Approved June 18, 2021

POOLED LIABILITY ASSURANCE NETWORK JOINT POWERS AUTHORITY (PLAN JPA)

MINUTES OF THE BOARD OF DIRECTORS SPECIAL MEETING OF MARCH 26, 2021

A special meeting of the Board of Directors was held on March 26, 2021, via Zoom Videoconference.

MEMBERS PRESENT:

Marc Zafferano, President, San Bruno
Pak Lin, Treasurer, Colma
Maria Ojeda, American Canyon *[Arrived during Agenda Item 5.A.]*
George Rodericks, Atherton
Scott Spansail, Burlingame
Julie Carter, Dublin
Brenda Olwin, East Palo Alto
Maria Saguisag-Sid, Foster City
Lisa Lopez, Half Moon Bay
Jan Cooke, Hillsborough
Sarina Revillar, Los Altos Hills
Mike Sung, Millbrae
Lauren Lai, Milpitas
Donald Larkin, Morgan Hill
Lenka Hovorka, Newark
Kevin Woodhouse, Pacifica
Jeremy Dennis, Portola Valley
Joe Chinn, Ross
Rebecca Mendenhall, San Carlos
Mary Furey, Saratoga
Kevin Bryant, Woodside

MEMBERS ABSENT:

Mike Dotson, Benicia
Will Fuentes, Campbell
Kristina Alfaro, Cupertino
Robert Schultz, Los Gatos
Leah Lockhart, South San Francisco
Greg Folsom, Suisun City

Greg Chanis, Tiburon

OTHERS PRESENT:
Jon Paulsen, General Manager
Katie Sullivan, Assistant General Manager
Daria Hoffmann, Analyst
Ritesh Sharma, Finance Manager
Terrie Norris, Risk Control Manager
Susan DeNardo, Litigation Manager
Cheyenne Deary,
Rob Kramer, CARMA Executive Director
Becky Richard, Bickmore Actuarial
Greg Rubens, Board Counsel
Seth Cole, Alliant Insurance Services
Scott Corey, Alternate, American Canyon
Lisa Hisatomi, Dublin

1. CALL TO ORDER

The March 26, 2021, Special Board of Directors meeting was called to order at 1:03 p.m. by President Marc Zafferano.

2. INTRODUCTIONS

Jon Paulsen, General Manager, welcomed Lauren Lai, Milpitas Finance Director, to PLAN JPA.

3. APPROVAL OF AGENDA AS POSTED (OR AMENDED)

The agenda was approved as posted.

4. PUBLIC COMMENTS

None.

5. LIABILITY PROGRAM

A. Consideration of Excess Liability Options

Mr. Paulsen reminded the Board of action taken at the January 29, 2021, meeting to authorize staff and Alliant to attempt to negotiate retroactive (to July 1, 2020) coverage for the $5 million excess of $25 million layer from Munich Re or Public Risk Innovation, Solutions and Management JPA (PRISM). Pricing was established as not to exceed $450,000. Munich Re has since provided an option under the pricing threshold, but retroactive to January 19, 2021. At the January 29, 2021 Board meeting, the Board discussed potential options that are not retroactive to July 1, 2020, and declined them as not viable.

PRISM has extended an option to PLAN JPA to provide retroactive (to July 1, 2020) excess liability coverage of $5 million excess of $25 million at $425,000. The $5 million coverage is both per occurrence and in the aggregate. In order to exercise this option, PLAN JPA would need to join PRISM JPA.

Previously the PLAN Board reviewed joining other JPAs for consideration of any unintended liabilities or obligations to PLAN JPA. Specifically, that California Public Employee's Retirement System (CALPERS) obligations for other JPA employees may extend to PLAN in an adverse circumstance. PRISM currently employs approximately 90 full-time staff and has over 1,000 total public entity members. Additionally, PLAN JPA would be subject to the deficit and surplus provisions of the PRISM General Liability I (GLI) program and thereby the overall loss performance of that specific group of public agencies.

Discussion ensued on whether to not replenish the layer or to move forward with the option presented by PRISIM.

Donald Larkin moved to join PRISM for the $5 million excess of $25 million layer. Kevin Bryant seconded the motion. A roll call vote was taken and the motion passed unanimously by Maria Ojeda, George Rodericks, Alan Shear, Scott Spansail, Pak Lin, Julie Carter, Brenda Olwin, Maria Saguisag-Sid, Lisa Lopez, Jan Cooke, Sarina Revillar, Mike Sung, Lauren Lai, Donald Larkin, Lenka Horvorka, Kevin Woodhouse, Jeremy Dennis, Joe Chinn, Marc Zafferano, Rebecca Mendenhall, Mary Furey, and Kevin Bryant.

B. Actuarial Update for the General Liability Program

Ritesh Sharma, Finance Manager, reviewed PLAN JPA's general liability program layers. Becky Richard, Bickmore Actuarial, reviewed PLAN JPA's Pool Layer and evaluated claims and losses for the Board, indicating ultimate losses have decreased by $150,000.

In the past year, PLAN JPA has funded slightly above 60% confidence level. The decrease (4.2%) in primary funding layer is due to favorable development of claims in past year. In addition, estimated payroll decreased by .09% from the prior year due to the change in payroll reporting method. The 2021/22 estimated payroll is based upon the actual payroll collected on a quarterly basis, annualized with a conservative 3% trend increase. In prior years, the estimated payroll was collected annually.

C. State of the Market - Liability

Seth Cole, Alliant Insurance Services (Alliant), reviewed the state of the insurance market in regard to liability. Nuclear jury verdicts and high settlements continue to present challenges. Alliant continues to monitor the market.

D. PLAN JPA 2021/22 Projections - Liability

Mr. Sharma reviewed the primary pool layer funding for the 20-21 program year including a $2.5M confidence level and $2.5M reinsurance layer. The 20-21 cost was $10,984,960. For the 21-22 program year, staff estimates a 19% increase for PLAN's pooled layer, reinsurance, and excess coverage. Administration costs were not included in the discussion.

Discussion ensued regarding difficulties faced by the broader insurance market. Further discussion ensued on the costs of PLAN JPA claims through the years.

E. Presentation of CARMA Excess Coverage

Rob Kramer, California Affiliated Risk Management Authorities (CARMA) Executive Director, provided the Board of Directors with a presentation on CARMA excess coverage.

CARMA was formed 28 years ago and is currently accredited with excellence. Mr. Kramer hopes CARMA and PLAN JPA can share resources.

CARMA is composed of other Joint Power Authorities of a similar nature to PLAN JPA. Bay Cities Joint Powers Insurance Authority, Municipal Pooling Authority, Monterey Bay Area Self Insurance Authority, Central San Joaquin Valley Risk Management Authority, and Vector Control Joint Powers Agency are all current members of CARMA. CARMA is in the process of reviewing applications for membership from Yolo County Public Agency Risk Management Insurance Authority (YCPARMIA) and California Intergovernmental Risk Sharing Authority (CIRA). Should PLAN JPA participate in CARMA, representation on the Board would be in the form of a Board Member and Alternate.

After joining CARMA, PLAN JPA's retention layer would move from $2.5M to $1M. CARMA rates are expected to be reduced upon PLAN JPA joining.

Discussion ensued regarding next steps for the process. Mr. Sharma shared the CARMA option at the first $5M layer. PLAN JPA's participation in CARMA would be both an insurance purchase and a shared pool layer.

F. Consideration of Member Allocations

Mr. Sharma reviewed calculations discussed at the December 9, 2020, Strategic Planning Session including:

The current ex-mod methodology (which has been in place at least since 2002/03) is:

- Loss experience and payroll from 5 years: for example, when calculating contributions for 2018/19 year, losses and payroll from 2012/13 through 2016/17 were used in the calculation.
- Losses are limited to $250,000 per occurrence.
- Creditability is given to payroll, limited to a minimum of 20% and maximum of 90%.

The current method also caps any members total annual contribution at +/- 30% change.

At the December 10, 2020, Board Meeting, staff recommended the following changes to the contribution calculation:

- Capping change of ex-mod at 30% from year to year.
- Removing the 30% cap from member contributions.

Ms. Richard reviewed the historical member allocations. The 21-22 contributions were analyzed by removing the total premium cap to limit a single large loss to a single member.

Ms. Richard then presented the total payroll over the last five years for each member.

Mr. Sharma reviewed the payroll collection process. Three set of data were requested from members, 18-19 actual payroll, a budgeted 19-20 payroll, and estimated 20-21 payroll. The estimates for the 20-21 year were not consistent due to methodologies of reporting. In order to standardize the data, staff will be requesting DE-9 data from the last 5 years from all members.

Discussion ensued regarding the importance of payroll in ex-mod calculations.

The Board directed staff to move forward with the historical payroll collection process. Discussion ensued on the timeline and deadlines for the collection.

Ms. Richard presented the projected deposits which is estimated to be about $15.3M. The new payroll collection could result in changes to the total.

Staff recommended a phase in period of a 40% cap on contributions in the first year, a 50% cap in the second year, and a 60% cap in the third year. Staff estimates by the second or third year, all members would be paying their equitable share of contributions.

Extensive discussion ensued on member allocation capping.

6. PROPERTY PROGRAM

A. Actuarial Update for the Property Program

Mr. Sharma reviewed PLAN JPA's Property program structure. Alliant Property Insurance Program (APIP) currently provides coverage of $225k per claim up to $1B with an aggregate deductible of $1M.

The proposed changes to the APIP program for the 21-22 program year are:

- Member SIR remains the same at $5,000
- The PLAN JPA layer increases from $225,000 to $500,000
- APIP will cover from $500,000 to $1B with no aggregate deductible

Ms. Richard analyzed the actuarial data using the December data. Losses increased about 18% from 20-21 to 21-22 at the 70% confidence level. The total property premium is about $4.4M.

Allocation for the property program is based on total insured value (TIV). Members' TIV remained stable over the past year.

Overall, member SIRs are expected to increase for the property program. At the 70% confidence level, an additional $160,000 of member contributions is to be expected.

B. State of the Market - Property

Mr. Cole informed the Board of challenges in the property program market. 2020 was the fifth worst year on record for insured losses globally. The first quarter of 2021 broke records for the worst catastrophic quarter due to winter storms. Because PLAN JPA's property insurance is part of the global market, it is impacted by all catastrophes in the market.

PLAN JPA specifically does not have a frequency issue but does have a number of large claims. PLAN JPA is in the market and has submitted coverage requests to over 50 carriers worldwide. Most responses have been unfavorable; however, Lloyds of London has communicated possibly building a program for PLAN JPA. The wildfire deductible would range from $1M to $2M. Alliant continues to market PLAN JPA.

Mr. Paulsen reminded the Board that the increases and challenges are not unique to PLAN JPA. Difficulties are found across the market.

Mr. Cole discussed cyber liability coverage. The market is reacting to large payouts due to ransomware and hacking by raising rates. Significant increases are expected. PLAN JPA members will need to complete a cyber application to continue to obtain coverage. Mr. Paulsen stressed the importance of the completion of the applications in order to find placement.

C. PLAN JPA 2021/22 Projections - Property

Mr. Sharma reviewed the property program costs from 20-21 and the estimated costs for 21-22. Excess property and flood costs are estimated to rise about 40% to $3.1M. Cyber coverage is expected to rise anywhere from 50% to 200%.

7. FINANCIAL MATTERS

A. Review of the PLAN JPA 2021/22 Draft Operating Budget

Mr. Sharma reviewed the 21-22 draft operating budget. The agenda was structured to follow the budget. Mr. Sharma reviewed the liability program which is expected to see a 17% increase. The property program is expected to see a 34% increase. Contributions will see around a 23% increase. Funding at the 60% confidence level is about $6.2M.

In addition to the contracted 3% increase to administration costs, the Board approved an additional $75k for litigation management services. The actuarial cost is expected to rise 14%. Bank fees and investments will decrease by $25k in the program administration costs due to the category being moved to investment costs.

8. CLOSING COMMENTS

A. Board of Directors

None.

B. Staff

None.

9. ADJOURNMENT

The Special Meeting of the PLAN JPA Board of Directors was adjourned at 3:44 p.m.

Katie Sullivan
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Katie Sullivan, Assistant Board Secretary