

## California Catastrophe Response Council Meeting Minutes

**August 3, 2023**

**3:00 p.m.**

Primary Location: California Earthquake Authority  
801 K Street, 11<sup>th</sup> Floor  
Sacramento, CA 95814

Secondary Location 1: Premier Workspaces  
11400 W. Olympic Boulevard, Suite 200  
Los Angeles, CA 90064

Secondary Location 2: Buzelli Loeb Conference Room  
Scripps Institution of Oceanography  
UC San Diego  
8610 Kennel Way (formerly Discovery Way)  
La Jolla, CA 92037

### **Members of Council in Attendance:**

Mark Ghilarducci, Chair, designee of Governor Gavin Newsom  
Khaim Morton, designee of State Treasurer Fiona Ma  
Bryan Cash, designee of Secretary of Natural Resources Wade Crowfoot  
Tracy Van Houten, appointee of Speaker of the Assembly  
Paul Rosenstiel, Public Member  
Rhoda Rossman, Public Member  
Catherine Barna, Public Member\*

\*Participated remotely.

### **Members of CEA Staff in Attendance:**

Glenn Pomeroy, Chief Executive Officer  
Tom Hanzel, Chief Financial Officer  
Tom Welsh, General Counsel  
Dr. Laurie Johnson, Chief Catastrophe Response & Resiliency Officer  
Shawna Ackerman, Chief Risk & Actuarial Officer  
Suman Tatapudy, Senior Counsel  
Susan Johnson, Governance Liaison

### **Speakers:**

No members of the public addressed the Council.

### **1. Quorum: Call to order and member roll call.**

Chair Mark Ghilarducci called the meeting to order at 3:01 p.m.

Ms. Johnson called the roll and stated a quorum was present.

**2. Minutes: Review and approve the minutes of the meeting of the Council on May 4, 2023.**

**MOTION:** Ms. Rossman motioned to approve the May 4, 2023, meeting minutes as written. Mr. Morton seconded. The motion carried unanimously by roll call vote.

**3. Executive Report: CEA Chief Executive Officer Glenn Pomeroy will provide the Council with an executive report.**

Khaim Morton, new designee of State Treasurer Fiona Ma, Tracy Van Houten, new appointee of Speaker of the Assembly, and new Chief Insurance and Claims Officer George Sittner introduced themselves and were welcomed by the Council.

Mr. Pomeroy stated this is the fifth fire season since the inception of the CCRC and suggested, that absent an uptick in claims activity, the Council consider moving to three meetings per year in 2024.

Council members agreed with reducing the number of meetings to three annually with the ability to schedule additional meetings as needed, based on covered wildfire and claims activity.

Mr. Pomeroy stated staff will prepare proposed meeting dates for review and approval at the next Council meeting.

**4. Plan of Operations (Annual Report): CEA Senior Counsel Suman Tatapudy will ask the Council to review and consider approval and adoption of the Administrator's Fourth Annual Plan of Operations (Annual Report) to the Legislature and, if approved, authorize the Administrator to deliver the Fourth Annual Report to the Senate Committee on Energy, Utilities, and Communications and the Assembly Committee on Utilities and Energy.**

Ms. Tatapudy provided an overview of the legislative mandate, timeline, and requirements for the drafting and submission of the Annual Report to the Legislature. In compliance with the Bagley-Keene Open Meeting Act, the draft proposed Annual Report was sent to Council Members on July 12<sup>th</sup>. Ms. Tatapudy reviewed the three technical non-substantive changes that she received.

**Staff Recommendation**

Approve the Fourth Annual Report incorporating the technical non-substantive changes as outlined and authorize the Administrator to present the Fourth Annual Report to the Senate Committee on Energy, Utilities, and Communications and the Assembly Committee on Utilities and Energy.

There was no discussion and no public comment.

**MOTION:** Mr. Morton motioned to approve the staff recommendation. Mr. Rosenstiel seconded. The motion carried unanimously by roll call vote.

**5. Council's Statutory Annual Report Template: Ms. Tatapudy will seek approval of revisions to the template for the Council's Statutory Annual Report to the Legislature and the Department of Finance under Public Utilities Code section 3287.**

Ms. Tatapudy stated the Statutory Report is the other annual report required by the Legislature. It covers similar subject matter to the Plan of Operations Annual Report that was described in agenda item 4, but the reporting periods differ for each. The reporting period for the Plan of Operations Report is July through July, and the reporting period for the Statutory Report is January through January.

Ms. Tatapudy stated that since the Council typically does not meet in December, a template and procedures for annually completing and filing the Statutory Report was previously adopted. She then reviewed proposed changes to the previously adopted template.

**Staff Recommendation**

Approve the revised template for the Council's Statutory Annual Report to the Legislature and the Department of Finance under Public Utilities Code section 3287 and authorize the Administrator to use the revised template to complete the procedures the Council approved at its October 28, 2021, meeting.

**Discussion**

In response to a question from Ms. Van Houten, Ms. Tatapudy replied that aligning the dates of the two reports makes sense and stated staff has asked the Legislature to consolidate the two reports but the Legislature has not responded to date.

There was no public comment.

**MOTION:** Ms. Van Houten motioned to approve the staff recommendation. Mr. Cash seconded. The motion carried unanimously by roll call vote.

**6. Financial Report: CEA Chief Financial Officer Tom Hanzel will provide the Council with a financial report on the Wildfire Fund as of June 30, 2023.**

Mr. Hanzel reviewed financial highlights from the past quarter.

**Balance Sheet:**

- Total claim-paying capacity continues to be strong.
- Cash and investments stand at \$10.4 billion, an increase of approximately \$600 million or 6 percent year-over-year.
- The Net position is \$10.4 billion, which represents an increase of \$670 million year-over-year.
  - This breaks down to four components: two additions and two subtractions.
  - Two additions: approximately \$1.0 billion of non-bypassable charges (NBCs), \$300 million in IOU annual funding, and \$150 million of investment income.

- Two subtractions: approximately \$700 million related to the Surplus Money Investment Fund (SMIF) loan – the final principal payments and the interest associated with that, which was fully repaid in April of 2023 – and approximately \$130 million of unrealized losses flowing through the book.

#### Income Statement:

- NBCs are down approximately \$90 million year-over-year, driven by an overcollection in 2022.
- Investment income is up 50 percent. A benefit is being seen in investing additional funds or reinvesting existing funds into high-yielding securities. This is expected to continue in the coming weeks, months, and years.
- Unrealized losses are at approximately \$950 million. The goal was to roll off this unrealized loss position faster but treasury markets continue to be volatile. The result is that the roll-off will take longer than previously expected.

#### 2023 Approved Budget versus Actual Expenditures Statement:

- Ratepayer charges are down year-over-year; however, it is up versus budget, which is driven by usage and an accelerated collection.
- The investment income is up year-over-year but down compared to what was expected, which is driven by the \$20 million realized loss.
- Personnel expenses are about the middle of the line at \$186,000 year to date compared to \$330,000 budgeted, driven by the fact that the CEA is in maintenance mode.
- General administrative expenses are approximately \$25,000 below budgeted and approximately \$300,000 below prior year.

#### Contributions and NBCs Received:

- Total funds received were approximately \$13.1 billion.
- Approximately \$2 billion has been given back for the SMIF loan plus interest.
- Approximately \$19 million of NBCs were received in June of 2023, when it changed from a monthly transfer of funds to a weekly transfer of funds in order to accelerate payments, with the help of the Department of Water Resources (DWR), the accounting team at the CEA, the Controller's Office, and the Treasurer's Office.

#### Investment Analysis:

- Fitch has downgraded the U.S. Treasury debt from AAA to AA+. That follows about 12 years ago when S&P did a similar downgrade, with Moody still at AAA. This is not anticipated to be impactful to the portfolio.
- It is expected that the total duration will increase over time.
- The income return net of fees dipped down in April of 2023 as shown on the Income Return and Duration chart. This was driven by the \$20 million of

securities that were sold. After that April dip, the income return and duration numbers have returned to where they were and will continue to increase due to the higher reinvestment rates.

- The Sector Composition chart shows that corporates have increased by approximately four percentage points year-over-year from 31 percent to 35 percent. Up to 40 percent can be invested in corporates. It is anticipated that it will either level off there or go up another two to three points if asset managers find good opportunities to spread.

### Discussion

Ms. Rossman stated income will begin to pile up quickly since the NBCs will no longer be needed to pay off the SMIF loan. She noted that \$80 million per month will come in as new capital to be invested. It is helpful to bear in mind from a long-term perspective that there are 7 more years of capital contributions from the IOUs and 12 more years of the NBCs.

Mr. Hanzel agreed and stated the team will continue to monitor and provide updates to the Council.

There was no public comment.

### **7. 2023 CWF Mid-Year Budget Revision: Mr. Hanzel will seek approval of mid-year budget revisions for CCRC's Claims Administration Consultant, Sedgwick Claims Management Services, Inc.**

CEA Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson provided an overview and background of the Wildfire Fund Claims Administration Procedures and the amendment approved by the Council on May 4, 2023, for a new task of pre-testing of the operational approach ahead of future claims submissions. During the "bridge" period between Phases 1 and 2, dummy data will be developed to further test the operational approach for claims review services. Operational procedures and personnel training for future pre-testing of the operational approach will be built out, noting both tasks were not anticipated during the initial contracting with Sedgwick.

Mr. Hanzel stated the original budget was \$271,000 and an additional \$287,000 is required due to the additional time needed to develop the dummy data to test the claims operations and to build out the operational procedures and personnel training for future pre-testing of the operational approach.

### Discussion

Ms. Rossman asked when Sedgwick is in the passive mode, not doing much and not being paid much, how will CEA maintain its contacts to ensure that Sedgwick stays prepared to activate when needed.

Dr. Johnson stated a training program has been built out and Sedgwick will annually go through that training program with designated staff. The hope is that the Sedgwick staff who helped build this will remain the staff assigned to that. The fee paid to Sedgwick annually when they are in standby mode is to train designated personnel to be ready to receive claims.

Ms. Rossman asked Mr. Sittner if he will stay in contact with Sedgwick.

Mr. Sittner stated he will communicate with them frequently, adding it is important to keep partners engaged and interested.

Mr. Rosenstiel asked why this was not part of the original contract.

Dr. Johnson stated it was originally thought there would be a lot of data to pull from, but that turned out not to be the case. This additional step will make the claim-review process more efficient, which will reduce the cost of that expenditure, and reducing risk once real claims data is gathered.

There was no public comment.

**MOTION:** Mr. Rosenstiel motioned to approve the 2023 budget revision for Sedgwick. Mr. Morton seconded. The motion carried unanimously by roll call vote.

**8. Claims Administration Update: CEA Chief Catastrophe Response & Resiliency Officer Dr. Laurie Johnson will provide an update on Claims Administration.**

Dr. Johnson reviewed the Claims Review Services Provider scope of work, wildfire monitoring, quarterly claims report, and next steps in the implementation of the Wildfire Fund Claims Administration Procedures, which was included in the staff memo in the meeting materials. She noted that a material significant increase in drought conditions in the state has not been seen this wildfire season due to the extended snow season. Ignitions remain high but the acreage burned is extremely low. Most of the activity to date this summer has been in Southern California and very little in Northern California.

**9. Enterprise Risk Management: CEA Chief Risk & Actuarial Officer Shawna Ackerman will deliver a quarterly report on the Enterprise Risk Management program for the Wildfire Fund.**

CEA Chief Risk & Actuarial Officer Shawna Ackerman reported that there have been no changes to the Enterprise Risk Management (ERM) Risk Assessment scorecard priority risks since the last meeting. She stated the Risk and Compliance Committee is being developed to provide an internal audit as the third line of defense in the ERM program to ensure that everything is being done that should be done.

There was no discussion and no public comment.

**10. Public Comment: The Council will invite public comment on matters related to the Wildfire Fund that do not appear on this agenda, and to request that those matters be placed on a future agenda.**

There was no public comment.

**11. Adjournment**

Mr. Pomeroy thanked Dr. Johnson for her years of service with the CEA and wished her all the best in her new role.

Council Members expressed their thanks, appreciation, and gratitude for Dr. Johnson and her work over the years.

There being no further business, Chair Ghilarducci adjourned the meeting at 4:09 p.m.