

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

**TELECONFERENCE MEETING
MINUTES**

**Thursday, April 23, 2020
2:00 p.m.**

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Members of the Council (via teleconference):

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

Members of the California Earthquake Authority (CEA) Staff (via teleconference):

Glenn Pomeroy, Chief Executive Officer
Shawna Ackerman, Chief Risk and Actuarial Officer
Tom Hanzel, Chief Financial Officer
Tom Welsh, General Counsel and Acting Chief Operations Officer
Tracy Palombo, Reinsurance and Risk Transfer Director
Shannon McEuen, Governance Liaison

Additional Speakers (via teleconference):

Michael Aguirre, Aguirre & Severson LLP

1. Quorum

Call to Order and Member Roll Call.

Glenn Pomeroy, Chief Executive Officer, CEA, called the meeting to order at 2:00 p.m., welcomed everyone, and reviewed the meeting protocols.

Vice Chair Richard Gordon called the roll and established that a quorum was present.

2. Minutes

Review and approve minutes of the January 16, 2020 meeting of the California Catastrophe Response Council (CCRC or Council).

Vice Chair Gordon stated a revised copy of the minutes correcting minor typos was recently sent out to Council Members. He asked for a motion to approve the revised minutes.

MOTION: Ms. Rossman moved to approve the minutes of the January 16, 2020, meeting as revised. Mr. Rosenstiel seconded. Motion carried unanimously.

Motion carried 7 yes, 0 no, and 0 abstain, per roll call vote as follows:

The following Council Members voted "Yes": Council Members O'Connor, Martinez, Cash, Rosenstiel, and Rossman, Vice Chair Gordon, and Chair Ghilarducci.

Audio difficulties prevented Bando from being able to record her vote.

3. Statement of Incompatible Activities

Adopt the revised Statement of Incompatible Activities, and authorize CEA to manage the adoption process, including any necessary future revisions, requested by CalHR pursuant to Cal. Gov. Code Section 19990.

Tom Welsh, General Counsel and Acting Chief Operations Officer, CEA, stated the California Department of Human Resources (CalHR) requested several clarifying revisions to the Statement of Incompatible Activities document, which was approved at the January CCRC meeting. The requested changes were summarized in the meeting documents, including clarifying that the Statement of Incompatible Activities applies to Council Members, Designees, and employees of the Administrator, and adding a standard appeal provision.

Public Comment

No public comment.

MOTION: Mr. Martinez moved to adopt the revised Statement of Incompatible Activities, and authorize CEA to manage the adoption process, including any necessary future revisions, requested by CalHR pursuant to Cal. Gov. Code Section 19990. Ms. Rossman seconded. Motion carried unanimously.

Motion carried 7 yes, 0 no, and 0 abstain, per roll call vote as follows:

The following Council Members voted "Yes": Council Members O'Connor, Martinez, Cash, Rosenstiel, and Rossman, Vice Chair Gordon, and Chair Ghilarducci.

Audio difficulties prevented Bando from being able to record her vote.

4. Executive Report

Report by CEA Executive Staff regarding current financial status and CEA's recent activities as Interim Administrator of the California Wildfire Fund.

Mr. Pomeroy stated that CEA staff were working completely remotely by March 17th. He stated the COVID-19 pandemic has not impacted staff's ability to continue CEA earthquake insurance activities and California Wildfire Fund (CWF) administration. He asked Mr. Hanzel to update the Council on the current CWF financial status.

Tom Hanzel, Chief Financial Officer, CEA, provided an overview, with a slide presentation, of the unaudited CWF financial information as of February 29, 2020, and December 31, 2019. He stated the CEA independent financial auditor, Plante Moran, PLLC, will review the cost allocation methodology as part of their external audit this year to ensure that both funds bear the cost related to each fund.

Mr. Pomeroy suggested a discussion of the Council's role with respect to the CWF operation and the Council's relationship with the CWF Administrator. He reviewed the statutory framework for the Council and the Administrator set forth in Assembly Bill (AB) 1054 last July. He noted that the duties assigned to the Administrator are highlighted in yellow on the presentation slides and they are subject to the oversight of the

Council. The duties assigned to the Council were highlighted in gray on the presentation slides as follows:

- The Council shall appoint the Administrator.
- The Council shall oversee the Administrator's operation, management, and administration of the CWF.
- The Council shall oversee the specific enumerated duties of the Administrator as outlined in Public Utilities Code section 3281.
- The Council shall direct the Administrator to prepare an Annual Plan of Operations.
- The Council shall direct the Administrator to present the Annual Plan of Operations to the Legislature.
- The Council shall prepare and file with the Legislature and the Department of Finance periodic reports regarding the formation, administration, and disposition of the CWF, as the Council deems appropriate.

Mr. Pomeroy stated the Legislature clearly contemplated a strong partnership between this Council and the Administrator to work together to adopt a Plan of Operations, and the Council will oversee the Administrator's work in carrying out that plan as this goes forward.

Questions and Discussion

Vice Chair Gordon asked for clarification of the Administrator duties that are subject to oversight, such as, when the Administrator enters into contracts, if they would not be required to seek approval of the Council but would inform Council.

Ms. Rossman stated that is correct. She stated one of the important things that will happen this year is the issuance of debt. This decision will be made jointly between the Administrator and the Council. The amount of debt to be financed is an important decision that should not be made by an Administrator alone. She stated the need to define how involved the Council should be.

Mr. Rosenstiel asked if there is anything that the Administrator needs the approval of the Council to do. He asked for clarification of the term "oversight" and if the Council can make recommendations to the Administrator on possible actions to seek approval on.

Mr. Welsh stated the Plan of Operations is important and the expectations of the Council can be included in it, along with the issuance of debt through the Department of Water Resources (DWR). The Legislature created a statutory framework where the Council acts as a state body to oversee the Wildfire Fund Administrator. The statute enumerates several actions that the Council is obligated to take, which were highlighted in gray on the presentation slides. The day-to-day operations of the CWF are fundamentally the responsibility of the Administrator, subject to the Council's oversight.

Mr. Cash stated the CEA reports earthquake matters to the Governing Board. He asked if there are parallels between the roles of the CEA Governing Board and this Council.

Mr. Welsh stated there are. He stated the legislation that created the CEA is similar to what is seen on presentation slide 21 under Public Utilities Code (PUC) Section 3281, yet it is very different in a material respect. When the CEA was created, the Legislature enumerated the powers and business activities that would be entered into by the CEA, but all those powers are vested in the Governing Board. The CEA's operations have always been by way of delegation of authority from the Governing Board to the management to run the business.

Mr. Welsh stated the Legislature used the CEA's statute as a model for the creation of the Council and the CWF but they made a different choice. They decided that the day-to-day operations that are enumerated in PUC Section 3281 would be the responsibility of the Administrator as the operator of the business, subject to the oversight of the Council. He stated the role of the Council is more like a traditional board of directors. The Council will set the results to be achieved on behalf of the CWF and the Administrator performs the activities necessary to achieve those desired results.

Mr. Rosenstiel stated his understanding that, for example, the question of how much debt to issue is a decision that can be made by the Council, if the Council chooses to make that decision. He asked, as the relationship between the Council and the Administrator is defined in the law, how to indicate to the Administrator that the Council would like this decision to be subject to its approval and how to ensure that this decision will come before the Council. He noted that the next Council meeting is the last opportunity for the Council to weigh in prior to the issuance of the bonds.

Ms. Rossman suggested creating a subcommittee of the Council to be consulted closer to the time of financing.

Mr. Welsh stated the statute does not impose an obligation on the Council to be involved in that transaction. The statute states that the DWR bond issuance must be used first to pay that debt and any other outstanding obligations. The statute does not answer the question of how the Council could get involved. The Plan of Operations outlines the rules of the operations of the CWF. He stated it is reasonable for the Council to ask to be included in the issuance of debt process.

Mr. Martinez stated the Plan of Operations can be used as the vehicle to provide the Council's expectations – to seek approval first, seek guidance, or inform the Council of action currently being taken – and guiding principles and to define what oversight looks like. The Council should be seen as the final overseer of what occurs. He stated the need to be as clear as possible with the Administrator so they will know exactly what they can and cannot do.

Chair Ghilarducci stated the financial aspects, particularly in issuing bonds, is the function that the Administrator can do and does well; however, he agreed that the Council should have the opportunity to weigh in.

Vice Chair Gordon suggested that one of the first tasks of the Administrator would be to develop the Annual Plan of Operations that will add clarity to the roles of the Administrator and Council. The fact that it is an annual plan will allow for adjustments over time as the roles become better understood.

Public Comment

Michael Aguirre, Aguirre & Severson LLP, stated \$900 million will be taken from utility customers at a time when individuals are experiencing unprecedented unemployment to pay the debt service on bonds. The speaker stated that blaming the equipment of the utilities for starting a fire is like blaming the tree, when it is actually the executives of the utilities that are responsible. Utility executives are responsible for causing these fires by not abiding by safety rules. Utility customers have been cut out of the process of creating the CWF. The speaker summarized a pending court case involving PG&E and victims of the fires.

Michael Aguirre stated a wildfire fund was proposed in 2009. It did not pass because there was no limit established on claims.

5. Wildfire Fund Durability Analysis and Management

Discussion of the Administrator's analysis and management of the durability of the Wildfire Fund through, among other things, modeling and risk transfer/reinsurance.

Shawna Ackerman, Chief Risk and Actuarial Officer, CEA, provided an overview, with a slide presentation, of the durability analysis of the CWF, financial modeling approaches, key factors impacting durability, and lessons learned.

Tracy Palombo, Reinsurance and Risk Transfer Director, CEA, continued the slide presentation and discussed reinsurance as a durability management tool, including principles of reinsurance, 2019 reinsurance program placement highlights, and 2020 reinsurance program considerations.

Questions and Discussion

Mr. Martinez stated the CEA Governing Board has the 1- and 400-year claims-paying capacity as a benchmark. He suggested determining a benchmark for the Council and including that conversation as a permanent part of the Annual Plan of Operations discussion.

Chair Ghilarducci agreed that having that metric would help the Council in the decision-making process, such as when thinking about the amount of reinsurance to recommend.

Public Comment

Michael Aguirre stated it would take billions of dollars for PG&E to come into compliance with General Order 95, which is a basic safety standard. The speaker suggested a briefing on the Judge Donato case and the challenge to AB 1054. The speaker cautioned against moving forward and incurring more debt that may not have a way to be repaid, depending on the outcome of the court case.

6. Investment Policies

Discussion and consideration of potential revisions to the Investment Policy for the Wildfire Fund to provide flexibility to expand duration limits and credit diversification.

Mr. Hanzel provided an overview, with a slide presentation, of the investment guidelines, proposed revisions, and a sample proposed investment portfolio showing current market conditions.

Questions and Discussion

Ms. Rossman stated the proposed revisions are minor in terms of additional risk and result in extra income for the CWF. The extra income will help the Fund grow organically and, with the compounding of the interest and reinvestment over time, will become valuable.

Mr. Martinez stated his understanding that the two investment policies were approved and adopted when the CEA Governing Board was acting as Interim Acting Council. He requested that the revised consolidated investment policy be sent to this Council for review, should the Council approve the proposed changes.

Mr. Welsh stated staff will circulate the revised blended investment policy with additional modest flexibility to Council Members.

Public Comment

No public comment.

7. Claims Administration

Discussion of the Administrator's procurement of consulting and claims administration services for post-event functions.

Mr. Welsh provided an overview, with a slide presentation, of the claims administration responsibilities, sequence of events following a covered wildfire, and claim-paying process as outlined in AB 1054. He stated a consultant will be secured to develop claim standards and procedures, which will be presented at a future Council meeting for approval.

Questions and Discussion

Mr. Martinez asked about the type of consultant that will be secured.

Mr. Welsh stated it will be a contract consultant to confer with staff independently over a short period of time to ensure that the right things are being considered and the right standards and procedures are being built.

Mr. Martinez noted that this action was prudent considering the wider range and complexity of claims with the CWF.

Public Comment

No public comment.

8. Administrator

Discussion of selecting an Administrator of the Wildfire Fund.

Mr. Pomeroy stated AB 1054 assigned the Council the responsibility of appointing the CWF Administrator. The CEA has served as Interim Administrator since July 12, 2019. He stated the Council asked staff, at the January meeting, to put together a framework and a set of core competencies to be used during the Administrator selection process. Mr. Pomeroy provided an overview, with a slide presentation, of those core competencies, options and factors to consider when selecting an Administrator, and the legal status and operating structure of the CEA should the Council determine to name the CEA as the Administrator of the CWF.

Mr. Hanzel continued the slide presentation and discussed financial considerations, CEA/CWF cost allocation methodology, and actual and projected operating expenses.

Mr. Welsh continued the slide presentation and discussed lead times for payouts in the case of simultaneous wildfire and earthquake catastrophic events.

Questions and Discussion

Mr. Cash moved to appoint the CEA as the Administrator of the CWF.

Ms. Rossman seconded.

Vice Chair Gordon suggested a friendly amendment to clarify that the Council has reviewed the required core competencies of the Administrator of the CWF and that it finds that the CEA meets those core competencies.

Mr. Cash and Ms. Rossman agreed to amend their motion to include Vice Chair Gordon's friendly amendment.

Public Comment

No public comment.

MOTION: Mr. Cash moved to appoint the CEA as the Administrator of the CWF with the clarification that the Council has reviewed the required core competencies of the Administrator of the CWF and finds that the CEA meets those core competencies. Ms. Rossman seconded. Motion carried unanimously.

Motion carried 8 yes, 0 no, and 0 abstain, per roll call vote as follows:

The following Council Members voted "Yes": Council Members Bando, O'Connor, Martinez, Cash, Rosenstiel, and Rossman, Vice Chair Gordon, and Chair Ghilarducci.

9. Public Comment.

Public Comment opportunity on matters that do not appear on this agenda and requests by the public that matters be placed on a future agenda.

There was no public comment.

10. Adjournment.

There being no further business, Chair Ghilarducci adjourned the teleconference meeting at 4:01 p.m.