



CALIFORNIA JOINT POWERS RISK MANAGEMENT AUTHORITY

BOARD OF DIRECTORS MEETING

April 12-14, 2005 – 9:30 A.M.

**Seascape Resort
One Seascape Resort Drive
Aptos, CA 95003**

(831) 685-2753

Minutes

I. CALL TO ORDER:

President Henderson called the meeting to order at 9:34 a.m.

II. ROLL CALL

PRESENT

- | | |
|-------------------------------------|---|
| 1) Steve Schwartz, <i>Alameda</i> | 11) Mary Richardson, <i>San Leandro</i> |
| 2) Bob Koch, <i>Chico</i> | 12) Sharon Andrus, <i>San Rafael</i> |
| 3) Robyn Kain, <i>Fairfield</i> | 13) Lynne Margolies, <i>Santa Rosa</i> |
| 4) Barbara Coats, <i>Fremont</i> | 14) Roger Carroll, <i>SCORE</i> |
| 5) Bill Henderson, <i>Livermore</i> | 15) Mark Moses, <i>Stockton</i> |
| 6) Scott Ellerbrock, <i>PERMA</i> | 16) Darrell Handy, <i>Sunnyvale</i> |
| 7) Jerry Gebhardt, <i>Petaluma</i> | 17) Paul Wildermuth, <i>Vacaville</i> |
| 8) Julie Theirl, <i>Pomona</i> | 18) Will Venski, <i>Vallejo</i> |
| 9) Jeff Davis, <i>REMIF</i> | 19) Jeff Tonks, <i>YCPARMIA</i> |
| 10) Pam Durocher, <i>Roseville</i> | |

ABSENT

Lodi, NCCSIF, Redding

OTHERS PRESENT

- | | |
|--|---|
| 1) Marty Cassell, <i>Chandler Asset Management</i> | 9) Gail Mancarti, <i>Gail Mancarti Consulting</i> |
| 2) Jessica Henry, <i>Chico</i> | 10) Byrne Conley, <i>Gibbons & Conley</i> |
| 3) David Clovis, <i>CJPRMA</i> | 11) Craig Bowlus, <i>Marsh</i> |
| 4) Lola Deem, <i>CJPRMA</i> | 12) Brian Cooney, <i>Marsh</i> |
| 5) Robert German, <i>CJPRMA</i> | 13) Jim Pinckney, <i>Marsh</i> |
| 6) Caren White, <i>CJPRMA</i> | 14) Dennis Molloy, <i>PERMA</i> |
| 7) Robin Johnson, <i>Driver-Alliant</i> | 15) Shelley Green, <i>Stockton</i> |
| 8) Mark McGonigle, <i>Driver-Alliant</i> | 16) Nanci Mills, <i>YCPARMIA</i> |

III. APPROVAL OF MINUTES

A motion by Vice President Ellerbrock, seconded by Director Kain, to approve the minutes of the Board of Director's meeting held on November 18, 2004, passed unanimously.

IV. PRESENTATIONS

None

V. CONSENT CALENDAR

- 1. Financial Reports of CJPRMA for the periods ending October 31, November 30 and December 31, 2004 and January 31 and February 28, 2005**
- 2. Additional Covered Party Certificates Approved by the General Manager**
- 3. Notification of New Claims Received**
- 4. Notification of Claims Closed**
- 5. Appointment of New Board Members/Alternates**
- 6. Proposed Amendment to Investment Policy**

A motion by Director Koch, seconded by Director Coats, to approve the consent calendar, passed unanimously.

VI. THIS TIME IS RESERVED FOR MEMBERS OF THE PUBLIC TO ADDRESS THE BOARD OF DIRECTORS ON MATTERS OF BOARD BUSINESS

VII. ACTION CALENDAR

7. Report From Broker

Jim Pinckney and Brian Cooney, of Marsh, were present to discuss the status of renewals for the various commercial insurance programs.

Mr. Pinckney provided an update on the insurance industry issues regarding global broking and contingencies. He said that the casualty reinsurance, APD program, and primary Property Program, had never been subject to a contingency, because it had been a direct placement. He said that the only time contingencies were involved in the CJPRMA account was in the excess property layer, placed through Global Broking in San Francisco. He said that the premiums on that program were fairly small and that there was a contingency paid on that line of coverage. He said that the contingencies were not illegal and that they were disclosed. He explained the timeline and procedures for determining eligibility for, and participation in, the settlement plan. He also said that if a CJPRMA member did business directly with Marsh for other lines of coverage, that the member would follow the same procedures to determine eligibility.

Mr. Pinckney then discussed the liability program and commercial reinsurance. He provided a summary of the current coverage and limits, and the expected premiums for the 2005-2006 program year. He said that, for the first \$10 million of reinsurance coverage, the rate for 2005-2006 was the same as the expiring rate for 2004-2005; that there was a very minor increase for the second \$10 million layer; and that the combined rate was increasing from .2026 to .2060. He said that there were three options for buying excess reinsurance limits above the current limit of \$25 million. He said that the estimated premium for \$10 million excess of \$25 million was \$350,000, the estimated premium for \$15 million excess of \$25 million was \$475,000 and the estimated premium for \$20 million excess of \$25 million was \$580,000.

The General Manager said that a number of members had asked him to investigate the option of increasing limits and that a survey had shown that other JPAs provided higher limits than CJPRMA. He said that he would not recommend a rate increase to the organization this year if they decided to go with a higher limit. He said that they could absorb the increased costs out of the premium already collected. He said that there was an additional \$340,000 available, which they could apply, and take any additional cost out of Pool C funds. He said that he would recommend increasing the limits by either \$10 million or \$15 million.

Director Tonks said that he would support increasing the limits, but that his

concern was with the potential problems if the market turned and they could no longer afford to retain the higher limits. Mr. Pinckney said that if that were the case, they could always look at quota sharing to decrease costs.

Director Koch asked about the rating of the company that would provide the additional coverage layer. Mr. Pinckney said that General Security Indemnity Company of Arizona met Marsh's requirements for the capacity and limits in question.

President Henderson asked what Mr. Pinckney's recommendation was. Mr. Pinckney said that he felt that CJPRMA was under-limited. He said that capacity was currently stable.

Director Theirl said that she would support increasing limits to \$20 million of additional coverage. Director Venski said that he agreed, and asked if it would be difficult to increase the coverage later if they went with a lower amount now. Mr. Pinckney said that they could always find capacity but that there could be problems with coverage issues.

A motion by Director Tonks, seconded by Vice President Ellerbrock, to purchase additional coverage of \$15 million, passed by a vote of 17-2. Vallejo and Pomona opposed the motion.

Mr. Pinckney provided an overview of the APD program. He said that the rate was \$.3086 for the 2005-2006 program year, which was the same as the expiring rate.

Mr. Pinckney said that the Office Package Policy for the CJPRMA office had been renewed. He said that the limit on the fidelity bond had been increased from \$2 million to \$3 million, and the deductible increased from \$10,000 to \$25,000. He said that the total placement had a premium of approximately \$7,000.

Mr. Cooney gave an overview of the Property program. He said that the values reported by some of the members were not increasing in line with the Marshall Swift inflation factors. He said that the rate for 2005-2006 was locked in, but that it could still be reduced. He said that he would like to see the members' property values increased by the inflation rate and then have new properties added, and sold or destroyed properties deleted, in order to provide an accurate representation of the exposures.

Director Kain said that she would be in favor of adopting that practice.

The General Manager asked if they should increase the values by the inflation factor across the board or if they should only increase the values for members whose reported values had not changed at all.

Director Theirl asked how often the members did appraisals. Some of the members responded that they did outside appraisals every three to five years.

Director Davis suggested that they surcharge the Property program 10% of the rate and use the funds to pay for appraisals for all members.

Director Tonks said that they could look at the square footage and cost of construction for various building types in order to determine if the values were correct.

President Henderson said that it wouldn't be accurate to only increase the values of the members who had no change between 2004 and 2005 because it did not take into account the addition of new buildings.

A motion by Director Davis, to increase the values of all members by 10% over 2004, unless they can demonstrate a major sell-off of some property that would reduce their values or proof of appraisals to indicate the values are correct, died for lack of a second.

Director Wildermuth asked if they could survey the members to determine when their last appraisal was and then apply the increase from the time of the last good valuation. The General Manager said that, in prior years, they had increased the values of members with no recent valuation by an inflation factor recommended by Marsh.

Mr. Cooney suggested that they increase the values as of July 1, 2004 by 10 %, for all members, and then add in any new buildings and delete any removed buildings.

A motion by Director Davis, to assess a 10 % increase on the premium to be put aside for appraisals, leave the values as they stand, and have staff increase them as necessary, died for lack of a second.

A motion by Director Davis, seconded by Director Kain, to revert all properties to the July 1, 2004 values, increase them by 10%, and then make any additions or deletions, passed unanimously.

A motion by Director Davis, seconded by President Henderson, to allow Chico to join the property program, passed unanimously.

Mr. Cooney discussed the loss history for the Property Program. He said that the current program allowed for a 10% rate reduction if a 25% loss ratio was maintained over three years. He said that the loss ratio at this time was just under 30%. He also discussed the limit of coverage. He said that the program covered fire following an earthquake, which could be catastrophic for multiple members. He said that, currently, there was a \$200 million limit and that he had investigated increasing that limit. He said that the premium for an additional \$50 million in limits would cost approximately \$25,000, and that the premium for an additional \$100 million in coverage would cost approximately \$50,000.

Mr. Cooney said that the deductible was still \$25,000, with a primary rate of \$.04/\$100 TIV. He said that the rate for the \$195 million excess of \$5 million layer was \$.03987/\$100 TIV in excess of \$5 million. He said that the rate stabilization feature that allowed for the rate to remain the same as long as the earned loss ratio, over three years, did not exceed 75%. He said that the rate increased by no more than 15% if the earned loss ratio was between 75% and 90% over three years, no more than 25% if the earned loss ratio was between 90% and 125% and no more than 35% if the earned loss ratio was in excess of 125%.

Mr. Cooney gave an overview of the Boiler & Machinery program. He said that the rate for the 2005-2006 program year was \$.005432/\$100 TIV.

A motion by Director Davis, seconded by Director Venski, to increase the property program limit to \$300 million, passed. Santa Rosa opposed the motion.

8. Report from Investment Manager

Mr. Marty Cassell, of Chandler Asset Management, was present to review CJPRMA's investment portfolio. He discussed the overall economic environment, its effect on interest rates, the investment objectives for CJPRMA's portfolio, sector distribution of the CJPRMA portfolio, and the performance of the CJPRMA portfolio.

A motion by Director Davis, seconded by Director Koch, to approve the investment report, passed unanimously.

9. 2004 Claims Audit

Mr. Craig Bowlus, of Marsh, was present to discuss the results of the 2004 Claims Audit.

Mr. Bowlus had five recommendations:

- 1) Create a system to insure that CJPRMA was tracking the current paid and reserved totals in primary files. Whether this was a manually maintained Excel (or similar software) document or a basic RMIS platform, improvement in this area was needed.
- 2) Some members or their TPAs are not being responsive to requests for information updates. In these instances, CJPRMA should send specific requests for information rather than form letters. Telephonic requests should be followed up with email confirmations.
- 3) Budget cuts appeared to be limiting some outside investigation. In instances where CJPRMA felt additional investigation was needed, it should be requested in writing.
- 4) An agreed format for interim reporting on watch list cases from self-administered cities should be developed. An exemplar format was provided in the report.
- 5) Counsel reporting on cases involving catastrophic injuries nearing trial needed to specifically address issues important to the risk-sharing layer, such as the potential effect of Proposition 51 on the allocation of a potential reward.

10. Proposed Budget for the 2005-2006 Program Year

The Financial Analyst said that the budget had been reformatted this year to include two years of actual expenses for comparison. She said that it was projected that expenditures for the 2004-2005 Program Year would be approximately \$110,298 (8%) under budget. She said that the majority of the savings was due to nonuse of the Contingency Fund (\$25,000), nonuse of other consultants (\$8,000), training programs not completed (\$11,000) but carried over to the next program year, computer purchases not required (\$6,000), personnel expenses budgeted at top of salary ranges, as opposed to actual (\$26,000) and savings on asset management fees (\$5,000) and Board Counsel legal fees (\$5,000). She said that the balance of the savings was spread throughout various other line items. She said that the proposed budget for 2005-2006 contains an estimated increase of \$143,887 (10.4%).

Of that amount, approximately \$58,900 is for the provision of increased training programs/services for the members, under the Risk Management program, \$29,989 was a reflection of budgeting at the top of the salary ranges instead of at actual salaries, and \$55,000 was for the acquisition of a risk management information system, as recommended by the Claims Auditor for the past three years.

Director Davis asked if any of the members were using the SPARTA Special Events program. The General Manager said that some members were using it but that they were investigating other options.

A motion by Vice President Ellerbrock, seconded by Director Moses, to approve the proposed budget for the 2005-2006 Program Year, passed unanimously.

11. Governance and Strategic Planning

The Board engaged in a lengthy discussion of governance and strategic planning. Gail Mancarti facilitated the program. The results will be provided in a handout.

A motion by Vice President Ellerbrock, seconded by Director Koch, to approve specified governance policies, passed unanimously.

VIII. COMMITTEE REPORTS

A) Claims: Darrell Handy, Chair

The Claims Committee had nothing to report.

B) Coverage: Darrell Handy, Chair

The Coverage Committee had nothing to report.

C) Personnel: Scott Ellerbrock, Chair

The Personnel Committee had nothing to report.

D) Communications:

The Communications Committee had nothing to report.

E) Membership Standards: Jeff Davis, Chair

The Membership Standards Committee had nothing to report.

IX. CLOSED SESSION

- None

X. ACTION ON CLOSED SESSION ITEMS

- None

XI. ADJOURNMENT

A motion by Director Wildermuth, seconded by Director Carroll, to adjourn at 4:35 pm on 4/13/05, passed unanimously.