MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Member Cities
Capitola
Del Rey Oaks
Gonzales
Greenfield
Hollister
King City
Marina
Sand City
Scotts Valley
Soledad

AGENDA

LEGEND:
A – Action may be taken
I – Information

1 – Included
2 – Handout
3 – Separate
4 – Verbal

JPA: **MBASIA Board of Directors Meetings**

DATES/TIMES: Monday, April 15, 2013 at 9:30 AM

LOCATION: City of Sand City
1 Sylvan Way
Sand City, CA 93955
Room: Council Chambers

In accordance with the requirements of the Brown Act, notice of this meeting must be posted in publicly accessible places, 72 hours in advance of the meeting, in each of the member agencies involved.
Per Government Code section 54954.2, persons requesting disability-related modifications or accommodations, including auxiliary aids or services in order to participate in the meeting, are requested to contact Alliant Insurance Services at (415) 403-1400, 24 hours in advance of the meeting. Access to some buildings may require routine provision of identification to building security. However, MBASIA does not require any member of the public to register his or her name, or to provide other information, as a condition to attendance at any public meeting and will not inquire of building security concerning information so provided. See Government Code section 54953.3.

PAGE		
	A. CALL TO ORDER	
	B. CONSENT CALENDAR	(A)
1-6	1) Approval of Minutes – February 11, 2013 Board of Directors Meeting *Members will review these minutes and may take action to approve or amend.*	
7-8	2) Service Calendar & Status of Deliverables	
9-12	3) Bills and Correspondence a) Ratification of Disbursements i. Month Ending January 31, 2013 ii. Month Ending February 28, 2013	
	C. ORAL COMMUNICATIONS & PUBLIC COMMENTS *The public is invited at this point to address the Board on issues of interest to them.*	(I)
	D. BOARD OF DIRECTORS 1) **UNFINISHED BUSINESS** - None 2) **COMMITTEE REPORT**	
4	a) Executive and Finance Committee *The Executive and Finance Committee may give a verbal report in addition to discussing the following items:* 1. None	(A)
1	b) Safety Committee *The Safety Committee may give a verbal report in addition to discussing the following items:*	
13-26	1. City Contracted Risk Transfer *Members will review and discuss the importance of reviewing contractual risk transfer and the need to review insurance policies.*	(I)
27-28	2. Reminder - Policy and Procedure for Grant Funds *The Board will review the updated policy and procedure for requesting grant funds.*	(A)
4	c) Coverage and Claims Committee	(I)

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Member Cities
Capitola
Del Rey Oaks
Gonzales
Greenfield
Hollister
King City
Marina
Sand City
Scotts Valley
Soledad

The Coverage and Claims Committee may give a verbal report in addition to discussing the following items:
1. None

1 d) Ad Hoc Budget Committee

29-33 1. Draft Liability Budget (A)
Members will receive a copy of the Draft Liability Budget and may take action or give direction.

34-37 2. Draft Workers Compensation Budget (A)
Members will receive a copy of the Draft Workers Compensation Budget and may take action or give direction.

3) **NEW BUSINESS**

38-41 *1* a) CARMA Insurance Renewal (A)
Members will receive a report on the status of the CARMA insurance renewal; action may be taken for the July 1, 2013 renewal.

42-44 *1* b) ERMA Insurance Renewal (I)
Members will receive a report on the status of the ERMA insurance renewal; action may be taken for the July 1, 2013 renewal.

45-47 *1* c) CSAC EIA Excess WC Insurance Renewal (A)
Members will receive a report on the status of the CSAC EIA insurance renewal; action may be taken for the July 1, 2013 renewal.

48-56 d) Workers Compensation Actuarial Report (A)
Members will review the draft Workers Compensation Actuarial Report and may take action or give direction.

57-65 e) Liability Actuarial Report (A)
Members will review the draft Liability Actuarial Report and may take action or give direction.

4) **LOSS REPORT** (A)

CLOSED SESSION – Pursuant to Gov't Code 54956.95
Members will review the following Items:

1 a) Workers' Compensation Administrator's Report
Tabatha Bettencourt from JT2, MBASIA's Workers Compensation TPA, will provide a report on current claims status.

1 b) Liability Third Party Administrator's Report
Ken Maiolini will provide a verbal report on the status of current claims. Members will review the following Closed Session Items:
1. Watkins v Hollister

RECONVENE – DISPOSITION OF CLOSED SESSION ITEMS

E. PROGRAM ADMINISTRATORS REPORT
1) Alliant Program Administration and Brokerage Team Update (I)
The Program Administrators will walk through updates to the MBASIA service team.

F. CORRESPONDENCE / INFORMATION (I)
66 1) Next Board Meeting & ERMA Training Schedule

4 **G. GENERAL RISK MANAGEMENT ISSUES** (I)
Subjects that are of interest to members: please bring 15 copies of any materials.

ADJOURNMENT

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services
100 Pine Street, 11th Floor
San Francisco, CA 94111
(415) 403-1400

MINUTES OF THE
MBASIA BOARD OF DIRECTORS MEETING
Monday, February 11, 2013 at 9:30 A.M.
City of Sand City, CA

MEMBERS PRESENT
Jamie Goldstein, City of Capitola
Daniel Dawson, City of Del Rey Oaks
Rene Mendez, City of Gonzales
Susan Stanton, City of Greenfield
Robert Galvan, City of Hollister
Michael Powers, City of King
Doug Yount, City of Marina
Steve Matarazzo, City of Sand City
Francine Uy, City of Soledad

MEMBERS ABSENT
Steve Ando, City of Scotts Valley

GUESTS AND CONSULTANTS
Conor Boughey, Alliant Insurance Services
Monica Sandbergen-Izo, Alliant Insurance Services
Michael Simmons, Alliant Insurance Services
Ken Maiolini, Risk Management Services
Theresa Fernandez, JT2 Integrated Resources

A. CALL TO ORDER

President Rene Mendez called the meeting to order at 9:36 a.m.

B. CONSENT CALENDAR

B1. Approval of Minutes - November 1 & 2 Long Range Planning Meeting & Board of Directors Meeting

A motion was made to approve the consent calendar with the following corrections to the meeting minutes: 1). Meeting minutes need to reflect that Ken Maiolini was in attendance; 2) Under Pool Partnerships section, amend comment by Capitola to reflect that Lexington has been difficult in paying out claims, not CARMA.

MOTION: Jamie Goldstein **SECOND**: Steve Matarazzo **MOTION CARRIED**

B2. Service Calendar & Status of Deliverables

A motion was made to approve the Service Calendar & Status of Deliverables.

MOTION: Daniel Dawson **SECOND**: Michael Powers **MOTION CARRIED**

B3. Bills and Correspondence

A motion was made to approve Bills and Correspondence.

MOTION: Daniel Dawson **SECOND**: Michael Powers **MOTION CARRIED**

C. Oral Communications & Public Comments

None.

D. Board of Directors

D1. Unfinished Business

D1a. ERMA Membership and Late Reporting Penalty

Conor Boughey advised that at the Long Range Planning Meeting, Alliant talked to the MBASIA Board that ERMA has a strict late reporting penalty that is difficult to abide by. The penalty for late reporting was a minimum of a $25% increase to MBASIA's retained limit, which was a $125,000 penalty. Alliant wrote a letter to the Board President asking them to revisit their methodology. ERMA a letter of MBASIA's intent to withdraw if they did not reduce the late Reporting Penalty to $50,000 or less and also advising ERMA that they didn't give us proper notification. Alliant asked that they call special Board Meeting to discuss the penalty system issue, which got postponed. This triggered Alliant giving ERMA notice of MBASIA's intent to withdraw.

ERMA is now proposing a penalty system of $50,000 at a $500K SIR. Alliant rescinded MBASIA's notice of intent to withdraw. ERMA will be having their Board Meeting this Friday and Alliant is going to try and get them to adopt this amendment. Daniel Dawson will be in attendance at this meeting.

D2. Committee Report

D2a. Executive and Finance Committee

D2a1. July 1, 2011 Financial Audit

Elizabeth Sav, Senior Manager with Crowe and Horwath, presented the 2011 Financial Audit.

Elizabeth reported for June 30, 2011, the Management Representation Letter is a draft letter. The letter will be finalized after the meeting and signed. This letter is their standard required communication letter for the audit.

Ms. Sav walked through the various sections of letter management representation letter. Ms. Save reported that there were no significant unusual transactions or significant accounting policies in controversial or emerging areas.

Elizabth reported that on the bottom of page 3, is the corrected and uncorrected misstatements. We had a Restatement of MBASIA's 2010 financial statements due to the fact that there was not ULAE estimate included in MBASIA's claims reserve. This # is actuarially determined. Jack Joyce has provided amounts for 2010 and 2011. Financial statements show adjustment in claims liabilities to include ULAE amount for 2010 and 2011.

Ms. Sav reported that there were no uncorrected misstatements. Ms. Sav confirmed that the ULAE is material due to the fact that they had to issue a restatement.

A motion was made to approve and file the Financial Audit.

MOTION: Steve Matarazzo **SECOND**: Doug Yount **MOTION CARRIED**

D2a2. Review of Bylaws and JPA Agreement

Rene Mendez suggested tabling this agenda item until the next Long Range Planning meeting since there is no clear direction on asking a member to leave. Mr. Mendez advised that the Executive Committee needs to spend some time looking at this issue.

Conor Boughey advised that in order to amend the JPA Agreement, it must go before each member agency's city council.

Mike Simmons reminded the members that this document was drafted in 1983. There isn't any wording in the JPA that provides direction on how to expel a member. Procedures must be developed that members must follow, and those procedures must not be followed in order for a member to be expelled. Expulsion procedures can be developed through the By-Laws.

Michael Powers advised that under section 21a. of the JPA Agreement, it talks about a "breach of duties", but there aren't any duties listed or defined.

Robert Galvan advised that since Alliant has been the Program Administrator, the Authority has never taken a good look at the JPA Agreement. Rene Mendez suggested bringing this agenda item back to the Board at the April 15th Board Meeting. Jaime Goldstein suggested bringing the item under Closed Session. The Executive committee will work with Alliant to bring some topics for discussion at the April 15th Board Meeting and the possibility of having this discussion in Closed Session.

Daniel Dawson advised that it's a lot to review the entire document by April 15th; that maybe the Board should look at Article 21 at the April 15th meeting, and then tackle the rest of the JPA Agreement at the next Long Range Planning meeting.

Mr. Simmons asked if Alliant should contract with an attorney to look at the wording under 21a. to determine what latitude MBASIA has to expel a member. Mr. Mendez stated that he would like the Executive Committee to address that with the Program Administrators.

Steve Matarazzo also advised that Alliant should also describe/define what "negligent risk management" is. Mike advised that Alliant can develop some Risk Management Best Practices.

D2b. Safety Committee

D2b1. Revision to Policy and Procedure for Grant Funds

Conor advised that at the last Long Range Planning Meeting, the grant fund policy and procedure was brought forth. Members were identified that are using the funds consistently along with those members that aren't using the funds. Conor reminded the members that any unused funds are rolled into the General Fund to help fund the organization in the future but they aren't being used for their intended purpose. One of the Board Members at the LRP meeting suggested that after a certain date of the program year, those funds will be made available for those members that use the funds. Alliant is proposing the following new language to the Grant Program Policy and Procedure: "On May 1st of a Program Year, all Members will have access to the unrequested funds, regardless of the Member's previous use of their allocated share of the budget. Requests may not exceed 1/5 of the Grant Program Budget unless a higher amount has been approved by the Board, and will be processed in the order they are received (and approved) until the Budget has been exhausted."

A motion was made to approve the revised wording to the Grant Program for Safety Services Administrative Policy and Procedure.

MOTION: Steve Matarazzo **SECOND**: Doug Yount **MOTION CARRIED**

D2c. Coverage and Claims Committee

Nothing to report.

D2d. Ad Hoc Budget Committee

D2d1. Liability Budget – Revised Allocation

Conor advised that this is an item from the Long Range Planning Meeting in November, 2012. One of the issues that came up is that the allocation has a 25% year over year cap and because of a historical trend small members were getting capped very easily and the remainder was rolling over to the larger members.

On page 43, there are 3 columns, city Hollister is charged $442,000 because of the cap issue.

Alliant is proposing a shift to the following methodology: 70% exposure (payroll compared to other members) and 30% experience (claims relative to other members) with a 50% cap. With the 50% cap, the goal is to soften the blow to the larger members.

A motion was made to approve the revised methodology for July, 2013.

MOTION: Jaime Goldstein **SECOND**: Michael Powers **MOTION CARRIED**

D2d2. Liability Budget – July 1, 2013 and beyond

Conor advised that the Liability budget is underfunded. In the last several years, MBASIA is seeing more claims and no longer has a surplus in the Liability Program. MBASIA needs to increase its funding. The actuary states MBASIA must fund $661,000 to pay off a 12 month rolling claim cycle. This lasts year, MBASIA spent over $1M and the total budget for the Liability Program was $883,996. Conor advised that every member is going to have to hit their cap for the July 1, 2013 renewal in order to be properly funded in the Liability Program.

D3. NEW BUSINESS

D3a. Election of Officers

Conor Boughey reported that in MBASIA's ByLaws, it's written that the Executive Committee serves a two year terms and are re-elected at the first board meeting at every odd year, which is this meeting.

A lot of transitions have occurred over the past few years. Executive Committee has been involved in all these decisions. Alliant's recommendation is to keep the Executive Committee as is for another year. Keep the same core team.

MOTION: Jaime Goldstein **SECOND**: Doug Yount **MOTION CARRIED**

D3b. PEPIP Insurance Renewal

Mike Simmons advised that Alliant is trying to aggressively marketing the PEPIP Program away from Lexington.

Conor Boughey advised that 7 out of 10 members are in PEPIP Program. It is a joint purchase agreement for any public entity that wants to join. The program renews July 1, 2013. Property requests for renewal info have been sent out. Overall general property market is seeing a 15% increase due to worldwide losses.

Mike Simmons advised that the coverage is for direct damage to your own insured properties.

Conor Boughey advised that there is automatic coverage for in-yard vehicles (that are listed on the Member's SOV) that covers vehicles while they are in yard. Alliant can also get a quote for auto physical damage on certain vehicles, such as police vehicles, etc.

D3c. 2013-14 Program Year Calendar of Meetings

It was proposed changing the October 31, 2013 and November 1, 2013 meeting to October 3 & 4, 2013.

A motion was made to approve the revised dates to the 2013-2014 Program Year Calendar of Meetings.

MOTION: Daniel Dawson **SECOND**: Jamie Goldstein **MOTION CARRIED**

D4. Loss Report

D4a. Liability Third Party Administrator's Report - The MBASIA Board of Directors entered into Closed Session pursuant to Government Section Code 54956.95.

A motion was made to enter into closed session at 10:36 AM pursuant to Government Section Code 54956.95.

MOTION: Robert Galvan **SECOND**: Daniel Dawson **MOTION CARRIED**

D4b. Workers' Compensation Administrator's Report

Nothing to report.

A motion was made to come out of closed session at 11:35 a.m.

MOTION: Rene Mendez **SECOND**: Jaime Goldstein **MOTION CARRIED**

No reportable actions. Direction was provided to TPA.

E. Program Administrators Report

E1. Alliant Connect Integration

Due to time constraints, this item was tabled for the next Board meeting.

F. Correspondence/Information

F1. Next Board Meeting & ERMA Training Schedule

Nothing to report.

G. General Risk Management Issues

ADJOURNMENT

The meeting was adjourned at 12:09 p.m.

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. B.2
Board of Directors
April 15, 2013

STATUS OF DELIVERABLES

ISSUE: The (old) "Transition Milestone" Report has now been updated to be used as a rolling ***Service Calendar,*** and status of deliverables from the previous Board of Directors Meeting. This ongoing document is presented on the Consent Calendar at each Board meeting.

RECOMMENDATION: This is an information item on the consent calendar and therefore the report should be received and filed.

FISCAL IMPACT: No financial impact is expected from today's meeting.

BACKGROUND: Previously, at each Board Meeting Alliant presented the Transition Milestone Report that states the current status of transition of responsibilities and documents from Kent Rice and Associates and Alliant Insurance Services. At the June Board Meeting the Board discussed this item and gave direction to change the document into a rolling calendar and status report of action items.

ATTACHMENT: Service Calendar and Status of Deliverables as of April 9, 2013

MBASIA

Monterey Bay Area Self Insurance Authority

c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

AGENDA ITEM B.2
BOARD OF DIRECTORS
APRIL 15, 2013

SERVICE CALENDAR AND STATUS OF DELIVERABLES

PREVIOUS ITEMS:

ITEM	STATUS
1. Meet with Ad Hoc Budget Committee to Finalize Budget	Completed
2. Finalize July 1, 2011 Financial Audit	Completed
3. Executive and Finance Committee Meeting to Monitor Large Claims	Completed
4. Finalize Workers Compensation Actuarial Report	Completed
5. Finalize Liability Actuarial Report	Completed

CURRENT ACTIVITIES:

ITEM	STATUS
1. Attend CARMA BOD	In Progress
2. Attend ERMA BOD	In Progress
3. Liability renewal with CARMA and ERMA	In Progress
4. Workers Compensation renewal and retention evaluation with CSAC-EIA	In Progress
5. Property Renewal & Marketing	In Progress
6. Ad Hoc Budget Committee – Prepare budgets for April BOD Meeting	In Progress

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, CA 94111
(415) 403-1411

MBASIA

Item No. B.3
Board of Directors
April 15, 2013

Member Cities
Capitola
Del Rey Oaks
Gonzales
Greenfield
Hollister
King City
Marina
Sand City
Scotts Valley
Soledad

April 10, 2013

To: MBASIA Board of Directors

From: Steve Ando, Treasurer

RE: Approval of Check Register

I hereby certify that the attached check registers for the months of January and February, 2013.

1. are for correct and just services or materials received,

2. that payment has not been previously made, and

3. that funds are available to cover these payments.

______________________	______________________
First Signature	Steve Ando, Treasurer
______________________	______________________
(Please Print Name)	Date

____
Second Signature

____
(Please Print Name)

Monterey Bay Area Self Insurance Authority
Check Detail
January 2013

Num	Date	Name	Account	Paid Amount
	1/28/2013	Transfer	1130 · Checking - S.C.C.B.- General	
			1150 · Transfer - to/from	-1,000,000.00
TOTAL				-1,000,000.00
	1/31/2013	JT2	1110 · Checking - S.C.C. Bank - JT2	
			6150 · Workers Comp Claims Expense	-200,408.36
TOTAL				-200,408.36
	1/31/2013	Santa Cruz Co...	1110 · Checking - S.C.C. Bank - JT2	
			6120 · Bank Charges, fees & supplies	-54.00
TOTAL				-54.00
	1/31/2013	Transfer	1140 · Savings - S.C.C.B.	
			1150 · Transfer - to/from	-779,000.00
TOTAL				-779,000.00
1320	1/3/2013	Alliant Insuran...	1130 · Checking - S.C.C.B.- General	
			6100 · Risk Manager - Alliant Fees	-48,307.00
			6100 · Risk Manager - Alliant Fees	-48,307.00
TOTAL				-96,614.00
1321	1/3/2013	JT2	1130 · Checking - S.C.C.B.- General	
			6110 · JT2 Fees	-17,855.61
			6111 · JT2-Bill Review Fees	-2,417.94
TOTAL				-20,273.55
1322	1/3/2013	JT2 Claims - In...	1130 · Checking - S.C.C.B.- General	
			6150 · Workers Comp Claims Expense	-180.00
TOTAL				-180.00
1323	1/3/2013	JT2 Claims	1130 · Checking - S.C.C.B.- General	
			6150 · Workers Comp Claims Expense	-792.00
TOTAL				-792.00
1324	1/3/2013	Risk Managem...	1130 · Checking - S.C.C.B.- General	
			6105 · RMS - Claims Administration	-6,916.34
TOTAL				-6,916.34
1325	1/17/2013	JT2 Claims	1130 · Checking - S.C.C.B.- General	
			6150 · Workers Comp Claims Expense	-627.00
TOTAL				-627.00

Monterey Bay Area Self Insurance Authority
Check Detail
January 2013

Num	Date	Name	Account	Paid Amount
1326	**1/17/2013**	**JT2**	**1130 · Checking - S.C.C.B.- General**	
			6110 · JT2 Fees	-9,313.21
TOTAL				-9,313.21

Monterey Bay Area Self Insurance Authority
Check Detail
February 2013

Num	Date	Name	Account	Paid Amount
	2/13/2013	**Transfer**	**1130 · Checking - S.C.C.B.- General**	
			1150 · Transfer - to/from	-2,000,000.00
TOTAL				-2,000,000.00
	2/28/2013	**Transfer**	**1140 · Savings - S.C.C.B.**	
			1150 · Transfer - to/from	-180,000.00
TOTAL				-180,000.00
	2/28/2013	**JT2**	**1110 · Checking - S.C.C. Bank - JT2**	
			6150 · Workers Comp Claims Expense	-112,107.13
TOTAL				-112,107.13
1327	**2/1/2013**	**Concern**	**1130 · Checking - S.C.C.B.- General**	
			6135 · E.A.P. Insurance Expense	-2,274.84
TOTAL				-2,274.84
1328	**2/1/2013**	**JT2**	**1130 · Checking - S.C.C.B.- General**	
			6110 · JT2 Fees	-17,855.61
TOTAL				-17,855.61
1329	**2/1/2013**	**JT2 Claims - In...**	**1130 · Checking - S.C.C.B.- General**	
			6150 · Workers Comp Claims Expense	-100.00
TOTAL				-100.00
1330	**2/1/2013**	**JT2 Claims**	**1130 · Checking - S.C.C.B.- General**	
			6150 · Workers Comp Claims Expense	-858.00
TOTAL				-858.00
1331	**2/1/2013**	**Lexipol**	**1130 · Checking - S.C.C.B.- General**	
			6580 · Legal - Other	-1,950.00
TOTAL				-1,950.00
1332	**2/1/2013**	**Risk Managem...**	**1130 · Checking - S.C.C.B.- General**	
			6105 · RMS - Claims Administration	-2,822.69
TOTAL				-2,822.69

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. D.2.b.1
Board of Directors
April 15, 2013

CITY CONTRACTED RISK TRANSFER

ISSUE: Cities typically have standard language regarding risk transfer and insurance requirements in contracts. It is very important that cities maintain these requirements and validate the insurance being provided to the City.

Alliant maintains a manual called the Insurance Requirements in Contracts (IRIC) and can provide a group presentation to the correct representatives from each City if desired.

RECOMMENDATION: No recommendation is provided; this is an information item.

FISCAL IMPACT: No financial impact is expected from today's meeting.

BACKGROUND: This manual originates from work performed in the late 1970's by public entity risk managers and consultants, a time when the field of public entity risk management was beginning to come into its own. Since the time of creation, Alliant has been responsible for updates.

ATTACHMENT: IRIC Manual Table of Contents

IRIC VERSION 7.4.1

TABLE OF CONTENTS

Introduction - Why Bother?

Let's face it, dealing with indemnity and insurance requirements can be tedious. No one likes to haggle about the terms of a contract or worry about whether a contractor has provided the correct insurance. Requesting, obtaining, and verifying insurance for contracted goods and services takes time, can be aggravating, and most often doesn't seem to make any difference, since most contracts are completed without incident. However, when an incident occurs, all of those efforts become worth it. Public entities and businesses have saved millions of dollars by successfully tendering claims or suits arising from contracted goods or services, from the largest public works projects to the smallest service contracts.

The reasons for including a strong indemnification clause in your contracts and requiring insurance coverage include:

- Your entity can be held liable for damages caused by your contractors
- You should be able to rely on the contractor's expertise to do the job safely, and if it doesn't, it should pay for the consequences
- Responsibility encourages safety on the part of the contractor
- Risk is placed upon those best able to control the work
- You have a source for payment of claims against your entity
- Maintaining your own project or entity budget
- Maintaining your own good loss history and lower insurance costs

And remember, it is never a good thing to be the one responsible for costing your agency the significant expense of a large claim that could have been tendered to your contractor and paid by its insurance company. So, while it may be tempting to ignore the indemnity and insurance requirements in your contracts and accept whatever the contractor sends you as proof of insurance, consider it a required measure of due diligence that could result in significant savings for your entity.

CHAPTER ONE:
CONTRACTUAL RISK TRANSFER – THE BASICS

SUMMARY

This chapter describes the basic steps in administering insurance clauses in contracts where the other party is required to provide insurance to protect your Entity, its officials, employees and volunteers. The five basic steps are:

1. *Analyze the Risks and Relationships*
2. *Use a Hold Harmless (Indemnity) Agreement*
3. *Select the Appropriate Insurance Specifications*
4. *Verify Insurance Coverage*
5. *Report Claims Promptly*

In the practice of good risk management, your Entity should attempt to transfer the risk of accidental loss accruing through its contractual relationships. Usually, your Entity will require the other party to a contract (contractor) to assume your Entity's liability arising out of the contractor's negligent delivery of products, services, or activities. This transfer generally is appropriate, as the contractor is most often the party in the best position to control loss.

This intended transfer of risk is achieved by requiring suppliers, contractors, tenants, and users of public facilities (i.e. the other party to most Entity contracts) to hold your entity harmless in an indemnification agreement arising from their products, activities, or use of your facilities. The best way to assure that the transfer actually takes place (i.e. that a loss will be paid by someone other than your Entity) is to require a strong indemnity agreement and insurance appropriate in the contract for goods or services. In addition to protecting the contractor, the insurance should also protect the Entity, its officers, officials, employees, and volunteers.

This section is intended to give users a brief overview of the contractual risk transfer process and a set of insurance specifications that will apply to most situations. Many users will find that this section provides all the tools they need. Each step of the process is discussed in more detail in the following sections, including additional specifications for certain types of contracts, sample insurance forms, checklists, and references for additional resources.

Contractual Risk Transfer - The Steps

1. Analyze the Risks & Relationships
2. Use a Hold Harmless (Indemnity) Agreement
3. Select the Proper Insurance Requirements
4. Verify Coverage
5. Report Claims Promptly

Checklist for Evidence of Insurance

Certificate(s) of Insurance:

- ☐ Evidence provided for each type of insurance required in the contract (e.g., "Commercial General Liability", Auto Liability, Workers Compensation with Statutory Limits, and Professional Liability or E&O per the contract specifications)
- ☐ General liability is on an "occurrence" basis, not "claims-made."
- ☐ Auto liability covers "any auto" (or non-owned & hired if contractor has no autos).
- ☐ Limits are at least as high as the minimum required in the contract.
- ☐ Workers Compensation provides Statutory Limits & Employers' Liability of $1 million
- ☐ Policies are current and will be suspended (tickler filed) for renewal follow-up if the contract period runs beyond the policy expiration date.
- ☐ Excess liability policies have coverage periods concurrent with primary policies.
- ☐ Insured name is the same as Contractor named in the contract.
- ☐ The insurer's A.M. Best and Standard & Poor's ratings meet or exceed the Entity's minimum requirements.
- ☐ The insurer is admitted in California, or non-admitted is acceptable ___ yes ___ no.
- ☐ No self-insured retention (SIR) on liability policies. Any must be disclosed & approved.
- ☐ Descriptions of operations, locations, etc. are correct.
- ☐ Certificate Holder (your entity) is correct, with attention to correct person.
- ☐ Certificate provides for 30-day notification (10 days for non-payment) to Entity of changes or cancellation.
- ☐ Certificate includes signature of authorized representative.

Endorsement(s)

- ☐ **Additional Insured Status** - e.g., Form CG 20 10 11 85 or BOTH CG 20 10 and CG 20 37 if forms with later edition dates provided (usually 10 01 or 07 04 editions).
- ☐ **Primary Coverage**
- ☐ **Waiver of Subrogation**
- ☐ **Notice of Cancellation**
- ☐ **"Blanket" Endorsement covering one or more of the above endorsements required.**
- ☐ **Entity-supplied endorsement provided and signed.**

CHAPTER FIVE:
VERIFY COVERAGES

SUMMARY

Your Entity should require the responsible party to submit acceptable proof of insurance before work can begin or premises are occupied. As proof of coverage, most insurance agents are accustomed to preparing, signing, and submitting an insurance industry-designed certificate of insurance. In addition to the certificate(s), you should require endorsements to the policy for additional insured status on the general liability policy and other requested protection, such as a waiver of subrogation endorsement for Workers' Compensation. For major projects, or to be as certain as possible about coverage and compliance with requirements, you should obtain a copy of the complete insurance policy and read it carefully.

A contractor's insurance agent or broker will provide verification of compliance with your insurance specifications by issuing a Certificate of Insurance and any endorsements that may be needed to comply with other requested insurance provisions, including additional insured status for your entity. Because of their importance in verifying coverage and securing your entity's rights as an additional insured on the Contractor's policy, this Chapter will focus on these documents.

Typical Contractors Insurance Program

$5 million **Umbrella or Excess Liability**				**Unlimited Contract $ "Statutory"**	**REPLACEMENT COST**	
$1 MIL S.I.R.	BUSINESS AUTO POLICY	COMM'L **GENERAL LIABILITY**	EMPLOYERS GROUP	WORKERS' **COMPENSATION**	PROEPRTY, **INCLUDING BUILDERS RISK (AKA COURSE OF CONSTRUCTI ON)**	<u>BONDS</u> • BID • PERFORM ANCE • PAYMENT

Project Name/Purchase ____________________

Check One: ☐ Construction ☐ Services (specify) ____________________

☐ Purchase ☐ Lease (specify) ____________________

Insurance Company Ratings, Coverage and Limit Guideline

BEST Secure Ratings						**NOT RECOMMENDED**		
Superior	A++	A+	Excellent	A	A–	Very Good	B++	B+

BEST Financial Size Categories		**NOT RECOMMENDED**
Class XI – XV	Class VII – X	Class I - VI

Coverage **Minimum Limit Guidelines**

Form	Basis	High Risk	Medium Risk	Low Risk	NOT RECOMMENDED		Approved Amount	N/A
CGL	Occurrence	$5 million	$2 million	$1 million	$500,000	$250,000		
	Aggregate	$10 million	$5 million	$2 million	$1 million	$500,000		
BAC	Occurrence		$2 million	$1 million	$500,000	$250,000		
WC and EL		Statutory Limits						
		$1 million			$500,000	$250,000		
++++ Option for sole proprietors and excluded employees ++++								
	Health Ins	Employment related injuries not excluded						
	Disability	Comparable to Statutory limits						
CC/BR		Completed Project Value						
Property		Full Replacement-No Coinsurance						
E&O/PL	Occurrence*	$10 million	$5 million	$1 million	$500,000	$250,000		
	Aggregate	$10 million	$5 million	$1 million	$500,000	$250,000		
Pollution	Occurrence*	$10 million	$5 million	$1 million	$500,000	$250,000		
	Aggregate	$10 million	$5 million	$1 million	$500,000	$250,000		
*Claims Made			5 year tail	3 year tail	1 year tail	no tail		

Indicate approved amount unless recommended coverage is not applicable

Recommendation ____________________ Date ________

Project Manager/Purchasing Agent

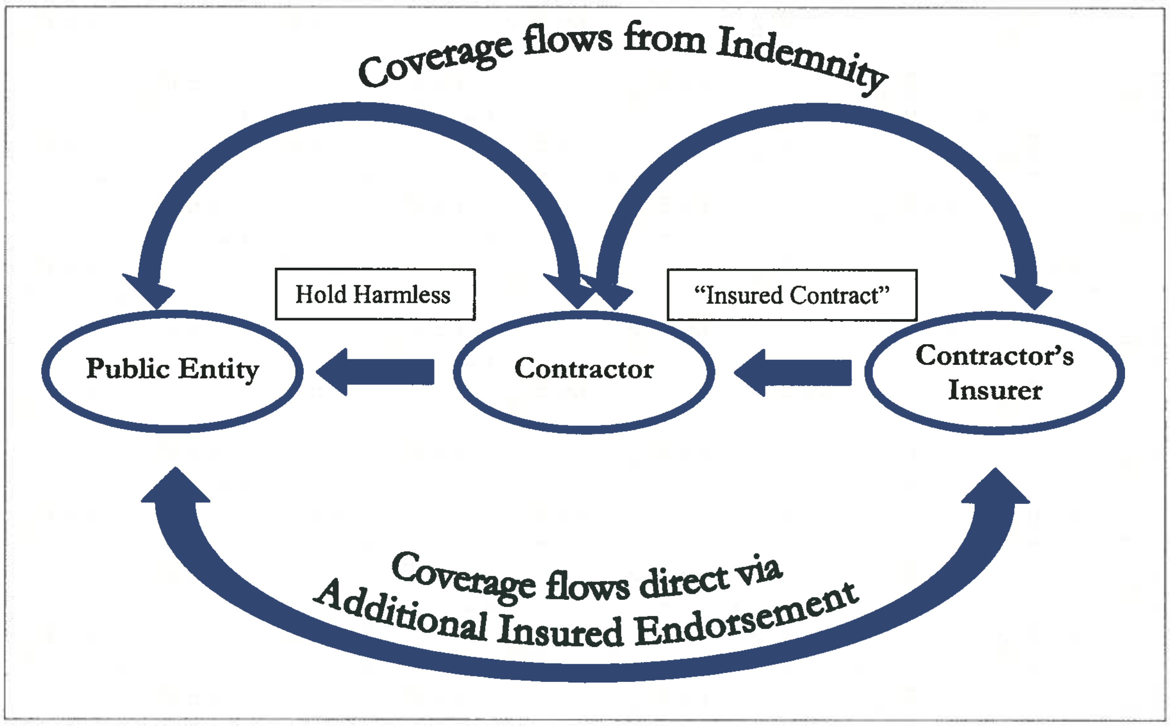
Approval ____________________ Date ________

Director Facilities Planning/Director Support Services

Additional Insured Endorsements

Requiring that your entity be named as an additional insured under a contractor's insurance policy gives you an extra layer of protection against claims by giving your entity direct rights of coverage under that policy. As illustrated below, the Hold Harmless clause gives you one avenue for protection, but you must go through the contractor's obligation to you (defined as an "insured contract" in the liability policy) to obtain funds from the insurer.

The additional insured endorsement gives you a second avenue, direct to the insurer, to pursue payment. This allows you to circumvent potential difficulties with the contractor and greatly improves your ability to obtain a legal defense for any potentially covered claims. In addition, under the pre-2004 endorsements discussed below, the coverage provided your entity is potentially broader than the Hold Harmless agreement. This second avenue of coverage, and potentially broader indemnity, are what make additional insured status so desirable.



You should strongly consider being named as an additional insured on the other party's policy when:

1. They are a contractor or vendor working on your behalf.
2. They are directing or controlling the work of any of your employees in a situation where injury might result.
3. They are leasing space in a building or on property you own.
4. They are conducting a special event, i.e. wedding, parade, bounce house, etc., and utilizing your Entity's facilities.

Alliant

INTEGRATED INSURANCE & FINANCIAL SERVICES

Contract Review Checklist

HOLD HARMLESS / INDEMNIFICATION REVIEW

1. Contract Date/Parties:			
2. Party(ies) Accepting Risk:			
3. Type of Risk Accepted	☐ Negligence	☐ Other	
4. Breadth of Risk Accepted	☐ Own	☐ Joint	☐ Sole
5. Nature of Damage/Injury Accepted:	☐ Direct	☐ Consequential	
Property Damage:	☐ Our property	☐ Other party's property	☐ Property of third persons
Bodily injury/personal injury:	☐ Our employees	☐ Other party's employees	☐ Third party employees

INSURANCE REVIEW

No answer means either it is not mentioned in the contract or it is specifically rejected.

	Required of you		Required of Other Party	
1. Liability Insurance	YES	NO	YES	NO
a. Is it required?				
b. Limits of Liability	$	$	$	$
c. Special coverages required				
d. Occurrence vs. claims made coverage				
e. Named as additional insured				
f. Cross liability				
g. Contractual limits required				
h. Cancellation notice # of days:				
i. Certificate or other evidence				
j. Other: ______				
2. Workers' Compensation	YES	NO	YES	NO
a. Is it required?				
b. Contractor's employee / borrowed servants				
c. Waiver of subrogation				
d. Federal acts				
e. All states and employer's stop gap				
f. Cancellation notice # of days:				
g. Certificate or other evidence				
h. Other: ______				
3. Property Insurance	YES	NO	YES	NO
a. Is it required?				
b. Valuation method required	☐ ACV	☐ RV	☐ ACV	☐ RV
c. Additional named insured / additional insured				
d. Waiver of subrogation				
e. Cancellation notice # of days:				
f. Certificate or other evidence				
g. Other: ______				
4. Automobile Liability Insurance	YES	NO	YES	NO
a. Is it required?				
b. Valuation method required				
c. Additional named insured / additional insured				
d. Waiver of subrogation				
e. Cancellation notice # of days:				
f. Certificate or other evidence				
g. Other: ______				

FREQUENTLY ASKED QUESTIONS

The following questions represent those most often asked by users of this manual. If you have questions that are not answered by this section, please do not hesitate to contact your Alliant Account Administrator. As you can see by reviewing the following section, we all learn through the process of thoughtfully examining the risk management process.

1. ***If a lessee or contractor is a large one, do I still need to insist on the insurance requirements?***

   Yes; you normally have no way of verifying that their assets are sufficient for losses that might occur, whereas you could be confident in an insurance carrier with a quality A.M. Best Rating.

2. ***Is it all right if the contractor alters the indemnification language?***

   No; indemnification language is carefully worded to afford your Entity as much protection as legally possible, and usually the exact language has been tested in court. Altering the language would weaken your Entity's protection and should only be undertaken on advice of your legal counsel.

3. ***Can we require an A.M. Best Rating for a company that is "admitted" in California, or is this against the law?***

   Yes; unless the company is providing a surety bond. State law requires owners to accept surety bonds from any surety company, in an effort to improve small firm contractors' chances in successfully bidding a job. If it is a federally approved surety company, you are obligated to accept the surety company. This can be reviewed on the web at http://www.fms.treas.gov/c570/index.html

   Remember, just because an insurance company is "admitted" does not ensure that they have the financial strength designation required by your contract.

4. ***Why should we ask for property insurance on tenants improvements and betterments, instead of just adding them to our property insurance policy?***

   Unless the lease specifically states that your Entity gains ownership of these improvements as soon as they are installed, your Entity has no insurable interest in them; and, therefore, you usually cannot insure them under your policy.

5. ***If the contractor's insurance does not meet the criteria in our insurance requirement specifications, should we alter the requirements to fit the contractor's insurance?***

   No; the insurance requirements language has been carefully worded to afford your Entity as much protection as possible, and it has been tested in court. Altering the language would usually weaken your Entity's protection. It is not the responsibility of your Entity to tailor your requirements to what the contractor has; rather, the contractor should procure insurance to meet your specifications and truly, you are doing the contractor a favor in showing it the proper coverage needed in order to protect its business.

6. ***Does the "edition date" on the suggested ISO endorsements matter?***

   Yes; there have been significant reductions in the coverage afforded to additional insureds by "updated" versions of these endorsements. A further discussion regarding these changes is contained in the section of this manual describing endorsements.

7. ***If the agent or broker changes the word "endeavor" to "will provide" in the notification section of the certificate of insurance, are we okay?***

   No; Certificates of insurance DO NOT alter the insurance coverage, and any changes that are necessary need to be endorsed onto the policy with a copy of the endorsement provided to your Entity. Agents and brokers will sometimes try to convince you that endorsements are unnecessary when the certificate has its standard wording changed; if so, you need to point out the box in the upper right hand corner of the certificate, which states that it DOES NOT amend or alter the insurance.

   To ensure that the burden is on the insurance company to notify you of a change in status of coverage, you must receive an endorsement to this effect. Being named as an "additional insured" obligates the insurer to inform you of any status change in the policy.

   Prior editions of this manual have suggested requiring notice of cancellation or coverage changes with 30 day's notice by USPS registered mail with a return receipt. This approach does not seem feasible in the current environment of electronic communications and express mail services. Moreover, some insurers refuse to take on this obligation and, in some states, the cancellation requirements are stronger. Many risk managers are now requiring that the contractor take on this responsibility. While this may be allowing the "fox to guard the henhouse", mid-term cancellations and reductions of coverage are so rare as to make the value of this term less important. If a contract involves a risk so substantial that the risk of cancellation or coverage reduction is heightened, a project specific policy with the Entity as an Additional Insured may be warranted.

   NOTE: The latest edition of the standard certificate of insurance form now reads that "notice of cancellation will be provided in accordance with policy terms and conditions".

8. ***Can lower limits be permitted when we are dealing with small contractors or artisans, and we are only using them for small jobs?***

   Yes; there are some very small vendors or artisans that may provide a service to your Entity and the cost of obtaining standard limits may not be possible. You should always evaluate the potential of loss, potential benefit to the organization for the service provided and finally, the vendor's financial capacity to purchase coverage at reasonable rates. The dollar amount of an agreement would never be the sole determining factor on the insurance, however.

9. ***The contractor's agent says that we cannot get the endorsements as required by the Insurance Requirements in Contracts specifications; what can we do?***

   In many instances, the agent or broker has not approached the insurance company with your request – the agent or broker is merely trying to discourage you from asking so that it will not have to bother. We recommend contacting the broker or agent directly. By informing the agent or broker of the needs and requirements of your Entity, he or she will typically provide you with the necessary endorsements required by your Entity. If this tactic does not work, please call an insurance advisor for confirmation of the unavailability of endorsements from the contractor's company.

Note that some states, California among them, now require prior approval of all insurance policy and endorsement forms by the Department of Insurance. Therefore, use of custom endorsements may not be practical. In these situations, we recommend that the Entity work with its insurance advisor and the contractor to determine what forms are available to obtain the desired coverage.

10. Do we need and additional insured endorsement on an automobile liability policy?

An additional insured endorsement is no longer required on most business auto policies because the standard ISO forms now include coverage for "anyone held liable for the conduct of an insured is also considered an insured". Many times general and auto liability coverage are issued on a package policy and the additional insured endorsement can apply to all coverages.

11. How do we determine the proper limits of liability for any given job?

Ask yourself how much damage the contractor could cause if it completely mismanaged its work causing bodily injury and property damage to others. Include in your estimate, lost time, wages, extra expense incurred for repairing or replacing the work, and any future impacts. If this amount is more than the suggested amounts shown in the specifications in this manual, use the greater amount.

The editors have increased the standard requested limits of General Liability to $5 million for contracts with construction risks and to $2 million for other contracts. The Risk Manager will need to evaluate whether contracts require the suggested limits or a different amount. A major capital outlay project may require even higher limits. And, some smaller contracts such facilities use agreements may not merit $2 million, and a lesser amount may suffice. We have not increased the amount of auto liability limits because the business auto policy does not have an annual aggregate which means that the Entity need not be concerned about depletion of limits by other additional insureds, however, a catastrophic loss may prove $1 million of limits inadequate. A contract involving charter transportation could very well merit a $5 million limit or higher.

12. Can we accept an insurer with less than an A.M. Best Rating A: VII or Standard & Poor's BBB?

Yes; but keep in mind that the rating gives your Entity some confidence in that insurer's ability to cover all of its claim liabilities, including your potential claim. By accepting lower A.M. Best or Standard & Poor's ratings, you are exposing your Entity to the possibility that the insurer will be unable to pay any claim you or a third party may present. As an aside, major insurance brokers and agents also insist on placing clients in companies with high A.M. Best and Standard & Poor's ratings, as a way of protecting themselves against potential E&O claims from their clients.

13. How do we discover what the rating of an insurer is?

A.M. Best ratings can be accessed over the internet for no cost at www.ambest.com. Go to the "Member Center" of the website to register for access to the ratings.

You also can go to the Standard & Poor's website to obtain the rating of a specific insurance company. You must register for access, although this is free of charge. Go to www.standardandpoors.com and look for a "Find a Rating" link in the margin or header.

14. What do the A.M. Best or Standard & Poor's Ratings mean?

See Chapter Two, page 25, for a discussion of this question. Simply, the Standard & Poor's or A.M. Best ratings give your Entity a sense of the financial strength of the insurance company that is insuring the contractor.

15. Does a contractor need professional liability coverage?

A contractor needs professional liability coverage if expected under contract to provide "professional" services. The simplest way to decide is to determine whether the nature of the services provided entail "brain work" or "physical work". If it is only physical work, then a liability policy, general and/or automobile will most likely cover all your exposures to loss. However, if the work or a portion of the work is expected to involve the use of professional knowledge, professional liability insurance is required. As an example, if a contractor is merely following blueprints in constructing a building, it would involve only physical work and a general liability policy will suffice. However, if the contractor is a "design-build" firm, or decides that it knows of a better way to construct part of the building, and it alters the blueprints accordingly, then it has crossed the line over into providing "professional" service and would then need professional liability coverage to cover a subsequent loss.

16. How long of a period of time do we require the claims-made professional liability insurance to be carried after completion of the project?

A "claims-made" coverage will only respond to a claim that is presented while the policy is in force or during an extended reporting provision. Therefore, it is imperative that your Entity be protected as long as possible after the completion of the project, so that any claims caused by faulty design or other professional services (see Question 15) will be covered by the responsible party. Keep in mind your regular liability policy will not cover professional liability losses, and therefore your contractor may be bare in the event of a claim arising out of professional services rendered on the project. Normally, professional liability policies can be purchased with a three year "tail" (reporting period), which will allow claims to be presented up to three years after the professional liability policy expires. If you can get a longer tail in your contract, do so.

17. Does a contractor need proof of automobile liability when hired to work on the premises?

Yes; for the simple reason that the contractor has to use some means of transportation to reach your premises, and to transport tools, supplies, and materials. If the contractor is determined to be engaged in business on your Entity's behalf when it is involved in an automobile accident, then your Entity may be held liable. Further, since owners of vehicles are required to carry insurance anyway, this requirement carries little burden to the contractor.

*18. **Should we ask to be named as an additional insured on the contractor's professional liability policy?***

No; the contractor's professional liability insurer will not comply with such a request. The reason is that the insurer does not want to pick up your Entity's professional liability hazards, which it would do if you were an additional insured. Professional liability policies are specifically underwritten based on the professional history of the contractor. A contractor's insurer is not interested in underwriting your Entity's professional risk, and therefore will not add your Entity as an additional insured on the contractor's policy.

*19. **What can be done if we don't have the proof of insurance when it is time to start the work?***

There is very little that can be done at this point in the process, which is why we recommend that the insurance specifications be sent out with the pre-bid package. There are no good choices when this situation occurs; either you must delay the work while you wait for the proof, or you must take some risk until the proof is received, and hope that the contractor's insurance meets your specifications.

*20. **Why can't we accept a certificate of insurance as proof of the Entity being named as an additional insured?***

In the upper right-hand corner of the ACORD Certificate of Insurance are the following words:

> This certificate is issued as a matter of information only and confers no rights upon the certificate holder. This certificate does not amend, extend or alter the coverage afforded by the policy below.

If any agent or broker tries to convince you that the certificate truly does confer rights or coverages, and that you therefore do not need the endorsements you are requesting (and some will) you can direct their attention to this statement.

*21. **Why do we need an indemnity clause in our contract when we are added as an additional insured on the liability policy?***

Insurance is only one way that the contractor can financially guarantee its liabilities. If you have an indemnity provision in your contract with the contractor, that contractor is obligated to indemnify your Entity whether or not its insurance covers the loss. This puts the burden on the contractor rather than your Entity to make certain that its coverage is sufficient and current. Therefore, make sure your indemnity language is strong, and that if the contractor does not carry sufficient or correct insurance to cover their obligations to your Entity, it does have the assets to indemnify those uninsured or underinsured exposures.

In fact, the written indemnity clause in the contract is the real trigger for coverage as your contract, under normal circumstances, is an "Insured Contract" as defined under the Commercial General Liability policy (CGL). The CGL confers automatic coverage for "Insured Contracts," but the Entity must have a written contract containing indemnity language in your favor prior to the loss in order to trigger coverage. As a result, the indemnity clause is crucial to trigger coverage.

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. D.2.b.2
Board of Directors
April 15, 2013

REVISION TO POLICY AND PROCEDURE FOR GRANT FUNDS

ISSUE: Members are reminded to request funds through the Grant Program. All unrequested funds will be made available to other Members beginning May 1, 2013.

The Cities of Del Rey Oaks, Gonzales, Hollister, Scotts Valley and Soledad have already requested funds, but will be allowed to make new requests. The City of Greenfield has a pending request.

RECOMMENDATION: No recommendation is provided; this is an information item.

FISCAL IMPACT: No financial impact is expected from today's meeting.

BACKGROUND: At the November Board Meeting, the Board directed staff to propose an amendment to the Grant Fund Policy and Procedure that would allow any member to request unused funds at a certain point in the policy period. If a Member does not request their safety funds, currently those funds are rolled into the general budget. This change would allow other members to request the funds for safety programs. The proposed changes are shown on the attached policy and procedure.

At the June 2012 Board Meeting, MBASIA adopted an annual budget for the Grant Program that is used by Member for allocating available Safety Funds. This Policy & Procedure is standing, but it requires an annual adoption of the funds to be allocated to the actual Grant Program. The board approved a $75,000 allocation to the grant program, so each member can withdraw up to $7,500 for city programs or projects.

- Within the Safety Services budget a line item will contain the total amount of funds available for Grants
- The Authority will annually adopt amount of funds for this budgeted line item
- Each Member will have access to an equal share of the funds on a "use it or lose it" basis approved during the Program Year
- Members must send a written request for the use of their funds to the Safety Committee
- The request will include a statement which will justify how the funds will help the Member reduce the frequency or severity of claims or will mitigate liability risks at the Member Agency

ATTACHMENT: Amended Grant Program Policy and Procedure

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, CA 94111
(415) 403-1411

ADMINISTRATIVE POLICY AND PROCEDURE

SUBJECT: GRANT PROGRAM FOR SAFETY SERVICES

AMENDED: February 11, 2013

Policy Statement:

Each Year MBASIA may allocate funds for individual Members' use for Safety Services. Within the Safety Services budget a line item will contain the total amount of funds available for Grants. The Authority will annually adopt amount of funds for this budgeted line item, and then each Member will have access to an equal share of the funds on a "use it or lose it" basis approved during the Program Year (unused funds will be rolled into the general account).

Members must send a written request for the use of their funds to the Safety Committee. The request will include a statement which will justify how the funds will help the Member reduce the frequency or severity of claims or will mitigate liability risks at the Member Agency. These funds can be used for equipment, materials, programs or services that will lead to these results. The Committee will either deny or approve the request; a three quarters (¾) majority is required for approval. Members may apply for funds on a reimbursement basis.

On May 1st of a Program Year, all Members will have access to the unrequested funds, regardless of the Member's previous use of their allocated share of the budget. Requests may not exceed 1/5 of the Grant Program Budget, and will be processed in the order they are received (and approved) until the Budget has been exhausted.

Procedure:

A Member Agency may apply for Grant Funds by following the following procedure:

1. A Member will write a request to the Program Administrators requesting the use of grant funds for city expenditure. The request will include a justification of the funds and how they will lead to the reduction of frequency or severity or will mitigate liability risks at the Member Agency.

2. The Program Administrators will forward the request to the Safety Committee who will review the request and vote to approve or deny the request. A three quarters majority is required to approve a request.

3. If approved, the Member Agency will purchase the service or item they requested and submit a receipt for reimbursement to the Program Administrator.

4. The Program Administrator will submit the reimbursement request and appropriate documentation to MBASIA's bookkeeper.

5. MBASIA's bookkeeper will reimburse the Member up to the maximum allowable amount and apply the reimbursement expense to the Grant Program Budget within the Safety Budget.
   a. If a request exceeds the budgeted funds available to a member, only the amount available for reimbursement will be paid.

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. D.2.d.1
Board of Directors
April 15, 2013

DRAFT LIABILITY BUDGET

ISSUE: The Budget Committee has prepared the FY2013/14 *Draft* Liability Budget.

RECOMMENDATION: The Budget Committee recommends the Board review the attached draft Liability Budget and take action to approve or give direction. A final version of the Budget will be presented at the June Board Meeting.

FINANCIAL IMPACT: MBASIA has continued to discount the Liability Budget with a 'Credit from Surplus' since the FY2010/11 program year. Because MBASIA no longer has a surplus in the liability program, MBASIA needs to increase funding. **The total draft budget is $1,260,613, *which is a $200,000 increase over last year's budget*.**

BACKGROUND: The Budget Committee has been working to finalize the budget calculation based on the member exposure factors, and the budget needs. The methodology is weighted **70% on exposure** (payroll) and **30% on experience** (5 years of paid losses capped at $1,000,000 per claim), with a **cap of 50%**.

ATTACHMENT: Draft 2013 Liability Budget including a year over year comparison to 2012

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
FY '10-11 LIABILITY INSURANCE FUND

LIABILITY EXPENDITURE DETAIL

LIABILITY OPERATING FUND

ACCOUNT	CATEGORY	FY '11-12 ADOPTED	FY '12-13 PROPOSED	(as of 041013) FY '12-13 Actual	% OF BUDGET	FY '13-14 PROPOSED	OVER/(UNDER) PRIOR YEAR
	ADMINISTRATIVE COSTS						
6010.00	Office/Other G&A	250	250		0%	250	-
6100.00	Administrative Contract	94,000	96,664		0%	96,664	-
6120.00	Bank Charges		75			75	-
6130.00	Excess Insurance	265,449	265,449		0%	265,449	-
6130.01	Liability Premium	*255,449*	*254,000*			254,000	-
6130.02	E&O Premium	*10,000*	*10,000*			10,000	-
6130.03	Crime Premium	-	-			-	-
6190.00	Audit/Accounting	11,800	16,250		0%	16,250	-
6195.00	Travel/Meetings	2,500	3,000		0%	3,000	-
6200.00	Telephone	-	-			-	-
6220.00	Fees/Dues/Assessments		-			-	-
6240.00	Outside Services	75,000	75,000		0%	75,000	-
6250.00	Actuary Services	7,500	7,500		0%	7,500	-
6520.00	TPA Administrative Fees	55,000	55,000		0%	55,000	-
6530.00	Claims Other	DELETE	DELETE			DELETE	
6550.00	Claims Expense	661,000	943,000		0%	943,000	-
6575.00	Claims Legal	DELETE	DELETE			DELETE	
6580.00	Legal Other (ERMA)	86,132	87,000			87,000	-
NEW	Legal - Legal Services P&P	7,500	7,500			7,500	-
6160.00	Miscellaneous	4,000	4,000		0%	4,000	-
	SUBTOTAL ADMINISTRATIVE COSTS	**1,270,131**	**1,560,613**	**-**	**0.00%**	**1,560,613**	**-**
	Credit from Surplus	***(386,135)***	***(500,000)***	***(500,000)***		***(300,000)***	
	Investment Earnings Discount						
	TOTAL LIABILITY EXPENDITURES	**883,996**	**1,060,613**	**1,060,613**	**100.00%**	**1,260,613**	**-**

Updated: Conor Boughey on 5/1/12

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
FISCAL YEAR FY '13-14 LIABILITY FUND

MEMBER CITY		PAYROLL	PERCENT OF CITY PAYROLL		70% OF LIABILITY PAYROLL
Capitola	$	5,079,776	11.73%	**$**	**103,486**
Del Rey Oaks	$	901,890	2.08%		**18,373**
Gonzales	$	2,445,800	5.65%		**49,826**
Greenfield	$	2,677,861	6.18%		**54,554**
Hollister	$	9,664,561	22.31%		**196,887**
King City	$	2,395,611	5.53%		**48,804**
Marina	$	8,756,163	20.21%		**178,381**
Sand City	$	2,296,451	5.30%		**46,784**
Scotts Valley	$	4,863,016	11.23%		**99,070**
Soledad	$	4,234,429	9.78%		**86,264**
Total	**$**	**43,315,560**	**100.00%**	**$**	**882,429**

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
FISCAL YEAR '13-14 LIABILITY FUND

STEP [2]: FIVE-YEAR EXPERIENCE HISTORY

MEMBER CITY	EXPERIENCE FY '07	EXPERIENCE FY '08	EXPERIENCE FY '09	EXPERIENCE FY '10	EXPERIENCE FY '11	FIVE-YEAR TOTALS	EXPERIENCE PERCENTAGE
Capitola	$ 65,825	$ 10,797	$ 33,413	$ 215,697	$ 46,764	**372,495**	**16.14%**
Del Rey Oaks	$ 1,213		$ 67,650	$ 483		**69,346**	**3.01%**
Gonzales	$ 1,468	$ 990	$ 280,310		$ 523	**283,291**	**12.28%**
Greenfield	$ 1,605	$ 31,187	$ 15,730	$ 22,787	$ 761	**72,070**	**3.12%**
Hollister	$ 300,651	$ 142,347	$ 96,512	$ 137,921	$ 25,972	**703,402**	**30.48%**
King City		$ 268	$ 47,185	$ 190,779	$ 2,016	**240,248**	**10.41%**
Marina	$ 5,107	$ 47,009	$ 36,061	$ 27,249	$ 46,871	**162,295**	**7.03%**
Sand City	$ 1,673	$ 64,934		$ 4,140	$ 268	**71,015**	**3.08%**
Scotts Valley	$ 1,727	$ 313	$ 780	$ 7,973		**10,794**	**0.47%**
Soledad	$ 121,097	$ 8,502	$ 149,575	$ 36,384	$ 7,122	**322,680**	**13.98%**
Total	**$ 500,365**	**$ 306,347**	**$ 727,215**	**$ 643,412**	**$ 130,296**	**$ 2,307,635**	**100.00%**

Updated: Conor Boughey on 1/18/13

BASED ON 12/31/12 Losses - TOTAL PAID

MONTEREY BAY AREA SELF INSURANCE AUTHORITY
FY '13-14 LIABILITY INSURANCE FUND

UNMODIFIED CONTRIBUTIONS, TOTAL REVENUES AND COMPARATIVE ANALYSIS

MEMBER AGENCY	FY '12-13 ACTUAL CONTRIBUTIONS	FY '13-14 RECOMMENDED CONTRIBUTIONS	INCREASE (DECREASE) FROM PRIOR YEAR	PERCENTAGE CHANGE FROM PRIOR YEAR
Capitola	$ 81,672	$ 122,508	$ 40,836	**50%**
Del Rey Oaks	32,113	36,553	4,441	**14%**
Gonzales	26,412	39,618	13,206	**50%**
Greenfield	44,486	66,729	22,243	**50%**
Hollister	402,364	385,193	(17,171)	**-4%**
King City	68,648	102,972	34,324	**50%**
Marina	111,687	167,531	55,844	**50%**
Sand City	63,264	75,775	12,511	**20%**
Scotts Valley	61,728	92,592	30,864	**50%**
Soledad	168,240	171,143	2,903	**2%**
	$ 1,060,613	**$ 1,260,613**	**$ 200,000**	
TOTAL CONTRIBUTIONS FOR FY '13-14		**$ 1,260,613**		

MBASIA

Monterey Bay Area Self Insurance Authority

c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. D.2.d.2
Board of Directors
April 15, 2013

DRAFT WORKERS COMPENSATION BUDGET

ISSUE: The Budget Committee has prepared the FY2013/14 Draft Workers Compensation Budget.

RECOMMENDATION: The Budget Committee recommends the Board review the attached draft Workers Compensation Budget and take action to approve or give direction. A final version of the Budget will be presented at the June Board Meeting.

FINANCIAL IMPACT: The FY2013/14 budget has been completed and the **overall <u>total</u> budget remains flat at $3,838,250**; however members share of the total budget have changed based on the factors outlined in the Background Section.

BACKGROUND: The Budget Committee has been working to finalize the budget calculation, which is based on Member's Payroll (exposure) and Claims (experience). There is also a charge for the Loan Repayment, which remains constant with the original allocation of debt amongst members. The calculation is as follows:

1. Level I: Exposure base is determined by Member Payroll and weighted by the Admin portion of the Budget
2. Level II: Experience base is determined by total incurred claims with an individual claims cap of $250,000 for the 4 years ending 7/1/2012, this allocation is weighted by the Claims Budget
3. Level III: The Loan Repayments are collected at a rate of $305,000 per year based on Members share of losses in December 2005.

ATTACHMENT: None

ASSESSMENT CALCULATIONS

EXPENSE SUMMARY

Level I		
Admin Budget	$	958,250
Level II		
Claims Budget	$	2,575,000
Level III		
Debt Service	$	305,000
Total WC Budget	$	3,838,250

LEVEL I ASSESSMENT

Assessments based upon payroll ending 12/31 of the prior year

		31-Dec Payroll	Percent of Payroll	Target Funding: $ 958,250.00
Capitola	$	5,079,776	12%	**$112,378**
Del Rey Oaks	$	901,890	2%	**$19,952**
Gonzales	$	2,445,800	6%	**$54,107**
Greenfield	$	2,677,861	6%	**$59,241**
Hollister	$	9,664,561	22%	**$213,805**
King City	$	2,395,611	6%	**$52,997**
Marina	$	8,756,163	20%	**$193,709**
Sand City	$	2,296,451	5%	**$50,803**
Scotts Valley	$	4,863,016	11%	**$107,582**
Soledad	$	4,234,429	10%	**$93,676**
Total		**$43,315,560**	100%	**$958,250**

LEVEL II ASSESSMENT

Experienced Based Assessment Formula

	Incrd Loss 08/09	Incrd Loss 09/10	Incrd Loss 10/11	Incrd Loss 11/12	Total Incrd Loss	% of Ttl	Ttl Lvl II Assmt
Capitola	$ 248,813	$ 94,604	$ 291,752	$ 100,902	$736,071	8.6%	$220,627
Del Rey Oaks	$ 85,838	$ 4,200	$ 338,548	$ 2,159	$430,745	5.0%	$129,110
Gonzales	$ 5,572	$ 12,916	$ -	$ 17,923	$36,411	0.4%	$10,914
Greenfield	$ 44,409	$ 253,789	$ 50,197	$ 268,016	$616,411	7.2%	$184,760
Hollister	$ 476,212	$ 729,979	$ 925,910	$ 149,234	$2,281,335	26.6%	$683,797
King City	$ 256,960	$ 246,713	$ 181,153	$ 45,593	$730,420	8.5%	$218,933
Marina	$ 385,570	$ 532,545	$ 978,597	$ 535,709	$2,432,421	28.3%	$729,083
Sand City	$ 1,549	$ 1,318	$ 5,567		$8,434	0.1%	$2,528
Scotts Valley	$ 26,533	$ 303,747	$ 65,815	$ 37,972	$434,068	5.1%	$130,106
Soledad	$ 119,332	$ 8,547	$ 532,056	$ 224,657	$884,592	10.3%	$265,143
Total	**$1,650,790**	**$2,188,359**	**$3,369,594**	**$1,382,166**	**$8,590,909**	**100.0%**	**$2,575,000**

LEVEL III ASSESSMENT

Debt Service and Loan Repayments

305000

	JT2 Resrv Dec. 05	% of Ttl JT2 Resrv	Debt Assmt	Loan Repay	Ttl Lvl III Assmt
Capitola	$568,925	18.3%	$55,818	0	$55,818
Del Rey Oaks	$83,558	2.7%	$8,198	0	$8,198
Gonzales	$284,809	9.2%	$27,943	0	$27,943
Greenfield	$80,594	2.6%	$7,907	0	$7,907
Hollister	$1,032,266	33.2%	$101,276	0	$101,276
King City	$16,049	0.5%	$1,575	0	$1,575
Marina	$379,431	12.2%	$37,226	0	$37,226
Sand City	$140,630	4.5%	$13,797	0	$13,797
Scotts Valley	$214,153	6.9%	$21,011	0	$21,011
Soledad	$308,319	9.9%	$30,249	0	$30,249
	$3,108,734	**100.0%**	**$305,000**	**0**	**$305,000**

70% discounted (excluding 4850) funding is: $2.325M

Members	Total Premium
Capitola	**$388,822**
Del Rey Oaks	**$157,260**
Gonzales	**$92,964**
Greenfield	**$251,908**
Hollister	**$998,878**
King City	**$273,504**
Marina	**$960,018**
Sand City	**$67,129**
Scotts Valley	**$258,698**
Soledad	**$389,069**
Total	**$3,838,250**

WORKER'S COMP

	Budget		Incr	
	2012-13	2013-14	(Decr)	
Capitola	407,960	388,822	(19,138)	-4.7%
Del Rey Oaks	179,540	157,260	(22,281)	-12.4%
Gonzales	81,055	92,964	11,909	14.7%
Greenfield	184,687	251,908	67,222	36.4%
Hollister	1,018,959	998,878	(20,081)	-2.0%
King City	238,437	273,504	35,068	14.7%
Marina	829,162	960,018	130,856	15.8%
Sand City	71,104	67,129	(3,975)	-5.6%
Scotts Valley	281,715	258,698	(23,017)	-8.2%
Soledad	442,632	389,069	(53,563)	-12.1%
Total	3,735,250	3,838,251	103,000	2.8%

Item	2012 Budget		2012 Actual (as of 4/1/13)	2012 Difference			2013 Budget	2013 Difference
6010 · Office/Other G&A	$	50		$	(50)	$	50	0%
6100 · Risk Manager	$	95,000		$	(95,000)	$	95,000	0%
6110 · JT2 Fees	$	165,000		$	(165,000)	$	165,000	0%
6111 · JT2-Bill Review Fees	$	70,000		$	(70,000)	$	70,000	0%
6120 · Bank Charges, fees & supplies	$	200		$	(200)	$	200	0%
6130 · Excess Insurance	$	505,000		$	(505,000)	$	505,000	0%
6190 · Audit / Accounting	$	12,000		$	(12,000)	$	12,000	0%
6195 · Training/Conferences	$	5,000		$	(5,000)	$	5,000	0%
6220 · Fees/Dues/State Assessment	$	91,000		$	(91,000)	$	91,000	0%
6590 · Safety Services	$	15,000		$	(15,000)	$	15,000	0%
TOTAL	**$**	**958,250**	**$ -**	**$**	**(958,250)**	**$**	**958,250**	**0%**
6150 · Workers Comp Claims Expense	**$**	**2,575,000**		**$**	**(2,575,000)**	**$**	**2,575,000**	**0%**

855250

MBASIA
Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. D.3.a
Board of Directors
April 15, 2013

CARMA (EXCESS LIABILITY) RENEWAL

ISSUE: CARMA provides excess liability coverage for MBASIA at a $1,000,000 attachment (S.I.R.). CARMA's draft renewal budget is attached, and **indicates an increase from $281,700 to $314,859, *which is an increase of $33,158 or 11.77%.***

This increase is a result of three major factors that drive member premium changes in this preliminary budget:

- The rate recommended by the actuary has increased 10.9%
- CARMA has proposed *decreasing their discount rate from 2.5% to 2%*

RECOMMENDATION: It is recommended that the Board review the report on the anticipated renewal terms, and give direction to the Program Administrators with respects to renewal strategy.

FINANCIAL IMPACT: The July 1, 2013 renewal premium is estimated to be $314,859, which is an increase of $33,158 or 11.77%.

BACKGROUND: MBASIA has been a member of CARMA since 2003. CARMA provides excess liability coverage for the Authority, attaching at $1,000,000 (SIR), and providing excess pooled and insurance limits. MBASIA has one seat on the Board of Directors; currently Robert Galvan is MBASIA's representative.

ATTACHMENT: CARMA Draft Budget

CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES

~ 2013/14 Proposed Operating Budget ~

Funding For Pooled Losses at the 75% Confidence Level ~ *Discount Factor 2.0%*

~ Reinsurance Purchase $10 million ex of $4 million - Am Trust Financial ~

~ Excess Purchase $15 million ex of $14 million - Colony ~

MEMBER AGENCY	2012 PAYROLL NOTE 1	FUNDING FOR POOLED LOSSES NOTE 2	EXPERIENCE MOD FACTOR NOTE 3	LOSSED ADJUSTED FOR EX MOD NOTE 4	OFF-BALANCE FACTOR NOTE 5	ADJUSTED POOLED LOSSES NOTE 6
BCJPIA	$391,145,148	$1,783,622	0.914	$1,629,599	1.0267	$1,673,057
CSJVRMA	$350,887,860	1,600,049	0.886	1,417,405	1.0267	1,455,204
MBASIA	$43,315,560	197,519	0.868	171,399	1.0267	175,970
MPA	$241,972,196	1,103,393	1.250	1,379,242	1.0267	1,416,023
VCJPA	$46,999,945	214,320	0.812	174,008	1.0267	178,649
TOTALS	$1,074,320,709	$4,898,902	0.946	$4,771,653		$4,898,902
			(average)			

LAYER "B" RATE	$3 X $1 Rate for Discounted Losses and ALAE (75% Confidence Level)	0.456
LAYER "C" RATE	Reinsurance Rate + Broker's Fee	$0.11232
($5-14 MIL)	Broker's Fee (included in reinsurance rate)	$70,000
LAYER "D" RATE	Excess ($15-$29 Mil) Insurance Rate	$0.05210

LAYER "A" $0 - $1 MIL - NOT ACTIVATED
LAYER "B" $3 MIL EX $1 MIL
LAYER "C" $10 MIL EX $4 MIL
LAYER "D" $15 MIL EX $14 MIL

NOTES:
1 2011 Payroll
2 Payroll/100 * Rate Discounted at 2.0%
3 Minimum of .75 AND Maximum of 1.25 (Page 2)
4 (2)*(3)
5 Total (2) / Total (4)
6 (4) * (5).
7 (Payroll/100) * Reinsurance Rate
8 (Payroll/100) * Excess Insurance Rate
9 From Page 4
10 Sum of (6) Through (9)

MEMBER AGENCY	ADJUSTED POOLED LOSSES NOTE 6	Reinsurance PREMIUM $10 Mil X $4 Mil NOTE 7	EXCESS PREMIUM $15Mil x $14Mil NOTE 8	ADMIN PREMIUM NOTE 9	2013-2014 CARMA PREMIUM NOTE 10	RATE PER $100 PAYROLL
BCJPIA	$1,673,057	$439,351	$203,791	$93,139	$2,409,338	$0.616
CSJVRMA	1,455,204	394,132	182,816	$90,453	2,122,604	$0.605
MBASIA	175,970	48,654	22,568	$67,667	314,859	$0.727
MPA	1,416,023	271,793	126,070	$138,589	1,952,475	$0.807
VCJPA	178,649	52,792		$52,767	284,208	$0.605
TOTALS	$4,898,902	$1,206,723	$535,244	$442,615	$7,083,484	$0.659

COMPARISON TO PRIOR YEAR		
2012-2013 CARMA PREMIUM	INCREASE (DECREASE)	Percentage INCREASE (DECREASE)
2,534,759	($125,422)	-4.95%
1,732,770	$389,834	22.50%
281,700	$33,158	11.77%
1,799,477	$152,998	8.50%
251,556	$32,653	12.98%
$6,600,262	$483,222	7.32%

Estimated 5% increase over last year's rate

Revisions from prior year:
~ Removed reinsurance allocation as three year ex mod application phase out is completed
~ PARSAC's admin allocation was finalized with 2012/2013 budget process.

FINANCIAL MATTERS

SUBJECT: Consideration of the Proposed Annual Budget Scenarios for the 2013/14 Fiscal Year

BACKGROUND AND STATUS:

At the January 10, 2013, Annual Workshop, the Board directed staff to develop proposed budget scenarios at the 75% confidence level, and featuring discount rates of both 2.5% and 2.0%, the latter a decrease from the current year budget.

Attached are Proposed Annual Budget models for the 2013/2014 program year as described above, as well as the current year's Approved Budget, which is included for your reference.

The first Proposed Budget features the 75% confidence level, discounted at 2.0%, a decrease from the 2.5% discount factor adopted last year, and reflects an overall increase of $483,222, or 7.32%, over last year's budget.

Changes included from the prior year include:

- The removal of the experience modification reinsurance allocation, as the three-year phase out of the application has been completed; and
- PARSAC's administration allocation is no longer reflected, as it was finalized with the 2012/2013 budget process.

Total premium reflects the following assumptions and significant factors:

- Funding for losses at the discounted 75% confidence level at the actuarially-determined rate of .456 per $100 of payroll; an increase of approximately 10.9% over the prior study's 75% rate of .411;
- Discount rate of 2.0% (A decrease from the prior year's discount factor of 2.5%);
- Actual 2012 payroll for all JPAs, representing a 1.3% decrease from last year's total payroll;
- Funding for losses at $3 million excess of $1 million (Adopted retention level for prior year) for all members;
- Assumption of a 5.0% estimated increase in rates for both reinsurance ($10 million ex $4 million) and excess ($15 million ex $14 million); and
- A decrease in the administration budget of 1.7%. Variances include:
    - ➢ Program Administration – 2.5% contractual increase;
    - ➢ Financial Audit – 2.3% contractual increase;
    - ➢ Claims Audit scope – 36.8% bi-annual decrease - Audit for CARMA members only;
    - ➢ Actuarial Review – 2.0% contractual increase;
    - ➢ Legal Services – 25.0% decrease due to anticipated decrease in actual expense; and

- Genex Fees – An increase to $12,000 from the prior year in anticipation of a renewed contract with Genex. Should the Board decide to make other reporting fee arrangements, this line item will be adjusted in the final Budget proposed at the June meeting.

Experience Modification Calculation:

- Individual losses from $100k to $1 million were used in the ex-mod calculation;
- For the six years prior to the current year, the JPA ex-mod had been applied to the reinsurance premium, which currently covers the $10 million excess $4 million layer. Beginning with the 2011/12 Budget, the allocation was revised. Two-thirds of the premium continued to be applied to the JPA ex-mod, while one-third of the premium was not. In 2012/13 the allocation was reversed as one third of the premium was applied to the JPA's ex-mod, while two-thirds of the premium was not. With the current 2013/14 Proposed Budget, the ex-mod is no longer applied to the reinsurance layer;
- The range of years used in the ex-mod calculation continues to be the oldest four of the most current six. This budget incorporates the range between 2006/2007 and 2009/2010;
- The losses are valued as of 12/31/2012;
- A credibility factor is applied which places a proportionately heavier weight on the larger members; and
- Ex-mod factors continue to be capped at .75 on the low end and 1.25 at the high end, with the exception of inverse condemnation claims, which are capped at 1.50 at the high end. (Note: Only one inverse condemnation claim continues to be applied to this higher cap, and will drop out of the calculation next year.)

Alternate Budget Scenario:

In addition to the primary Proposed Budget, staff has prepared an Alternative Budget at the 75% confidence level, using a 2.5% discount rate. This model reflects an increase of $355,851 over last year's budget and a $127,371 increase from the 2013/2014 Proposed Operating Budget which uses a 2.0% discount rate.

RECOMMENDATION:

Staff recommends approval of the 2013/2014 Proposed Annual Operating Budget at the 75% confidence level, using a discount factor of 2.0%.

REFERENCE MATERIALS ATTACHED:

- 2013/2014 Proposed Annual Operating Budget at the 75% CL, 2.0% discount rate
- 2013/2014 Alternative Proposed Annual Operating Budget at the 75% CL, 2.5% discount rate – Funding sheet only
- 2012/2013 Approved Annual Operating Budget

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. D.3.b
Board of Directors
April 15, 2013

ERMA (EXCESS EMPLOYMENT PRACTICES) RENEWAL

ISSUE: ERMA provides Excess Employment Practices Liability coverage and training for MBASIA. The coverage attaches at a $500,000 SIR. ERMA's draft renewal **budget an increase from $86,425 to $98,191,** ***which is an increase of $11,766 or 13.6%.*** The Draft ERMA Budget does not include changes in the actuarial rates from last year, so the budget will have significant updates.

RECOMMENDATION: It is recommended that the Board review the report on the anticipated renewal terms, and give direction to the Program Administrators with respects to renewal strategy.

FINANCIAL IMPACT: The draft renewal premium is estimated to be $98,191, which is an increase of $11,766 or 13.6%.

BACKGROUND: MBASIA has been a member of ERMA since 2011. ERMA provides excess employment practices liability coverage for the Authority, attaching at a $500,000 SIR, and providing excess pooled and insurance limits. Additionally, ERMA has a very strong training program that is offered to MBASIA. MBASIA has one seat on the Board of Directors; currently Rene Mendez is MBASIA's representative, and Daniel Dawson as the Alternate.

ATTACHMENT: ERMA Draft Budget

Employment Risk Management Authority

~ 2013/2014 Preliminary Operating Budget ~

Member Summary

~ 2012/2013 80 % Confidence Level Funding Rates ~
~ 2012/2013 Excess Insurance $1 million x $1 million Rate ~

Member Entities	Actual 2012 Payroll	Funding For Losses	Loss Prevention & Training	Admin. Costs	Deposit Premium	Experience Modification Factor	Deposit Premium Adjusted for Ex Mod	Off-Balance Factor	Deposit Premium: Deposit Premium Adjusted for Off-Bal Factor	Deposit Premium: Excess Insurance $1M x $1M	Deposit Premium: TOTAL Deposit Premium	Prior Year Comparison: Prior Yr. Deposit Premium	Prior Year Comparison: Percentage Change	Prior Year Comparison: Percentage Change Net of Payroll
BCJPIA	$199,485,921	$873,143	$14,819	$117,953	$1,005,916	0.762	$766,851	1.024	$785,118		**$785,118**	$771,963	1.7%	0.3%
CSJVRMA	187,798,546	1,013,662	13,951	111,043	1,138,656	1.087	1,237,833	1.024	1,267,318	62,537	**1,329,855**	1,601,923	-17.0%	-14.4%
MBASIA	43,635,366	36,328	3,242	25,801	65,371	1.250	81,714	1.024	83,660	14,531	**98,191**	86,425	13.6%	13.6%
MPA	255,589,225	1,248,843	18,987	151,126	1,418,956	0.750	1,064,217	1.024	1,089,567	85,111	**1,174,678**	1,243,023	-5.5%	-1.8%
PARSAC	197,779,452	858,367	14,693	116,944	990,004	1.115	1,104,022	1.024	1,130,320		**1,130,320**	1,042,750	8.4%	12.5%
PERMA	144,171,252	740,498	10,710	85,246	836,455	1.250	1,045,569	1.024	1,070,474		**1,070,474**	969,230	10.4%	10.9%
SCORE	15,204,766	71,822	1,130	8,990	81,942	0.918	75,189	1.024	76,980		**76,980**	71,403	7.8%	-8.7%
VCJPA	46,591,610	262,579	3,461	27,549	293,589	1.058	310,525	1.024	317,922	15,515	**333,437**	334,240	-0.2%	-2.0%
Oakland H.A.	23,545,759	130,679	1,749	13,922	146,350	0.984	144,070	1.024	147,502	7,841	**155,343**	166,993	-7.0%	-7.0%
Contra Costa H.A.	4,817,268	26,736	358	2,848	29,942	1.250	37,428	1.024	38,319	1,604	**39,923**	40,305	-0.9%	6.3%
Total	**$1,118,619,165**	**$5,262,657**	**$83,100**	**$661,424**	**$6,007,181**		**$5,867,418**		**$6,007,181**	**$187,139**	**$6,194,320**	$6,328,254	-2.1%	-0.3%

2011 Actual Payroll	$1,139,066,153
Percent Change	-1.8%

Table of Rates

Budget Item	Rates
Funding for Losses - 2.0% Discounted 80% Confidence Level	$0.5550
Excess Insurance: $1M x $1M ~ $2M / $10M Aggregate	$0.0333
Loss Prevention & Training	$0.0074
Administration	$0.0591

Employment Risk Management Authority

~ 2013/2014 Preliminary Operating Budget ~

Prior Year Comparison

~ 2012/2013 80 % Confidence Level Funding Rates ~

	DEPOSIT PREMIUM CHANGE *			CURRENT PAYROLL CHANGE			EX MOD CALCULATION								
							EX MOD CHANGE			AVERAGE PAYROLL CHANGE			AVERAGE LOSS CHANGE		
Member Entities	Current Year TOTAL Deposit Premium	Prior Year Deposit Premium	Percentage Change	Current Year Payroll	Prior Year Payroll	Percentage Change	Current Year Ex Mod	Prior Year Ex Mod	Percentage Change	Current Year Average Payroll	Prior Year Average Payroll	Percentage Change	Current Year Average Losses	Prior Year Average Losses	Percentage Change
BCJPIA	**$785,118**	$771,963	1.7%	**$199,485,921**	$196,636,731	1.4%	**0.762**	0.750	1.6%	**214,033,295**	$195,146,963	9.7%	**$123,685**	$75,399	64.0%
CSJVRMA	**1,329,855**	1,601,923	-17.0%	**187,798,546**	192,860,676	-2.6%	**1.087**	1.250	-13.0%	**196,813,272**	156,632,448	25.7%	**306,417**	649,973	-52.9%
MBASIA	**$98,191**	$86,425	13.6%	**$43,635,366**	$45,516,827	-4.1%	**1.250**	1.000	25.0%	**45,568,202**	$0	NA	**246,612**	$0	NA
MPA	**1,174,678**	1,243,023	-5.5%	**255,589,225**	265,498,192	-3.7%	**0.750**	0.750	0.0%	**273,690,211**	264,147,893	3.6%	**67,202**	208,728	-67.8%
PARSAC	**$1,130,320**	$1,042,750	8.4%	**$197,779,452**	$206,202,607	-4.1%	**1.115**	0.966	15.4%	**$216,966,382**	$210,198,641	3.2%	**$353,027**	$320,664	10.1%
PERMA	**1,070,474**	969,230	10.4%	**144,171,252**	144,762,034	-0.4%	**1.250**	1.105	13.1%	**154,672,803**	150,515,390	2.8%	**497,239**	317,496	56.6%
SCORE	**$76,980**	$71,403	7.8%	**$15,204,766**	$13,055,061	16.5%	**0.918**	0.969	-5.3%	**$16,325,385**	$15,237,911	7.1%	**$6,479**	$18,750	-65.4%
VCJPA	**333,437**	334,240	-0.2%	**46,591,610**	45,796,016	1.7%	**1.058**	1.059	-0.1%	**41,703,604**	39,130,969	6.6%	**69,882**	84,339	-17.1%
Oakland H.A	**$155,343**	$166,993	-7.0%	**$23,545,759**	$23,545,759	0.0%	**0.984**	1.042	-5.5%	**$17,978,486**	$16,839,295	6.8%	**$20,243**	$36,940	-45.2%
Contra Costa H.A.	**39,923**	40,305	-0.9%	**4,817,268**	5,192,250	-7.2%	**1.250**	1.145	9.2%	**5,422,226**	5,332,282	1.7%	**33,965**	26,726	27.1%
Total	**$6,194,320**	$6,328,254	-2.1%	**$1,118,619,165**	$1,139,066,153	-1.8%				**$1,183,173,866**	$1,053,181,791	12.3%	**$1,724,750**	$1,739,014	-0.8%

* *Preliminary Budget premium change is only affected by payroll and ex mod changes.*
No estimated change in last year's pooling or excess rates has been included.

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. D.3.c
Board of Directors
April 15, 2013

CSAC-EIA (EXCESS WORKERS COMPENSATION) RENEWAL

ISSUE: CSAC-EIA provides Excess Workers Compensation coverage for MBASIA, attaching above our $250,000 SIR. CSAC-EIA's draft renewal budget is in its 3rd round draft, and includes their estimates for excess premiums that incorporates their recent actuarial study findings. MBASIA's renewal premium **indicates an increase from $505,241 to $606,613, *which is an increase of $101,372 or 16.71%***.. This increase has to do with several factors:

- The California Workers Compensation market is "hardening'; even insureds with no losses would expect to see a 15% increase due to market conditions (losses, investment income, actuarial assumptions)
- MBASIA's ex-mod is 115% and 154% in the two layers they evaluate. Anything more than 100% is considered 'bad'.

As a result of the premium exceeding $600,000, we have requested the following SIR options:

1. $300,000 SIR $493,000 Premium
2. $350,000 SIR $413,000 Premium
3. $500,000 SIR $278,000 Premium

To help evaluate the premium options, we have prepared the following claims analysis based on the past 12 years of claims data, not including 4850:

	$250K Cap	$300K Cap	$350K Cap	$500K Cap
Average Annual Claims	$2,074,087	$2,164,744	$2,239,263	$2,367,971
Premium	$ 606,613	$ 493,000	$ 413,000	$ 278,000
Annual Total Cost	$2,680,700	$2,657,744	$2,652,263	$2,645,971

RECOMMENDATION: It is recommended that the Board review the report on the anticipated renewal terms, and give direction to the Program Administrators with respects to renewal strategy.

FINANCIAL IMPACT: MBASIA's renewal **premium is estimated to be $606,613, *which is an increase of $101,372 or 16.7%.*** The Authority will receive a <u>$34,846 credit for the payroll</u> audit, which will offset some of this cost.

BACKGROUND: MBASIA has been a member of CSAC-EIA since 2010. CSAC-EIA provides excess workers compensation coverage at a $250,000 attachment. Prior to July 1, 2010, MBASIA was insured at a $500,000 attachment with LAWCX.

ATTACHMENT: CSAC-EIA Workers Compensation Budget & SIR Options Worksheet

CSAC Excess Insurance Authority
2013/14 Premium Estimates, March 2013

Monterey Bay Area Self Insurance Authority (MBASIA)

As renewals draw near, we are able to refine our premium estimates for the 2013/14 fiscal year. For some programs, estimate numbers are getting closer to the final premium amounts; however in most cases we are still early in the process of determining the Programs' total cost and allocation. In cases where the numbers are getting closer to being finalized, estimates will reflect a single figure. In the cases where estimates are still in the early stages, a low and high figure will be shown. The low-high estimates provided are intended to be conservative, but because there is a chance final premiums will be in excess of these estimates, we recommend you budget towards the high end of the range.

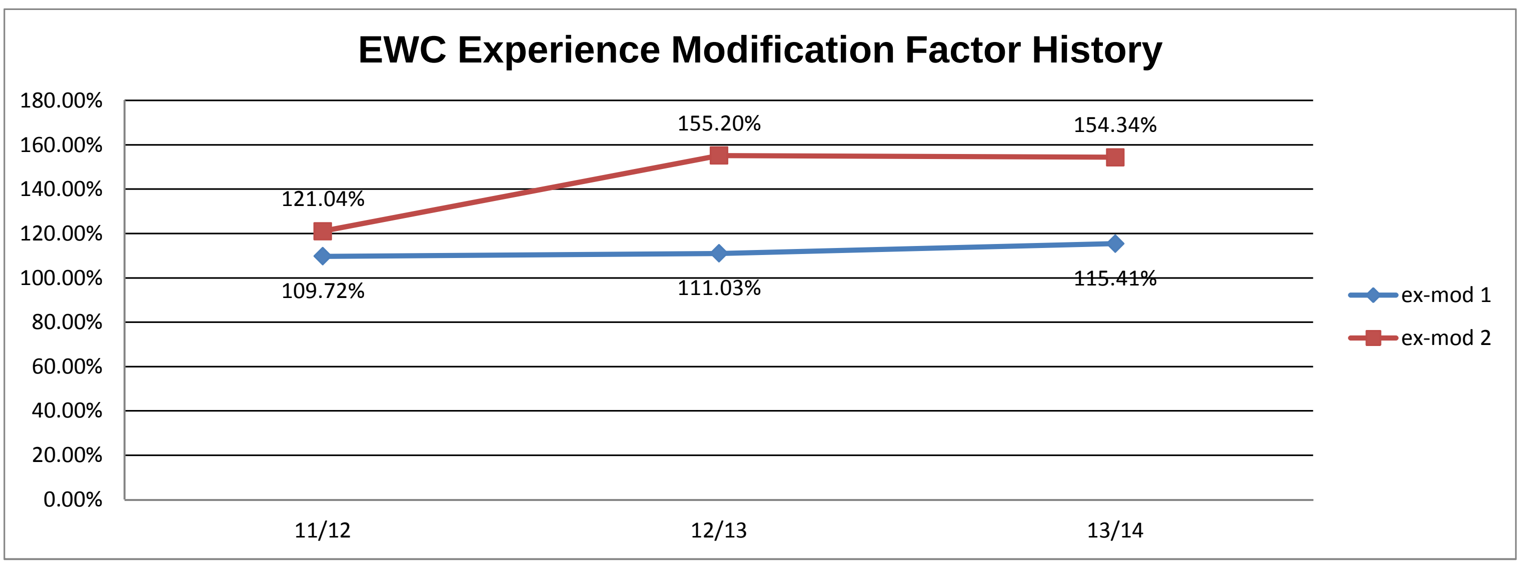
Excess Workers' Compensation Program

Estimated Premium:	**$578,558**
Payroll Audit:	**-$34,846**
Estimated Collectible:	**$543,712**

EWC estimates now reflect the estimated 2013/14 payroll provided on your renewal application (shown below for reference). Losses have also been updated, based on data valued as of June 30, 2012.

For those members with SIRs less than $1M, the experience modification factors (ex-mod) have been updated and are provided below. The premium projections reflect the pool rates and excess terms that were approved by the Board at their March meeting. If you have directed us to apply the 2011/12 payroll audit to your 2013/14 premium, it has been included in the total collection shown. We do not anticipate significant changes to the estimates from this point forward.

In the table below, ex-mod 1 reflects your ex-mod for the $125K-$300K rating layer, while ex-mod 2 reflects your ex-mod for the $300K to $1M rating layer. Therefore, if your SIR is $300K or higher, you will only see ex-mod 2 below. As you can see, over the past three years your ex-mod has experienced some considerable fluctuations and is above 100% which is worse than average.



Estimated Payroll	$46,173,440	Premium History	2012/13	$505,241
			2011/12	$377,649

CSAC Excess Insurance Authority

Self Insured Retention Options Worksheet

Monterey Bay Area Self Insurance Authority (MBASIA)

This SIR option estimate has been provided as a response to a member request. This estimate has been provided based on the March 2013 Premium Estimate figures. In addition to running the SIR option requests through the referenced estimates, the Underwriting Analysts conduct an analysis of the requested SIR against your most recent loss data on file or in the event of no existing loss history a minimum pool premium will be used. The below figures are initial estimates and are subject to change until the premiums for the upcoming program year have been finalized.

CURRENT EXCESS WORKERS' COMPENSATION (EWC) PARTICIPATION

Current Premium:	$505,241	Estimated 2013/14 Premium:	$606,613
Current SIR:	$250,000	Payroll Used:	$46,173,440

REQUESTED SIR ANALYSIS RESULTS

Loss Analysis conducted on data valued as of June 30, 2012

Option 1:	$300,000	Option 2:	$350,000
Estimated Deposit Premium:	$493,000	Estimated Deposit Premium:	$413,000
Within Staff Authority:	Yes	Within Staff Authority:	Yes
Option 3:	$500,000		
Estimated Deposit Premium:	$278,000		
Within Staff Authority:	Yes		
Next scheduled U/W meeting:	N/A	Date response required for meeting:	N/A

According to the CSAC EIA Policy Statement of Delegation of Underwriting Authority dated March 3, 2000, Approval of SIR changes resulting in an increase in SIR up to and including double the previous year's SIR falls within staff authority. Approval of SIR changes resulting in a lower SIR or a higher SIR of more than double the previous year's SIR are not within staff authority and are required to be presented to the Underwriting Committee for approval. The requested SIR options **do** fall within staff authority.

The estimates provided are only preliminary estimates and may be adjusted based on finalized renewal rates.

ADDITIONAL INFORMATION

None

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

MBASIA

Item No. D.3.d
Board of Directors
April 15, 2013

WORKERS COMPENSATION ACTUARIAL REPORT

ISSUE: Jack Joyce, MBASIA's Actuary, has completed the FY2013/14 Workers Compensation Actuarial Report.

RECOMMENDATION: It is recommended that the Board review the Draft Workers Compensation Actuarial Report and take action to approve or give direction.

FINANCIAL IMPACT: There are many financial implications drawn from the Actuarial Report.

BACKGROUND: In past years, the Actuarial report was created after the July 1 renewal and used primarily for accounting purposes in the Financial Audit. After some discussion with the Board, direction was given to change the timing of the Actuarial study so that it could help the Authority decide on prudent funding levels.

Below are some facts related to the current funding and recommended funding gathered from the Actuarial Study:

- The ***Central Estimate*** rate with a $250,000 SIR is $4.91 (2011 $4.57 – up 7.4%)
- The Estimated Liability for Unpaid Losses undiscounted is $12,425,000 (2012 was $11,409,000)
- The Short-term liability is $1,899,000 (2012 was $1,658,000)

ATTACHMENT: 2013-14 Workers Compensation Actuarial Report – Management Summary (full report available upon request – 67 pages)

Monterey Bay Area Self Insurance Authority

An Actuarial Review of the
Workers' Compensation Program

Management Summary

Monterey Bay Area Self Insurance Authority

An Actuarial Review of the Workers' Compensation Program

Management Summary

Projected 2013-14 Loss Rates

Table I shows the MBASIA's projected rates of loss for 2013-14 at various self-insured retentions ("SIR's) ranging between $150,000 and $1,000,000, plus unlimited. These rates are discounted at 1.5% interest and include 4850/TD benefits. Table II is similar except that it excludes 4850/TD benefits. The Table I and II rates do not include claims handling fees, administrative costs, or the cost of excess insurance coverage.

Tables I and II show actuarial central estimates and estimates at various probability levels. The higher probability level rates have higher probabilities of being adequate. For example, we estimate that there is a 70% probability that the actual 2013-14 $250,000 SIR loss rate with and without 4850/TD will be less than **$7.06** and **$5.60**, respectively.

DRAFT

Table I: Projected 2013-14 Discounted Loss Rates (1.5% interest rate – INCLUDES 4850/TD)						
	Projected Loss per $100 of Payroll					
Probability Level	$150,000 SIR	$250,000 SIR	$500,000 SIR	$750,000 SIR	$1,000,000 SIR	Unlimited Retention
50%	5.03	5.94	7.02	7.53	7.76	8.17
Central Estimate	**$5.24**	**$6.19**	**$7.39**	**$7.93**	**$8.17**	**$8.69**
60%	5.45	6.50	7.76	8.33	8.58	9.04
70%	5.97	**$7.06**	8.50	9.20	9.48	10.08
80%	6.55	7.86	9.46	10.23	10.62	11.38
90%	7.49	8.98	11.01	11.90	12.42	13.47
12-13 Central Estimate	**$4.76**	**$5.91**	**$7.12**	**$7.58**	**$7.77**	**$8.04**
Change in C.E.	**+10.1%**	**+4.7%**	**+3.8%**	**+4.6%**	**+5.1%**	**+8.1%**

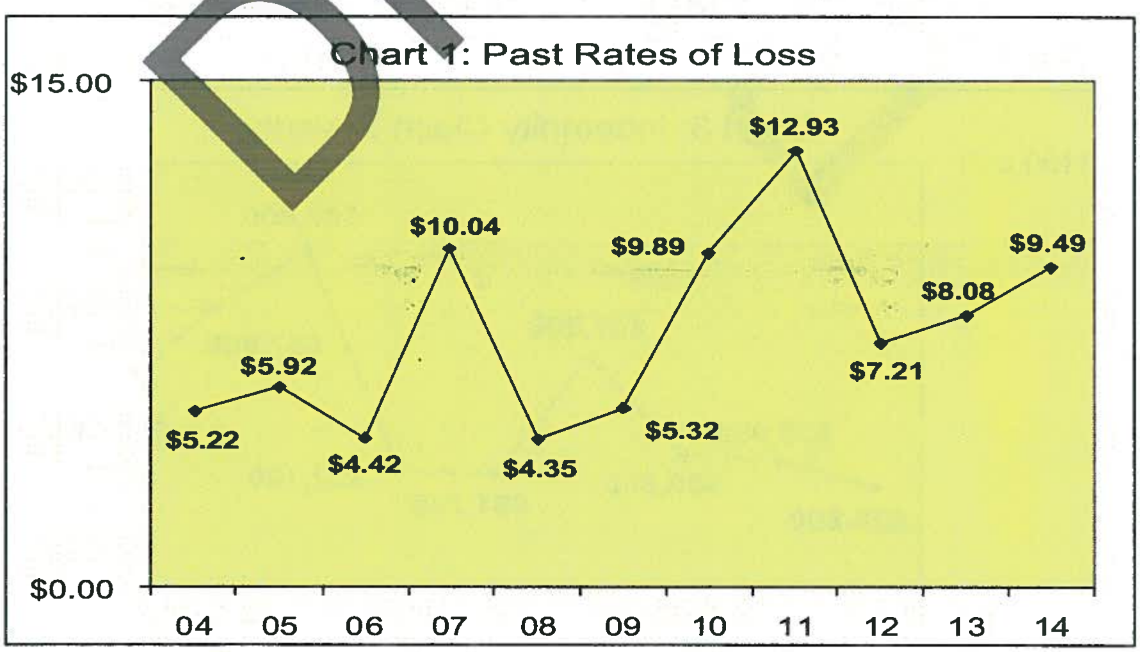
The next to last row in Table I shows last year's projected 2012-13 central value rates. The bottom row shows the percentage changes between last year's and this year's central value rates. Last year's rates were also discounted at 1.5% interest.

Table II: Projected 2013-14 Discounted Loss Rates (1.5% interest rate – EXCLUDES 4850/TD)						
	Projected Loss per $100 of Payroll					
Probability Level	$150,000 SIR	$250,000 SIR	$500,000 SIR	$750,000 SIR	$1,000,000 SIR	Unlimited Retention
50%	3.80	4.71	5.81	6.32	6.55	6.97
Central Estimate	**$3.96**	**$4.91**	**$6.12**	**$6.65**	**$6.89**	**$7.42**
60%	4.12	5.16	6.43	6.98	7.23	7.72
70%	4.51	**$5.60**	7.04	7.71	7.99	8.61
80%	4.95	6.23	7.83	8.58	8.96	9.72
90%	5.66	7.12	9.12	9.98	10.47	11.50
12-13 Central Estimate	**$3.43**	**$4.57**	**$5.79**	**$6.26**	**$6.45**	**$6.73**
Change in C.E.	**+15.5%**	**+7.4%**	**+5.7%**	**+6.2%**	**+5.8%**	**+10.3%**

Last year we estimated that 4850/TD constituted 16.4% of the total unlimited losses. This year the data indicates 14.7%.

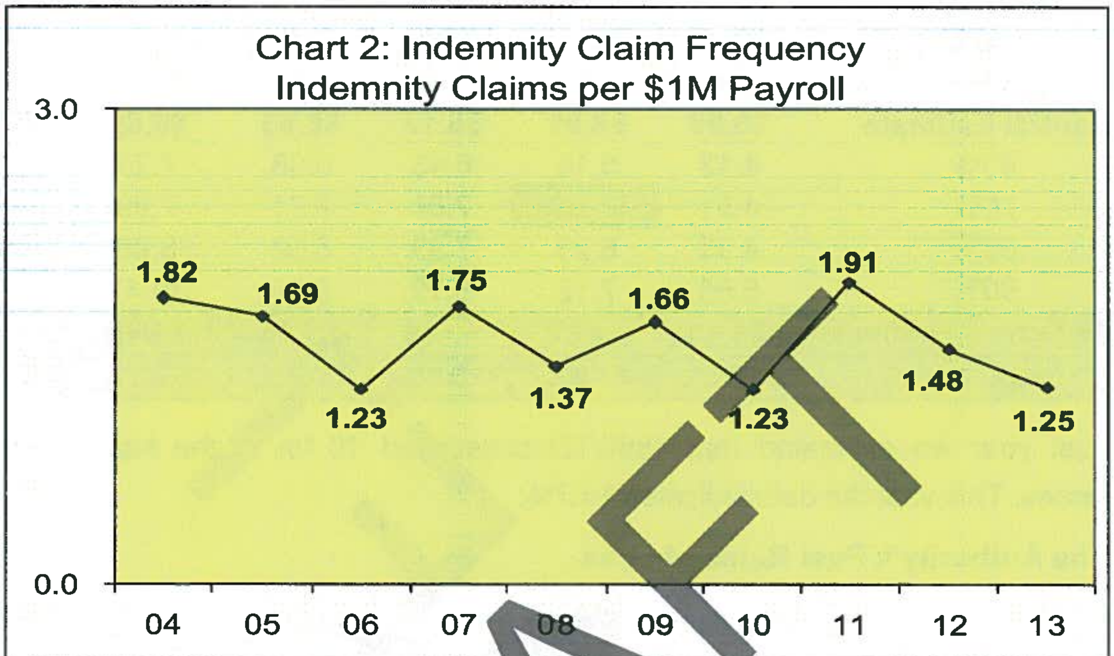
The Authority's Past Rates of Loss

Chart 1 displays the Authority's estimated past unlimited, undiscounted loss rates (no reduction for losses ceded to excess insurers). The loss rate is ultimate total loss per $100 of payroll. **$9.49** is the undiscounted central estimate unlimited rate for 2013-14. Our projection places the 2013-14 rate near the center of the recent rates shown in Chart 1. Four of the seven most recent rates are lower than **$9.49**, and three are higher. The rates in Chart 1 include 4850/TD.



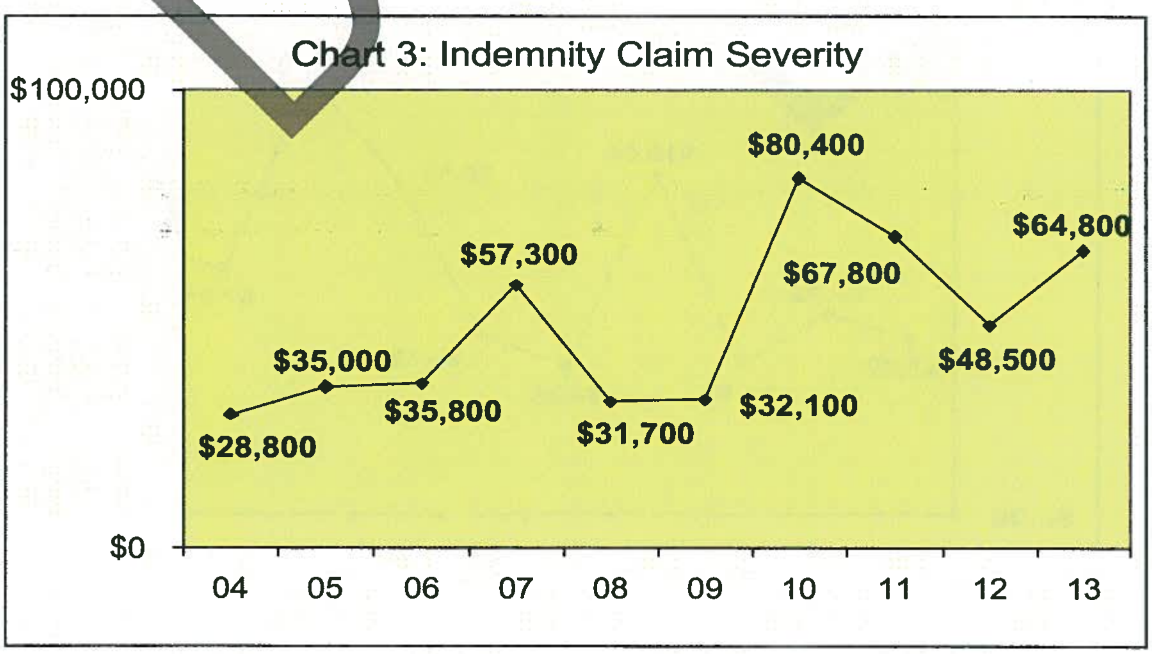
Claim Frequency

Indemnity claim frequency is the number of "indemnity" claims divided by payroll. Chart 2 displays indemnity claim frequency.



Average Claim Amount ("Severity")

Chart 3 shows the average indemnity claim amount, calculated by dividing the estimated annual losses by the number of indemnity claims. The values in this chart are based on unlimited loss data, so they include the portions of claims are ceded to excess insurers. The Chart 3 severities include 4850/TD.



DRAFT

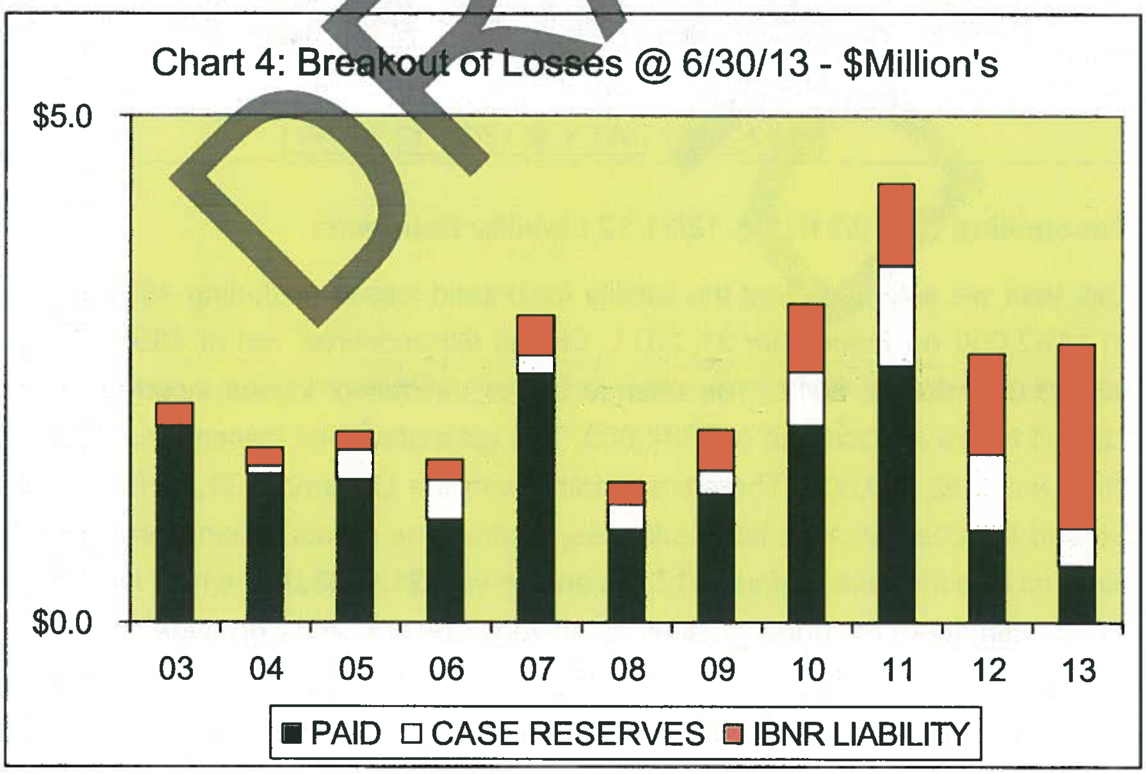
Limited Liability for Unpaid Losses @ 6/30/13

We project that the limited liability for unpaid losses will be **$12,425,000** on June 30, 2013 on an undiscounted basis, or **$10,996,000** if discounted at 1.5% interest. Table III shows these liabilities at various probability levels.

Table III: Estimated Liability for Unpaid Losses As of June 30, 2013 - $1,000's		
Probability Level	Undiscounted Losses	Discounted at 1.5% Interest Losses
50%	12,176	10,776
Central Estimate	**$12,425**	**$10,996**
60%	12,797	11,326
70%	13,294	11,765
80%	14,040	12,425
90%	15,282	13,525

Loss Breakout as of 6/30/13

We project that the Authority's liability of **$11,409,000** will comprise **$4,850,000** in case reserves for known claims and an IBNR liability of **$6,559,000**. Chart 4 breaks out the estimated total program year losses for 2002-03 through 2012-13 into their components: losses paid, case reserves, and IBNR liability.



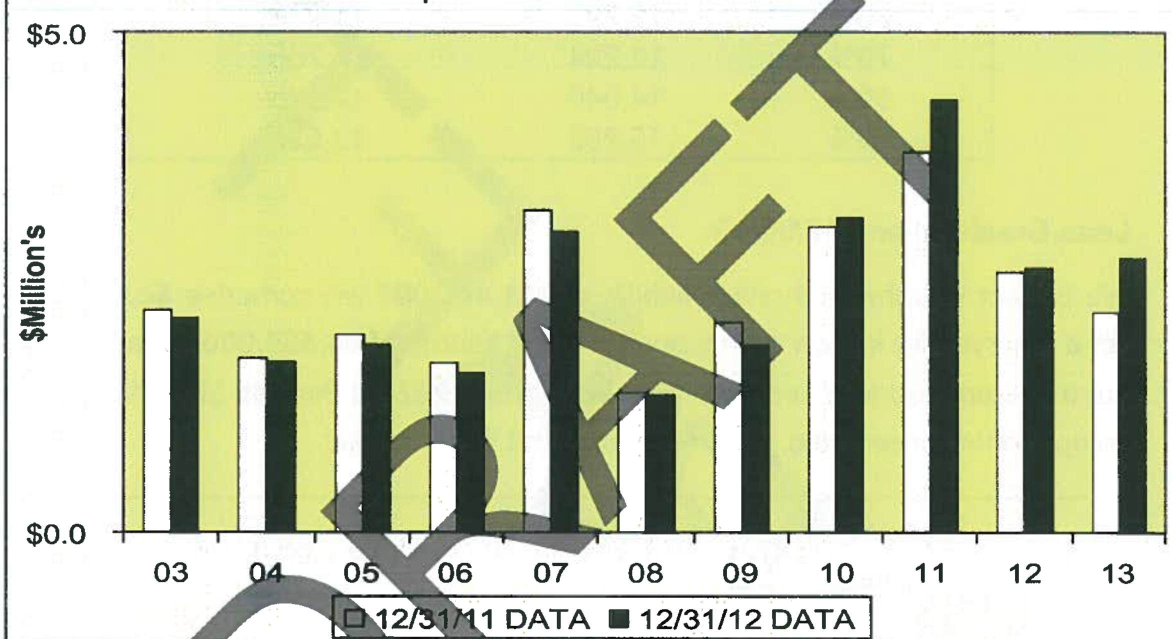
Short-Term Liability

Short-term liabilities are those expected to be expended within twelve months. The limited 6/30/13 liability comprises **$1,899,000** in short-term and **$10,525,000** in long-term liabilities.

Comparison with Last Year's Estimates

Chart 5 compares this year's estimates of the limited ultimate losses with last year's estimates. Chart 5 shows limited losses <u>excluding 4850/TD benefits.</u>

Chart 5: Comparison with Last Year's Estimates



Reconciling the 12/31/11 & 12/31/12 Liability Estimates

Last year we estimated that the liability for unpaid losses (including 4850/TD) was $11,662,000 on December 31, 2011. Claims expenditures, net of 4850/TD, were $2,493,000 during 2012. The change in the estimated losses incurred through 12/31/11 was an increase of $534,000. The estimated total losses incurred during 2012 were $2,900,000. Therefore starting with the December 31, 2011 liability, if we add the change in the loss estimates, subtract the claims expenditures, and add the total loss incurred during 2012, we end up with $12,603,000, which matches our direct estimate of the unpaid losses as of December 31, 2012 on page 29.

Interest Rates

We discounted the rates and liabilities using a 1.5% interest rate. Here are the adjustments to make for different interest rate assumptions:

Table IV: Interest Rate Adjustments						
Interest Rate	**0%**	**0.90%**	**1.0%**	**1.13%**	**1.5%**	**2.0%**
UNL Rate	**+9.2%**	**+3.4%**	**+2.7%**	**+2.1%**	**+0.0%**	**-2.7%**
1M Rate	**+9.2%**	**+3.4%**	**+2.8%**	**+2.1%**	**+0.0%**	**-2.6%**
750K Rate	**+9.1%**	**+3.4%**	**+2.8%**	**+2.1%**	**+0.0%**	**-2.6%**
500K Rate	**+9.1%**	**+3.4%**	**+2.7%**	**+2.1%**	**+0.0%**	**-2.6%**
250K Rate	**+8.8%**	**+3.3%**	**+2.7%**	**+2.0%**	**+0.0%**	**-2.5%**
Liabilities	**+13.0%**	**+4.7%**	**+4.0%**	**+2.9%**	**+0.0%**	**-3.6%**

We included columns labeled 0.90% and 1.13%. Those are the "risk-free" interest rates appropriate for discounting the 2013-14 losses and the 6/30/13 liabilities, respectively. We calculated those rates by assembling current portfolios of US Treasury bills, notes, and bonds selected to mature just as the expected claims payments come due. The portfolio matching the expenditures on the 2013-14 claims yielded an overall interest rate of 0.90%. The portfolio matching the expenditures on the 6/30/13 liabilities yielded an overall interest rate of 1.13%. Higher yields may be available, but only by taking on some credit risk by purchasing securities other than treasuries, or by speculating instead of holding the items in the portfolio to maturity.

Monterey Bay Area Self Insurance Authority

An Actuarial Review of the Workers' Compensation Program

Technical Approach

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. D.3.e
Board of Directors
April 15, 2013

LIABILITY ACTUARIAL REPORT

ISSUE: Jack Joyce, MBASIA's Actuary, has completed the FY2013/14 Liability Actuarial Report.

RECOMMENDATION: It is recommended that the Board review the Draft Liability Actuarial Report and take action to approve or give direction.

FINANCIAL IMPACT: There are many financial implications drawn from the Actuarial Report. The Board may consider budgeting funds, or using existing budgeted funds, to try to address claim concerns.

BACKGROUND: In past years, the Actuarial report was created after the July 1 renewal and used primarily for accounting purposes in the Financial Audit. After some discussion with the Board, direction was given to change the timing of the Actuarial study so that it could help the Authority decide on prudent funding levels.

Below are some facts related to the current funding and recommended funding gathered from the Actuarial Study:

- The ***Central Estimate*** rate undiscounted with a $1M SIR and $500K ELP SIR is $1.93 (2012 $2.17 – down 11.1%)
- The Estimated Liability for Unpaid Losses undiscounted is $2,820,000 <u>(2012 was $2,463,274)</u>
- The Short-term liability is $1,107,000 <u>(2012 was $943,000)</u>

ATTACHMENT: 2013-14 Liability Actuarial Report – Management Summary
(full report available upon request – 68 pages)

Monterey Bay Area Self Insurance Authority

An Actuarial Review of the Liability Self-Insurance Program

Management Summary

Monterey Bay Area Self Insurance Authority

An Actuarial Review of the
Liability Self-Insurance Program

Management Summary

Projected 2013-14 Losses and Loss Rates

Tables I and II shows the projected 2013-14 losses and loss rates at various probability levels, discounted and undiscounted. The rates in Table I are gross of the $10,000 per loss deductible, while those in Table II are net of that deductible. We discounted the rates at 1% interest. The items in Tables I and II do not include claims handling fees ("ULAE"), administrative costs, or the cost of excess insurance coverage. The losses have been calculated assuming that CARMA will cover any general and auto liability losses that exceed $1,000,000, and that ERMA will cover any EPL losses that exceed $500,000.

Tables I and II show actuarial central estimates, plus estimates at various probability levels. The probability level rates correspond to the estimated probabilities that the indicated rate will be adequate. For example, we estimate that there is a 70% probability that the actual 2013-14 discounted loss rate, gross of deductibles (Table I) will be less than **$2.70**.

Table V on page 11 shows factors to adjust these rates for interest rates other than 1%.

Table I: Projected 2013-14 Losses and Loss Rates
($1M SIR ($500K EPL SIR), Gross of $10K Deductible, 1% Interest Rate)

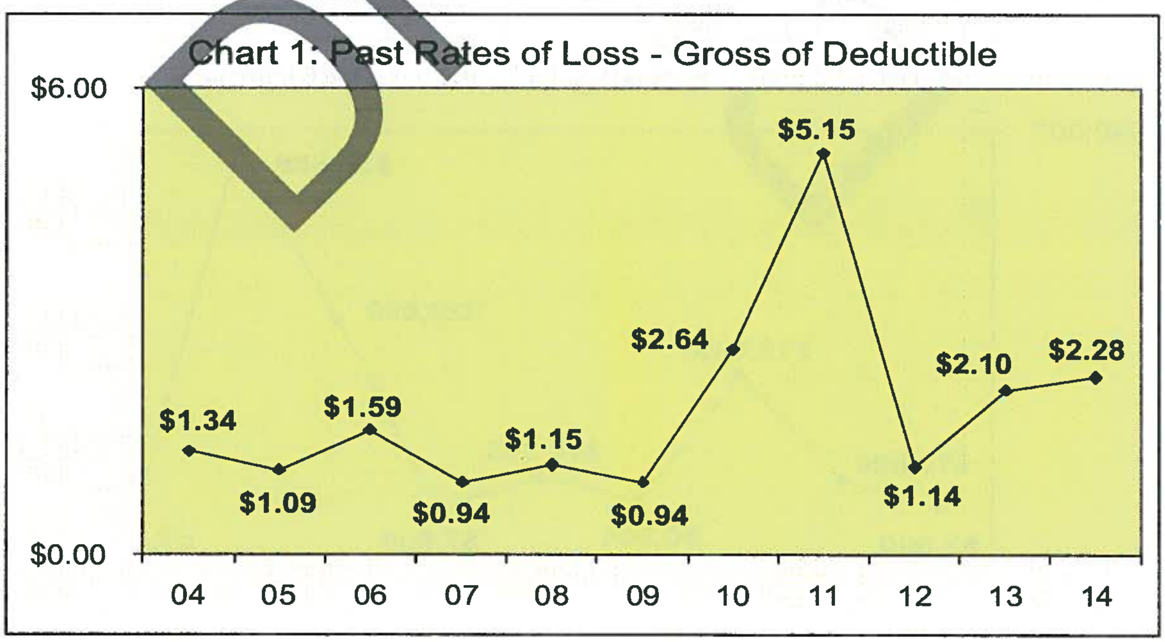
Probability Level	Undiscounted Losses	Discounted Losses	Undiscounted Loss Rate	Discounted Loss Rate
Central Estimate	**$989,579**	**$958,902**	**$2.28**	**$2.21**
70%	1,207,286	1,169,861	2.79	2.70
80%	1,484,369	1,438,353	3.43	3.32
90%	1,781,242	1,726,024	4.11	3.98
2012 C.E.	**$1,159,438**	**$1,128,133**	**$2.55**	**$2.48**
% Change from 12	-14.7%	-15.0%	-10.6%	-10.9%

Table II: Projected 2013-14 Losses and Loss Rates ($1M SIR ($500K EPL SIR), NET of $10K Deductible, 1% Interest Rate)				
Probability Level	Undiscounted Losses	Discounted Losses	Undiscounted Loss Rate	Discounted Loss Rate
Central Estimate	**$835,274**	**$807,710**	**$1.93**	**$1.86**
70%	1,044,093	1,009,638	2.41	2.33
80%	1,336,439	1,292,336	3.09	2.98
90%	1,670,549	1,615,421	3.86	3.73
2012 C.E.	**$987,436**	**$957,813**	**$2.17**	**$2.10**
% Change from 12	-15.4%	-15.7%	-11.1%	-11.4%

The $10,000 deductible rates in Table II are about 15% lower than the Table I rates. The rates have come down because the 2012 experience was generally very good. The ultimate loss estimates for three of the last four program years have come down. The exception was in 2010-11, where one of the losses is now estimated to have exceeded $1.4 million. The actual indicated contributions for 2013-14 are down more than the rates because the MBASIA payroll fell from $45.8 million in 2011-12 to $43.3 million in 2012-13.

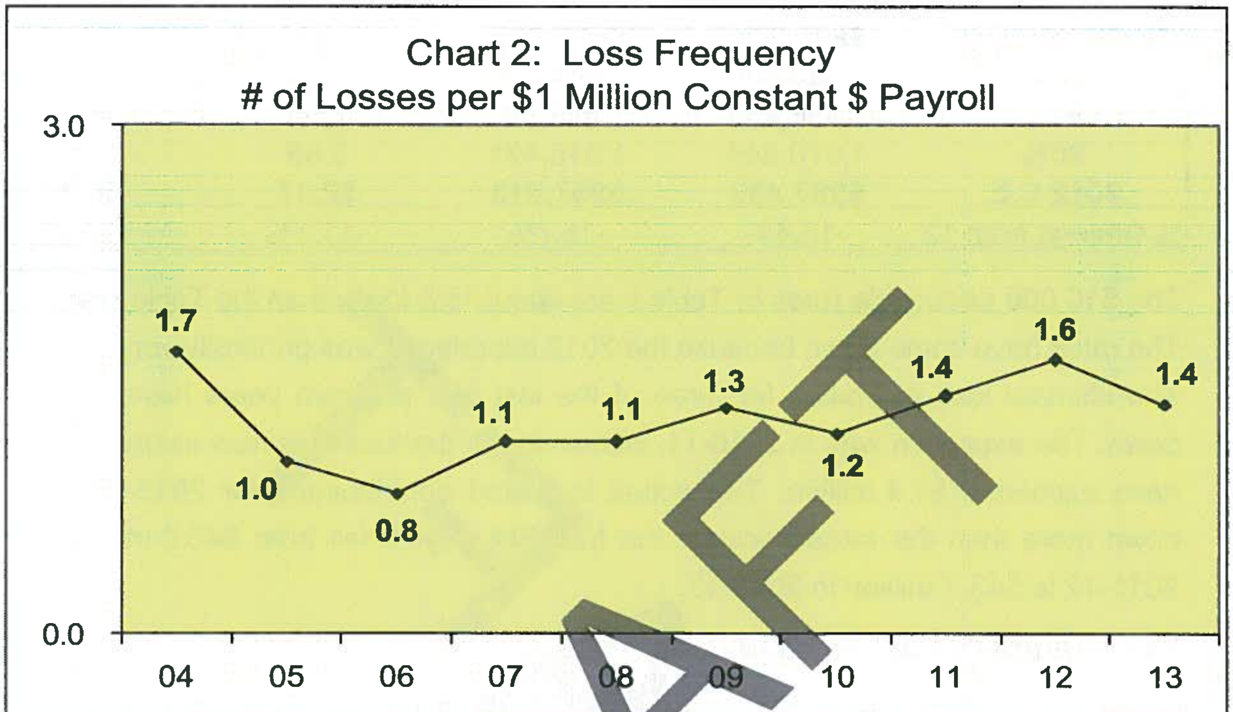
The Authority's Past Rates of Loss

Chart 1 shows the Authority's estimated past rates of loss. The rate is equal to the estimated total losses for the year divided by the total insured payroll measured in hundreds of dollars. These rates are not discounted. The rate of **$2.28** projected for 2013-14 in Chart 1 corresponds to the undiscounted rate of **$2.21** in Table I.



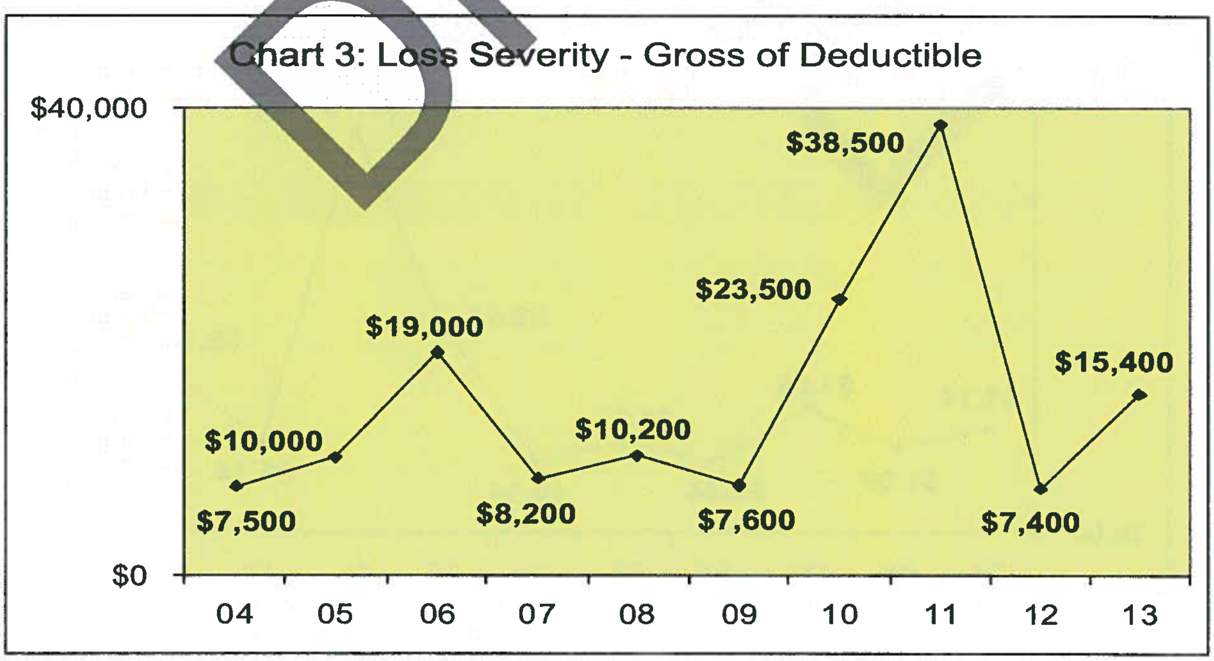
Loss Frequency

Loss "frequency" is the number of losses divided by 2012 payroll. Chart 2 shows recent loss frequency.



Average Loss Amount

The average loss amount is the estimated ultimate losses divided by the number of losses. Chart 3 shows the estimated average cost per loss.



Liability for Unpaid Losses – 6/30/13

We project that the Authority's liability for unpaid losses, undiscounted, will be **$2,820,000** on June 30, 2013, or **$2,777,000** if discounted at 1% interest. Table III shows the actuarial central estimate plus various probability levels. The estimates in Table III are net of the $10,000 deductible that the members pay on each loss.

Table III: Projected Liability for Unpaid Losses As of June 30, 2013 – Net of Deductibles		
Probability Level	Undiscounted Losses	Discounted at 1.0%
50%	2,650,438	2,610,681
Central Estimate	**$2,820,128**	**$2,777,320**
60%	2,876,006	2,832,866
70%	3,101,576	3,055,052
80%	3,439,929	3,388,330
90%	3,919,264	3,860,475

Table IV shows the projected liability gross of deductibles.

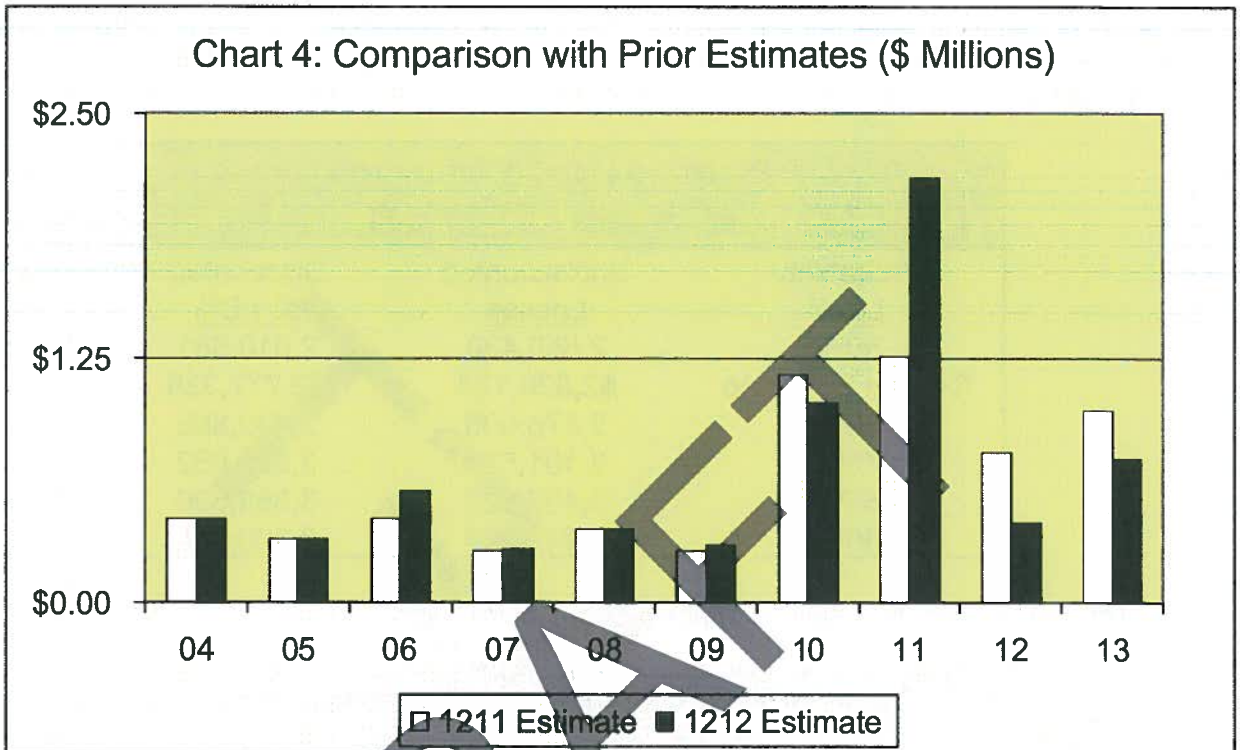
Table IV: Projected Liability for Unpaid Losses As of June 30, 2013 – Gross of Deductibles		
Probability Level	Undiscounted Losses	Discounted at 1.0%
50%	2,805,967	2,764,382
Central Estimate	**$2,985,616**	**$2,940,831**
60%	3,044,772	2,999,648
70%	3,283,579	3,234,915
80%	3,641,787	3,587,814
90%	4,149,250	4,087,756

ULAE Liability

We estimate the liability for unpaid unallocated loss adjustment expenses ("ULAE") will be $183,000 on June 30, 2013. See page 20.

Comparison with 2012 Estimates

Chart 4 compares the prior estimates of the net losses by program year with the new estimates.



The overall increase for all years combined was $360,000. The increase was mostly caused by the very large development in 2010-11. A storm loss featuring dozens of claimants was estimated at a total of $160,000 last year. The latest data indicates that this loss is now estimated at over $1.4 million. Last year we commented upon the Authority's unusually good experience on regard to large claims. The spell has now been unbroken.

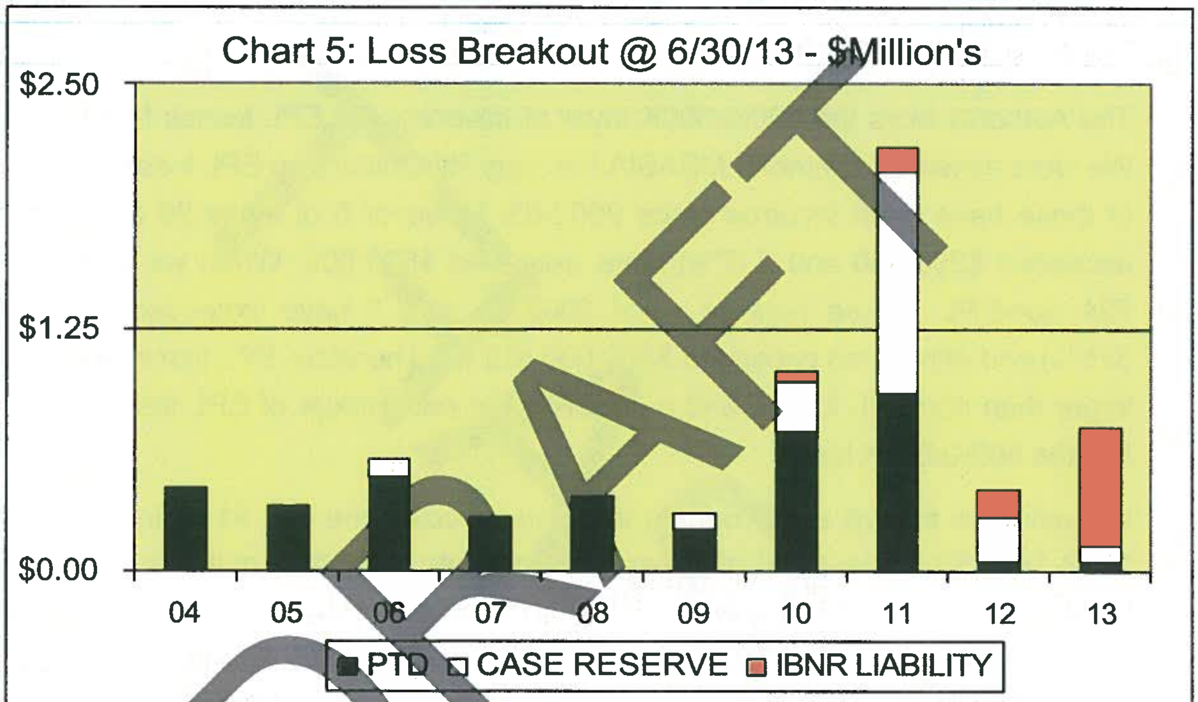
Reconciliation of 12/31/11 & 12/31/12 Estimates

These estimates are based on analysis of the 12/31/12 data. Last year we used 12/31/11 data and estimated a gross liability of $2.770 million on that date. Claims expenditures were $791,000 during 2012. We increased the losses estimates for 12/31/11 and prior by $606,000 in this report. We estimate the losses incurred during 2012 at $715,000.

Therefore starting with last year's 12/31/11 liability estimate, subtracting the claims payments, and adding the change in the estimates and the 2012 losses produces $3.300 million as the estimated liability on 12/31/12. This matched the direct calculation shown on page 25.

Loss Breakout as of 6/30/13

In Table III we projected that the Authority's 6/30/13 liability, net of deductibles, would be **$2,820,000**. This comprises **$1,894,000** in case reserves for known claims and an IBNR liability of **$926,000**. Chart 5 breaks out the projected total program year losses into their components: losses paid, case reserves, and IBNR liability. The details are on page 22. There is $0.49 of IBNR liability for every $1.00 of case reserves. Total IBNR is down 32% from last year while case reserves are up 72%. The case reserve on the catastrophic 2010-11 loss is over $1 million.



Short-Term Liability

Short-term liabilities are those expected to be discharged within twelve months. The total projected 6/30/13 liability of **$2,820,000** comprises **$1,107,000** of short-term and **$1,713,000** of long-term liabilities.

Interest Rates

The discounted liabilities and rates in this report were discounted at 1% interest. Here are the adjustments to make for different interest rate assumptions:

Interest Rate	0.0%	0.22%	0.48%	1.0%	1.5%
Gross Rates	+3.2%	+2.5%	+1.7%	+0.0%	-1.5%
Net Rates	+3.4%	+2.7%	+1.8%	+0.0%	-1.7%
Liabilities	+1.5%	+1.2%	+0.8%	+0.0%	-0.8%

We included columns labeled 0.22% and 0.48%. These are the "risk-free" interest rates applicable to the 6/30/13 liability and the 2013-14 rates, respectively. If one assembles a current portfolio of treasury bills and notes selected to mature just as the expected claims payments on the 2013-14 losses come due, that portfolio would yield an overall interest rate of 0.48%. If one assembles a similar portfolio with bills and notes selected to mature just as the expected payments on the 6/30/13 liability come due, that portfolio would yield 0.22%. Higher yields may be available, but only by taking on credit risk or by speculating instead of holding the items in the portfolio to maturity.

The EPL 500K xs 500K Layer

The Authority buys the 500Kx500K layer of coverage for EPL losses from ERMA. We were asked to comment. MBASIA has very little history on EPL losses. Only 28 of these have been incurred since 2002-03. However 5 of these 28 (18%) have exceeded $250,000 and 2 (7%) have exceeded $500,000. When we look at the 524 non-EPL losses incurred since 2002-03, only 3 have exceeded $250,000 (0.6%) and only 1 has exceeded $500,000 (0.2%). Therefore EPL losses are much larger than non-EPL losses and a much higher percentage of EPL losses will fall into the 500Kx500K layer.

We estimate the full undiscounted loss rate to cover the first $1 million of loss in 2013-14 at $2.28 per $100 of payroll. We estimate that **$0.29** of this is to cover the 500Kx500K layer of all losses, not just EPL losses. However, given the above statistics on large losses, we can estimate the conservative 500Kx500K EPL-only rate at $0.29, assuming that all of the losses that exceed $500,000 will be EPL losses. The chances of a non-EPL loss reaching $500,000 have been negligible in the past (only one time since 2002-03).

MBASIA

Monterey Bay Area Self Insurance Authority
c/o Alliant Insurance Services, Inc.
100 Pine Street, 11th Floor
San Francisco, Ca 94111
(415) 403-1400

Item No. F.1
Board of Directors
April 15, 2013

NEXT BOARD MEETINGS & ERMA TRAINING SCHEDULE

MBASIA's next two schedule Board Meetings are:

- Monday, June 10, 2013 – Board of Directors Meeting – Sand City, CA
- Thursday & Friday, October 31st and November 1st 2013 – Long Range Planning & Board Mtg. – Monterey, Ca

ERMA's Schedule of Training Opportunities include:

- Thursday, 4/25/2013 - AB 1825 – Gustine, Ca
- Wednesday, 5/15/13 - Front Line Defense – Shafter, Ca
- Wednesday, 5/22/13 - AB 1825 – Mill Valley, Ca