

MONDAY, MAY 5, 2014

1201 Court St. NE, Ste. 400, Salem, OR 97301; Room 427

PACE Trustee members in attendance at meeting start: Debbie Laszlo, Redmond Risk Manager; Phil Long, Medford 549C Superintendent; Marie Knight, Vernonia 47J Fiscal Assistant; Mike Schofield, Forest Grove Chief Financial Officer; Terry Lenchitsky, Oregon Trail Board Member, Springfield Public Schools Director of Business Operations, Chair, Adam Stewart, Hillsboro Chief Financial Officer, and John Rexford, High Desert ESD Superintendent.

SDAO staff in attendance at meeting start: Frank Stratton, Executive Director; Mike Doherty, Chief Financial Officer; Scott Neufeld, Director of Loss Control; Geoff Sinclair, Director of Claims Services; and Kevin Pardy, Underwriter.

OSBA staff in attendance at meeting start: Betsy Miller-Jones, Executive Director; Alex Pulaski, Communications Specialist; Tricia Yates, Director of Communications; Mike Robison, Director of Finance; Lisa Freiley, Director of Labor and PACE Services; and Ashley Town, Labor and PACE Services Assistant.

Guests in attendance at meeting start: Greg Coffey, Russell Investments; Andy Lauersdorf, Maloney, Lauersdorf, Reiner; Joel Troisi, Beecher Carlson Insurance; and Richard Poling, Beecher Carlson Insurance.

Chair Adam Stewart called the meeting to order at 9:56 a.m.

I. Welcome and introductions

Attendees go around the room and introduce themselves.

Mike Doherty requests a change in agenda order. The approval of the Property Coverage Document will be the first action item covered.

II. Action items

A. Approval of proposed Property Coverage Document

Frank Stratton states the proposed Property Coverage Document was presented by Kevin Pardy at Agents Day. He states it was well received and SDAO has been fielding numerous questions throughout the week from agents. Frank states Andy Lauersdorf, Attorney is in attendance today to answer any questions the Trustees may have. The majority of the questions were regarding: 1) outdoor property and whether or not 250 is enough; 2) turf fields and tracks; and 3) professional services and sub limits out to \$250, 000.

Motion: Phil Long moved to approve the proposed Property Coverage Documents as

presented. Seconded by Terry Lenchitsky. John Rexford will vote to approve it but states he has a continuing concern over legitimate expenses a district may have in the area of professional fees.

Andy Lauersdorf states there may be more coverage available. He will look into it.

The board voted on the motion and it passed unanimously.

Andy Lauersdorf and Lisa Freiley exit the meeting at 10:07 a.m.

Lisa Freiley returns to the meeting at 10:12 a.m.

Mike Robison exits the meeting at 10:11 a.m.

Mike Robison returns to the meeting at 10:14 a.m.

III. Presentations and written reports

A. Investment update - Greg Coffey

Greg states there are three main areas he will cover: 1) review of current financial market, 2) review PACE portfolio investments, and 3) review Russell's process for investing in fixed income. Greg states the equity markets were pretty modest throughout the first quarter. He thinks the US economy is doing well in the market of developed countries. He explains the fixed income markets did quite well this quarter due to a decline in interest rates. Greg believes Russell's overall growth outlook for the PACE portfolio is still the same. He briefly discusses the Russia/Ukraine situation and shares that from a truly economic standpoint they only share .6% of the global equity market cap but where it could have an affect is the 12% of oil production supply that Russia makes and 20% of the natural gas supply.

Pace portfolio

He states PACE began the year with \$47.4 million, to date \$5 million dollars has come out for insurance claims leaving the net market gain at \$43.9 million. Greg states it was not a great quarter, the total plan was up 1.3% which is .4% behind the benchmark of 1.7%. Since Russell began managing the PACE portfolio (approximately 5 months), it has been pretty flat. Greg explains March was a difficult month because the market rotated to a defensive posture. He believes the second quarter will be much stronger and there will be better benchmark performance.

Mike Doherty exits the meeting at 10:24 a.m.

Mike Doherty returns to the meeting at 10:26 a.m.

Fixed Income

Greg explains there are designated biases integrated in to the portfolio that will consistently add value to the benchmark over the long term. He goes on to explain PACE is overweight to credit (corporate bonds, mortgages etc.) Generally speaking PACE will always be overweight credit relative to treasuries. He states this could hurt PACE in a broad market sell off such as the one in 2008. In order to help protect PACE, Russell has done some more diversifying exposure to help moderate some of the exposures. He explains Russell believes strongly in sector rotation fixed incomes, out of index exposures, non-agency mortgages (“jumbo” mortgages), bank loans, dedication to other countries sovereign debt and exposures to individual currencies. Greg informs the group there is an inverse relationship between interest rates and bond prices. Greg states Russell believes the market is headed towards a rising interest rate environment. He explains that bonds act as a great diversifier to equity risk. Greg explains the term duration as the risk associated with helping to measure sensitivity to bond prices overtime (example a bond with a 10 year duration is more volatile than a bond with a 5 year duration). Greg explains Russell has done three things to help position PACE for the rise in interest rates: 1) decreased the duration, 2) adjusted the credit exposure slightly, and 3) global - exposure to interest rates outside the US.

Adam asks what Greg is thinking regarding the equity allocation. Greg states he’s thinking more on the equity side. He’d like to see the international allocation rise about 5% and potentially adding to real assets (small exposures to commodities).

Greg Coffey exits the meeting at 10:50 a.m.

II. Action items (continued)

B. Approval of March 3, 2014 minutes.

Motion: Debbie Laszlo moved to approve the March 3, 2014 PACE meeting minutes as presented. Seconded by Mike Schofield. No dissent.

The board voted on the motion and it passed unanimously.

C. Approval of proposed 2014-15 PACE meeting calendar.

Motion: Phil Long moved to approve the 2014-15 PACE meeting calendar as presented. Seconded by Marie Knight. No dissent.

The board voted on the motion and it passed unanimously.

D. Reinsurance renewal proposals

1. Joel Troisi hands out packets. Mike Doherty explains Frank Stratton, Geoff Sinclair, Mike Doherty, and Mike Robison met with Joel Troisi, Richard Poling and Ron Graybeal in February and discussed the programs, claims histories, and the direction for the future. The discussions surrounded shopping the General Liability (G/L) reinsurance carrier, staying with the current carrier for crime and boiler machinery (was a two year lock with the carrier from last year), and shopping the property coverage at the existing \$5 million SIR while trying to get some additional quake coverage.
2. Joel Troisi explains that for the renewal they were able to accomplish an additional \$100 million in earth movement coverage, bringing the overall policy limit up to \$2 million. The reinsurers have agreed on the draft form, he does not anticipate any issues regarding the final version being approved; he states the new format was very well received by each of the insurers. Joel explains 90% of the participants in the first layer have agreed to a 5% rate reduction for next year's renewal subject to a 30% loss ratio, they will declare whether or not we've adhered to that ratio by the first of April 2015, he states this will support some of the longevity initiatives in terms of providing cost stability to the program and reinsurance panel.

With the \$100 million of earth movement included, they were able to accomplish a 4.5 cent rate which equates to about an 8% increase on the overall rate cost while picking up additional earth movement. Joel explains all of the panel participants being presented today are A rated capacity or better, exceeding the recommended guidelines. He states it is a good benefit to add the additional earth movement this year and while continuing to explore offering more as PACE continues on.

Joel explains the limit for flood did not increase, it remains at \$100 million. The sub-limit for flood is consistent with what they would expect our peers to be purchasing. He states that since hurricane Katrina flood is the one area in the marketplace that still has some dynamic. Joel defines earth movement as any movement of the soil, landslide and/or sink hole excluding flood and earth quake as seismic or tectonic shifts in soil. Geoff Sinclair explains mudslide is considered flood and landslide is considered quake.

3. **Richard Poling states he recommends renewing with AIG at exactly the same rate (flat renewal) for crime.** He explains there are three things happening with the G/L coverage: 1) an increase in claims volume, 2) an increase in tort cap limits, and 3) time spent making sure reinsurers understand the PACE coverage form. He explains they went out to

Lexington, a subsidiary of AIG and received a much better proposal, better understanding of everything and were consistent with the 2012 proposal but started to renegotiate due to tort cap limits. Genesis came down in price for a small increase in retention. **Richard recommends staying with Genesis for another year.**

Motion: John Rexford moved to approve the reinsurance proposals as presented. Seconded by Terry Lenchitsky. No dissent.

The board voted on the motion and it passed unanimously.

Joel Troisi, Richard Poling, and Kevin Pardy exit the meeting at 11:26 a.m.

E. Approval of 2014-15 proposed budget

1. Adam Stewart explains the budget committee met on April 21st. Mike Doherty goes through the budget document in the packet, he explains it is at a 2% increase from current premiums. He goes on to say both SDAO and OSBA have analyzed contract expenses and are requesting changes to structure. Mike walks the group through SDAO's changes: 1) adding a full time loss control/risk management coordinator position in eastern Oregon, and 2) adding an information/technology position. Lisa walks through OSBA's changes including hiring an attorney to work 75% of the time on PACE trainings, two attorneys for litigation work, one associate attorney, one paralegal and an assistant. She informs the group there is also a need for additional capacity in the marketing/communications department.

Mike Robison exits the meeting at 11:34 a.m.

Mike Robison returns to the meeting at 11:35 a.m.

John Rexford states he is in favor of the OSBA restructure proposal. He thinks the panel of attorneys will be effective and PACE will see legal fees come down long term. Discussion continues regarding the positives of these proposals. Mike Doherty walks through some other areas of the budget document. He points out the safety tip line item (line 35) stating the consensus of the budget committee is to do more research on what districts are currently using and whether or not districts would use a service if PACE provided it. He informs the group (line 37) has been increased from \$85,000 to \$100,000 based on the increased enrollment for PACE Day. He also states special projects (line 39) has been bumped up \$5,000 based on additional information Lisa received from the I Love You Guys foundation regarding regional training costs. Mike informs the group the budget document is funded at almost a 70% confidence level.

Motion: Terry Lenchitsky moved to approve the 2014-2015 budget document as presented. Seconded by Mike Schofield. No dissent.

The board voted on the motion and it passed unanimously.

- F. Nominating committee recommendations
 - 1. Adam Stewart explains there are two vacancies on the Board, a superintendent vacancy and a community college vacancy. Lisa explains although not mandated by policy, historically the trend is for the Board to create some diversity in demographics to adequately cover all members. She goes on to say Sharla Andresen from Central Oregon CC has indicated a willingness to fill the community college vacancy. Adam informs the group the nominating committee had discussions regarding the superintendent vacancy and recommends to move John Rexford, High Desert Superintendent and current Board member to the Superintendent vacancy and have Brett Yancey, Springfield fill the large pool vacancy.

Motion: John Rexford moved to approve the nominating committee as presented. Seconded by Debbie Laszlo. No dissent.

The board voted on the motion and it passed unanimously.

IV. Presentations & Written Reports

A. Renewal update

Mike D. states renewal proposals will go out next week or the following week. He hasn't heard anything regarding "new players" or competition. Mike D. states his belief this will be an easier renewal.

B. Financial report

Mike D. shares property losses are trending very well for this year. Currently 71% of the \$8 million budgeted. The report for general liability claims was also good news, currently at \$5.1 million of the \$7.2 million budgeted which is 5% below budget. He states that to date the total net income is \$4.2 million and total retained earnings to \$16.4 million.

****Mike Schofield exits the meeting at 11:57 a.m.****

C. Agents Day & PACE Day reports

Geoff reports out on Agents Day stating they had about 85 agents in attendance, it was held at the Red Lion Hotel in Salem. They had SDAO staff speak about the new PACE Coverage document, worker's compensation, risk/loss control, claims,

and financial numbers. He informs the group agents get continuing education credits for attending this conference.

Lisa reports that PACE Day was successful. Attendance was up from last year, about 155 people including staff. There was no attrition this year for hotel rooms. Topics included sexual misconduct, boundary invasion, concussions, and employment retaliation. She states the planning for the next PACE Day will begin at the next staff meeting later this week. Lisa asks the Trustees if there are any preferences/suggestions as to a venue/location. Feedback from the group is to leave it at the Eugene Hilton.

D. AGRiP update

Betsy Miller-Jones, Terry Lenchitsky, and Frank Stratton report on the AGRiP Conference. Terry states he was a bit disappointed in the format of the conference this year. Betsy states she agrees but greatly benefitted from the workshops she attended. Frank states he did a lot of networking with reinsurers at the conference.

John Rexford exits the meeting at 12:35 p.m.

John Rexford returns to the meeting at 12:37 p.m.

E. Communications update

Tricia expresses her gratitude to the Trustees for supporting communications in their efforts to revamp and update the PACE Booth and materials. She explains that interviews begin this evening for the vacant marketing position in her department. Tricia shows the Trustees the “How to Rebound from a Property Loss” video that they produced.

F. Preloss update

Lisa reports there were around 500 calls received through March, many of the calls regarding discipline and termination issues.

G. Loss control update

Scott Neufeld reports since July 1, 2013, there have been 300 trainings provided and there are twenty (20) new members using the Safe Schools program. He reports all classes offered through the program have been used. Scott states CNA, the boiler machinery carrier conducted a hands-on training at the Medford School District. They are hoping to have two more trainings like this, one in the eastern part of the state and one in the metro area. He reports his staff attended the OFSMA and OSPA conferences and had good feedback and interactions with members regarding the map and PACE Booth. He informs the group he and Lisa have been working together on developing the risk management coordinator program. They are looking to have around 24 different courses, looking at claims

exposures, risk, staff etc. They will be using the new trainer position from OSBA along with the risk and claims staff to do the presentations.

Terry Lenchitsky exits the meeting at 12:57 p.m.

Terry Lenchitsky returns to the meeting at 12:59 p.m.

Alex Pulaski exits the meeting at 1:01 p.m.

Chair Adam Stewart led the Board into Executive Session at 1:01 p.m.

H. ENTERED EXECUTIVE SESSION

ORS 192.660(2)(f) - "To consider information or records exempt by law from public inspection."

Claims Report

LEAVE EXECUTIVE SESSION

Chair Adam Stewart reconvened the public meeting at 1:28 p.m.

I. Workshop update

Lisa state the focus this spring has been in the areas of employment liability, bullying and harassment, and sexual misconduct. She explains staff is currently working on topics for next year and there will be lots of trainings happening in the fall.

J. July Trustee meeting

Lisa explains the meeting has been moved to Tuesday instead of Monday and will be at the Double Tree Hotel in Bend, the move in location and date has saved PACE about half of what has been paid for this meeting in previous years. Lisa explains this meeting is typically a planning meeting and asks the group what they would like to have on the agenda. Ideas include: business plan review, new board member training, PACE 101/What is PACE?, list of acronyms, what's expected of a board member, what does a meeting look like, relationship between OSBA/SDAO/PACE, etc.

Mike R. asks if the Trustees if the Russell Investment presentations are moving in the direction they want. The group communicates they are happy with the presentations, are learning with each presentation, and glad to see things are moving in the right direction.

**Adam Stewart thanks Terry Lenchitsky and Phil Long for their service on the Board.*

Chair Adam Stewart adjourned the meeting at 1:44 p.m.