INDEPENDENT CITIES RISK MANAGEMENT AUTHORITY

MINUTES OF THE
GOVERNING BOARD MEETING
Monday, May 22, 2017
10:00 A.M.

A meeting of the Governing Board was held on May 22, 2017, in Downey, California.

MEMBERS PRESENT:

Alhambra	Velia Rodriguez
	Richard Bacio
Bell	Sergio Ibarra – arrived 10:17
Downey	Anil Gandhy
El Monte	John Nguyen
El Segundo	Mike Dugan
Fullerton	Gretchen Beatty
Glendora	Vicki Cross
	Cecilia Todd
Hawthorne	Dennis Hernandez
	Olivia Valentine
Hermosa Beach	Vanessa Godinez – arrived 10:18
Huntington Park	Donna Schwartz
	Martha Castillo
Inglewood	Sara Nazir – arrived 10:59
Manhattan Beach	Greg Borboa
Monterey Park	Tom Cody
Redondo Beach	Diane Strickfaden
	Jill Buchholz
San Fernando	Nick Kimball
South Gate	Nellie Cobos

MEMBERS ABSENT:
Baldwin Park

NON-MEMBERS PRESENT:

RPA	Tyler LaMantia
	Beth Lyons
	Cindy LaMantia
	Ashley O'Brian
	Christina Floe
Johnson Schachter & Lewis	Luther Lewis

Carl Warren & Company	Todd Johnson
James Marta & Co	David Becker Jim Marta
Bay Actuarial Consultants	Jack Joyce
Arthur J. Gallagher	Susan Blankenburg Kylie Bailey
City of Bell	Jesus Garcia Tina Norrdin
City of Glendora	Shama Curian
City of Lynwood	Terri Marsh Treasure Ortiz
City of Redondo Beach	Cristine Shin

1. **CALL TO ORDER**
   President Tom Cody called the meeting to order at 10:00 a.m.

2. **ESTABLISHMENT OF QUORUM/INTRODUCTIONS**
   Introductions took place and it was determined a quorum was present.

3. **PUBLIC COMMENTS**
   None.

4. **APPROVAL OF AGENDA AS POSTED OR AMENDED**
   Motion was made by Greg Borboa (Manhattan Beach), seconded by Richard Bacio (Alhambra), and unanimously carried to approve the agenda as presented.

5. **CONSENT CALENDAR**
   Motion was made by Greg Borboa (Manhattan Beach), seconded by Richard Bacio (Alhambra), and unanimously carried to approve the consent calendar as presented.

6. **OPEN SESSION**

   A. Request from the City of Alhambra to Increase its Member Retained Limit (MRL)

   The City of Alhambra requested an increase to its Liability program member retained limit (MRL) from $250,000 to $750,000. Enclosed in the packet was a letter from Alhambra Assistant City Manager Richard Bacio, advising the City plans to factor this change into its 2017-18 Budget, and will forward a Minute Order certifying approval of such upon Council approval.

Motion was made by Tom Cody (Monterey Park), seconded by Mike Dugan (El Segundo), and unanimously carried to approve the City of Alhambra's request to increase its MRL from $250,000 to $750,000 effective July 1, 2017.

B. Lynwood Appeal of Surcharge for Late Submission of Data

ICRMA annually collects member exposure and payroll information for renewal. The late submission of data jeopardizes ICRMA's ability to receive timely quotes on reinsurance/excess rates and limits ICRMA's ability to prepare a budget document and submit timely billings to ICRMA members. ICRMA's Bylaws require a surcharge assessment if members are late in providing renewal information.

5.2.4.2 Applications received by staff more than ten calendar days after their due date will be subject to a 5% surcharge on the member's next year's LP premium. […]
5.2.4.3 Applications received by staff more than 20 calendar days after their due date will be subject to a 10% surcharge on the member's next year's LP premium.

This year, the City of Lynwood failed to meet the January 25 submission deadline. The full renewal package was received on February 17, 2017, 23 calendar days after the deadline. Per the Bylaws, the City is to be charged a 10% surcharge on the 2017-18 premium. The City's liability premium was $455,694 in 2016-17.

Staff met with Lynwood's City Manager, Interim Finance Director, and Interim HR Director on April 25, 2017, and hand-delivered a letter advising of the late reporting surcharge. The City appealed this surcharge via a letter to ICRMA's Board of Directors, outlining the issues that prevented the city from meeting the submission deadline and requesting consideration regarding the 10% surcharge. The City has been in a transition period and advised that they were late in reporting due to several changes in 2016, including the loss of several Finance department personnel (including former ICRMA Board member Amanda Hall), and the switch to a new financial system.

RPA staff recommended that the surcharge be waived or reduced. RPA also recommended that a mechanism be introduced into ICRMA's governing documents to allow ICRMA to estimate payroll if members do not respond by the deadline. The estimated payroll will then be reported to the excess carrier and used for budget preparation and the calculation of annual contributions and assessments/dividends. RPA recommended consideration of a revision that would allow administrative staff to estimate payroll by increasing the actual payroll submitted the previous year by 5%, or the average increase of pool payroll, whichever is greater. Because estimated payroll could be greater than actual payroll, members that do not timely report payroll could experience increased annual contributions.

Gretchen Beatty (Fullerton) moved to waive the surcharge in this instance, amend the Bylaws to change the surcharge to a flat $10,000, allow staff to increase payroll by 5% if not received timely, and allow Board consideration of late charges in extreme circumstances, but no more *than once every five years. Greg Borboa (Manhattan Beach) seconded. Motion carried unanimously.*

C. 2017/18 Broker's Insurance Renewal Proposal

Broker Susan Blankenburg handed out an updated renewal proposal and presented renewal options for all lines of coverage, as outlined below.

D. 2017/18 Crime Insurance Coverage Renewal

The crime program provides coverage for the loss of funds due to employee dishonesty or theft by an outside party.

Richard Bacio (Alhambra) moved to authorize renewal of crime coverage with Hanover Insurance Company, effective July 1, 2017, increasing the limit to $5 million with a $25,000 deductible, for a premium of $31,875. Gretchen Beatty (Fullerton) seconded. The motion carried unanimously.

E. 2017/18 Cyber Liability Insurance Coverage Renewal

The cyber program provides coverage for unintentional loss of others' protected information.

Richard Bacio (Alhambra) moved to authorize renewal of the Cyber coverage with CHUBB, increasing the limit to $3 million per member with a $10,000 deductible, with a $10 million program annual aggregate, for a premium of $111,600, effective July 1, 2017. Anil Gandhy (Downey) seconded. Motion carried unanimously.

F. 2017/18 Property/Auto Physical Damage Program Development

Currently auto physical damage and property coverages are offered through separate programs. Property program members may participate in one of two programs: All Risk Only or All Risk with Earth Movement and Flood. At the April Board meeting, RPA, broker Susan Blankenburg, and the actuary presented information regarding the creation of a self-insured property and auto physical damage (APD) program. Several options were discussed and the Board directed the broker and RPA staff to develop a self-insured option with a $250,000 pool deductible and $500,000 aggregate stop loss, and solicit quotes from carriers.

The new program structure combines property and auto physical damage into a self-insured program. A separate, fully insured, program will be created for Earth Movement and Flood coverage. RPA recommends fully funding the $500,000 aggregate stop loss, at least for the first year, which will eliminate the possibility of a program assessment. If not utilized to pay losses, this amount will form the basis of the program's net assets, which could result in future savings. Deductibles are $10,000 for Property and $5,000 for Auto Physical Damage. This self-insured program will result in a premium cost savings of $95,048 over last year.

The broker successfully created a self-insured program structure and negotiated a 9% rate reduction for year one. Increased savings are anticipated in future years if the pool's loss experience remains minimal.

This program is supported by Axis, Interstate Fire & Casualty Cos. who provide the primary $50 Million limit, with Homeland Insurance Co. of NY and RSUI providing the $200 Million excess property layer.

Staff contacted both current liability program TPAs, Carl Warren and AdminSure, to request loss adjusting proposals. Regardless of the loss amount, members will report all claims to the TPA for handling which will result in enhanced loss adjusting services and less administrative burden for the members. Property Program Bylaws are currently being drafted and will be presented along with TPA contract proposals at the Board's June 15 meeting for review and adoption.

Richard Bacio (Alhambra) made a motion to develop a Property and Auto Physical Damage program with a $250,000 pool deductible and $500,000 aggregate stop loss, for a premium of $519,697, and direct the broker to place excess coverage. Mike Dugan (El Segundo) seconded. Motion carried unanimously.

G. 2017/18 Earth Movement and Flood Coverage Renewal

Property Program members have historically participated in one of two programs: All Risk Only or All Risk with Earth Movement and Flood (EMF). EMF coverage includes earthquake, landslide, earth sinking, rising, shifting, sinkhole collapse, and mine subsidence.

As the Board moves toward consolidating the Property and Automobile Physical Damage programs into a single self-insured program, the EMF coverage will be provided as a separate, fully insured program.

The expiring EMF coverage includes $135,000,000 limits (per the Probable Maximum Loss [PML] Study) and allocated premium of $2,114,639. The proposed program has a $120,000,000 limit (based on the updated PML study), at an annual premium of $2,105,431, and a rate of $.3165 per $100 of declared values.

Richard Bacio (Alhambra), made a motion to authorize placement of Earth Movement & Flood coverage, effective July 1, 2017, led by London Syndicates, for a premium of $2,105,431. Anil Gandhy (Downey) seconded. Motion carried unanimously.

H. 2017/18 Workers' Compensation Program Insurance Renewal and Loss Funding

While ICRMA has not sustained any losses in excess of $2 million since program inception in 2003, it is ICRMA's goal to decrease its SIR to $2 million to improve its financial condition and ensure key financial targets are met. ICRMA received a quote from Safety National which would allow it to reduce its current SIR from $3 million to $2 million. Safety National is ICRMA's incumbent carrier and offers a traditional excess insurance policy. The pool will pay higher premiums to reduce the SIR, however, a reduction in the program's SIR could also reduce the amount of, or need for, future assessments. With that in mind, and considering the financial impact of the Board's long-term goals, RPA recommended the Board approve a $2 million pooled SIR.

Loss Funding:
After extensive conversation last year, the Board funded the 2016-17 program at a 57% confidence level using a 2% discount factor. From a funding perspective, this equated to the 70% confidence level and 3% discount factor used the prior year, however, more accurately represented the interest being earned on investment income.

The Board's goal is to fund the program in the 70%-85% range using an appropriate discount factor. With that in mind, yet understanding the financial constraints ICRMA members continue to experience, RPA recommended the Board increase the confidence level funding in the program from 57% to 60%. RPA also recommended the confidence level funding be increased each year until it reaches a minimum range between 70%-75%.

Greg Borboa (Manhattan Beach) moved to reduce the pool's Self-Insured Retention from $3M to $2M as recommended. Dennis Hernandez (Hawthorne) seconded. Motion carried unanimously.

Greg Borboa moved to fund losses from the MRL to $2M at the 60% confidence level with a 2% discount factor, noting that this will better protect the pool from losses and the need for future assessments. Dennis Hernandez seconded. Motion carried unanimously.

I. Liability Program Actuarial Study

Bay Actuarial Consultants prepared the draft actuarial study to aid ICRMA in determining the appropriate funding levels for the Liability Program. To facilitate this decision making process, the actuary projected the Program's 2017/18 losses, which were used to develop contribution rates. The actuary also provided estimates of the programs' ultimate losses for all program years, which are used to determine the Program's outstanding liabilities for financial reporting purposes.

Loss Development

The Program experienced additional development between 8/31/15 and 12/31/16 in the 2012-13 policy year and favorable development in the 2013-14 through the 2015-16 policy years.

2017/18 Funding Rates

The Program's adverse loss development caused the actuary to recommend increases in the projected losses, and therefore, contribution rates for the 2017/18 program year.

Larger MRLs experienced more pronounced rate increases. The increase in the upper layers was directly attributable to the increased frequency and severity of claims this layer experienced since the last evaluation. All rates were calculated at the $3,000,000 SIR, 70% probability funding level and discounted at 2%.

Jack Joyce presented the liability program actuarial study, noting the similarity between Chart 1, Claims Expenditures, and Chart 2, Losses Reported. He suggested that this indicates that the members have been paying claims out quickly, which could have an impact on interest earnings.

The Board directed the finance team to work with the actuary to finalize the report and member studies.

J. 2017/18 Liability Program Insurance Renewal

Despite the catastrophic losses ICRMA members have experienced, ICRMA received competitive quotes from Safety National as well as incumbents ScorRe, Lexington, and Evanston (Markel) in the $27 million excess of $3 million layers.

The indications received from the carriers would allow for the elimination of the $1 million corridor and enable ICRMA to maintain the $3 million self-insured retention. While the pool is paying higher premiums to retain the self-insured retention at $3 million, the lower retention reduces the pool's financial exposure to catastrophic losses.

Gretchen Beatty asked where Fullerton could attach, and Beth advised Fullerton may attach at $3 million or $8 million. The budget document assumes attachment at $8 million. If Fullerton attaches at $3 million, the costs will improve for the other members.

Richard Bacio (Alhambra) moved to 1) authorize binding $27 million in reinsurance coverage, subject to a $3 million pooled SIR, at the premium of $4,515,000; 2) Eliminate the $1 million corridor, and 3) fund losses from member retained limits to $3 million at the 70% confidence level with a 2% discount factor. Greg Borboa (Manhattan Beach) seconded.

Motion carried unanimously.

K. 2017/18 Preliminary Draft Budget

David Becker of James Marta & Co. presented the draft budget for the 2017/18 program year.

Multiple factors influence coverage costs, many of which the Board took action on previously during the meeting. These include but are not limited to:

1. Loss funding (provided by the actuary)
2. Funding rates associated with the selected member retained limit (provided by the actuary)
3. Reinsurance/excess premiums
4. Costs to manage the pool (administration, broker, risk control, etc.)
5. Member ex-mods (based upon member losses)
6. Member exposure (payroll, employee count, etc.)

With the Board's direction regarding the various program alternatives, the finance team will complete the budget. The budget document, along with a detailed analysis of expenditures and allocations, will be presented at the June 15 meeting for Board review and adoption. Greg

Borboa suggested that the assessment amounts be included in that document so that cities can prepare their respective budgets more easily.

The Board provided feedback and asked that a final budget be presented in June.

The Board recessed for lunch at 12:10 and returned into open session at 12:45 PM.

L. Liability Assessment Overview

Beginning in 2014, the Board began evaluating ICRMA's financial position due to a decline in the net position of the liability program. The decline was a result of multiple ICRMA members experiencing multiple catastrophic losses. In 2015 the Board hired consultant Mark Nestor of ICRMS to provide analysis and advice. The Board received a report from ICRMS which reviewed the following:

1. Factors that contributed to the decline in net position;
2. ICRMA's financial results compared against industry standard benchmarks;
3. ICRMA's options for rebuilding its net position; and
4. Potential program and other structural changes that could protect net position in the future.

After several open discussions, in January 2016 the Board approved a comprehensive financial plan based on the June 30, 2015 financial statements, which indicated an overall deficit of $3.7 million in the liability program (four years, however, had deficits of nearly $25 million). After learning additional claim development had exceeded actuarial estimates, the Board held additional deliberations in open meetings and in November 2016 adopted a revised plan of assessments in an exercise of fiscal prudence.

Authority to assess:

The Board is granted the authority to assess through ICRMA Bylaws Section 13.4 – Actuarial Soundness of Programs.

"All self-insured risk management programs of the Authority shall be based on actuarial soundness at all times. The condition of each such program shall be tested by an independent actuary on an annual basis. The condition of each open program year within each such program shall be tested to determine its actuarial soundness. If it is determined by the actuary that any year is no longer actuarially sound, the appropriate actions as described in the Bylaws of each program shall be taken. In addition, upon approval of a majority of members in the program, the Governing Board reserves the right to assess the members of any program an amount determined by the Governing Board to be necessary for the soundness of the program and to allocate such assessment to the members in a fair and equitable manner."

Request for additional independent review:

On May 10 the city of Redondo Beach requested RPA agendize a discussion about retaining an independent actuary to perform a study, confirming the amount of the assessment. During the December 5, 2016 Board meeting, the Board discussed a similar request and declined to pay for such a study. The Board asserted that Jack Joyce is an independent consultant, and that the Board had also hired independent financial consultant Mark Nestor to provide analysis and advice.

Additionally, both Bickmore and Jim Marta & Company reviewed the assessments, and independent financial auditor Vavrinek, Trine, Day & Co., LLP provided an unqualified audit.

Process for determining, and reviewing, the assessments:
Actuarial studies are performed annually for ICRMA and form the basis for estimating claim liabilities. Last year Jack Joyce used claims data from the TPAs valued as of August 31, 2015 to conduct the annual study. He then projected 10 months in order to provide ICRMA with an estimated case reserve for June 30, 2016.

When preparing the March 31, 2016 financial statements, the finance team noted claim liabilities had increased by $4.3 million. During preparation of the June 30, 2016 financial statements, the finance team noted additional claim liability increases of $8 million.

As a result of the $12.3 million in claim growth, the actual liability claim case (TPA) reserves exceeded the actuary's incurred but not reported (IBNR) estimates included in the study. Because the pool was in the process of assessing the members, the finance team contacted the actuary to discuss the issue. The actuary instructed the finance team to add IBNR to the new case reserves to arrive at a new estimated ultimate.

Summary:
During the past five years, the Governing Board has evaluated various aspects of the Liability Program and has taken numerous proactive steps to ensure the financial integrity of the program. Multiple independent parties have reviewed the assessments as noted, and recognizing that the claim liabilities will continue to change until all claims are closed; the Board has established an annual review process to evaluate if assessment adjustments are necessary. In summary:

- The deficits have to be paid by the members participating in each year
- The liabilities and financial position are subject to independent actuarial and auditor review.
- The financial statements are based on actuarial estimates, loss reserves and reported claim values at given points in time.
- The financial statements (prepared by Mr. Marta of James Marta & Company LLP) have been audited and fairly present the financial position and accounts of ICRMA.
- The auditor (Vavrinek, Trine, Day & Co., LLP) reviewed the estimates and financial statements, and has rendered an independent opinion. These values are ultimately reviewed and approved by management and the Governing Board of ICRMA.
- The assessments will vary as claims develop and are reported.

Redondo Beach Assistant City Attorney Cristine Shin handed out copies of ICRMA's Liability Program Bylaws, the 6/30/16 audit, and the previous actuarial study. Diane Strickfaden, Redondo Beach, suggested that, based on these documents, the pool's true deficit is between $4-$6M, as determined by an actuary the city hired, Steven Glicksman. Jim confirmed that some years have positive assets, however, ICRMA practices fund year accounting, and each year must stand on its own. Additionally, other programs cannot be used to improve the deficit in the liability program.

Luther advised that the Liability Program Bylaws state that "an assessment *may* be levied." The ICRMA Bylaws, however, grant the Board broad discretion to levy an assessment.

Beth and Tyler LaMantia reiterated that the net assets include surplus in other program years. Because ICRMA practices program year accounting, assets in other years cannot be used to pay deficits unless the program, and then individual years, are at a 90% confidence level. Using the surplus funds to pay deficit years would be similar to releasing a dividend, which requires program years to be closed and at 90% confidence.

Since the assessment will be reviewed annually, Greg Borboa (Manhattan Beach) suggested that Redondo Beach present specific issues and questions so they can be addressed. Ms. Shin volunteered to put together a presentation for the meeting.

Dennis Hernandez (Hawthorne) suggested the Financial Ad Hoc Committee review the information and make a recommendation to the Board.

Greg Borboa (Manhattan Beach) made a motion (as amended):

1. *Invoice the members assessment amounts in accordance with the plan the Board adopted in November 2016*
2. *Hold a Financial Ad Hoc Committee meeting so Redondo Beach can raise its specific questions and issues for consideration*
3. *The Board will hear the Ad Hoc Committee's recommendations, if any, and give direction at its June Board meeting.*

Nick Kimball (San Fernando) made a friendly amendment, which was accepted, and then seconded the motion. Motion carried. Richard Bacio (Alhambra) and Diane Strickfaden (Redondo Beach) opposed.

Diane Strickfaden (Redondo Beach) made a motion that the pool hire an actuary to conduct an independent actuarial study to determine the 'true deficit' in accordance with the ICRMA Bylaws. Richard Bacio (Alhambra) seconded. All other parties were opposed. The motion failed.

There being no further items to discuss, the meeting was adjourned at 1:54 PM.