

PROPERTY PROGRAM SUBCOMMITTEE MEETING

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

Monday, January 23, 2006

COMMITTEE MEMBERS PRESENT

CHAIR: Mary M. Gibson, Mission Springs Water District
VICE CHAIR: Tom Cuquet, South Sutter Water District
Guido E. Colla, Solano Irrigation District
Jack Cunningham, Goleta Water District
Kevin McKenny, Humboldt Community Services District

COMMITTEE MEMBERS ABSENT

Nick Canata, Delano-Earlimart Irrigation District
Ken Deck, Rowland Water District
Mark A. Gilkey, Consolidated Irrigation District
Ed Muzik, Hi-Desert Water District

STAFF PRESENT

Chief Executive Officer/Secretary: Daniel Klaff
John Gilstrap, Director of Member Services
Barry Hamory, Director of Claims
Debbie Kyburz, Member Services Representative II
Harve LaBounty, Director of Risk Management
Jody Murphy, Administrative Assistant II
Rick Scott, Appraisal Coordinator
Walter "Andy" Sells, Chief Financial & Operations Officer
Nancy Stangel, Director of Administration
Jeanette Waterstradt, Executive Assistant to the CEO

OTHERS PRESENT

Merle Aleshire, Valley Center Municipal Water District
Wes Bannister, Orange County Water District
Eldon Boone, Vista Irrigation District
Joan C. Finnegan, Municipal Water District of Orange County
Jerry Gladbach, Castiac Lake Water Agency
Melody Henriques-McDonald, San Bernardino Valley Water Conservation District
W.D. "Bill" Knutson, Yuima Municipal Water District
William Malone, Metro/Risk Inc.
Glen Peterson, Las Virgenes Municipal Water District, ACWA Vice President

CALL TO ORDER

Chair Gibson called the meeting to order at 8:10 A.M.

PUBLIC COMMENT

Chair Gibson 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 Vice Chair know.

CONSENT CALENDAR

The consent calendar consisted of the minutes of January 24, 2005.

M/S/C (Cunningham, McKenny) (Ayes-5, No-0): The minutes of the January 24, 2005 Property Program Subcommittee meeting be approved as submitted.

MEMBERSHIP

New Members Approved or in the Pipeline

Mr. Gilstrap, Director of Member Services, stated that there are two new members, Panoche Drainage District, active since March 15, 2005 and West Orange County Water Board, active since May 1, 2005. Currently there are 252 members in the Property Program with total insurable values of \$2,641,696,269.

Update of Letters to Withdraw/Rescind

Mr. Gilstrap stated that one member; Oakdale Irrigation District rescinded their intent to withdraw effective April 1, 2006. They will remain in the Property Program at renewal. Rainbow Municipal Water District withdrew from the Property Program on April 13, 2005.

LOSS REPORTS

Reported Losses Per \$1 Million of Insured Values

Mr. Hamory, Director of Claims, reviewed reported losses per \$1 million of insured values. The trend between 2002-2005 shows a significant drop in losses. The current year is eight months old, from April 1st to the end of December. The 2005 year has very few losses. The Property Program is doing extremely well. Since 1991 when the Property Program hit a billion dollars in total insured values, growth has been steady and upward. The amount of losses does not reflect that level of growth.

Occurrences Per \$1 million of Insured Values

Between 1991 and 1995, frequency was relatively steady. The slight upturn in the frequency is, in part, due to the addition of Boiler and Machinery Coverage to the program, which has added 8% to the number of losses. For the current year the JPIA has had only one minor Boiler & Machinery loss. Mr. Hamory stated that the Property

Program for the latest four years shows a steady decline in frequency. When frequency is reduced severity is usually reduced.

Claims By Cause

This is eight months of information from April 1st to December 31, 2005. The largest numbers of losses are auto and vehicles. There were ninety-four losses in 2004 versus sixty-eight in 2005. That is a significant decrease in frequency. The JPIA has been working with the members in defensive driving training for twelve years; the repetition has improved results. The more the members are trained, the more impact it has on the Property Program.

NEW BUSINESS

Review Chubb's loss control service

Mr. LaBounty stated that several times a year the JPIA staff meets with Steve Rouse, Chubb & Son, to discuss services for the 2006 year. The Chubb Group is providing the Boiler and Machinery inspection. This is a mandatory inspection that is in compliance with Cal OSHA. Currently there has been 572 pressure vessel items inspected. The four goals established for this period are:

- Jurisdictional Inspection Servicing
- Machinery Breakdown Loss Control Servicing
- Machinery Breakdown Non-Destructive Testing
- Property Loss Control Servicing

Chubb is now keeping a database so the JPIA will know when the cycle inspections are required. Chubb meets with the JPIA staff periodically and provides in-service training with the Risk Management staff.

Review and Discuss Property Appraisal and Risk Management Analysis Process

The JPIA provides the members with appraisals of their buildings and fixed equipment in order to determine approximate replacement cost. This is the basis for both the premium determination as well as the loss adjustment. The properties are physically inspected and revalued every 5-7 years by the JPIA's staff appraiser, Mr. Rick Scott. If something new comes along with significant values involved, Mr. Scott will go to the district at mid-term. As part of the process when Mr. Scott goes out and looks at the members' property, he will sit down with the members and review their schedules of locations, equipment and make recommendations, so the members can make decisions about what property to insure. The "Property Decisions" memo is provided to the members with new and updated appraisals. It outlines the various factors that members should consider in making decisions about their coverage. The decisions ultimately rest with the members.

Review request by Madera-Chowchilla Water & Power Authority for coverage on hydroelectric power plants

Mr. Gilstrap stated that Madera-Chowchilla Water & Power Authority owns four small hydroelectric generating plants. Over a four-year period they suffered three significant boiler and machinery losses. As a result, Chubb asked the coverage be suspended in the year 2003; this was concurred by the Property Subcommittee and the Executive

Committee. The JPIA continued to cover the plants for the normal property perils. The Boiler and Machinery Coverage is one hundred percent reinsured by Chubb. The JPIA members have no exposure to these losses. Madera-Chowchilla Water & Power Authority recently wrote a letter requesting that the JPIA reconsider and reinstate coverage on the hydroelectric plants. Madera-Chowchilla Water & Power Authority feels that various actions it undertook to re-engineer and refurbish the plants were sufficient to ensure that similar losses will not reoccur. The request by Madera-Chowchilla Water & Power Authority was referred to Chubb. Chubb declined to reinstate coverage at this time. Chubb wants to see some history from Madera-Chowchilla Water and Power Authority being able to operate the hydroelectric generating plants for a reasonable period of time without incurring any additional losses.

Review and take action on excess/reinsurance coverage proposals for the Property Program renewal of 4/1/06

The Property Program renews on April 1, 2006. The excess coverage (currently on a reinsurance basis) renews at the same time. The current reinsurer is Federal Insurance Company, a Chubb & Son subsidiary. The JPIA's broker, Mr. Bill Malone, of MetroRisk Inc., was asked to remarket the excess coverage. Mr. Malone provided the JPIA with his analysis of the various proposals. After reviewing the proposals the JPIA recommended accepting Chubb's proposal, which is to renew "as is", with no change in rates or conditions other than their offer to increase the sub-limit for Course of Construction from \$5 million to \$10 million.

M/S/C (Cunningham, Colla) (Ayes-5, No-0): The Property Program Subcommittee accepted Chubb's proposal, which is renew "as is," with no change in rates or conditions other than their offer to increase the sub-limit for Course of Construction from \$5 million to \$10 million.

Review and take action on renewal pricing of the Property Program

Currently, the rates paid by Property Program members are:

- \$0.115 for Buildings, Fixed Equipment, Personal Property, Other Coverage's
- \$0.15 for Mobile Equipment
- \$0.85 for Licensed Vehicles

These rates are applied to each \$100 of reported and scheduled values. The same rates have been in effect for the last two years. They were increased two years ago due to the increase of the excess insurance cost. This program has always refunded money. These rates are still lower than they were twelve years ago. The JPIA has significantly increased coverage. The following has been added:

- Boiler and Machinery Coverage
 - Pollution Clean Up
 - Employee Dishonesty
- and significant changes in the Memorandum of Coverage.

The JPIA staff recommends no change in the rates charged to members of the Property Program, assuming there is no change in the cost of the excess insurance.

M/S/C (Cunningham, Gibson) (Ayes-5, No-0): The Property Program Subcommittee accepted the recommendations from the JPIA staff, to make no change in the rates at the April 1, 2006 renewal.

AVAILABILITY OF SUBCOMMITTEE MEMBERS FOR UPCOMING MEETING

There is no meeting scheduled at this time.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned at 9:00 A.M.