

ACWA/JOINT POWERS INSURANCE AUTHORITY

Unapproved 7/21/09

Approved 7/15/10

LIABILITY PROGRAM SUBCOMMITTEE MEETING

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

Thursday, July 16, 2009

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

COMMITTEE MEMBERS ABSENT

Roy Coox, Vista Irrigation District
Gary Enos, Provident Irrigation District
Bertha Underhill, Calaveras County Water District
Bob Van Wyk, Fresno Metropolitan Flood Control District

STAFF PRESENT

Chief Executive Officer/Secretary: Daniel N. Klaff
Chief Financial & Operations Officer: Walter "Andy" Sells
Dick Damon, Liability/Property Claims Manager
David deBernardi, Director of Finance
John Gilstrap, Director of Member Services
Debbie Kyburz, Member Services Representative II, 11:02 a.m.
Nancy Stangel, Director of Administration
Michelle Stites, Administrative Assistant II
Dianna Sutton, Accounting Manager
Jeanette Waterstradt, Executive Assistant to the CEO

OTHERS PRESENT

Merle J. Aleshire, Valley Center Municipal Water District, 11:05 a.m.
Wes Bannister, Orange County Water District
Tom Cuquet, South Sutter Water District, 12:27 p.m.
Joan C. Finnegan, Municipal Water District of Orange County, 11:05 a.m.
Lynn Groundwater, Clair A. Hill Scholarship Recipient
W.D. "Bill" Knutson, Yuima Municipal Water District, 11:48 a.m.
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, 11:00 a.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. Mr. Klaff, CEO, introduced Lynn Groundwater, the Clair A. Hill scholarship recipient.

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 29, 2008 Liability Program Subcommittee Meeting.

M/S/C (Hoagland/Dion) (Yes – 5/No - 0): That the Subcommittee approve the minutes of the July 29, 2008 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 \$429,795,613.

Joshua Basin Water District joined the Liability Program on July 1, 2009. They have a payroll of \$1,341,636.

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, 2009: Chowchilla Water District; Madera Irrigation District; North of the River Municipal Water District; Oakdale Irrigation District; and Palo Verde Irrigation District.

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 2004-2005

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 2007-2008 and 2008-2009 policy years are 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 had a steady gradual decline for the past 12 years, which is a very favorable trend. The five-year average from 1993 to 1998 was 1.0. The current five-year average is down to 0.56.

Controlling and reducing frequency is an important aspect of the JPIA.

Average Claim Sizes

The graph reviewed reflected the amount spent per claim.

The average claim size spiked in the 2004-2005 policy year. The average claims size for the last five years, excluding the 2004-2005 policy year, is approximately \$20,675. The five year average, including the 2004-2005 policy year, is \$26,667, a 29% increase. The average claim size for the current year is \$18,163. It represents only nine months of activity and will most likely erode somewhat as losses are more fully realized.

Significant Large Claims

Mr. Sells reviewed the Significant Large Claims data report.

NEW BUSINESS

Presentation of Clair A. Hill Scholarship Presentation

Chairman Gladbach then asked Executive Committee Chairman, Wes Bannister, to present the Clair A. Hill scholarship award to Lynn Groundwater.

Renewal of Liability Program Excess Insurance

Mr. Gilstrap, Director of Member Services, stated that the JPIA's Liability Program renews on October 1, 2009. The JPIA purchases excess insurance for the Program that renews on the same date. The excess insurance is placed in "layers" and is written on an occurrence basis, with limits totaling \$60 million. An occurrence limit is the most that will be paid by a carrier for any one loss. Last year, we were able to eliminate all aggregate limits from the excess coverage. 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, no aggregate limit.
 - Excess of \$20 million
 - Lexington Insurance Company
- \$10,000,000 per occurrence, no aggregate limit.
 - Excess of \$40 million
 - Everest National Insurance Company
- \$10,000,000 per occurrence, no aggregate limit.
 - Excess of \$50 million
 - Allied World National Assurance Company (AWAC)

The JPIA's brokers, Mr. Malone and Mr. McNulty of Metro/Risk, Inc., were asked to again market the renewal.

The JPIA's unique coverages and exposures limit the number of carriers that have the ability to meet the needs of the membership; nonetheless, the JPIA did receive competitive proposals. The results of the proposals were summarized for the committee.

Staff recommends advising the Executive Committee to accept Option II of the reinsurance/excess insurance proposals from Everest Reinsurance, Ironshore Specialty, and AWAC, totaling \$39 million excess of the JPIA's \$1 million retention. Staff also recommends pursuing additional excess layers, if available, of \$10 or \$20 million excess of \$40 million, for total coverage of \$50 or \$60 million at a price not to exceed the expiring premiums for those layers. In addition, staff will explore options for providing a Crisis Management type coverage, not included in Option II.

M/S/C (Groundwater/Dion) (Yes – 5/No - 0): That the Subcommittee recommend to the Executive Committee to accept Option II of the reinsurance/excess insurance proposals from Everest Reinsurance, Ironshore Specialty, and AWAC, totaling \$39 million excess of the JPIA's \$1 million retention. Staff also recommends pursuing additional excess layers, if available, of \$10 or \$20 million excess of \$40 million, for total coverage of \$50 or \$60 million at a price not to exceed the expiring premiums for those layers. In addition, staff will explore options for providing a Crisis Management type coverage, not included in Option II.

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 ten-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 10/1/2009-2010 policy year are to be mailed to the members at the end of July.

Currently, payrolls for the 10/1/2009-2010 policy year indicate a modest increase of approximately 2%. There is a decrease in the actuary-projected losses and the proposed excess insurance costs. The result is a decrease of less than 1% in premiums.

The proposed Ratio of Deposit Premium to Payroll has a decrease of .89%.

Staff recommends approval of the \$3.589 billing rate subject to changes in the final excess insurance costs.

M/S/C (Asher/Groundwater) (Yes - 5/No - 0): That the Subcommittee recommend to the Executive Committee to approve the \$3.589 billing rate subject to changes in the final excess insurance costs.

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 12:23 p.m.