

1 ROB BONTA  
Attorney General of California  
2 MOLLY K. MOSLEY  
Supervising Deputy Attorney General  
3 DEBBIE J. VOROUS  
Deputy Attorney General  
4 State Bar No. 166884  
1300 I Street, Suite 125  
5 P.O. Box 944255  
Sacramento, CA 94244-2550  
6 Telephone: (916) 210-7349  
Fax: (916) 323-7095  
7 E-mail: Debbie.Vorous@doj.ca.gov  
*Attorneys for Applicant*  
8 *Insurance Commissioner of the State of California*

10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 COUNTY OF MERCED

13 **INSURANCE COMMISSIONER OF THE  
STATE OF CALIFORNIA,**

14 Applicant,

15 v.

17 **MERCED PROPERTY & CASUALTY  
COMPANY, a California Corporation**

18 Respondent.

Case No. 18CV-04739

**NOTICE OF APPLICATION AND  
APPLICATION FOR ORDER  
APPROVING LIQUIDATOR'S 1)  
PAYMENT OF ADMINISTRATIVE AND  
PROFESSIONAL FEES AND EXPENSES  
FOR THE PERIOD OF APRIL 1, 2019,  
TO APRIL 30, 2021, AND 2) INTERIM  
DISBURSEMENT OF MERCED  
ASSETS; MEMORANDUM OF POINTS  
AND AUTHORITIES IN SUPPORT  
THEREOF**

**[FILED CONCURRENTLY WITH:  
1) DECLARATION OF SCOTT PEARCE;  
AND  
2) INDEX OF EXHIBITS/EXHIBITS]**

Date: October 26, 2021  
Time: 8:15 a.m.  
Dept: 8  
Judge: Hon. Brian McCabe  
Action Filed: November 30, 2018

1           **TO ALL INTERESTED PARTIES AND THEIR ATTORNEYS OF RECORD:**

2           **PLEASE TAKE NOTICE** that on October 26, 2021, at 8:15 a.m., or as soon thereafter as  
3 the matter may be heard in Department 8 of the Superior Court of the State of California, Merced  
4 County, 627 W. 21st Street, Merced, California, 95340, applicant Insurance Commissioner of the  
5 State of California in his capacity as the Liquidator of Merced Property & Casualty Company  
6 (Merced), will and hereby does apply to the court for an order approving the Commissioner's 1)  
7 payment of administrative and professional fees and expenses for the period of April 1, 2019, to  
8 April 30, 2021, in the amount of \$1,480,769 and 2) distribution of \$20,220,137 to the California  
9 Insurance Guarantee Association (CIGA) and \$3,563,938 to Merced policyholders for approved  
10 "over-cap" claims (claims that develop in excess of the \$500,000 statutory limit of CIGA's  
11 coverage).

12           This application is made under Insurance Code sections 1035, 1035.5, 1036 and 1037 on  
13 the grounds that the Commissioner, as Liquidator, is authorized to pay the salaries and expenses  
14 necessary to carry out the functions of an insolvent insurer and to employ and compensate legal  
15 counsel to transact estate business, and is authorized to disburse assets to CIGA and Merced  
16 policyholders as necessary to successfully liquidate Merced.

17           This application is based on this notice, the accompanying memorandum of points and  
18 authorities in support thereof, the declaration of Scott Pearce filed concurrently with this  
19 application, the index of exhibits and exhibits filed concurrently with this application, the second  
20 status report of the Commissioner on the liquidation of Merced filed concurrently with this  
21 application, and such additional evidence and argument as may be offered at the time of the  
22 hearing on the application.

23           Pursuant to Local Rule 3.1 (F), the Court may issue a tentative ruling before the scheduled  
24 hearing date. Tentative rulings will be made available by telephone at 209-725-4240 and by  
25 posting on the Court's website at [www.mercedcourt.org](http://www.mercedcourt.org) no later than 3:00 p.m. on the Court day  
26 preceding the scheduled hearing. If the Court has not directed argument in the tentative ruling,  
27 oral argument is permitted only if a party intending to appear notifies all other parties by  
28 telephone or in person by 4:00 p.m. on the Court day before the hearing of the party's intention to

1 appear. A party also must notify the Court by telephone of the party's intention to appear by  
2 calling 209-725-4240 by 4:00 p.m. on the Court day before the hearing. The tentative ruling will  
3 become the ruling of the Court if the Court has not directed oral argument by its tentative ruling  
4 and notice of intent to appear has not been given.

5 Dated: September 14, 2021

Respectfully submitted,

6 ROB BONTA  
7 Attorney General of California  
8 MOLLY K. MOSLEY  
9 Supervising Deputy Attorney General

10 

11 DEBBIE J. VOROUS  
12 Deputy Attorney General  
13 *Attorneys for Applicant Insurance*  
14 *Commissioner of the State of California*

## TABLE OF CONTENTS

	Page
Application for Approval of Fees and Expense .....	6
Introduction .....	6
Administrative and Operating Fees and Expenses .....	7
I.    CLO Allocated Administrative Fees .....	7
A.    Estate Trust & Executive Department .....	8
B.    Claims Department .....	9
C.    Information Technology Department .....	10
D.    Finance & Accounting Department .....	10
E.    Reinsurance Department .....	11
II.   Direct Estate Fees and Expenses .....	11
A.    Consultants and Contractors .....	12
B.    Compensation and Benefits .....	13
C.    Travel Expenses .....	13
D.    Office Expenses .....	13
Legal Fees and Expenses .....	14
Proposed Interim Disbursement of Merced Assets .....	14
I.    Disbursement to the California Insurance Guarantee Association .....	15
II.   Disbursement to Merced Policyholders .....	16
Memorandum of Points and Authorities .....	18
I.    The Commissioner Appropriately Determined and Paid the Administrative and Operating Fees and Expenses of the Merced Estate .....	18
II.   The Commissioner Appropriately Determined and Paid the Legal Fees and Expenses of the Merced Estate .....	19
III.  The Commissioner Has Authority to Make Interim Disbursements to the California Insurance Guarantee Association and Estate Policyholders .....	20
Conclusion .....	22



## TABLE OF AUTHORITIES

	<u>Page</u>
 <b>CASES</b>	
<i>Commercial Nat. Bank v. Superior Court</i> (1993) 14 Cal.App.4th 393 .....	20
<i>In re Executive Life Ins. Co.</i> (1995) 32 Cal.App.4th 344 .....	18, 19
 <b>STATUTES</b>	
Insurance Code	
§ 1033, subd. (a)(1) & (2) .....	20
§ 1033, subd. (a)(1) .....	18, 20
§ 1033, subd. (a)(1)-(4) .....	15, 21
§ 1033, subd. (a)(1)-(5) .....	15
§ 1033, subd. (a)(2) .....	21
§ 1033, subd. (a)(6)-(9) .....	9
§ 1035 .....	6, 18
§ 1035, subd. (a) .....	18
§ 1035.5 .....	6, 20
§ 1035.5, subd. (b)(1) .....	15, 21
§ 1035.5, subd. (b)(4) .....	15, 21
§ 1035.5, subd. (e) .....	15, 16, 21
§ 1036 .....	6, 19
§ 1037 .....	6, 20

1       **APPLICATION FOR APPROVAL OF FEES AND EXPENSES AND FOR INTERIM**  
2       **DISTRIBUTION OF ASSETS TO THE CALIFORNIA INSURANCE GUARANTEE**  
3       **ASSOCIATION AND MERCED POLICYHOLDERS**

4                               **INTRODUCTION**

5       In mid-November 2018, the Commissioner learned that, due to the Camp Fire in Butte  
6       County, California, Merced Property & Casualty Company (“Merced”) would be rendered  
7       insolvent. On December 3, 2018, the court issued an order appointing the Commissioner as  
8       Liquidator of the Merced estate (Liq. Order). On August 7, 2019, the Commissioner submitted his  
9       first application for approval of fees and expenses for the period of November 15, 2018, to March  
10      31, 2019, and filed his first status report on the liquidation of Merced. The court approved the  
11      Commissioner’s application on September 13, 2019.

12      This is the Commissioner’s second application for approval of fees and expenses from  
13      April 1, 2019, through April 30, 2021 (“Reporting Period”). The Commissioner also seeks an  
14      order approving an interim disbursement of Merced assets to the California Insurance Guarantee  
15      Association (CIGA) and to Merced policyholders for approved “over-cap” claims (claims that  
16      develop in excess of the \$500,000 statutory limit of CIGA’s coverage). The Commissioner has  
17      filed this application concurrently with his second status report on the liquidation of Merced.

18      Under Insurance Code section 1035, the Commissioner is authorized to pay the salaries of  
19      the special deputy commissioners and employees and all other expenses necessary to carry out the  
20      functions of the management of an insolvent estate. Section 1036 further authorizes the  
21      Commissioner to employ and compensate legal counsel to represent the Commissioner in this  
22      action. The Commissioner seeks approval of administrative and professional fees and expenses  
23      paid by the Merced estate for the Reporting Period in the total amount of \$1,480,769.

24      Under Insurance Code sections 1035.5 and 1037, the Commissioner is authorized to  
25      disburse assets to CIGA and to Merced policyholders for “over-cap” claims. The Commissioner  
26      seeks an order authorizing a disbursement of \$20,220,137 to CIGA and \$3,563,938 to Merced  
27      policyholders, for a total interim disbursement of Merced estate assets of \$23,784,075.

28      The application should be approved.

## ADMINISTRATIVE AND OPERATING FEES AND EXPENSES

The Merced estate's fees and expenses generally concern the Commissioner's efforts to discharge his duties to Merced policyholders and creditors to marshal and manage Merced's assets, to investigate and collect the liabilities owed to it by third parties, and to dispose and otherwise deal with Merced's assets.<sup>1</sup> The fees and expenses, which total \$1,480,769, fall into two broad categories: 1) \$760,088 for the Conservation and Liquidation Office's ("CLO") allocated administrative operating fees; and 2) \$720,681 for direct estate operating expenses (which include estate fees and expenses of \$663,268 and legal fees and expenses of \$57,413). (Declaration of Scott Pearce Supp. Applic. for Pymt of Fees and Expenses & Interim Disbursement of Merced Assets (Pearce Decl.), ¶¶ 7 & 9; Index of Exhibits Supp. Applic. for Pymt of Fees and Expenses & Interim Disbursement of Merced Assets (Index), Ex. A [Summary of Merced Administrative Expenses].)

### I. CLO ALLOCATED ADMINISTRATIVE FEES

CLO allocated administrative fees are overhead costs that the CLO incurs for rent, salaries, email and data systems, etc., which it allocates to each conservation or liquidation estate under its management and oversight on a pro rata basis. (Pearce Decl. ¶ 10.) The CLO is comprised of insurance insolvency professionals who oversee the liquidation of troubled insurance companies, and who provide estate administrative services directly to each estate under CLO's management and oversight. (*Ibid.*)

Each conservation or liquidation estate is charged a portion of the monthly allocated costs based on the amount of time that the CLO employees worked on estate matters. (Pearce Decl., ¶ 11.) To track the hours and costs, the CLO maintains a timekeeping system in which each employee records time spent for work on each estate, and the estate trust manager reviews the records to ensure that the hours are accurate and billed to the correct estate. (*Ibid.*)

---

<sup>1</sup> Because it has been approximately two years since the Commissioner filed his initial application on August 7, 2019, the Commissioner has included in this application (and in the supporting declaration of Liquidation Manager Scott Pearce) some of the same background information here for the court's convenience.

During the Reporting Period, the Merced estate incurred 3,520.13 direct hours out of 62,025.85 total CLO hours (or 5.68 percent) of the total direct hours of all insolvent insurer estates. (Pearce Decl., ¶ 12; Index Ex. B [summary of CLO overall direct hours & Merced hours].) Merced's portion of the allocated costs for the Reporting Period based on 3,520.13 hours was \$760,088. (Pearce Decl., ¶ 12; Index Exs. A & B.) The CLO allocated hours and costs for the Merced estate were spread between the following five CLO departments:

Departments	Total No. of Hours	Total Fees by Dept.
Estate Trust & Executive	1,537.22	\$ 328,582
Claims	659.25	\$ 143,709
Information Technology	723.75	\$ 155,611
Finance & Accounting	551.41	\$ 121,492
Reinsurance	48.50	\$ 10,694
<b>Total</b>	<b>3,520.13</b>	<b>\$ 760,088</b>

(Pearce Decl., ¶¶ 13-28; Index Ex. C [CLO Total Incurred Hours and Total Charges.]

**A. Estate Trust & Executive Department**

The Estate Trust & Executive ("Executive") Department is responsible for the overall administration and management of the Merced estate. (Pearce Decl., ¶ 14.) The Estate Department coordinates and directs the activities of the other CLO departments and their resources utilized in furthering the Merced estate's plan of liquidation. (*Ibid.*)

During the Reporting Period, the Executive Department actively worked to advance the liquidation of the Merced estate in a manner that insured full compliance with federal and state audit and tax requirements. (Pearce Decl., ¶ 15.) The Executive Department continued to direct the preparation of the estate's periodic reporting as well as support the preparation of monthly financial records of Merced. (*Ibid.*) The Executive Department also prepared a post-liquidation plan for Merced, and coordinated and oversaw legal and other department resources as necessary to expeditiously advance the liquidation and to support CIGA's efforts to fulfill its statutory obligations to Merced policyholders. (*Ibid.*) Lastly, the Executive Department worked with legal

1 counsel and the CLO Claims Department to develop and timely submit a conditional and  
2 undetermined proof of claim in the trust set up by the PGE Corporation Bankruptcy proceedings,  
3 which proceedings are discussed further below and in the Commissioner's second status report.  
4 (*Ibid*; see also First Status Rep., filed Aug. 7, 2019, p. 15.)

5 **B. Claims Department**

6 The Claims Department is responsible for, among other things, administering all Proofs of  
7 Claims ("POCs") filed against an estate and making a determination on the approval of any "non  
8 CIGA-covered" claims (or portions of non-covered claims). (Pearce Decl., ¶ 17.) At the time of  
9 liquidation, Claims Department employees assessed the overall configuration of Merced's open  
10 claims and systems and helped transition the claims and claims data to CIGA. (*Ibid*.) Since then,  
11 the Claims Department has continued (and will continue) to provide claims handling support to  
12 CIGA and the Merced estate as warranted for as long as the estate remains open. (*Ibid*.) The  
13 Claims Department will also continue to provide assistance to individual claimants in the  
14 liquidation process. (*Ibid*.)

15 As explained in the Commissioner's August 7, 2019 application, the Liquidation Order  
16 required the Commissioner to mail a POC packet to all known creditors advising them of their  
17 legal right to submit a POC to the CLO for recovery from the Merced estate. (Pearce Decl., ¶ 18.)  
18 Following that mailing, the Claims Department developed and currently maintains a database  
19 containing all POCs submitted for determination and administration. (*Ibid*.) In total, the Claims  
20 Department received and reviewed 441 POCs. (*Id.*, ¶ 19.) As of April 30, 2021, the Claims  
21 Department had approved 33 "over-cap" claims, and rejected 292 POCs as those claims are not  
22 "over-cap" claims and were (or will be ) handled by CIGA or the asserted claim was not covered  
23 under a Merced policy. (*Ibid*.) The Claims Department has 116 POCs still open and yet to be  
24 determined, which consist primarily of claims against the estate that fall in the general creditor  
25 and equity creditor classes of claim priority and will be determined if there are sufficient funds to  
26 pay these claims. (Pearce Decl., ¶ 19; Ins. Code, § 1033, subd. (a)(6)-(9).)

27 ///

28 ///

1 Based on the claim determinations made to date, the Claims Department developed a  
2 proposed disbursement to Merced policyholders with approved “over-cap” claims (discussed  
3 below). (Pearce Decl., ¶¶ 54-56.) After payment of the 33 approved “over-cap” claims, the  
4 Claims Department, together with the assistance of estate legal counsel, will submit the  
5 information necessary to recover payment from the trust set up by the PG&E Corporation  
6 Bankruptcy proceedings on its proof of claim. (*Id.* ¶ 57.) The Claims Department has, and  
7 continues to, work with CIGA to develop a process similar to what CIGA successfully used to  
8 submit payment information to the bankruptcy trustee and to recover proceeds on its proof of  
9 claim. (*Ibid.*)

#### 10 **C. Information Technology Department**

11 The Information Technology (“IT”) Department manages the Merced estate’s technology  
12 and data infrastructure needs, such as email, phone and imaging systems. (Pearce Decl., ¶ 21.)  
13 During the early months of the Reporting Period, the IT Department provided resources and  
14 systems support for CIGA’s on-site claims handling unit administering the Merced claims at  
15 Merced’s home office in Atwater, California. (*Ibid.*) After the successful transition of the Merced  
16 estate from Atwater to the CLO offices in San Francisco in September 2019, the IT Department  
17 decommissioned all local Atwater systems and infrastructure. (*Ibid.*) Thereafter, a key priority for  
18 the IT Department was supporting the Merced estate’s POC process by collecting, organizing and  
19 reporting the loss and loss adjustment expenses associated with CIGA’s handling of all the claims  
20 it was statutorily obligated to assume upon entry of the Liquidation Order. (*Ibid.*)

21 The IT Department will continue to manage and maintain all necessary data systems and  
22 infrastructure necessary to support the comprehensive run off of the Merced liquidation estate  
23 through final distribution and closure. (Pearce Decl., ¶ 22.)

#### 24 **D. Finance & Accounting Department**

25 In July 2019, the Finance & Accounting (“Accounting”) Department oversaw the  
26 successful transfer of Merced’s financial records onto the CLO system. (Pearce Decl., ¶ 24.)  
27 Thereafter, the Commissioner relied primarily on the Accounting Department for all financial  
28 aspects of the Merced estate. (*Id.* ¶ 25.) The Accounting Department adjusts and corrects any

1 errors detected in the inherited Merced financial information on the estate's general ledger. (*Ibid.*)  
2 In addition, the Accounting Department prepares all entries, schedules and work papers for the  
3 Merced estate and is responsible for the reconciliation of all cash receipts and disbursements of  
4 the estate. (*Ibid.*) From this information, the Accounting Department produces financial reports  
5 for the Merced estate as needed. (*Ibid.*) Also, the Accounting Department manages periodic  
6 independent reviews of Merced's financial statements by the CLO's independent auditors. (*Ibid.*)

#### 7 **E. Reinsurance Department**

8 As explained in the Commissioner's August 7, 2019 application, most all reinsurance due  
9 Merced had been collected by Merced's management at the time the Liquidation Order was  
10 entered on December 3, 2018, with the exception of \$5 million in catastrophic coverage due from  
11 one reinsurer, which the estate received the last week of December 2018. (Pearce Decl., ¶ 27.)  
12 Consequently, the reinsurance program for the Merced estate is essentially exhausted with all  
13 properly submitted reinsurance billings collected. (*Ibid.*) The only reinsurance remaining is an  
14 excess of loss treaty covering individual policy claims that exceed \$1 million in losses. (*Ibid.*)  
15 The Reinsurance Department will continue to monitor the Merced losses to ensure that any  
16 individual claim that exceeds \$1 million will be reported and billed to the Merced excess of loss  
17 treaty covering individual "over-cap" claims. (*Ibid.*)

#### 18 **II. DIRECT ESTATE FEES AND EXPENSES**

19 In addition to the Allocated Expenses, the Merced estate also incurred operating costs that  
20 were paid directly out of estate assets. (Pearce Decl., ¶ 29.) These fees and expenses, which were  
21 paid primarily to third-party vendors, consultants, contractors, retained Merced employees, and  
22 for the operation of the Merced home office in Atwater, California, were necessary to the  
23 successful administration of the Merced estate. (*Id.* ¶ 29; Index Ex. A.) For the Reporting Period,  
24 these fees and expenses totaled \$663,268, and comprised four types:

25 ///

26 ///

27 ///



Types of Fees and Expenses	Fees & Expenses
Consultants and Contractors	\$147,375
Compensation & Benefits	\$304,325
Travel Expenses	\$ 31,978
Office Expenses	\$179,590
<b>Total</b>	<b>\$663,268</b>

(Pearce Decl., ¶¶ 29-39; Index Ex. A.)

#### A. Consultants and Contractors

At the time the Liquidation Order was entered on December 3, 2018, the Merced estate was using the shared services of its affiliate and parent entity United Heritage Financial Group. (Pearce Decl., ¶ 31.) Each month, United Heritage charged Merced with its proportionate share of the services and systems rendered. (*Ibid.*) During the early months of the Reporting Period, the Commissioner continued to use the services and systems, although at a reduced capacity. (*Ibid.*) The shared services agreement was terminated when the Merced estate operations were transferred from Atwater to the CLO offices in San Francisco in September 2019. (*Ibid.*)

The Merced estate also incurred professional fees in connection with the preparation of reports and other documents necessary to support the Commissioner's initial fee application and first status report and in the planning, drafting and filing of the necessary documents to secure a conditional and undetermined proof of claim in the trust set up by the PG&E Corporation Bankruptcy proceedings. (Pearce Decl., ¶ 32.) The estate also required the services of accounting/taxation professionals to address certain time-sensitive issues involving tax preparation and filing in accordance with Merced's continued participation in the United Heritage mutual holding group's consolidated tax filings. (*Ibid.*)<sup>2</sup>

<sup>2</sup> Merced is a part of a holding company domiciled in Idaho. (First Status Rep., filed Aug. 7, 2019, p. 6.) The parent of the mutual holding group is United Heritage Mutual Holding Company who owns 100 percent of the stock of United Heritage Financial Group, who in turn owns 100 percent of the stock of Merced. (*Ibid.*)

1           **B. Compensation and Benefits**

2           Following issuance of the Liquidation Order, the Commissioner used the services of nine of  
3 Merced's 16 full-time employees to assist in implementing the continuing operational  
4 requirements of the Liquidation Order and to assist in transitioning the estate's long-term  
5 operations to the CLO's office in San Francisco. (Pearce Decl., ¶ 34.) All nine employees worked  
6 in this capacity during the initial months of the Reporting Period, two worked through August 17,  
7 2019. (*Ibid.*) With the transition of the estate to the CLO, one of Merced's former employees was  
8 subsequently retained as a consultant to provide local assistance to the CLO under a limited-scope  
9 contract as the Commissioner continues to seek a buyer for the Merced home office property in  
10 Atwater and thereafter position the estate for closure. (*Ibid.*) The expenses related to this  
11 consultant are reflected in the above category for consultants and contractors. (*Ibid.*)

12           **C. Travel Expenses**

13           From April through mid-August 2019, the Merced estate incurred travel expenses for two  
14 full-time CLO employees who continued to work on-site at the Atwater facility. (Pearce Decl.,  
15 ¶ 36.) The employees incurred rental car, meal per diem, lodging, mileage, etc., expenses in travel  
16 to and from Atwater. (*Ibid.*) After transitioning the Merced estate to the CLO's office in San  
17 Francisco in September 2019, travel expenses have been limited to periodic trips to the Atwater  
18 facility to monitor the building and attend local meetings. (*Ibid.*)

19           **D. Office Expenses**

20           From April through mid-August 2019, the Merced estate incurred various office expenses  
21 to maintain a fully functional and secure work environment in Atwater to implement the  
22 requirements of the Liquidation Order. (Pearce Decl., ¶ 38.) After transitioning the Merced estate  
23 to the CLO's office in San Francisco, the local CIGA claims unit continued to occupy a portion of  
24 Merced's Atwater office building through August 2020 to address and pay Merced claims. (*Ibid.*)  
25 The Merced estate continued to incur various office expenses necessary to maintain a fully  
26 functional, secure office for the CIGA staff. (*Ibid.*) To mitigate these costs, the Commissioner  
27 entered into a short-term lease with CIGA based on market comparable terms. (*Ibid.*) Although  
28 the costs to hold and maintain the building have been considerably reduced, the Merced estate

1 will continue to incur the necessary holding expenses to ensure the property does not deteriorate  
2 and is secure until the property is sold. (*Ibid.*)

### 3 **LEGAL FEES AND EXPENSES**

4 During the Reporting Period, the Commissioner again faced a variety of issues that required  
5 the assistance and advice of legal counsel. (Pearce Decl., ¶ 40.) Non-litigation legal services,  
6 which included the preparation and submission of the Merced estate's proof of claim in the trust  
7 set up by the PG&E Corporation Bankruptcy proceedings, were provided to the Commissioner by  
8 attorneys employed by the California Department of Insurance's Corporate Affairs Bureau. (*Id.* ¶  
9 42.) The Attorney General's Office represents the Commissioner in this proceeding and provided  
10 litigation services as needed, including the drafting of liquidation related pleadings and  
11 representation before this court. (*Id.* ¶ 43.) The Commissioner also required specialized legal  
12 services, including in the area of taxation and the review of a unique claim against the estate. (*Id.*  
13 ¶ 44.) Specifically, the Orrick law firm advised on the impact of a corporate deconsolidation of  
14 the Merced estate from the parent entity and assisted in the drafting of correspondence to the  
15 parent entity related to these matters. (*Ibid.*) And the Wisner Nunnally law firm advised on  
16 specific policy coverage terms and assisted in analyzing a unique claim asserted against the  
17 estate. (*Ibid.*)

18 The legal fees and expenses incurred by the Merced estate during the Reporting Period  
19 totaled \$57,413, of which \$10,315 represented fees paid to the outside law firms. (Pearce Decl.,  
20 ¶ 45; Index Ex. A.)

### 21 **PROPOSED INTERIM DISBURSEMENT OF MERCED ASSETS**

22 The Merced estate has total cash (or cash equivalent) assets of \$31,170,866 as of April 30,  
23 2021. (Pearce Decl., ¶ 49, Index Ex. D [Merced Property & Casualty Insurance Company,  
24 Statement of Assets and Liabilities].) The Commissioner seeks authority for an interim combined  
25 disbursement of \$23,784,075 from the total Merced cash (or cash equivalent) assets for payment  
26 to CIGA and to Merced policyholders for the 33 approved "over-cap" claims. (Pearce Decl., ¶ 50;  
27 Index Ex. E [Merced 1st Early Access Distribution].) Upon such disbursement, the Commissioner  
28 will have retained \$7,386,791 from the total cash (or cash equivalent) assets of Merced. (Pearce

Decl., ¶ 50; Index Exs. D & E.) As required by Insurance Code section 1035.5, subdivision (b)(1), the Commissioner has reserved this amount for the payment of projected future administrative expenses and further distributions, including the payment of claims of secured creditors and claims falling within the priorities established in paragraphs (1) to (4) of subdivision (a) of Section 1033. (Pearce Decl., ¶ 50.) The Commissioner also expects that the estate will recover from the trust set up by the PG&E Corporation Bankruptcy proceedings approximately 70 percent of the amount paid on the “over-cap” policyholder claims, which funds will become part of the Merced estate and available for future expenses and distributions. (*Id.*, ¶ 57.)

**I. DISBURSEMENT TO THE CALIFORNIA INSURANCE GUARANTEE ASSOCIATION**

As of March 31, 2021, CIGA reported that it had \$81,141,847 in losses and loss adjustment expenses, return premiums and incurred administrative expenses for Merced fire-related claims as well as other policy claims, with an estimated \$1,291,542 still remaining to be paid (claim reserve), for an estimated total liability of \$82,433,389. (Pearce Decl., ¶ 51; Index Ex. F. [CIGA’s Statement of Operations].)<sup>3</sup> CIGA also reported that it had recovered \$55,473,206 on CIGA paid claims from the trust set up by the PG&E Corporation Bankruptcy proceedings. (*Ibid.*) Taking this recovery into account, CIGA’s projected ultimate liability for Merced fire-related claims is \$26,960,183. (*Ibid.*)

The Commissioner proposes to make a disbursement of Merced assets to CIGA in the total amount of \$20,220,137. (Pearce Decl., ¶ 52; Index Exs. E & F.) This amount represents approximately 75 percent of CIGA’s projected ultimate liability of \$26,960,183. (*Ibid.*) As required by Insurance Code section 1035.5, subdivision (b)(4), the Commissioner has secured an agreement with CIGA to return to the Commissioner the disbursed assets as may be required to pay future claims of secured creditors and any claims falling within the priorities set forth in Insurance Code section 1033, subdivision (a)(1)-(5). (Pearce Decl., ¶ 53.) The Commissioner has also provided notice to CIGA and all other interested parties as required by Section 1035.5, subdivision (e). (*Ibid.*)

<sup>3</sup> As of March 31, 2021, CIGA had resolved and paid the majority of Merced-related policy claims. (Pearce Decl., ¶ 51.)

1     **II.     DISBURSEMENT TO MERCED POLICYHOLDERS**

2             As explained above, the CLO's Claims Department has approved 33 Merced policyholder  
3     "over-cap" claims. Thirty-two of the claims, which are as a result of the Camp Fire, total  
4     \$4,484,674 and one claim, which is not related to the fire, totals \$267,239, for a total "over-cap"  
5     claim amount of \$4,751,913. (Pearce Decl., ¶¶ 19 & 54; Ex. E.)

6             The Commissioner proposes to make a disbursement of Merced assets to the policyholders  
7     in the total amount of \$3,563,938, which represents approximately 75 percent of the total  
8     approved claims of \$4,751,913. (Pearce Decl., ¶¶ 54 & 55; Index Ex. E.) The policyholders who  
9     have a claim and will receive a disbursement upon entry of the court's order approving  
10    disbursement will be notified by mail upon filing of this application that the Commissioner has  
11    filed this application, which will be available for review at the California Conservation Office's  
12    website, [www.caclo.org](http://www.caclo.org), and that if they wish to receive a copy of the application and proposed  
13    order to contact the CLO and a copy will be provided. (Pearce Decl., ¶ 56.)

14            WHEREFORE, the Commissioner respectfully requests that the court enter an order as  
15    follows:

16            1.     Approving the Commissioner's payment of administrative and professional fees and  
17    expenses in the total amount of \$1,480,769 for the period of April 1, 2019, through April 30,  
18    2021;

19            2.     Authorizing the Commissioner to disburse and pay a total of \$20,220,137 from the  
20    assets of the Merced estate to the California Insurance Guarantee Association and to find that  
21    proper notice of the application to approve this disbursement was provided to the California  
22    Insurance Guarantee Association and to all interested parties pursuant to Insurance Code section  
23    1035.5, subdivision (e);

24            3.     Authorizing the Commissioner to disburse and pay a total of \$3,563,938 from the  
25    assets of the Merced estate to the Merced policyholders for approved "over-cap" claims; and

26    ///

27    ///

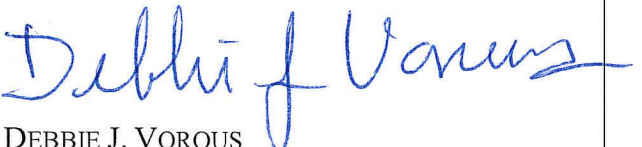
28    ///

1           4.     Authorizing the Commissioner to take any and all action necessary to accomplish the  
2 purposes of the order prayed for herein.

3 Dated: September 14, 2021

Respectfully submitted,

4 ROB BONTA  
5 Attorney General of California  
6 MOLLY K. MOSLEY  
7 Supervising Deputy Attorney General

8 

9 DEBBIE J. VOROUS  
10 Deputy Attorney General  
11 *Attorneys for Applicant Insurance*  
12 *Commissioner of the State of California*  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28



1                                   **MEMORANDUM OF POINTS AND AUTHORITIES**

2           The Commissioner is vested with substantial discretion to conduct the liquidation of an  
3 insolvent insurer subject to the limitation “that the exercise of discretion be neither arbitrary nor  
4 improperly discriminatory.” (See *In re Executive Life Ins. Co.* (1995) 32 Cal.App.4th 344, 356.)  
5 The Commissioner’s decisions as to matters concerning an insolvent insurer are reviewed by the  
6 court under an abuse of discretion standard. (*Id.* at 358.)

7   **I.   THE COMMISSIONER APPROPRIATELY DETERMINED AND PAID THE**  
8   **ADMINISTRATIVE AND OPERATING FEES AND EXPENSES OF THE MERCED ESTATE**

9           The Commissioner’s payment of the fees and expenses of an estate for the purposes of  
10 administering the insolvent insurer are entitled to Class 1 priority status over and above all other  
11 expenses of the estate. (Ins. Code, § 1033, subd. (a)(1).) Claimants of a lower priority are not  
12 entitled to any distribution until claimants in a higher priority have been fully paid. (*Ibid.*)

13           Under Insurance Code section 1035, the Commissioner is authorized to reimburse the  
14 payment of administrative and operating fees and expenses from the assets of the estate, as  
15 follows:

16           The costs of employing special deputy commissioners, clerks, and assistants  
17 appointed to carry out this article, and all expenses of taking possession of,  
18 conserving, conducting, liquidating, disposing of, or otherwise dealing with the  
19 business and property of that person under this article, shall be fixed by the  
commissioner, *subject to the approval of the court*, and shall be paid out of the  
assets of that person to the department.

20 (Ins. Code, § 1035, subd. (a), italics added.) The “approval” language in section 1035 connotes an  
21 initial discretion by the Commissioner to determine whether the fees and expenses are proper. (*In*  
22 *re Executive Life Ins. Co.*, *supra*, 32 Cal.App.4th at pp. 401-403.)

23           The Commissioner has continued to conduct a diligent and efficient liquidation of Merced.  
24 This application, combined with the accompanying declaration of Liquidation Manager Scott  
25 Pearce and the second status report of the Commissioner, explain that the Commissioner’s  
26 decisions with respect to the payment of the administrative and operating fees and expenses have  
27 been made with the best interest of policyholders and creditors in mind and are neither arbitrary  
28 nor improperly discriminatory. The Commissioner properly exercised his discretion as Liquidator



1 of the Merced estate in paying the administrative and operating fees and expenses for the  
2 Reporting Period. The court should approve them.

3 **II. THE COMMISSIONER APPROPRIATELY DETERMINED AND PAID THE LEGAL FEES**  
4 **AND EXPENSES OF THE MERCED ESTATE**

5 Insurance Code section 1036 authorizes the Commissioner to employ legal counsel,  
6 including legal counsel outside of state service to represent him as a liquidator in conservation  
7 proceedings and to fix the fees with the court's approval. The Commissioner is accorded  
8 substantial deference in his determination as to the need for assistance and the rate of  
9 compensation.

10 In the only reported California case the Commissioner has located that addresses the  
11 payment of legal expenses, *In re Executive Life Insurance Company*, the Court of Appeal  
12 determined that the initial determination of the propriety of approving professional service fees  
13 for legal work performed on behalf of an insolvent insurer lies within the Commissioner's  
14 discretion. (32 Cal.App.4th at p. 401.) The Court further described the standards that govern the  
15 Commissioner's approval of legal fees as including, among others, the Commissioner  
16 "possess[ing] sufficient information to be able to determine from the billings any excessive or  
17 duplicative charges, and seek clarification and correction where appropriate" and "supply[ing] the  
18 court with adequate information to permit intelligent evaluation of the basis for the  
19 Commissioner's determination." (*Ibid.*) The court "is not required by statute, nor is it practical,  
20 for the court to undertake a detailed review of the invoices before approving payment." (*Ibid.*)

21 The standards for approval of legal fees are met in this case. The Orrick law firm and the  
22 Wisener Nunnally law firm provided to the Commissioner legal bills that describe in detail the  
23 tasks performed, the person who performed the work, and the time expended on each task. The  
24 invoices were reviewed by the Commissioner's Liquidation Manager who is familiar with the  
25 work performed, and he approved the invoices for payment only to the extent they complied with  
26 the California Department of Insurance's guidelines and were reasonable, necessary, accurate and  
27 appropriate. (Pearce Decl., ¶¶ 44-48.)  
28

1 The Commissioner properly exercised his discretion as Liquidator of the Merced estate in  
2 paying the legal fees and expenses of the estate. The court should approve them as well.

3 **III. THE COMMISSIONER HAS AUTHORITY TO MAKE INTERIM DISBURSEMENTS TO THE**  
4 **CALIFORNIA INSURANCE GUARANTEE ASSOCIATION AND ESTATE POLICYHOLDERS**

5 The Commissioner is specifically granted the authority necessary to accomplish the  
6 purposes of the conservation proceeding. Insurance Code section 1037 governs the powers of the  
7 Commissioner as Liquidator. It provides, in part:

8 The enumeration, in this article, of the duties, powers and authority of the  
9 commissioner in proceedings under this article shall not be construed as a  
10 limitation upon the commissioner, nor shall it exclude in any manner his or her  
11 right to perform and to do such other acts not herein specifically enumerated, or  
otherwise provided for, which the commissioner may deem necessary or expedient  
for the accomplishment or in aid of the purpose of such proceedings.

12 (Ins. Code, § 1037.)

13 As detailed in the Commissioner's initial application for payment of fees and expenses and  
14 in this application, the Commissioner has, up until now, only paid the administrative and  
15 professional fees and expenses for the relevant reporting periods, which expenses are given first  
16 priority in the liquidation of an insolvent insurer. (Ins. Code, § 1033, subd. (a)(1).)

17 The Commissioner is now seeking court approval to disburse Merced assets to CIGA and  
18 the Merced policyholders on an approximate 75 percent pro rata basis. (*Commercial Nat. Bank v.*  
19 *Superior Court* (1993) 14 Cal.App.4th 393, 398 [claimants within the same class are entitled to  
20 share pro rata in the distribution to that class].) Disbursement of the assets is within the  
21 Commissioner's general authority as Liquidator of the Merced estate and necessary to the overall  
22 plan to timely and efficiently liquidate the Merced estate.

23 CIGA has resolved and paid the majority of Merced-related policy claims. Upon CIGA's  
24 satisfaction of its obligations to pay and discharge covered claims of an insolvent insurer, CIGA  
25 becomes a Class 2 priority claimant to the residual assets of the estate after the payment of the  
26 expenses of administration. (Ins. Code, § 1033, subd. (a)(1) & (2).) Insurance Code section  
27 1035.5 provides that the court may take action on the Commissioner's application for  
28 disbursement of assets provided that notice of the application is given as provided for in

1 subdivision (e), and that the proposal complies with paragraphs (1) and (4) of subdivision (b).  
2 (Ins. Code, § 1035.5, subd. (e).) As stated above, the Commissioner has notified CIGA and all  
3 interested parties of the application pursuant to subdivision (e).

4 Insurance Code section 1035.5, subdivision (b)(1) requires that sufficient assets be reserved  
5 for the payment of expenses and administration and the payment of claims of secured creditors (to  
6 the extent of the value of the security held), and the payment of claims falling within the priorities  
7 established in paragraphs (1) to (4) of subdivision (a) of Section 1033. Subdivision (b)(4) requires  
8 that the Commissioner secure an agreement with CIGA to return to the Commissioner such assets  
9 previously disbursed as may be required to pay claims of secured creditors and claims falling  
10 within the priorities established in paragraph (1) to (5) of subdivision (a) of Section 1033. As  
11 explained above, the Commissioner has secured such an agreement from CIGA, and withheld an  
12 appropriate level of reserves to comply with his legal obligations to pay the further expenses of  
13 administration and to protect the interests of policyholders and creditors.

14 Like with CIGA, Merced policyholders with “over-cap” claims are Class 2 priority  
15 claimants. (Ins. Code, § 1033, subd. (a)(2).) The CLO’s Claims Department has received and  
16 reviewed 441 POCs submitted to the Merced estate and approved 33 “over-cap” claims. The  
17 Claims Department (along with CLO’s Executive Department) has also submitted a conditional  
18 and undetermined proof of claim in the trust set up by the PG&E Corporation Bankruptcy  
19 proceedings to recover on those approved “over-cap” claims, and the Commissioner expects to  
20 receive from the trust approximately 70 percent of the Merced estate’s payment on them.  
21 However, to recover from the trust, the Commissioner must prove that the policyholders received  
22 payment from the estate. (Pearce Decl., ¶ 57.) To that end, it is critical that the Commissioner  
23 obtain court authority to disburse assets to the policyholders with approved “over-cap” claims so  
24 that the Claims Department can submit proof of the payments to the bankruptcy trustee, obtain  
25 recovery on its proof of claim, and continue the Commissioner’s efforts to liquidate and wind up  
26 the Merced estate.

27 The Commissioner has determined that sufficient residual assets of the Merced estate exist  
28 to make the requested disbursements to CIGA and the Merced policyholders for approved “over-

1 cap” claims at this time. Further, any funds received from the bankruptcy proceeding will be part  
2 of the assets of the Merced estate and available for a future disbursement. The Commissioner has  
3 put in place all the necessary and appropriate safeguards, and the disbursements should be  
4 authorized.

5 **CONCLUSION**

6 The Commissioner respectfully requests that the court approve the payment of the  
7 administrative and professional fees and expenses sought herein and approve the interim  
8 disbursement of Merced assets to the California Insurance Guarantee Association and to Merced  
9 policyholders.

10 Dated: September 14, 2021

Respectfully submitted,

11 ROB BONTA  
12 Attorney General of California  
13 MOLLY K. MOSLEY  
Supervising Deputy Attorney General

14 

15 DEBBIE J. VOROUS  
16 Deputy Attorney General  
17 *Attorneys for Applicant Insurance*  
*Commissioner of the State of California*

18 SA2018303475  
19 35463191.docx

**DECLARATION OF SERVICE BY OVERNIGHT COURIER**

Case Name: **Insurance Commissioner of the State of California  
v. Merced Property & Casualty Co.**  
Case No.: **18CV-04739**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter; my business address is: 1300 I Street, Suite 125, P.O. Box 944255, Sacramento, CA 94244-2550.

On September 14, 2021, I served the attached **NOTICE OF APPLICATION AND APPLICATION FOR ORDER APPROVING LIQUIDATOR'S 1) PAYMENT OF ADMINISTRATIVE AND PROFESSIONAL FEES AND EXPENSES FOR THE PERIOD OF APRIL 1, 2019, TO APRIL 30, 2021, AND 2) INTERIM DISBURSEMENT OF MERCED ASSETS; MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT THEREOF** by placing a true copy thereof enclosed in a sealed envelope with the **General Logistics Systems (GLS)**, addressed as follows:

Jeffrey D. Neumeyer, Esq.  
Sr. Vice President, General Counsel and Corporate Secretary  
United Heritage Financial Group  
707 E. United Heritage Court  
Meridian, ID 83642

Brad Roeber  
Executive Director  
California Insurance Guarantee Association  
101 N. Brand Avenue, Ste. 600  
Glendale, CA 91203

I declare under penalty of perjury under the laws of the State of California and the United States of America the foregoing is true and correct and that this declaration was executed on September 14, 2021, at Sacramento, California.

\_\_\_\_\_  
M. Garcia  
Declarant

\_\_\_\_\_  
  
Signature



1 ROB BONTA  
Attorney General of California  
2 MOLLY K. MOSLEY  
Supervising Deputy Attorney General  
3 DEBBIE J. VOROUS  
Deputy Attorney General  
4 State Bar No. 166884  
1300 I Street, Suite 125  
5 P.O. Box 944255  
Sacramento, CA 94244-2550  
6 Telephone: (916) 210-7349  
Fax: (916) 323-7095  
7 E-mail: Debbie.Vorous@doj.ca.gov  
*Attorneys for Applicant Insurance Commissioner  
8 of the State of California*

9  
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 COUNTY OF MERCED

12  
13 **INSURANCE COMMISSIONER OF THE  
STATE OF CALIFORNIA,**

14 Applicant,

15 v.

16  
17 **MERCED PROPERTY & CASUALTY  
COMPANY, a California corporation,**

18 Respondent.

Case No. 18CV-04739

**DECLARATION OF SCOTT PEARCE IN  
SUPPORT OF APPLICATION FOR  
ORDER APPROVING LIQUIDATOR'S  
1) PAYMENT OF ADMINISTRATIVE  
AND PROFESSIONAL FEES AND  
EXPENSES FOR THE PERIOD OF  
APRIL 1, 2019, TO APRIL 30, 2021, AND  
2) INTERIM DISBURSEMENT OF  
MERCED ASSETS**

Date: October 26, 2021  
Time: 8:15 a.m.  
Dept: 8  
Judge: Hon. Brian McCabe  
Action Filed: November 30, 2018

19  
20  
21  
22  
23  
24 I, Scott Pearce, declare:

25 1. I am the Senior Estate Trust Officer of the California Insurance Commissioner's  
26 Conservation and Liquidation Office (CLO). The CLO's office is located in San Francisco,  
27 California.  
28

1           2.     I make this declaration in support of the application for order approving the 1)  
2     payment of administrative and professional fees and expenses for the period of April 1, 2019, to  
3     April 30, 2021 ("Reporting Period") and 2) interim disbursement of Merced assets. The following  
4     information is true and correct and based on my personal knowledge and, if called to do so, I  
5     could and would testify competently to it.

6           3.     The Insurance Commissioner of the State of California (Commissioner), in his  
7     statutory role as Liquidator, has the responsibility for the management and administration of the  
8     liquidation of numerous California insurers, including the Merced Property & Casualty Company  
9     (Merced).

10          4.     The Commissioner delegated his statutory administrative duties to liquidate the  
11     Merced estate over to the CLO and Deputy Liquidator David E. Wilson. On December 3, 2018,  
12     the court appointed me as the Liquidation Manager of the Merced estate, and empowered me to  
13     carry out any and all duties and exercise the authority of the Liquidator and Deputy Liquidator as  
14     may be delegated by the Liquidator and Deputy Liquidator. Mr. Wilson retired in April of 2020,  
15     and Mr. Joseph Holloway has been subsequently appointed as Deputy Liquidator.

16          5.     As the Liquidation Manager, I am responsible for managing the affairs of Merced. I  
17     have primary responsibility for the overall administration of the Merced liquidation estate,  
18     including but not limited to, matters pertaining to Merced's financial reporting, claim  
19     administration, legal matters (including the submission of claims in bankruptcy proceedings),  
20     reinsurance contracts, and estate expenditures. As the Liquidation Manager, I am also responsible  
21     for the management of Merced's books and records, and I have overall custody and control of  
22     them.

23          6.     Upon learning that the November 2018 Camp Fire in Butte County, California  
24     rendered Merced insolvent, the Commissioner immediately took the steps necessary to protect the  
25     public interest against the pending insolvency, including gaining immediate access to Merced  
26     personnel, affiliates and consultants, and claims data and policy information. Since the court  
27     issued its Liquidation Order on December 3, 2018, the Commissioner has continued to actively  
28     work to conduct an economical, efficient, and orderly liquidation of Merced.



1           7.     The Commissioner seeks approval of \$1,480,769 in administrative and professional  
2 fees and expenses paid by the Merced estate during the Reporting Period. A true and correct copy  
3 of a detailed summary of Merced's fees and expenses for the Reporting Period is attached as  
4 Exhibit A to the Index of Exhibits filed in support of the Commissioner's application. This  
5 Exhibit was prepared under my direction and correctly reflects the fees and expenses paid by the  
6 Merced estate during the Reporting Period.

7           8.     The Commissioner also seeks approval to make an interim disbursement of  
8 \$23,784,075 from the total Merced cash (or cash equivalent) assets for payment to the California  
9 Insurance Guarantee Association (CIGA) (\$20,220,137) and to Merced policyholders for  
10 approved "over-cap" claims (claims that develop in excess of the \$500,000 statutory limit of  
11 CIGA's coverage) (\$3,563,938). The details regarding this interim disbursement begin at  
12 paragraph 49 below.

13                   **ADMINISTRATIVE AND OPERATING FEES AND EXPENSES**

14           9.     The Merced estate's administrative and operating fees and expenses in the amount of  
15 \$1,480,769 fall into two broad categories: 1) \$760,088 for the CLO's allocated administrative  
16 operating fees; and 2) \$720,681 for direct estate operating expenses (which include direct estate  
17 fees and expenses of \$663,268 and legal fees and expenses of \$57,413).

18                   **CLO Allocated Administrative Fees**

19           10.    The \$760,088 in CLO allocated administrative fees are overhead costs that the CLO  
20 incurs for rent, salaries, email and data systems, etc., which it allocates to each conservation or  
21 liquidation estate under its management and oversight on a pro rata basis. The CLO is comprised  
22 of insurance insolvency professionals who oversee the liquidation of troubled insurance  
23 companies. The CLO staff provide estate administrative services directly to each estate under its  
24 management and oversight.

25           11.    Each conservation or liquidation estate is charged a portion of the monthly allocated  
26 costs based on the amount of time that the CLO employees worked on estate matters. To track the  
27 hours and costs, the CLO maintains a timekeeping system in which each employee records time  
28

1 spent for work on each estate. The employee time records are reviewed monthly by the estate  
2 trust manager for each estate to ensure that the hours are accurate and billed to the correct estate.

3 12. During the Reporting Period, the Merced estate incurred 3,520.13 direct hours out of  
4 62,025.85 total CLO hours (or 5.68 percent) of the total direct hours of all insolvent insurer  
5 estates. Attached as Exhibit B to the Index of Exhibits in support of the Commissioner's  
6 application is a summary of CLO overall direct hours & Merced hours. This exhibit was prepared  
7 under my direction and correctly reflects the CLO's overall direct hours and Merced only hours.  
8 Merced's portion of the allocated costs for the Reporting Period based on 3,520.13 hours was  
9 \$760,088.

10 13. During the Reporting Period, Merced's hours and costs were spread between five  
11 CLO departments: 1) Estate Trust & Executive; 2) Claims; 3) Information Technology; 4)  
12 Finance & Accounting; and 5) Reinsurance. Attached as Exhibit C to the Index of Exhibits in  
13 support of the Commissioner's application is a true and correct copy of a spreadsheet reflecting  
14 the total number of Merced hours and corresponding total fees for each of these five departments.  
15 This exhibit was prepared under my direction and correctly reflects the total hours and  
16 corresponding fees for each of the five CLO departments.

17 *Estate Trust & Executive*

18 14. The Estate Trust & Executive ("Executive") Department is responsible for the overall  
19 administration and management of the Merced liquidation estate. The Executive Department  
20 coordinates and directs the activities of the other CLO departments and their resources as related  
21 to services attributed to each estate under the CLO's management, including the Merced estate.

22 15. During the Reporting Period, the Executive Department actively worked to advance  
23 the liquidation of the Merced estate in a manner that insured full compliance with federal and  
24 state audit and tax requirements. The Executive Department continued to direct the preparation of  
25 the estate's periodic reporting as well as support the preparation of monthly financial records of  
26 Merced. The Executive Department also prepared a post-litigation plan for Merced, and  
27 coordinated and oversaw legal and other department resources as necessary to expeditiously  
28 advance the litigation and to support CIGA's efforts to fulfill its statutory obligations to Merced

1 policyholders. Additionally, the Executive Department worked with attorneys from the California  
2 Department of Insurance's Corporate Affairs Bureau and the CLO's Claims Department to  
3 develop and timely submit a conditional and undetermined proof of claim to the trust set up by  
4 the PG&E Corporation Bankruptcy proceedings as discussed further below.

5 16. The hours attributed to the Executive Department totaled 1,537.22, with the  
6 corresponding fees equal to \$328,582.

7 *Claims Department*

8 17. The CLO Claims Department is responsible for, among other things, all proof of  
9 claims ("POCs" filed against an estate and any "non CIGA-covered" claims (or portions of non-  
10 covered claims). At the time of liquidation, Claims Department employees assessed the overall  
11 configuration of Merced's open claims and helped transition the claims to CIGA. Since then, the  
12 Claims Department has continued (and will continue) to provide claims handling support to  
13 CIGA and to the Merced estate as warranted for so long as the estate remains open. The Claims  
14 Department will also continue to provide assistance to individual claimants in the liquidation  
15 process.

16 18. The instant Liquidation Order required the Commissioner to mail a POC packet to all  
17 known creditors advising them of their rights and the legal requirement to submit a POC to the  
18 CLO for recovery from the Merced estate. Following that mailing, the Claims Department  
19 developed and currently maintains a database containing all POCs submitted for determination  
20 and administration.

21 19. The Claims Department received and reviewed 441 POCs. As of April 30, 2021, the  
22 Claims Department has approved 32 claims received as a result of the Camp Fire for a total of  
23 \$4,484,674 in approved "over-cap" claims (claims that develop in excess of the \$500,000  
24 statutory limit of CIGA's coverage) and one non-Camp Fire related "over-cap" claim in the  
25 amount of \$267,239, for a total "over-cap" claim amount of \$4,751,913. The Claims Department  
26 rejected 292 POCs for the reason that the claims are not "over-cap" claims and were (or will be)  
27 handled by CIGA or the asserted claim was not covered under the Merced policy terms. The  
28 remaining 116 POCs, which are open and undetermined, consist primarily of claims against the

1 estate that fall in the general creditor and equity classes of claim priority and will be determined if  
2 there are sufficient funds to pay these claims.

3 20. The hours attributed to the Claims Department totaled 659.25, with the corresponding  
4 fees equal to \$143,709.

5 *Information Technology Department*

6 21. The Information Technology (“IT”) Department manages the Merced estate’s  
7 technology and data infrastructure needs, such as email, phone and imaging systems. During the  
8 early months of the Report Period, the IT Department provided resources and systems support for  
9 CIGA’s on-site claims handling unit administering the Merced claims at Merced’s home office in  
10 Atwater, California. After the successful transition of the Merced estate in September 2019 from  
11 Atwater to the CLO’s office in San Francisco, the IT Department decommissioned all local  
12 Atwater systems and infrastructure. Thereafter, a key priority for the IT Department was  
13 supporting the Merced estate’s POC process by collecting, organizing and reporting the loss and  
14 loss adjustment expenses associated with CIGA’s handling of all the claims it was statutorily  
15 obligated to assume upon entry of the Liquidation Order.

16 22. The IT Department will continue to manage and maintain all necessary data systems  
17 and infrastructure necessary to support the comprehensive run off of the Merced liquidation estate  
18 through final distribution and closure.

19 23. The hours attributed to the IT Department totaled 723.75, with the corresponding fees  
20 equal to \$155,611.

21 *Finance & Accounting Department*

22 24. The CLO Finance & Accounting (“Accounting”) Department provided limited  
23 support during the Commissioner’s first reporting period from November 15, 2018, to March 31,  
24 2019. Instead, the Commissioner relied primarily upon Merced’s retained accounting and finance  
25 personnel (and its comprehensive general ledger system), supported by affiliated resources  
26 provided through an administrative “shared” services relationship with Merced’s parent entity  
27 United Heritage Financial Group. In July 2019, the Accounting Department oversaw the  
28 successful transition of Merced’s financial records onto the CLO system.

1           25. Following the July 2019 transfer, the Commissioner has relied primarily on the  
2 Accounting Department for all financial aspects of the Merced estate. The Accounting  
3 Department adjusts and corrects any errors detected in the inherited Merced financial information  
4 on the estate's general ledger. The Accounting Department prepares all entries, schedules and  
5 work papers for the Merced estate and is responsible for the reconciliation of all cash receipts and  
6 disbursements of the estate. From this information, the Accounting Department produces  
7 financial reports for the Commissioner as needed. Lastly, the Accounting Department manages  
8 periodic independent reviews of Merced's financial statement by the CLO's independent auditors.

9           26. The hours attributed to the Accounting Department totaled 551.41, with the  
10 corresponding fees equal to \$121,492.

11                   *Reinsurance Department*

12           27. At the time the court entered the Liquidation Order on December 3, 2018, most all  
13 reinsurance due Merced had been collected by Merced's management with the exception of \$5  
14 million in catastrophic coverage due from one reinsurer, Mutual Re, which was received the last  
15 week of December 2018. The reinsurance program for the Merced estate is essentially exhausted  
16 with all properly submitted insurance billings collected. The only reinsurance remaining is an  
17 excess of loss treaty covering individual policy claims that exceed \$1 million in losses but less  
18 than \$4 million. The Reinsurance Department will continue to monitor the Merced estate to  
19 ensure that any individual claim that exceeds \$1 million will be reported and billed to the Merced  
20 excess of loss treaty covering individual "over-cap" claims.

21           28. The hours attributed to the Reinsurance Department totaled 48.50, with the  
22 corresponding fees equal to \$10,694.

23                   **Direct Estate Fees and Expenses**

24           29. The direct administrative and operating fees and expenses for Merced are paid out of  
25 estate assets. As explained below, the \$663,268 paid in fees and expenses were necessary for the  
26 administration of the estate, and comprise four types: 1) Consultants & Contractors; 2)  
27 Compensation & Benefits; 3) Travel Expenses; and 4) Office Expenses. Exhibit A to the  
28

1 Commissioner's Index of Exhibits in support of this application details the fees and expenses by  
2 type and by time period.

3 *Consultants & Contractors*

4 30. While much of the liquidation responsibilities are performed by the staff of the CLO,  
5 the Commissioner must also hire consultants and contractors to provide specialized services to the  
6 estate.

7 31. At the time the December 3, 2018 Liquidation Order was entered, the Merced estate  
8 used the shared services and systems of its parent entity United Heritage Financial Group. Each  
9 month, United Heritage charged Merced with a proportionate share of the services and systems  
10 rendered. Between April 2019 and September 2019, the Commissioner continued to use the  
11 shared services and systems of the group, although at a reduced capacity. Following transfer in  
12 September 2019 of the Merced estate to the CLO's office in San Francisco, the IT Department  
13 decommissioned all local Atwater systems and infrastructure and ceased Merced's participation  
14 in the remaining components of the shared services agreement except for Merced's continuing  
15 inclusion in the company's consolidated tax group.

16 32. Throughout the Reporting Period, the Commissioner also incurred professional fees  
17 in connection with the preparation of reports and other documents necessary to support the  
18 Commissioner's initial fee application and first status report and in connection with the planning,  
19 drafting and filing of the necessary documents to secure the proof of claim in the trust set up by  
20 the PG&E Corporation Bankruptcy proceedings. The Commissioner also required  
21 accounting/taxation professionals to address certain time-sensitive issues involving tax  
22 preparation and filing in accordance with Merced's continued participation in the United Heritage  
23 mutual holding group's consolidated tax filings. Lastly, the estate incurred minimal expenses in  
24 retaining temporary help to assist with processing the POC submissions.

25 33. The fees and expenses for consultants and contractors for the Reporting Period totaled  
26 \$147,375.

27 ///

1                   *Compensation & Benefits*

2           34.   At the time the December 3, 2018 Liquidation Order was entered, Merced had 16  
3 full-time employees. The Commissioner used the services of nine Merced's 16 employees to  
4 assist in implementing the continuing operational requirements of the order and to assist in  
5 transitioning the estate's long-term operations to the CLO's office in San Francisco. All nine  
6 employees worked in this capacity during the initial months of the Reporting Period, two worked  
7 through August 17, 2019, and one was subsequently retained as a consultant with the estate. The  
8 consultant continues to provide local assistance to the CLO under a limited-scope contract as the  
9 Commissioner continues to seek a buyer for the Merced home office property in Atwater and  
10 position the estate for closure. The expenses related to this consultant are reflected in the above  
11 category for consultants and contractors.

12           35.   The compensation and benefits for the Reporting Period totaled \$304,325.

13                   *Travel Expenses*

14           36.   From April through mid-August 2019, the Merced estate incurred travel expenses for  
15 two full-time CLO employees who continued to work on-site at the Atwater facility. The CLO  
16 employees incurred rental car, meal per diem, lodging, mileage, etc., expenses in travel to and  
17 from Atwater. After transitioning the Merced estate to the CLO's office in San Francisco, travel  
18 expenses have been limited to periodic trips to the Atwater facility to monitor the building and  
19 attend local meetings.

20           37.   The travel expenses for the Reporting Period totaled \$31,978.

21                   *Office Expenses*

22           38.   From April through mid-August 2019, the Merced estate incurred various office  
23 expenses to maintain a fully functional and secure work environment in Atwater to implement the  
24 requirements of the Liquidation Order. After transitioning the Merced estate to the CLO's office  
25 in San Francisco, the local CIGA claims unit continued to occupy a portion of the Merced's  
26 Atwater office building through August 2020 to address and pay Merced claims. The Merced  
27 estate continued to incur various office expenses necessary to maintain a fully functional, secure,  
28 office for the CIGA staff. To mitigate these costs, the Commissioner entered into a short-term



1 lease with CIGA based on market comparable terms. The Merced estate continues to incur the  
2 necessary holding expenses to ensure that the property does not deteriorate and is secure until it is  
3 sold.

4 39. The office expenses for the Reporting Period totaled \$179,590.

5 **Legal Fees and Expenses**

6 40. Throughout the course of the Reporting Period, the Commissioner faced a variety of  
7 complex legal issues that required the assistance and advice of legal counsel. Generally, non-  
8 litigation legal services are provided to the Commissioner by and/or under the direction of the  
9 California Department of Insurance's ("CDI") Corporate Affairs Bureau. In addition, the  
10 Attorney General's Office provides the litigation services needed by the Commissioner. The  
11 Commissioner also retains law firms outside the Office of the Attorney General for specialized  
12 legal services.

13 41. My responsibilities in the liquidation proceeding include reviewing, monitoring and  
14 using the information provided to me by my staff at the CLO, and by attorneys employed by the  
15 Commissioner. They also include reviewing the bills of legal counsel.

16 42. During the Reporting Period, the Commissioner relied on the Corporate Affairs  
17 Bureau to provide legal services on estate matters, which included assistance with the preparation  
18 and submission of the Merced estate's proof of claim to the trust set up by the PG&E Corporation  
19 Bankruptcy proceedings.

20 43. The Attorney General's Office represents the Commissioner in this proceeding and  
21 provided litigation services as needed, including the drafting of liquidation related pleadings and  
22 representing the Commissioner at the September 5, 2019 hearing in Merced, California, and  
23 continues to assist and represent the Merced estate in reviewing, evaluating, and advising on  
24 potential legal filings and litigation.

25 44. I retained the Orrick law firm, which provided representation related to certain  
26 complex tax requests and their economic impact on the Merced estate as well as general guidance  
27 as requested. I also retained the Wisener Nunnally law firm, which provided representation  
28

1 related to the analysis and determination/confirmation of policy coverage related to a unique  
2 hazard claim asserted against the estate.

3 45. The legal fees and expenses incurred by the Merced estate during the Reporting  
4 Period totaled \$57,413, of which \$10,315 were paid to outside law firms.

5 46. As previously explained, the CDI has strict guidelines governing the hiring and  
6 compensation of private law firms that perform services in conservation and liquidation matters.  
7 Those guidelines require, among other things, that outside law firms submit monthly bills and that  
8 the billing invoices contain detailed information describing each task performed, including, but  
9 not limited to, the date the task was performed, and the time expended. With respect to expenses  
10 incurred by the law firms, CDI requires that invoices contain an itemization of disbursements by  
11 category.

12 47. In accordance with CDI's procedures and guidelines, the CLO requires that when  
13 invoices are received, they are carefully reviewed by staff to determine whether the fees and  
14 expenses sought are reasonable, necessary, correct and appropriate. Only after invoices have been  
15 carefully reviewed and approved will outside law firms be paid the amounts sought in their  
16 invoices. The procedures established by CDI are intended to ensure that no unreasonable or  
17 unnecessary fees or expenses are approved or paid.

18 48. In this case, I have regular contact with the attorneys, see the attorneys' work product,  
19 and am knowledgeable about the legal work being performed by the attorneys. Both the Orrick  
20 law firm and the Wisener Nunnally law firm provided legal bills and invoices that describe in  
21 detail the tasks performed, the person who performed the task, and the time expended on each  
22 task. I reviewed the legal bills and invoices submitted by both law firms, and approved the  
23 amounts sought by the firms as reasonable, necessary, accurate, appropriate and in the best  
24 interest of Merced.

25 **PROPOSED DISBURSEMENT OF MERCED ASSETS**

26 49. As of April 30, 2021, the Merced estate has total cash (or cash equivalent) assets of  
27 \$31,170,866. A true and correct copy of Merced's Statement of Assets and Liabilities as of April  
28 30, 2021 is attached as Exhibit D to the Index of Exhibits in support of the Commissioner's

1 application. This exhibit was prepared under my direction and correctly reflects the assets and  
2 liabilities of the Merced estate as of April 30, 2021.

3 50. The Commissioner seeks authority for a combined interim disbursement of  
4 \$23,784,075 from the total cash (or cash equivalent) assets of Merced for payment to CIGA and  
5 to the Merced policyholders for the 33 approved "over-cap" claims. A true and correct copy of a  
6 spreadsheet detailing the Commissioner's interim disbursement of Merced assets to CIGA and to  
7 the Merced policyholders for the "over-cap" claims as well as the percent payout is attached as  
8 Exhibit E to the Index of Exhibits in support of the Commissioner's application. This exhibit was  
9 prepared under my direction and correctly reflects Merced's first early access disbursement to  
10 CIGA and to the Merced policyholders. Upon such disbursement, the Commissioner will have  
11 retained \$7,386,791 from the total cash (or cash equivalent) assets of Merced. (See Exhibits D &  
12 E.) As required by Insurance Code section 1035.5, subdivision (b)(1), the Commissioner has  
13 reserved this amount for the payment of projected future administrative expenses and further  
14 disbursements, including the payment of claims of secured creditors and claims falling within the  
15 priorities established in paragraphs (1) to (4) of subdivision (a) of Section 1033.

16 *Disbursement to California Insurance Guarantee Association*

17 51. As of March 31, 2021, CIGA had resolved and paid the majority of the Merced-  
18 related policy claims. CIGA reported that it had paid \$81,141,847 in losses and loss adjustment  
19 expenses, return premium and incurred administrative expenses for Merced Camp Fire-related  
20 claims as well as other policy claims, with an estimated \$1,291,542 still remaining to be paid  
21 (claim reserve), for an estimated total liability of \$82,433,389. Attached as Exhibit F is a true and  
22 correct copy of a Statement of Operations I received from CIGA showing CIGA's income,  
23 expenses, and reserves, as of March 31, 2021. CIGA also reported that as of March 31, 2021, it  
24 had recovered \$55,473,206 on CIGA paid claims from the trust set up by the PG&E Corporation  
25 Bankruptcy proceedings, for a projected ultimate liability for Merced claims of \$26,960,183. (See  
26 Exhibit F.)

27 52. The Commissioner proposes to disburse to CIGA the amount of \$20,220,137, which  
28 represents approximately 75 percent of CIGA's projected ultimate liability. (See Exhibits E & F.)

1           53. Under Insurance Code section 1035.5, subdivision (b)(4), the Commissioner secured  
2 an agreement with CIGA to return to the Commissioner the disbursed assets as may be required  
3 to pay future claims of secured creditors and any claims falling within the priorities set forth in  
4 Insurance Code section 1033, subdivision (a)(1)-(5). The Commissioner has also provided notice  
5 to CIGA and all other interested parties of the proposed disbursement of Merced assets as  
6 required by Insurance Code section 1035.5, subdivision (e), by depositing in the United States  
7 certified mails, first-class postage prepaid, notice at least 30 days prior to submitting the instant  
8 application to the court for approval.

9           *Distribution to Merced policyholders for “over-cap” claims*

10          54. As explained above, the CLO has approved 33 Merced policyholder “over-cap”  
11 claims, which total \$4,751,913. (See Exhibit E.) Following this approval, the CLO’s Claims  
12 Department developed a proposed distribution of Merced assets to Merced policyholders with  
13 “over-cap” claims.

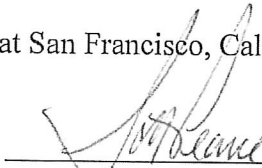
14          55. To that end, the Commissioner proposes to distribute to the Merced policyholders the  
15 amount of \$3,563,938, which represents approximately 75 percent of the total approved policy  
16 “over-cap” claims. (See Exhibit E.)

17          56. The policyholders who have a claim and will receive a disbursement upon entry of  
18 the court’s order approving disbursement will be notified by mail upon filing of this application  
19 that the Commissioner has filed this application, which will be available for review at the  
20 California Conservation Office’s website, [www.caclo.org](http://www.caclo.org), and that if they wish to receive a copy  
21 of the application and proposed order to contact the CLO and a copy will be provided.

22          57. As explained above, the CLO’s Executive Department submitted a conditional and  
23 undetermined proof of claim to the trust set up by PG&E Corporation Bankruptcy proceedings.  
24 However, to recover from the trust, the Commissioner must prove that the policyholders received  
25 payment from the Merced estate. Therefore, upon approval of this court and after payment of the  
26 “over-cap” claims, the CLO’s Claims Department, together with estate legal counsel, will submit  
27 the necessary information to recover payment from the trust on the estate’s proof of claim. The  
28 Claims Department has, and continues to, work with CIGA to develop a process similar to what

1 CIGA successfully used to submit payment information to the bankruptcy trustee and to recover  
2 on its proof of claim. The Commissioner expects that the Merced estate will recover from the  
3 trust approximately 70 percent of the amount paid on the "over-cap" policyholder claims, which  
4 funds will become part of the assets of the Merced estate and available for future expenses and  
5 distributions.

6 I declare under penalty of perjury of the laws of the State of California that the foregoing is  
7 true and correct. Executed this 14<sup>TH</sup> day of September, 2021, at San Francisco, California.

8  
9   
\_\_\_\_\_  
Scott Pearce

10 SA2018303475  
11 35378174.docx  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**DECLARATION OF SERVICE BY OVERNIGHT COURIER**

Case Name: **Insurance Commissioner of the State of California  
v. Merced Property & Casualty Co.**

Case No.: **18CV-04739**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter; my business address is: 1300 I Street, Suite 125, P.O. Box 944255, Sacramento, CA 94244-2550.

On September 14, 2021, I served the attached **DECLARATION OF SCOTT PEARCE IN SUPPORT OF APPLICATION FOR ORDER APPROVING LIQUIDATOR'S 1) PAYMENT OF ADMINISTRATIVE AND PROFESSIONAL FEES AND EXPENSES FOR THE PERIOD OF APRIL 1, 2019, TO APRIL 30, 2021, AND 2) INTERIM DISBURSEMENT OF MERCED ASSETS** by placing a true copy thereof enclosed in a sealed envelope with the **General Logistics Systems (GLS)**, addressed as follows:

Jeffrey D. Neumeyer, Esq.  
Sr. Vice President, General Counsel and Corporate Secretary  
United Heritage Financial Group  
707 E. United Heritage Court  
Meridian, ID 83642

Brad Roeber  
Executive Director  
California Insurance Guarantee Association  
101 N. Brand Avenue, Ste. 600  
Glendale, CA 91203

I declare under penalty of perjury under the laws of the State of California and the United States of America the foregoing is true and correct and that this declaration was executed on September 14, 2021, at Sacramento, California.

M. Garcia

Declarant



Signature



1 ROB BONTA  
Attorney General of California  
2 MOLLY K. MOSLEY  
Supervising Deputy Attorney General  
3 DEBBIE J. VOROUS  
Deputy Attorney General  
4 State Bar No. 166884  
1300 I Street, Suite 125  
5 P.O. Box 944255  
Sacramento, CA 94244-2550  
6 Telephone: (916) 210-7349  
Fax: (916) 323-7095  
7 E-mail: Debbie.Vorous@doj.ca.gov  
Attorneys for Applicant Insurance Commissioner  
8 of the State of California

9  
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 COUNTY OF MERCED  
12

13 **INSURANCE COMMISSIONER OF THE**  
14 **STATE OF CALIFORNIA,**

15 Applicant,

16 v.

17 **MERCED PROPERTY & CASUALTY**  
18 **COMPANY, a California corporation,**

19 Respondent.

Case No. 18CV-04739

**INDEX OF EXHIBITS AND EXHIBITS  
TO INSURANCE COMMISSIONER'S  
APPLICATION FOR ORDER  
APPROVING LIQUIDATOR'S 1)  
PAYMENT OF ADMINISTRATIVE AND  
PROFESSIONAL FEES AND EXPENSES  
FOR THE PERIOD OF APRIL 1, 2019,  
TO APRIL 30, 2021, AND 2) INTERIM  
DISBURSEMENT OF MERCED ASSETS**

Date: October 26, 2021  
Time: 8:15 am  
Dept: 8  
Judge: Hon. Brian McCabe  
Action Filed: November 30, 2018

22  
23 Pursuant to California Rules of Court, rule 3.1110(f), Applicant Insurance  
24 Commissioner of the State of California submits this index of exhibits in support of his  
25 application for an order approving the 1) payment of administrative and professional fees and  
26 expenses for the period of April 1, 2019, to April 30, 2021 and 2) interim disbursement of  
27 Merced assets.  
28

Exhibit Letter	Exhibit Page Number	Exhibit Description
A	1	Merced Property & Casualty Fees & Expenses Detailed Spreadsheet for the Period April 1, 2019, through April 30, 2021
B	2	Conservation and Liquidation Office (CLO) Summary of Hours for All Companies and for Merced Property & Casualty Only (April 2019 through April 2021)
C	3	Detailed CLO Allocated Hours and Fees Spreadsheet for Merced Property & Casualty (April 2019 through April 2021)
D	4	Merced Property & Casualty Statement of Assets and Liabilities as of April 30, 2021
E	5	Merced Property & Casualty Detailed Spreadsheet: Merced 1st Early Access Distribution
F	6	California Insurance Guarantee Association Statement of Operations for Merced Property & Casualty as of March 31, 2021

Dated: September 14, 2021

Respectfully Submitted,

ROB BONTA  
Attorney General of California  
MOLLY K. MOSLEY  
Supervising Deputy Attorney General

DEBBIE J. VOROUS  
Deputy Attorney General  
*Attorneys for Applicant Insurance*  
*Commissioner of the State of California*

SA2018303475  
3450273.docx

# EXHIBIT A

Merced Property & Casualty Insurance Company  
Administrative Expenses

				Apr-Dec 2019	Liquidation				
		April 2019	Merced	May 2019	Merced	Apr-Dec 2019	2020	Jan-Apr 2021	to Date
				CLO					
Legal									
62001	DOI Legal	-	-	-	8,952	8,952	13,894	746	23,592
62002	DOJ Legal	-	-	-	23,395	23,395	-	110	23,505
62003	Other Legal Expense	-	-	-	9,371	9,371	-	945	10,315
Total Legal Expenses		-	-	-	41,718	41,718	13,894	1,801	57,413
Consultants and Contractors									
63002	Accounting & Auditing	-	-	-	3,215	3,215	16,065	5,038	24,318
63003	Software Contractor Expense	-	-	998	-	998	-	-	998
63005	Temporary Help Expense	-	-	-	4,696	4,696	-	-	4,696
63007	Other Professional Fees	(1,967)	-	1,377	45,181	44,591	23,906	15,397	83,685
63008	Tax Consulting and Compliance	-	-	-	16,184	16,184	12,900	4,394	33,478
Total Consultant Expenses		(1,967)	-	2,375	69,276	69,684	52,871	24,819	147,375
Compensation & Benefits									
64001	Salaries & Wages Expense	45,258	-	47,318	100,219	192,795	-	-	192,795
64002	Payroll Tax Expense	3,433	-	3,471	60,720	67,624	-	-	67,624
64004	Employee Benefits Expense	6,454	-	6,035	31,418	43,907	-	-	43,907
Total Compensation & Benefits		55,145	-	56,824	192,356	304,325	-	-	304,325
Office Expenses									
65001	Office Rent	-	-	-	2,500	2,500	-	-	2,500
65002	Postage	-	-	-	89	89	66	124	279
65004	Office Supplies	180	-	80	872	1,132	-	-	1,132
65005	Insurance	3,126	-	1,499	3,430	8,055	13,080	-	21,135
65007	Misc Licenses, Fees and Taxes	-	-	-	263	263	25	-	288
65008	Ins License and Fees	-	-	-	3,131	3,131	-	-	3,131
65009	Penalties and Fines	-	-	-	250	250	-	-	250
65012	Repair & Maint-IT	-	-	-	4,137	4,137	2,788	-	6,925
65013	Rent Office Equipment	-	-	-	7,763	7,763	-	-	7,763
65014	Repairs & Maintenance, Other	-	-	-	9,442	9,442	428	1,402	11,272
65015	Storage Rent	-	-	-	440	440	-	-	440
65016	Record Retrieval	-	-	-	185	185	-	-	185
65017	Telephone	1,654	-	1,466	11,980	15,100	1,743	560	17,403
65018	Travel & Company Meetings	805	-	3,758	26,683	31,246	733	-	31,978
65019	Delivery	-	-	-	149	149	82	-	231
65020	Payroll Processing	66	-	132	-	198	-	-	198
65021	Utilities	1,572	-	1,914	14,284	17,770	15,158	3,084	36,013
65026	Advertising	(825)	-	-	-	(825)	-	-	(825)
65027	Bank Charges	-	-	-	47	47	-	-	47
65028	Miscellaneous Expense	993	-	218	62	1,273	-	-	1,273
65030	Software Expense	708	-	709	-	1,417	-	-	1,417
65031	Equipment Expense	4,548	-	-	1,374	5,922	-	-	5,922
66003	Real Estate Holding Expense	2,850	-	2,874	2,074	7,798	14,026	4,982	26,805
66004	Property Taxes Expense	-	-	-	12,577	12,577	6,576	7,334	26,486
67001	Depreciation, Real Estate	-	-	1,618	-	1,618	-	-	1,618
67003	Depreciation, Furniture	-	-	758	-	758	-	-	758
67005	Amortization, Capitalized SW	-	-	6,945	-	6,945	-	-	6,945
Total Office Expenses		15,677	-	21,971	101,731	139,379	54,703	17,486	211,568
Allocated Expenses									
70002	Allocated Expenses:	-	-	-	369,326	369,326	273,955	116,807	760,088
Total Net Allocated Expenses		-	-	-	369,326	369,326	273,955	116,807	760,088
Direct Admin Exp only		60,855	-	81,170	405,082	555,106	121,409	44,106	720,681
Total Admin Expenses		60,855	-	81,170	774,408	924,433	395,423	160,913	1,480,769

# **EXHIBIT B**

# April 2019 - April 2021 Direct Hours

Apr-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,592.46	202.75
May-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,749.57	232.25
Jun-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,387.23	276.50
Jul-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,620.38	225.00
Aug-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,754.99	226.50
Sep-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,595.23	202.75
Oct-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,839.80	168.25
Nov-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,255.50	87.34
Dec-19	All Companies	Merced Only
Direct Hours Acct. 92002	2,111.75	92.49
Jan-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,480.28	87.46
Feb-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,413.59	90.05
Mar-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,624.25	112.31
Apr-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,843.76	89.79
May-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,443.50	88.77
Jun-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,672.00	85.27
Jul-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,535.30	100.26
Aug-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,406.06	108.56
Sep-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,352.49	91.16
Oct-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,630.97	185.67
Nov-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,066.24	136.51
Dec-20	All Companies	Merced Only
Direct Hours Acct. 92002	2,356.75	106.59
Jan-21	All Companies	Merced Only
Direct Hours Acct. 92002	2,177.50	104.83
Feb-21	All Companies	Merced Only
Direct Hours Acct. 92002	2,167.00	121.08
Mar-21	All Companies	Merced Only
Direct Hours Acct. 92002	2,529.75	143.59
Apr-21	All Companies	Merced Only
Direct Hours Acct. 92002	2,419.50	154.41
Total Direct Hours Acct. 92002	62,025.85	3,520.13

%  
5.675



# EXHIBIT C

	Total Incurred Hours Apr-2019 to Apr-2021		Total Charge \$
ETD/Exec	1,537.22	\$	328,581.96
IT	723.75	\$	155,610.55
Acctg	551.41	\$	121,492.72
Reins	48.50	\$	10,694.34
Claims	659.25	\$	143,708.73
	<u>3,520.13</u>	<u>\$</u>	<u>760,088.30</u>

	Apr-2019 to Dec-2019		
	<i>Hours</i>		<i>Charge</i>
ETD/Exec	822.00	\$	175,830.56
IT	405.00	\$	85,850.80
Acctg	193.59	\$	44,043.23
Reins	36.25	\$	7,831.85
Claims	257.00	\$	55,770.74
	<u>1,713.84</u>	<u>\$</u>	<u>369,327.17</u>

	Jan-2020 to Dec-2020		
	<i>Hours</i>		<i>Charge</i>
ETD/Exec	539.62	\$	113,791.64
IT	260.50	\$	56,605.94
Acctg	252.03	\$	53,781.60
Reins	8.25	\$	2,028.17
Claims	222.00	\$	47,752.36
	<u>1,282.40</u>	<u>\$</u>	<u>273,959.70</u>

	Jan-2021 to Apr-2021		
	<i>Hours</i>		<i>Charge</i>
ETD/Exec	175.60	\$	38,959.77
IT	58.25	\$	13,153.82
Acctg	105.79	\$	23,667.89
Reins	4.00	\$	834.32
Claims	180.25	\$	40,185.64
	<u>523.89</u>	<u>\$</u>	<u>116,801.43</u>

# EXHIBIT D

273 **273 Merced Property & Casualty Ins**  
**STATEMENT OF ASSETS AND LIABILITIES**  
As of April 30, 2021

	Dec 31 2020	Apr 30 2021A
<b>ASSETS</b>		
Participation in pooled investments, at market	31,379,131.63	31,170,866.42
Accrued investment income	78,570.78	84,929.38
Other receivable	157,181.19	157,181.19
Property and equipment, net of accumulated depreciation	647,592.00	647,592.00
<b>Total Available Assets</b>	<b>32,262,475.60</b>	<b>32,060,568.99</b>
<b>LIABILITIES</b>		
Secured claims	51,415.10	51,415.10
Accrued administrative expenses	4,714.99	4,715.00
Claims against policies, including guaranty associations, before distributions	33,017,571.61	31,593,941.26
California and Federal claims having preference	7,766.00	7,766.00
All other claims	1,769,066.35	1,769,066.35
<b>Total Estimated Liabilities</b>	<b>34,850,534.05</b>	<b>33,426,903.71</b>
<b>NET ASSETS (DEFICIENCY)</b>	<b>(2,588,058.45)</b>	<b>(1,366,334.72)</b>

# EXHIBIT E

## Merced 1st Early Access Distribution

issco	Company	POC No.	app_amount	Est Total Payout	Dist to Date	Distribution	Round Dist Check	% Payout
15768	Merced	831465	31,886.00	23,914.50	-	23,914.50	23,915.00	75.00157%
15768	Merced	833928	48,750.00	36,562.50	-	36,562.50	36,563.00	75.00103%
15768	Merced	833219	411,678.00	308,758.50	-	308,758.50	308,759.00	75.00012%
15768	Merced	831969	132,793.00	99,594.75	-	99,594.75	99,595.00	75.00019%
15768	Merced	835288	56,783.83	42,587.87	-	42,587.87	42,588.00	75.00022%
15768	Merced	833721	32,557.48	24,418.11	-	24,418.11	24,418.00	74.99966%
15768	Merced	831916	114,719.00	86,039.25	-	86,039.25	86,039.00	74.99978%
15768	Merced	834488	280,307.28	210,230.46	-	210,230.46	210,230.00	74.99984%
15768	Merced	835673	8,136.92	6,102.69	-	6,102.69	6,103.00	75.00381%
15768	Merced	832035	118,304.97	88,728.73	-	88,728.73	88,729.00	75.00023%
15768	Merced	830929	118,991.91	89,243.93	-	89,243.93	89,244.00	75.00006%
15768	Merced	832853	523,171.00	392,378.25	-	392,378.25	392,378.00	74.99995%
15768	Merced	834904	204,688.04	153,516.03	-	153,516.03	153,516.00	74.99999%
15768	Merced	832757	8,740.00	6,555.00	-	6,555.00	6,555.00	75.00000%
15768	Merced	834981	246,811.00	185,108.25	-	185,108.25	185,108.00	74.99990%
15768	Merced	832716	62,069.00	46,551.75	-	46,551.75	46,552.00	75.00040%
15768	Merced	832571	64,871.60	48,653.70	-	48,653.70	48,654.00	75.00046%
15768	Merced	832149	87,751.00	65,813.25	-	65,813.25	65,813.00	74.99972%
15768	Merced	830249	142,601.55	106,951.16	-	106,951.16	106,951.00	74.99989%
15768	Merced	832500	315,612.00	236,709.00	-	236,709.00	236,709.00	75.00000%
15768	Merced	830808	142,458.56	106,843.92	-	106,843.92	106,844.00	75.00006%
15768	Merced	831871	215,312.00	161,484.00	-	161,484.00	161,484.00	75.00000%
15768	Merced	833132	186,454.00	139,840.50	-	139,840.50	139,841.00	75.00027%
15768	Merced	832607	45,238.00	33,928.50	-	33,928.50	33,929.00	75.00111%
15768	Merced	834524	60,625.00	45,468.75	-	45,468.75	45,469.00	75.00041%
15768	Merced	834669	28,864.49	21,648.37	-	21,648.37	21,648.00	74.99873%
15768	Merced	832034	140,040.95	105,030.71	-	105,030.71	105,031.00	75.00021%
15768	Merced	834234	168,592.49	126,444.37	-	126,444.37	126,444.00	74.99978%
15768	Merced	832381	32,236.81	24,177.61	-	24,177.61	24,178.00	75.00122%
15768	Merced	830298	233,707.60	175,280.70	-	175,280.70	175,281.00	75.00013%
15768	Merced	832202	134,930.13	101,197.60	-	101,197.60	101,198.00	75.00030%
15768	Merced	831594	84,991.00	63,743.25	-	63,743.25	63,743.00	74.99971%
15768	Merced	835272	267,238.65	200,428.99	-	200,428.99	200,429.00	75.00000%
<b>Over Cap Claims Subtotal</b>			<b>4,751,913.26</b>	<b>3,563,934.95</b>	<b>-</b>	<b>3,563,934.95</b>	<b>3,563,938.00</b>	
15768	Merced	837085	26,960,183.00	20,220,137.25	-	20,220,137.25	20,220,137.00	75.00000%
<b>Gurantee Association Subtotal</b>			<b>26,960,183.00</b>	<b>20,220,137.25</b>	<b>-</b>	<b>20,220,137.25</b>	<b>20,220,137.00</b>	
<b>Grand Total</b>			<b>31,712,096.26</b>	<b>23,784,072.20</b>	<b>-</b>	<b>23,784,072.20</b>	<b>23,784,075.00</b>	

31,170,866.00    Cash Available  
75%            Dist %



# **EXHIBIT F**

California Insurance Guarantee Association  
144

Merced Property & Casualty Co.

STATEMENT OF OPERATIONS

From Inception to Wednesday, March 31, 2021

California - Liq, date 12/3/18

	Automobile & Homeowners	All Other	Workers Compensation	Totals
<b>INCOME</b>				
Assessments	\$0	\$0	\$0	\$0
Recoupments	0	0	0	0
Total Assessments & Recoupments	0	0	0	0
Interest - Members				
Assessment Interest	0	0	0	0
Investment Interest	0	0	0	0
Accrued Interest	0	0	0	0
Liquidator Advances	0	0	0	0
Reserve for Excess Advances	0	0	0	0
Interest on Advances	0	0	0	0
Accrued Interest on Advances	0	0	0	0
Reinsurance Incurred	0	0	0	0
Total Income Received & Accrued	0	0	0	0
<b>EXPENSES</b>				
Losses Paid	69,040,782	7,485,109	0	76,525,891
Recovery on CIGA Paid Claims	(50,208,217)	(5,264,989)	0	(55,473,206)
Net Losses Paid	18,832,565	2,220,120	0	21,052,685
Loss Adjustment Expenses Paid	246,622	28,607	0	275,229
Total Loss & LAE Paid	19,079,187	2,248,727	0	21,327,914
Return Premiums	2,983,295	0	0	2,983,295
Administrative Expenses	1,185,333	172,099	0	1,357,432
Returned to Member Insurers	0	0	0	0
Bond Expense	0	0	0	0
Total Paid	23,247,816	2,420,826	0	25,668,641
<b>RESERVES</b>				
Case Reserves	1,207,219	42,508	0	1,249,727
IBNR Reserves	0	0	0	0
Total Case & IBNR Reserves	1,207,219	42,508	0	1,249,727
Loss Adj. Exp. Reserve - Case	41,814	0	0	41,814
Loss Adj. Exp. Reserve - IBNR	0	0	0	0
Total LAE Case & IBNR Reserves	41,814	0	0	41,814
Unearned Premium Reserves	0	0	0	0
Penalties and Other Reserves	0	0	0	0
Total Reserves	1,249,034	42,508	0	1,291,542
Total Incurred	24,496,850	2,463,334	0	26,960,183
Fund Balance (Deficit)	(24,496,850)	(2,463,334)	0	(26,960,183)
<b>NO. Claims Outstanding</b>				
March 31, 2021	33	4	0	37
December 31, 2020	30	5	0	35

**DECLARATION OF SERVICE BY OVERNIGHT COURIER**

Case Name: **Insurance Commissioner of the State of California  
v. Merced Property & Casualty Co.**  
Case No.: **18CV-04739**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter; my business address is: 1300 I Street, Suite 125, P.O. Box 944255, Sacramento, CA 94244-2550.

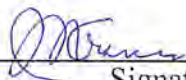
On September 14, 2021, I served the attached **INDEX OF EXHIBITS AND EXHIBITS TO INSURANCE COMMISSIONER'S APPLICATION FOR ORDER APPROVING LIQUIDATOR'S 1) PAYMENT OF ADMINISTRATIVE AND PROFESSIONAL FEES AND EXPENSES FOR THE PERIOD OF APRIL 1, 2019, TO APRIL 30, 2021, AND 2) INTERIM DISBURSEMENT OF MERCED ASSETS** by placing a true copy thereof enclosed in a sealed envelope with the **General Logistics Systems (GLS)**, addressed as follows:

Jeffrey D. Neumeyer, Esq.  
Sr. Vice President, General Counsel and Corporate Secretary  
United Heritage Financial Group  
707 E. United Heritage Court  
Meridian, ID 83642

Brad Roeber  
Executive Director  
California Insurance Guarantee Association  
101 N. Brand Avenue, Ste. 600  
Glendale, CA 91203

I declare under penalty of perjury under the laws of the State of California and the United States of America the foregoing is true and correct and that this declaration was executed on September 14, 2021, at Sacramento, California.

\_\_\_\_\_  
M. Garcia  
Declarant

\_\_\_\_\_  
  
Signature

1 ROB BONTA  
Attorney General of California  
2 MOLLY K. MOSLEY  
Supervising Deputy Attorney General  
3 DEBBIE J. VOROUS  
Deputy Attorney General  
4 State Bar No. 166884  
1300 I Street, Suite 125  
5 P.O. Box 944255  
Sacramento, CA 94244-2550  
6 Telephone: (916) 210-7349  
Fax: (916) 323-7095  
7 E-mail: Debbie.Vorous@doj.ca.gov  
*Attorneys for Applicant Insurance Commissioner  
8 of the State of California*

9  
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 COUNTY OF MERCED

12  
13 **INSURANCE COMMISSIONER OF THE  
STATE OF CALIFORNIA,**

14 Applicant,

15 v.

16  
17 **MERCED PROPERTY & CASUALTY  
COMPANY, a California corporation,**

18 Respondent.

Case No. 18CV-04739

**[PROPOSED] ORDER APPROVING  
LIQUIDATOR'S 1) PAYMENT OF  
ADMINISTRATIVE AND  
PROFESSIONAL FEES AND EXPENSES  
FOR THE PERIOD OF APRIL 1, 2019,  
TO APRIL 30, 2021 AND 2) INTERIM  
DISBURSEMENT OF MERCED ASSETS**

Date: October 26, 2021  
Time: 8:15 a.m.  
Dept: 8  
Judge: Hon. Brian McCabe  
Action Filed: November 30, 2018

22  
23 The Application of the Insurance Commissioner of the State of California (Commissioner),  
24 in his capacity as Liquidator of Merced Property & Casualty Company (Merced), for an Order  
25 Approving Payment of Administrative and Professional Fees and Expenses for the Period of April  
26 1, 2019, to April 30, 2021, and Interim Disbursement of Merced Assets was heard in Department  
27 8 of the above-entitled court on October 26, 2021, at 8:15 a.m., the Honorable Brian McCabe  
28 presiding. Having read and considered the Application, the Memorandum of Points and

1 Authorities, the Declaration of Scott Pearce submitted in support thereof, the Exhibits submitted  
2 in support thereof and, argument having been heard and good cause appearing,

3 IT IS HEREBY ORDERED that:

4 1. The Application is granted;

5 2. The Commissioner's payment of administrative and professional fees and expenses in  
6 the total amount of \$1,480,769 for the period of April 1, 2019, through April 30, 2021, is  
7 approved;

8 3. The Commissioner is authorized to disburse and pay a total of \$20,220,137 from the  
9 assets of the Merced estate to the California Insurance Guarantee Association, with proper notice  
10 of the application to approve this disbursement having been provided to the California Insurance  
11 Guarantee Association and to all interested parties pursuant to Insurance Code section 1035.5,  
12 subdivision (e);

13 4. The Commissioner is authorized to disburse and pay a total of \$3,563,938 from the  
14 assets of the Merced estate to the Merced policyholders for approved "over-cap" claims; and

15 5. The Commissioner is authorized to take any and all action necessary to accomplish  
16 the purposes of this Order.

17  
18 Dated: \_\_\_\_\_

\_\_\_\_\_  
The Honorable Brian McCabe

**DECLARATION OF SERVICE BY OVERNIGHT COURIER**

Case Name: **Insurance Commissioner of the State of California  
v. Merced Property & Casualty Co.**  
Case No.: **18CV-04739**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter; my business address is: 1300 I Street, Suite 125, P.O. Box 944255, Sacramento, CA 94244-2550.

On September 14, 2021, I served the attached **[PROPOSED] ORDER APPROVING PAYMENT OF ADMINISTRATIVE AND PROFESSIONAL FEES AND EXPENSES FOR THE PERIOD OF APRIL 1, 2019, TO APRIL 30, 2021 AND FOR THE INTERIM DISBURSEMENT OF MERCED ASSETS** by placing a true copy thereof enclosed in a sealed envelope with the **General Logistics Systems (GLS)**, addressed as follows:

Jeffrey D. Neumeyer, Esq.  
Sr. Vice President, General Counsel and Corporate Secretary  
United Heritage Financial Group  
707 E. United Heritage Court  
Meridian, ID 83642

Brad Roeber  
Executive Director  
California Insurance Guarantee Association  
101 N. Brand Avenue, Ste. 600  
Glendale, CA 91203

I declare under penalty of perjury under the laws of the State of California and the United States of America the foregoing is true and correct and that this declaration was executed on September 14, 2021, at Sacramento, California.

\_\_\_\_\_  
M. Garcia  
Declarant

\_\_\_\_\_  
  
Signature