

**SCHOOLS EXCESS LIABILITY FUND
SPECIAL BOARD MEETING
Monday, June 12, 2006 - 1:00 P.M.**

**SELF Office - 1531 "T" Street, Suite 300
Sacramento, CA 95814**

TELECONFERENCE LOCATIONS:

**North Coast Schools Insurance Group, 901 Myrtle Ave., Eureka, CA
Butte Schools Self-Funded JPA, 1881 Robinson, Suite B, Oroville, CA
Schools Insurance Group Placer/Nevada, 550 High Street, #201, Auburn, CA
San Mateo County Schools Insurance Group, 1791 Broadway, Redwood City, CA
Pleasanton Unified School District, 4665 Bernal Avenue, Pleasanton, CA
Moreno Valley Unified School District, 25634 Alessandro Blvd., Moreno Valley, CA
Orange County Department of Education, 200 Kalmus Drive, Costa Mesa, CA
San Diego Co. Schools Risk Management JPA, 6401 Linda Vista Rd., San Diego, CA
Jurupa Unified School District, 4850 Pedley Road, Riverside, CA
Rancho Santiago CC Dist., 2323 North Broadway, Office #407-2, Santa Ana, CA
Yosemite Community College District, 2201 Blue Gum Avenue, Modesto, CA
Napa Valley Community College, 2277 Napa-Vallejo Highway, Napa, CA**

MINUTES

BOARD MEMBERS PRESENT

H. Brent Howatt, Chair (via teleconference)	Area I
Mark Stone, Secretary	Area III
Nancy Anderson (via teleconference)	Area VI
Wes Combes	Area II
Diane Crosier, Alternate (for Lueck)	Area VI
John Didion, Alternate (for Gregoryk) (via teleconference)	SCC
John Fogarty, Alternate (for Johnston) (via teleconference)	Area VI
Lynn April Hartline (via teleconference)	Area VI
Bob Iverson, Alternate (for Smith) (via teleconference)	Area VI
Jan Keller, Alternate (for Combes) (via teleconference)	Area II
Sandra Lepley (via teleconference)	Area V
Scott Miller, Alternate (for Wescoat-Andes) (via teleconference)	NCC
Travis Steagall (via teleconference)	Area V
Teresa Scott (via teleconference)	NCC
Paula Tanguay (via teleconference) (arrived late)	Area VI

ALTERNATES PRESENT

John Falappino	Area III
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BOARD MEMBERS ABSENT

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Michael Gregoryk, Vice Chair	SCC
Peter Hardash	SCC
Eric Johnston	Area VI
Eva Lueck	Area VI
Charlene Minnick	CSU
Larry Risinger	Area IV
Denise Smith	Area VI
Paula Tanguay	Area VI
Martha Wescoat-Andes	NCC

SELF STAFF

Tom Osborne	Executive Director
Alan Grant	Accountant/Systems Analyst
Pat Moody	Chief Fiscal Officer
Steve Schempp	Workers' Compensation Claims Examiner
Lois Gormley (via teleconference)	Director of Communications

SELF CONSULTANTS

Susan Blankenburg (via teleconference)	Marsh Risk Insurance Services
Keith Grand (via teleconference)	Marsh Risk Insurance Services
Bob Herrick (via teleconference)	Marsh Risk Insurance Services
Gary Martin (via teleconference)	Marsh Risk Insurance Services
Mark Priven (via teleconference)	Bickmore Risk Services
Kim Santin	Bickmore Risk Services
Robin Stewart	Kronick, Moskovitz, Tiedemann & Girard

OTHERS PRESENT

Harry Morris (via teleconference)	Northern California Schools Insurance Group
Bill Poland (via teleconference)	Keenan & Associates

I. CALL TO ORDER

Stone called the special meeting to order at 9:04 a.m. He introduced the people present at the Sacramento office.

II. ROLL CALL

Schempp called the roll and confirmed the presence of a quorum.

Stone asked Jan Keller to vote in place of Combes, who was present but not voting, Diane Crosier and John Fogarty to vote in place of Lueck and Johnston, Bob Iverson to vote in place of Smith, John Didion to vote in place of Gregoryk,

and Scott Miller to vote in place of Wescoat-Andes.

III. AGENDA - JUNE 12, 2006

A. AMENDMENTS/ADJUSTMENTS

None.

B. APPROVAL

Howatt made a motion, seconded by Anderson, to approve the agenda as proposed.

Vote: Unanimous.

IV. MINUTES

None.

V. PUBLIC COMMENTS

There were no members of the public who wished to address the committee.

VI. ACTION ITEM

A. EXCESS LIABILITY PROGRAM - POOLED LAYER ATTRITION

Osborne said that as of June 1 at 5:00 p.m., SELF received notification that approximately 2.2 million ADA will be moving to the \$5 million excess layer, leaving 674,510 remaining ADA. He explained that based on the actuarial study approved by the Board on May 15, a rate of 5.852 would generate revenues of \$3.947 million to fund a \$4 million self-funded pooled later. He noted the question for the Board is to determine whether the remaining ADA creates a viable funding base.

Osborne reported that he asked Mark Priven to immediately revisit the actuarial study and adjust it for the remaining members in the layer. He said he also asked Marsh to look at options and alternatives, and he contacted a number of JPA's to gauge their interest in folding SELF's \$4 million excess of \$1 million into their program(s).

Osborne noted some options would be to maintain the status quo and fund

for less than the maximum possible loss, eliminate the \$4X layer and notify members to make other arrangements, renew the program for a 90-day term to allow more time for members to switch, link with other JPA's, or effect a transfer of this layer to a commercial insurer.

Osborne invited Priven to discuss the revised actuarial study.

Priven said that in looking at the loss data for the remaining members in the pool, he determined that these members were better than the prior whole average, so rates would go down and confidence would increase, but the smaller size of the pool means rates increase more rapidly as confidence levels increase. He noted the rate at 65 percent confidence would be about 20 cents less, but at 70 percent, the rate would be 16 cents more expensive. He added that rates between a 65 and 70 percent confidence level would provide sufficient revenues to fund \$4 million in anticipated losses.

Priven advised that during the past twenty years, losses exceeded the \$4 million in three years.

Anderson asked which years had losses over \$4 million. Priven responded that the three years were 2002-03, 2000-01 and 1998-99.

Combes noted that the Board was not anticipating such a large movement of ADA from this layer in May. He asked Marsh to discuss what other options are available in terms of purchasing other insurance.

Susan Blankenburg said Marsh has nothing firm at this point, but Marsh explored the market for the \$4 million excess of \$1 layer. She noted there are at least six claims in this layer, so it is unlikely the commercial market will fund at \$4 million. She estimated commercial carriers would probably want rates sufficient to fund a couple million more.

Bob Herrick reported that he talked with Zurich Insurance about writing a stop loss policy for the \$4 million excess of \$1 layer, but firm rate quotes will not be available until the underwriters review the updated actuarial study.

Steagall asked about the possibility of folding SELF's layer into another JPA's program. Osborne stated that ASCIP and SIA were not interested, but CSAC, a municipal pool, offers a program for non-municipal risks. CSAC's CPEIA program expressed an interest in considering taking SELF's layer, subject to underwriting committee review and executive

committee approval. Osborne said this program would require a one-year commitment and SELF would be the member. He noted another possibility would be joining SAFER, also subject to underwriting review, and that program has a three-year commitment, an aggregate, and an unusual "claims made" provision as to timeline for reporting claims.

Steagall questioned whether the \$4 excess of \$1 million layer would be viable, given the low level of remaining ADA. Osborne noted that when SELF began in 1986, it collected less money to fund the \$9 million excess of \$1 million layer, leaving the layer under-capitalized.

Osborne estimated that about 290,000 of the approximately 675,000 remaining ADA have other options readily available to them.

Steagall asked about 90-day commercial coverage. Osborne said a short-term policy would give members more time to find other coverage. He said rates would be prorated to fit the 90-day term.

Stone observed that SELF would still be covering a potential \$4 million in losses, although for a shorter period of time. He pointed out that the amount of premium collected would be only 25 percent, but losses could occur within that 90 days.

Tanguay asked about the possibility of allowing a one-time waiver of SELF's notification deadlines. Osborne said there are no waiver provisions in the bylaws. Tanguay suggested asking legal counsel if SELF could allow a waiver informally and ratify a change in bylaws later.

Robin Stewart strongly advised against waiving any bylaws provisions.

Harry Morris noted there may be provisions in the bylaws for the Board to assume emergency power for extenuating circumstances and a one-time waiver. He referred to the letter he sent to SELF.

Stewart explained that the bylaws address implied powers conferred by California law, and the criteria for public agencies to take emergency action are very narrow. She cautioned against pursuing that route and urged the Board to find another solution.

Steagall commented that allowing a waiver is not an option, and granting a one-time exception could cause other members to withdraw, creating an even bigger problem if ADA is drastically reduced. Osborne acknowledged that a waiver would create serious problems for SELF and

for its members. Steagall recommended finding an alternative. He said he favored the 90-day option or some other possibility.

Osborne apprised Tanguay of Priven's findings and the Board's discussion before she joined the meeting.

Tanguay expressed support for maintaining the current rates, noting the confidence level is over 65 percent and the members left in the program are better risks. She noted SELF is not facing a major fiscal problem, and the risk of keeping the program for another year seems less than with the departing members of the pool. Tanguay recommended following the attorney's advice and complying with the bylaws.

Combes observed that in SELF's program, each year stands on its own. He expressed concern about the risk of two or three losses that could exceed the \$4 million limit, necessitating potentially large assessments to the 675,000 ADA remaining in the program.

Tanguay pointed out that most of the remaining ADA are long-time members of SELF. She said one year out of twenty years, most of which had positive equity, does not seem to be a big risk.

Howatt agreed with Tanguay that any risk to SELF is offset by the equity in the remaining years. He noted Stewart advised not to depart from the bylaws. He said many members made a good-faith decision to stay with SELF, and leaving them in the lurch now would be unfair. Howatt expressed interest in any reasonable risk transfer in that layer that could be done without increasing the rate.

Lepley clarified that the Board was not considering lowering the rate. She observed that risk in the layer is actually better with the remaining members. She felt some assurance because the program's positive equity could be used to offset any assessment.

Priven cautioned that, even with a slightly higher confidence level, the consequences of incurring losses higher than the level funded would be far worse for the remaining members because the size of the pool is significantly reduced. He estimated the chances of exceeding the \$4 million limit at about one third.

Tanguay acknowledged these risk factors. She pointed out the probability of large losses also increases with the size of the group. She noted that based on Priven's estimate that rates for the remaining members could be 20 cents less, funding at the 65 percent confidence level will produce additional premium revenues of approximately \$140,000. She suggested including this amount in the budget for obtaining commercial stop-loss coverage. Tanguay recommended that Marsh find out what attachment point a commercial stop-loss carrier would offer.

Blankenburg said Marsh will ask about a \$3 million excess of \$2 million policy as well as \$4 million excess of \$1 million.

Herrick requested that Priven redo Table 3 to reflect current ADA and show the 50th percentile.

Didion noted that SELF faced this issue before and dealt with it by finite risk transfer. He recalled that SELF previously discussed a bifurcated attachment point. He said that for the long term, SELF needs to decide what to do if the layer becomes too small. He recommended that SELF honor its commitment to the remaining members for the coming year and explore stop-loss coverage, reinsurance, or some other option.

Osborne said there appears to be consensus that SELF should retain the current program rate of 5.852, with an understanding that Marsh will continue to explore a stop-loss aggregate and report back on the cost and availability of such coverage at the June 23 Board meeting.

Howatt observed that in looking at the list of remaining members, most appear to be rural school districts and charter schools, many of which have lower risks than large urban districts with buses and football teams. He acknowledged the possibility of risk, but spoke in support of continuing the program for at least another year.

Howatt recommended that the Board take action at this meeting to affirm the rate for the \$4 million excess of \$1 million layer.

Howatt made a motion, seconded by Steagall, to affirm the rate of 5.852 for the \$4 million excess of \$1 million layer.

Lepley recommended adding that Marsh will look at the availability of commercial stop loss coverage for the Board's consideration at the June 23 meeting. Howatt said that was his understanding.

Vote: Unanimous.

VIII. ADJOURNMENT

There being no further business, Lepley made a motion, seconded by Keller, that the meeting be adjourned. The motion was carried unanimously and the meeting was adjourned at 9:55 a.m.