Approved June 21, 2023

POOLED LIABILITY ASSURANCE NETWORK JOINT POWERS AUTHORITY (PLAN JPA)

SPECIAL BOARD OF DIRECTORS MEETING OF MARCH 23, 2023

A regular meeting of the Board of Directors was held on March 23, 2023, at the Burlingame Community Center at 850 Burlingame Ave., Burlingame, CA

MEMBERS PRESENT:	Rebecca Mendenhall, President, San Carlos Kevin Bryant, Vice President, Woodside Maria Ojeda, American Canyon George Rodericks, Atherton Will Fuentes, Campbell Sarah Monnastes, Dublin Tomohito Oku, East Palo Alto Donald Larkin, Morgan Hill Lisa Lopez, Half Moon Bay Kenneth Stiles, Half Moon Bay Jan Cooke, Hillsborough Ann Ritzma, Hillsborough (Alternate) (Left at 7.C) Sarina Revillar, Los Altos Hills Mike Sung, Millbrae Yulia Carter, Pacifica Jovan Grogan, San Bruno Monica Labossiere, Saratoga Jason Wong, South San Francisco Christina Penland, Suisun City
MEMBERS ABSENT:	Kim Imboden, Benicia Michael Guina, Burlingame Pak Lin, Treasurer, Colma Kristina Alfaro, Cupertino Stefan Chatwin, Foster City Gabrielle Whelan, Los Gatos Lauren Lai, Milpitas Lenka Hovorka, Newark

MEMBERS ABSENT: Jeremy Dennis, Portola Valley
Christa Johnson, Ross
Greg Chanis, Tiburon

OTHERS PRESENT: Eric Dahlen, General Manager
Katie Sullivan, Assistant General Manager
Min Su, Finance Manager
Susan DeNardo, Litigation Manager
John Burdette, Sedgwick Program Administration
Amy Whitman, Sedgwick Claims Administration (Left after 6.A.)
Jill Petrarca, Sedgwick Claims Administration (Left after 7.A.)
Rob Kramer, CARMA Executive Director
Seth Cole, Alliant Insurance Services
Becky Richard, Bickmore Actuarial
Greg Rubens, Burke, Williams and Sorensen, LLP
Navdeep Singh, City of Milpitas

1. CALL TO ORDER

The March 23, 2023, Special Board of Directors meeting was called to order at 10:09 a.m. by President Rebecca Mendenhall.

2. INTRODUCTIONS

Introductions were made it was determined a quorum was present.

3. APPROVAL OF AGENDA AS POSTED (OR AMENDED)

Donald Larking moved to approve the agenda as amended. Yulia Carter Seconded the motion. The motion passed unanimously.

4. PUBLIC COMMENTS

None.

5. GENERAL MANAGER'S REPORT

Eric Dahlen, PLAN's General Manager, was present to give some updates to the Board about the following:

Governance

In December 2022, staff received direction from the Board of Directors to make some changes to governing documents and meeting schedules to reflect the combined responsibilities of the Claims Committee and the Executive Committee to include managing of claims. Staff is moving forward with legal reviews of documents and preparation of meeting resolutions to reflect the dissolution of the "Claims Committee" in its current structure. Staff will present changes to the Executive Committee in April and to the full Board of Directors in June.

Additionally, staff will perform further review of other governing documents regarding claims management and the respective authorities between the individual member and the claims administrator.

Renewals

The renewal market is extremely tough and being identified as a "hard market". PLAN members are likely to see renewal contributions that are higher than expected and, as staff is discovering, affecting the public entity market across the board, including excess JPAs that service primary pools.

6. SEGWICK CLAIMS ADMINISTRATION REPORT

Amy Whitman, PLAN's TPA, was introduced by Eric Dahlen and went on to discuss the current challenges of Sedgwick, pertaining to employment challenges over the last couple of years. She went on to explain how they plan on addressing any issues that were arising.

7. LIABILITY PROGRAM

A. Actuarial Update for the General Liability Program

The draft actuarial report was given and provided funding information for the years 2023/24. This information was compiled by using the report from December 31, 2022. The report was comprised of two main parts: 1) Review of Ultimate Liability Estimates, and 2) Loss Forecasting Analysis.

1) The Liability Programs' Ultimate loss and Allocated Loss Adjustment Expense (ALAE) was decreased by $2,247,000 due to less than expected incurred claims.
2) The discounted contribution required to collect at the 60% confidence level (CL) for the upcoming 2023/24 program year at the $1 million SIR is $4,888,000, which decreased by 4.2%, or $214,000 from prior year.

B. <u>State of the Market – Liability</u>

Seth Cole, Senior Vice President, Alliant, gave a Marketing Report presentation to the Board of Directors. He also gave some insight to the current excess market and a strategy for the upcoming renewal of PLAN's reinsurance and excess policies.

C. <u>Plan JPA 2023/2024 Projections – Liability</u>

The primary pool layer funding has a slight decrease, while reinsurance and excess layer is projected to increase by 20%. Staff has taken a conservative approach in the cost estimation for 2023/24.

Staff estimates a 11.9% increase for PLAN's pooled layer, reinsurance, and excess coverage. The administration cost is not included for this discussion

8. <u>PROPERTY AND GROUP PURCHASE PROGRAMS</u>

A. <u>Actuarial Update for the Property Program</u>

Presentation was given on our recommendations to help bring the property account back up to true, after having a rough year with large claims.

In 2023/24, PLAN's Property Program pooled layer is experiencing an increase of $416,000, or 30.8%, over 2022/23 Actuals. Part of the 30.8% increase, is attributable to moving from 70% CL funding to 75%, or $1,350,000 to $1,766,000. The other is due to valuation increases in Total Insured Values (TIV) of 8.1% over prior year's insured values. However, TIV information is still being collected by Alliant. In addition, the actuary report may need to be modified if the coverage structure of PLAN's participation in Alliant Property Insurance Program (APIP) changes. The current Property Program is $500K per occurrence with no pool aggregate deductible.

B. <u>State of the Market-Property and Group Purchase Programs</u>

Annually, representatives from Alliant Insurance Services, Inc. (Alliant) provide an update on the status of the current excess market and a strategy for the upcoming renewal of PLAN's excess Property policies.

Seth Cole, Senior Vice President with Alliant, provided the Board of Directors with a marketing report for the 2023/24 program year. Mr. Cole will be present at the meeting to discuss this strategy as well as answer questions.

C. <u>PLAN JPA 2023/24 Projections–Property and Group Purchase Programs</u>

The primary pooled layer SIR for the Property Program is projected to remain at $500K per occurrence. Additionally, the excess coverage cost is expected to increase. Staff has taken a conservative approach in estimating cost for the 2023/24 program year. Below is a breakdown:

Overall, staff estimates a 29.5% increase for PLAN's pooled layer, excess Property, and excess Cyber coverage.

9. <u>FINANCIAL MATTERS</u>

A. <u>Review of the PLAN JPA 2023/24 Preliminary Operating Budget</u>

Enclosed is Preliminary Operating Budget (Budget) for PLAN JPA for the 2023/24 Fiscal Year. The funding model is similar to what the Board of Directors has approved in the past. Funding rates were compiled by PLAN's actuary. Pages two and three detail the Budget as follows:

- For the Liability Program, member contributions are presented at the 60% confidence level (CL) with a 2% discount. PLAN's Self-Insured Retention (SIR) is up to $1 million above each member's SIR, currently $25K, $50K, $100K, and $250K. PLAN JPA joined California Affiliated Risk Management Authority (CARMA) JPA in 2021/22 at the
  $9 million excess of $1 million layer. Above CARMA's pooled layer, PLAN purchases Reinsurance and Excess above $10 million; these coverage layers are conservatively estimated at 20% over prior year.
- For the Property Program, member contributions are presented at the ***<u>increased 75% confidence level</u>*** with a 2% discount factor. The proposed coverage includes losses pooled from each member's SIR, currently $5K, with a maximum of $500K per occurrence with zero aggregate deductible, as well as excess coverage purchased up to $1 billion through Alliant Property Insurance Program (APIP). In addition, valuation increases continue into the 2023/24 program year, a direct result of factors such as the

supply chain crisis, higher costs for construction materials like lumber and steel, general inflation, and real estate pricing escalation in California. This equates to a 30.8% increase in the risk sharing layer, a 29.6% increase for excess property, and 23.2% increase for excess cyber.

- As mentioned in Agenda Item 8.A., the PLAN Board of Directors has determined to strengthen their confidence in the funding ability of the Property Program by increasing the confidence level from 70% to 85% in 5-point increments over the next three (3) program years, in addition to providing immediate equity relief. This plan requires the passing of a resolution outlining the program fund transfer. The details have been presented to the Finance Committee and will proceed to the Executive Committee prior to being presented to the Board of Directors for approval.

The major components of the Budget are outlined below:

1. <u>Overall Rates for Coverage</u>

With an increase in estimated payroll of 2.7% and 8.1% increase in Total Insured Values, combined with 17.6% CARMA, Reinsurance/Excess 20% estimations, and Property Program member contributions of 40.3% over prior year, the budgeted contributions are projected to increase from $26.6 million to $31.5 million for 2023/24. An increase of 18%, or $4.9 million over the prior year. Below is a summary by program.

<u>Liability Program</u>

The Liability program is projecting a 11% increase in contribution over the 2022/23 Approved Budget. No members are capped at the 60% change in 2023/24, compared to three members capped at 50% in 2022/23. The underlying assumption used in compiling the preliminary budget include:

- *Payroll* – overall, is estimated to increase by 2.7% from prior year. The 2023/24 estimated payroll is based upon the actual payroll collected on a quarterly basis, annualized, with a conservative 3% trend increase.

- *Primary Funding Layer* – decrease of $214 thousand, or 4.2% from prior year due to favorable claims development. Total Ultimate Loss decreased by $2.2 million.

- *Insurance cost* – The insurance cost is projected to increase by 18.6% over the prior year.
    a. CARMA is projected to increase by 17.6%.
    b. Reinsurance and Excess are projected to increase by 20%.

- *Administrative Expenses* – budgeted to increase of 3.6% in administration expenses. See note 5 below which outlines the estimated changes.

Experience Modification (ex-mod) Factors:

PLAN's actuary developed the ex-mod factors by using the loss experience and payroll from 2017/18 through 2021/22. The losses were limited to $250,000 per occurrence, with a loss weighting (Creditability), limited to a minimum of 10% and maximum of 90%. Ex-mod change, from year over year, has been capped at plus, minus 30%.

Allocation of Administrative Cost:

Administrative costs are first split 80/20 between Liability and Property Programs, then split again into fixed and variable portions. The fixed costs (33%) are allocated among the members evenly. The remaining variable costs (67%) are allocated based upon the following: a) one-third of the costs are allocated based upon reported claims greater than $1 and b) two-thirds of the costs are allocated based upon paid losses in the period of 2017/18 to 2021/22. The allocation of administrative costs is same as it has been in the past years.

Property Program

The Property program is projected to increase 40.3%, or $2.8 million, over the 2022/23 Approved Budget. As previously mentioned, $784 thousand is due to repayment Year 1 of 3. Additional details in the proposed budget includes:

- Increased funding in 2023/24 program year at the **75% CL**, or $416 thousand more than the previously funded year at 70% CL;
- Total Insured Values (TIV) increasing by 8.1%; these are preliminary numbers as Alliant is still gathering the data;
- Excess premium includes a 29.6% increase, or $1.5 million. The proposed rate increase takes into the account the same property coverage as 2022/23 of $500K per occurrence, with no aggregate deductible;
- Excess Cyber liability is projected to increase 23.2%; and
- Draft Actuarial Report, dated on March 13, 2023, was used to compile the proposed contributions for the 2023/24 Budget.

2. Claims Expense

The overall claims expenses for program year 2023/24 is budgeted at the expected CL and remained flat over 2022/23, at $6.1 million. The Liability Program is projected to decrease by 4.2% due to favorable claims development, and the Property Program is projected to increase 21.7% due to both increases in TIV and property valuations.

3. Insurance Expense

Total insurance expense is projected to increase by 21.6 % over the prior year budget. Liability insurance expense is projected to increase 18.6% as the liability market continues to harden, while the Property Program is also projected to increase 29% as the property market is continuing an upward trend. Excess Cyber Coverage is projected to increase by 23.2% due to high dollar payouts in the cyber market, while employment liability is estimated to increase 10% over prior year actuals. These are conservative estimates and will be revised once more information is received from Alliant**.**

4. Risk Management Grants

Risk Management Grant were subject to a one-year moratorium in 2022/23. The reactivation of Risk Management Grants for 2023/24, which will be funded out of equity, is budgeted at $500,000.

5. Administration Expenses

Administrative expenses are projected to increase by 3.6%, or $83,810, over the prior year. The 2023/24 proposed budget includes the following line-item variances from the prior year:

- Program Administration: contractual 3% increase from prior year;
- Financial Audit: flat, no contractual increase;
- Actuarial Studies: 11.2 % increase, or $5,298, for potential additional studies;
- Claims Admin & Audit: contractual 3.1% increase for claims administration, management of APD claims of $30K, and claims audit cost of $8K budgeted for 2023/24;
- Legal Counsel: increase of 5.0% or $2,716, from prior year budget for legal services of claims activity and coverage opinions;
- Risk Control Services: contractual 3% increase over prior year;
- Other Insurance: projected 6% increase, or $3,458, for Deadly Weapon Response, E&O and Crime coverages;
- Meetings & Conferences: in anticipation of in-person meetings for the 2023/24 program year, proposing an increase of $7 thousand due to rising costs of meetings/conferences in Bay Area cities.

- Allowance for Contingencies: continue with $10 thousand for 2023/24, similar to prior years.

10. CLOSING COMMENTS

A. Board of Directors

None.

B. Staff

None.

11. ADJOURNMENT

The Regular Meeting of the PLAN JPA Board of Directors was adjourned at 12:15 p.m.

Katie Sullivan, Assistant Board Secretary