

ACWA/JOINT POWERS INSURANCE AUTHORITY

Unapproved 7/31/08
Approved 7/16/09

LIABILITY PROGRAM SUBCOMMITTEE MEETING

ACWA/Joint Powers Insurance Authority
5620 Birdcage Street, Suite 110
Citrus Heights, CA 95610-7632
(800) 231-5742

Tuesday, July 29, 2008

COMMITTEE MEMBERS PRESENT

Chairman: E. G. "Jerry" Gladbach, Castaic Lake Water Agency
Vice Chairman: Joseph Dion, Citrus Heights County Water District
Everett Ascher, Coastside County Water District
Don Groundwater, Bella Vista Water District
John E. "Jack" Hoagland, Rancho California Water District
Bertha Underhill, Calaveras County Water District
Bob Van Wyk, Fresno Metropolitan Flood Control District

COMMITTEE MEMBERS ABSENT

Gary Enos, Provident Irrigation District
Roy Coox, Vista Irrigation District

STAFF PRESENT

Chief Executive Officer/Secretary: Daniel N. Klaff
Chief Financial & Operations Officer: Walter "Andy" Sells
Linda Craun, Administrative Assistant II
Dick Damon, Liability/Property Claims Manager
John Gilstrap, Director of Member Services
Nancy Stangel, Director of Administration
Dianna Sutton, Accounting Manager
Jeanette Waterstradt, Executive Assistant to the CEO
Nidia Watkins, Member Services Representative II

OTHERS PRESENT

Merle J. Aleshire, Valley Center Municipal Water District
Wes Bannister, Orange County Water District
Eldon Boone, Vista Irrigation District
Tom Cuquet, South Sutter Water District
Joan C. Finnegan, Municipal Water District of Orange County
W.D. "Bill" Knutson, Yuima Municipal Water District
William Malone, Metro/Risk Inc., JPIA Insurance Broker
Mike McNulty, Metro/Risk Inc., Vice President and Managing Director
Lou Reinkens, Tahoe City Public Utility District

CALL TO ORDER

A quorum being present, Chairman Gladbach called the meeting to order at, 3:34 p.m.

PUBLIC COMMENT

Chairman Gladbach stated that members of the public are allowed to address the Liability Program Subcommittee on any agenda item prior to the Subcommittee's decision on the item and could also comment on any issue, not on the agenda. No requests made.

INTRODUCTION OF NEW COMMITTEE MEMBERS AND GUESTS

Chairman Gladbach asked those present to introduce themselves.

ADDITIONS TO OR DELETIONS FROM THE AGENDA

There were no additions or deletions from the agenda.

CONSENT CALENDAR

The consent calendar consisted of the minutes of July 20, 2007 Liability Program Subcommittee Meeting.

M/S/C (Hoagland/Van Wyk) (Yes – 7/No - 0): That the Subcommittee approve the minutes of the July 20, 2007 Liability Program Subcommittee Meeting as submitted.

MEMBERSHIP

New Members Approved and in the Pipeline

Mr. Gilstrap, Director of Member Services, provided a status of membership. The Liability Program currently consists of 284 members with a total estimated annual payroll of \$402,530,236.

The following districts joined the Liability Program: Del Puerto Water District on September 29, 2007; Semitropic-Rosamond Water Bank Authority on July 1, 2008; and Sierra County Waterworks District No. 1 on January 24, 2008.

Update of Letters to Withdraw/Rescind

In accordance with Article 22 (d) of the Joint Powers Agreement, the following members rescinded their intent to withdraw from the Liability Program effective October 1, 2008: Oakdale Irrigation District and Palo Verde Irrigation District.

Orland-Artois Water District did not rescind its intent to withdraw; therefore, the original notice is considered as final notice of withdrawal from the Liability Program effective October 1, 2008.

San Diego County Water Authority confirmed its intent to withdraw, and subsequently petitioned to withdraw effective July 1, 2008. The request was approved by the Executive Committee.

LOSS REPORTS

Reported Losses Per \$1 Million of Payrolls

Mr. Sells, Chief Financial & Operations Officer, reviewed the graph showing the actual dollars in losses for each million dollars of payroll.

Losses for the past several years have remained relatively constant at approximately \$15 thousand per \$1 million of payrolls. The obvious exception being the 2004-05 policy year, which includes a major auto accident, a child drowning in a canal, \$580 thousand in employment practice claims, and an increase in the severity of infrastructure failure claims.

The 2007-08 policy year is off to a good start, but it is too early to make any predictions.

Occurrences per \$1 Million of Payrolls

Mr. Sells reviewed the occurrences per \$1 Million of Payrolls graph, which tracks the frequency of claims activity. Generally, the lower the frequency rate, the lower the severity.

Frequency has declined for the past ten years, which is a favorable trend. The five-year average from 1998 to 2003 was .82. The current five-year average is down to 0.64.

Controlling and reducing frequency is a vital function of the JPIA.

Average Claim Sizes

The graph reviewed reflected the amount spent per claim.

The average claim size peaked in the 1994/1995 policy year. The average claims size for the last 10 years was \$18,000. The average claim size for the current year is \$9,268. This represents only nine months of activity and may erode as the losses are fully realized. Mr. Sells reviewed a handout graph of average claim size for pooled losses only. The Subcommittee was asked if they had a preference regarding the information contained in the two graphs. Discussion ensued and the Subcommittee requested to receive both graphs.

Significant Large Claims

Mr. Sells reviewed the Significant Large Claims data report.

NEW BUSINESS

Renewal of Liability Program Excess Insurance

Mr. Gilstrap, Director of Member Services, stated that the JPIA's Liability Program renews on October 1, 2008. The JPIA purchases excess insurance for the Program that renews on the same date. The excess insurance is "layered" and is written on an occurrence basis, with limits totaling \$50 million. An occurrence limit is the most that will be paid by a carrier for any single loss. There are also general policy aggregate limits that apply to the two upper layers. An aggregate limit is the most that will be paid by a carrier for all losses in a policy year.

The Liability Program is currently “layered” as follows:

- \$1,000,000 per occurrence, no aggregate limit
 - JPIA Pooled Layer or Self-insured Retention (SIR)
- \$19,000,000 per occurrence, no aggregate limit,
 - Excess of \$1 million SIR
 - Insurance Company of the State of Pennsylvania (ISOP)
- \$20,000,000 per occurrence, \$60,000,000 aggregate
 - Excess of \$20 million
 - Lexington Insurance Company
- \$10,000,000 per occurrence, \$30,000,000 aggregate
 - Excess of \$40 million
 - Arch Insurance Company

The JPIA’s brokers, Mr. Malone and Mr. McNulty of MetroRisk, Inc., were asked again to market the renewal. As a result, this year’s renewal no longer includes aggregate limits. The JPIA’s unique coverages and exposures limit the number of carriers able to meet the needs of the membership; nonetheless, there were several alternate proposals received.

Currently, the first excess layer has an adjustable premium based on a rate charged against payrolls. Shortly after the 2007 renewal, the carrier, ISOP, offered to guarantee that rate for the 2008 renewal, regardless of loss experience or other factors. The JPIA’s Executive Committee accepted that proposal, although it did not obligate the JPIA to renew.

There is an Option V to increase the total limits of liability provided by the Program to \$60 million per occurrence. That proposal includes a 4th layer of \$10 million excess of \$50 million, with a \$10 million aggregate. The carrier is AWAC insurance.

Staff asked Mr. Malone and Mr. McNulty to explore the possibility of obtaining “Stop Loss” coverage for this renewal. Stop Loss coverage is triggered when the JPIA pays a predetermined number or amount of losses within its self-insured retention. Previously, the JPIA had two different Stop Loss programs. One was an Aggregate Stop Loss that reduced the JPIA’s retention to \$50,000 once the aggregate of all primary (pooled) losses for the policy year exceeded 62.5% of the deposit premium. The second Stop Loss also reduced the JPIA’s retention to \$50,000 after more than three occurrences in a policy year “emanating from the same general causation”. Neither of these provisions was available following the 2005 renewal. No reasonable proposals for a “Stop Loss” were available this year.

Mr. Malone recommended that the Subcommittee also examine Option V. Discussion ensued.

It was Staff recommendation to accept Option I of the excess insurance proposals for the first three layers, totaling \$49 million excess of the JPIA's \$1 million retention and Option V for excess coverage totaling \$60 million.

M/S/C (Hoagland/Ascher) (Yes – 7/No - 0): That the Subcommittee recommend to the Executive Committee to accept Option I of the excess insurance proposals for the first three layers, totaling \$49 million excess of the JPIA's \$1 million retention and Option V for coverage totaling \$60 million.

Liability Renewal Pricing

Mr. Sells reviewed the Liability renewal pricing showing the Funding requirements for the Liability Program.

He noted that the Deposit Premium for the policy year is calculated by totaling:

- Actuary Projected Losses (within JPIA's SIR)
- Excess Insurance Costs
- Projected G&A Expenses (approximately a 10 year period)
- Contributions to the Self Insured Excess Fund (3.5% of premiums)
- Contributions to the Catastrophic Reserve Fund (10% of premiums)
- Less projected Interest Income

Invoices for the 10/1/08-09 policy year are to be mailed to the members at the end of July.

Currently, the proposed rate for the 10/1/08-09 policy year has a decrease of 2.78%. There is a decrease in the actuary-projected losses and the proposed excess insurance costs. The result is a decrease of 1.51% in premiums. Mr. Sells noted that Staff recommends approval of the \$3.606 billing rate subject to changes in the final excess insurance costs.

M/S/C (Groundwater/Hoagland) (Yes - 7/No – 0): That the Subcommittee recommend to the Executive Committee to approve the \$3.606 billing rate subject to changes in the final excess insurance cost.

Liability and Property Claims Presentation

One of the goals for staff this fiscal year is to provide educational opportunities for JPIA committee members. To that end, Dick Damon, Liability/Property Claims Manager, presented information that focused on the claims handling process. The information was well received.

AVAILABILITY OF SUBCOMMITTEE MEMBERS FOR UPCOMING MEETING(S)

No meeting is scheduled for the remainder of this year.

ADJOURN

There being no further business, the meeting was adjourned at 5:00 p.m.