

**CALIFORNIA EARTHQUAKE AUTHORITY
GOVERNING BOARD MEETING
MINUTES**

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

Location: CalSTRS Headquarters Building
Board Room – Lobby, E-124
100 Waterfront Place
West Sacramento, California

Members of the Governing Board in attendance:

Mark Ghilarducci, designee of Governor Jerry Brown, Board Chair
Vincent Brown, designee of State Treasurer John Chiang
Insurance Commissioner Dave Jones
Craig Fry, designee of Chair of the Senate Rules Committee Toni Atkins

Members of the CEA Staff in attendance:

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

Also present:

No members of the public addressed the Governing Board.

1. Call to order and member roll call.

Chair Mark Ghilarducci called the meeting to order at 12:02 p.m. A quorum was achieved.

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

The Board entered closed session at 12:03 p.m. and resumed its proceedings in open session at 1:28 p.m. No action was announced as having been taken.

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

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

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

Glenn Pomeroy, Chief Executive Officer, presented his report:

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

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

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

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

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

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

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

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

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

Staff Recommendations:

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

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

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

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

Staff Recommendations:

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Jones withdrew his motion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Staff Recommendations:

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

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

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

Mr. Richison reviewed the historical transfers that have been made by the CEA to the CRMP to date to support and fund grants and operations of the CRMP. He stated the CRMP Governing Board approved the 2019 budget and consented to a transfer of funds from the CEA Earthquake Loss Mitigation Fund in the amount of \$6.3 million for their activities for 2019.

Staff recommendation:

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

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

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

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

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

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

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

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

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

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

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

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

Staff recommendation:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Governing Board members agreed with the proposed 2019 meeting dates.

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

There was no public comment.

23. Adjournment.

As approved by the CEA Governing Board at its meeting on Wednesday, March 20, 2019

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

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

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