

PROPERTY PROGRAM SUBCOMMITTEE MEETING

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

Monday, January 26, 2004

COMMITTEE MEMBERS PRESENT

Chair: Joan Finnegan, Municipal Water District of Orange County

Vice Chair: Mary Gibson, Mission Springs Water District
Steve Curnow, Suisun Solano Water Authority
Ken Deck, Rowland Water District
Mark A. Gilkey, Tulare Lake Basin Water Storage District

COMMITTEE MEMBERS ABSENT

Nick Canata, Delano-Earlimart Irrigation District
Guido E. Colla, Solano Irrigation District
Jack Cunningham, Goleta Water District

STAFF PRESENT

Chief Executive Officer/Secretary: Daniel N. Klaff
Debbie Gaughan, Member Services Representative II
John Gilstrap, Director of Member Services
Barry Hamory, Director of Claims
Harve LaBounty, Director of Risk Management
Terry Lofing, Member Services Representative I
Rick Scott, Appraisal Coordinator
Walter "Andy" Sells, Chief Financial Officer
Nancy Stangel, Director of Administration (Arrived 3:10 P.M.)

OTHERS PRESENT

Wes Bannister, Orange County Water District
Larry Byers, Fallbrook Public Utility District
Tom Cuquet, South Sutter Water District
James T. Edwards, Foothill Municipal Water District
Randy Fiorini, ACWA Vice President (Left 3:50 P.M.)
Melody Henriques, San Bernardino Valley Water Conservation District
Edward N. Layton, Walnut Valley Water District
William Malone, Metro/Risk, Inc.
Ronald W. Vickery, Kanawha Water District

CALL TO ORDER

A quorum being present, Chairperson Finnegan called the meeting to order at 3:00 P.M.

INTRODUCTION OF NEW COMMITTEE MEMBERS AND GUESTS

Chairperson Finnegan asked the members of the Property Program Subcommittee to introduce themselves. Chairperson Finnegan introduced Randy Fiorini, new Executive Committee member and ACWA Vice President, and Ron Vickery, Vice President of the Executive Committee. Chairperson Finnegan also noted that Rick Scott, Harve LaBounty, Jody Murphy, Debbie Gaughan, Andy Sells, and Barry Hamory, members of the JPIA staff, were also present. Chairperson Finnegan stated that Cynthia Peterson had been a member of the Subcommittee and had recently retired creating a vacancy on the Committee.

PUBLIC COMMENT

Chairperson Finnegan stated that members of the public would be allowed to address the Property Program Subcommittee on any agenda item prior to the Subcommittee's decision on that item. They would also be allowed to comment on any issue they wished, which may or may not be on the agenda. If anyone wished to be heard they should let the Chairperson know.

CONSENT CALENDAR

The consent calendar consisted of the minutes of February 24, 2003.

M/S/C (Gibson, Curnow) (Ayes-4 No-0): The minutes of the meeting on February 24, 2003 are approved as submitted.

MEMBERSHIP

New Members Approved or in the Pipeline

Mr. Gilstrap, Director of Member Services, stated that five new members had joined the Property Program during the last year. Those members include Alpaugh Joint Powers Authority, Angiola Water District, Chino Basin Water Conservation District, Los Alamos Community Services District, North San Joaquin Water Conservation District, and Sacramento Suburban Water District. Angiola Water District was approved by the Executive Committee in June 2003, but has been unable to implement the Risk Management recommendations. They will have until June 2004 to come into the Program. Currently there are 251 members in the Property Program with total insurable values of \$2,214,610,773.

Update of Letters to Withdraw/Rescind

Mr. Gilstrap stated that three members had rescinded their intent to withdraw from the Property Program. Those members include Elsinore Valley Municipal Water District, Hi-Desert Water District, and Kings River Conservation District. Newhall County Water District did not rescind its intent to withdraw, and has also withdrawn from the Workers' Compensation and the Liability Programs. This will terminate their membership in the JPIA.

LOSS REPORTS

Reported Losses Per \$1 Million Dollars of Insured Values

Mr. Hamory, Director of Claims, reported that the Property Program doesn't have a consistent trend in claims. This is because the frequency of losses are small and a single loss can have a disproportionately large impact on the Program. The best example of this is the 2003 year; losses were very low with the exception that the Southern California fires are not included in the current numbers. When the losses from the fires are added the 2003 year will look similar to the 2002 year.

Occurrences Per \$1 Million of Insured Values

Mr. Hamory stated that the upturn in the 1999 year was due to the addition of the Boiler and Machinery Coverage, which has consistently added about 8-10% to the number of claims per year. Frequency in this Program has not seen much change up or down. District autos are insured in this Program so there will always be a fair number of claims but most tend to be less than \$20,000. Occasional large losses tend to drive the Program.

Average Claim Size

The policy year 1999/2000 was a good year in terms of losses dropping to an average of \$6,637, then a poor year in 2000/2001 with an average of \$13,078. The 2001/2002-policy year was very good dropping to \$5,940. The 2002/2003 numbers were up due to one members losses that currently make up almost half of all losses. The current policy year shows only one loss exceeding \$75,000. The average claim size has no particular trend and is driven by the size of a few large losses. In the Property Program the frequency of losses is small and therefore hard to see a predictable trend.

Claims By Cause

Auto losses remain high as a percentage of all losses in frequency. Frequency of loss has increased in the current year primarily due to auto. One large loss in the Boiler and Machinery Program prevented the 2002/2003 policy year from being a good year in terms of losses. The year-to-date figures indicate the Property Program is doing well, but the Southern California fires will have an impact on the Program.

NEW BUSINESS

Review And Take Action On Excess Coverage Renewal Proposals

Mr. Gilstrap referred the Marketing Summary proposals shown in the packet. The current excess carrier in the Property Program is the Chubb Group. Chubb has been the excess carrier for the last two years, and has done a good job in the Program. The proposal from Chubb shows a 5% reduction in the Property rate and no change in the Boiler and Machinery rate. Other carriers were not competitive.

A question was raised regarding dividing the Boiler and Machinery Program from the Property Program, due to equitably sharing the premiums. The two coverages were brought under one umbrella due to some members not fully understanding the B&M coverage, and some that really needed it were not getting it. Having the coverage eliminates the issue of B&M versus property losses. The B&M is not a pooled

coverage. It is a pass-through coverage so the losses in B&M don't impact the Retrospective Premium Adjustments. The losses may have increased but the values have also increased in the Property Program. The B&M coverage is an important component of any property program, and Chubb has offered to renew the Program as is with no increase in premium. Chubb also provides inspection services at no charge on pressure vessels required to be inspected by the State.

A suggestion was made by the Subcommittee that they would like staff to provide a breakdown showing how much boiler and machinery we have as opposed to how much property we have, and what the loss ratio difference is between the two. Staff agreed they would produce a report to compare statistics between the two coverages and bring it before the Committee.

M/S/C (Gibson, Deck) (Ayes-4 No-0): The Property Program Subcommittee recommended to the Executive Committee, to accept the renewal proposal from the Chubb Group at a 5% rate reduction for the Property, and no change in the Boiler and Machinery rate.

Mr. Gilstrap then turned the Subcommittee's attention to the handout entitled Proposed Changes to the MOPC. He explained that Chubb does not have reinsurance in their treaties for mold damage and "malicious programming", which is damage or interruption in electronic data processing operations. Both of these areas are a major concern to the insurance industry. Due to these new restrictions, new language will need to be added to the JPIA's Memorandum of Property Coverage (MOPC).

The limit for Fungus Clean-up or Removal being proposed by Chubb is \$100,000, including the JPIA's pooled retention of \$50,000. Coverage for loss or damage to electronic data would be excluded unless such loss is caused by limited named perils. The sublimit for malicious programming by an "insider" would be \$100,000. The sublimit for by an attack from an "outsider" would be \$60,000 per occurrence, with an annual Program aggregate of \$100,000.

M/S/C (Gibson, Curnow) (Ayes-4 No-0): The Property Program Subcommittee recommended to the Executive Committee, that the coverage restrictions, grants and sublimits be accepted and the JPIA staff will work with Mr. Malone, JPIA's Insurance Broker, and the reinsurer to develop new language for the MOPC.

Property Program Renewal

The Property Program renews on April 1, 2004. In the 2002/2003 policy year the rates were increased on buildings, fixed equipment, and personal property from \$0.10 to \$0.115 per \$100 of insured values. This increase was due to the increased cost of excess insurance and an increase in the JPIA's pooled retention. Last year the rate was not increased but held at \$0.115. This year Chubb has reduced the property rate by 5% and staff recommended holding the rate at \$0.115.

M/S/C (Curnow, Gibson) (Ayes-4 No-0): The Property Program Subcommittee recommended to the Executive Committee, to hold the Property Program rates at \$0.115 for the 2004/2005 renewal.

AVAILABILITY OF SUBCOMMITTEE MEMBERS FOR UPCOMING MEETING

The next scheduled Subcommittee meeting is September 27, 2004, at 1:00 P.M.

There were no conflicts or objections to the proposed meeting date from any Subcommittee members present.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at 4:00 P.M.