CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES (CARMA)

MINUTES OF THE BOARD OF DIRECTORS MEETING OF JANUARY 5, 2018

A regular meeting of the Board of Directors of CARMA was held on January 5, 2018, at the Dream Inn in Santa Cruz, California.

BOARD MEMBERS PRESENT:	Tim Przybyla, CARMA President, CSJVRMA Dan Schwarz, CARMA Vice President, BCJPIA Gary Goodman, CARMA Treasurer, VCJPA Rene Mendez, MBASIA Linda Cox, MPA
ALTERNATE MEMBERS PRESENT:	Tamara Davis, VCJPA Daria Carillo, BCJPIA
OTHERS PRESENT:	Ric Burwell, CARMA Administrator Ritesh Sharman, CARMA Finance Manager Maria de Leon, CARMA Analyst Craig Farmer, CARMA Board Counsel Rob Kramer, BCJPIA Jaesa McCulligan, BCJPIA Jeanette Workman, CSJVRMA Chrissy Mack, VCJPA Seth Cole, Alliant Insurance Services Conor Boughey, Alliant Insurance Services Lesley Murphy, Public Financial Management, Inc.

1. CALL TO ORDER

The January 5, 2018, Board of Directors meeting was called to order at 9:00 a.m. by President Tim Przybyla.

2. INTRODUCTIONS

Introductions were made and it was determined a quorum was established.

3. APPROVAL OF AGENDA AS POSTED (OR AMENDED)

Gary Goodman moved, seconded by Dan Schwarz, to approve the agenda as presented. The motion passed unanimously.

4. PUBLIC COMMENTS

None

5. CONSENT CALENDAR

Rene Mendez moved, seconded by Gary Goodman, to approve the following items: A) Minutes of the September 15, 2017, Board of Directors Meeting; B) Warrant Listings from September 1, 2017, through November 30, 2017; C) Treasurer's Report as of September 30, 2017; and D) Interim Financial Statements as of September 30, 2017. The motion passed unanimously.

6. ANNUAL WORKSHOP RECAP

A. Establishment of Goals and Objectives

Ric Burwell, CARMA Administrator, reviewed the goals and objectives that were reviewed and discussed at the Annual Workshop the prior day in areas of coverage, communications/marketing, and operations, as follows:

Coverage:

- Continue to monitor underlying Memoranda of Coverage for coverage developments.
- Consider possible contraction of coverage for transit operations.
- Review Alternative Dispute Resolution (ADR) provisions.

Communications/Marketing:

- Continue "soft" marketing of reaching out to potential new pool members.
- Complete cycle of administrator visits to all the underlying pools.

Operations:

- Closely monitor the success of Mid-Layer Pool (MLP), and if financial conditions remain positive, consider additional funding up to proposed target levels.
- Continue to build relationships with member JPAs in the area of Litigation Management.

Dan Schwarz moved, seconded by Rene Mendez, to adopt the Goals and Objectives for 2018/19 as outlined above. The motion passed unanimously.

7. ADMINISTRATIVE MATTERS

A. Commercial Marketing Strategies

Seth Cole, Alliant Insurance Services, provided the Board with an overview of the current insurance market environment and renewal strategy for the 2018/19 coverage year. Mr. Cole reported, the commercial insurance market had been healthy, and the recent catastrophic losses are not expected to impact the casualty lines of coverage; however, municipalities with urban law enforcement and jail exposures may experience price increases.

Mr. Cole elaborated, for 2017/18, CARMA bound its reinsurance and excess insurance coverage with Great American and Allied World National Assurance Company (AWAC) for the $9M x $5M reinsurance and $15M x $14M Second Layer Excess coverage, respectively, for a total limit of $24M excess of CARMA's Pooled Layer and Member Retention. Barring any significant changes in market conditions, Mr. Cole suggested CARMA renew coverage with the same reinsurance and excess carriers for 2018/19.

B. Engagement with Sampson, Sampson and Patterson, LLP, for Independent Financial Audit Services

Ritesh Sharma, CARMA Finance Manager, reported Sampson, Sampson and Patterson, LLP, (SSP) has been conducting the financial audit for CARMA since 2006. CARMA's most recent engagement with SSP expired upon the completion of the June 30, 2017, audit. Mr. Sharma provided an overview of the proposal from SSP for financial audit services and fees for June 30, 2018, at $9,500; June 30, 2019, at $9,700; and June 30, 2020, at $9,900.

Rene Mendez moved, seconded by Dan Schwarz, to approve the engagement of Sampson, Sampson and Patterson, LLP, to conduct independent financial audits for CARMA for Fiscal Years Ended June 30, 2018; June 30, 2019; and June 30, 2010. The motion passed unanimously.

C. Approval of Bickmore Contract for Actuarial Services

Mr. Burwell reported, historically, CARMA's actuarial studies were performed by Bay Actuarial Consultants. For purposes of due diligence, CARMA distributed a Request for Proposal (RFP) for actuarial services in August 2017, and in September 2017 selected the firm of Bickmore as its new actuarial partner through that process. He noted the agreement for the actuarial services with Bickmore has been reviewed and discussed with CARMA President and Vice President, as well as Board Counsel, Craig Farmer. He added Mr. Farmer recommended several changes to the agreement. The agreement is now under review by Bickmore's corporate office. Mr. Burwell recommended the Board authorize the CARMA President to execute the Bickmore contract, subject to Bickmore's acceptance of Mr. Farmer's recommendations.

Dan Schwarz moved, seconded by Gary Goodman, to authorize the Board President to execute the contract with Bickmore for actuarial services, subject to Bickmore's acceptance of CARMA's Board Counsel's recommended changes to the contract. The motion passed unanimously.

8. FINANCIAL MATTERS

A. California Asset Management Program Portfolio Review

Lesley Murphy, PFM Asset Management, reviewed CARMA's investment portfolio of the 4th quarter 2017, highlighting the following:

- CARMA's investment portfolio has consistently delivered strong performance relative to its benchmarks.
- CARMA's portfolio is in compliance with California Government Code and within CARMA's Investment Policy.
- CARMA's portfolio holdings are well-diversified.

- PFM plans to continue to monitor CARMA's portfolio duration relative to the benchmark duration, and make adjustments as appropriate.
- PFM will continue to favor broad allocation including various non-government sectors permitted by CARMA's investment policy.
- PFM will continue to monitor the markets and make relative-value trades as appropriate.

B. Review of CARMA Investment Policy

Ms. Murphy reported CARMA's Investment Policy remains in compliance with the sections of the California Government Code that govern the investment of public funds. She added there have been no changes to the Code that would necessitate a change to the Policy; however, PFM is recommending one minor change to the Glossary section of the Policy, pertaining to the Money Market Funds. Details of the change were outlined in the memo sent by PFM to CARMA, which essentially recommended the deletion of the phrase, "and seek to maintain a constant net asset value of $1.00 per share" from the Glossary since certain types of money market funds are no longer required to maintain a net asset value of $1.00 per share.

A copy of the memo and CARMA's Investment Policy with proposed changes were provided in the agenda for the Board's reference and consideration.

Rene Mendez moved, seconded by Gary Goodman, to approve the revised CARMA Investment Policy. The motion passed unanimously.

C. Review of CARMA's Equity Position

Mr. Sharma reported at the January 4, 2018, Annual Workshop, staff presented the annual retrospective (retro) adjustment calculation, which provided parameters that determine the viability of the release of dividends to the membership. Staff presented the Board with options for potential release of dividends through the retro based on three different funding levels:

- Option 1, at the 70% confidence level (CL), release of approximately $6.48M of eligible funds. Note, PARSAC's (withdrawn member) equity at this funding level is ($13,911);
- Option 2, at the 80% CL, release approximately $4.21M (net of negative years 2015/16 and 2016/17); and
- Option 3, at the 90% CL, CARMA's aggregate equity would be at ($2.3M), net of current negative program years 2014/15 through 2016/17; therefore, there are no available funds eligible for release at this level. Although CARMA's Retrospective Adjustment Policy does not address 90% CL, in an effort to be as conservative as possible, staff performed the calculation at this level as well.

Additionally, Mr. Sharma reported PARSAC has a payable on the books in the amount of $410,639. The payable was approved by the Board in January 2017; however, the Board elected at that time to retain the dividend as a payable to be paid in future years, pending the results of subsequent actuarial review. Mr. Sharma elaborated the current member allocation at the 70% CL shows PARSAC has a negative equity of $13,911.

Staff recommended the Board declare releasing dividends in the range of $1.9M to $2.7M, of which $500K in cash would go towards the funding of the Mid-Layer Pool (MLP); pay PARSAC $300K from the previously-approved dividend, with remaining amounts to be released in the future as approved by the Board; and to close out the 2001/02 program year. Mr. Sharma explained the $1.9M bottom-of-range is based on the difference between the equity available for dividend release at the 80% CL ($4.21M), minus the deficit equity at the 90% CL ($2.29M). The $2.7M top-of-range is based on the difference between the equity eligible for distribution at the 80% CL ($4.21M), minus the deficit equity at 90% CL, net of negative years 2014/15 and 2016/17 ($1.3M), not eligible for dividends.

Mr. Burwell noted, per the retrospective adjustment policy, the Board has the prerogative to declare the release of an amount as much as the eligible funds at the 70% CL, however, due to the recent change in actuary, which may impact the projections of next year's ultimate losses, and in the interest of fiscal conservatism and preventing future funding shortfalls, staff is recommending the release of dividends within the range discussed above. He added the recommended range is in line with the range of dividends the Board has released in the past two years.

The Board discussed and was agreeable to the recommendations. However, in that CARMA is currently in a positive financial position, the Board reached a consensus to increase the MLP-strengthening allocation to $1M.

Rene Mendez moved, seconded by Dan Schwarz, to declare release of $2.7M in dividends, of which $1M will go towards strengthening the funding of the Mid-Layer Pool; to pay $300K from the previously-approved $410,639 of payable to PARSAC; and to close the 2001/02 Program Year. The motion passed unanimously.

D. Adoption of Mid-Layer Pool Resolution

This item was tabled and slated for discussion at the April 2018 CARMA Board meeting.

E. Approval of Changes to the Administrative Expense Allocation Methodology

Mr. Burwell reported CARMA's annual administrative fee is approximately $480,000, of which 56% is distributed on a per-capita basis among the five JPA members, and the remaining 44% is allocated based on the members' loss experience, specifically their uncapped experience modifiers. He noted the Monterey Bay Area Self-Insurance Authority (MBASIA) suggested the current methodology might be inadvertently presenting a disproportionate cost burden, particularly to a smaller member agency. Mr. Burwell explained, although MBASIA's payroll is only an estimated 4% of CARMA's total member payroll, as a result of a recent large claim which adversely impacted its ex-mod, the member is paying approximately 30% of the total administrative fees.

Mr. Burwell added staff presented the Board with several allocation models at the January 4th annual workshop for consideration, as follows:

- Options 1A, 1B, and 1C are allocation models based on three different combinations of per-capita charge and payroll, and are not subject to the application of loss history.

- Options 2A, 2B, and 2C are allocation models based on three different combinations of per-capita charge, payroll and loss history.

The Board reached a consensus to move forward with Option 2C, which is based on the following allocations: 50% per-capita, 25% losses, and 25% payroll, to be implemented in the 2018/19 fiscal year, with a caveat that it would be brought back for evaluation next fiscal year.

Rene Mendez, MBASIA, expressed appreciation to the Board.

Rene Mendez moved, seconded by Gary Goodman, to adopt the Option 2C allocation model as discussed above, to be revisited for further evaluation next year. The motion passed unanimously.

9. CLOSING COMMENTS

A. Board

None

B. Staff

Mr. Burwell reminded everyone of the April 11, 2018, CARMA Board meeting. Mr. Goodman expressed he and Ms. Tamara Davis will not be attending the meeting due to another commitment.

10. ADJOURNMENT

The January 5, 2018, CARMA Board of Directors meeting adjourned at 9:53 a.m. by general consensus of the Board.

Ric Burwell

Ric Burwell, Board Secretary