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CALIFORNIA JOINT POWERS
RISK MANAGEMENT AUTHORITY

Accredited with Excellence from the California Association of Joint Powers Authorities

BOARD OF DIRECTORS MEETING
October 22, 2015 – 9:30 A.M.

CJPRMA Office
3201 Doolan Road, Suite 285
Livermore, CA 94551

(925) 837-0667

Minutes

I. CALL TO ORDER:

President Carmona called the meeting to order at 9:31 a.m.

II. ROLL CALL

PRESENT

1) Lucretia Akil, *Alameda*
2) Frank Fields, *Chico*
3) Laura Marquez, *Fairfield*
4) Steve Schwarz, *Fremont*
5) Janet Hamilton, *Livermore*
6) Dominique Kurihara, *Petaluma*
7) Chris Carmona, *Redding*
8) Mark Ferguson, *REMIF*
9) Kim Greer, Richmond
10) David Rawe, *Roseville*
11) Mary Ann Perini, *San Leandro*
12) Roger Carroll, *SCORE*
13) Bill Henderson, *Stockton*
14) Celeste Garrett, *Vacaville*
15) Jameelah Medina, *Sunnyvale*
16) Erika Leahy, *Vallejo*
17) Jeff Tonks, *YCPARMIA*

ABSENT

Lodi, NCCSIF, San Rafael, Santa Rosa

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OTHERS PRESENT

18) Dr. William Deeb, *AON*
19) Brent Reith, *AON*
20) Patrick Clabby, *ACE*
21) Patrick Hernandez, *ACE*
22) Marcus Beverly, *Alliant*
23) Bill Dennehy, Chandler Asset Mgmt
24) Craig Schweikhard, *CJPRMA*
25) Saima Kumar, *CJPRMA*
26) Susanna Banuelos, *CJPRMA*
27) A. Byrne Conley, *Gibbons & Conley*
28) David Clovis, *CJPRMA*
29) Lola Deem, *CJPRMA*
30) Jas Sidhu, *Livermore*
31) Ken Minas, *Stockton*
33) Erie Luces, Stockton
34) Ray Miller, Stockton
35) Lynette Frediani, Redding
36) Larry Moss, San Rafael
37) Keith McDonald, *Vacaville*

III. PRESENTATIONS

- Cyber Liability Presentation was made by (Patrick Hernandez, Senior Underwriter for ACE and Patrick Clabby Vice President –Professional Risk at ACE) at 1:00 p.m.

IV. THIS TIME IS RESERVED FOR MEMBERS OF THE PUBLIC TO ADDRESS THE BOARD OF DIRECTORS ON MATTERS OF BOARD BUSINESS.

V. COMMUNICATIONS

A. Board Members:
B. General Manager/Secretary:
C. Next Scheduled Meetings: Executive Committee (11/19/2015) Town of Loomis
Board of Directors (12/17/2015) CJPRMA Office

VI. APPROVAL OF MINUTES

- A motion was made by Director Greer, seconded by Director Perini, to approve the amended minutes of Board of Directors meeting held June 18th to include Alternate Director Leahy from City Vallejo as marked present at the June 18th Board meeting minutes. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of the minutes. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

VII. CONSENT CALENDAR

1. Additional Covered Party Certificates Approved by the General Manager ***(A)***

2. Status Update on General Manager’s Goals and Objectives 2013-2015 ***(A)***

- A motion was made by Director Akil, seconded by Director Carroll, to approve the Consent Calendar. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of the consent calendar. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

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VIII. ACTION CALENDER *(Action Items Only)*

3. Proposed Meeting Schedule for 2016 *(A)*

The general manager presented the proposed meeting schedule for the 2016 calendar year. The date for the September Executive Committee was changed to 09/13/2016.

- A motion was made by Director Hamilton, seconded by Director Garrett to approve the 2016 Meeting Schedule. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of the 2016 Meeting Schedule. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

4. Holiday Schedule for 2016 *(A)*

The general manager presented the proposed holiday schedule for the 2016 calendar year.

- A motion was made by Director Hamilton, seconded by Director Garrett to approve the 2016 Holiday Schedule. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of the 2016 Meeting Schedule. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

5. Broker of Record Contract Extension *(A)*

The general manager stated that Broker of Record Contract Extension was presented to the Executive Committee at their September Meeting. The Executive Committee voted in support of the staff recommendation and recommended this item be referred to the Board of Directors for adoption.

The general manager provided the following background information:

In October of 2010 the Board approved a contract for service with Aon Risk Services. The contract term commenced on November 1, 2010 and expired on October 31, 2013. Included within the agreement were two one-year options for extension that were approved by the general manager.

He said that since Aon became the Broker of Record for CJPRMA the following results have been achieved:

2011: Aon reduced the total commission paid to Marsh the previous year by $808,000. There were numerous enhancements to the APD Program. Total renewal premium was $4,612,739, the prior year premium contributions when Marsh was the broker were $5,397,000.

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2012: Significant increase in utilization of APD Program. Total renewal premium for the program year was $4,818,784. The increase in the renewal number from the prior year reflected a $67,000 increase in premium for the APD Program.

2013: Once again a significant increase in the APD exposure and slight increase in payroll and values. Added a multi-year environmental program with total premiums of $389,616. Total premiums paid, not including the new Environmental Program, were $4,626,371.

2014: APD participation continued to increase. Slight increase in values and payroll, total premiums of $4,594,749.

2015: Significant impacts to the APD program due to significant losses. In addition to the environmental program, a new cyber program was created. Total premiums, without environmental and cyber totaled $4,426,390.

The general manager stated that total premiums paid in 2015 were approximately $356,000 less than the total cost of premiums paid in 2010 to Marsh Risk Services as the Broker of Record. Since that time Aon assisted in adding a cyber program, enhanced the APD program and an environmental program.

He said that an added service included with the Broker of Record services was the services of Craig Bowlus performing the annual liability claims audit. The prior contract with Marsh allocated $40,000 a year for this service at a cost of $325 per excess file. Aon allocated a cost of $25,000 per year for this service at a cost of $225 per excess file. We have been advised that in the event that Aon continues to perform the claim audits, there will be an additional charge of $18,750. This is based upon an increase in the number of files being reviewed by the auditor.

The general manager said that Staff agreed with the new approach to conducting the annual claims audit and is appropriate at this time. Staff prepared an additional agenda bill to address this issue. He said that in the event that the Board of Directors chooses to pursue a new format for claims auditing, the annual cost for the Aon Risk Services agreement would remain the same.

The proposed contract term for the agreement will commence on November 1, 2015 and will be a three year agreement, with the option of two one year extensions at the sole discretion of CJPRMA. Aon Risk Services stated they will require an increase for their cost of service. They are proposing a 6% increase in cost of service for year one of the agreement and then a 1% increase for years two through four. This would be a total increase of 10% over a five-year period. Based upon the cost increase proposed by Aon Risk Services, staff compared the rate paid to Marsh in 2010 vs the cost of this new proposal. These increases, if accepted by CJPRMA, would still result in the overall cost of service to be 50% less than the amount previously paid to Marsh Risk Services.

The general manager said that Staff has discussed an alternative schedule for an annual rate increases within the agreement. With an implementation of a 2% increase in years one through three of the agreement and 2% for each of the two one year renewal options. The rates for the Aon Risk Services will be as follows:

November 1, 2015	$338,640
November 1, 2016	$345,412
November 1, 2017	$352,320
Option Year #1	
November 1, 2018	$359,366
Option Year #2	
November 1, 2019	$366,554

- A motion was made by Director Henderson, seconded by Director Akil to approve the proposed Broker of Record Contract Extension with the implementation of a 2% increase in years one through three of the agreement and 2% for each of the two one year renewal options. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of the Broker of Record Contract Extension. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

6. Consolidated Claims Procedures and Audit Standards *(A)*

The general manager presented the consolidated claims procedures and audit standards that was created by Staff and reviewed by the Executive Committee at the September meeting. He said that this document does not change any reporting requirements. The intent of this document is to consolidate all the procedures and policies under one document.

In addition, staff created a set of objective and measurable standards for claims administration and reporting. He said that these standards would be used for establishing the criteria for a claims auditor to effectively measure the performance of each member. In addition he said that he would like the President to create an Ad hoc Claims Audit Committee to help with creating audit standards and selecting a claims auditor.

The following members volunteered to participate in the Claims Audit Committee, Directors Carmona, Ferguson, Rawe, Quintana, Akil and Sidhu. The staff members sitting on the committee are the General Manager, David Clovis, Claims Administrator, Craig Schweikhard and Board Counsel, Byrne Conley.

- A motion by Director Henderson, seconded by Director Rawe to approve the consolidated claims procedure and the appointment of an ad hoc Claims Audit Standards Committee. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona,

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Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of the Consolidated Claims Procedures and Audit Standards. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

7. Proposed Amendments to CJPRMA Bylaws Section IX, Settlement of Claims *(A)*

The general manager informed the Board that under the Boards direction staff proposed amendments to CJPRMA Bylaws, Section IX, Settlement of Claims, to modify the General Manager's and Executive Committee's settlement authority. He said that in 1994 the Board of Directors approved the current settlement authority under Article IX, Settlement of Claims page 14 of the bylaws. The current authority granted under the policy provides the Executive Committee with authority up to $500,000 and the general manager currently has zero authority for claims. He said that the current authority is old and not efficient or consistent with current practices of other CJPRMA Members. He stated that he is required to call a special meeting of either the Executive committee or Board of Directors for any claim settlement in excess of $1.

The general manager said that the Executive Committee has reviewed and has discussed alternatives and recognized that the general manager should be entrusted with authority to settle claims. The Executive Committee voted and agreed to recommend a change in the general manager's authority and directed staff to provide the Board of Directors with the proposed By-law change.

He said the Board of Directors was sent the proposed changes on September 10, 2015 in compliance with the By-laws. The Executive Committee and staff recommend that the general manager be authorized to settle any claim up to $250,000 of the Authority's funds and the Executive Committee authority be increased from the current $500,000 to $750,000 of the Authority's Funds.

The proposed modifications to the By-laws are as follows:

ARTICLE IX

SETTLEMENT OF CLAIMS

All claims settlement recommendations shall be presented by the General Manager/Secretary, or his designee, to, and be approved by, the Board prior to final settlement, except that the Executive Committee shall have the authority to approve settlements in an amount not to exceed $750,000 of the Authority's funds. The General Manager shall have the authority to settle any claim up to $250,000.

In accordance with the Memorandum of Coverage, the Authority may assume control of and defend or settle any claim determined to have a reasonable possibility of resulting in an ultimate net loss in excess of the member entity's retained limit.

The procedure for assuming control of a claim shall be as follows:

1. The General Manager/Secretary may submit the issue of assuming control of a claim directly to the Board of Directors, for decision, by presenting a written recommendation to that effect.

2. The General Manager and the covered party will have the right to submit written materials and present oral arguments to the Board, subject to reasonable time constraints.

3. The Board may determine to assume control of a claim by a majority vote of the entire Board.

4. The affected Board member (i.e. whose member entity is the defendant in the claim) shall be disqualified from the final discussion and vote on this issue.

A copy of the excerpt from the current Bylaws Section IX Settlement of Claims was provided to the Board with the changes.

- A motion by Director Ferguson and seconded by Director Marquez to approve and adopt the change to Section IX, Settlement of Claims as provided. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of the Bylaw changes to Section IX, Settlement of Claims. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

8. 2015 Actuarial Study *(A)*

Mr. Mujtaba Datoo of Aon Global Risk Consulting conducted the 2015 actuarial study and Lola Deem CJPRMA's Finance Officer presented the staff report.

Ms. Deem stated that this year, the value of estimated outstanding losses increased $1.1 million (2.4%) to $47.2 million primarily due to a $4.9 million increase in case reserves.

She said that the actuarially proposed maximum redistribution for FY 2015/2016 is $4.8 million. After deductions for the FY 14/15 realized investment income, the proposed net amount to be returned to current and former members is $2.6 million. This is an increase of $468,320 (21%) from the prior year.

The total required liability funding for PY 16/17 is $11.4 million. The total funding rate being proposed is $0.727/$100. This is based upon a projected payroll of $1.6 billion, which is a 4% increase from the PY 15/16 payroll. At this point, the rate is a slight increase from the previous year of $0.711/$100. The final rate will be adjusted once the final payroll figures are reported by our members and the reinsurance amount is determined.

She stated that the table below shows the proposed net liability premium for PY 16/17 as well as the four previous years for comparison. The estimated net premium of $10.2 million is an increase of $1.3 million (14%) from the previous year. This increase is due an increase in losses and a decrease in realized investment income.

Net Premiums Paid

Program Year	Payroll (billions)	Liability Premium	Less: Realized Invest Income	Add: ELF	Net Premium
2016/17 (proposed)	1.59	$11,408,865	$2,178,000	$1,000,000	$10,230,865
2015/16	1.53	10,730,175	2,769,050	1,000,000	8,961,125
2014/15	1.46	11,430,273	4,345,416	1,550,000	8,634,857
2013/14	1,46	10,949,289	4,483,826	2,250,000	8,715,463
2012/13	1.50	11,132,683	5,943,685	2,250,000	7,438,998

When the new method of calculating the funding rate was implemented, the Excess Loss Fund (ELF) was created to support future program years commencing with 2008/2009. The goal was to fund an amount ($22.5M) equivalent to five times the S.I.R ($4.5M) under the self-insured retention program. The projected funding level would be generated over a ten-year period ($2.25M per year). Once reached, funding would be discontinued until such time as losses reduced its level. Including the current year contribution, $16.2M had been paid into the ELF.

Ms. Deem stated that in order to maintain the net premiums in a stable manner, for the last three program years we have reduced the ELF contribution. She said that staff recommends that we once again reduce the PY 16/17 ELF contribution to $1M.

Liability Premium	Less: Realized Invest Income	Add: ELF	PY 16/17 Net Premium
$11,408,865	$2,178,000	$1,000,000	$10,230,865

The following three items were proposed for approval by the Board:

1. The 2015 actuarial study
2. The proposed FY 15/16 redistribution plan of $2,655,513
3. The PY 16/17 proposed rates and funding

- A motion by Director Ferguson and seconded by Director Henderson to approved the 2015 actuarial study. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of 2015 actuarial study. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

- A motion by Director Ferguson and seconded by Director Henderson to approve the proposed FY 15/16 redistribution plan of $2,655,513. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of FY 15/16 redistribution plan of $2,655,. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

- A motion by Director Henderson and seconded by Director Tonks to approve the PY 16/17 proposed rates and funding. Directors Akil, Fields, Marquez, Schwarz, Hamilton, Kurihara, Carmona, Ferguson, Greer, Rawe, Perini, Carroll, Henderson, Garrett, Medina, Leahy and Tonks voted for approval of the PY 16/17 proposed rates and funding. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

9. Request for Modifications of Bylaws regarding Board Member Requirements *(A)*

The general manager reported to the Board that a request was received by CJPRMA from President Carmona and the City of Redding for consideration of modifying the CJPRMA Bylaws regarding Board Member qualifications. A copy of the memorandum was provided to the Board for review.

He stated that President Carmona submitted his resignation to the City of Redding that will be effective November 2, 2015. President Carmona will be assuming a new position with the George Hills Company as Claims Manager. The City of Redding has agreed in terms to outsource the liability claims process to George Hills Company on a six-month trial basis. President Carmona and City of Redding are requesting a review of the current Bylaws and propose a modification to the Bylaws that would permit an employee of George Hills, a contract risk manager for the city, to serve as the designated Board Member for the city.

The general manager said that he has reviewed this proposal with Board Counsel Byrne Conley who provided the following discussion on the issue:

The language Mr. Carmona is concerned about was added a long time ago, 1989-1990, I believe. Former Board President Frank James was upset about member JPAs appointing vendors such as Mike Simmons of Alliant and Ed Bickmore/Linize Kramer of Bickmore as CJPRMA Board members. He thought it was a conflict of interest for a broker or vendor to sit on the CJPRMA Board, and that only public employees or officers should be deciding how to spend public money. So the Bylaws were amended to specify the Board members must be agency employees or officers.

(Mr. Kramer) did not like this so he had the CSJVRMA Board designate him as an "officer" of the agency in a letter to CJPRMA. Board President James was unhappy about this but discussed it with the Board, and they backed down and let CSJVRMA continue with Linzie Kramer as its CJPRMA Board member. They felt that if the CSJVRMA Board was oblivious to the conflict, and insisted on continuing to appoint a vendor on their behalf by holding him out as an "officer" of the JPA, even after the Bylaws were changed, they would not take the dispute further.

I think President Jame's concerns were well taken, evidenced by the fact that the Bickmore people ultimately lobbied CSJVRMA's Board to leave and join another excess pool operated by Bickmore.

Mike Simmons, Alliant Insurance Services complied with what was intended and SCORE (and later NCCSIF) appointed member employees as Directors to CJPRMA.

This issue came arose again with Director Ron Blanquie when he was hired by Petaluma but was still running ICA and appointed on a contract basis. Former General Manager Bob German thought it violated the Bylaws for Petaluma to use an independent contractor as its appointed director. As I understand it the City decided to hire Ron directly instead of by contract with his firm to clear up the problem. I also suggested to Bob German that if the City sent us a letter saying "we hereby appoint Ron Blanquie as our Risk Manager, an official of the City" even though he was hired on a contract basis, we might have trouble excluding that choice under the Bylaws language.

Bob German dealt directly with Ron Blanquie on this and I had some involvement, but you might want to discuss with Ron what they said to each other at the time.

We did not define "employee" or "officer" separately. The Tort Claims Act defines "employee" at section 810.2 as including "an officer, judicial officer as defined in Section 327 of the Elections Code, employee, or servant, whether or not compensated, but does not include an independent contractor."

The problem has always been drafting language that covers different situations while keeping with the intent to avoid outside influences or conflicts. Some cities hire an outside attorney with independent practices as "City Attorney" and there is no doubt that such a person would be an "officer" of the City under the Government Code since the position is defined by statute. I would not want to disallow appointment of a City Attorney such as Rob Epstein – who legitimately is a City official even if he also has a private practice. I think "does not include an independent contractor" does not apply when the person holds an office recognized in the Government Code. That's why we put "employee or officer" in the Bylaws; you can hold an office but be compensated as an independent contractor, but cannot be an "employee" if you are an independent contractor.

I think if a member decided to hire a retired risk person on a contract basis and appoint them "Risk Manager" (i.e., City of Stockton) we would not object to that appointment, either, just on the basis that the member used a contract rather than an employee/employer hiring.

But having an employee of a TPA as a Board member (or President) while employed by George Hills, a TPA company, might raise a number of complicating issues. For one thing, he would be a public official (as a CJPRMA Board member) but his sources of income for FPPC purposes would not be just the City of Redding, it would be George Hills, and all of George Hills' sources of income too. Sometimes the Board considers claims audits covering Hills and other rival TPAs, sometimes it considers settling claims that Hills adjusts for other members. These would create potential conflicts that Rob and Bill do not have.

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President Carmona addressed the Board and then recused himself from the discussion. After a lengthy discussion on the matter the Board decided to take a roll call vote to decide whether or not to approve City of Redding's request. The Board directed the general manager to do further research on City of Petaluma's Director and Alternate status to serve on the Board. The Board asked for an update on the matter at the December Board meeting.

- A motion by Director Ferguson and seconded by Director Carroll to reject the City of Redding's request to modify the Bylaws regarding the Board Member Requirements. Director Akil, Schwarz, Ferguson, Rawe, Perini, Carroll, Henderson, Medina, Leahy and Tonks voted for the approval of the motion. Directors Fields, Marquez, Hamilton, Greer, Garrett voted no on the motion. Directors Frediani and Kurihara abstain from voting. Directors Madgich, Islas, Dolan and Hunt were absent. Motion passes.

IX. INFORMATION CALENDAR

10. Report from the Investment Manager *(I)*

Bill Dennehy, Chandler Asset Management, presented the CJPRMA investment portfolio, investment strategy, and update on economic factors that have had a direct impact on the investments.

Pool investments are managed by Chandler Asset Management. The assets are held in CJPRMA's bank custody account managed by the Bank of New York.

The investment program is divided into three parts: The Loss Payment Account, the Long Term Growth Account and the new Long Term Growth/Tactical Account.

The Loss Payment Account is utilized to provide funds for operating expenses and the payment of losses. The Loss Payment Account invests in high grade securities with a maximum maturity of 5 years. As of September 30, 2015, the Loss Payment Account was valued at $5,267,013. This was a decrease of $1,194,194 from its valuation of $6,461,927 on June 30, 2015. Two securities were purchased during the quarter to keep the portfolio structure and duration in line with Chandler targets. He said both of the securities purchased were Asset Backed Securities with shorter maturities. One Treasury and one Agency note were sold to help facilitate the additions to the portfolio and to help fund the $1.2 million withdrawal from the portfolio. Mr. Dennehy stated that the Loss Payment Account has sufficient funds to meet the expenditure requirements of the next six months.

Mr. Dennehy reported that as of September 30, 2015 the Long Term Growth Account was valued at $38,695,171. This was a decrease of $1,836,005 from its valuation of $40,531,176 on June 30, 2015. One Treasury note was purchased to extend the duration and maturity profile of the portfolio. The purchased Treasury note matures in August 2025. Two securities were sold, one Agency note and one Treasury note, to facilitate the aforementioned purchase and a $2.6 million withdrawal during the quarter.

He stated that as of September 30, 2015, the Long Term Growth/Tactical Account was valued at \$37,842,564. This was a decrease of \$2,907,170 from its valuation of \$40,749,734 on June 30, 2015. Several securities were purchased in the Treasury and Agency sector to keep the portfolio duration and structure in line with Chandler objectives. The purchased securities ranged in maturity from February 2018 to July 2020. Multiple securities were sold and one was called to help facilitate the additions to the portfolio and fund the \$3.1 million withdrawal during the quarter.

Mr. Dennehy stated that the investments in all accounts comply with CJPRMA's investment policy.

No action was required on this item.

11. Property Memorandum of Coverage 2015-2016 *(I)*

The general manager presented the Property Memorandum of Coverage 2015-2016 as an update for the property program participants. He said that Staff worked with Aon Risk Services to place the 2015-2016 Property Program with AIG Insurance Company. This was approved by the property program members at the May Meeting. He said that Staff, Aon Risk Services, Board Counsel Byrne Conley and the AIG Staff have been working together to include all of the modifications of coverage required by the new AIG program into the 2015-2016 MOC. The one item that stands out for review is the dedicated limits provided by AIG for the entire \$300,000,000. In the past, Munich Re was able to provide \$10,000,000 in limits with additional reinsurance to achieve the \$300,000,000 requirements. There have been changes to wording within the MOC that are intended to be compliant with the insurance documents provided by AIG.

He said that all parties have reviewed the final draft and are in agreement that all of the modifications to language have been included. The members of the Property Program were not required to approve the Memorandum of Coverage. The placement of the program and approval of the changes with AIG recommendation was discussed with the members at the May and June meetings.

No action was required on this item.

12. Discussion of Options for Experience Modification Factors for Property Program *(I)*

The general manager said that the annual property renewal process for the 2015-2016 program year was conducted by CJPRMA. As a result of the major property loss sustained by the City of Stockton the renewal quotation provided by Munich Re included a minimum of a 19% cost increase for all members of the property program. Alternatively, AON Risk Services was able to identify an alternative carrier, AIG, to provide a quotation at a greatly reduced rate. Multiple members of the property program expressed a concern over moving to AIG specifically in light of the action taken by Starr Indemnity Company on the liability program.

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The general manager provided the underlying facts regarding the fire loss:

Earl Hotel, a 45,296 square foot hotel, built in 1910, sustained total damage arising out of a fire. It was determined that the cause of loss was a propane stove or other device operated by the homeless that occupied the structure. During the suppression operation a neighboring structure also sustained damage due to water infiltration.

The building was purchased for under $500,000 in lieu of condemnation, as informed by the City. The building was purchased pursuant to economic development in the downtown area. The City planned on demolishing the building to be replaced with a parking lot or other structure. Preservationists sued to stop the demolition but the City prevailed; however the City lacked the funds to complete the planned demolition once the litigation was over.

During the ownership period Stockton attempted to safeguard the structure utilizing chain link fencing to avoid occupation of the structure by vagrants and the homeless. The City’s efforts failed and they ultimately ceased enforcement of preventing occupation. The loss and damage to the structure was caused by the persons occupying the structure. Stockton firefighters indicate that continual squatters and vandals made holes in the floors and walls which caused the fire to spread faster and made the fire more dangerous. The City was ineffective in preventing occupation of the structure and their failure ultimately resulted in a catastrophic loss. This failure to expend resources to protect the structure indicates an ineffective risk management program regarding infrastructure protection.

This structure was added to the CJPRMA property program in the 2008/09 program year. The appraised replacement value of the structure was $8,834,000. The overall loss of the structure was in the amount of $10,029,715.78. The loss exhausted all of the limits provided by Munich Re and also impacted the XL insurance layer.

The general manager highlighted the coverage placement issues created by the Stockton loss. He said that in order to avoid the 19% increase quoted by Munich Re CJPRMA moved the property program to AIG, which was willing to lower the property quote in order to secure business. He said that this loss considerably narrowed the markets CJPRMA was able to approach. None of the other carriers would have furnished a quote significantly better than the Munich Re quote. AIG was willing to maintain the lower quote because it is in an aggressive marketing mode and also in part, we are told, because CJPRMA changed its memorandum of coverage to limit coverage for vacant properties, so in the future coverage would not exceed a stated fair market value.

He said this issue illustrates a problem in that it is the property program’s largest loss and demonstrates how a single, large loss can affect the premiums for the entire purchasing group. Further the loss is on our history for future group purchases and may yet affect future placements.

The question arises whether the program should have a policy and procedure in place to anticipate large occurrences. The following options were presented to the Board:

Option 1: The members of the program could consider a loss such as the catastrophic loss incurred at the City of Stockton as a loss incurred and should be considered a cost of doing business and make no recommendations for change. A loss of this magnitude could have occurred in any member's jurisdiction and it was unfortunate but an inherent risk for which members purchase insurance.

Option 2: the Board could consider an experience modification for any member that suffers a loss (individual loss, or perhaps aggregate losses, in one program year) exceeding $1 million. The experience modification would apply through a formula that is set in advance under specific terms. For example: if a member has a loss in excess of $1 million, its premium would increase 10% over the manual rate (total insured value times the pool rate) each year for five years, but not to exceed 25% of the loss dollars exceeding $1 million. [All of the parameters are subject to discussion.]

Option 3: an alternative to Option 2, or in addition to it, could be a policy that any member having two losses exceeding $1 million in a 5 year period, or total losses exceeding $2 million aggregate will be subject to a 20% experience modification, plus the Board will have the option to consider other alternatives such as passing on any increased premium from the carriers directly to the member on a dollar-for-dollar basis; or excluding the member from the group quote; essentially, exclusion from the group purchase program (staff would solicit a separate quote for the individual member).

Option 4: an alternative to Option 2 or 3, or in addition to it, could be a policy that any member having a single catastrophic loss exceeding $10 million in a single program year, and a determination is made the organization failed to implement reasonable controls to minimize or avoid the loss. The member would be subject to a penalty equal to the amount of premium increase for all members of the program in the following year. This surcharge could include the additional cost associated with the loss and could represent a percentage equivalent to the proposed increase. As an example, in the event this policy were in place currently, the City of Stockton would have incurred a penalty of approximately $986,000, the amount of increase for all program participants based upon the quotation provided by the incumbent carrier. The funds could be used to provide property risk management services to all members of the program or could be used to offset the increased cost of insurance premiums.

Director Schwarz stated that the best approach would be an experience modifier. Director Garrett stated that anyone of the members could suffer a similar loss. The property program participants decided that the best way to approach this would be to form a property program ad hoc committee to look into different options. Vice President, Janet Hamilton asked for volunteers to participate in the ad hoc committee. Directors Hunt, Leahy, Henderson volunteered to participate in the committee.

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13. New Board Member/Alternates *(I)*

Notifications regarding a change in director/alternate designations that have been received as of the last meeting are indicated herein:

1) Sunnyvale **Board Director** – Jameelah Medina, Risk Manager

2) Stockton **Alternate –** DeAnna Solina, Interim Director of Human Resources

14. Business Calendar for 2015 and 2016 *(I)*

The business calendar was provided to the Board as a standing agenda item. The calendar provides key business items and the required dates for completion for the Board.
No action was required. This was an information only item.

15. Risk Management *(I)*

1. Requesting proper coverage – ('occurrence' based CGL coverage) – *(Bill Henderson – Stockton)*:

2. Types of personal protective equipment provided to Code Enforcement Officers – *(Janet Hamilton – Livermore)*: Director Hamilton asked if any other member are letting their code enforcement officers carrier pepper spray or wear a bullet proof vest. Some members stated that they don't provide any of the equipment. Others stated that they let them carry pepper spray or provide police escort.

3. What purchasing limits are used in public official bonds for City Manager, City Attorney, and Superintendent of Public Works – *(Jameelah Medina – Sunnyvale)*: Director Medina asked what limits are members purchasing in public official bonds for positions like City Manager, City Attorney, and even Superintendent of Public. The members said that the blanket bond coverage can be purchased by person's title and agency.

4. Purchase cyber insurance with the city included as an additional insured – *(Mary Ann Perini – San Leandro)*: Director Perini asked if cyber insurance can be provided with the City listed as additional insured.

X. CLOSED SESSION

1. **<u>Government Code Section 54956.9 (a)</u>**
Conference with Legal Counsel - Litigation

Name of Case: Perez v. City of Richmond
Court: United States District Court – Northern District of California
Case No.: C 15-00256 WHA

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2. **<u>Government Code Section 54956.9 (a)</u>**
   Conference with Legal Counsel - Litigation

   Name of Case: Jimenez v. City of Colusa (NCCSIF)
   Court: N/A
   Case No.: N/A

3. **<u>Government Code Section 54956.9 (a)</u>**
   Conference with Legal Counsel - Litigation

   Name of Case: Haught v. City of Anderson
   Court: United States District Court – Eastern District of California
   Case No.: CV01653-JAM-CMK

4. **<u>Government Code Section 54956.9 (a)</u>**
   Conference with Legal Counsel - Litigation

   Name of Case: O'Shea v. City of Chico
   Court: N/A
   Case No.: N/A

XI. ACTION ON CLOSED SESSION ITEMS

- The general manager received authority from the Board of Directors on the four items included in closed session.

XII. ADJOURNMENT

- A motion by Director Henderson, seconded by Perini to adjourn the meeting at 2:40 p.m.