

**SCHOOLS EXCESS LIABILITY FUND
BOARD OF DIRECTORS MEETING
Friday, November 3, 2006 - 10:00 A.M.**

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

MINUTES

BOARD MEMBERS PRESENT

Michael Gregoryk, Chair	Area I
Charlene Minnick, Vice Chair	Area VI
Nancy Anderson	Area VI
Wes Combes	Area II
Diane Crosier, Alternate (for Tanguay)	Area VI
John Falappino	Area IV
John Fogarty, Alternate (for Hartline)	Area VI
Peter Hardash	SCC
Eric Johnston	Area VI
Sandra Lepley	Area V
Larry Risinger	Area IV
Denise Smith	Area VI
Travis Steagall	Area V
Teresa Scott	NCC

ALTERNATES PRESENT

Becky Slaughter	Area IV
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BOARD MEMBERS ABSENT

Clifton Anderson	Area I
Lynn April Hartline	Area VI
Eva Lueck	Area VI
Scott Miller	NCC
Paula Tanguay	Area VI

SELF STAFF

John Wilson	Acting Executive Officer
Pat Moody	Chief Fiscal Officer
Steve Schempp	Workers' Compensation Claims Examiner

SELF CONSULTANTS

Susan Blankenburg	Marsh
Craig Bowlus	Marsh
Mike Kielty	George Hills Co.
Randy Rendig	George Hills Co.
Dominic Spinelli	LaPlante, Spinelli & Donald

Robin Leslie Stewart

Kronick, Moskovitz, Tiedemann & Girard

OTHERS PRESENT

Dan Howell
Bill Poland

Alliant
Keenan & Associates

I. CALL TO ORDER

Gregoryk called the meeting to order at 10:00 a.m.

II. INTRODUCTIONS

Participants took turns introducing themselves.

Gregoryk asked Alternate John Fogarty to vote in place of Hartline and Alternate Diane Crosier to vote in place of Tanguay.

III. AGENDA - NOVEMBER 3, 2006

A. AMENDMENTS/ADJUSTMENTS

Gregoryk recommended adding appointment of Doug Brinkley to replace Jon Sharpe as the Northern Community Colleges alternate. He suggested placing this item on the Consent Calendar.

Gregoryk proposed taking Item VIII, the Closed Session, before Item VI, the Time Certain item with Craig Bowlus.

B. APPROVAL

Smith made a motion, seconded by Minnick, to adopt the agenda as amended.

Vote: Unanimous.

IV. MINUTES

A. BOARD OF DIRECTORS MEETING - SEPTEMBER 8, 2006

Minnick made a motion, seconded by Anderson, to approve the minutes of the September 8 meeting as presented.

Vote: Unanimous.

V. CONSENT CALENDAR

A. APPOINTMENT OF DOUG BRINKLEY AS NCC ALTERNATE

Johnston made a motion, seconded by Minnick, to approve the Consent Calendar.

Vote: Unanimous.

VI. PUBLIC COMMENTS

Bill Poland, Keenan & Associates, said his purpose in speaking was to bring certain financial and operational issues to the Board's attention.

Poland noted that SELF's excess liability program is currently funded up to \$15 million at amounts less than necessary to pay one full-limit loss, and the \$4 million excess of \$1 million layer is funded at an uncertain actuarial confidence level because the actuary's ADA assumptions were erroneous.

Poland said one of Keenan's pools, SAFER, wrote a letter to SELF proposing a solution, but SELF has not responded. He noted there is significant non-concurrent coverage between SELF's memorandum and the pool members' memorandum of coverage. He stated that many Keenan members have requested clarification on the question of whether SELF considers multiple claimants in a single occurrence as one occurrence, meaning one retention needs to be satisfied. Poland requested a "yes" or "no" answer from SELF.

With respect to operational issues, Poland referred to the auditor's recent letter of reportable conditions that identified serious deficiencies in the design and/or implementation of internal controls. He noted the two key issues were that investment maturities were not matching potential cash needs, and concern that the payment terms of the workers' compensation assessment would not meet potential claims-paying needs, as identified by the actuary. Poland added that the total assessment is insufficient to cover the total deficit of the program at any confidence level, so future liabilities have not been properly funded or protected.

Poland noted SELF's Board published excess liability program rates knowing there was a potential \$28 million data error in the information, and that information was not shared with members in order for them to make informed decisions. He said the rates were republished and the amounts were higher, but members had little time to change retention levels at that point.

Poland clarified that Keenan & Associates has never criticized SELF's life

insurance program, contrary to a written comment blaming Keenan for being the cause for the collapse of the life insurance program.

Poland reported that members have written to SELF regarding changes of retention, JPA versus individual district membership, allowing provisional notices of withdrawal in December and final notices in the spring, and having audited financial statements available by October 31, 2006. He recommended that the Board consider and address the other issues that members have brought to SELF's attention in writing.

Poland stated that for all of these reasons, Keenan is taking appropriate steps to protect the financial interests of members participating in SELF's program. He thanked the Board for allowing him to speak.

VIII. CLOSED SESSION (Out of Order)

At 10:10 a.m., Scott made a motion, seconded by Smith, to enter closed session for the purpose of discussing pending claims and personnel matters.

Vote: Unanimous.

- A. LIABILITY CLAIMS
 - 1. Deutsch v. Berkeley Unified School District
- B. WORKERS' COMPENSATION CLAIMS
 - 1. CCCSIG v. SELF
 - 2. Garden Grove School District v. SELF
- C. CONFERENCE WITH LABOR NEGOTIATORS: DIRECTOR OF COMMUNICATIONS, OFFICE TECHNICIAN, WORKERS' COMPENSATION CLAIMS EXAMINER

At the conclusion of the closed session at 11:40 a.m., Minnick made a motion, seconded by Combes, to resume the open session.

Vote: Unanimous.

VII. TIME CERTAIN

- A. EXCESS LIABILITY CLAIMS REPORT

Gregoryk announced that instead of having a claims report at this meeting, he would appoint a committee to work with Craig Bowlus, Marsh, on his

report and findings. He said committee members will be Minnick, Crosier, Steagall, and John Falappino. He asked the staff to arrange a committee meeting.

IX. COMMITTEE REPORTS/ACTION

A. EXECUTIVE COMMITTEE

1. Agenda - October 6, 2006
2. Committee Report - October 6, 2006
3. Recommendations to the Board - None

Gregoryk thanked Hardash, Scott, and Miller for assisting him the previous week in making a presentation to ACBO. He said the audience seemed very receptive. He added that SELF has consciously chosen to take the high road and to deal with criticism straightforwardly.

B. FINANCE COMMITTEE

1. Agenda - October 18, 2006
2. Committee Report - October 18, 2006

Scott reported that the primary focus of the Finance Committee's October 18 meeting was the external audit process and report. She said the audit report is not yet complete, and confirmed that the auditors found a material weakness relating to internal controls.

Scott clarified that the material weakness was due to the vacant CFO position before Moody's arrival and the CEO's resignation. The auditors assured SELF there will be no material adjustments to the financial statements as a result of their findings.

Scott said the auditors are very pleased with Moody's work, and she thanked Moody for her efforts. Wilson expressed his appreciation to Moody for her outstanding progress.

Scott stated that the auditors asked to see a cash flow analysis of the assessment calculation, and staff as well as SELF's CPA consultants from Gilbert will be working to provide that information.

Scott said the reportable condition has to do with the assessment

calculation. The auditors determined that the amount booked as a receivable on the financial statements is correct, but the dates used in the calculation and the formula itself were questioned.

Scott noted that Tanguay contributed two days of time working with Moody to review the assessment calculations, and that process will be completed soon.

Scott advised that the auditors estimated it would take about eight more weeks to complete the necessary work and finalize the report.

Scott said SELF will be hiring an external consultant to provide a cash flow analysis of the workers' compensation claims. She noted SELF has paid out about \$14 million over the life of the workers' compensation program, with about \$59 million in IBNR and over \$50 million in reserves.

Wilson emphasized the need to resolve these issues to quell negative publicity. He said the actual numbers are much better than the criticism suggests, and letting members know that as soon as possible could convince some of them to stay with SELF.

Wilson acknowledged that the workers' compensation program's assessment issue is a concern, but more importantly, members need to know that the financial position of the excess liability program is sound.

Gregoryk noted it might be advisable to issue a draft audit report so members can review the financial statements and see the results for themselves. Board members discussed this possibility and concluded that SELF should release unaudited financial information on the liability program as soon as possible.

Gregoryk asked Scott to call the auditors and check with them about releasing of unaudited statements for the excess liability program. He proposing releasing the information on the Web and sending it by email to members.

Scott noted another issue is the concept of one fund covering another. She clarified that SELF's bylaws are clear that the liability program is not liable for deficits in other programs. Wilson commented that keeping programs separate is consistent with what other JPA's do.

Risinger recommended providing an explanation for the delay in the workers' compensation audit results. Gregoryk agreed. He offered to draft an explanatory letter to members.

Lepley suggested sending out the fact sheet with the letter. She proposed addressing the issue of multiple claims as single occurrences. Wilson noted that SELF's memorandum of coverage (MOC) says that when one occurrence affects multiple districts, SELF takes one retention rather than separate deductibles for each. He added that the MOC provides a good multi-step dispute resolution procedure.

Wilson expressed support for the idea of SELF following underlying forms, whenever that can be done without upsetting the entire underwriting process and other members.

Gregoryk noted that following form has been a major issue and will be a topic of the strategic planning retreat in February. He recommended clarifying SELF's stance on multiple claims as single occurrences. Board members discussed past instances of multiple claims.

Minnick stated that CSU's audit is being held up pending completion of SELF's audit. She urged SELF to at least provide an estimated assessment figure in the interim.

Scott said the Finance Committee approved the August 31 investment report and discussed the life insurance program. She noted both of these topics will be addressed as part of later agenda items.

In preparation for the discussion at the strategic planning session, Falappino recommended obtaining MOC's from the five largest member JPA's and comparing those with SELF's MOC. Gregoryk asked Marsh to provide that analysis.

Susan Blankenburg, Marsh, invited Board members to describe specific scenarios that might help clarify this issue.

3. Recommendations to the Board
 - a. Approve Financial Statement - August 2006

Scott said the committee reviewed the August 2006 financial statements and recommends Board approval.

C. LIABILITY CLAIMS AND COVERAGE COMMITTEE

None.

D. WORKERS' COMPENSATION CLAIMS AND COVERAGE COMMITTEE

None.

E. MEMBER SERVICES AND COMMUNICATIONS COMMITTEE

None.

X. ACTION ITEMS

A. APPROVE FINANCIAL STATEMENTS - AUGUST 2006

Falappino made a motion, seconded by Combes, to approve the August 2006 financial statements.

Vote: Unanimous.

B. PROPOSED CHANGES TO BYLAW XVI - NOTICE OF CHANGE OF RETENTION

Wilson noted this item was inadvertently omitted from the September meeting agenda. He said the proposed changes have to do with sudden departure of a significant portion of the \$4 million excess of \$1 million pool membership. He presented a draft revision for a first reading and consideration by the Board. Wilson added that this issue came up before his arrival, so he was not sure exactly what the Board intended.

Wilson said a fundamental issue is whether SELF will continue the \$4 million excess of \$1 million pool, given the reduction in membership. He noted that if the pool is disbanded, the proposed bylaw changes would be moot.

Gregoryk expressed his opinion that SELF should consider eliminating the \$4 million excess of \$1 million layer. He recommended notifying pool

members to find coverage elsewhere. Wilson advised there are less than 700,000 ADA in the program and many members are exploring other options.

Wilson recalled that SELF's original program was \$9 million excess of \$1 million. He said SELF had hoped for 300 member districts and ADA of about 1.5 million, but within nine months of SELF's inception, there were 900 member districts and 3 million ADA. He noted that unlike many other pools, SELF incurred no capitalization as the program expanded, and there were minimal losses in the early years.

Gregoryk proposed giving pool members notice as soon as possible.

Minnick noted that SELF exacerbated the problem by announcing rates on June 1, giving members little time to react and adjust. She recommended allowing provisional notices several months earlier, in January or February, which would give the actuary time to analyze the implications.

Wilson commented that fortunately for SELF, the members remaining in the pool have better loss experience than the departing members. He noted SELF might want to continue offering this layer as an option based on a threshold participation level. Our actuary would develop a rate for that level.

Blankenburg offered Marsh's assistance to help find replacement coverage for members in the \$4 million excess of \$1 million layer. Gregoryk recommended that Marsh survey the members in the \$4 million excess of \$1 million layer regarding their intentions.

Combes suggested setting December 31 as the deadline for provisional notices of a change in retention levels. Falappino expressed support for setting a date.

Falappino made a motion, seconded by Combes, to accept provisional notices of changes in retention level by the close of business on December 31.

Board members talked about appropriate deadlines and concluded that March 1 would be better. Falappino agreed to change the deadline in his motion to March 1, and the amendment was seconded by Combes.

Robin Stewart, Kronick, Moskowitz, Tiedemann & Girard, advised that the Board could either take action on this item or consider it a first reading,

with a final decision at the December Board meeting. Board members decided not to defer a decision.

Gregoryk asked Marsh to report on the ongoing viability of the pool and options for the future.

Anderson emphasized the need to notify members of the deadline change as soon as possible.

Board members clarified that provisional notices of change in retention must come from individual member districts rather than JPA's.

Vote: Unanimous.

XI. INFORMATION/DISCUSSION ITEMS

A. INVESTMENT REPORT - MONTHS ENDING AUGUST 31 AND SEPTEMBER 30, 2006

Moody noted that the August and September investment reports were included in the meeting packet for informational purposes.

B. NOTICE OF INTENT TO WITHDRAW - CONTRA COSTA COUNTY SCHOOLS INSURANCE GROUP

Wilson said this item was also provided for information.

C. NOTICE OF INTENT TO WITHDRAW - DECEMBER 31 DEADLINE

Gregoryk clarified that the December 31 deadline still applied to notices of intent to withdraw.

D. SELF LIFE INSURANCE PROGRAM

Wilson advised that Ron Shepherd has talked about terminating the life insurance program. He said the life insurance incurred about \$250,000 in development costs, and SELF has been charging 6 percent interest on that debt. He noted the program is still producing some income.

Gregoryk asked if SELF's portfolio of business would have value to another carrier, and Blankenburg confirmed that other carriers would probably be interested.

Gregoryk said he was more interested in transferring the portfolio than in liquidating and terminating the program. He noted selling the program would help offset the development costs.

Hardash pointed out that the program's costs exceed its income. He noted SELF had high hopes for the program when it was first established, but the business model has not worked out. He said that although Shepherd may feel he is not being compensated adequately now, Shepherd has earned high fees from the life insurance program.

Hardash recommended looking at ways of recouping the program's capital costs.

Gregoryk asked Marsh to conduct an evaluation of the program and report back on SELF's options. He observed that the life insurance program has been controversial from the start.

Wilson stated that there have been successful life insurance pools in other states. He noted a preliminary survey showed a considerable variation in life insurance premium rates school districts were paying, and SELF's program helped stabilize the field and make rates more competitive.

Hardash recalled that the Board embarked on the program with the expectation that SELF could eventually offer a fully self-insured life insurance program based on sound actuarial data. Once the program got underway, SELF encountered some roadblocks and scaled back its offerings, undermining the chances of the program being viable.

Gregoryk noted that the Board will be discussing this topic again after hearing the report from Marsh.

E. UNDERWRITER'S REVIEW OF EXCESS WORKERS' COMPENSATION PROGRAM

Wilson said this topic had already been covered earlier in the meeting.

F. SHORT-TERM AND LONG-TERM DISABILITY PLANS - SELF EMPLOYEES

Wilson noted that SELF's policies indicate that short- and long-term disability plans are supposed to be part of the employee benefit package, but that detail was overlooked. He said SELF is now exploring its options.

XII. EXECUTIVE DIRECTOR'S REPORT

Wilson expressed his appreciation to Tanguay and Falappino for assisting the staff with accounting tasks. He welcomed additional help from Board members as their time allows.

Wilson reported that he recently made presentations to SIA and the North Coast Schools Insurance Group, and he thanked Paul McKay and Board members for providing backup materials. He invited Board members to volunteer to make similar presentations in their areas. Wilson talked about upcoming dates and locations.

Hardash noted release of the annual report is usually predicated on the audit. He asked about the status of the annual report. Wilson noted a photographer will be present at the December meetings to take pictures of Board and committee members. He said Gormley has been working closely with the graphic design firm to make sure the annual report is ready as soon as the audit information is available.

Anderson recommended that SELF clarify the December 31 notice date so members understand there is no provisional notice of withdrawal. Wilson responded that letters would go out immediately clarifying this point. Anderson suggested following up with emails.

Minnick pointed out that members need to be notified about the March 1 change in retention deadline; she suggested clarifying the December 31 deadline at the same time. Other Board members expressed support for this approach.

XIII. CHAIR'S REPORT

Gregoryk noted that at the strategic planning session in February, the Board will be comparing SELF's memorandum of coverage (MOC) with those of large JPA's. He suggested talking about Board composition and representation, and considering a request for proposals (RFP) process for auditors, actuaries, and claims administrators. Gregoryk recommended taking a fresh look at all these outside services periodically.

Wilson said next year's Board election process will begin in January.

XIV. AGENDA ITEMS/NEXT MEETING

December 1, 2006 - 8:30 a.m.

Board of Directors
SELF Office

February 7-9, 2006
Strategic Planning Session
Seascape, Aptos

March 2, 2007 - 8:30 a.m.
Board of Directors
SELF Office

June 22, 2007 - 8:30 a.m.
Board of Directors
SELF Office

VIII. ADJOURNMENT

There being no further business, Anderson made a motion, seconded by Falappino, that the meeting be adjourned. The motion was carried unanimously and the meeting was adjourned at 12:34 p.m.