

**CALIFORNIA CATASTROPHE RESPONSE COUNCIL  
(WILDFIRE FUND)**

**MEETING MINUTES**

**Thursday, January 16, 2020  
9:00 a.m.**

Location: California Department of Food and Agriculture  
Auditorium, Room 131  
1220 N Street  
Sacramento, California

Members of the Council in Attendance:

Mark Ghilarducci, designee of Governor Gavin Newsom  
Fiona Ma, State Treasurer (accompanied by Treasurer's designee Kasey O'Connor)  
Michael Martinez, designee of Insurance Commissioner Ricardo Lara  
Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot  
Rich Gordon, designee of the Speaker of the Assembly  
Paul Rosenstiel, Public Member  
Rhoda Rossman, Public Member  
Catherine Bando, Public Member

Members of the CEA Staff in Attendance:

Glenn Pomeroy, Chief Executive Officer  
Tom Hanzel, Chief Financial Officer  
Tom Welsh, General Counsel & Acting Chief Operations Officer  
Suman Tatapudy, Senior Counsel  
Shannon McEuen, Governance Liaison

## **Preliminary Items**

### **1. Call to Order and Member Roll Call**

Chair Mark Ghilarducci called the meeting to order at 9:06 a.m. He welcomed everyone to the first meeting of the California Catastrophe Response Council (CCRC). Ms. McEuen called the roll and established that a quorum was present.

The members introduced themselves and spoke about their backgrounds.

- Mark Ghilarducci, designee of the Governor, is the Director of the Governor's Office of Emergency Services. In that capacity, he oversees public safety, emergency services, and homeland security for the State of California.
- Fiona Ma is the State Treasurer. Previously, Treasurer Ma was a member of the San Francisco Board of Supervisors, and she noted that her district – the Sunset District – was particularly vulnerable to earthquake damage. She sat on the CEA's Advisory Council for about four years, as well as then-Mayor Gavin Newsom's Earthquake Disaster Council.
- Kasey O'Connor (a duly appointed designee of Treasurer Ma who will serve on behalf of the Treasurer when the Treasurer is unable to attend Council meetings) is the Treasurer's Legislative Director. Ms. O'Connor also serves as the Treasurer's designee on the Governing Board of the CEA, a separate statutory body from the Council. Ms. O'Connor grew up in Northridge, where her family's first home was destroyed in the 1994 Northridge earthquake.
- Public Member Paul Rosenstiel is a Special Advisor to Governor Newsom in the Department of Finance. Mr. Rosenstiel was actively involved in Governor Newsom's 2019 efforts to address the wildfire and utility safety issues, including the work that led to the enactment of AB 1054. Previously he worked in municipal finance. He also served as a Deputy State Treasurer to Bill Lockyer, and at that time served as Treasurer Lockyer's designee to the CEA Governing Board.
- Public Member Catherine Bando is the Executive Director of the California Statewide Communities Development Authority, and is also a retired investment banker. She has been an underwriter of municipal bonds; her expertise is in statewide finance pooling.

- Public Member Rhoda Rossman serves on the Board of Directors for Matthews Asia Funds. Her background is in investment management for insurance companies.
- Bryan Cash is the designee of the Secretary of Natural Resources, Wade Crowfoot, who is a statutorily designated member of the Council. Mr. Cash is in Administration & Finance at the Natural Resources Agency, where he has served for 15 years. He notes that in that capacity, he has seen many cycles of wildfires and assisted the State in addressing those and other natural disasters.
- Rich Gordon is the appointee of the Speaker of the Assembly. Mr. Gordon is President & CEO of the California Forestry Association, which represents timber companies in California. Prior to this he has been an elected official since 1992, first on the San Mateo County Board of Education, then as a member of the San Mateo County Board of Supervisors, followed by six years as a member of the California State Assembly.
- Michael Martinez is the designee of California Insurance Commissioner Ricardo Lara. Mr. Martinez is the Senior Deputy Commissioner & Legislative Director of the California Department of Insurance. He notes that the affordability and availability of insurance in the wildland-urban interface areas of the State continues to be a top priority for Commissioner Lara, which should inform the work of this Council.

## 2. Minutes

### **Review/approve minutes of the August 7, 2019 meeting of the CEA Governing Board, exercising the powers of the California Catastrophe Response Council, and overseeing the activities of CEA acting as Interim Administrator of the Wildfire Fund.**

Three of the current Council members in attendance at this meeting were serving on the CEA Governing Board and were present at the August 7, 2019 meeting: Ms. O'Connor, Mr. Martinez, and Mr. Ghilarducci.

Accordingly, these members reviewed and verified the accuracy of the draft Minutes of the August 7, 2019 meeting.

**MOTION:** Ms. O'Connor motioned to approve and adopt the minutes of the August 7, 2019 meeting as written. Mr. Martinez seconded. Motion carried unanimously.

### **3. Executive Report**

#### **Report by CEA Executive Staff regarding CEA's responsibilities and actions as Interim Administrator of the California Wildfire Fund.**

Glenn Pomeroy, California Earthquake Authority (CEA) Chief Executive Officer, thanked everyone for attending. This is an important endeavor; the Council and the CEA, as Interim Administrator of the Wildfire Fund, are beginning at the ground floor today.

By way of introduction to the new members of the Council who are not also members of the CEA Governing Board, Mr. Pomeroy described his background as a prosecuting attorney, state legislator, and elected State Insurance Commissioner in North Dakota. He then worked in the reinsurance industry for a time. He has led the CEA for the past 12 years. CEA is a not-for-profit residential, publicly managed but privately funded insurance company formed in the wake of the 1994 Northridge earthquake. CEA has 1.1 million policyholders, and over \$18 billion in claim-paying capacity. It also has a proactive mitigation program to strengthen older homes to protect them from damage from earthquakes.

Mr. Pomeroy supplied some background on the wildfire crisis that continues to grip the state: the increased risk of catastrophic utility-related wildfires. This crisis has been tragically played out over the past several years with great harm to people and property, resulting in increased cost for utility ratepayers. Investor-owned utility companies are experiencing unprecedented instability and are at risk of not being able to provide residents and businesses with safe and reliable service, as well as not being able to reduce their own wildfire risk posed by their equipment.

Last July the Legislature passed AB 1054, creating the Wildfire Fund (WF), establishing the California Catastrophe Response Council. AB 1054 required CEA to undertake immediately the responsibility to act as Interim Administrator of the WF to stand-up and operationalize the fund. Because the members of this Council had not yet been appointed, CEA's work was overseen by the CEA Governing Board, which was authorized in AB 1054 to exercise the oversight duties of the Council until the Council had established a quorum.

Mr. Pomeroy reviewed the recent wildfire statistics of the last three years. He showed the numbers for acres burned, incidents of fire breakout, confirmed loss of life, and structures damaged or destroyed during the 2017 and 2018 wildfire seasons.

In an update on the 2019 wildfire season, Mr. Pomeroy pointed out that since July 12, 2019, there have been nine wildfires that may have been caused by investor-owned utilities (IOUs), but no claims have yet been submitted to the WF.

Many factors have resulted in 2019 being a better wildfire year than previous years. Among them are the proactive, aggressive steps the state of California has taken to get on top of this risk.

In terms of the claim-paying capacity of the WF, if all the pieces align, the WF will ultimately have approximately \$21 billion in claim-paying capacity. The fund was established to reimburse IOUs for settled or finally adjudicated claims submitted by wildfire survivors of future wildfires caused by IOU equipment.

Tom Hanzel, CEA Chief Financial Officer, explained the capitalization of the fund. As of December 31, 2019, the WF had approximately \$4.8 billion of assets under management, which were deposited to the WF through two different tranches:

First, in August 2019, the WF received a \$2 billion loan through the Treasurer and Controller's Offices from the State's Surplus Money Investment Fund (SMIF Loan). CEA, together with the Department of Water Resources (DWR) and other agencies, have kicked-off a process to issue bonds secured by IOU ratepayer surcharges that will commence later in 2020, and will generate a 15-year revenue stream of approximately \$900 million per year. The plan is that by the end of the calendar year 2020 the DWR bonds will be issued and the proceeds will be used to repay the SMIF loan.

Second, the IOUs have commenced their capitalization obligations under AB 1054. To participate in the WF, the IOUs first had to have their safety plans approved by the CPUC. All three IOUs – SDG&E, SoCal Edison, and PG&E – were able to accomplish that. Their portion of the WF capitalization then had to be funded. SoCal Edison and SDG&E provided their initial contributions on September 9. PG&E's initial contribution must await the outcome of its bankruptcy reorganization process. In addition, the IOUs must pay an annual payment of \$300 million, divided amongst the three IOUs. Once again, SoCal Edison and SDG&E each paid their share of the \$300 million annual contribution prior to the end of 2019. In total, SoCal Edison and SDG&E have funded approximately \$2.8 billion to

the WF. Those funds are now in the custody of CEA, as Interim Administrator of the WF.

Mr. Pomeroy noted that the WF Administrator eventually appointed by the Council, if it is an entity other than CEA, will likely look to CEA for substantive expertise in fund management and administration, and CEA is prepared to continue to provide those services.

Council member Rosenstiel asked if there was any sense that the fires of 2019 were large enough that they will trigger a claim on the WF. Mr. Pomeroy answered that they do not expect to receive claims as a result of those fires, but it is still too early to tell because the cause of each of the 2019 fires has not yet been determined.

#### **4. Council Meetings**

##### **a. Leadership of the Council**

The Council discussed its expectation and desire that the Governor's designee, Mr. Ghilarducci, should Chair the Council.

**MOTION:** Treasurer Ma nominated Mark Ghilarducci to act as Chair of this Council. Ms. Bando seconded. Motion carried unanimously.

Chair Ghilarducci suggested election of a Vice-Chair as well, and the Council discussed the appointment of a Vice Chair to conduct meetings in the absence of the Chair.

**MOTION:** Treasurer Ma nominated Council member Rich Gordon as Vice-Chair. Chair Ghilarducci seconded. Motion carried unanimously.

##### **b. Meeting Schedule**

Mr. Pomeroy asked the members how often they would like to meet.

Chair Ghilarducci suggested meeting quarterly for at least the first year.

Ms. Bando agreed with the idea of quarterly meetings. She suggested having a set date such as the first or third Thursday of the month in which the quarterly meetings are set.

Mr. Martinez agreed with a quarterly schedule. He noted that for some Council members, they must work with the legislative calendar and the budget. He requested having potential dates to choose from.

Mr. Pomeroy noted that Ms. McEuen is the CEA staff member who acts as Council Governance Liaison, and she will assist with the arrangements for all Council meetings. The Council further discussed scheduling. Chair

Ghilarducci summarized that the Board will hold quarterly meetings generally on Thursdays in April, July, October and December.

**c. Bagley-Keene Act Compliance**

Tom Welsh, CEA General Counsel, reminded the group that as a state body, they are governed by the Bagley-Keene Act. All members have been sent a copy of the Act and the Attorney General’s Guide to Bagley-Keene Act compliance.

Mr. Welsh noted that the key issue is that when a quorum of the Council is assembled to talk about the business of the Council or WF, that gathering must be held pursuant to a properly noticed meeting and an agenda that lays out the topics for discussion. Mr. Welsh’s cautionary admonition was to exercise care when they find themselves together in numbers that could constitute a quorum; at such times they must refrain from talking about the business of the CCRC.

**5. Conflict-of-Interest Code**

**Authorize CEA to manage the Conflict-of-Interest Code adoption process pursuant to Cal. Gov. Code § 87300 et seq.**

Mr. Welsh addressed an administrative responsibility of the Council to adopt a Conflict of Interest Code or Regulation to govern the Council and the Administrator of the Wildfire Fund. Principally this relates to establishing reporting responsibilities under the Political Reform Act of 1974 and working with the FPPC to ensuring that CEA and the Council members meet all reporting requirements.

He indicated the draft Conflict-of-Interest Code prepared by staff which had been distributed to the members. Staff was asking for a directive from the Council to authorize them to work with the FPPC to go through the administrative rulemaking process and finalize that Conflict of Interest Code.

**MOTION:** Council member Rossman made the motion to approve and adopt the draft Conflict of Interest Code and to authorize CEA staff to work with the FPPC to complete the process of finalizing the Code. Treasurer Ma seconded. Motion carried unanimously.

**6. Statement of Incompatible Activities**

**Adopt the Statement of Incompatible Activities pursuant to Cal. Gov. Code § 19990.**

Mr. Welsh stated that a related administrative responsibility is to establish, pursuant to law, a Statement of Incompatible Activities for members of the Council and for employees of the Administrator of the Wildfire Fund. The Statement provides that individuals must refrain from engaging in activities that are incompatible and inconsistent with their role on the Council or the Administrator. It is a standard statement required for every state body.

Staff had prepared a draft Statement of Incompatible Activities, distributed to the Council.

**MOTION:** Council member Bando made the motion to adopt the Statement of Incompatible Activities. Treasurer Ma seconded.

In discussing the motion, Council member Rosenstiel commented that there are other statutory limitations on what the Council Members may do. He asked whether this Statement for the Council is in addition to similar Statements of Incompatible Activities to which Council members may be subject in their other work roles, and whether there is any distinction or difference between these Statements and other statutory limitations? Mr. Welsh explained that in terms of hierarchy, there are statutory provisions, such as the Conflict-of-Interest Code (Gov't Code Section 1090) that requires public officials to avoid conflicts of interest in the conduct of business on behalf of the state or a state body. Those are going to apply irrespective of the administrative documents the Council adopts and that apply to staff. This is not to the exclusion of compliance with any statutory obligations that everyone has as public members. This Statement is mainly directed at individuals working for the Council on WF activities.

Mr. Martinez asked if there is ample staff to ensure that individuals subject to the Statement have all materials and paperwork required to maintain full compliance with the Statement. Mr. Welsh answered that CEA has a compliance unit – staff and lawyers who specialize in regulatory compliance – that will assist the Council in maintaining compliance.

**VOTE:** Motion carried unanimously.

## **Discussion Items**

### **7. Administrator**

**Discuss the appointment of the Administrator of the Wildfire Fund.**

Mr. Pomeroy noted that when Governor Newsom signed AB 1054 into law, CEA was immediately assigned the role of standing up the Wildfire Fund as Interim Administrator. All of CEA's work may be transferred to a different entity designated by the Council to serve as Administrator, if the Council selects an entity other than CEA. Mr. Pomeroy turned the discussion over to the Council.

Council member Rosenstiel commented that he felt the CEA is ideally suited to being designated as the Administrator. CEA's team has the skill set and experience that is ideal for understanding an insurance entity, risk mitigation, and management of the assets to maximize the claims-paying capacity of the WF.

Council member Gordon stated that the CEA staff has been outstanding in terms of onboarding. He requested information about what additional staffing and resources CEA might require if the Council were to remove the word "interim" and designate CEA as Administrator, as well as information on the financial structure and costs of using CEA in that capacity.

Council members Martinez and Bando agreed that additional information would be necessary for the Council to make a determination on the selection of an Administrator.

Mr. Pomeroy stated that the CEA would be happy to supply numbers at the next meeting regarding staffing and estimated costs for CEA's service as Administrator. He noted that currently CEA has been able to fold the work related to the WF into existing operations with the acquisition of some temporary help, but not without some strain. If CEA were to become permanent WF Administrator, CEA may need to augment existing staff.

Council member Martinez asked CEA to assess its ability to handle both an earthquake and a wildfire event should they happen at the same time. Mr. Pomeroy agreed to include information on that scenario in the presentation.

Mr. Pomeroy also reiterated that all costs associated with administering the WF are paid from WF assets, not from CEA fund assets that came from earthquake policyholders. There is a strict segregation between the Earthquake Authority Fund and the Wildfire Fund. Further discussion among Council members ensued.

Chair Ghilarducci felt that with these discussion items, the Council did not need to make immediate decisions. CEA should continue as Interim Administrator, and after briefings and discussion at the next Council meeting, the Council will be able to make a fully informed decision.

## **8. Plan of Operations**

### **Discuss the development of a Plan of Operations for the Wildfire Fund pursuant to Public Utilities Code § 3282.**

Suman Tatapudy, CEA Senior Counsel, stated that California Public Utilities Code Section 3283 provides that the Council “shall direct the Administrator to prepare and present for approval a Plan of Operations” on an annual basis. The Plan must cover the operations, management, and administration of the Wildfire Fund.

She stated that the purpose of the agenda item was simply to ask the Council to give CEA that directive to begin preparing a Plan of Operations for submittal to the Council for review and approval later in 2020.

Starting this year, the Plan of Operations will be presented annually to the Senate Committee on Energy, Utilities and Communications and the Assembly Committee on Utilities and Energy.

The Plan of Operations will include:

- A report on the Wildfire Fund assets
- Projections for the durability of the Fund
- The success of the Fund
- Whether or not the Fund is serving its purpose
- A plan for winding up the Wildfire Fund if projections show that the Fund will be exhausted within the next three years

**MOTION:** Vice Chair Gordon moved to direct the Interim Administrator to begin work on the development of the Plan of Operations for this year. Council member Rosenstiel seconded. Motion carried unanimously.

## **9. Claims Administration**

### **Discuss the Administrator’s procurement of consulting and claims administration services for post-event functions.**

Mr. Welsh stated that, as with the previous agenda item, this item looks at the administrative responsibilities for creating a pathway to operate the

Wildfire Fund in a way that was contemplated by the Legislature. This agenda item was intended to prompt discussion about the second phase of running an insurance fund – post event claims administration.

There is a distinction between how we handle claims after an earthquake, and the staffing and resources we will need for interfacing with the utilities after a very damaging wildfire ignited by utility infrastructure that is potentially going to provide reimbursement from the WF. Mr. Welsh sought discussion about a process for doing that.

He pointed out that the creation of the Wildfire Fund did not and does not absolve the IOUs of their liability under our Constitution to pay damages after causing a wildfire. What the WF does is facilitate the rapid payment to survivors of a utility-caused wildfire.

The Administrator of the WF will require a strong claim oversight infrastructure to interface with and oversee the claims administration process by the IOUs, to make sure that survivors are being paid promptly, fairly, and appropriately.

Council member Martinez asked about the role of the Administrator in adjudication of claims following a utility-caused wildfire. Mr. Welsh noted that the liability and claim administration obligations remain with the IOUs, and the Wildfire Fund is a reimbursement mechanism to speed recovery to survivors. The Administrator's function will be to liaise closely with the IOUs after an event to make sure that monies drawn out of the fund are appropriate.

Mr. Welsh explained that AB 1054 contemplates a more rigorous claim review process with respect to insurance industry subrogation claims. The bill established a target subrogation recovery of 40% by insurance companies after they pay their first-party insurance obligations to policyholders. If a utility decides in negotiations with a particular insurance company to settle a subrogation claim for more than 40%, AB 1054 contemplates that the Wildfire Fund Administrator will closely monitor, oversee and effectively play a deeper adjudicatory role on such claims.

Outside of that, the legislation does not cast the Administrator as the final judge and jury with respect to every claim that is made against an IOU after a covered wildfire. In a broad sense it is an oversight role to ensure that the Council Members know that the fund is responding. Mr. Welsh

noted that AB 1054 does not strip claimants of their ability to resort to court proceedings to get resolution of a wildfire claim against an IOU.

Chair Ghilarducci stated that getting funds through the process in the most streamlined, non-bureaucratic way is always his intent and the desire of the Governor. It is important to ensure that whatever claim process is established for the WF is implemented efficiently and effectively so that wildfire survivors are paid rapidly and do not spend years getting through the claim process.

The Council engaged in extensive additional discussion regarding the Administrator's claim review and payment process.

Mr. Hanzel then gave a brief overview of the investments of WF assets, and discussed how that may be implicated by the timing of claim payments from the WF. At the initial CEA Governing Board meeting in August 2019, during which they acted for the Council, an investment policy for the WF was approved. The investment policy limits investments to US Treasuries and does not have a material yield at this point. With asset-liability matching, assessing the timing of when claim reimbursements to IOUs will be made will potentially allow for expansion of the investment policy to generate more income earnings. Mr. Hanzel provided the following summary of current WF investments:

- Currently we have six different asset managers. CEA has a strict governance team overseeing the asset managers to ensure they understand and are complying with the investment policy.
- CEA has a third-party investment advisor who assists CEA's staff. CEA's oversight includes meeting monthly with the investment managers, obtaining regular reports, and supplementing with CEA's own analysis.
- CEA also utilizes software tools, including BondEdge™ as well as other tools available through S&P's technology portfolio, to which CEA subscribes.
- The WF's Investment Policy only allows for investments in the most conservative investments authorized under Government Code section 16430, so looks forward to discussing with the Council the expansion of the Policy to generate more income for the WF.

Following these discussions, Mr. Pomeroy stated that the issues of consulting on claims administration and investment policies would be placed on the agenda for the next Council meeting.

#### **10. Public Comment**

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

There was no public comment.

#### **11. Adjournment**

There being no further business, Chair Ghilarducci adjourned the meeting at 10:37 a.m.