

**CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES
(CARMA)**

**MINUTES OF THE BOARD OF DIRECTORS
MEETING OF April 17, 2008**

A regular meeting of the Board of Directors of CARMA was held on April 17, 2008, at the offices of Bickmore Risk Services in Sacramento, California.

BOARD MEMBERS PRESENT: Geoff Grote, BCJPIA, President
John Stroh, VCJPA, Vice President
Jake O'Malley, MPA, Treasurer
Kent Rice, MBASIA (*exited at 11:30 a.m.*)
Joanne Rennie, PARSAC

BOARD MEMBERS ABSENT: Joe Donabed, CSJVRMA

ALTERNATE MEMBERS PRESENT: Linda Abid-Cummings, CSJVRMA

OTHERS PRESENT: Rob Kramer, Executive Director
Kim Santin, Assistant Executive Director
Sandra Spiess, Board Secretary
Linzie Kramer, Bickmore Risk Services
Brian Kelley, Bickmore Risk Services
Jeanette Workman, Bickmore Risk Services
Mike Simmons, Alliant Insurance Services
Tim Farley, Farley Consulting Services (*exited at 12:20 p.m.*)
Craig Farmer, Legal Counsel

1. CALL TO ORDER

The April 17, 2008, Board of Directors' meeting was called to order at 10:15 a.m. by President Geoff Grote.

2. INTRODUCTIONS

Those present introduced themselves.

3. **APPROVAL OF AGENDA AS POSTED (OR AMENDED)**

Joanne Rennie moved to approve the agenda as presented. Seconded by John Stroh. Motion passed unanimously.

4. **PUBLIC COMMENTS**

None.

5. **CONSENT CALENDAR**

Jake O'Malley moved to approve/accept the following items: A) Minutes of the January 11, 2008, Board of Directors' Meeting; B) Minutes of the February 25, 2008, Special Board of Directors' Meeting; C) Warrant Listing of March 31, 2008; D) Treasurer's Report as of December 31, 2007; E) Review of Investment Performance for the Quarter Ended December 31, 2007; F) Internal Financial Statements for the Quarter Ended December 31, 2007; G) CARMA Membership Letter of Interest Sent to Scott Ellerbrock at PERMA; H) CARMA Membership Letter of Interest Sent to Jeff Tonks at YCPARMIA. Seconded by Joanne Rennie. Motion passed unanimously.

Mr. Rob Kramer requested Item G, CARMA Membership Letter of Interest Sent to Scott Ellerbrock at PERMA, and Item H, CARMA Membership Letter of Interest Sent to Jeff Tonks at YCPARMIA, be pulled for discussion. Mr. Kramer provided the Board with an update regarding the interest of these two pools potentially seeking membership with CARMA. Mr. Kramer indicated that if YCPARMIA does not remain in CJPRMA his feeling is they would likely go into CSAC-EIA, and PERMA would consider joining CARMA, but likely also would be joining CSAC-EIA beginning on July 1, 2008. Mr. Mike Simmons noted that the latest information he had was that YCPARMIA would be returning to CJPRMA, and that PERMA would be moving to CSAC-EIA.

The Board inquired as to the status of the March 31, 2008, financial statements and when the Board may have the ability to review those statements. Mr. Kramer confirmed the financial statements will be distributed via e-mail to the Board members as soon as they are completed.

6. **ADMINISTRATIVE MATTERS**

A. **Consideration of the Liability Claims Audit Prepared by Farley Consulting Services**

Mr. Tim Farley, Farley Consulting Services, reviewed the executive summary section of the claims audit with the Board. Mr. Farley explained this year's audit was the condensed review where next year's will once again be an expanded review. Mr. Farley indicated excess reporting by all the third party claims administrators (TPA) was excellent this year and overall, the TPA's were doing a good job with documentation and file maintenance.

Mr. Farley indicated that he recommends a process for the deterioration of the self-

insured retention for claims be developed and he discussed this recommendation with Mr. Linzie Kramer, CARMA Litigation Manager. Mr. Kramer indicated his team has developed a process for tracking the deterioration of the SIR on each claim and that this information, as well as a calendar of important dates, will now be included with the Litigation Manager's Report provided to the Board.

The Board inquired as to how Mr. Farley selected files to be reviewed. Mr. Farley indicated that all claims valued over \$50,000 were reviewed. Mr. Farley indicated he also reviews loss runs for open claims and pulls the files of those that appear to be "high risk" with the potential for litigation.

John Stroh moved to accept and file the Liability Claims Audit as presented. Motion seconded by Kent Rice. Motion passed unanimously.

B. Consideration of the Farley Consulting Services Claim Audit Proposal

Mr. Farley reviewed his Claims Audit Proposal with the Board. Mr. Farley indicated the fee for his bi-annual expanded report would remain the same; however, he was requesting an increase in the standard scope report for 2009. Mr. Farley also requested the billing for services be changed for the years with expanded scope, with 25% of the project fee being paid at the beginning of the process with the balance paid after completion of the final study. Mr. Farley indicated this request would help defer the cost of travel for the larger, expanded scope study.

John Stroh moved to accept and file the Claims Audit Proposal as presented by Mr. Farley. Motion seconded by Jake O'Malley. Motion passed unanimously.

7. FINANCIAL MATTERS

A. Review of Actuarial Study Provided by Mr. Jack Joyce of Bay Actuarial Consultants

Mr. Kramer indicated that Mr. Jack Joyce, Bay Actuarial Consultants, had a conflict and was not able to be present to review his report with the Board; however, Mr. Joyce did prepare an in-depth Management Overview for the Board's consideration. Ms. Kim Santin and Mr. Kramer reviewed the major elements of the actuarial study with the Board.

Ms. Santin indicated the rate for the 2008/2009 program year is \$.371 at the 80% confidence level. This rate is an increase of approximately 14% from the 2007 study rate of \$.325. Ms. Santin further explained that as the Board approved an approximate 88% confidence level rate for the 2007/2008 program year, an amount of \$.408, this new rate of \$.371 would be a decrease of 9% over the prior year's 88% funding rate.

Mr. Kramer confirmed that a discount factor of 4% interest on the expected cost of

claims was utilized. Discussion ensued as to the appropriateness of the discount factor utilized. Ms. Santin indicated that Ms. Nancy Broadhurst, CARMA Accounting Manager, had a discussion with Public Financial Management (PFM) and Mr. Joyce regarding the use of 4% for the discount factor and it was agreed that 4% was appropriate.

Ms. Santin then reviewed the second part of the study, the estimate of CARMA's Ultimate Loss and Loss Adjustment Expense for prior years. Ms. Santin indicated the amount has increased by approximately \$5 million or 17%. Ms. Santin confirmed this amount reflects the two full hits to the retained layer of \$3 million in the 2004/2005 program year.

The Board directed staff to have Mr. Joyce review his numbers for the lower self-insured retention levels, such as \$2,000,000 and \$3,000,000 and the cost to fund these levels.

John Stroh moved to accept and file the Actuarial Study as prepared by Mr. Jack Joyce, Bay Actuarial Consultants. Seconded by Jake O'Malley. Motion passed unanimously.

B. Consideration of the Proposed Annual Budget for the 2008/2009 Program Year

Ms. Kim Santin reviewed the proposed annual budget for the 2008/2009 program year. Ms. Santin indicated that utilizing the 80% confidence funding level of \$.371 results in a 4.87% increase or \$363,509, in the overall premium.

Ms. Santin indicated there are increases in certain line items of the budget, including the claims audit, legal fees due to increased research and coverage opinions, marketing, and Board meetings. Ms. Santin stated that the budget takes into account an estimated increase of 10% in the reinsurance and excess rates. It was asked of Mr. Simmons if this will be the case when he presents renewal options in June 2008. Mr. Simmons inquired if the Board wished to have his report on the excess and renewal process incorporated into the budget discussion. With the consent of the Board, Mr. Simmons reviewed the preliminary indications received from the excess and reinsurance markets. Mr. Simmons stated indications are leaning towards an approximate reduction of 5% for reinsurance rates for CARMA, with excess layer rates most likely remaining flat, with no major increases or reductions.

Mr. Simmons reviewed rates for other layers of coverage and the Board discussed the possibility of reducing the SIR level as well as the possibility of increasing levels of excess and reinsurance coverage. Mr. Simmons reviewed the CLIP program and the possibility of purchasing another \$5 million in excess coverage to bring the group to \$30 million in coverage.

Mr. Simmons indicated CARMA must be at the \$25 million excess level before joining

CLIP. Mr. Simmons confirmed that CARMA as a whole would not have to participate in the CLIP program, it would be optional for each individual JPA.

Mr. Simmons indicated he will bring a full menu of coverage level options and prices before the Board for review and discussion at the June 2008 Board meeting.

Joanne Rennie moved to approve the annual operating budget utilizing the \$.408 rate or the approximate 83% confidence level. Motion seconded by John Stroh. Motion passed unanimously.

C. Review of CARMA Equity Position and Equity Ratios

Ms. Santin briefly reviewed the benchmarking ratios with the Board. Ms. Santin indicated a full review of the equity ratios will be provided at the September 2008 Board meeting; however, she wanted to update and review the ratios based on the new actuarial study and the two full-limit hits to the 2004/2005 program year.

The Board inquired as to the possibility of assessments for past program years. Mr. Kramer indicated discussion of an assessment for the 2000/2001 program year will be on the agenda for the June 2008 meeting and that as discussed in previous meetings, members should prepare for the assessment in their underlying budgets.

D. Consideration of Target Equity Policy

Mr. Kramer briefly recapped the discussion that transpired at the January 2008 Annual Workshop regarding the revision of some, or all, of the ratios reflected in the CARMA Target Equity Policy. Mr. Kramer indicated the ratio of most concern was the SIR to equity ratio, and it was discussed that revising the ratio from 5:1 to 3:1 may be more appropriate for the group. This would revise the target equity of the group from \$20 million to \$12 million, which is a more reasonable amount for an excess liability group.

Joanne Rennie moved to approve the revised target equity policy, changing the SIR to equity ratio from 3:1, as presented. Motion seconded by Jake O'Malley. Motion passed unanimously.

8. **COVERAGE MATTERS**

A. Review of the 2008/09 CARMA Memorandum of Coverage

Mr. Craig Farmer reported that he has reviewed the CARMA Memorandum of Coverage (MOC) and does not recommend any changes at this item.

Mr. Farmer briefly reviewed the letter he prepared in response to PARSAC's question

as to the scope of coverage provided under CARMA's MOC for water treatment and waste water treatment plans. Ms. Rennie indicated PARSAC has clarified the language in the PARSAC MOC regarding this issue. Mr. Farmer requested each of the JPA managers send him a copy of the MOC for their entity so that he may have those on file for reference.

B. Report by Board Legal Counsel, Mr. Craig Farmer

None.

C. Report from Alliant Insurance Services on the Status of the Excess Insurance Renewal for CARMA

This item was discussed in conjunction with agenda item 7.B. Consideration of the Proposed Annual Budget for the 2008/2009 Program Year.

9. CLAIMS MATTERS

A. Closed Session Pursuant to Government Code Section 54956.95(a) to Discuss Claims

Mr. Linzie Kramer reported that there was no need for a closed session. Mr. Kramer reported the Chan case has been resolved and that the Brooks part of the Brooks/Juarez has been resolved; however, the Juarez part remains on-going.

B. Report from Closed Session

None.

10. CLOSING COMMENTS

A. Board

None

B. Staff

None

11. ADJOURNMENT

The April 17, 2008, Board of Directors' meeting adjourned at 1:12 p.m. by general consensus of the Board.

Sandra Spiess

Sandra Spiess, Board Secretary