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8 SUPERIOR COURT OF THE STATE OF CALIFORNIA

9 COUNTY OF MERCED

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

13 Applicant,

14 v.

15 **MERCED PROPERTY & CASUALTY**
16 **COMPANY, a California Corporation,**

17 Respondent.

Case No. 18CV-04739

DECLARATION OF SCOTT PEARCE

[Filed concurrently with:

1. **Notice of Application and Application for Order to Approve Liquidator's 1) Payment of Administrative and Professional Fees and Expenses for the period of November 1, 2022 to September 30, 2024; 2) Approve Executed Release Agreement with the Federal Government; 3) Authorize Final Disbursement of Merced Assets; 4) Escheat Unclaimed Funds to State; 5) Retain Closing Reserve; 6) Authorize Disposal of Legacy Records; 7) Remit Residual Estate Assets to Parent Entity; and 8) Close Estate; Memorandum of Points and Authorities in support thereof;**
2. **Final Status Report;**
3. **Index of Exhibits; and**
4. **[Proposed] Order**

Date: April 2, 2025
Time: 8:15 a.m.
Dept: 8
Judge: Hon. Stephanie Jamieson
Action Filed: November 30, 2018

1 I, Scott Pearce, declare:

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

5 2. I make this declaration in support of the final status report of the Insurance
6 Commissioner of the State of California (Commissioner) on the liquidation of Merced Property &
7 Casualty Company (Merced). The following information is true and correct and based on my
8 personal knowledge and, if called to do so, I could and would testify competently to it.

9 3. The Merced estate's fees and expenses for the Reporting Period, which total
10 \$692,196, fall into two broad categories: 1) \$595,230 for the Conservation and Liquidation
11 Office's (CLO) allocated administrative operating fees; and 2) \$96,967 for direct estate operating
12 expenses, consisting of estate-specific fees and expenses of \$73,081 and legal fees and expenses
13 of \$23,885.

14 4. CLO's allocated administrative fees are overhead costs incurred for rent, salaries, e-
15 mail and data systems, etc.; these fees are allocated to each conservation or liquidation estate
16 under its management and oversight on a pro rata basis. The CLO is comprised of insurance
17 insolvency professionals who oversee the liquidation of troubled insurance companies and who
18 provide administrative services directly to each estate under its management and oversight.

19 5. Each conservation or liquidation estate is charged a portion of the monthly allocated
20 costs based on the amount of time CLO employees worked on that estate's matters. To track the
21 hours and costs, CLO maintains a timekeeping system in which each employee records time spent
22 for work on each estate, and the estate trust manager reviews the records to ensure that the hours
23 are accurate and billed to the correct estate.

24 6. During the Reporting Period, the Merced estate incurred 2,618 direct hours out of
25 48,707 total CLO hours worked on all insolvent insurer estates (or 5.37 percent of all CLO
26 hours). Merced's portion of the allocated costs for the Reporting Period, based on 2,618 direct
27 hours, was \$595,236.

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1 7. These 2,618 direct hours and costs incurred on behalf of the Merced estate were
2 spread between five CLO departments as follows:

Departments	Total No. of Hours	Total Fees by Dept.
Estate Trust & Executive	1,543	\$ 350,758
Claims	266	\$ 60,526
Information Technology	63	\$ 14,378
Finance & Accounting	728	\$ 165,482
Reinsurance	18	\$ 4,092
Total	2,618	\$ 595,238¹

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10 8. The Estate Trust & Executive (“Executive”) Department is responsible for the overall
11 administration and management of the Merced estate. The Executive Department coordinates and
12 directs the activities of the other CLO departments and their resources utilized in furthering the
13 Merced estate’s plan of liquidation.

14 9. The Executive Department continued the primary oversight and management of the
15 Merced estate’s remaining work during the Reporting Period. It focused on claims resolution and
16 subrogation reimbursements, and it worked to secure a waiver and release agreement from the
17 federal government in order to ultimately position the estate for a final distribution of estate assets
18 to general creditors and equity class creditors.

19 10. The Executive Department coordinated with the CLO Accounting Department to
20 continue to ensure the liquidation of the Merced estate complied with federal and state audit and
21 tax requirements. Both departments reviewed and adjusted the estate’s periodic reporting as well
22 as assisted in the preparation of its quarterly financial reporting. Additionally, both departments
23 have continued to provide periodic updates to Merced’s parent entity to confer on the pending
24 closure of the estate and eventual return of any surplus assets to it.

25 11. After the Court previously approved the Commissioner’s requests to make
26 disbursements of \$4,823,003 in Merced assets to 33 Class 2 Merced policyholders with “over-
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28 ¹ There is a \$3.00 rounding error due to rate inflation.

1 cap” claims, the Commissioner issued the second disbursement in March 2023, essentially paying
2 off all of the estate’s approved Class 2 policyholder obligations in full.

3 12. As initially reported in the Commissioner’s Second Status Report and related
4 application, there is a payment of \$168,592 made toward an “over-cap” Camp Fire-related claim
5 that has not been cashed and remains unpaid.

6 13. After Class 2 approved claims associated with the Camp Fire were paid, the
7 Executive Department worked with estate legal counsel and the Claims Department to submit
8 proofs of total liquidated payments on 31 Camp Fire-related claims (i.e., the \$4,823,002
9 disbursement paid to all approved Class 2 policyholders with Camp Fire-related “over-cap”
10 claims) to the Subrogation Trust set up by the PG&E Corporation Bankruptcy proceedings to
11 recover a portion of the amount paid on those claims.

12 14. On January 29, 2019, PG&E Corporation (Case No. 19-30088) and its subsidiary
13 Pacific Gas and Electric Company (Case No. 19-30089) each filed with the United States
14 Bankruptcy Court for the Northern District of California a voluntary petition for bankruptcy
15 under chapter 11 of the Bankruptcy Code. The Subrogation Trust was set up to administer claims
16 related to the Camp Fire, among others.

17 15. To date, the Merced estate has collected approximately \$3,300,000 from the
18 Subrogation Trust.

19 16. Additionally, for the last two years the Executive Department has been working with
20 the Claims Department and estate counsel to secure a final release and waiver from the United
21 States Department of Justice regarding the federal government’s Class 3 claim. While there is no
22 payment associated with the Class 3 claim, the estate must obtain the Court’s approval of the
23 executed federal release and waiver agreement before making any final distributions to the
24 remaining creditors. It is necessary for the Court to approve the executed federal release and
25 waiver agreement so that the Commissioner is not subjected to personal liability for any super-
26 priority claims brought by the federal government.

27 17. Until the estate obtains this Court’s approval of the executed federal release
28 agreement, the Commissioner will not be able to make payments to approved lower priority

1 claims, such as those held by Merced’s Class 7 general creditors and Class 8 equity creditors.
2 The Executive Department continues to lead the planning and preparation for the estate’s final
3 distribution and completion of all necessary tasks required to properly close the estate and
4 discharge the Commissioner as liquidator.

5 18. The Claims Department is responsible for, among other things, administering all
6 Proofs of Claims (POCs) filed against an estate and making a determination on the approval of
7 any “non CIGA-covered” claims (or portions of non-covered claims). The Claims Department
8 has concluded its comprehensive review and determination of all timely received Proof of Claims
9 (POCs) filed against the Merced estate during the Reporting Period, including reviewing and
10 closing CIGA’s final claim against the estate. The Claims Department also assisted with
11 preparing and providing creditor guidance for the early access and interim distributions of Merced
12 assets in 2021 and 2023.

13 19. During the liquidation, the Claims Department received and reviewed a total of 457
14 POCs. The Claims Department has taken the following actions with respect to the 457 POCs:
15 approved 40 Class 2 Merced policyholder claims; rejected 312 Class 2 Merced policyholder
16 claims; approved 6 Class 7 general creditor claims; rejected 25 Class 7 general creditor claims;
17 approved 62 Class 8 Certificate of Contribution (COC) claims; and rejected 12 Class 8 COC
18 claims. The approved 40 Class 2 Merced policyholder claims consist of the 33 “over-cap” claims
19 referenced above (including the Camp Fire-related claims), and seven additional non “over-cap”
20 claims, none of which relate to the Camp Fire.

21 20. As discussed above, the Claims Department also worked with estate counsel and the
22 Executive Department to submit proofs of liquidated payments to the PG&E Subrogation Trust to
23 recover a significant portion of the payments made by the estate on Camp Fire-related claims and
24 to process those reimbursements. The Claims Department has continuously worked to provide
25 planning and guidance in support of the Commissioner’s prior and pending disbursements of
26 Merced assets to pay approved claims.

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1 21. After CLO transferred the Merced estate from Atwater to its offices in San Francisco
2 in September 2019, the Information Technology (IT) Department decommissioned all local
3 Atwater systems and infrastructure.

4 22. Over the Reporting Period, the IT Department continued to manage and maintain all
5 necessary data systems and infrastructure necessary to support the comprehensive run off of the
6 Merced liquidation estate. This work included supporting the estate’s data retention and
7 managing the estate’s communication and bulk notification requirements. The IT Department
8 also supported the estate’s POC determination process by collecting, organizing, and reporting
9 the loss and loss adjustment expenses associated with CIGA’s claim-handling process as well as a
10 myriad of internal claim-handling requirements for non-covered claims.

11 23. Once CLO transferred the Merced estate’s financial records onto its accounting
12 system in 2019, the estate has relied on the Finance & Accounting (Accounting) Department to
13 manage and report all financial aspects of the estate. During the Reporting Period, the
14 Accounting Department prepared all entries, schedules, and work papers for the estate. It also
15 reconciled all of the estate’s cash receipts and disbursements and produced financial reports for
16 the estate on a monthly and as-needed basis.

17 24. The Accounting Department also continued to manage both the periodic independent
18 reviews of the estate’s financial statements by CLO’s independent auditors and the estate’s annual
19 tax return preparation. Finally, the Accounting Department has played a key role in the
20 preparation, review, and release of all of the Commissioner’s distributions of Merced estate
21 assets.

22 25. As explained in the Commissioner’s prior applications, the reinsurance program for
23 the Merced estate is essentially exhausted with all properly submitted reinsurance billings
24 collected. The only reinsurance remaining is an excess of loss treaty covering individual policy
25 claims that exceed \$1 million in losses. During the Reporting Period, the Reinsurance Department
26 continued to monitor the estate’s losses to ensure that any individual claim that exceeded \$1
27 million would be reported and billed. After completing its determination and approval of all
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1 remaining POCs, the Merced estate does not anticipate any further claim development, including
2 any relating to the reinsurance program.

3 26. In addition to CLO's allocated expenses, the Merced estate also incurred operating
4 costs that were paid directly out of estate assets. For the Reporting Period, these fees and
5 expenses totaled \$96,967 and comprised of three types:

Types of Fees and Expenses	Fees & Expenses
Legal Fees and Expenses	\$ 23,885
Consultants and Contractors	\$ 70,817
Office Expenses	\$ 2,264
Total	\$96,967

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12 27. During the Reporting Period, the Merced estate required the assistance and advice of
13 legal counsel. The Attorney General's Office represents the Commissioner in this proceeding and
14 provides litigation services as needed, including the drafting of all litigation-related pleadings and
15 representation before the court.

16 28. The Commissioner also required specialized legal services from the Wisner Nunnally
17 law firm for advice on specific policy coverage terms and to help request and secure a super-
18 priority release and waiver agreement with the federal government's Department of Justice. The
19 Wisener Nunnally law firm provided the Commissioner with legal bills that describe in detail the
20 tasks performed, the person who performed the work, and the time expended on each task. I am
21 familiar with the work performed and reviewed the same. I also approved invoices for payment
22 only to the extent they complied with the California Department of Insurance's guidelines and
23 were reasonable, necessary, accurate and appropriate.

24 29. The Merced estate incurred professional fees in connection with the preparation and
25 filing of the estate's tax returns and in obtaining assistance with the annual audit requirements.
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1 30. For the majority of the Reporting Period, the Merced estate incurred basic office
2 expenses. These include postage and delivery charges for the delivery of distribution payments
3 via courier as well as banking fees and a small tax assessment.

4 31. The Merced estate has total cash (or cash equivalent) assets of \$8,486,900 as of
5 September 30, 2024. The Commissioner seeks this Court’s approval of the executed federal
6 release and waiver agreement to resolve the federal Class 3 claim.

7 32. The Commissioner also seeks authority for a final disbursement of \$370,203 from the
8 total Merced cash (or cash equivalent) assets for payment to six Class 7 general creditors and 62
9 Class 8 equity creditors for approved claims; this final disbursement will occur after the federal
10 release and waiver agreement is executed.

11 33. The Commissioner then seeks authority to escheat unclaimed funds to the California
12 State Treasurer’s Office, to retain a final reserve to complete all necessary tasks required to close
13 the estate, and then to finally return all residual assets to the Class 9 claimant, Merced’s parent
14 and owner, United Heritage Financial Group.

15 34. After the Court authorized the previous two early access/interim disbursements of
16 Merced assets, all 40 of the Class 2 Merced policyholder claims approved by the Claim
17 Department have been paid in full. CIGA’s Class 2 claim against the estate has also been fully
18 accounted for and paid in full.

19 35. There is no claim payment associated with the aforementioned federal release and
20 waiver agreement concerning the federal government’s Class 3 claim. The CLO’s Claims
21 Department has diligently worked to secure a mutually acceptable federal release and waiver.

22 36. The Commissioner seeks authority from this Court to approve the attached federal
23 release and waiver agreement with the United States government so that it can proceed with
24 making the estate’s final disbursement for all remaining approved claims. The only remaining
25 approved claims that have yet to be paid are six Class 7 general creditor claims and 62 Class 8
26 equity creditor claims, and the payment of these claims can only occur after the federal release
27 and waive agreement has been approved and is in effect.
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1 37. The Commissioner also seeks approval from this Court to make a final disbursement
2 of \$370,203 in Merced assets to the remaining approved, but unpaid, claims, specifically the six
3 Class 7 general creditor claims in the amount of \$172,917 and the 62 Class 8 equity creditors
4 claims in the amount of \$197,286. This final disbursement will provide all approved Class 7 and
5 Class 8 creditors with 100 percent recovery on their approved POCs.

6 38. Upon the Commissioner’s filing of this application, a copy of this application will be
7 sent by mail or e-mail to all creditors who have an approved claim and would receive a
8 disbursement upon the court’s entry of an order approving the Commissioner’s proposed final
9 disbursement. The present application will also be made available for review at CLO’s website,
10 www.caclo.org, and the aforementioned creditors may also contact CLO and request a copy of the
11 application and proposed order.

12 39. The estate reports approximately \$213,600 in unclaimed funds. If the estate cannot
13 locate the claimants prior to closure of the estate, these funds will be escheated to the California
14 State Treasurer. The Commissioner seeks authority to escheat up to \$213,600 of unclaimed funds
15 from the remaining Merced assets to the California State Treasurer’s Office.

16 40. Finally, pursuant to Insurance Code section 1035.5, subdivision (b)(1), the
17 Commissioner seeks authority to retain \$350,000 in Merced assets as an administrative closing
18 reserve to comply with his legal obligations to pay for administrative expenses necessary to
19 compete the work associated with the final distribution and closing the estate, including dismissal
20 of the proceeding and discharge of the Commissioner as liquidator.

21 41. Upon completion of the proposed final distribution, the Commissioner will have paid
22 in full all approved POCs timely received by the Merced estate. After the Merced estate’s
23 payment of the expenses of administration, all court-approved open claims, escheatment, and
24 reserves, the Commissioner intends to remit payment of all remaining net assets totaling
25 \$7,553,086 to the parent entity and owner of Merced, United Heritage Financial Group. The
26 Commissioner has put in place all the necessary and appropriate safeguards relating to this
27 remittance, and the disbursements to Merced’s owner and parent entity should be authorized.
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42. Pursuant to the liquidation orders, the Commissioner took custody and control of Merced's business records and closed claims files. In July 2019, CLO's Financial & Accounting Department oversaw the successful transfer of Merced's financial records onto the CLO system.

43. The Commissioner does not foresee the need for accessing Merced's few physical records still retained by the estate. It has been the practice of the Commissioner to obtain court approval to retain an insolvent insurer's records for a period of three years following entry of an order terminating the liquidation proceeding.

44. In this case, however, the Liquidator has determined that the cost of storing and maintaining any hardcopy records is not warranted given how most essential hard-copy records have been successfully transferred onto the CLO's electronic system. Thus, the Liquidator requests that he be permitted to forego further unnecessary storage expenses and be authorized to destroy Merced's records following the entry of the order sought pursuant to this application and after giving notice and opportunity to allow Merced and CIGA to take custody and control of any corporate or claim files in the Commissioner's possession.

I declare under penalty of perjury of the laws of the State of California that the foregoing is true and correct. Executed this 23rd day of January, 2025, at SANTA ROSA, California.



Scott Pearce

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DECLARATION OF SERVICE BY ELECTRONIC MAIL

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. I am familiar with the business practice at the Office of the Attorney General for collection and processing of correspondence for mailing with the United States Postal Service.

On February 21, 2025, I served the attached **Declaration of Scott Pearce** by transmitting a true copy via electronic mail, addressed as follows:

Jeffrey D. Neumeyer, Esq.
Sr. Vice President, General Counsel and
Corporate Secretary
United Heritage Financial Group
Email to jneumeyer@unitedheritage.com

Brad Roeber
Executive Director
California Insurance Guarantee Association
Email to roeberb@ciga.org

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 February 21, 2025, at Los Angeles, California.

Gail Agcaoili
Declarant

/s/ Gail Agcaoili
Signature