

CITIZENS PROPERTY INSURANCE CORPORATION

**MINUTES OF THE
BOARD OF GOVERNORS MEETING
Wednesday, March 27, 2019**

The Board of Governors (Board) of Citizens Property Insurance Corporation (Citizens) convened in Sheraton Orlando North in Maitland, Florida on March 27, 2019 at 9:00 a.m. (EST).

The following members of the Board were present:

Gary Aubuchon, Chair
Bette Brown
Blake Capps
Marc Dunbar
James Holton
William Kastroll
John McKay (telephonically)
Freddie Schinz
John Wortman

The following Citizens staff members were present:

Barry Gilway
Barbara Walker
Jennifer Montero
Kelly Booten
Jay Adams
Joe Martins
Steve Bitar
Christine Ashburn

The following people were present:

Dave Newell FAIA
Kapil Bhatia Raymond James

Call Meeting to Order

Barbara Walker: Good morning and welcome to Citizens March 27, 2019 Board of Governors meeting. This meeting is publically noticed in the *Florida Administrative Register* and is recorded with transcribed minutes made available at our website. Please do not put this call on hold. Press *6 to mute your line and #6 to unmute your line. We will convene with roll call.

Roll call: Chairman Gary Aubuchon, Bette Brown, Blake Capps, Marc Dunbar, James Holton, William Kastroll, John McKay, Freddie Schinz, John Wortman.

1. Approval of Minutes

Chair Aubuchon: Our first order of business is approval of our prior meeting's minutes from December 12, 2018.

A motion was made and seconded to approve the December 12, 2018 minutes. All were in favor. Motion carried.

2. Chairman's Report

Chair Aubuchon: My Chairman's Report is very brief. I want to first recognize and thank Governor John McKay for his service to the Board. He has tendered his resignation and we appreciate his service to Citizens. I also want to take this opportunity to thank my fellow Governors for their service. I don't think we should wait until someone leaves the Board to thank them. I understand the amount of work it takes to prepare for these meetings and I want to thank you for your very active and important contribution.

3. President's Report

Barry Gilway: Each year I provide Chair Aubuchon with a summary of major accomplishments. They are broken down by division. I will not bore you with going through the entire list of accomplishments today because they are extensive, particularly those of Steve Bitar and Kelly Booten. I will provide you with a list of the key initiatives that you as Board members supported last year. Any way you look at it, 2018 was an exceptional year for Citizens. Despite all the litigation throughout the Florida marketplace and the financial impact of Hurricanes Irma and Michael, it clearly impacted the Florida market's interest in our policies. We had 178,000 Office of Insurance (OIR) approvals to take out business, but we only actually lost 16,000 policies. Even despite these challenges and the fact that there wasn't a lot of interest in our business (because we are getting closer to that residual market definition), we reached an all-time low of 425,000 policies. We reduced the exposure to a little less than \$108B, which is down from half a trillion dollars just six years ago. There are many areas of accomplishment. The one memory I don't think any of us will forget is Hurricane Michael at the catastrophe (CAT) response that demonstrated how effective you can be when all of the aspects of the organization come together. I will never forget the devastation that we saw as our management team toured the area following Michael. It was absolutely devastating and reinforces that we can have a huge impact on the lives of our customers. Hurricane Michael gave us an opportunity to leverage some new technology, such as NITB imaging. We discussed that in the Claims Committee meeting last week and the impact that can have. We introduced new Fast Track field inspection process that offsets the lack of highly trained field adjusters in the marketplace. We used industry leading communication approaches that reach out to customers well before the storm hit, during the storm, and after the storm. CRCs were deployed and we worked directly with the Division of

Emergency Management (Christine and Candace) to identify locations in the entire industry. We really took the lead in identify locations where private market carriers establish sites for call centers. You had approved previously the technology associated for the First Notice of Loss (FNL) process and we rolled that out during Michael. Citizens' reputation for excellent claims service that we established during Hurricane Irma was heightened by the response during Michael. Even without legislative reform, our internal litigation initiatives began to start paying some dividends as Jay and the whole claims team started the enforcement of the appraisal language and policy form. Really, all Assignment of Benefits (AOB) issues were scope of work, which were moved into the appraisal process. The bottom line is that it gets money to the customers faster than the typical legal process. It results in a fair settlement. The Managed Repair Program (MRP) that we worked on for several years finally went from the design stage to a full implementation. That took all of the claims resources, communication resources, and agency services (which is Steve Bitar and Carl Rockman's areas). They've done a very effective job rolling out the MRP. Kelly's technology team managed over a hundred enterprise-wide projects. That's important to note because every single one of these projects does not get approved by the Board unless there is some significant improvement that they bring to the table. At any given point in time, we're managing about 46 of those projects and working them through the process. While all of this is going on, we closed down the Tampa office and consolidated that office with Jacksonville where we transitioned that office to a new work arrangement program. We also relocated the Disaster Recovery Center from Jacksonville. In Kelly's area, we really started building significant capability in the business continuity arena, making sure that when a storm hits, we have the resources immediately available to serve our customers. The control processes were strengthened thanks to Joe Martins and the Office of Internal Audit (OIA). It is quite a fantastic job, which Governor Brown mentioned yesterday, introducing and finalizing the Enterprise Risk Management (ERM) program. That was quite a success story. We had struggled with that, by the way, for a good, solid three years. We had not effectively implemented a solid ERM program until what was put into place last year. The Internal Control Framework (ICF) program – you've been hearing about it for four years. We've made huge progress bringing the ICF program to an end. You heard from Nancy Staff yesterday on the new compliance program that took hold and strengthened the compliance of the entire organization. Success in the financial area continued thanks to Jennifer Montero's negotiating skills. We placed more reinsurance coverage, \$1.4B, at a lower cost than the prior year, which I think is outstanding. This is despite Irma's impact on overall pricing. What we're seeing this year is the decision to place multi-year coverage which clearly shows that was the right approach and validated the fact that if you can get multi-year coverage with a low rate online, then you can benefit significantly. HR showed the results last week of the internal survey. The climate survey we completed – I'm particularly proud of that. I think our engagement scores were well above any benchmark that the industry establishes already. The interim survey literally showed improvement in every single area; some of the numbers are hard to believe. You're talking about a 93%/94% overall satisfaction from employees. 2018 was a continuous improvement year in every division. Citizens' reputation, I believe, was enhanced. The leadership team, led by our Legislative Affairs team (Christine Ashburn, Candace Bunker, and Michael Peltier), are fully engaged with the AOB changes. We know that could have a huge impact on our overall results if we are successful in getting some solid reform there. I echo what Chair Aubuchon said. None of this would be possible without the strong support that we have from this Board. I think you have shown tremendous support for stuff. You supported every major initiative we've

asked you to consider. As a result, you've seen improvement pretty much across the board. We're never done, so let's continue with improvement.

4. Chief Financial Officer Report

a. Finance and Investment Committee (FIC) Report

Chair Aubuchon: Yesterday, we had our FIC meeting. In that meeting, Kapil gave us a market update and Jennifer gave us a Risk Transfer Program and Investment Portfolio update. We had one action item that will come before the Board.

Risk Transfer Program

Jennifer Montero: Behind tab four, you'll find the Executive Summary that goes with the Layer Charts that we presented yesterday. I'll give a brief overview of that. As many of you know, Citizens' statute requires that the Board makes its best efforts to secure CAT reinsurance to cover a 1-in-100 year storm at reasonable rates. The analysis to purchase reinsurance is evaluated by staff and Citizens Financial Advisor each year. The results and recommendation are presented to the Board each year. Essential to Citizens goal is to reduce exposure and reducing and eliminating the amount of an assessment burden on the Citizens of Florida is the transfer of risk through reinsurance mechanism like the FL Hurricane Catastrophe Fund (FHCF), traditional reinsurance markets, and capital markets. The proposed 2019 Risk Transfer Program for the Coastal Account incorporates all strategic elements from prior risk transfer programs, which include: transfer risk alongside the FHCF, transfer commercial non-residential (CNR) risk, and transfer aggregate annual risk in order to protect a portion of surplus for most catastrophic events and thereby eliminating assessments for a 1 in 100-year event and further reducing the amount and likelihood of assessments beyond the 1 in 100-year event to the citizens of Florida. Citizens plans to transfer exposure in the amount of approximately \$1.4B to the global reinsurance and capital markets in 2019 for the Coastal Account, which includes \$880M of risk transfer from 2017 and 2018 that remains in place for the 2019 season - \$330 million of multi-year traditional reinsurance and \$550M of capital markets risk transfer through Everglades Re. The proposed 2019 risk transfer layers for the Coastal Account are as follows:

- The first layer is known as the "sliver layer," and it's the yellow. Layer 1 of this program covers personal residential and commercial residential losses and would work in tandem with the mandatory coverage provided by the FHCF to include the copayment of the 10% of losses not covered by the FHCF (note that the FHCF reimburses 90% of covered losses). In addition, the FHCF only covers 5% of loss adjustment expenses ("LAE") and this layer covers any LAE above 5%. This layer will be placed in the traditional market.
- Layer 2 of this program covers annual, aggregate personal residential and commercial residential losses and will attach after \$528 million of losses. This layer will be placed in the traditional market.
- Layer 3 of this program would provide coverage for CNR losses not covered by other layers of the program and for which Citizens has no FHCF coverage. This layer will be placed in the traditional market.

All three years will be placed in the traditional market. The total amount of surplus exposed in a 1 in 100-year event in the Coastal Account would be approximately 22%. After significant losses in the Personal Lines Account (PLA) due to Hurricanes Irma and Michael, along with non-weather losses and assignment of benefits, the PLA surplus has decreased significantly and is now exposing much more of its surplus for a 1 in 100-year storm than in previous years – approximately 62%. Citizens’ strategic risk transfer plan for PLA, similar to the Coastal Account, considers the transfer of a relatively marginal amount of risk in order to reduce the amount of surplus exposed in a 1 in 100-year event. In order to accomplish this, the amount of risk transfer purchased will be approximately \$200M alongside and above the FHCF. Staff will work with Citizens’ co-brokers and its financial advisor to evaluate available options relating to the structure, terms, pricing, and other relevant matters in structuring the 2019 risk transfer program. Citizens and its financial advisor, Raymond James, and co-brokers, Willis Re and Guy Carpenter, will convene with a number of global traditional reinsurers to market Citizens’ risk transfer programs over a two-week period in April. Following these meetings, staff will provide a recommendation to the Board of Governors in late April or early May for approval.

Governor Capps: Is this a new concept of applying risk transfer for the PLA as well for the Coastal?

Jennifer Montero: Yes.

Governor Capps: The \$200M figure – where did that figure come from and do we feel like that’s adequate? I think what we’ve seen in recent hurricanes is the amount of destruction could be done in the interior part of the state and not just the coastal areas of the state.

Jennifer Montero: The reason for the smaller amount is that we have not gone out to the market for the PLA since 2005. Although it’s very similar to the book of business in the Coastal Account, the Coastal Account 60% wind only so there is no other multi-perils. We want to make sure the reinsurers are comfortable with the PLA, so we’re going with the smaller amount to test the pricing and to make sure the terms are right. If the terms and conditions are not good and if the pricing is not good, then it’s a purchase we’re not forced to make. That’s what we’re going to evaluate and then come back to you determine if it’s a good purchase.

Governor Dunbar: There was some talking during the early parts of the legislation of changing some of the FHCF purchasing requirements. Can you give us a brief update on how we are on that?

Jennifer Montero: There is some legislation going back and forth. What the FHCF does, unlike traditional reinsurance, is that traditional reinsurance covers 100% of our loss adjustment expense (LAE). The FHCF gives us a factor of five. So, whatever your losses are, you get 5% toward your LAE. The CAT Bond works in a similar way but only it’s 10%. It’s just a factor. When LAE is high, the FHCF pays the 5% and the rest spills over into your traditional reinsurance. Some of the legislatures are working toward increasing the FHCF percentage of what is covered. The 5% is historic. I don’t know if we publically know where that stands . . . we don’t.

Chair Aubuchon: You don’t know if it’s likely to pass or not?

Christine Ashburn: There is conversation and there is language. Senator Brandis is on the insurance bill that would change the way the FHCF LAE is paid. There are varying opinions in the industry on how to do that. Jennifer and I have been talking with Barry and others about what we think. Some carriers would like to see actual LAE. The FHCF has concerns about that. I do believe there is serious conversation; I know it's a priority for Senator Brandis. I do think that, unlike previous years, it has a better shot at passing. Where it lands and how it's structured are what's up for debate.

i. Action Item: Commercial Banking Services

Jennifer Montero: Pursuant to Section 287.057, Florida Statutes, on October 1, 2018, Citizens released Invitation to Negotiate No 18-0036 for Commercial Banking Services. Three responses were received November 15, 2018 and were first evaluated by the Evaluation Committee. The Negotiation Team then met with each of the three vendors who were advanced by the Evaluation Committee. On March 5, 2019, JP Morgan Chase Bank, NA was determined to offer the best value for Citizens by the Negotiation Team. JP Morgan also offered the lowest best and final offer. The Evaluation Committee and Negotiation Team were comprised of members from Citizens' Treasury and Investment Team, Financial Services Business Analysis Team, and Financial Reporting Team. Subject Matter Experts were provided by Citizens' Treasury and Investment, Financial Services Business Analysis, Accounting, and IT Teams. This Action Item seeks Board approval for Citizens to enter into a new contract with JP Morgan Chase Bank, N.A. to provide Commercial Banking Services which will replace Contract Number 11-10-005 with Wells Fargo. As of June 30, 2018, Citizens held approximately \$20M of total assets with the commercial banking vendor. The total balance held with our commercial bank has varied over time. The services include depository services, electronic funds transfer services, check clearing services, fraud prevention services, online banking and reporting capabilities, electronic files transmission service, account reconciliation, and custody safekeeping. The estimated amount of the contract is \$1.2M, which includes both the base and five-renewal terms. An estimated \$600K will be for the five-year base term and an estimated \$600K will be for the five-year renewal term. Before I go to the recommendation, Governor Dunbar had some questions about what was in the prior contract. The prior contract was a nine-year contract. The solicitation in 2010 was effective in 2011. It was a five-year based term with two two-year renewals. The contract for that full amount was \$4.428M, which was significantly more than the \$1.2M we're asking for ten years. When asked what we spent in 2018, our fees were \$206,193, which was on the high end because we had more checks than usual. I will also mention that when we did the solicitation in 2010, it was Wachovia Bank, but then Wells Fargo bought them out.

Chair Aubuchon: Before we get to the vote, I have a couple housekeeping items. I want to recognize that Bette Brown is here and will be voting. Marc Dunbar had a conflict but no longer has a conflict. I'll let him explain.

Governor Dunbar: I changed law firms effective February 1st. My conflict was related to law partners Jones Walker. I'm no longer in that firm. I do have a quick question. Jennifer, if we do five, two, and two, is there a reason why we didn't do five, two, and two this time? We're doing five and five.

Jennifer Montero: I don't know if there is a significant reason why.

Governor Dunbar: In the conversation we had yesterday, the trend is for significant savings. I'm curious to know if five, two, and two is better. I guess it doesn't matter because we can always opt out after five years.

Governor Capps: In the recommendation, it talks about a five-year base contract for \$1.2M. Considering the fact that the prior provider's contract was \$4.428M – is base a bare-bones thing?

Jennifer Montero: The base is the first term of the contract, which is five years. Then, there is a renewal for another five years. The whole contract is for ten years if we do the renewal. The \$1.2M is for the ten years. It's \$600,000 for the base year, which is the first five years, and then it's \$600,000 for the second set of five years.

Governor Capps: I guess my point is that comparing \$4M to \$1M, it seems like a really massive drop in price, and a lot of times, things like that are too good to be true. There are a lot of "tack-ons" that go into the deal, and it ends up being "ten" than "one."

Jennifer Montero: The \$4.428 was the approximate amount at the time of the contract at the time of the Consent Agenda in 2010. However, the charge was \$206,000 in 2018. We paid \$215,000 in 2017. Both of those were a little higher because of Hurricanes Irma and Michael. With the \$1.2M, will get about \$120,000. Even though that \$4M was what was approved, that was not what we were actually spending. We ended up spending \$2M over that contract term. It was an average of \$200,000 a year rather than \$400,000 a year, which is what that contract was allowing for.

A motion was made and seconded for the Board to approve the five-year base contract, including the five-year renewal term for an estimated amount of \$1,200,000 for Commercial Banking Services, ITN 18-0036 to JP Morgan Chase Bank, N.A.; and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were in favor. Motion carried.

b. Financial Summary and Statement of Operations

Jennifer Montero: I will note that these are unaudited financial statements. We don't expect any differences with the audited financials. Yesterday, Brian Smith from Dixon Hughes and Goodman (external auditor) gave us a briefing at the Audit Committee. They are currently working on our audit. I will give a brief overview of the 2018 year-end financials. Despite Michael landing in 2018, adjustments to the net loss in LAE reserves from Irma, and continued AOB challenges from non-weather water losses, Citizens will enter the 2019 hurricane season on strong financial footing. At December 31, 2018, Citizens held total cash and invested assets of approximately \$9.3B and reported year-end surplus of \$6.2B. The 2018 consolidated net loss of \$151.4M including \$151.7M in loss of LAE related to Hurricane Michael as well as \$68.2M in net development in loss reserves related to Hurricane Irma. The year-end direct written premium of \$868.4M was 3% less than the prior year. The PLA policies in force (PIF) increased less than 2% while the

Commercial Lines Account (CLA) and the Coastal Account showed decreases in PIF by 30% and 12% respectively. This was primarily due to the commercial book leaving Citizens. As of December 31, 2018, consolidated net loss in LAE reserves related to Hurricane Irma was increased by \$104.5M. This increase was largely concentrated PLA and was driven by increases in projected claims accounts, increases in loss severity, increases in ALAE severity, and overall increases in ULAE costs. Preliminary data suggests the increase in loss severity is being driven by increase in inflationary trends due to demand surge whereby significant increases in the cost of labor have been observed. Hurricanes Michael and Irma added \$220M to the 2018 consolidated net loss. The consolidated ultimate net loss in LAE reserves related to Hurricane Irma were \$1.9B of which \$697.2M is recoverable under Citizens' reinsurance contracts with the FHCF and private reinsurers. Litigation of non-weather water claims continues to impact the PLA with historical high litigation rates that remain within the 40% to 50% range. Favorable loss development of older water claims offset with adverse development in ALAE. Additionally, adverse development on older sinkhole claims contributed to an increase in reported loss in LAE ratio within the PLA. The 2018 year end expense ratio is 24.6% as compared to 25.3% in 2017. Favorable variances in salaries primarily driven by year-over-year decreases in headcount were the largest drivers – 3.6% less compared to 5% below budget. Other items contributing to favorable variances in administrative expenses were reductions in depreciation expense due to delays and deferrals in the acquisition of capital assets and reductions in personal services largely due to lower utilization of contingency reserves as well as other deferrals and delays of projects. Investment income increased due to reduction in interest expense as \$255M in bonds matured in 2018 as well as increases in investment returns. This increase was partially offset by realized losses that were taken to liquidate portfolios to make claims payments. Over the next several months, we will be placing the 2019 Reinsurance Program with the primary goal of protecting policyholder surplus and to continue the elimination of assessments at the 1 in 100-year storm level. Our total assets in surplus remain well-positioned to meet any claims paying obligations.

5. Chief Systems & Operations Officer Report

a. Information Systems Advisory Committee (ISAC) Report

Kelly Booten: The ISAC met telephonically on March 12. I briefed the committee on the closure of the 2 ½ year Centerpoint Implementation. The committee reviewed the ISAC Charter and there's one change recommendation for Board consideration. The recommendation is to change the minimum number of meetings from four to two. We will almost meet four times a year, but this allows us some flexibility if there are no agenda items.

i. Action Item: ISAC Charter

A motion was made to approve the changes to Citizens' Information Systems Advisory Committee Charter. All were in favor. Motion carried.

Kelly Booten: Robert Sellers, Vice President and CTO, briefed the committee on the Security Strategy, focusing on influencing and supporting Citizens business units in producing business outcomes successfully without taking on undue technology and cyber security risks. A key goal of the program this year is improving identity and access management capabilities. Aditya Gavvala,

VP - IT Services & Delivery, briefed the committee on the Cloud Strategy. We currently use a number of software as a service applications hosted in the cloud. This strategy is to gradually transition into hosting in our own infrastructure and applications where possible, reducing data center disaster recovery footprint. Aditya Gavvala briefed the committee on the Document Generation Software Business Case. That concludes my ISAC report.

b. Facilities

i. Action Item: Chair Replacement for Jacksonville

Kelly Booten: This Action Item seeks Board approval to purchase replacement chairs that have met their useful life cycle. This is a budgeted one-time expense for the replacement of chairs.

A motion was made and seconded to approve the expenditures for the purchase of chairs through State of Florida Contract No. 425-001-12-1 at a total cost not to exceed \$182,800 and authorize staff to take any appropriate or necessary action consistent with this Action Item.

Governor Capps: I'm curious as to why this is actually an action item.

Kelly Booten: Because it's over \$100,000.

All were in favor of the motion. Motion carried.

Marc Dunbar: I apologize. I have a question in my notes that goes back to Jennifer. On page three of the financial report, there is discussion about the older sinkhole claims. In the fifth paragraph, it says, "Additionally adverse deployment on older sinkhole claims contributed to the increase of reported loss in LAE ratio in the PLA and CLA. Volatility in older sinkhole claims continue to contribute to the material correlated variances of recorded losses in LAE." Can you elaborate on what's happening with these older sinkhole claims and why they're coming back to us?

Barry Gilway: The claims are not coming back to us. They are very similar to the claims like the one you helped us resolve. Governor Dunbar was helpful in negotiating on a major sinkhole loss claim. They are claims pre-2011 and post-2011 that still remain under litigation. I believe the number is -\$60M in developing a little worse than we thought they would. These are not new sinkhole claims. These are claims that were previously and continue to be under litigation.

Marc Dunbar: Do we have trials coming on these or do we have more adverse rulings?

Barry Gilway: In some cases, we do. On a monthly basis, Steven Woods provides us with a complete synopsis of every major claim, showing the progress that was made the prior 30 days of all the claims that fit in this category. They are any major claims that have impact on our coverage position. We can provide for the Board a complete monthly summary. I know you receive it personally.

Marc Dunbar: That would be great because I don't think they're still coming to me.

6. Chief Claims Officer Report

a. Claims Committee Report

Jay Adams: The Claims Committee met telephonically on March 19th. During that meeting, we discussed non-weather water claims. We did an update for one 2018 looked like. We provided a MRP update based on the new 8-1-18 product language changes. We talked about some of the outcomes we've seen thus far with Hurricane Irma settlement agreements. We also provided a CAT update and a litigated claims update.

b. Action Item: Geospatial Intelligence Center (GIC) Membership Upgrade

Jay Adams: This is a service that Citizens leveraged during Hurricanes Irma and Michael. Citizens is a member of the National Insurance Crime Bureau. They help us in conducting research in fraudulent areas with our Special Investigations Unit (SIU) group. They have also undertaken recently doing aerial imagery immediately following an event. The first time they did this was for Hurricane Harvey. They made that imagery available to insurance carriers and to the public but just for a short period of time. Citizens leveraged this for Hurricane Irma response. We were able to use this service prior to the Keys being open for entry for claims people. We were able to establish what the damage looks like in the lower Keys. It helped us establish a need for a strike force office in Key West. We leveraged this data during Hurricane Michael. They did the flyovers and provided the data within about 48 to 72 hours. The way we leveraged the data this time is that for those areas we have insured homes that had a slab leftover, we were able to adjust those claims over the phone. We were able to put claims on behalf of the insured and start that whole claims process very early. The issue of not being a member of their Geospatial Intelligence Center (GIC) is that the imagery is available for only a very short period of time. As you know, we are still getting Hurricane Irma claims. We no longer have access to that aerial imagery. If the claim goes into appraisal or litigation, we might want to leverage that imagery past 30 days of the storm event. With that said, we'd like to gain access GIC aerial imagery data as well as pre- and post-event imagery moving forward. They do provide access to CAT event imagery. This ensures we get this imagery available without any delay and it allows us to have a say over the areas they fly over. They do reach out to their member carriers and ask them where their book of business is so they can target the right areas when they do the flyovers. This upgrade to GIC membership will provide a direct contribution to the GIC for the costs of the GIC program, which are shared across GIC member insurers. This funding supports the GIC and its mission which, by making post-loss imagery available online, serves an important public interest not only to catastrophe response organizations but also to those individuals and families directly impacted by events. This is a single-source under 19-2001 and was publically posted on March 5, 2019. It's a single-source because it's an addition to the membership that we currently have with the NICB. The total estimated cost for the 33 month term is \$912,732.95.

A motion was made and seconded for the Board to approve the National Insurance Crime Bureau (NICB) contract amendment not to exceed \$912,732.95 for the period of April 1, 2019 to December 31, 2022, for the Geospatial Intelligence Center (GIC) Membership Upgrade Action

Item, SS 19-2001 and to authorize staff to take any appropriate or necessary action consistent with this Action Item. All were favor. Motion carried.

7. Chief Underwriting and Agency Services Report

a. Market Accountability Advisory Committee (MAAC) Report

Dave Newell: Thank you, everyone. For the record, Dave Newell, Chair of the MAAC. We met yesterday with a report from Carl Rockman, Senior Director of Agency and Market Services. He talked about the continued look at the Agency Plan that Citizens currently has. Agent and agency counts continue to decline overall, with 6,988 agents and 4,523 agencies respectively. We reviewed the Performance Violation and Late Submission programs. This is something Citizens has put in place the past few years. It has really helped those agents from time to time who may not get the paperwork in; it's really boosted their education on how critical it is to get their paperwork in timely. We also reviewed their outreach programs, especially after Hurricanes Irma and Michael, to agents and policyholders to advise them on things they need to be aware of as they go through the claims process. The webinars have been very helpful. A lot of interaction with some of our agents; some have actually hosted Citizens staff and their agencies from time-to-time, depending on locale – some in Monroe County and some in southwest Florida after Irma. Steve will present what we approved yesterday, which was the creation of a MAAC Charter. We were one of the few committees that did not have a charter. We brought that back to the table in December and had some modifications in December. Lastly, the committee always likes to get an update on the claims activity. Craig Sakraida, Senior Director of Claims, provided an update on the catastrophe, not only for 2018 but certainly for 2019.

i. Action Item: MAAC Charter

A motion was made and seconded for the Board to approve the proposed MAAC Charter and to authorize staff to take any appropriate or necessary actions consistent with this Action Item. All were in favor. Motion carried.

8. Chief Internal Audit Office (OIA) Report

a. Audit Committee Report

Bette Brown: Joe did a great job with his dashboard. We did talk a little about the annual report, and we had Brian Smith from Dixon Hughes who will provide a final report in mid-May. We received rousing information from Nancy Staff on ethics and compliance. It was a really good presentation. It was a good meeting.

Joe Martins: At the meeting we presented the OIA Charters. Both of the charters were discussed and approved. The recommendation resulted in minor changes to the charter as presented. If there are no questions, I recommend to the Board to approve the Audit Charter as presented.

Bette Brown: I did say at the meeting yesterday that Joe sent me all the changes. They were all minor. It wasn't anything major; it was just scrivener items for conciseness.

Chairman Aubuchon: Is this for approval?

Joe Martins: It's not a specific action item. We request for approval of the charter.

A motion was made and seconded to approve the Audit Committee Charter. All were in favor. Motion carried.

Joe Martins: There's an update on the OIA policies [unintelligible 51:28] were also discussed at the Audit Committee. The OIA also completed three audit engagements since the previous meeting. Minor issues were noted in both the alternative work arrangements as well as the MRP. With the audit of the Centerpoint User Access audit, we noted that effective business units proactively collaborated in the design and implementation phases in the project to develop appropriate user access controls. However, system limitations and the complexity of Oracle roles and permissions contributed to challenges in effectively managing user access. OIA noted that improvements are needed to strengthen controls related to ensuring users are assigned roles with the least privilege necessary to perform their job functions, monitoring of transactions performed by privileged users, and oversight of the provisioning process including external users. We're currently tracking 19 open items. Of the 19 items, two are high impact issues referred to Centerpoint User Access. All open items are being worked on by management at the moment. The Internal Controls Office is rolling out the Internal Control Framework (ICF) and there are currently 17 processes remaining for the completion of the framework. We foresee that framework to be fully implemented and operational by June 30, 2019. Through the ICF, we allow the enablement and monitoring of management Control Self-Assessments for all completed processes. The process will be completed by November 30, 2019. The Internal Controls Office monitors the completion of control self-assessments and assesses quality and management reviews. The Enterprise Risk Office will look from top-down strategic approach and bottom-up operational risk management. In terms of the strategic risk management, we had a risk assessment in February. During that meeting, we identified four new strategic risks for the organization. We completed a total of 17 operational risk assessments. The four new risks refer to Ability to Adapt to Changing Revenue, Managed Repair Program, Market Dependence on Reinsurance, and Rate Differential. With respect to the operational risk management, they resulted into risk training [unintelligible 54:32] remaining in support of the IFC process. There are a total of 72 process risk assessments, which will be completed by December 30, 2019. By the end of this year, business unit management should be equipped to manage risk process areas in accordance with Citizens Enterprise Risk Management framework.

Bette Brown: I probably should have said this first. Joe has come up with a plan to outline those topics that should be highlighted. There is a lot of information in this Board book when it comes to Joe's area. I know you all read through it, but what I ask him is to get a little bit more granular to bring to your attention the highlights. That's what we're attempting to today, and I think it helps.

9. Chief of Communications and Legislative and External Affairs Update

a. Legislative Update

Christine Ashburn: As you are all aware, the 2019 Legislative Session convened on March 5th. It's a nine week/sixty-day session that ends during the first week in May. More than 3,400 bills have been filed in this session, and currently, we are tracking 112 of those: ethics packages, general insurance items, anything that could potentially be procurement type things because we are governed by 287 . . . so not all insurance issues but a variety of issues that we monitor, some obviously more critical than others. I just want to point out – before we talk about the elephant in the room – a couple of bills. House Bill (HB) 1145 (Rep. Holly Raschein) and Senate Bill (SB) 1476 (Rep. Anitere Flores) would reduce the rate cap in Monroe County from 10% to 5% for a two year period. The argument behind this is that as the Keys continue to recover from Hurricane Irma and given our unique roll down there – we're writing about 65% of the Wind – I think there is a desire to give those consumers some rate relief. The House Bill has not been heard and the final Banking and Insurance Subcommittee was held yesterday. Unless something were to occur with a reference change, that bill will more than likely not move in the House this year. The Senate Bill was heard and passed by the Banking and Insurance Committee on Monday of this week. Just for perspective on our side with working with Brian Donovan, the premium impact to Citizens would be pretty minimal - \$1.2M a year for each of the two years. While we write a lot down there, we have a significant rate need of 45%. There is a smaller subset of policies that have a significant rate need, which is why you do not see a larger premium impact. We have not taken a position against that bill; we have provided the information and the impact. Clearly, our largest concern would be if it were expanded beyond the Keys and if it were a long-term change. Right now it does not look like both of those bills will make it across the finish line. Also HB 541 by Rep. Zika and SB 566 by Senator Hooper would greatly expand the definition and the role of catastrophic ground cover collapse, which is the base coverage that would remain property policies under SB 408 when sinkhole became an optional coverage with the outcry for rate relief in the Tampa Bay area during the Sinkhole Crisis. Senator Hooper has not moved his bill, and Rep. Zika yesterday temporarily postponed his bill with Insurance and Banking, recognizing that it was a very contentious issue. There was a lot of concern about the impact of that bill on a reform that is working, so he is asking to study that issue further and will not move that bill further this year. Just for perspective for those of you who are not on the Board during the Sinkhole Crisis of 2011 and 2012, between 2005 and 2012, Citizens collected \$318M in premium for sinkhole and paid out \$1.7B in losses. To say we were in a crisis is probably an understatement of this century. For perspective, that's a \$1.4B net loss over those years. Right now, as of 9/30/2018, the PLA has a surplus of \$1.8B. Clearly it's not a sustainable model. We did have concerns about that and met with Rep. Zika and shared our concerns about the adverse impact that would have on the marketplace with litigation and losses, most notably probably seeing significant growth in the Tampa Bay area. HB 2011 by Rep. Polo and SB 1288 by Senator Brannan would require property insurance policies cover explosions. There are local issues in the Broward and Dade areas where there is some mining and blasting going on in neighborhoods that have been built too close. Those bills have not been heard, and we do not expect those through this session. To Governor Holton's point, the omnibus insurance bills that make various tweaks to the insurance code are moving and we are notably watching the FHCF that was discussed earlier. So, AOB – obviously, this is the most critical issue for the insurance industry in Florida for the last five to six years. It's being closely watched by property and auto insurers as there was also an auto glass AOB crisis occurring in the auto market. Unlike previous years, we are seeing good movement on the issue in both the House and Senate. HB 122, sponsored by Senator Doug Broxson, has moved through two of it's

three committees of reference. The Rules is the remaining committee; it's not meeting this week or next week, so we anticipate that bill being heard during week six. There is still plenty of time. HB 7065, which is by a Rep. Rommel, is going to be heard through the final committee of reference tomorrow. That bill will then be ready for the floor and put on the House calendar for final passage and consideration by the full House. The bills do currently differ. The House bill would allow carriers to offer both an assignable and non-assignable policy if there was a rate differential. That is something we've seen different from the past. It's something we've talked about with Speaker Oliva as a priority and as an idea. Carriers would not be forced to do it; it would be an option of a carrier to do that. The Senate bill, while it does prohibit access to the one-way fee statute you've heard us talk about, it does not strongly define what prevailing party mechanism as the House bill does. We do expect negotiations to go on between the House and Senate when those bills get to the floors of the Chamber. Unlike previous years, we've heard from the Governor, CFO, Speaker, and Senate President all publically support meaningful reform. We see all these leaders aligned on this issue. I believe we have our best chance to get something meaningful across the finish line this year, unlike the last two years where we didn't see anything positive move in the Senate.

b. Communications and External Affairs

i. Action item: Florida Statewide Title Sponsor

Christine Ashburn: I have one action item; this is a returning item that we've done over the last couple of years. We have partnered with the Florida Public Broadcasting for content via radio, television, digital and website within the Florida Public Broadcasting/Florida Public Radio Emergency Network (FPREN) on a title sponsorship agreement. Florida Public Broadcasting, Inc. is a non-profit organization of the 26 public radio and television stations in Florida. FPREN was created in 2015 to act as a statewide non-profit network of public radio and public television stations providing a public service to listeners and viewers before, during, and after a storm event. Citizens sponsored spots on these channels help to inform customers and stakeholders of current programs and initiatives at Citizens such as Call Citizens First. During hurricane season, sponsorship assets are leveraged to promote preparedness efforts and broadcast claims reporting information. Participating in this sponsorship allows Citizens to reach a greater number of customers and stakeholders through public media outlets they already monitor. We leveraged this after both Hurricane Irma and Hurricane Michael. It allows us to stay relevant with our Call Citizens First campaign throughout the state on a year wide basis. This is a sole source procurement. The cost of the sponsorship is \$174,564. It mirrors the exact contract opportunity we had last year. It's a \$389,000 value.

A motion was made and seconded to approve the Florida Statewide Title Sponsor 2019, Florida Public Broadcasting agreement not to exceed \$174,564 for the period of April 29, 2019 through April 26, 2020 and to authorize staff to take any appropriate or necessary actions consistent with this Action Item. All were in favor. Motion carried.

10. Consent Agenda Items

Chairman Aubuchon: Now we are at the consideration for consent items. I believe Marc Dunbar has a couple questions about one or more of these items.

Marc Dunbar: The first question is related to the first consent item – SmartComms. I was curious about the five and five. I know we talked about this before. Is there a reason why we're doing five and five as opposed to five and two and two?

Kelly Booten: We didn't renegotiate the contract terms. This is additional spend on the contract to upgrade the software service. We didn't change the terms of the contract.

Marc Dunbar: Okay. Wasn't this the one that we discussed at the last meeting?

Kelly Booten: It was. This is the contract that goes back to 2011 prior to us being under the Florida Statute that had a base contract under five with two five year renewals. We're in the second renewal and we need to upgrade to the latest version of the software. We're faced with the decision on the premise vs. software as a service. The software as a service is the best value for the best business case. It eliminates a number of risk items and makes sure we're a fully supported system that addresses any future enhancements that we need.

Marc Dunbar: So we renegotiated the contract and we're going to the cloud. We got significant cost savings during this negotiation. We still will have one five year renewal, right? Is there a reason why we didn't want to renegotiate the next five?

Kelly Booten: The whole amount includes the entire contract term. It's embedded technology. To migrate to another solution is a very costly and time consuming project. Based on where we are with the project and technology, we felt that the right thing to do was to move to the software service, run it out until the end of the contract term, and then resolicit to coincide with the last term.

Marc Dunbar: I was wondering with the technology jump that we would have six or seven years that we're married to the technology. I just want to make sure we're comfortable.

Kelly Booten: We are comfortable. We did research the market.

Marc Dunbar: The second one is a two part question. On the security services, did we have some events happen to make us increase armed security?

Kelly Booten: The downtown area of Jacksonville is precarious to say the least. We do have a lot of transient people around the area. Also, what really triggered it was that when we went into hurricane mode, we had people working at odd hours that we felt more comfortable making sure our staff coming and going in the dark was well protected.

Marc Dunbar: So we're providing building security, which seems to me to be a lease negotiation issue? Is there not landlord conversation to offset these expenses, since we're providing security for their building?

Kelly Booten: We have spoken with management in the building. There is some level of security guards there; they don't necessarily agree with armed security guards.

Marc Dunbar: How many other tenants are in these buildings?

Kelly Booten: I can't quote the number. There are several.

Marc Dunbar: How much time is left on these leases?

Kelly Booten: We're in the first five year term but I don't remember the contract terms. I can look it up for you.

Marc Dunbar: For whatever it's worth, the next time you chat with the landlord, can you convey that at least one of the Board members feels that providing security for our employees is the building manager's responsibility? It'll be something to consider when we're up for renewal. They understand where their building is located. They understand the tenant that we are. It is disappointing that we are having to pay for this and that they are not at least offsetting some of this, seeing how our security will provide security for the entire building. The next time we have a cam bill we can have a chat. It doesn't seem very fair in my opinion.

Kelly Booten: Absolutely.

Marc Dunbar: To the extent that we have landlord tenant lawyers to help us, can you double check the leases to see if we have the ability – this is something we should push back on. I'll refer to Governor Holton who knows a lot more about commercial real estate than I do. The last one was on the Tampa Office Lease. We relocated from this or closing? We paid \$5.6M in total rent?

Kelly Booten: That was total contract term for that lease.

Marc Dunbar: We're now having a \$458,000 CAM over budget?

Kelly Booten: The CAM charges were never included in the original action item. This is a record keeping correction to include the CAM charges as part of the original action item. It is not an additional charge or a new budget item. It's to take care of a procedural problem in which the CAM charges were not included originally.

Marc Dunbar: So, in the approval, the CAM charges were not associated with the budgeted . . . so we're basically . . .

Kelly Booten: With the action item. They were always included in the budget.

Marc Dunbar: With the Board approval of the action item, the CAM wasn't included. So we're just cleaning it up?

Kelly Booten: Correct. This is a cleanup and to get us through the term of this contract which is in October.

Marc Dunbar: So this isn't a surprise?

Kelly Booten: No.

Jim Holton: Kelly, I assume the original lease did provide a CAM estimate and that you have a true-up at the end of the year? Those were, in fact, paid, and it was just a technical oversight? There were no defects with the lease itself in terms of how CAM was dealt with in the lease?

Kelly Booten: Correct. Every April we do a true-up because it's an estimate. It's been in alignment with the budget and there were no surprises.

Jim Holton: Are most of the property facility leases viewed internally by counsel here?

Kelly Booten: Thoroughly.

- **Document Generation: Software License and Services.** Amendment to Contract No: 12-11-0043-00 - On December 14, 2011, the Citizens Board of Governors authorized a contract amount of \$1,204,449 for the initial 5-year term and \$1,187,488 for two optional 5- year renewals for a total of \$2,391,937. This Consent Item requests an additional \$917,682 to the contract spend of \$2,391,937 previously approved by the Citizens Board of Governors for a revised total of \$3,309,619. The Citizens' Information Systems Advisory Committee recommends the Citizens' Board of Governors: a) approve the amendment to Contract No. 12-11-0043-00; Document Generation: Software License and Services adding \$917,682 to the contract amount for the contract term with SmartComms LLC; and, b) authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- **Security Services (Jacksonville).** State Term Contract #92121500-14-01 (PO52562) – This is not a budgeted item. This additional security service was not budgeted for 2019; however, with approval the cost of this operating expense will be budgeted annually. It is recommended that Citizens' Board: a) Approve the use of Florida State Term Contract No. 921215000-14-01 for the period of May 1, 2019 to November 30, 2020 in the amount of \$120,000 for added Security Officer Services in Jacksonville to Allied Universal Security Services, LLC. as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- **Security Services (Tallahassee).** Contract No: 13-13-0012-00; Vendor: Allied Universal – This is budgeted. February 1, 2017 – January 31, 2020. The requested rate increase would become effective April 1, 2019 through January 31, 2020 for a total of ten (10) months. It is recommended that Citizens Board: a) Approve the increased hourly rate for services for the proposed contract amendment resulting in a total \$7,500 increase with Allied Universal for the period of April 1, 2019 to January 31, 2020 as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.
- **Tampa Office Space Lease –CAM Charges** DMS Lease # 900:0001 - Yes, this is budgeted annually. November 1, 2014 through October 31, 2019 It is recommended that Citizens' Board: a) Approve additional Tampa office space common area maintenance

expenditures in the amount of \$458,000 for the period of November 2014 to October 2019 which were not approved in the prior Action Item, as allowed within the contract with Inland Commercial Real Estate Services LLC, as set forth in this Consent Item; and b) Authorize staff to take any appropriate or necessary action consistent with this Consent Item.

A motion was made and seconded to approve the Consent Agenda items. All were in favor. Motion carried.

New Business

Chair Aubuchon: The next Board of Governors meeting will take place here on June 18th through the 19th.

Meeting adjourned.