SCHOOLS EXCESS LIABILITY FUND

EXECUTIVE AND FINANCE COMMITTEE MEETING

MINUTES

Time: Thursday, March 6, 2025, 9:00 A.M.

Location: SELF Office, 1531 I Street, Suite 300, Sacramento, CA, 95814

Log-In Information: https://us02web.zoom.us/j/85842752803?pwd=aEcCa0MxzG0o2LYmfIAqGUervoacrN.1

Teleconference Locations:

Orange County Dept. of Ed, 200 Kalmus Dr., Costa Mesa, CA
ABC USD, 16700 Norwalk Blvd, Cerritos, CA
Shasta UHSD, 2200 Eureka Way, Suite B, Redding, CA
San Diego County SRMJPA, 6401 Linda Vista Road, Room 505, San Diego, CA
33 Plumeria, Lake Forest, CA
Norwalk-La Mirada USD, 128020 South Pioneer Blvd, Norwalk, CA
Hesperia USD, 15576 Main Street, Hesperia, CA
Ontario-Montclair SD, 950 West D Street, Ontario, CA

MEMBERS

Renee Hendrick, Chair	Area VI Representative
David Flores, Vice Chair	Area II Representative
Toan Nguyen, Comptroller	Area VI Representative
Steve Salvati, Member-at-Large	Area VI Representative
Thuy Wong, Member Services & Communications Committee Chair	Area VI Representative
Tony Nahale, Workers' Compensation Claims & Coverage Committee Chair	Area VI Representative
George Landon	Area VI Representative
Phil Hillman	Area VI Representative

GUESTS

Jim Marta	James Marta and Company LLP
Leilani Aguinaldo	School Services of California, Inc.
Stefan Zepernick	Bickmore Actuarial
Mike Harrington	Bickmore Actuarial

STAFF

Dave George	Chief Executive Officer
Kathryn Mathes	Chief Fiscal Officer
Lynn Garcia	Chief Litigation Officer
Lois Gormley	Director of Communications and Member Services
Jimmy Rowe	Director of Claims
Susan Casey	Executive Assistant
Alberto Sanchez	Business Analyst

I. CALL TO ORDER

Executive Committee Chair Renee Hendrick called the meeting to order at 9:02 a.m. Executive Assistant Susan Casey called the roll and confirmed the presence of a quorum.

II. AGENDA – March 6, 2025

A. Amendments/Adjustments

None.

B. Approval

Flores made a motion, seconded by Landon, to adopt the agenda as proposed.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

III. MINUTES –November 19, 2024 & February 27, 2025 – Executive Committee
-November 19, 2024 – Finance Committee

A. Amendments/Adjustments

None.

B. Approval

Salvati made a motion, seconded by Hillman, to approve the minutes of the November 19, 2024, Executive Committee and Finance Committee meeting, and the minutes of the February 27, 2025 Executive Committee.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

IV. PUBLIC COMMENTS

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

V. CHIEF EXECUTIVE OFFICER'S REPORT

George provided updates on the two ad hoc committees formed after the strategic planning meeting in September 2024, one for reviewing and updating the MOC, and another looking at the reinsurance structure and coverage. He reported that each committee had met twice and would continue to meet monthly, with recommendations ready for the Board's consideration at the strategic planning meeting in October 2025.

George advised that an in-person meeting of the captive entity in Utah was scheduled for mid-May. He said the procedure for moving to a sponsored captive was underway, and he explained that the purpose was to allow other pools to participate in the captive as a separate cell. He explained that participants only share the structure of a captive, but not the risks, and each pool can use the captive for its own purposes.

George stated that SISC was in the process of joining the sponsored captive, and a second JPA is considering joining.

George discussed recent staff projects and outreach activities. He said SELF provided an orientation for two new Board members in January. He noted that Chief Litigation Officer Lynn Garcia and Director of Claims Jimmy Rowe put on a defense counsel training session in February that was well attended, and he thanked Hendrick for her assistance in arranging use of the Orange County Office of Education facilities.

George reported that he attended the recent PARMA conference in Anaheim and the CharterSafe board meeting at SELF's office in February and discussed some scenario planning ideas.

George advised that the reinsurance marketing effort was running a bit later this year.

George reminded committee members of the upcoming SISC/SELF AB 218 Working Group meeting at the SELF offices on April 8.

Hendrick thanked George for his report.

VI. INFORMATION/DISCUSSION ITEM

A. Equity Calculation by Program Year

Jim Marta, James Marta and Company, presented his analysis of SELF members' equity calculations by policy year. He said calculations are based on reconciling SELF's fiscal year accounting back to a policy year accounting, and allocating revenues and expenses to the appropriate years. He noted each policy year's assets and liabilities are taken into account, including assessments and dividends.

Marta indicated that SELF staff then produces policy year accounting at the member level that allocates net equity in proportion to each member's share.

Marta explained that calculating policy year equity is important because SELF's JPA agreement provides for risk-sharing, and policy year accounting aligns the contributions with the applicable expenses. He pointed out that SELF gave some members rebates in the early years, but experience has shown that policy years can remain open for decades.

Marta noted that SELF members had assessments in 2020 of $46 million, $96 million in 2022, and $152 million in 2024. He presented a chart highlighting the policy years with deficits, and he clarified that even though there were assessments, the deficits exist because claims continue to emerge.

Marta displayed a chart from the back of his report showing the differences between this policy year accounting and the 2023-2024 accounting.

Marta described the step-by-step procedure taken to arrive at policy year equity, including consideration of claims paid, reserves, IBNR, audited financial reports, actuarial reports, and the loss reconciliation prepared by the staff. He noted that cash and investments are allocated to each policy year.

Marta presented a graph showing equity position by policy year. He said SELF assessed for all deficit years in 2023. He indicated that the net position for all policy years together is $72 million, which is the balance after application of the assessments; the balance of all deficit years is a negative $125 million. Marta recommended that SELF have its actuaries review the information quarterly and have its staff provide the actuaries with data on emerging claims based on low, medium, and high estimated severity. Hendrick thanked Marta for his report.

George said he would discuss the patterns of claims activity in more depth later in the meeting.

VII. ACTION ITEMS

A. Accept Bill Report

Leilani Aguinaldo, School Services of California, drew attention to the written report in the meeting packet. She advised that February 21 was the deadline for introducing 2025 legislation. She said the first policy committee meetings will continue until May, when bills will need to pass their house of origin in order to move forward.

Aguinaldo noted that there are many new legislators this year, resulting in 2,350 new bills; and of that total, eight specific bills are described in the bill report with recommended positions. She said she would also be describing an additional bill and recommended position.

Aguinaldo highlighted AB 65, like AB 2901 from last year, that would provide at least 14 weeks of paid pregnancy disability leave for all school employees. She stated that AB 320 would establish confidential communications between employees and their labor representatives, similar to an attorney-client privilege. She expressed concern about requiring confidentiality that could impede investigations of certain sensitive claims, such as childhood sexual abuse claims, and recommended an "oppose" position.

Aguinaldo discussed AB 90 (Jackson), related to school safety, that would establish overnight student parking at community colleges and CSU campuses. She recalled that Assembly Member Jackson introduced a similar bill last year to create a pilot program at certain campuses. She noted that AB 90 goes a step further, requiring overnight student parking policies at all community colleges around the state.

Aguinaldo identified SB 334 as another bill of concern. She remarked that School Services and SELF always support more training on grooming, affirmed consent, and childhood sexual abuse prevention, SB 334 does not establish definitions for terms like "grooming," for example. She added that School Services will engage in conversations with the author to refine the provisions and clarify the definitions.

Aguinaldo said one other bill had emerged after the bill report was prepared that SELF should consider opposing: AB 1109, which would establish an employee-union privilege similar to the attorney-client privilege, excluding criminal proceedings. She noted that AB 1109 adds a provision to the Civil Code, while AB 320, mentioned earlier, protects communications.

Aguinaldo stated that the recommended positions on the bills in the report were developed in consultation with SELF staff, and she welcomed discussion and approval.

George asked Aguinaldo to talk about the budget hearing related to the FCMAT report. Aguinaldo said FCMAT released a report on January 31 regarding financial impacts of AB 218 claims for all California public agencies. She noted that the Senate's Budget Subcommittee on Education would be holding a hearing on March 13 to delve into the findings and recommendations. She added that a link to the session is available on the Senate website.

Salvati made a motion, seconded by Nguyen, to accept the bill report and approve the recommended positions.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

B. Accept Excess Liability Program Actuarial Study 10/31/24

Nguyen made a motion, seconded by Flores, to accept the actuarial study.

Mike Harrington, Bickmore Actuarial, presented the results of the October 31 Excess Liability Program actuarial study. He observed that more data on AB 218 claims is now available, which allows a better-informed analysis. He stated that since the last actuarial study, liabilities increased by $173 million, at the expected level at net present value. Harrington said rate estimates are up about 15 percent for the middle layers, and slightly more for higher layers.

Harrington displayed a graph showing actual claim development over time. He pointed out that SELF was receiving about $15 million annually in claims for the earlier years, but those figures increased in 2022, skyrocketed in 2023, and ballooned in 2024, driven in large part by AB 218. Harrington remarked that the development has been much more than originally anticipated, especially given the window of allowable reporting.

Harrington showed a slide depicting ultimate losses by year of incident, and he observed that most of the recent activity is from the old years. He presented a chart showing estimated liabilities at June 30, 2024, case reserves, IBNR, reserves for future claims administration, investment income, and losses by policy year. He noted that recent adverse developments have resulted in the projected rate increases.

Harrington commented that AB 218 introduced liabilities that did not previously exist when SELF was determining pricing and setting rates in prior years, resulting in the need to impose assessments. He said the earlier rounds of assessments were based on estimates, but actual development data is now available. Harrington noted that reporting of AB 218 claims continued far longer than expected after the three-year window closed, and the severity and costs of the average claim have trended upward.

Harrington explained that the IBNR (incurred but not reported) estimate was previously based on claims that were expected to reach the SELF layer. He said the new analysis includes case reserves, which are set by the claim adjusters, and separate reserves for IBNR claims. He described the three components of IBNR: claims already at the member level, claims in the SELF layer with insufficient reserves, and late-reported claims that are still unknown. Harrington showed a chart depicting case reserves and IBNR over time by type of claim.

Harrington discussed increases in case reserves over the past two years, reflecting the increased value of open claims over that time. He displayed a slide of estimated late-reported and unknown claims. He observed that AB 218 claims account for the lion's share of the increases.

Hendrick asked if the increase was due to social inflation and claim costs, higher jury verdicts, or better actual claims data. Harrington responded that all three factors were involved. Hendrick remarked that some AB218 claims will go on for decades.

Hendrick thanked Harrington for his report.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

C. Accept Investment Compliance Report – Month Ending October 31, 2024, November 30, 2024, and December 31, 2024

Hillman made a motion, seconded by Landon, to approve the Investment Compliance Reports.

Chief Fiscal Officer Kathryn Mathes stated that SELF's investments, managed by New England Asset Management, are held in U.S. Bank, CAMP, and LAIF. She said the investment compliance reports were prepared by New England Asset Management and were approved and reconciled to the general ledger by SELF. She reported that there were no reconciling items or exceptions for the second quarter of the fiscal year, and the portfolio is in compliance with SELF's investment policy and Government Code. She recommended approval of the Investment Compliance Reports.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

D. Accept Investment Report –Second Quarter 2024/2025

Flores made a motion, seconded by Salvati, to accept the Investment Report.

Referring to the Investment Report prepared by New England Asset Management, Mathes advised that SELF and the captive entity have $124.6 million in combined portfolios, with market yields still over 4 percent. She said the report includes a commentary on the investment environment and the economy.

Hendrick asked if the staff was happy working with New England Asset Management. Mathes responded that she was very happy with the new arrangement. She noted that a representative from the firm will attend the next meeting as well as the strategic planning session.

Vote: Hendrick – yes

Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

E. Accept Financial/Treasurer's Report Ending December 31, 2024

Salvati made a motion, seconded by Landon, to accept the Financial/Treasurer's Report.

Mathes stated that the financial/treasurer's report reflects an additional three months of revenue and reinsurance expenditures. She pointed out that there was a substantial amount of cash on hand at December 31, 2024, which was the due date for the fourth round of the AB 218 assessment, but funds were transferred to SELF's short-term portfolio soon after that. She observed that the deficit reflected in the financial statement is due to recording IBNR and reserves based on the October 31, 2024, actuarial report.

Nguyen clarified that the net deficit was currently $135 million, a figure that could change by June 30. Mathes confirmed that understanding. She estimated that about $20 million in revenue and reinsurance expenditures would be recorded, but would be offset by claim payments. Nguyen concluded that SELF would need to impose another assessment to cure the deficit.

Salvati asked if the deficit was attributed to current years or older years of operation because of AB 218. Mathes replied that the figure is related directly to IBNR and reserve changes for AB 218 claims, primarily in older years. George added that although recent years got better, older years had significant deterioration.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

Hendrick suggested taking a brief recess before discussing rates, and committee members agree.

The meeting was reconvened at 10:25 a.m.

F. Review 2025/26 Rates

Nguyen made a motion, seconded by Flores, to review the proposed 2025/26 rates.

George noted that in setting rates, SELF's equity policy calls for minimum funding at a 75 percent confidence level for the layers SELF self-insures. He said SELF currently has no self-insured layers. He indicated that SELF is embarking on the second year of a three-year, flat-rate, structured deal with Hanover for the $5 million excess of $5 million layer.

George advised that rates are also based on SELF's estimated reinsurance costs, in-house administrative costs, and relativity factors distinguishing K-12 from community college members. He stated that the relativity factor is re-evaluated every three years, with the next update occurring in 2025-26.

George observed that the hard market for liability and California public entities shows no signs of softening, and SELF has experienced significant claim activity. On the other hand, he said, having established relationships with reinsurance markets has been very helpful; in addition, the flat rate pricing for the $5 million excess of $5 million layer is also beneficial.

George noted that SELF has absorbed large increases in reinsurance costs for five years, so this year's increase should be more moderate. He displayed a chart showing rates over the past ten years and the resulting net financial positions. He observed that SELF is above a 95 percent confidence level in recent years.

George said that staff recommends increasing rates just under 15 percent, to $29.20 for K-12 members, a bit less than that for community college districts, and a nearly 15 percent increase in the flat rate for transportation members. He remarked that these rates would meet the minimum of a 75 percent confidence level for all layers, fund reinsurance costs with a small margin, cover SELF's administrative costs, and incorporate the relativity factor.

Hendrick asked if any of the reinsurers would be changing their limits. George responded that one market advised SELF early of a reduction in limit, but there are no indications yet of others pulling back on limits or enacting other restrictions. He added that if there are any drastic changes, the Board will discuss them in June.

Salvati expressed concern about the projected deficit discussed as part of the financial report earlier, and he asked if SELF needs to do something to backfill the deficit. George said the proposed rate is not meant to subsidize AB 218 claims for old years. He noted that the next item on the agenda was a discussion of funding AB 218 claims. George remarked that the number of AB 218 claims should decline in coming years.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

G. Review AB 218 Assessment Program

Salvati made a motion, seconded by Nguyen, to review the AB 218 assessment program.

George explained SELF's history of AB 218 assessments and plans to cover the projected deficit. He said assessments were applied to all policy years with negative net positions, and they were based on Marta's policy year accounting and the Bickmore actuarial analysis as of October 31, 2024. He advised that fifteen of the twenty years from 1987 through 2008 are in a negative position.

George showed cumulative projected liabilities for sexual abuse and molestation (SAM) cases from 1986 to 2020 that were received after January 1 of 2020. He explained that 2020 was chosen as the cutoff because SELF made provisions for covering AB 218 claims after that. He marked that there is still an open window for plaintiffs age 26 to 40 to come forward with new claims.

George displayed a chart showing claims by type, paid, reserves, IBNR, and total estimated liabilities. He reviewed the accounting dealing solely with AB 218 claims, including revenues, expenditures, liabilities, and net position.

Salvati asked about the distinction between pre-2008 and post-2009 claims. George replied that 2009 was when SELF began shifting to a different reinsurance structure, and the membership profile also shifted during that time.

George reviewed the net position estimates based on the Marta and Bickmore reports. He indicated that there was an additional negative $52 million in development since the prior reports and since the last round of assessments. George said the deficits for 1986-2008 are estimated to total $296.85 million using the 10/31 actuarial numbers. He presented a chart showing projected liabilities, assessments to date, and the recommended next assessment. He pointed out that the proposed assessment is intended to cover liabilities from 1986 to 2008.

George recommended declaring an assessment on the entire $296.85 million deficit, to be collected over two years.

Salvati observed that $296.85 million is more than the three previous assessments combined. George confirmed that understanding.

George said the staff recommends assessing the full amount for the negative years so districts will have at least some budget certainty for the next two years. He commented that the most recent actuarial report is based on much more data and experience, improving the ability to forecast more accurately.

Landon asked when school districts will be notified about the next round of assessments. George said Mathes had already done the calculations, so information for members' budgeting purposed will be available in early April.

Hendrick asked if districts would be able to use the unrestricted one-time funding recently approved by the governor to pay the assessments, and whether the entire payment could be made in the 2024/25 year. George said his understanding was that invoices can be paid during the current year as long as they are dated in June. Hendrick remarked that school district budgets are likely to be more constrained in 2026/2027.

Nguyen noted that members will appreciate having the option to pay the entire amount this year or spreading payments over two years.

Salvati expressed concern that the large magnitude of the proposed assessment could cause some members to resist paying. Landon agreed, noting that smaller districts will be most affected.

Hendrick remarked that the FCMAT report on the financial impact of AB218 on school districts will help educate legislators about the problems AB 218 has caused.

George raised the idea of allowing a three-year payback period rather than two years. Salvati expressed support for limiting the payback to two years because it might be necessary to impose another assessment in three years. Other committee members agreed that a two-year payback period would be more prudent.

Hendrick recommended notifying members as soon as possible so they can budget accordingly.

George described the AB 218 claims experience as like a snowball, getting larger and larger. He said the process has been much longer than anticipated, driven largely by the change in statute from age 26 to age 40. He added that going to claims-made coverage will be helpful in future years and make coverage more stable than handling SAM cases on an occurrent form.

After some discussion, committee members expressed support for the proposed assessment amount and timing.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – yes
Hillman – yes

Motion passed.

H. Approve 2025/26 Executive/Finance Meeting Calendar

Hendrick drew attention to the proposed 2025/26 meeting calendar in the meeting packet.

Flores made a motion, seconded by Hillman, to approve the 2025/26 Executive/Finance Committee meeting calendars.

Vote: Hendrick – yes
Flores – yes
Nguyen – yes
Salvati – yes
Wong – yes
Nahale – yes
Landon – abstain
Hillman – yes

Motion passed.

VIII. FUTURE MEETINGS

The committees reviewed the schedule of upcoming meetings.

IX. ADJOURNMENT

Hendrick thanked committee members, guests, and staff for their participation. There being no further business, the meeting was adjourned at 11:31 a.m.