

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, September 27, 2017**

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened telephonically on September 27, 2017.

The following members of the Board were present telephonically:

Chris Gardner, Chairman
Gary Aubuchon
Bette Brown
James Holton
Freddie Schinz
Blake Capps
John McKay

The following Citizens staff members were present telephonically:

Barry Gilway
Dan Sumner
Barbara Walker
Jay Adams
Jennifer Montero

Others on the line:

Kapil Bhatia

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens September 27, 2017 Board of Governors Teleconference. This meeting was publically noticed in the Florida Administrative Register. It is 9:00 am. In accordance with Citizens Public Comment Procedure, if you want to address an item being presented to the Board for vote, contact Barbara Walker at 850-513-3744 to access an open line. Please do not place this call on hold, press (*6) to mute your line and (#6) to unmute your line. We will convene with a roll call for quorum. Citizens Board Committee Meetings are recorded with transcribed minutes available at our website. Thank you. Chairman, would you like for me to proceed with a roll call? (All were in attendance telephonically)

1. Chairman's Report

Chairman Gardner: Good morning, fellow Governors. Thank you for making time this morning and thank you to staff and the audience for participating. First order of business is the Chairman's

Report, and I'll be brief. Citizens' staff was in high gear responding to Hurricane Irma, which is why I thought it appropriate to abbreviate this Board of Governors Meeting so they can focus all their attention on their recovery efforts and getting our policyholders back on their feet.

I think I speak for the entire board when I say thanks to the men and women of citizens for stepping up wherever necessary to help our customers prepare for and recover from this storm. It's truly been a great team effort.

It's been a little more than two weeks since Hurricane Irma made landfall so I want to share a few preliminary numbers.

- As of last night, more than 45,651 claims have been reported at Citizens. We are estimating that over the next 18-24 months, we will reach 70,000 claims.
- The heaviest hit areas for Citizens, as expected, has been southern Florida. The tri-county area is responsible for 56% of the claims reported to date, and the Florida Keys, where we have 60 percent market share of the wind business is responsible for 15 percent of reported claims.
- Catastrophe Response Centers have been open nearly two weeks with original locations in Key Largo, Florida City and Naples. Resources later moved to North Miami Beach, Marathon and Big Pine Key. Through Monday, those centers have assisted more than 1,200 policyholders and written more than \$836,000 in advances for additional living expenses.
- Claims has set up and staffed a 100 adjuster/staff facility in Key West that is now operational. We believe our adjuster resources are adequate and all vendors responded effectively providing in excess of 800 adjusters.
- As of yesterday, our current modeled losses from Hurricane Irma are estimated to be \$1.2 Billion. Please remember this is an early estimate and this number will probably change. Of that figure, we expect to recover \$193 million from the Florida Hurricane Catastrophe Fund.
- Even after Hurricane Irma, Citizens capital position is strong with a remaining policyholder's surplus after losses of \$6.4 billion. Our private risk transfer remains intact and we are ready for the next storm.

Much hard work and preparation over the last few years has paid off during Citizens' initial response to Hurricane Irma. However, given the magnitude of reported claims we are sure to encounter unforeseen challenges. We'll continue to learn, prepare and prove our response capabilities with each storm situation. We are confident that staff will focus all efforts and resources on our policyholders and their claims.

Chairman Gardner: So, thank you, that concludes my report. We are on to Action Items and our first order of business is consideration of prior meetings' minutes, both for June 20 and September 6, 2017. Unless there's an objection, I'd like to hear that as one item. Okay, so we have a move to approve is there a second?

Freddie Schinz: Yes, I'll second it.

Chairman Gardner: Is there an objection to the motion? (hearing none) That motions carries. Thank you. Now we'll move to Item C, action item for security services. Kelly Booten, you are recognized, good morning.

Kelly Booten: This is Kelly Booten, for the record. This procurement provides for continued security officer services within Citizens' leased office space at the EverBank Center located in Jacksonville and the Sable Park facility in Tampa. This is an operating expense item budgeted annually for a total contract amount of \$826,671. This contract term runs through November 30, 2020 for Jacksonville and for Tampa, through the expiration of the current lease which is October 31, 2019. If there are no questions on this action item, we can try to go ahead and read the recommendation.

Chairman Gardner: Members, any questions for Kelly? (Pause) Thank you, Kelly. Please proceed

Kelly Booten: It is recommended that Citizens' Board approved the expenditures for Security Services Jacksonville and Tampa to Allied Universal Security Services, LLC as set forth in this Action Item; and authorize staff to take any appropriate or necessary action consistent with this Action.

Jim Holton made the motion to approve the Security Services Jacksonville and Tampa to Allied Universal Security Services, LLC. Freddie Schinz seconded the motion.

Chairman Gardner: Is there an objection to the motion? (hearing none) Thank you, that motion carries. We're to Item D, Legal Services, Dan Sumner you are recognized. Good morning.

Dan Sumner: Good morning, Mr. Chairman. Corporate Legal Services has entered into a contract with the Dean, Mead law firm to present Citizens in legal billing disputes, where under our legal billing program, when we disallow defense clause ...there have been two instances where we have engaged in litigation to defend our disallowances. We expect the cost to defend those cases to exceed \$100,000 over the life of the contract in addition to any other legal billing resources that we use from the firm. We would ask that the Board approve the contract for ongoing legal services from Dean, Meade, Egerton, Bloodworth, Capovano & Bozarth, P.A. May I read the recommendation?

Chairman Gardner: Members, any questions for Dan before he reads the recommendation? God ahead Dan, thank you.

Dan Sumner: It is recommended that Citizens Board approve the Legal Services – Corporate Contract with the Dean, Meade, Egerton, Bloodworth, Capovano & Bozarth, P.A. Firm and I would also like to take any appropriate or necessary action consistent with the Action Item.

John McKay made the motion to approve Legal Services – Corporate and Bette Brown seconded the motion. All were in favor. Motion carried.

Chairman Gardner: We are to Action Item F which is the 2018 Employee Benefits Program. Violet Bloom, you are recognized. Good morning.

Violet Bloom: Good morning, for the record, this is Violet Bloom, Chief Human Resources Officer. This action item represents a request for Board approval to renew five employee benefits program contracts. They include:

1. Stop loss coverage for our self-insured medical and prescription drug plan; the recommended vendor is Florida Blue
2. Medical and Prescription Drug Insurance through a fully insured HMO for our Tallahassee employees. The recommended vendor is Capital Health Plan (CHP)
3. Dental Insurance Coverage with recommended vendor is MetLife
4. Vision Insurance Coverage through Davis Vision
5. Employee Assistance Program with recommended vendor of ComPsych

All of these expenses are budgeted annually and the funding will be included in Citizens 2018 Annual Operating Budget. The estimated cost for each contract – Florida Blue - \$654,474 for one year; CHP - \$1,547,000 for one year; MetLife - \$862,000 for one year; Davis Vision - \$111,375 per year for four years and ComPsych - \$31,848 per year for three years. Those are all per year. The renewal terms for Florida Blue, CHP and MetLife is one year, January 1 through December 31, 2018. For Davis Vision the contract term is four years, January 1, 2018 through December 31, 2021. ComPsych renewal term is three years, January 1, 2018 through December 31, 2020 with the option to renew with no change in cost for three, one year renewals.

Mercer, Citizens' Benefits Broker, negotiated the pricing structure and renewal periods for medical and prescription drug, dental and vision benefits. The employee assistance program quote was obtained through a competitive solicitation and negotiation process. Chairman, may I read the recommendation?

Chairman Gardner: Members, any questions for Violet?

Bette Brown: Violet, this is Bette Brown, I have just a quick question regarding the cost for the CHP in Tallahassee. How many employees do we have? It's a big number, just curious.

Violet Bloom: It's approximately 100 employees.

Bette Brown: And how does it compare with our other coverage and our other areas?

Violet Bloom: We offer all of our employees the option to participate in an HMO, a PPO and this year we are adding a high deductible health plan. In Tallahassee, in the past, the CHP has been the most competitive HMO option. This year we're seeing the cost and the benefit level become less competitive, more costly, and we are in fact increasing employee contributions 20% for that reason. And we will continue to evaluate that plan and whether or not we can continue to offer it. Did I answer your question?

Bette Brown: Yes, thank you very much.

Chairman Gardner: Okay, Governors, any other questions for Violet?

Blake Capps: This is Blake, I have one question on number 5, Employee Assistance Program. What kind of coverage is that?

Violet Bloom: This program provides employees with an opportunity for confidential support for issues related to...either for themselves or for their family...related to their home, their work, their health, financial, legal issues....Things like perhaps struggling in their marriage, perhaps there is an addiction problem with themselves or a family member. Maybe they're struggling with caring for aging parents. So it's really an opportunity for confidential support for a whole host of issues.

Chairman Gardner: Members, any more questions? Governor Capps, are you good?

Blake Capps: Yes

Chairman Gardner: Okay, thank you. Violet, please proceed with the recommendation.

Violet Bloom: Thank you. Staff recommends that Citizens' Board approve the Employee Benefits Program contracts as set forth in this Action Item; and authorize staff to take any appropriate or necessary action consistent with this Action Item.

Chairman Gardner: Thank you, Violet. Members, is there a motion?

Blake Capps made the motion to approve the Employee Benefits Program contracts and John McKay seconded the motion. All were in favor, motion carried.

Chairman Gardner: We are on to Action Item F which is the Optional Redemption of Coastal Account Series 2015A Bonds callable on December 1, 2017. Jennifer Montero, good morning, you are recognized.

Jennifer Montero: Good morning, Mr. Chairman. You'll find an Executive Summary along with the Action Item behind Tab F. In 2015, Citizens issued \$1 billion of Series 2015A pre-event bonds for the Coastal Account. Of this \$1 billion issuance, \$700 million were fixed rate, Series 2015A1-Bonds with maturities on June 1, 2018, 2020, 2022, 2025; and \$300 million were floating rate Series 2015A-2 Bonds with maturities on June 1, 2018 and 2020.

The 2015 issuance was the first time that Citizens included an optional redemption feature for its pre-event financing. The purpose of the Optional Redemption feature was proactively planned to minimize interest expense in the event that Citizens did not need to drop on the pre-event bonds. The call option also provides the flexibility needed to call the bonds and issue long-term post event bonds after an event. The fixed rate Series 2015A Bonds are callable six months prior to their respective June 1st maturities at par with no additional premium. The same Optional Redemption feature was also used for the Series 2015A-2 Bonds maturing on June 1, 2018 with the additional flexibility of calling the Series 2015A-2 Bonds with an initial maturity of June 2, 2020 on December 1, 2017. The inclusion of the Optional Redemption feature on December 1, 2017 was for a scenario in which Citizens did not require the additional liquidity or the Federal Reserve increase short-term interest rate. Rising short term interest rates are increasing the associated interest costs on the Series 2015A-2 Bond. As these bonds pay interest based on variable resets

of SIFMA, plus a spread .85% for the June 1, 2018 maturity and .95% for the June 1, 2020 maturity. At the time of pricing of the Series 2015A Bonds, SIFMA was .11% but since then, as a result of the Federal Reserve increasing short term interest rates, SIFMA is at .82% leading to an increase of interest costs of .71%.

In contrast to the variable rates, the fixed interest rates are lower today than they were at the time of the Series 2015A issuance. For instance, the 5-year MMD rate is currently 1.19% versus 1.45% in 2015 and the 10-year MMD rate is currently 1.88% versus the 2.30% in 2015. Therefore, Citizens could, at any time, issue post-event bonds at lower interest rates than the interest rates associated with Series 2015A-2 bonds.

Currently, Citizens has approximately \$6.1 billion in liquidity resources for the Coastal Account, (\$3.3 billion in surplus and \$1.5 billion in pre-event bonds outstanding and \$1.3 billion of private risk transfer and catastrophe bonds). Additionally, Citizens' exposure has decrease in the Coastal Account 2017 and therefore the need for liquidity over the next year has declined.

By utilizing the Optional Redemption feature for the Series 2015A bonds that are callable on December 1, 2017, Citizens will avoid approximately \$9 million in gross interest costs.

The notice of redemption to the investors of the bonds to be redeemed must be issued within 30-60 days prior to the December 1, 2017 redemption date (or between October 1 and November 1). Citizens plans to issue the redemption notice on November 1, 2017. The notice of redemption is to be given by Citizens or Citizens' Indenture trustee in the name of Citizens. Bond Counsel has prepared the Board Resolution and Redemption Notices for the bonds to be redeemed.

Staff is requesting approval from the Board to issue the Redemption Notice on November 1, 2017 and call the bond subject to the conditions that Citizens will perform a final evaluation of liquidity needs immediately prior to November 1 to confirm that Citizens' liquidity resources following the redemption remains sufficient. I'll pause there for any questions before I read the Action Item.

Chairman Gardner: Thank you, Jennifer; members are there any questions?

John McKay: This is John McKay, I have one caution and that is that there are numerous forecasts that fixed rates are going to increase over the coming months and years, although prediction has been around for a while, but it seems to be increasingly the possibility of a reality. If we have to reissue these bonds for any reason, I hope that we won't be subjected to a higher interest rate and I would caution that when we go through the reissuance, if at all necessary, there's a cost associated with it, that it is considerable.

Jennifer Montero: Understood, thank you. I do want to point out that \$200 million of the 350 to be redeemed, mature on June 1, 2018, so they would not be used for future storm seasons in the future anyway. Your point is noted, thank you.

Chairman Gardner: Any other questions or comments for Jennifer? (hearing none) Would you please read the Action Item, Jennifer?

Jennifer Montero: Staff recommends that the Board of Governors take the following actions:

- a) Approve redemption documents and authorize staff to utilize the Optional Redemption feature on December 1, 2017 for the \$50 Coastal Account Series 2015A-1 Bonds maturing on June 1, 2018
- b) Approve the redemption documents and authorize staff to utilize the optional redemption feature on December 1, 2017 for the \$150 million Coastal Account Series 2015A-2 Bonds maturing on June 1, 2018; and the \$150 million Coastal Account Series 2015A-2 Bonds maturing on June 1, 2020

Chairman Gardner: Thank you, members is there a motion?

Gary Aubuchon made the motion to approve the Optional Redemption of Coastal Account Series 2015A Bonds Callable on December 1, 2017. Freddie Schinz seconded the motion. Barbara Walker did a roll call. All were in favor. Motion approved.

Chairman Gardner: We're on to Item 3, consideration of Consent Items. For the benefit of Governors McKay and Capps, if you have any issues with any of these items, they can be pulled prior to consideration and we can go into further detail. So, I just want to give you that heads up. Barbara, if you would please read the Consent Items, we'll ask if any of these need to be pulled and then, if not, we'll consider them as one action item.

Barbara Walker: Thank you, Chairman.

The first item Business Process Outsourcing with Insurance Services for Underwriting, Contract # 15-12-0023-11. This is Amendment #2 to the contract. Staff recommends that the Board of Governors:

- a) Approve the Business Process Outsourcing – Insurance Services contract amendment to increase task based pricing from \$20.00 to \$27.00 as set forth in this Consent Item; and
- b) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.

Barbara Walker: Would you like for me to continue to the second Consent Item?

Chairman Gardner: Yes, please.

Barbara Walker:

The second item is Commercial Adjusting Services (RFP 15-0018). Staff recommends that Citizens' Board:

- a) Approve the recommended increase to the Fee Schedule rates for Commercial Adjusting Services, RFP 15-0018;
- b) Approve this amendment not to exceed \$16,800,000; and
- c) Authorize staff to take any appropriate or necessary actions consistent with this Consent Item.

The third item is Property Loss Estimating Software (ITN 14-0006). The recommendation reads, staff recommends the Citizens' Board:

- a) Approve the recommended increase of the total contract authority by \$2,175,000 from \$13,000,000 to a total of \$15,175,000 for Property Loss Estimating Software, ITN 14-0006;
- b) Approve the contract not to exceed \$15,175,000; and
- c) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.

Chairman Gardner: Thank you, Barbara. Members, does anyone have an issue with any of the three Consent Items? Okay, hearing none, I'll accept a motion to approve the Consent Agenda.

Freddie Schinz made the motion to approve the Consent Agendas including Business Process Outsourcing, Commercial Adjusting Services and Property Loss Estimating. Bette Brown seconded the motion. All approved, motion carried.

Chairman Gardner: We are on to new business; is there any new business for the good of the order? Hearing none, I'll accept a motion to adjourn. (John McKay made the motion and Freddie Schinz seconded the motion.)

Meeting adjourned.