016 budget augmentations throughout the year;
    - d. augmented/adjusted approved 2016 budget;
    - e. actual expenses through October 31, 2016;
    - f. projected expenses for the months of November and December 2016;
    - g. actual and projected expenses at December 31, 2016;
    - h. comparison of augmented, adjusted, approved budget to actual and projected expenses at December 31, 2016; and
    - i. percentage of used augmented and adjusted approved 2016 budget.
- **Attachment B: Proposed 2017 Insurance Services Budget**
  - Attachment B shows the proposed 2017 insurance services budget, constructed to support the business activities planned for 2017.
- **Attachment C: Approved 2016 Insurance Services Budget after Augmentations and Adjustment Compared to Proposed 2017 Budget**
  - Attachment C compares the 2016 Insurance Services Budget after Augmentations and Adjustments to the proposed 2017 Budget

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<sup>1</sup> The CEA fiscal year is the calendar year.

**Summary of Proposed 2017 CEA Statutory Expenses/Expense Cap  
[projected statutory expense compared to projected statutory cap]**

The projected statutory-expense portion of the proposed 2017 budget is \$34,124,058, which is less than the projected 6% cap of \$40,500,000:

Projected 2017 written premium:	\$675,000,000
Statutory operating-expense cap 2017 (percentage)	6%
Statutory operating-expense cap 2017 (dollars)	\$40,500,000
Proposed 2017 operating expense budget	\$34,124,058
Amount by which 6% cap exceeds proposed budget	\$6,375,942

**Recommendation:**

Staff recommends the following Board actions:

- Approve the proposed 2017 Insurance Services budget; and
- Direct staff to operate CEA business operations within the total approved budget amounts.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Budgeted Expenditures and Actual Expenditures**  
**2016 Budget Year**

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
				(d=a+b+c)			(g=e+f)	(h=d-g)	(i=g/d)
	<b>Approved</b>	<b>Adjustments<sup>A</sup></b>	<b>Augmentations</b>	<b>2016 Budget after</b>	<b>Actual</b>	<b>Projected</b>	<b>Actual and Projected</b>	<b>Augmented &amp; Adjusted</b>	<b>Percentage used of</b>
	<b>2016 Budget</b>	<b>thru 12/31/16</b>	<b>thru 12/31/16</b>	<b>Augmentations</b>	<b>Expenditures</b>	<b>Expenditures</b>	<b>Expenses</b>	<b>Actual &amp; Projected</b>	<b>Augmented &amp; Adjusted</b>
	<b>1/1/2016</b>			<b>and Adjustments</b>	<b>as of 10/31/16</b>	<b>11/1/16 to 12/31/16</b>	<b>at 12/31/16</b>	<b>Expenses (g)</b>	<b>Approved 2016 Budget</b>
								<b>at 12/31/16</b>	
Human Resources:									
Compensation and Benefits	\$ 21,323,212	\$ (1,049,819)	\$ -	\$ 20,273,393	\$ 16,025,070	\$ 4,248,323	\$ 20,273,393	\$ -	100.00%
Travel	623,466	(92,250)	-	531,216	334,901	124,494	459,395	71,821	86.48%
Other	953,620	(294,212)	-	659,408	307,164	137,044	444,208	215,200	67.36%
Board Meeting	24,100	(8,100)	-	16,000	3,928	8,072	12,000	4,000	75.00%
Administration & Office	1,325,506	(49,623)	-	1,275,883	284,289	162,234	446,523	829,360	35.00%
EDP Hardware	325,300	-	-	325,300	281,950	43,350	325,300	-	100.00%
EDP Software	1,260,516	-	-	1,260,516	952,028	308,488	1,260,516	-	100.00%
Information Technology	1,802,155	-	-	1,802,155	1,568,924	233,231	1,802,155	-	100.00%
Telecommunications	265,364	(4,950)	-	260,414	195,777	64,437	260,214	200	99.92%
Rent/Lease	1,288,700	(1,420)	-	1,287,280	902,342	385,088	1,287,430	(150)	100.01%
Compliance	115,000	(50,000)	-	65,000	6,675	13,325	20,000	45,000	30.77%
Government Affairs	126,000	-	-	126,000	51,698	24,302	76,000	50,000	60.32%
Insurance	160,000	-	-	160,000	118,113	42,295	160,408	(408)	100.26%
Internal Audit	120,000	(60,000)	-	60,000	1,688	58,312	60,000	-	100.00%
Intervener Fees	-	-	-	-	-	-	-	-	0.00%
Other	53,000	14,000	-	67,000	14,249	2,822	17,071	49,929	25.48%
Regulatory Expenses	110,000	-	-	110,000	59,736	50,264	110,000	-	100.00%
<b>Total Statutory Expenditures</b>	<b>29,875,939</b>	<b>(1,596,374)</b>	<b>-</b>	<b>28,279,565</b>	<b>21,108,532</b>	<b>5,906,081</b>	<b>27,014,613</b>	<b>1,264,952</b>	<b>95.53%</b>
Audit Services	112,500	-	-	112,500	86,000	26,500	112,500	-	100.00%
Capital Market	9,277,995	(256,015)	-	9,021,980	7,693,469	1,328,511	9,021,980	-	100.00%
Claims	337,000	5,000	-	342,000	156,598	185,402	342,000	-	100.00%
Loans	-	-	-	-	-	-	-	-	0.00%
Grants <sup>1</sup>	-	-	12,000,000	12,000,000	-	-	-	12,000,000	0.00%
Investment Services	3,078,493	(98,043)	-	2,980,450	2,435,721	544,729	2,980,450	-	100.00%
Legal Services	7,790,420	(4,352,500)	-	3,437,920	707,587	2,730,333	3,437,920	-	100.00%
Loss-Modeling	1,039,500	-	-	1,039,500	731,250	308,250	1,039,500	-	100.00%
Marketing Services	13,710,200	(258,039)	-	13,452,161	6,267,018	6,995,748	13,262,766	189,395	98.59%
Producer Compensation	66,040,000	-	-	66,040,000	52,995,671	11,004,329	64,000,000	2,040,000	96.91%
Participating Insurer Operating Costs	24,763,000	-	-	24,763,000	18,566,875	5,533,125	24,100,000	663,000	97.32%
Seismic-Related Research	100,000	(100,000)	-	-	-	-	-	-	0.00%
Engineering-Related Research	1,000,000	(500,000)	-	500,000	8	74,992	75,000	425,000	15.00%
Risk Transfer	193,464,800	7,000,000	-	200,464,800	166,441,241	36,866,759	203,308,000	(2,843,200)	101.42%
<b>Total Non-Statutory Expenditures</b>	<b>320,713,908</b>	<b>1,440,403</b>	<b>12,000,000</b>	<b>334,154,311</b>	<b>256,081,438</b>	<b>65,598,678</b>	<b>321,680,116</b>	<b>12,474,195</b>	<b>96.27%</b>
<b>Total Budget Expenditures</b>	<b>\$ 350,589,847</b>	<b>\$ (155,971)</b>	<b>\$ 12,000,000</b>	<b>\$ 362,433,876</b>	<b>\$ 277,189,970</b>	<b>\$ 71,504,759</b>	<b>\$ 348,694,729</b>	<b>\$ 13,739,147</b>	<b>96.21%</b>

<sup>1</sup>Augmentation to fund development of the CEA BB (pilot) program from March 16, 2016, CEA Governing Board Meeting Agenda Item 4.

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

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Proposed 2017 Budget**

	<b>2017 Insurance Services <u>Budget</u></b>
<b>Statutory Expenses</b>	
Human Resources:	
Compensation and Benefits	\$ 25,359,916
Travel	707,298
Other	766,310
Board Meeting	22,100
Administration & Office	1,351,140
EDP Hardware	470,950
EDP Software	1,099,915
Information Technology	1,775,205
Telecommunications	268,324
Rent/Lease	1,693,900
Compliance	60,000
Government Affairs	146,000
Insurance	175,000
Internal Audit	100,000
Intervener Fees	-
Other	78,000
Regulatory Expenses	50,000
	<b>34,124,058</b>
<b>Non-Statutory Expenditures</b>	
Audit Services	116,000
Capital Market	7,583,695
Claims	124,000
Loans	-
Grants	12,000,000
Investment Services	3,234,043
Legal Services	3,567,500
Loss-Modeling	1,123,500
Marketing Services	14,925,725
Producer Compensation	67,500,000
Participating Insurer Operating Costs	28,306,360
Seismic Related Research	200,000
Engineering Related Research	1,620,000
Risk Transfer	246,947,682
	<b>387,248,505</b>
<b>Total Budgeted Expenditures</b>	<b>\$ 421,372,563</b>

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Insurance Services**  
**Budget Comparison**  
**2016 Budget to 2017 Budget**

	(a)	(b)	(c)	(d)
			(c=b-a)	(d=c/a)
	<b>Budget after Augmentations and Adjustments 2016</b>	<b>Proposed Budget 2017</b>	<b>Difference</b>	<b>% Change</b>
<b>Statutory Expenses</b>				
Human Resources:				
Compensation and Benefits	\$ 20,273,393	\$ 25,359,916	\$ 5,086,523	25.09%
Travel	531,216	707,298	176,082	33.15%
Other	659,408	766,310	106,902	16.21%
Board Meeting	16,000	22,100	6,100	38.13%
Administration & Office	1,275,883	1,351,140	75,257	5.90%
EDP Hardware	325,300	470,950	145,650	44.77%
EDP Software	1,260,516	1,099,915	(160,601)	(12.74%)
Information Technology	1,802,155	1,775,205	(26,950)	(1.50%)
Telecommunications	260,414	268,324	7,910	3.04%
Rent/Lease	1,287,280	1,693,900	406,620	31.59%
Compliance	65,000	60,000	(5,000)	(7.69%)
Government Affairs	126,000	146,000	20,000	15.87%
Insurance	160,000	175,000	15,000	9.38%
Internal Audit	60,000	100,000	40,000	66.67%
Intervener Fees	-	-	-	0.00%
Other	67,000	78,000	11,000	16.42%
Regulatory Expenses	110,000	50,000	(60,000)	(54.55%)
<b>Total Statutory Expenses</b>	<b>28,279,565</b>	<b>34,124,058</b>	<b>5,844,493</b>	<b>20.67%</b>
<b>Non-Statutory Expenditures</b>				
Audit Services	112,500	116,000	3,500	3.11%
Capital Market	9,021,980	7,583,695	(1,438,285)	(15.94%)
Claims	342,000	124,000	(218,000)	(63.74%)
Loans	-	-	-	0.00%
Grants	12,000,000	12,000,000	-	0.00%
Investment Services	2,980,450	3,234,043	253,593	8.51%
Legal Services	3,437,920	3,567,500	129,580	3.77%
Loss-Modeling	1,039,500	1,123,500	84,000	8.08%
Marketing Services	13,452,161	14,925,725	1,473,564	10.95%
Producer Compensation	66,040,000	67,500,000	1,460,000	2.21%
Participating Insurer Operating Costs	24,763,000	28,306,360	3,543,360	14.31%
Seismic-Related Research	-	200,000	200,000	0.00%
Engineering-Related Research	500,000	1,620,000	1,120,000	224.00%
Risk Transfer	200,464,800	246,947,682	46,482,882	23.19%
<b>Total Non-Statutory Expenditures</b>	<b>334,154,311</b>	<b>387,248,505</b>	<b>53,094,194</b>	<b>15.89%</b>
<b>Total Budgeted Expenditures</b>	<b>\$ 362,433,876</b>	<b>\$ 421,372,563</b>	<b>\$ 58,938,687</b>	<b>16.26%</b>

# Governing Board Memorandum

December 14, 2016

Agenda Item 12: 2017 CEA Budget: Mitigation Program

Recommended Action: Approve 2017 Mitigation Program Budget

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## Background:

The CEA staff has prepared and now submits to the Governing Board the annual CEA mitigation budget, based on all anticipated mitigation-related expenses for the 2017 calendar year<sup>1</sup>.

## Analysis:

### **2017 Mitigation Budget**

Staff has prepared three attachments to assist the Board in analyzing the proposed 2017 mitigation budget and comparing it to the 2016 mitigation budget:

- **Attachment A: Budgeted Expenditures and Actual Expenditures – 2016 Budget Year**
  - This attachment shows:
    - a. the December 2015 Board-approved Budget for calendar year 2016;
    - b. 2016-budget adjustments during the year;
    - c. 2016-budget augmentations during the year;
    - d. the 2016 mitigation budget, as adjusted and approved;
    - e. actual 2016 mitigation expenses (through October 31, 2016 (latest available figures));
    - f. projected expenses for November and December 2016;
    - g. total actual and projected expenses at December 31, 2016;
    - h. comparison of augmented, adjusted approved budget to actual and projected expenses at December 31, 2016; and
    - i. percentages of augmented, adjusted approved 2016 budget spent.
- **Attachment B: Proposed 2017 Mitigation Budget**
  - This attachment shows the proposed 2017 mitigation budget, constructed as necessary to fulfill mitigation-related business responsibilities and operations.

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<sup>1</sup> The CEA fiscal year is the calendar year.

- **Attachment C: Approved 2016 Mitigation Budget Expenses Compared to Proposed 2017 Mitigation Budget**
  - This attachment shows the approved 2016 Mitigation Budget after Augmentations and Adjustments and compares it to the proposed 2017 budget.

Recommendation:

Staff recommends that the Board take the following actions:

- Approve the proposed 2017 mitigation budget.
- Direct staff to operate the CEA's mitigation-related business activities within the approved budget amounts.

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Budgeted Expenditures and Actual Expenditures**  
**2016 Budget Year**

	(a)	(b)	(c)	(d) (d=a+b+c)	(e)	(f)	(g) (g=e+f)	(h) (h=d-g)	(i) (i=g/d)
	<b>Approved 2016 Budget 1/1/2016</b>	<b>Adjustments <sup>A</sup> thru 12/31/16</b>	<b>Augmentations thru 12/31/16</b>	<b>2016 Budget after Augmentations and Adjustments</b>	<b>Actual Expenditures as of 10/31/16</b>	<b>Projected Expenditures 11/1/16 to 12/31/16</b>	<b>Actual and Projected Expenses at 12/31/16</b>	<b>Augmented &amp; Adjusted Approved Budget (d) vs. Actual &amp; Projected Expenses (g) at 12/31/16</b>	<b>Percentage used of Augmented &amp; Adjusted Approved 2016 Budget</b>
<b>Operating Expenses</b>									
Human Resources:									
Compensation and Benefits	\$ 1,039,631	\$ -	\$ -	\$ 1,039,631	\$ 838,962	\$ 200,669	\$ 1,039,631	\$ -	100.00%
Travel	47,900	(3,700)	-	44,200	20,107	12,193	32,300	11,900	73.08%
Other	29,850	(3,800)	-	26,050	10,099	16,501	26,600	(550)	102.11%
Administration & Office	102,100	(57,700)	-	44,400	32,096	12,494	44,590	(190)	100.43%
EDP Software	-	-	-	-	100	-	100	(100)	100.00%
Information Technology	700	-	-	700	475	225	700	-	100.00%
Telecommunications	14,000	-	-	14,000	9,948	4,052	14,000	-	100.00%
Rent/Lease	77,700	-	-	77,700	55,046	22,654	77,700	-	100.00%
<b>Total Operating Expenses</b>	<b>1,311,881</b>	<b>(65,200)</b>	<b>-</b>	<b>1,246,681</b>	<b>966,833</b>	<b>268,788</b>	<b>1,235,621</b>	<b>11,060</b>	<b>99.11%</b>
Investment Services	11,400	-	-	11,400	8,351	3,049	11,400	-	100.00%
Legal Services	10,000	-	-	10,000	-	10,000	10,000	-	100.00%
Marketing	575,000	(222,000)	-	353,000	61,735	50,000	111,735	241,265	31.65%
Seismic-Related	-	-	-	-	-	-	-	-	0.00%
Engineering-Related	1,500,000	(900,000)	-	600,000	163,573	336,427	500,000	100,000	83.33%
<b>Total Other Expenditures</b>	<b>2,096,400</b>	<b>(1,122,000)</b>	<b>-</b>	<b>974,400</b>	<b>233,659</b>	<b>399,476</b>	<b>633,135</b>	<b>341,265</b>	<b>64.98%</b>
<b>Total Expenditures</b>	<b>\$ 3,408,281</b>	<b>\$ (1,187,200)</b>	<b>\$ -</b>	<b>\$ 2,221,081</b>	<b>\$ 1,200,492</b>	<b>\$ 668,264</b>	<b>\$ 1,868,756</b>	<b>\$ 352,325</b>	<b>84.14%</b>

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

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Proposed 2017 Budget**

	<b>2017 Mitigation Budget</b>
<b>Operating Expenses</b>	
Human Resources:	
Compensation and Benefits	\$ 1,602,015
Travel	79,900
Other	34,595
Administration & Office	73,798
EDP Software	100
Information Technology	1,200
Telecommunications	23,000
Rent/Lease	140,700
	1,955,308
<b>Total Operating Expenses</b>	<b>1,955,308</b>
<b>Other Expenses</b>	
Investment Services	11,200
Legal Services	10,000
Marketing Services	384,000
Seismic-Related Research	-
Engineering-Related Research	750,000
	1,155,200
<b>Total Other Expenses</b>	<b>1,155,200</b>
<b>Total Budgeted Expenditures</b>	<b>\$ 3,110,508</b>

**CALIFORNIA EARTHQUAKE AUTHORITY**  
**Mitigation**  
**Budget Comparison**  
**2016 Budget to 2017 Budget**

Attachment C

	(a)	(b)	(c)	(d)
			(c=b-a)	(d=c/a)
	<b>Budget after Augmentations and Adjustments 2016</b>	<b>Proposed Budget 2017</b>	<b>Difference</b>	<b>% Change</b>
<b>Operating Expenses</b>				
Human Resources:				
Compensation and Benefits	\$ 1,039,631	\$ 1,602,015	\$ 562,384	54.09%
Travel	44,200	79,900	35,700	80.77%
Other	26,050	34,595	8,545	32.80%
Administration & Office	44,400	73,798	29,398	66.21%
EDP Software	-	100	100	100.00%
Information Technology	700	1,200	500	71.43%
Telecommunications	14,000	23,000	9,000	64.29%
Rent/Lease	77,700	140,700	63,000	81.08%
<b>Total Operating Expenses</b>	<b>1,246,681</b>	<b>1,955,308</b>	<b>708,627</b>	<b>56.84%</b>
<b>Other Expenses</b>				
Investment Services	11,400	11,200	(200)	(1.75%)
Legal Services	10,000	10,000	-	0.00%
Marketing Services	353,000	384,000	31,000	8.78%
Seismic-Related Research	-	-	-	0.00%
Engineering-Related Research	600,000	750,000	150,000	25.00%
<b>Total Other Expenses</b>				
<b>Total Expenditures</b>	<b>\$ 2,221,081</b>	<b>\$ 3,110,508</b>	<b>\$ 889,427</b>	<b>40.04%</b>

# Governing Board Memorandum

December 14, 2016

- Agenda Item 13: CEA Mitigation Program projects, including:
- California Residential Mitigation Program incentive program (CRMP Earthquake Brace + Bolt)
  - CEA’s financial-incentive and mitigation program (CEA Brace + Bolt)
  - Ongoing mitigation-related research projects.

Recommended Actions: No action required—information only

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## Background:

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

### **1. Guidelines Development**

ATC 110, the earthquake-guidelines-development project, will create statewide retrofit standards that can be used to reduce earthquake damage in single-family dwellings.

In addition to creating a uniform seismic-retrofit-design methodology for homeowners, contractors, and engineers, the new guidelines will help the CEA and others (1) establish and expand incentive programs to encourage seismic retrofits, such as that of the California Residential Mitigation Program, and (2) enhance the CEA’s ability to develop and provide suitable mitigation discounts for CEA-insured homeowners.

The CEA is funding the project, and CEA chief mitigation officer Janiele Maffei and FEMA’s Mike Mahoney are jointly managing the project

### **2. FEMA P-50 and P-50-1**

The CEA was a contributing funder to developing FEMA P-50. But while the tool has been available for use by inspectors, it has (so far) not been widely distributed or used.

CEA is taking the initiative to bring the FEMA P-50 evaluation tool—and related training—to

California home inspectors, for three reasons:

- A. To help homeowners interested in retrofits learn associated risks and vulnerabilities.
- B. To provide home-buyers information at time of sale regarding potential seismic risks in light of structure vulnerabilities.

- C. To provide additional inspection resources in support of CEA's Hazard Reduction Discount program.

In collaboration with California Real Estate Inspection Association (CREIA), the American Society of Home Inspectors (ASHI), FEMA, ATC, Simpson Strong-Tie, and Cal OES, five trainings were held in 2016.

CEA is now working with CREIA and Applied Technology Council (ATC) to develop a training program that would support CREIA's implementation of a Seismic Inspector certification by the end of 2017.

### **3. Mobile Application – QuakeGrade™**

CEA is applying finishing touches to a mobile-device app, based on FEMA P50, for use by home inspectors. Anticipated roll-out and announcement of the application is expected in early 2017.

QuakeGrade™ collects data, calculates a vulnerability score, and generates a report describing the inspected house's seismic vulnerabilities. The app will also suggest options to retrofit the structure and otherwise mitigate the vulnerabilities to improve the vulnerability score.

The app could also include creation and use of the CEA Hazard Reduction Discount form.

This project is funded and governed through the CEA-IT Project Portfolio.

### **4. South Napa Earthquake After-Event Study**

On August 24, 2014, at 3:20 a.m., a magnitude 6.0 earthquake struck in the American Canyon area, just south of Napa—it was the largest to hit California since the 1994 Northridge earthquake. According to *The Press Democrat* (Santa Rosa), the quake killed one person and injured 200, including a young man gravely injured by falling bricks from his home's fireplace.

CEA embarked on a research project to compile data on how single-family dwellings performed during that earthquake—no data previously existed that would identify seismically retrofitted and non-retrofitted dwelling performance in Napa.

CEA collaborated with Dr. Sharyl Rabinovici, a research consultant, in developing the project plan. The consultant developed the survey tool, managed data collection, provided descriptive analysis, and conducted confidential one-on-one interviews with selected homeowners in order to understand the impacts of damage and other event factors on those households.

The study was completed in two phases.

- Phase I included a 2015 online survey completed by 633 respondents.
- Phase II involved interviews with 39 homeowners, coupled with inspections of their houses.

Over half of the houses had been identified by respondents as having been seismically retrofitted *before* the August 2014 earthquake. California Real Estate Inspection Association (CREIA)-affiliated home inspectors who completed training in FEMA P-50 *Simplified Seismic Assessment Form for Detached, Single-Family, Wood-Frame Dwellings* conducted the inspections in March 2016.

The South Napa Earthquake study revealed no significant surprises regarding earthquake-related behaviors and beliefs, but it did reinforce the need for clear and consistent access to information about earthquake mitigation and insurance.

The study also identified significant interest among homeowners for affordable, reliable earthquake assessments that can inform their decision-making—this affirms the value of CEA’s current efforts to make FEMA P-50 methods known, accessible, and available to the public.

The final report will be released and presented February 1, 2017 at the CEA Research Forum to be held in Sacramento, at the Sacramento Convention Center.

Additionally, in 2017 CEA will develop an “After-Event Study” template, to quickly perform similar studies after future earthquakes, with clear benefits from tracking outcomes and evaluating effectiveness.

## **5. CRMP Earthquake Brace + Bolt Program:**

### Background:

Homeowners in the *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, a joint powers authority whose members are the CEA and California Governor’s Office of Emergency Services.

The initial pilot ran in 2013/14 in 4 Zip Codes and 8 retrofits were completed. In 2015, EBB was available in 28 ZIP Codes in seven cities--Oakland, San Francisco, San Leandro, Los Angeles, Pasadena, Santa Monica, and Napa—and 526 retrofits were completed.

2016 EBB Expansion:

For the 2016 EBB program, funds provided by CEA from its Loss Mitigation Fund will allow for at least 600 retrofits in 2016.

In addition, the Legislature and Governor included in the 2015–2016 state budget an appropriation of \$3,000,000 to the California Department of Insurance, with direction that the Department grant that money to the CEA, which would then contribute the funds to the CRMP’s EBB program.

Additional information and analysis:

As of November 3, 2016, CRMP had exhausted the entirety of the \$3-million CDI-CEA 2015 Grant, funding 1,006 retrofits for program-qualified California homeowners. All funds went to grants to homeowners; the CEA paid the administrative costs and expenses.

Homeowner registration for the 2016 EBB program opened for a month on January 20, 2016, in 18 cities and more than 100 ZIP Codes.

As of November 29, 2016, the following retrofits have been completed or are in progress:

- Completed 1142
- Permits received 438
- Extensions (considering) 107

EBB is on track to reach the 2016 goal of 1,600 retrofits and more likely to exceed it.

2016 Napa Earthquake Brace + Bolt:

The Napa Earthquake Brace + Bolt program (Napa EBB) was launched in February 2017.

Napa EBB is funded by the FEMA Hazard Mitigation Grant Program (HMGP) and by a partial EBB-funding match provided with CEA-funding support. Napa EBB will provide retrofit grants for 100 houses.

As of November 29, 2016, in progress were:

- Completed retrofits 43
- Permits received 17
- Extensions (considering) 30

With 61 homeowners on the waitlist, the Napa program remains on track to complete 100 retrofits.

### 2017 EBB Expansion:

Again in 2016, the Legislature and Governor included in the 2016–2017 state budget an appropriation of \$3,000,000 to the California Department of Insurance for CRMP’s EBB program, with the expectation that those funds would be granted to the CEA and then contributed to the CRMP EBB program. The CRMP Board has also approved 600 retrofits for 2017.

Homeowner registration for the 2017 EBB program will be open from January 25 through February 27 in 33 cities and more than 150 ZIP Codes.

CEA submitted an application to Cal OES for additional FEMA HMGP funding for residential retrofits in Humboldt County and Santa Barbara County, however, the application was not accepted.

### Future Funding Opportunities:

We continue to look beyond CEA’s Loss Mitigation Fund for additional EBB funding—more funding means more incentive payments for more homeowners. As it stands, the number of houses needing retrofits far exceeds the funding now available or identified.

## **6. CEA Brace + Bolt Program:**

### Background:

CEA’s new pilot program, *CEA Brace + Bolt* (“CEA BB”), will provide each selected CEA policyholder up to \$3,000 toward a retrofit, in the form of a direct grant to encourage them to strengthen their older houses located in high-seismic-activity areas. Once the brace-and-bolt retrofit is complete and verified, each participating policyholder will qualify for CEA’s new 20 percent Hazard Reduction Discount on their earthquake premium.

This initiative has a sound financial basis: Retrofitting sufficient numbers of older houses located in higher-seismic risk areas of California can reduce the CEA’s need for, and therefore its cost of, risk-transfer, on a long-term basis.

Operating within CEA Governing Board-approved program rules, the CEA BB program offers benefits to eligible CEA policyholders who:

- own a pre-1940 house in one of the 10 selected ZIP Codes whose characteristics qualify for a code-compliant brace-and-bolt retrofit; and
- have insured their house with CEA for at least three years.

The 10 ZIP Codes, five each in Northern and Southern California, are:

**Northern California**

94501  
94602  
94611  
94705  
94707

**Southern California**

90027  
90048  
91030  
91104  
91108

Additional information and analysis:

The CEA Brace + Bolt (CEA BB) pilot program launched to approximately 3,200 CEA policyholders in October 2016.

A letter was mailed to qualifying policyholders inviting them to participate. Outbound phone calls are currently underway to ensure policyholders are aware of the opportunity and to answer any questions about their next steps.

As of November 29, 68 policyholders have accepted the invitation and confirmed their house eligibility on the program website, CEABraceBolt.com, and 2 building permits have been received.

Recommendation:

No action required—information only.

## Governing Board Memorandum

December 14, 2016

Agenda Item 14: CEA Research Program: Update and augment CUREE Guidelines—Request for Proposals

Recommended Actions: Approve posting of Request for Proposals

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### Background:

In 2007, the “Consortium of Universities for Research in Earthquake Engineering“ (CUREE) *Assessment and Repair of Earthquake Damage* project developed a set of general guidelines that provides “...a sound technical basis for use by engineers, contractors, owners, the insurance industry, building officials, and others in the post-earthquake context. Based on experimental and analytical research and a broad discussion of the issues involved, the guidelines...facilitate improved consistency in the evaluation of building damage and the associated need for repairs.”

CEA provided major funding for Guidelines development.

Work on the project was performed by academic institutions, commercial research laboratories, and practicing professionals under contract to CUREE. Technical guidance and oversight of the project was provided by an Advisory Group, consisting of engineering professionals in the public, private, and academic sectors, as well as building inspection professionals, insurance claims professionals, and the California Seismic Safety Commission. The document was last updated, however, in 2010.

As a condition of CEA’s funding agreement with CUREE, the Guidelines were made available for free PDF download.

CEA and its participating insurer (PI) claim adjusters rely on the CUREE Guidelines in providing, both in providing California Department of Insurance-mandated training for earthquake-damage assessment and actually performing post-earthquake damage assessments.

The target audience of the Guidelines is homeowners, contractors, insurance-claim representatives, and other non-engineers involved in post-earthquake damage assessment of woodframe construction. The project aimed to bring sound science and engineering to the infrequent, but important, undertaking of earthquake-damage assessment and repair of typical single- and multi-family woodframe residential buildings in California.

In addition to the Guidelines, CUREE had planned to develop companion guidelines specifically targeted to the engineering community, to provide objective guidance on important post-earthquake decisions on single-family dwellings of woodframe construction. Such an assessment would include answering whether the damage was earthquake-caused, and if so, whether it is cosmetic or has structural implications. But due to lack of funding, CUREE did not develop the engineering guidelines.

As of December 31, 2016, CUREE will cease to operate.

### Project Proposal

Guidelines Update: Because the Guidelines will not be supported beyond 2016, and because of this product's substantial value to CEA and its PIs, it is proposed that CEA contract with a qualifying organization to review and update the Guidelines, to include:

1. Identifying updates to the existing Guidelines
2. Identifying additional sections to be added to the Guidelines
3. Developing a publication-ready document in an approved format
4. Developing standardized training modules, in PowerPoint format, based on the Guidelines

Such updates would take into account current building-code requirements, lessons learned from recent earthquakes, and various consensus best practices.

Engineering Guidelines (New): CEA staff proposes developing companion guidelines that would be specifically targeted to the engineering community, to serve as reference for engineers who are evaluating earthquake damage that is potentially more severe than the non-structural, cosmetic damage addressed by the General Guidelines.

The Engineering Guidelines would provide objective guidance on how to make important decisions after an earthquake with regard to the assessment and repair of earthquake damage to woodframe residential buildings in California.

The proposed Engineering Guidelines project will involve:

1. Developing steps for assessing earthquake damage to woodframe residential buildings
2. Developing steps for assessing repair of earthquake damage to woodframe residential buildings
3. Developing steps for assessing cause of damage, and if damage is determined to have been caused by earthquake, identifying whether that damage is non-structural (cosmetic) or has structural implications
4. Development of a publication-ready document in an approved format

5. Developing standardized training modules, in PowerPoint format, whose use would be approved for continuing education credit

Projected cost and procurement process:

Cost for the project is expected to exceed \$100,000, thus needing Board approval to post a Request for Proposals (RFP) to solicit proposals from qualifying organizations and from which to make a selection.

The selected organization, and any proposed contract, will be submitted to the Board for approval at a later date.

Recommendation:

CEA staff recommends the Board approve CEA's posting of a Request for Proposals to solicit qualifying organizations to submit proposals to update the CUREE guidelines and develop companion engineering guidelines.

## Governing Board Memorandum

December 14, 2016

Agenda Item 15: CEA Research Program: Projects

Recommended Actions: No action required—information only

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### Background:

With CEA Governing Board support and approval, CEA is launching a new Research Program in 2017. This program includes three tiers of funding for multiple disciplines of research, all relevant to CEA's mission to provide affordable, accessible earthquake insurance for those who own or rent residences in California.

### Grants Program

Tier 1: Individual graduate/post-graduate student grants will be funded annually, with a primary focus of research. But grants will also advance development of human resources and higher education. Those supported graduates/post-graduates who later move to research institutions domestically and abroad, have the potential to increase California's links to advanced research related to earthquake-associated behaviors and earthquake damage.

Tier 2: The primary focus of the biennial research-grants program is research.

But Tier 2 grants will also advance development of institutional knowledge and expertise that will serve policymakers as well as the insurance industry, including CEA.

The grant will be geared toward early-career professionals, with six years or less in their chosen career. Whether they continue at or move to research institutions domestically or abroad, or move into the private sector, this pool of experts will have the potential to increase California's links to advanced research related to earthquake-associated behaviors and earthquake damage.

Tier 3: Special Research Projects will continue based on CEA's competitive RFQ/RFP/RFB/RFI approach, formal sole-source requirements, when indicated, and existing selection processes now in effect.

## Research Forum

The three-tiered CEA Research Program will be amplified and extended by a new *CEA Research Forum*, which will include both academic and professional earthquake communities. The first forum is scheduled for February 1 and 2, 2017, at the Sacramento Convention Center.

CEA staff sent registration invitations to over 150 potential participants earlier this month.

## Cripple Wall Performance Effects research project

With the signing of the contract, the Cripple Wall Performance Effects research project launched with an initial meeting between CEA and Pacific Earthquake Engineering Research (PEER) Center staff on December 13.

Project timeline and logistics were discussed, and plans were made for a full-team kick-off meeting in January 2017.

## Recommendation:

No action required—information only.

# Governing Board Memorandum

December 14, 2016

Agenda Item 16: 2016 recap of programming results from CEA Communications and External Affairs

Recommended Action: No action required—information only

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In May 2015, the Governing Board approved the 2016 advertising budget, the expense of which was indicated in CEA’s approved rates and rating plan, and which was well below the property and casualty insurance industry standard for percent-of-premium dedicated to advertising expenditures. Alongside that budget proposal, CEA also provided a draft “Program Snapshot” of CEA’s Strategic Communications Plan called “Good things happen when you go for it.”

CEA Communications & External Affairs proposed to “go for it,” because never before at CEA had so many pieces of the marketing mix come together at the same time.

Now 18 months later, CEA can demonstrate how it delivered on its 2016 plan and exceeded expectations in all categories. Generally, CEA surpassed communication goals sought through all forms of paid media, became more engaged with journalists, launched comprehensive social-media and community-outreach capabilities, increased number of agents trained and registered in marketing support programs, and most important, boosted the number of hits on CEA’s new premium calculator.

During the 4th quarter of 2016 alone, to promote CEA insurance and mitigation and participation in the Great California ShakeOut, CEA delivered more than 47 million paid-media and direct-mail impressions, participated in more than 50 news interviews, was mentioned in more than 60 news stories, personally pitched more than 135 news outlets, distributed two CEA news releases to more than 2,800 outlets, engaged with numerous partners through social media, and delivered “New CEA Policy” presentations to local groups and agents in multiple cities.

## Background:

CEA’s annual paid media budget for advertising in English, Spanish, and Chinese breaks down into five categories:

1. Television in three markets
2. Radio in seven markets
3. Digital search, display, and video-streaming, statewide
4. Trade-print and digital
5. Direct mail through agents participating in CEA’s Marketing Value Program (MVP)

CEA also integrates consistent messaging through earned, social, and owned (CEA website) media, as well as through community outreach, agent-training, and CEA’s call center.

## Analysis:

### ***Annual Paid Media:***

- Delivered nearly 926 million English, Spanish, and Chinese advertising impressions through 16 TV stations, 102 radio stations, 333 outdoor units, and online:
  - TV: about 58 million impressions
  - Radio: about 421 million impressions
  - Digital: about 232 million impressions
  - Print “Post-it® Notes” and “20<sup>th</sup> Anniversary Advertorials” to about 4 million households
  - Outdoor: about 211 million impressions
- Dedicated 25 percent of CEA media-buy for two weeks to promote ShakeOut participation
- Sponsored KGO “Bay Area Life” and KCET-LA “Bracing for a Quake” TV segments

### ***Annual Direct Mail:***

- Mailed about 850,000 pieces of direct mail delivered to CEA policyholders
- Mailed more than 870,000 pieces of direct mail through agents, to their prospects
- Delivered 3 million emails and 300,000 pieces of direct mail through a trigger campaign
- Mailed more than 9 million “Mandatory Marketing Documents”
- Mailed more than 210,000 “Hazard Reduction Discount” letters

### ***4<sup>th</sup> Quarter Earned Media:***

- Statewide: NBC Radio, Fox News Science, Wall Street Journal, AP, Huffington Post
- SF Bay Area: KTVU, KNTV, KGO, KCBS, KISQ, KOSF, KTVU, KTSF, KRCB, Napa Valley Register, Vacaville Reporter, Palo Alto Weekly
- Central Valley: KFBK, KWSX, KSJN, KFIV, KSOF, KTIP, KUZZ
- Central Coast: KION, KDON, KOCN, KTOM
- Los Angeles: KTLA, KABC, KNX, KGGI, NBC Universal, LA Times, Newport Beach Independent, Ventura County Star, Culver City Front Page Online
- San Diego: FOX 5, ABC, CW, KGB, KOGO, KMYI, KSSX, KHTS
- Referred to in Yahoo News, San Fernando Valley Sun, Napa Valley Register, Crescenta Valley Weekly, East Bay Patch, YubaNet, Sierra Wave Media, KBHR Big Bear, K TEN, PublicNow site, LAUSD Daily, InsuranceNewsNet.com, InsuringCalifornia.org
- Worked with ShakeOut partners to deliver statewide letter of support, prompt live drill broadcasts, distribute a news release statewide, and participate in an LA-based press event.

### ***Annual Ethnic (Earned) Media:***

- Ethnic media advertising through 22 newspapers, 19 websites, plus three Spanish and two Chinese TV stations, all combined to deliver about 22 million impressions
- CEA partnered with New America Media to co-host first-time ethnic-media briefings in San Francisco, Los Angeles, and San Diego. Briefing participants included USGS, City and County of San Francisco, California Institute of Technology, City of Los Angeles, American Red Cross, U.S. Department of Homeland Security, and the County of San Diego.
- News stories published in Spanish, Filipino, Korean, Chinese, Japanese, and Vietnamese.
- Other stories in English for African American, Indian, Native American, and Asian ethnicities.

***4<sup>th</sup> Quarter Social Media (through November 2016):***

- Earned 208,000 organic impressions on Twitter in September and 170,000 in October
- Earned more than 700 likes on Facebook since mid-September
- Promoted CEA-sponsored segments on KGO and KCET via Facebook and Twitter
- Featured *Seven Steps to Earthquake Safety* through Facebook and Twitter
- Posted ShakeOut information on Facebook, Twitter, and LinkedIn
- Participated with partners in Facebook Live event and a Q&A Tweet Chat
- Co-branded Facebook and Twitter advertising with Earthquake Country Alliance
- Sponsored monthly blogs to engage agents through *Insurance Journal*

***Annual Community Outreach (through November):***

Since January 2016, CEA's CEO and other representatives delivered 45 presentations about CEA's new policy choices, deductible options, and affordable rates to local groups including Chambers of Commerce, Rotary Clubs, realtors, homeowner associations, neighborhood councils, rental housing associations, and insurance agent forums in 34 cities.

***Annual Agent Training (through November):***

- Total number of agents trained is up year-over-year by 15 percent.
- Total number of agents registered in CEA's MVP is up year-over-year by 130 percent.
- Published "new policies" story in *Insurance Journal* and redistributed to agents.
- Hosted agent forums for 341 agents in Long Beach, Fremont, Oxnard, and San Diego.
- Presented new-policy information for a CEA participating insurer in 10 cities.

***Year-Over-Year Owned Media (CEA website, through November 2016):***

CEA exceeded expectations for year-over-year increases in visits to EarthquakeAuthority.com:

- Total site sessions up 102 percent
- Total page views up 149 percent
- Total unique page views up 206 percent
- Total premium calculator hits up 54 percent

***Annual Call Center (through November):***

CEA's call center responds to inquiries from consumers and agents. The number of incoming calls to CEA with questions generally about policy applications, billing, and premium changes set new records in 2016:

- The monthly average number of calls doubled since 2015 to more than 1,000, with the number of calls during October 2016 reaching nearly 2,000.
- Reasons for the increasing number of calls include new-policy information, MMD distribution, new HRD premium discounts, and multi-media-marketing program.

**Recommendation:**

No action required—information only.

## Governing Board Memorandum

December 14, 2016

Agenda Item 17: New contract initiatives underway to support CEA communications programs

Recommended Action: Authorize CEA staff to contract with proposed vendor, among three secured through competitive procurement processes

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At 2016 Governing Board meetings, staff reported plans to replace contracted services that had been provided by subcontractors with direct CEA-vendor contracts to support the CEA Communications & External Affairs department.

### Background:

The Board approved competitive procurements recommended by staff during its meeting in September 2016:

1. Public relations with Burson-Marsteller
2. Ethnic media with New America Media (NAM)
3. Printing with Zoom CROSS Media
4. Media planning and placement (B2C) with US International Media
5. Media planning and placement (B2B) with Runyon Saltzman, Inc.
6. Interim advertising and creative services with the former Civilian creative services director (“Civilian” is a former CEA contractor, having provided advertising and marketing services)

### Analysis:

Since September 2016, CEA staff has completed additional competitive procurements for advertising and creative services, agent marketing, and backup call-center services. Based on the circumstances below, CEA staff considers the procurements to be successful. Two of the contracts do not require Board approval and are reported here for informational purposes. One contract, however, will exceed an annual expenditure level greater than \$100,000 and requires Board authorization.

#### 1. Requires Board authorization:

CEA posted RFP #03-16 for Advertising and Creative Services on September 28, 2016, receiving three submissions and meeting to interview all three finalists. As a result of the procurement, Runyon Saltzman, Inc., has been awarded an opportunity to negotiate a contract with CEA to provide business-to-consumer (B2C) advertising and creative services, including:

- Messaging for product-marketing to sell earthquake insurance as a voluntary purchase in an open market.

- Advertising creative services, designed to motivate more California residents to purchase a CEA policy.
- Delivery of advertising-campaign-related printing and fulfillment services.

NOTE: The Board previously approved advertising spending for 2017—including all 2017-budget funds to be consumed under this proposed contract—at its meeting in March 2016. All future spending through this B2C advertising and creative-services contractor will be within CEA’s next-year advertising-spending plan annually approved by the Board each year in March.

While it is not possible to determine precisely the costs associated with producing a new CEA advertising campaign for 2018 (these services are to be performed in 2017), CEA staff estimates related costs within this proposed contract to be about \$330,000 for:

- Creative-concept development by creative-services staff;
- Creative-concept testing through an independent research subcontractor; and
- Production of TV, radio, online, outdoor, and print ads through a mixture of creative-services staff and independent subcontractors

In addition, postage and producing direct-mail requested by agents through CEA’s Marketing Value Program to attract new CEA policyholders, along with mail distributed by CEA to retain existing policyholders, should cost about \$2,530,000—that expense and expenditure will be governed by a separate contract or contracts.

## 2. Contracts that do not require Board authorization—information only.

CEA posted RFP #06-16 for Agent Marketing Services on September 30, 2016. CEA received two submissions, meeting with both proposers. As a result of this procurement, content marketing specialist Aatrijk has been awarded an opportunity to negotiate a contract with CEA to provide business-to-business (“B2B”) agent-marketing services, including:

- Update, integrate, and strategically focus core agent-training and sales resources, including CEA’s training presentation, training video, and leave-behind documents.
- Evaluate and recommend refinements to CEA’s Marketing Value Program (MVP).
- Propose three-year content strategy and tactics for CEA-PI agents and producers.

CEA reviewed services available to support an annual contract for \$3,000.00 to reserve post-event (backup) call-center services. Evaluators conducted research in order to compare costs and qualifications, and then interviewed three candidates. As a result of this procurement, Crawford & Company has been awarded an opportunity to negotiate a contract with CEA to provide post-event backup call-center services, including:

- Functioning as a call center, open 24 hours a day, seven days a week.
- Lending its experience and expertise in handling urgent calls to the task of receiving new CEA-insurance claims.
- Handling calls in various languages, as well as from CEA policyholders and other important stakeholders, PI representatives and agents, journalists, and public officials.

Recommendation:

Authorize CEA staff to negotiate for a contract with Runyon Saltzman, Inc., for B2C advertising and creative services, within the parameters noted in this memorandum.

## Governing Board Memorandum

December 14, 2016

Agenda Item 18: AIR—earthquake loss modeling—contract renewal

Recommended Action: Approve renewal of the AIR contract

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### Background:

There are three widely recognized, commercially available catastrophe-loss models/modelers: AIR-Worldwide (<http://www.air-worldwide.com/Home/AIR-Worldwide/>), CoreLogic (<http://www.corelogic.com/>), and Risk Management Solutions (<http://www.rms.com/>).

Since 2004, and with the Governing Board’s support and approval, the CEA has worked uninterruptedly and under individual contracts, with all three of those firms. By use of that arrangement, the CEA can feel confident that its earthquake-loss modeling is always provided by widely used, tested models at their highest level of development—a critical factor for support and acceptance of CEA’s sophisticated operational and financial needs.

### Analysis:

In part because of its collaboration with the three widely recognized earthquake modelers, the CEA broadens its understanding of California earthquake risk and the various, but similarly purposed, modeling methodologies. This CEA-centric collaboration enables the CEA to view the broadest range of modeling results, for planning purposes and project and product development. For example, AIR model output is a key component of the CEA’s capacity calculation, which informs the CEA Governing Board and management on the level of risk-financing needed to achieve target claim-paying capacity throughout each year.

In addition, regulations of the California Insurance Commissioner require the CEA to estimate and project losses within seven days following a major earthquake. With the Board’s approval, the CEA has historically contracted with Exponent (<http://www.exponent.com/>) and has established its CEA-proprietary “EARLE” (for Earthquake Loss Estimation) system to enable the CEA to meet this regulatory requirement. All three contracted modelers now serve as key contributors to the EARLE system, providing CEA with timely delivery of post-event loss estimations.

Staff has negotiated a three-year contract renewal with AIR, to take effect January 1, 2017. Under the renewed contract, AIR will provide substantially the same services as under the current contract and will provide additional CEA-requested output to support CEA risk-transfer analysis needs.

The annual fee payable to AIR under the proposed contract renewal — \$248,000 — is included in the proposed 2017 CEA budget and comprises compensation for two components:

- Two full earthquake-loss analyses of the CEA’s insured-risk portfolio.
- Services in support of the CEA EARLE system.

Additional notes on the terms of the contract renewal:

- The contractual fees for the two components in the present, expiring contract that correspond to the two components described immediately above total \$213,000. Those fees had remained flat from March 1, 2014, through December 31, 2016.
- The CEA’s new product offerings, effective January 1, 2016, which expand the number of limits and deductibles available to policyholders, increases the complexity and number of required outputs from any modeled loss-analysis, including that available through AIR.
- The CEA has added additional output requirements to support CEA risk-transfer analyses, which are designed to help the CEA identify and select optimal risk-transfer opportunities.

Recommendation:

Staff recommends that the Governing Board approve CEA’s renewal of the contract with AIR, as described, and authorize CEO Glenn Pomeroy to execute that contract renewal on the CEA’s behalf.

## Governing Board Memorandum

December 14, 2016

Agenda Item 19: CEA Enterprise Risk Management Program: Update on progress in developing the CEA enterprise risk management program

Recommended Action: No action required—information only

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At the September 14, 2016, Governing Board meeting, Chief Executive Officer Glenn Pomeroy updated the Board in acquiring the services of an Enterprise & Strategic Risk Advisor as a member of the CEA executive team and as director of the CEA's enterprise risk-management programs. The Enterprise & Strategic Risk Advisor began work on August 1, 2016, and has been supported by the CEA Enterprise Project Management Office (EPMO) in setting up the ERM program plan and by pro-bono advisory services offered by one of the CEA's reinsurance intermediaries.

The CEA Executive Team has participated in a series of surveys to identify and prioritize enterprise-level risks, and it devoted a day-long discussion at its Executive Retreat to learning more about ERM and reviewing the results of the ERM identification and prioritization survey. The CEA Chief Executive Officer tasked four members of the Executive Team to serve on an ERM Committee, with the Enterprise & Strategic Risk Advisor chairing the ERM Committee in a non-voting capacity.

The ERM Committee has held two meetings to date. It has reviewed and agreed on updates made to the Executive Teams' risk identification and prioritization-survey results and agreed on the risk owners, as well as the approach and templates to be used in the next step of the ERM development process: the development of risk-control summaries for each priority risk.

The Executive Team and ERM Committee have also identified the potential occurrence of a major earthquake as an overarching risk consideration, and risk controls for all priority risks are considering both steady-state (normal day-to-day operations) and post-earthquake scenarios.

October and November have been devoted to conducting interviews with each of the risk owners to develop risk controls for each priority risk. All of this information will then be integrated into an enterprise-wide, risk-management framework.

Recommendations: None—information only.

## Governing Board Memorandum

December 14, 2016

Agenda Item 20: Update on CEA Stakeholders Outreach Program

Recommended Action: No action required—information only

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### Stakeholders Outreach Program:

CEA's Stakeholders Outreach Program is proceeding under the direction of a new internal team leader, Joseph Orlando, who joined CEA on November 14, 2016, from the California Department of Corrections and Rehabilitation.

Recent developments include:

- The annual CEA Symposium launched in October 2016, focusing on CEA IT initiatives, and planning is already underway for a second Symposium in Fall 2017.
- Semi-annual "Coffee with the CEA" sessions in Sacramento have also begun. The first session was held on September 6, 2016, and planning is underway for a second session in Q1 2017.
- The annual CEA report launched with an inaugural edition on CEA's 20<sup>th</sup> Anniversary, which is being distributed at today's CEA Governing Board Meeting and will be mailed to other stakeholders in the next two weeks.

The following tools and tactics are also continuing:

- CEA's Facebook page launched in September and has earned more than 700 likes.
- A weekly email of CEA press releases and news clippings is being sent to stakeholders.
- Statewide community outreach—since January 2016, CEA's CEO and other representatives have delivered 45 presentations in 34 California cities.

### Next Steps:

Next steps will be to convene CEA's Stakeholders Outreach Committee in January 2017 and finalize metrics to establish performance baselines.

### Recommendation:

No action required—information only.

## Governing Board Memorandum

December 14, 2016

Agenda Item 21: Update on data collection and reporting that support the Metrics Project

Recommended Action: No action required—information only

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Chief Executive Officer Glenn Pomeroy will update the Board on the established CEA Metrics Project.

# Governing Board Memorandum

December 14, 2016

Agenda Item 22: (Proposed) 2017 Quarterly CEA Governing Board Meeting Schedule

Recommended Action: Approve (Proposed) 2017 Quarterly CEA Governing Board Meeting Schedule

Staff recommends approval of the following dates for the CEA Governing Board’s 2017 regular business meetings:

**All meetings are on a Wednesday and begin at 1:00 p.m.**

2017 MEETING DATES
<b>March 15</b>
<b>June 7</b>
<b>September 20</b>
<b>December 13</b>

2017																																																												
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**California Earthquake Authority**

**Losses & Loss Adjustment Expenses (LAE) Paid - Cumulative to October 31, 2016**

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 October 31, 2016 (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	3,403,147.00	306,283.23	\$3,709,430.23
	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
<b>Total</b>					<b>474</b>	<b>\$8,077,910.88</b>	<b>\$705,851.75</b>	<b>\$8,783,762.63</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

## Operations - Governing Board Report

All Companies - As Of 11/23/2016 - Policies in Force on: 10/31/2016

TOTALS	Policies In Force	%Total	Exposure	%Total	Written Premium	% Total	Avg Written Premium
Homeowners	664,689	72.0 %	330,578,145,111	86.4 %	493,952,085	80.7 %	743
Homeowners Choice	58,794	6.4 %	34,761,120,475	9.1 %	56,611,781	9.3 %	963
<b>All Homeowners Total</b>	723,483	78.4 %	365,339,265,586	95.4 %	550,563,865	90.0 %	761
Manufactured Homes (Mobilehomes) - Homeowners	26,991	2.9 %	3,400,074,138	0.9 %	3,426,568	0.6 %	127
Manufactured Homes (Mobilehomes) - Homeowners Choice	1,597	0.2 %	277,841,003	0.1 %	320,887	0.1 %	201
<b>All Manufactured Homes (Mobilehomes) - Homeowners Total</b>	28,588	3.1 %	3,677,915,141	1.0 %	3,747,456	0.6 %	131
Condo	107,574	11.7 %	11,407,231,000	3.0 %	50,179,829	8.2 %	466
Renters	63,703	6.9 %	2,388,940,500	0.6 %	7,276,934	1.2 %	114
<b>Grand Total</b>	923,348	100.0 %	382,813,352,227	100.0 %	611,768,084	100.0 %	663

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2016 - Policies in Force on: 10/31/2016

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Homeowners - by Cov A Ded</b>							
25% Total	1,897	0.2 %	1,061,714,625	0.3 %	1,256,434	0.2 %	662
20% Total	1,548	0.2 %	878,609,036	0.2 %	1,288,053	0.2 %	832
15% Total	557,837	60.4 %	274,962,286,281	71.8 %	415,999,673	68.0 %	746
10% Total	89,044	9.6 %	46,104,872,332	12.0 %	65,152,034	10.6 %	732
5% Total	14,363	1.6 %	7,570,662,837	2.0 %	10,255,891	1.7 %	714
<b>Homeowners Total</b>	<b>664,689</b>	<b>72.0 %</b>	<b>330,578,145,111</b>	<b>86.4 %</b>	<b>493,952,085</b>	<b>80.7 %</b>	<b>743</b>
<b>Homeowners Choice - by Cov A Ded</b>							
25% Total	1,240	0.1 %	740,097,940	0.2 %	986,016	0.2 %	795
20% Total	799	0.1 %	490,527,051	0.1 %	835,656	0.1 %	1,046
15% Total	29,869	3.2 %	18,253,648,492	4.8 %	30,541,690	5.0 %	1,023
10% Total	20,187	2.2 %	11,623,298,974	3.0 %	18,181,457	3.0 %	901
5% Total	6,699	0.7 %	3,653,548,018	1.0 %	6,066,961	1.0 %	906
<b>Homeowners Choice Total</b>	<b>58,794</b>	<b>6.4 %</b>	<b>34,761,120,475</b>	<b>9.1 %</b>	<b>56,611,781</b>	<b>9.3 %</b>	<b>963</b>
<b>All Homeowners Total</b>	<b>723,483</b>	<b>78.4 %</b>	<b>365,339,265,586</b>	<b>95.4 %</b>	<b>550,563,865</b>	<b>90.0 %</b>	<b>761</b>

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2016 - Policies in Force on: 10/31/2016

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	10	0.0 %	1,468,677	0.0 %	1,303	0.0 %	130
20% Total	5	0.0 %	710,921	0.0 %	593	0.0 %	119
15% Total	21,404	2.3 %	2,492,761,671	0.7 %	2,543,772	0.4 %	119
10% Total	4,885	0.5 %	792,114,796	0.2 %	755,724	0.1 %	155
5% Total	687	0.1 %	113,018,073	0.0 %	125,176	0.0 %	182
<b>Manufactured Homes (Mobilehomes) - Homeowners Total</b>	26,991	2.9 %	3,400,074,138	0.9 %	3,426,568	0.6 %	127
<b>Manufactured Homes (Mobilehomes) - Homeowners Choice - by Cov A Ded</b>							
25% Total	9	0.0 %	1,293,249	0.0 %	1,161	0.0 %	129
20% Total	1	0.0 %	197,475	0.0 %	63	0.0 %	63
15% Total	618	0.1 %	99,592,644	0.0 %	123,698	0.0 %	200
10% Total	640	0.1 %	116,337,704	0.0 %	129,354	0.0 %	202
5% Total	329	0.0 %	60,419,931	0.0 %	66,612	0.0 %	202
<b>Manufactured Homes (Mobilehomes) - Homeowners Choice Total</b>	1,597	0.2 %	277,841,003	0.1 %	320,887	0.1 %	201
<b>All Manufactured Homes (Mobilehomes) - Homeowners Total</b>	28,588	3.1 %	3,677,915,141	1.0 %	3,747,456	0.6 %	131

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2016 - Policies in Force on: 10/31/2016

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Condo - by Cov A Ded</b>							
25% Total	498	0.1 %	73,271,000	0.0 %	259,112	0.0 %	520
20% Total	345	0.0 %	52,328,500	0.0 %	205,845	0.0 %	597
15% Total	76,569	8.3 %	8,994,149,500	2.3 %	38,202,174	6.2 %	499
10% Total	2,580	0.3 %	423,134,500	0.1 %	1,515,620	0.2 %	587
5% Total	4,375	0.5 %	683,462,500	0.2 %	2,358,580	0.4 %	539
No Cov A	23,207	2.5 %	1,180,885,000	0.3 %	7,638,499	1.2 %	329
<b>Condo Total</b>	<b>107,574</b>	<b>11.7 %</b>	<b>11,407,231,000</b>	<b>3.0 %</b>	<b>50,179,829</b>	<b>8.2 %</b>	<b>466</b>

# California Earthquake Authority

## Operations - Governing Board Report

All Companies - As Of 11/23/2016 - Policies in Force on: 10/31/2016

TOTALS	Policies In Force	% Total	Exposure	% Total	Written Premium	% Total	Avg Written Premium
<b>Renters - by Cov C Ded</b>							
\$750 Total	6,886	0.7 %	272,168,500	0.1 %	858,558	0.1 %	125
25% Total	675	0.1 %	9,906,000	0.0 %	28,775	0.0 %	43
20% Total	238	0.0 %	6,561,500	0.0 %	13,952	0.0 %	59
15% Total	12,058	1.3 %	284,614,500	0.1 %	705,768	0.1 %	59
10% Total	2,413	0.3 %	122,678,500	0.0 %	296,984	0.0 %	123
5% Total	41,433	4.5 %	1,693,011,500	0.4 %	5,372,896	0.9 %	130
<b>Renters Total</b>	<b>63,703</b>	<b>6.9 %</b>	<b>2,388,940,500</b>	<b>0.6 %</b>	<b>7,276,934</b>	<b>1.2 %</b>	<b>114</b>
<b>Grand Total</b>	<b>923,348</b>	<b>100.0 %</b>	<b>382,813,352,227</b>	<b>100.0 %</b>	<b>611,768,084</b>	<b>100.0 %</b>	<b>663</b>



**CEA GOVERNING BOARD MEETING DATES FOR - 2016**

**March 16, 2016 – Wednesday**

**May 31, 2016 — **ADDED****

**June 15, 2016 – Wednesday**

**September 14, 2016 – Wednesday**

**December 14, 2016 – Thursday**

[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) ]*