

CENTRAL SAN JOAQUIN VALLEY RISK MANAGEMENT AUTHORITY

MINUTES OF THE ADMINISTRATION AND FINANCIAL SERVICES
SUBCOMMITTEE MEETING OF JULY 23, 2008

AMENDED

A meeting of the Administration and Financial Services Subcommittee of the Central San Joaquin Valley Risk Management Authority (CSJVRMA) was held on July 23, 2008, at the Ripon City Hall, Ripon, California.

SUBCOMMITTEE MEMBERS PRESENT: Greg Applegate, Chairperson, Sonora
Dave Elias, Fowler
Joe Donabed, Hughson
Tim Przybyla, Kerman
Leon Compton, Ripon

SUBCOMMITTEE MEMBERS ABSENT: None

OTHERS PRESENT: Jeanette Workman, Administrator
Mary Ann Reilly, Board Secretary
Jim Elledge, Director of Accounting and Finance
Services, Bickmore Risk Services

1. CALL TO ORDER

Meeting was called to order by Greg Applegate at 11:07 a.m.

2. INTRODUCTIONS

Introductions of those present took place.

3. APPROVAL OF AGENDA AS POSTED (OR AMENDED)

**Dave Elias moved to approve the agenda as posted. Seconded by Tim Przybyla.
Motion passed unanimously.**

4. PUBLIC COMMENTS

None.

5. REVIEW OF NON-EQUITY POOL FUND BALANCES

At the direction of the Executive Committee the Administration and Financial Services Subcommittee met in April 2008 to discuss methods to determine whether to establish minimum and maximum funding levels in each of the non-equity pools. The non-equity pools are those pools in which the assets of the pool remain in the pool and are not distributed back to the membership. At that meeting, Mr. Jim Elledge, Bickmore Risk Services (BRS), provided an analysis report of the Auto Physical Damage (APD) program to determine if the report provided the elements the Subcommittee required in order to make a recommendation on pool funding to the Executive Committee. The Subcommittee reached consensus to use two years of retrospective data and two years of projected losses in analyzing Investment Income levels to trigger action on pool balances.

The Subcommittee reached consensus at their April 2008 meeting to recommend to the Executive Committee that no action be taken at this time regarding the APD non-equity pool.

At the July 23, 2008, Subcommittee meeting Mr. Elledge provided reports on the remaining non-equity pools. Each pool was individually discussed and the Subcommittee provided a recommendation on each pool to present to the Executive Committee.

Low Value Vehicle Program (LVVP)

Mr. Elledge reviewed with the Subcommittee the Low Value Vehicle Program (LVVP) background noting that the LVVP is an optional program which began on July 1, 1993, to provide coverage for vehicles valued \$25,000 or less which are licensed for on-road use. This program provides fleet coverage for all vehicles valued under \$25,000, and the values must be declared on the respective city's vehicle schedule in order to participate.

The LVVP offers a \$500 deductible to the members. The LVVP does not provide purchased coverage and the Authority covers \$24,500 per occurrence above the City's deductible of \$500. Members pay deposit premiums into the pool for four years and then are no longer charged a premium or administrative charges. Participation in this pool is optional.

Mr. Elledge reported that as of March 31, 2008, the LVVP has a balance of \$1,060,870. There are currently 26 cities participating in the LVVP, covering 1,131 vehicles valued at approximately \$16.3 million. The interest income earned on the balance of this pool has historically covered the annual claims.

Mr. Elledge then reviewed with the Subcommittee, the following charts: historical pool balances, proforma pool balances, interest income offset – projected, interest income offset – historical, and average member maximum loss.

Mr. Elledge reported that the LVVP pool meets the target of sufficient investment income to cover projected losses for at least three years (2007/08 - 2009/10).

Finally, Mr. Elledge recommended that no action be taken at this time regarding the LVVP pool balance.

Discussion ensued regarding the possibility of raising the vehicle value limit above \$25,000 due to the increased cost of new vehicles. It was noted that many cities purchase used vehicles that fall under the \$25,000 limit and a consensus was reached to review this limit at a later date.

Joe Donabed moved to recommend the Executive Committee take the following action regarding the LVVP pool: 1) Set target investment income at a level sufficient to cover projected losses for a minimum of three years (2007/08 through 2009/10); 2) Take no action at this time regarding the LVVP pool balance as it currently meets the target; and 3) Review the pool in program year 2009/10 to address the option of raising the \$25,000 vehicle value limit. Seconded by Dave Elias. Motion passed unanimously.

Pooled Property Program

Mr. Elledge reviewed with the Subcommittee the Property Program background noting that the Property is an optional program of the CSJVRMA which began on July 1, 1987, and provides property and boiler & machinery coverage to participating member cities. The Property Program includes a non-equity pool in addition to purchased insurance. Members can elect to participate in the pooled feature or attach directly to the excess insurance. The CSJVRMA retains \$25,000 of coverage in excess of each city's deductible for the purchased portion of the program.

Member cities participating in the pooled coverage may select a deductible of \$1,000; \$5,000; or \$10,000. The deductible for boiler & machinery coverage is \$2,500 with the exception of certain items wherein the deductible is more.

Once a member has participated in the pool for six years, no premiums will be charged for the pooled layer.

Mr. Elledge reported that as of March 31, 2008, the Property Program pool has a balance of \$1,559,899. There are currently 37 cities participating in the Property Program pool, covering approximately \$1.4 billion in property values. Interest income has historically been sufficient to cover the cost of annual losses; however, in recent

years the claims costs have exceeded interest earnings.

Mr. Elledge then reviewed with the Subcommittee, the following charts: historical pool balances, proforma pool balances, interest income offset – projected, interest income offset – historical, and average member maximum loss.

Finally, Mr. Elledge recommended that no action be taken at this time regarding the Property Program pool balance; however, Mr. Elledge recommended that the pool be evaluated again prior to the 2009/10 budget to determine whether pool contributions should be considered.

Leon Compton moved to recommend the Executive Committee take the following action regarding the Property pool: 1) Set target investment income at a level sufficient to cover projected losses for a minimum of three years (2007/08 through 2009/10); 2) Take no action at this time as the pool currently meets the target; and 3) Evaluate the pool prior to the 2009/10 budget to determine whether pool contributions should be considered. Seconded by Joe Donabed. Motion passed unanimously.

Liability Contingency Fund

Mr. Elledge reviewed with the Subcommittee the Liability Contingency Fund background noting that the Fund was established effective with the 2003/04 program year. The Fund was financed by transferring the balance of monies held in the Liability Mid-Layer Pool, as of December 31, 2003, to a Liability Contingency Fund.

The monies in the Liability Contingency Fund are available for payment of the following:

- 1) All claims incurred in the Liability Mid-Layer Coverage Program.
- 2) Upon Executive Committee approval, on a case-by-case basis, the monies in this Fund can be utilized for other items, including, but not limited to the following:
 - Stabilizing or phasing-in large actuarial rate increases;
 - Paying for major assessments received from other JPAs;
 - Paying for one-time risk reducing projects;
 - Assisting in establishing and funding new programs;
 - Reducing the mid-layer attachment points; and
 - Increasing the excess coverage attachment points.

Mr. Elledge reported that during the 2006/07 fiscal year, the Executive Committee approved depositing approximately \$620,000 of the then received CJPRMA refund into the Liability Contingency Fund. At the June 28, 2007, Executive Committee

meeting, the Executive Committee approved: 1) increasing the aggregate to 1.5 times a member's deposit premium, retroactive to July 1, 2006; and, 2) effective July 1, 2007, charging premiums for the mid-layer pool through the budget process (which resulted in approximately \$580,000 in contribution), to be reviewed on an annual basis. No premium was charged for the Liability Mid-Layer Pool in the 2008/09 budget.

Mr. Elledge then reviewed with the Subcommittee, the following charts: fund balance history, incurred loss versus ultimate loss, stress test, and target versus balance.

Mr. Elledge reported that the Liability Contingency Fund meets the target of five times the current projection of discounted expected losses.

Finally, Mr. Elledge recommended that no action be taken at this time regarding the Liability Contingency Fund balance.

Mr. Tim Przybyla, City of Kerman, questioned whether the subcommittee should consider returning excess monies to members since the Fund more than meets the target. Mr. Elledge stated that while the Fund currently exceeds the target, just a few years ago this Fund was not doing well. Currently the Fund is at eight times of current projection of discounted expected losses, and Mr. Elledge suggested if the Fund reaches ten to fifteen times the target the group may then want to consider a return of excess monies. Ms. Workman noted it is her recommendation that monies not be returned to ensure the continued fiscal soundness of the Fund.

Leon Compton moved to recommend the Executive Committee take the following action regarding the Liability Contingency Fund: 1) Target the Fund level at five times the current projection of discounted expected losses; and 2) Take no action at this time as the Fund currently meets the target. Seconded by Dave Elias. Motion passed unanimously.

Workers' Compensation Contingency Fund

Mr. Elledge reviewed with the subcommittee the Workers' Compensation Program Contingency Fund background, noting that the Fund was established effective with the 2003/04 program year. The Fund was financed by combining the balance of monies held in the Workers' Compensation Mid-Layer and Aggregate Pools as of December 31, 2003. The monies in this Fund are available for payment of the following:

- Stabilizing or phasing-in large actuarial rate increases;
- Paying for major assessments received from other JPAs;
- Paying for one-time risk reducing projects;

- Assisting in establishing and funding new programs;
- Reducing the mid-layer attachment points;
- Reducing the aggregate coverage attachment points; and
- Increasing the excess coverage attachment points.

At the June 28, 2007, Executive Committee meeting, the Executive Committee approved the following, retroactive to July 1, 2006: 1) increase the Aggregate Attachment to 1.5 times a member's deposit premium; and 2) allocate all amounts paid out for the aggregate pool back to the members through the retrospective adjustment process for each respective program year, to be reviewed on an annual basis. In addition, the Committee approved to charge premium for the mid-layer pool effective July 1, 2007, through the budget process (which resulted in approximately \$600,000 in contribution), to be reviewed on an annual basis. Premium for the Workers' Compensation Mid-Layer Pool was included in the 2008/09 budget.

At the February 28, 2008, Executive Committee meeting, the Executive Committee approved the following: 1) deposit the CJPRMA refund allocated to those members that participate in the Pooled Workers' Compensation Program into the Workers' Compensation Contingency Fund; 2) re-allocate interest earnings to adjust for incurred but unpaid mid-layer and aggregate claims; 3) reclassify approximately \$173,000 in mid-layer contributions inadvertently recorded into the 2004/05 program year; and 4) allocate the risk margin portion of the contribution collected and maintained in the 2005/06 program year (approximately \$500,000). The Committee further approved collection of contribution to cover mid-layer claims, and raising the attachment point of the mid-layer from \$200,000 to \$350,000, effective July 1, 2008.

Mr. Elledge then reviewed with the Subcommittee, the following charts: fund balance history, coverage history, mid-layer incurred versus ultimate loss, aggregate incurred versus ultimate loss, stress test, and target versus balance. Mr. Elledge noted that recently the Fund is being utilized much more than expected due to the above-average development of claims from older years. Mr. Elledge noted that other JPA's, for whom Bickmore Risk Services (BRS) performs actuarial services, have also noticed a rapid increase in development of these pre-reform claims. As a result, Mr. Elledge reported that the Workers' Compensation Contingency Fund does not meet the target of five times the current projection of discounted expected losses for both mid-layer and aggregate claims.

Finally, Mr. Elledge recommended that the Fund be evaluated prior to the 2009/10 budget to determine whether pool contributions should be continued.

Ms. Workman noted another option is to eliminate the Mid-layer Pool and raise the primary pool layer up to \$500,000. Mr. Leon Compton, City of Ripon, stated that he has always held the belief that it would behoove the CSJVRMA to become more self-

sufficient and cover more of their own losses rather than participate in excess pools at the current levels. Mr. Joe Donabed, City of Hughson, noted that some cities would prefer any available monies be returned to them especially in the current economic environment. Ms. Workman stated that it is especially the smaller cities that need to be setting the monies aside for the stability of the pool, as those cities would most likely not be able to contribute additional funds in the event of a deficit.

Leon Compton moved to recommend the Executive Committee take the following action regarding the Workers' Compensation Contingency Fund: 1) Target the Fund level at five times the current projection of discounted expected losses for both Mid-layer and Aggregate claims; and 2) Re-evaluate the Fund at the 2009 Annual Retreat to determine whether pool contributions should be continued in 2009/10 as this pool does not currently meet its target, or whether the primary pool limit should be raised to \$500,000. Seconded by Joe Donabed. Motion passed unanimously.

The Subcommittee adjourned for lunch at 11:57 a.m. and reconvened at 12:15 p.m.

6. ADMINISTRATIVE COST REPORT

Ms. Workman reported that the Administrative Cost Report and cost saving options provided by staff, included in the meeting agenda packet, were the same report and options presented at the June 26, 2008, Executive Committee meeting. At that meeting, the Executive Committee asked the Administration and Financial Services Subcommittee to review and provide feedback on whether any of the cost-saving measures can be adopted without affecting the standards of the organization. Ms. Workman noted cost-saving options were provided on three budget line items: Meetings and Retreats, Training and Workshops, and Conferences.

Each of the cost-saving options was thoroughly discussed by the Subcommittee, in addition to the suggestions provided by a Board Member. The Subcommittee also reviewed the Travel and Expense Policy. The Subcommittee agreed that these options should be reviewed on a periodic basis, but reached consensus to recommend to the Executive Committee that no changes be made at this time.


At the meeting, Mr. Compton distributed a spreadsheet of the Allied Managed Care (AMC) bill review savings for fiscal year 2007/08. Mr. Compton suggested it may be an item that the Committee may want to pursue for an explanation and possible reduction of fees.

Discussion ensued and Chairperson Applegate suggested that the Subcommittee hold an additional meeting on August 21, 2008, at which they will request that AIMS and Bickmore Risk Services (BRS) attend. At that meeting the Subcommittee would like

to hear from the administrators regarding possible reduction in their contract fees, including the AMC fees. The Subcommittee will report on the action at the August 28, 2008, Executive Committee Meeting.

7. ADJOURNMENT

The July 23, 2008, CSJVRMA Administration and Financial Services Subcommittee meeting adjourned at 1:15 p.m.



Mary Ann Reilly, Board Secretary