

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

**MINUTES OF THE BOARD OF DIRECTORS
MEETING OF APRIL 21, 2010**

A regular meeting of the Board of Directors of CARMA was held on April 21, 2010, at the offices of Bickmore Risk Services in Sacramento, California.

BOARD MEMBERS PRESENT: Geoff Grote, BCJPIA, President (*joined at 10:20 a.m.*)
John Stroh, VCJPA, Vice President
Jake O'Malley, MPA, Treasurer

BOARD MEMBERS ABSENT: Joe Donabed, CSJVRMA
Kent Rice, MBASIA

ALTERNATE MEMBERS PRESENT: Linda Abid-Cummings, CSJVRMA
Robert Galvan, MBASIA

OTHERS PRESENT: Karen Thesing, Executive Director
Sandra Spiess, Board Secretary
Michael Groff, Bickmore Risk Services
Nancy Broadhurst, Bickmore Risk Services (*exited at 11:15 a.m.*)
Jeanette Workman, Bickmore Risk Services
Rob Kramer, Bickmore Risk Services
Mary Ann Reilly, Bickmore Risk Services
Susan Adams, Alliant Insurance Services
Michael Simmons, Alliant Insurance Services
Matt McManus, Alliant Insurance Services
Conor Boughey, Alliant Insurance Services
Craig Farmer, Legal Counsel
Tim Farley, Farley Consulting Services
Jack Joyce, Bay Actuarial Consultants (*exited at 11:15 a.m.*)

1. CALL TO ORDER

The April 21, 2010, Board of Directors' meeting was called to order at 10:15 a.m. by Vice President John Stroh.

2. **INTRODUCTIONS**

Those present introduced themselves.

President Geoff Grote arrived and assumed governance of the meeting.

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

Robert Galvan moved to approve the agenda as amended. Seconded by Linda Abid-Cummings. Motion passed unanimously.

4. **PUBLIC COMMENTS**

None.

5. **CONSENT CALENDAR**

John Stroh moved to approve/accept the following items: A) Minutes of the January 14, 2010, Board of Directors' Meeting; B) Warrant Listing of March 31, 2010; C) Treasurer's Report as of December 31, 2009; D) Internal Financial Statements for the Quarter Ended December 31, 2009. Seconded by Jake O'Malley. Motion passed unanimously.

6. **FINANCIAL MATTERS**

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

Mr. Jack Joyce, Bay Actuarial Consultants, reviewed the major elements of the actuarial study with the Board. Mr. Joyce stated the report included rates for the self-funded layer for the 2010/2011 program year and estimated liabilities at December 31, 2009.

Mr. Joyce stated he projects an estimated liability of \$18.1 million undiscounted, or \$16 million discounted at a 4% interest rate, for unpaid losses as of June 30, 2010. Mr. Joyce explained that the projected liability at June 30, 2010, is a \$2.2 million increase over the June 30, 2009, projection, primarily due to an increase in the estimated losses for the 2005/2006 program year.

Mr. Joyce further explained that he is currently estimating \$1.38 of Incurred But Not Reported (IBNR) for every dollar of case reserves in the CARMA retained layer. While case reserves and the IBNR liability last year were \$2.92 million and \$13 million, respectively, this year total case reserves and IBNR liability are \$7.58 million and \$10.52 million, respectively. This results in a \$2.5 million decline in IBNR, but a \$4.7 million increase in case reserves.

Mr. Joyce explained there was a 2.6% overall reduction in rates at the 80% confidence level from the 2009/2010 rates at the 80% confidence level. Mr. Joyce confirmed that a discount factor of 4% interest on the expected cost of claims was utilized. The rate at the 80% probability (confidence) level is \$0.354 and \$0.402 at the 85% probability level.

The Board discussed the discount rate utilized and the appropriateness of using 4% given the state of the economy. Mr. Joyce discussed his rationale for using a 4% confidence level. Mr. Joyce indicated that the average dollar for claims for the 2010/2011 will take an average of five and a half years to make it out the door. This factor, plus the amount of capital the group has in place, justifies the higher interest rate.

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

B. Consideration of the Proposed Annual Budget for the 2010/2011 Program Year

Ms. Karen Thesing, Executive Director, explained that in accordance with the direction from the Board during the January 2010 Workshop, staff prepared different budget scenarios as possible alternatives for additional funding of the inverse condemnation claims.

Ms. Nancy Broadhurst, Accounting Manager, indicated the first budget scenario reflected a typical proposed annual budget for 2010/2011, with funding at the 80% confidence level. Ms. Broadhurst reviewed changes in the budget, such as the increase for the expanded claims audit and the increase in legal fees, and confirmed there was an overall increase in 1.96% over the 2009/2010 budget.

The Board noted a desire to discuss the increase in legal fees and requested the item be tabled for future discussion.

Ms. Broadhurst next reviewed the budget scenario wherein a method for capping inverse claims was utilized to cap these types of claims at \$1.5 million. Ms. Broadhurst noted that while CSJVRMA and MPA each have one inverse condemnation claim, BCJPIA has six, and only three of the six BCJPIA claims were impacted by the increase in the increase of the cap. This resulted in an increased experience modification for BCJPIA, increasing the allocation of contribution for BCJPIA and decreasing the allocation of contribution for the other members.

Ms. Broadhurst explained that the second scenario involved shifting the timeline of loss experience used for group members. Staff performed an analysis of the loss information and claim files to determine how long it takes for claims to settle. Ms. Broadhurst confirmed that staff found the claims were settling in an average of 4.1 years. Ms. Broadhurst indicated the second budget scenario utilized the oldest three of the last five years of loss experience in the calculation; explaining that utilizing these years of loss experience will capture the average timeline of claims closure.

The Board discussed the various budget scenarios, how the various members would be impacted, and how the inverse condemnation issue impacted the group.

Jake O'Malley moved to approve the annual operating budget at the 80% confidence level, utilizing the most recent four of the last six years loss experience, and inverse claims capped at \$1.5 million. Motion seconded by Robert Galvan. Motion passed unanimously.

C. Update on Target Equity Goals and Assessments/Return of Equity

Ms. Broadhurst presented the Board with a revised December 2009 financial statement which incorporated the ultimate loss figure from the new actuarial study. Ms. Broadhurst confirmed a decrease of \$820,000 in IBNR reserves and a corresponding increase of \$820,000 in net assets, bringing the group to \$10.6 million in net equity. Ms. Broadhurst indicated this is the highest level of equity the group has experienced during its existence.

The Board consensus was that there is no need for an assessment at this time.

7. **COVERAGE MATTERS**

A. Review of the 2010/2011 CARMA Memorandum of Coverage

Ms. Karen Thesing explained that at the January 2010 Workshop, the Board performed an in-depth review of the CARMA Memorandum of Coverage (MOC). At that time, the Board resolved the questions of the medical malpractice and the dispensing of medications by employees as they related to changes in the MPA MOC.

Ms. Thesing indicated that one of goals resulting from the Workshop was to determine the appropriateness of coverage for airport vehicles used off of airport property. Ms. Thesing explained that staff worked with Michael Simmons of Alliant Insurance Services (Alliant) and Craig Farmer, Board Legal Counsel, to evaluate the language currently contained in the MOC. Ms. Thesing confirmed that as a result of this review, staff was proposing a small change to the language in Exclusion 6, Section VI, to confirm coverage of bodily injury, personal injury, or property damage with regards to airport vehicles when used off the premises of airports.

Ms. Thesing then reviewed changes made to the MOC Declaration page. Ms. Thesing noted the addition of a footnote to illustrate the fact that the reinsurance coverage is subject to some conditions that may be different from the CARMA MOC.

John Stroh moved to accept revisions to the 2010/2011 Memorandum of Coverage as presented. Seconded by Robert Galvan. Motion passed unanimously.

The question was posed as to whether changes to the language for inverse condemnation should be revised for the 2010/2011 program year. It was noted the Board reviewed this issue during the 2010 Workshop and a lengthy discussion

transpired as to where the liability falls and how the limits impact the group. At that time, it was suggested that this issue be evaluated to determine if the language in the MOC should be simplified to include just one sublimit for this exposure.

Mr. Craig Farmer confirmed that discussion regarding inverse condemnation did take place and the matter of the difficulty in determining which exclusion would apply until the claim occurs was also discussed at length. Mr. Farmer confirmed no formal decision was made to change the inverse condemnation language for this program year.

A discussion ensued as to how making any potential changes to the inverse condemnation language at this time would impact the members for the 2010/2011 program year and the marketing of the CARMA excess and reinsurance programs.

It was noted that any changes should be brought before the Board for review at the June 2010 meeting to begin discussions so that any formal changes could be incorporated into the 2011/2012 program year for both the underlying members and the excess and reinsurance programs.

The Board directed staff to bring revised inverse condemnation language before the Board at the June 23, 2010, Board meeting for evaluation, and if appropriate, approval for the 2010/2011 program year.

B. Update on the Structured Medicare Reporting Requirement

Ms. Thesing reviewed the current status of the Structure Medicare Reporting Requirement, highlighting the fact that the official start date for reporting has once again been pushed back and is now scheduled to begin January 1, 2011.

Ms. Thesing confirmed that CARMA has completed the registration process and is currently underway with the testing of the reporting process with the Centers for Medicare and Medicaid.

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

Ms. Susan Adams, Alliant Insurance Services, provided the Board with an update on marketing efforts for reinsurance and excess currently underway. Ms. Adams confirmed she is seeking quotes for \$2 million ex of \$1 million, \$3 million ex of \$1 million, and quota sharing. At this point, the only market refusing to quote CARMA is Munich Reinsurance America, due to previous CARMA losses under their coverage.

Mr. Michael Simmons indicated that Alliant is seeking quotes with the ANML program and since CARMA has a good working relationship with Everest Reinsurance (Everest) through ANML, Alliant is also seeking a stand-alone quote with Everest in the instance the ANML program moves away from their coverage relationship with Everest.

Ms. Adams confirmed that the deadline for quote submission to CARMA is May 14, 2010, and she will bring firm quotes before the Board at the June 23, 2010, meeting.

8. 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 indicated this year he conducted the more condensed audit, and while he audits each member's files, members do not each receive their own individual report. The expanded audit will take place in November 2010.

Mr. Farley indicated that overall, the third party claims administrators (TPAs) are doing a good job with documentation and file maintenance and he has noticed the implementation of many of the suggestions which resulted from previous claims audits conducted. Mr. Farley confirmed that he has reviewed the responses of each of the TPAs to the audit and he will take these responses into considerations when finalizing the audit report.

A concern was raised in regards to including recommended reserve changes and claims reported to excess in the report. Mr. Farley and the Board discussed possible alternatives for the presentation of the information. After review of the options, the Board requested that Mr. Farley break out future recommendations for reserve changes and reporting to excess as a separate confidential report that will be reviewed in closed session.

Jake O'Malley moved to accept and file the 2009 liability claims audit as presented. Seconded by John Stroh. Motion passed unanimously.

B. Consideration of Farley Consulting Services Fees and Scope of Work for Future Claim Audits

Mr. Farley explained that he will be conducting an expanded claims audit, wherein each of the CARMA members receive an individual breakout report, in November 2010, which was previously approved by the Board.

Mr. Farley reviewed his proposed pricing for the 2011 – 2013 claims audits with the Board and confirmed that he will not be raising his fees for these future audits. Mr. Farley stated the 2012 audit will be the next expanded audit.

The question was posed as to whether it was necessary to continue to perform the expanded audits with the withdrawal of PARSAC on July 1, 2009. It was noted that PARSAC still has approximately 60 open CARMA claims and while it would be prudent to go forward with the expanded audit in 2010, it may not be necessary to perform an expanded scope audit in 2012.

John Stroh moved to engage the services of Farley Consulting Services for the standard scope audit in 2011 and 2013 and to have the Board evaluate the need for an expanded scope audit in 2012. Seconded by Linda Abid-Cummings. Motion passed unanimously.

C. BRS Environmental Sensitivity Initiatives

Ms. Sandra Spiess, Board Secretary, explained that Bickmore Risk Services (BRS), like many companies, is working to become a more environmentally-sensitive company and highlighted some steps BRS is taking in this endeavor. Ms. Spiess went on to explain that one of the major BRS initiatives is working with clients to utilize electronic copies of Board agendas and staff would like to have the CARMA Board consider this option.

The Board discussed the feasibility of electronic agendas and using laptops to view agendas during meetings. The Board consensus was that they would like to continue to receive the hard-copy version of the agenda, but those who wished to work with an electronic copy could request this option from staff.

Ms. Spiess indicated she would send out an email to the Board and vendors and solicit each participant's preference as to how they would like to receive their agenda.

9. CLAIMS MATTERS

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

Pursuant to Government Code Section 54956.95(a), the Board convened to closed session at 12:35 p.m. to discuss the following claims for the payment of tort liability losses, public liability losses, or workers' compensation liability incurred by the joint powers authority:

Padgett v. Brian Loventhal, et al
Skoumbas, et al. v. City of Orinda
Williams, et all v. City of Antioch
Fitzgerald v. City of Elk Grove

B. Report from Closed Session

The Board reconvened to open session at 1:55 p.m. and it was noted the following action was taken in closed session: The Board provided the Litigation Manager with settlement authority with respect to the Fitzgerald v. City of Elk Grove claim.

10. CLOSING COMMENTS

A. Board

None.

B. Staff

None.

11. **ADJOURNMENT**

The April 21, 2010, Board of Directors' meeting adjourned at 2:00 p.m. by general consensus of the Board.

Sandra Spiess
Sandra Spiess, Board Secretary