MINUTES OF THE
SPECIAL GOVERNING BOARD MEETING
Thursday, May 29, 2018
2:00 P.M.

A meeting of the Governing Board was held on Thursday, May 29, 2018, in Downey, California.

MEMBERS PRESENT:

Bell	Sergio Ibarra
Downey	Anil Gandhy
El Monte	Angela McCray *(arrived at 2:12 p.m.)*
El Segundo	Joe Lillio
Fullerton	Gretchen Beatty
Glendora	Vicki Cross
Hawthorne	Olivia Valentine
	Dennis Hernandez
Hermosa Beach	Vanessa Godinez
Huntington Park	Daniel Hernandez
Inglewood	Sara Nazir
Lynwood	Cynthia Stafford
South Gate	Nellie Cobos

MEMBERS ABSENT:

Alhambra
Baldwin Park
Monterey Park
San Fernando

OTHERS PRESENT:

Glendora	Christi Gioannone
RPA	Beth Lyons
	Tyler LaMantia
	Jennifer Achterberg
	John Nielsen
Johnson Schachter & Lewis	Luther Lewis
Artex	Matt Anderson
Bay Actuarial Consultants	Jack Joyce
Milliman	Mindy Steichen
Arthur J. Gallagher	Susan Blankenburg
Arthur J. Gallagher	Kylie Bailey

1. **CALL TO ORDER**
   Secretary Vanessa Godinez called the meeting to order at 2:00 p.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 Vicki Cross, Glendora, seconded by Sara Nazir, Inglewood, and unanimously carried to approve the agenda as presented.

5. OPEN SESSION

A. <u>2018-19 Broker's Renewal Proposal</u>

Ms. Susan Blankenburg and Ms. Kylie Bailey presented an overview of the renewal options for all lines of coverage, as outlined below.

Receive and file.

B. <u>Cyber Liability Coverage Renewal for 2018-19</u>

Mr. John Nielsen provided additional information regarding the options for renewal of the cyber liability coverage. The cyber program provides coverage of unintentional loss of others' protected information. The incumbent, Chubb, offered a 48% rate reduction, and includes coverage terms that the competitor, XL, does not include. The specific difference in coverage is a $300k "Data Breach Fund for Outside Service Providers" allowing a member to use a preferred but "outside network" attorney, IT firm or cyber specialist. Both prospective providers for the 2018/19 program year offer "full prior acts" (effectively, removing the 7/1/2014 retroactive date, previously in place).

Members asked the broker to confirm that ransomware is included within each provider's coverage. If the competitor, XL, would be willing and able to match the terms of the incumbent (listed on page 10 of the broker proposal), for a nominal increase in their proposed premium, ICRMA would be interested coverage with XL.

Motion was made by Gretchen Beatty, Fullerton, seconded by Joe Lillio, El Segundo, and unanimously carried to authorize renewal of cyber liability coverage with Chubb, effective July 1, 2018, maintaining a $3 million limit per member, with a $10 million program annual aggregate, for a premium of $57,967. However in the event that XL can match all conditions, offered by Chubb, and as long as the premium is no more than $43,475 with a $15k deductible, then the broker is authorized to bind coverage with XL.

C. <u>Crime Coverage Renewal for 2018-19</u>

Mr. Nielsen presented additional information regarding the renewal of crime coverage. The crime program provides coverage for the loss of funds due to employee dishonesty or theft by an outside party. The incumbent, Hanover, provided a proposal of a three-year term with either annual installments or an option to pre-pay the three-year term in one lump sum for a 10% discount.

The broker further explained that the cancellation of the policy is pro-rata. Further clarification regarding the notion of paying for a three year term in one lump sum, the broker explained the current members would not see a shift in the monies owed. A member would either be charged for their share, or reimbursed for monies owed upon cancellation. RPA staff indicated its recommendation of the annual installments, in an effort to support the member cities' financial records to remain consistent over the three years of coverage, rather than a spike in one year followed by two years of no payments. Upon the discussion of members present, RPA staff indicated they, along with the broker, would contact ICRMA members who do not participate in the Crime program to discuss the benefits of the program. The City of Bell indicated it would like a quote regarding coverage in this program.

Motion was made by Dennis Hernandez, Hawthorne, seconded by Cynthia Stafford, Lynwood, and unanimously carried to authorize renewal of crime coverage with Hanover Insurance Company, effective July 1, 2018, at the current $5 million limit for a premium of $21,031.

D. Earth Movement & Flood Coverage Renewal for FY 2018-19

Mr. Nielsen presented additional information regarding the renewal options for earth movement and flood coverage. Withdrawing members were removed from the analysis to ensure apples-to-apples comparison. The broker obtained two Probable Maximum Loss (PML) studies to assist the Board in selecting limits for the program.

The expiring program had Total Insured Values of $435,809,444, a $120M limit (PML study indicated a limit of $118.6M), with an annual premium of $1,379,164, and a rate of $.3165 per $100 of declared values. Three options were presented, with limits offered at $60M, $75M and $100M. The option with the greatest insurance protection, a limit of $100M, would result in a 4% rate reduction, with an increased premium of $38,094, all driven by the increased TIV's. The option of a $75M limit would result in an 18% rate reduction, and a premium of $1,203,653. Staff believes that the $60M may be inadequate as one PML study predicts losses more than 20% greater than this limit at a PML of $72M.

Discussion regarding the benefits or risk of either the $100M or $75M limits occurred. Ultimately in addition to understanding the coverage needs of ICRMA, each member must also be able to understand how this information could be presented, or defended, should an event occur and there wasn't enough coverage provided. The PML studies indicate that $75M should be adequate coverage, with the known member TIV's, and the probability of this type of catastrophic event occurring. The difference in premium between the two limits is $175,511 for an additional coverage of $25M in limits. South Gate indicated they would like a quote for coverage.

Motion was made by Cynthia Stafford, Lynwood, seconded by Anil Gandhy, Downey, and unanimously carried to authorize placement of $100M in earth movement & flood coverage, effective July 1, 2018, led by London Syndicates, for a premium of $1,417,258.

E. Property/Auto Physical Damage Coverage Renewal for 2018-19

Mr. Tyler LaMantia provided additional information regarding the program performance, as this was the first year of the self-insured program. As of April 30, 2018, the current total incurred losses were $144,437. Therefore, a surplus of $355,563 in the first year of the program is possible. Mr. LaMantia reminded the Board that this is surplus that ICRMA retains, rather than monies the carriers keep. This type of financial benefit to ICRMA supports the creation of this program. As this is a new program, and the first full year is not yet complete, staff is not suggesting a return, or forward use of this surplus, at this point in time. Perhaps after a few years, the Board would want to update any policy regarding surplus funds in this program.

Two options were before the Board. Option one had a flat property rate, with a 7% APD rate and a $500k aggregate stop loss, per the expiring coverage terms. This results in an increase in premium to the remaining members, to cover the portion that had been allocated to the member leaving the pool. To fully fund the aggregate stop loss, the more fiscally sound option for the program is to "buy down" the $500K aggregate to $430k. This second option increases the rates (property by 6% and APD by 10%), but the increase in premium to the remaining membership is smaller.

Motion was made by Gretchen Beatty, Fullerton, seconded by Dennis Hernandez, Hawthorne, and unanimously carried to authorize renewal of ICRMA's Property and Auto Physical Damage program with Allianz & Axis, effective July 1, 2018, with a limit of $250M, member deductibles of $10,000 for property and $5,000 for auto *physical damage, a $250,000 pool deductible and a $430,000 aggregate stop loss, for a premium of $490,195. Total costs of the program shall not exceed the cost of the insurance, plus the cost to fund the stop loss ($920,195).*

F. Workers' Compensation Program Actuarial Draft Report as of June 30, 2018

Mr. Jack Joyce, Bay Actuarial Consultants, presented the draft actuarial to the board. The report uses data valued as of 12/31/2017, projected to 6/30/2018. The funding projections were used to develop 2018/19 contribution rates. The actuary also provided current estimates of the programs' ultimate losses for all program years, which are used to determine the Program's outstanding liabilities for financial reporting purposes and analysis of funding needs. For the current 2017-18 program year, ICRMA has a $2M pooled SIR with funding at the 60% confidence level with a 2% discount factor.

Loss Development
The claims experience was positive over the last 12 months. The change in membership has also had a positive effect on this program, as well as an increase in payroll. As payroll has increased, the rates have decreased. Projected payroll for 2018-19 is used to calculate funding levels in this program.

2018/-19 Funding Rates
During the 2017-18 program year, ICRMA funded loss contributions between the MRLs and the $2M pooled retention using the 60% confidence level, and a 2% discount factor. Most California JPA's fund at 70% or higher. As a result, ICRMA has the opportunity to increase the confidence level in 2018-19 while maintaining similar member contribution dollars as in 2017-18.

IBNR
As there has been favorable claims experience during 2017, the IBNR shows a reduction of 15%. The estimate of the liability for unpaid losses is $18.998 million as of June 30, 2018. In 2015 the estimated IBNR increased by $1.3M, an increase in 2016 by $1.2 million, but in 2017 the increase was $600k.

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

G. Workers' Compensation Coverage Renewal and Loss Funding for 2018-19

Mr. Nielsen provided additional information to the Board regarding funding for the workers' compensation program. RPA and Artex staff contacted PFM, ICRMA's investment advisor regarding the suggested discount factor. PFM advised that a 2% discount factor remains appropriate based upon ICRMA's portfolio earnings.

Ms. Beth Lyons reminded the Board of the three primary factors that contribute to overall expenses in this program: loss funding, excess insurance, and administrative expenses. Excess insurance fluctuates with the market and based upon the pool's SIR. RPA staff has worked to reduce the administrative expenses by negotiating contracts between ICRMA and vendors. One such example is the change in ICRMA's contract with the workers' compensation claims auditor. With the reduction in membership in the program, the contract price has been updated to reflect the change in workload. The funding levels were discussed and explained with the actuarial report earlier in the meeting. Probability level funding has an impact on the funds collected to pay for claims as well as the likelihood of assessment.

The Board's goal has been to return to funding this program in the 70%-85% range using an appropriate discount factor. In 2015-16 the program was funded at 70% probability level and 3% discount factor, in 2016-17 it was funded at a 57% probability level and 2% discount factor, and in 2017-18 at a 60% probability level and 2% discount factor. Industry "Best Practice" is to have a confidence level between 70%-85%.

Motion was made by Anil Gandhy, Downey, seconded by Joe Lillio, El Segundo, and unanimously carried to fund losses from member retained limits to the pool SIR of $2 million at the 70% confidence level with a 2% discount factor.

Motion was made by, Joe Lillio, El Segundo, seconded by Cynthia Stafford, Lynwood, and unanimously carried to direct the broker to renew coverage with Safety National at a $2M SIR, for a premium not to exceed $382,904.

H. Liability Program Actuarial Draft Report as of June 30, 2018

Loss Development
The liability program experienced favorable loss development between 12/31/16 and 12/31/17 in coverage periods 2007-08, 2012-13, 2013-14, and 2014-15. Unfavorable loss development occurred in coverage periods 2010-11, 2015-16, and 2016-17. Overall years, however, the total change in estimated losses is an increase of $199k.

2018/-19 Funding Rates
The Program's more recent adverse loss development caused the actuary to recommend increases in the projected losses, and therefore, contribution rates for the 2018/19 program year. In 2017-18, ICRMA funded loss contributions between the MRLs and $3M for liability losses using the 70% probability level and a 2% discount factor. In order to fund the program in the same manner as the 2017-18 program year (pool SIR of $3M, funded at the 70% probability level, and a 2% discount factor), members would see a slight increase to their contribution amount. The average increase in the contribution rates is 5.5%, given the members' MRL's and payrolls. This aligns with inflation.

Liabilities
The actuary estimated ICRMA's liabilities for unpaid losses as of December 31, 2016 at $36.684 million. In this report as of December 31, 2017, the estimate has increased by $0.126 million. Claims paid during 2017 were $7.79 million, with an estimate of additional losses, in 2017, of $10.05 million. Therefore, the estimated liability as of December 31, 2017 is $39.07 million.

Mr. Joyce indicated there has been movement in older occurrences. Therefore IBNR continues to change as cases are reopened or reported to ICRMA for the first time. Discussion occurred regarding how these types of claims affect the assessment in the Liability program. Ms. Lyons indicated this information will factor into the annual review, in the fall of 2018, with regards to updated financial information of program years. It is possible that the change in any of the claims for specific years could affect the assessment should the impact negatively affect the net position a particular program year. With all the changes discussed, the total losses incurred were relatively flat compared to the reported last year.

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

I. Liability Coverage Renewal and Loss Funding for 2018-19

Ms. Lyons provided additional information regarding the Liability Renewal options. RPA, having confirmed with PFM regarding the discount factor, recommend the Board continue to fund at the 70% confidence level using 2% discount factor.

Motion made by Gretchen Beatty, Fullerton, seconded by Olivia Valentine, Hawthorne, and unanimously carried to Authorize binding $27 million in reinsurance coverage with the incumbent carriers for the Liability Program, effective July 1, 2018, excess of a $3 million pooled SIR, at a premium of $4,207,000.

Ms. Lyons indicated that with the loss experience in the program, the broker has negotiated a great option with the incumbents. While there is a proposed increase in contributions paid by members, the increase is small. The quotes received from the carriers allow ICRMA to maintain the $3 million self-insured retention at a rate reduction of 2%. The nominal dollars are proposed to increase approximately $134,000 from premium paid in 2017-18. Should the Board decide to maintain the confidence level funding at 70%, with a discount factor of 2%, there is an increase of approximately $400k.

RPA staff continues to have conversations with potential new members to ICRMA, but has not materialized at this point in time, but continues to be an option for the 2018-19 program year.

Motion made by Gretchen Beatty, Fullerton, seconded by Anil Gandhy, Downey, and unanimously carried to, fund losses from member retained limits to $3 million at 70% confidence level with a 2% discount factor.

J. Revised Preliminary Budget for 2018-19 Program Year

Ms. Lyons and Mr. LaMantia reminded the Board of the newly adopted debit/credit cost allocation formula presented at the December 2017 Board meeting. The Board approved the calculation in concept, and information presented in the budget today indicates how the calculations affect members' contributions. The purpose of the debit and credits is to reduce the amount paid by those who have better than average losses, and ensure that members who have worse than average losses have a financial incentive to address their losses. Mr. LaMantia reminded the Board, the information used to prepare and provide a reference regarding the concept of the cost allocation system at the December meeting was based on the loss data as of December 31, 2016. Therefore, if a member has maintained a similar experience of losses in the Liability and/or Workers' Compensation programs, then the proposed financial implications should align. If a member has experienced better or worse claims activity, then the financial implications will decrease or increase respectively.

Mr. LaMantia introduced Ms. Mindy Steichen, Milliman, who provided information during Board deliberations regarding the cost allocation. Ms. Steichen reviewed the process to arrive at the calculations for Liability and Workers' Compensation contributions shown in the budget. As a reminder, the Board approved the use of 10 years of loss and exposure history, allocation based upon 70% losses and 30% exposure (payroll), and capping all losses at the program SIR (liability - $3 million; workers' compensation - $2 million). Each member's share is calculated by determining necessary funding and other expenses, applying the debit and credit system, then applying a 20% cap to limit the minimum/maximum change for members.

The driving factors for any change from the estimated debit or credit in December of 2017, and the numbers presented at this meeting, are driven by overall claims activity or incurred losses. Therefore, the worst performing members are receiving a 23.8% increase, while the best performing members would receive approximately a 16.2% decrease in the liability program. Members who note a significant difference in the preliminary budget presented today, compared to the estimated financials presented in December 2017, should note their changes in claims activity.

Mr. LaMantia requested Board discussion regarding the use of a 20% cap since the Board now has concrete numbers to see the implications of this system. RPA staff indicated this would be reviewed annually, with Board action regarding the percent of the cap to be used going forward. The purpose of this type of calculation is to incentivize members with above average loss development to remain in ICRMA, and to incentivize members with below average loss development to address the underlying causes.

Board indicated staff should use the 20% cap in the debit/credit calculation for the 2018-19 budget calculations.

6. CLOSED SESSION

The Board entered closed session at 4:40 p.m., to discuss whether to initiate litigation and conference with legal counsel pursuant to Government Code Section 54956.9(d)(4).

7. REPORT FROM CLOSED SESSION

The Governing Board convened in open session at 4:45 p.m. and General Counsel reported: *Direction was given.*

8. PRESIDENT'S REPORT
None

9. CLOSING COMMENTS
None

10. ADJOURNMENT

Secretary Godinez adjourned the meeting at 4:45 pm.