

FRIDAY, APRIL 19, 2013

Local Government Center, 1201 Court St. NE, Salem, Oregon; Room 427

*PACE board members in attendance at meeting start:* Chair Adam Stewart, Marie Knight and Phil Long

*OSBA staff in attendance at meeting start:* Lisa Freiley and Becky Gwynn

*SDAO staff in attendance at meeting start:* Frank Stratton and Mike Doherty

**Chair Adam Stewart called the meeting to order at 1:19 p.m.**

Mike Doherty introduced the proposed 2013-2014 PACE budget to the committee. Mike explained that one of the largest parts of the budget is reinsurance premium. The proposed reinsurance budget is based on a new property reinsurance structure.

The current property program is with Lexington Insurance Company. Currently PACE has a \$250,000 self-insured retention (SIR) for any property claims. After that amount is satisfied Lexington pays the remaining amount. The option proposed in the budget is to keep the per occurrence SIR at \$250,000 and then to add a \$5 million aggregate deductible. Frank Stratton explained that under the proposed structure the reinsurers would not pay anything until PACE has met both the \$250,000 per occurrence SIR and the \$5 million aggregate deductible. The budget as proposed also adds \$5 million to the claims budget so that the entire \$5 million additional risk can be fully funded in this budget year. Frank Stratton explained that if PACE fully funds the estimated claims we're not adding more risk to the pool than we have now but if we have a good year we can add to the retained earnings. Mike Doherty explained that if PACE fully funds the \$5 million aggregate deductible there is the possibility to add \$1,000,000 to PACE's retained earnings each year based on historic average claim payments.

Mike Doherty explained that no matter what, PACE will need to involve multiple reinsurance carriers in its reinsurance program. PACE currently purchases \$300 million of property reinsurance which includes \$100 million of earthquake and flood coverage. Lexington, who in the past provided all of the coverage is no longer willing to provide coverage for such high limits. Most carriers will not exceed \$10,000,000; therefore there are a total of 10 carriers needed to provide the entire limit. Lloyds of London will now take the largest share at the primary level at about 40%.

Genesis, the PACE liability reinsurer, provided PACE an "as is" quote for general liability reinsurance. PACE has an option to increase the SIR from \$600,000 to \$633,000 with a slight reduction in premium. The proposed budget includes the option because staff will recommend it to the Trustees.

Chartis provided the pool an "as is" quote for crime coverage. Staff will be recommending that the Trustees accept the quote.

Mike Doherty explained commissions to the committee. PACE pays 14% in commissions but because many PACE members are on a fee basis with their insurance agents the actual amount paid by PACE in total for commissions is only about 9%.

Mike Doherty explained that in the budget he has shown claim liability budget estimates based on the 50-80% confidence level numbers provided by the actuary. Due to the high volume of claims and loss of surplus in 2012-2013 staff recommend targeting contributions necessary to fund claims at the 80% confidence level.

As allowed under contract SDAO & OSBA are requesting a 5% increase in PACE's 2013-2014 proposed budget. SDAO's increase would be used towards personnel's benefit and salary increased costs. OSBA's increase was built into travel expenses to be more proactive in attending conferences and meetings related to the pool and marketing expenses. The other area that included a proposal increase was marketing. The current marketing amount is significantly less than the staff costs and expenses OSBA incurs which is approximately \$82,000 annually.

Lisa Freiley will be reviewing the PACE budget with OSBA's CFO, Mike Robison, this year to more concisely identify budget trends for the committee next year.

Mike Doherty identified the increases in direct expenses for the committee as follows:

- **Professional services** - Professional assistance as needed in other parts of the state.
- **Business insurance** - Trust coverage; there was an increase this year.
- **Audit/actuary** - Two years ago staff began providing a mid-year actuary report as requested by the trustees. Staff would like to continue to provide this service until claims become more manageable.
- **Broker fee** - The fee we use to pay the insurance broker.
- **Pre-loss** - Approximately the same dollar amount as last year.
- **Online training** - Staff have initiated the three (3) year contract with SafeSchools.
- **Safety grants** - This will be tailored to claims and/or loss control as initiated by PACE to address targeted issues with districts.

Mike Doherty noted the 'safety grants' line was something added this year and the line item name may change if a better descriptor is identified. Phil Long responded PACE is funding an intervention so it may seem more practical to identify this line as 'safety intervention'.

The committee inquired if direct expenses are expenses paid by SDAO on behalf of PACE for PACE to reimburse SDAO. Mike Doherty replied contract expenses are a quarterly payment for services provided and direct expenses are paid directly out of the PACE account.

- **Property appraisal** - The budget funds are being increased in preparation to have a long-term more consistent program. Reinsurers inquire about staff's confidence level in PACE's appraisal value as a pool and this will help provide that confidence level they are wanting to see.

Lisa Freiley asked how many appraisals are expected to be received. SDAO anticipates approximately nine (9) districts.

Phil Long asked are there specific requirements or is there an appraisal process? If the district is already having an appraisal is that something staff can utilize? Can we make superintendents more aware of the appraisal process to collaborate together around this to help contain costs or help with other pieces? Phil added this would also assist in building and developing relationships.

Staff concurred creating and building relationships through the appraisal process would be beneficial for the pool. The committee discussed options for relaying information regarding appraisals to the membership.

- **Marketing** - The funds needed to staff booths at events and PACE Day.

The committee discussed PACE Day regarding member feedback, registrations, event scheduling and how to possibly increase attendance for future years.

- **Special projects** - Rewrite of the pool's property coverage document.

Staff noted this has become a larger project than originally anticipated. This document will be used as a template for future years once complete. Staff are confident with the amount of time the attorney has invested in this process if there is ever a claim filed against the pool the attorney will be able to effectively defend the property coverage document.

The membership should expect to see an average of a 17% increase in their renewal premium for 2013-2014.

Phil Long recommended staff provide the trustees with the two (2) years prior to the proposal to assist in providing a visual narrative on the changes and increases and/or decreases. Providing the prior years increases the boards confidences. Phil commended staff on there exceptional transparency. Adam Stewart concurred.

Final reinsurance numbers will be available next week. Staff anticipate having new boiler/machinery coverage in mid-May.

The committee agreed via consensus to accept staff recommendations with no changes.

**Chair Adam Stewart adjourned the meeting at 2:04 p.m.**