

JULY 1, 2011 - JUNE 30, 2012

# ANNUAL REPORT





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*"PACE does what's best for the greater good"*

Eugene 4J's Risk Manager Ryan Massey describes PACE as "fair" and "pragmatic" in its approach to dealing with the pool's members. "PACE does what's best for the greater good."

That's high praise seconded by Staci Huffaker, risk manager at Mt. Hood Community College. "PACE is a valuable asset and a great partner to the college."

Massey says PACE is "the most responsive insurance entity I've ever worked with."

It's the "power of the pool" where everyone "shares the risk," says Huffaker. "There's power in a collective unit working toward a positive goal. We each benefit each other and through PACE we don't bear the burden alone."

Huffaker uses PACE often, listing PACE's pre-loss legal and loss prevention as two services that save her time and money. She also has the peace of mind knowing that if the community college faces an insurance claim, PACE's experienced claims adjusters are just a phone call away.

"I believe in using all the resources available to me," she says. "Why wouldn't I use PACE?"

Massey works closely with PACE loss control staff and describes them as "another member of the 4J team."

PACE on-site and online training is "one of the most under-utilized services" PACE offers, Massey says. The SafeSchools online training options have "saved us so much time and money," he explains. "With all of us facing tight budgets, the free online training is invaluable."

Through on-site risk mitigation and focusing on risk preventive management, PACE has saved the college time and money, Huffaker says. "PACE really emphasizes that an ounce of prevention is worth a pound of cure," she adds.

Saving money is high on Massey's list of PACE benefits. "PACE helped us settle claims for reasonable amounts, which saves us hundreds of thousands of dollars," he says.

Huffaker also ranks the PACE pre-loss legal service high on her list of PACE benefits. "That outside view PACE can give you on disciplinary actions has helped me help employees be successful in their jobs."

Massey goes so far as to say PACE staff helped him learn to be a better risk manager. "They help me problem solve. I know I can call PACE and I'll get the answer I need."

Knowing Mt. Hood Community College is part of the PACE family has made Huffaker confident that she's "in a more comfortable place. I know that the college is well-insured."

pace.osba.org

# Employment, sexual abuse claims most costly for PACE

Civil liability suits – employment and sexual abuse claims – are the elephants in the room when it comes to understanding just what’s driving up costs for PACE pool members. The price tag on defending, insuring and paying tort and other liability claims is on a steep upward march that impacts every school district, education service district (ESD), charter school and community college that belong to PACE.

Schools’ diverse activities inevitably result in legitimate negligence liability. But pool members can play a huge role in limiting their exposure by working with PACE staff to make sure proper procedures are followed when they are involved in high risk staff and student actions.

“PACE can provide third-party insight,” says Geoff Sinclair, PACE director of claims services. “Our staff has been through these actions before; many times, we can help a district avoid a costly lawsuit.”

## Employment claims

Employment claims in the past few years have become a major cost driver. Claims in this arena usually involve more than one allegation – such as discrimination, retaliation and hostile work environment – that often end up carrying price tags in excess of \$500,000.

“Call us when you start the process,” Sinclair urges. “Our PACE attorneys can provide advice while a member is developing its case.” And the PACE member is always in total control of its decisions, he adds. “The case is always under the member’s control; PACE can simply act as a sounding board.”

Employment law is very specialized with its own set of rules. “One small mistake can cost thousands of dollars,” Sinclair says. “Our attorneys have dealt with the intricacies of employment law and many times can help avoid a costly mistake.”

In an employment claim that might involve charges of wrongful termination, discrimination, hostile work environment and retaliation, a PACE member might “win” three of the four charges. But even if a jury finds just one of the charges valid and awards only a few hundred dollars in claims, PACE’s out-of-pocket cost can climb to hundreds of thousands of dollars. “PACE is then responsible for the defendant’s attorney fees – which can add up to \$300,000-\$500,000,” Sinclair points out.

And then there’s the “soft” costs, he adds, which include the hours of staff time, staff morale and the emotional drain of depositions and testifying in court. “Those soft costs can be brutal,” Sinclair says. “Many times a member will ask us ‘just please settle’ after two or three years of dealing with an employment claim. Even if the member is in the right, the emotional drain on staff can be devastating.”

Often it’s not the threat of a large jury verdict which pushes the total cost of employment litigation, but the large looming

plaintiff attorney fees if only one of the many allegations are judged true by a jury.

PACE attorneys can provide advice during the decision process and help with the investigation process. “We’re not directly involved and can bring an outside, objective viewpoint to the table,” he says. “A member is not required to use our advice. They make their own decisions but our staff can share our experience and point out areas of concern and reflection.”

Why are employment claims on the rise? As Oregon’s public education providers deal with ever shrinking budgets, they’re forced to reduce their workforce. As more layoffs impact staff, more staff are filing claims alleging the choices were based upon something other than a legal basis. “Many times the charges are a matter of interpretation and the unique perspective of each employee,” Sinclair says. “That makes it very difficult to understand just how a verdict will come down.”

There are three effects that result from this increased civil litigation:

- Dollar costs, draining financial resources desperately needed to directly benefit students;
- Operation constraints, resulting when the fear of litigation causes a member to abolish worthwhile education programs; and
- Personnel constraints, a reluctance to act against underperforming employees because of the cost and burden of a termination process that can consume years of administrative staff work and hundreds of thousands of dollars in court costs.

## Sexual abuse claims

In the wake of the Penn State scandal last year, the public has gained a heightened sensitivity to any questionable acts by those in a position of “trust” over young people.

## Free national background checks

PACE offers five free national background checks to its members, along with reduced pricing for other checks beyond five.

“I would encourage our members to use national background checks when dealing with school volunteers rather than just a state background check,” says Geoff Sinclair, PACE director of claims services.

Many members are reluctant to use the national checks because they are more expensive than the Oregon check, he says. But without the national check, there is no way of knowing if a volunteer has a criminal record in another state sometimes just a few miles away.

“School administrators must understand that knowing the backgrounds of those they allow to interact with their children as volunteers is just as important as those allowed to teach in the classroom,” Sinclair says.

# Pre-loss legal services provide litigation road map

"It's so important that we use that momentum both in the community and in our schools to educate staff, parents and students on the warning signs associated with inappropriate behavior toward students," Sinclair says. "When a student is sexually abused, it is often after a moderate period of grooming and repeated boundary invasions."

For two months following the Penn State scandal, PACE was receiving two to three claims weekly, Sinclair says. PACE is urging its members to be proactive in training staff on just what are the lines between appropriate and inappropriate behavior when working with young people. "It's important to recognize the signs of inappropriate activity, how it should be reported and investigated," he adds. "Every school has the potential to have an employee or volunteer who will violate the 'trust' factor that is essential in a school environment."

PACE offers free online and on-site training targeting specific guidelines and reporting procedures for sexual abuse and boundary invasion. PACE staff also are developing a training handbook focused on this topic that will be available to members later this year. The handbook will include applicable specific policy examples, two *PowerPoint* training examples directed at both front-line employees and administrators, documents aimed at explaining the specific legal requirements of reporting sexual abuse and many other useful tools.

"There must be a cultural shift as to what is appropriate when dealing with students. It needs to be OK to report questionable behavior," Sinclair says. "We all need to work on the front end of this issue, on identifying behavior that is in the grooming stage."

Of course, for those sexual abuse and boundary invasion suits that go to court, settlements can be enormous.

"PACE is a pool and what happens in one member district impacts all of us," he says. "We all must make sure we're doing all we can to help all of us avoid the emotional and financial impact of these costly claims." ■

PACE attorneys put their experience and expertise into practice providing advice, defense and other services to PACE members. PACE pre-loss legal services act as a road map for members, guiding them through difficult legal issues and often preventing expensive litigation.

"If we can talk to staff before things escalate, many times we can help our members avoid lawsuits," says Lisa Freiley, OSBA director of legal, labor and PACE services. "I can't emphasize enough how important it is for us to be called early in the process. It can save our members enormous amounts of time and money."

The key to successful pre-loss legal services, according to Freiley, is to call as soon as a member suspects there could be a problem. The goal: Stopping potential lawsuits before they are filed.

PACE attorneys received 254 calls in 2011-12 from members needing pre-loss legal services. Incidents ranged from employee discipline and termination to contract issues and sexual harassment issues involving student discipline.

In 2012-13, PACE members were entitled to up to \$1,000 of legal services per issue and members could continue to receive legal advice from PACE attorneys at a reduced member rate.

PACE members also have an economic incentive to call PACE attorneys about employee terminations before action is taken. If members are effective in reducing claims, it ultimately helps in controlling cost increases in future premiums.

"Often when a termination occurs, there's the idea that this person has to go now," Freiley says. But giving the issue some careful thought always helps. "The member needs to look at the situation in its entirety. Is the performance issue well-documented? Has the employee recently taken family medical leave?"

Pre-loss legal attorneys can also help when members find it necessary

to conduct an investigation, as well as assisting in determining what action should be taken once the investigation is completed.

PACE attorneys are well versed in reviewing contracts – everything from a contract with a company providing copiers to a lease with an outside agency wanting to use a facility is within their expertise.

Remember: When in doubt, call PACE attorneys. Taking advantage of these services helps members reduce lawsuits that can be costly – measured in both time and money. ■

## Use pre-loss legal services for:

- Sexual harassment
- Employee discipline/dismissal
- Employee termination
- Discrimination
- Retaliation
- Defamation
- Americans with Disabilities Act
- Student due process complaints
- School violence threats
- Freedom of Speech
- Distribution of pamphlets by outside groups
- Individuals with Disabilities Education Act hearing
- Bureau of Labor & Industries and Equal Employment Opportunity Commission complaints
- Title IX compliance reviews
- Fair dismissal hearings
- Oregon Teacher Standards & Practices complaints

## Pre-loss consultants

- Lisa Freiley, attorney
- Morgan Smith, attorney
- Ben Becker, attorney
- Jackie Marks, attorney
- Haley Percell, attorney
- John Stellwagen, attorney
- Peggy Stock, consultant

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# PACE large property loss approach focuses on “what’s best for kids”

The trauma of a school fire or flood waters rushing through classrooms impacts the entire school community – from the school board to the kindergarten student.

It’s a time when PACE pulls out all the stops to be on-site within 24 hours and to provide ongoing support and guidance. “Our bottom line is to help our members find a clear path to doing what’s best for kids,” says Frank Stratton, PACE manager and executive director of the Special Districts Association of Oregon.

PACE staff works with members to resolve claims fairly and efficiently. “Our staff has more experience handling school-related claims than any other insurance organization in Oregon,” Stratton says. “PACE claims staff is based in Oregon and can respond on very short notice.”

“Our goal is to get kids back in school with a minimum of disruption,” says Geoff Sinclair, PACE director of claims services. “We want as little down time for students as possible.”

In many cases, PACE agents are able to ask the “wider” questions to help find ways to cover property loss, Sinclair says.

## Fire ravages South Coast ESD

It was early morning in mid-March 2012 when Tenneal Wetherell, South Coast Education Service District superintendent, received the call that the ESD building was on fire. “It’s such an emotional experience,” she says. “At first, you’re just stunned. PACE staff called immediately and they were there within hours of the fire.”

“We relied on the PACE staff for their experience and expertise when dealing with our loss. They were there to help us assess every aspect of our restoration process.”

Wetherell and her staff worked with PACE to brainstorm a variety of options the ESD could implement in its recovery process. “We never felt forced to follow one option. PACE left it up to us to decide how we wanted to proceed.”

The ESD serves 35 school districts’ computer needs; within six hours, with help from PACE, the ESD district computer support was up and running. “We were able to provide all services within three days.”

Wetherell characterizes the settlement that PACE provided the ESD as “fair and balanced. Honestly, for the tragic experience that the fire was, PACE made it as painless as possible.”

She adds that later in the year the ESD had a small loss – a break-in – that was covered through PACE. “We were treated as well with our small claim as we were with our large claim,” she says. “Their response was immediate.”

## Building truss fails at Springfield school gym

For Brett Yancey, Springfield School District director of business operations, the key to fixing the failing truss in the district’s 60-year-old gym was the partnership he developed with the PACE staff. “It took trust from PACE staff and the school district staff to develop the flexibility to get where we needed to get.”

“They were responsive to our needs and we were responsive to their needs,” he explains.

Although the project took a bit longer than Yancey had hoped, “in the end, the solution was the best for us and for PACE. It took time, but both parties were invested in each other.”

PACE staff offered a variety of helpful solutions and a “good working relationship” was established between the two parties, he says. “PACE customer service is extremely high.”

Throughout the project Yancey says PACE and the district worked together. “There were no surprises along the way and the result was a good outcome.”

Since the truss claim, Yancey has developed a new approach in his dealings with PACE. “I know they’re protecting our interests and have our best interest at heart. It’s not a typical insurance company relationship. They don’t just offer a settlement; it’s not just one way. PACE works on an interest-based relationship where both PACE and the district’s perspectives are important.”

Yancey has high praise for PACE’s commitment to its focus on what’s best for students. “PACE is invested in students. They are education centered and really think about what’s best for kids.”

“We’re all in this together,” Yancey says of the members of the PACE pool. “How we work together has a direct impact on how well the pool serves its members.”

## Vernonia moves entire school district after 2 floods in 11 years

Vernonia’s challenges began in 2007 when their K-12 school was flooded by the unpredictable Nehalem River. It was the second flood the district faced in 11 years. Vernonia Superintendent Ken Cox knew that it was time for drastic action: move the school building to higher ground.

Such an action would take some creative thinking on the part of the district and its insurance carrier: PACE.

Vernonia’s decision to move the entire school meant that insurance language definitions of “replacement costs” and

“actual costs” would need some unorthodox interpretations.

“PACE acted as our advocate,” Cox says. Through PACE’s creative solutions, the district was able to get replacement value reimbursements for many items that normally, under the strict reading of the policies, would have been eligible for only actual costs.

“With PACE’s help, we were able to hold back enough of the insurance payments to help us start on the new school,” Cox says.

PACE worked with the district to provide the funds needed to get modular classrooms up and running while keeping some of the funds in reserve to help the district begin the new school’s design process.

Cox also credits PACE with helping with the piles of paperwork the district needed to complete to receive Federal Emergency Management Agency (FEMA) funds. “Their work with the FEMA paperwork and helping us coordinate with our underwriters was invaluable,” Cox says.

“PACE was prompt and always there,” Cox says. “They helped us figure out the best use of PACE funds and supported our goal of moving the school. They were always actively looking for ways to get the best use of the PACE funds.”

The Vernonia School District community proudly opened its new state-of-the-art K-12 school in August 2012. As Cox looks back over the six-year project, he describes PACE as “the best thing out there for school districts. They really met our needs.”

And he has another piece of advice for all school districts: “Keep an accurate inventory of everything. Take photos of all the equipment.” Take it from one who has spent seven years dealing with a catastrophic loss.

## Grant High suffers extensive flooding damage

In May 2011, Canyon Creek swept into the Grant Union High School gym and inundated an adjoining athletic field. Some said it was the worst flooding in the area in more than 30 years.

For Grant School District Superintendent Mark Witty, the work of making the community’s school whole again involved a lot of hard work and lots of discussions with PACE staff.

The PACE response and the response of the district’s local agent was great, Witty says.

“PACE appreciated our special issues and worked with us to make it right for our community,” Witty says. “I think we were treated fairly.”

Witty found frequent communications helped make sure PACE understood the district’s point of view. “There was great follow through and I worked closely with the PACE staff to make sure we all had a clear understanding of the policy.”

“PACE gave us quality service and we had a good experience,” Witty says. “I would encourage anyone facing a large property loss to stay engaged in the process and make sure the district’s point of view is understood.”

## Frozen water pipes flood InterMountain ESD offices

In the wee hours of a frigid January night, the water pipes froze and burst in the main offices of InterMountain Education Service District (IMESD) in Pendleton. The flood engulfed an entire wing and inundated the basement, which housed the operation’s technology group.

“We called PACE right away,” says Beth O’Hanlon, IMESD’s chief financial officer. “The flood caused around half a million dollars of damage, and we’re thankful we had PACE coverage.”

The superintendent of IMESD, Dr. Mark Mulvihill, praises PACE’s timely response to the crisis. “The flood could have significantly impacted our daily operations,” Mulvihill says. “However, PACE’s speedy response and professionalism throughout the process enabled us to quickly get back to business’ as usual.”

But the financial backstop of the IMESD’s policy with PACE was only part of the picture. Helping with the recovery was equally important.

“Everyone at PACE was just wonderful to us,” O’Hanlon says. “They were very professional, and they knew exactly what we needed. Their adjuster was on the scene that very morning with guidance and advice.”

“From the very beginning, PACE knew exactly what to do for us,” O’Hanlon says. “The adjuster had contacts with companies that specialize in this kind of cleanup and repair. Having PACE in our corner made a huge difference for us.”

## Three-alarm fire closes West Linn High School for just one day

A fire in October 2012 – caused when welding sparks ignited a bush near the West Linn High School gym – brought swift action from district staff, who rearranged school activities so that students only missed one day of school.

PACE staff was on-site while the fire department was still at the scene, says Tim Woodley, director of the district’s department of operations. PACE staff also attended an emergency school board meeting to assure the board that the district had the needed insurance coverage, he adds.

The day following the fire, insurance adjusters were working on-site to assess the damage.

“Once we figured out how we wanted to attack the work, PACE supported our plans. Our goal was always to return the damaged part of the school back to the way it was,” Woodley says.

Woodley advises others facing a large property loss “to own it. Be responsible for the project. I saw PACE as a partner, but we had to own the project and they assured us that they were there to help.” ■

# Need training? We'll come to you...for free

There's nothing better than "free" on-site training given by knowledgeable instructors who take the time to personalize that workshop to a PACE member's needs, according to Sherry Ely, director of business services for the Grants Pass School District.

Every year the district's instructional assistants attend the PACE playground training and that's just one of the several PACE workshops Ely finds helps the Grants Pass staff stay current with the latest skills needed to help prevent problems before they happen.

"Our assistants really appreciate the training and are more confident in their role as playground supervisors," Ely says. "And PACE staff always asks us what are specific issues so they can be addressed in the training."

Two of the most requested free PACE on-site trainings are pediatric CPR/AED/first aid and playground supervision, according to Scott Neufeld, PACE director of risk management. "Playground injuries are a big concern for our members and making sure districts have well trained supervisors is vital to keeping playgrounds a safe place for students."

There's also a strong demand for on-site training focusing on sexual conduct and bullying, according to Lisa Freiley, OSBA director of legal, labor and PACE services. "PACE has seen an increase in sexual harassment claims in the past year," she says. "School administrators are being more proactive in making sure staff has the training needed in these areas."

"With the increased news media coverage of sexual conduct cases, the public is more aware of school staff conduct and is more likely to report any possible concerns," she adds.

PACE's sexual conduct training met the staff needs at North Central ESD and Grant ESD, according to Robert Waltenburg, superintendent of the two ESDs. "The material presented was pertinent," he says. But what was really helpful was that the PACE attorney, Ben Becker, opened the sessions to "what if" questions. "That give and take, the interaction between Ben and the staff, was really the most important part of his presentation," Waltenburg says.

Waltenburg plans to schedule another PACE sexual conduct training for both ESDs' staffs next August. "The third-party

## On-site trainings

- Playground supervision
- Pediatric CPR/AED/first aid
- Playground hazard ID
- Bus defensive driver
- Student supervision
- Sexual conduct for staff
- Bullying prevention
- Evaluation, plans of assistance
- Sexual conduct training
- Harassment in the workplace
- OFLA/FMLA administration
- Resolving conflicts

presentation helps us emphasize the importance of the material," he adds. For Waltenburg the sexual conduct training is a money saver. "It's a way to help reduce our liability," he explains.

In deciding what on-site training courses to offer, both Neufeld and Freiley review PACE's history of claims. "We will focus our trainings on the areas of members' greatest liabilities and exposures," says Neufeld. Freiley adds that member training requests are also considered when PACE staff develops a training schedule.

The federal medical leave act has also resulted in a spike in PACE member claims, says Freiley. "This is a complex law to administer and we've developed trainings to help members understand how the law works." ■

# Property/ casualty rates increase globally

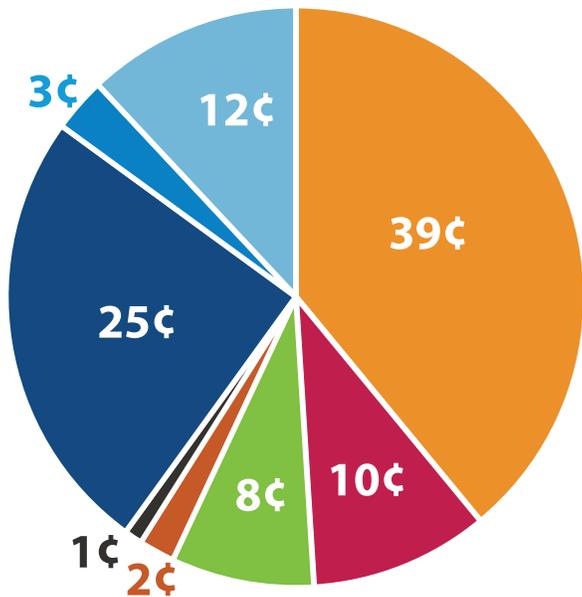
Globally reinsurers and insurers are looking seriously at increasing rates as they face ever-increasing claim losses and deal with lower returns on investments. Hurricane Sandy and the Japanese earthquake and tsunami are examples of the high global catastrophic losses coupled with shrinking reserves that have caused the insurance industry to harden.

PACE buys reinsurance to cover catastrophic claims and those companies have become much better at sorting and analyzing data from the many different lines of coverage to determine which are unprofitable and aggressively taking measures to address those specific situations, versus the historical "one size fits all" approach of increasing rates across the board.

Why is there increasing pressure on the property and casualty industry? Here's the bottom line:

- Historically, high global catastrophic losses coupled with shrinking reserves.
- Shrinking "excess" reserve cushion periodically used by insurers to boost profits.
- Combined loss ratio > 100% each year since 2008.
- Historically low investment returns.
- Many insurers have been cash flow negative every year since 2009.
- Increased understanding by reinsurers of the potential catastrophic earthquake exposure of the Cascadia Subduction Zone. ■

# How is your PACE premium \$1 spent?



**Claims** total 40¢ of every premium dollar.

**General liability** includes sexual abuse, employment liability (i.e., age, racial, gender discrimination; wrongful termination), special education and other employee and student issues.

25¢

From 2006-11 the largest liability claims were:

- \$725,000 – Teacher/student sexual abuse
- \$561,000 – Teacher/student sexual abuse
- \$560,000 – Age discrimination
- \$550,000 – Racial discrimination
- \$540,000 – Student harassment/gender discrimination
- \$540,000 – Gender discrimination
- \$500,000 – Wrongful termination

- PACE is responsible for up to \$600,000 per incident before reinsurance kicks in.
- Since 2008, general liability claims have been increasing at an alarming rate.

**Property** includes fire, flood and facility damage.

From 2007-12 the largest property claims were:

- \$7.8 million – Fire
- \$7.2 million – Flood
- \$6.5 million – Fire
- \$6 million – Fire
- \$4.5 million – Fire

- PACE is responsible for up to \$250,000 per incident before reinsurance kicks in.

**Auto** claims total 3¢ of every premium dollar.

**Reinsurance** is a “risk management” tool to help cover catastrophic events; it accounts for 39¢ of every premium dollar.

- PACE’s reinsurance policies provide coverage for general liability claims over \$600,000 and property claims over \$250,000.

- We have kept liability reinsurance at \$600,000 because lowering the self-insured retention rate is cost prohibitive. As general liability claims increase, reinsurance companies will require a higher self-insurance retention.
- For every \$100 PACE pays in premiums, our reinsurers pay \$90 on claims. The traditional “break-even” point for reinsurers is 66% which means we expect reinsurance rates to increase an average of 40%.

## Agent/broker commission

10¢

- Local agents provide personal service to clients they know.
- PACE pays a 14% commission on gross premiums. Members with premiums over \$100,000 may choose to have a separate fee arrangement with their agent.
- PACE uses an insurance broker to negotiate and purchase program reinsurance.

## Program administration

8¢

- 14 full-time equivalent positions from SDAO and OSBA support PACE.
- Services include: claims administration, loss control, accounting, marketing, education, training and clerical support.

## Other operating expenses

2¢

- Pre-loss legal services provided by OSBA attorneys.
- Online training (SafeSchools/SafeColleges).
- Business insurance, audit and actuary services.
- Sponsorships.

**Retained earnings** are like a rainy day fund, assets insure financial solvency.

1¢

- Assets sit at \$10.5 million.
- Dividends can be given when the Trustees believe assets have reached a level that would not jeopardize the pool’s financial strength and stability. In the past three years, more than \$1.2 million have been returned to members.
- State law requires us to maintain funds as net assets to insure its financial stability.



# Frequently Asked Questions

## Would competition bring PACE rates down?

Currently, PACE is the only self-insured non-profit pool in Oregon offering property and casualty coverage to the state's public school districts, education service districts, community colleges and charter schools. There are numerous national property and casualty insurance companies licensed in Oregon that could provide coverage to public education entities. The PACE Board of Trustees feels that if PACE premium rates and coverage were not competitive, then for-profit insurance companies would make a stronger effort to sell their products.

## How does PACE compare to a private, for-profit insurance company?

PACE is an intergovernmental entity and all of its assets and liabilities belong to its members. PACE is governed by a Board of Trustees composed of PACE members. The trustees have hired the Oregon School Boards Association to administer the program and OSBA

contracts with the Special Districts Association of Oregon to manage some PACE member services.

PACE's assets and liabilities belong to its members. There are no "profits" shared by any organization that works for the PACE Board of Trustees.

## How are OSBA and SDAO compensated by the PACE Board of Trustees?

The PACE Board of Trustees negotiates annual service contracts with the two organizations. OSBA provides PACE with administrative, legislative and marketing support as well as member pre-loss legal support. SDAO provides underwriting, claims administration, loss control and accounting support. Every year, the trustees review the service fees these two organizations charge and evaluate the quality of the work provided. Both organizations are only allowed to charge actual costs for services, to include salary, benefits, materials and overhead.

The combined OSBA and SDAO service fees total 8 percent of member

premium rates. The percentage of administrative costs to member premiums has decreased every year since the founding of PACE in 2006. PACE's fees and underwriting expenses (excluding claims administration) relative to premiums has averaged 16.8 percent, compared to a 24 percent average "expense ratio" for similar carriers.

## If PACE ever dissolves, what happens to the net assets?

Those funds would be returned to PACE members as per the PACE Trust Bylaws. PACE's net assets are currently \$10.5 million.

## Why are PACE claims costs increasing?

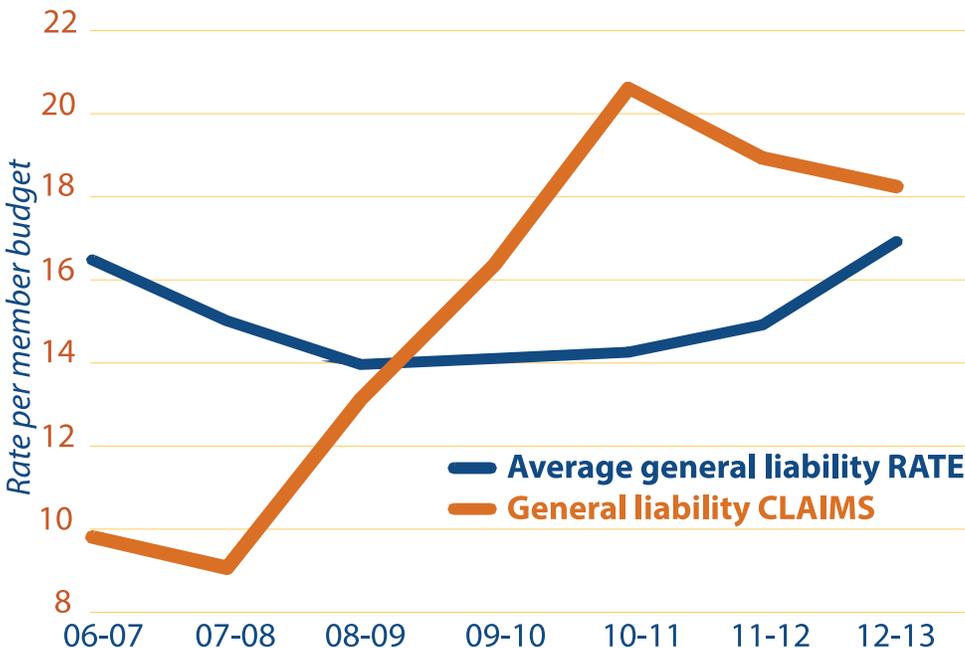
PACE has seen a huge uptick in the number and cost of claims. The biggest claims drivers: sexual abuse and employment practices. Sexual abuse and employment practice claims are extremely costly to defend and often end in mid-six-figure jury judgments.

Following the Penn State scandal, PACE dealt with sexual abuse claims on almost a weekly basis. Preceding the rush of sexual abuse claims were the unending wrongful termination claims brought about by staff layoffs PACE members faced due to the 2008 economic crash. (NOTE: Under state laws, nearly every staff member laid off can now fit into a protected employment class and can file a wrongful termination claim.)

In the property claims arena, several costly PACE member fire and flood damage claims have occurred over the past few years. In 2011-12 PACE dealt with close to \$14 million of losses from floods and fires at a reinsurance premium cost of \$7.6 million. That means reinsurers are raising PACE's 2013 premiums in addition to the \$1.2 million increase for 2012-13. Unfortunately, large fires seem to be occurring on a fairly regular basis, so it's difficult to argue with the reinsurer that the past few years were an anomaly.

## What is reinsurance?

PACE buys reinsurance to cover catastrophic claims. For liability claims, PACE covers the first \$600,000 in damages of any claim with the pool's



Between 2006 and 2008, the general liability rate decreased 15 percent. From 2007 to 2009, claims increased more than 90 percent, which is causing premiums to increase and will continue to go up as claims increase.

reinsurance policy paying for claims over that amount. For property claims, PACE pays the first \$250,000 of any claim with the pool's reinsurance paying for claims over that amount.

PACE markets its reinsurance coverage regularly to make sure the pool is getting the best price. In the liability arena, PACE has paid all its liability claims, so the pool is continuing to get favorable liability reinsurance pricing.

The pool's property reinsurance experience has not been so fortunate. Since PACE was first formed in 2006, the pool's property reinsurer has collected about \$40 million in premiums and has paid out over \$40 million. To break even, the reinsurer needs to maintain approximately a 66 percent loss ratio.

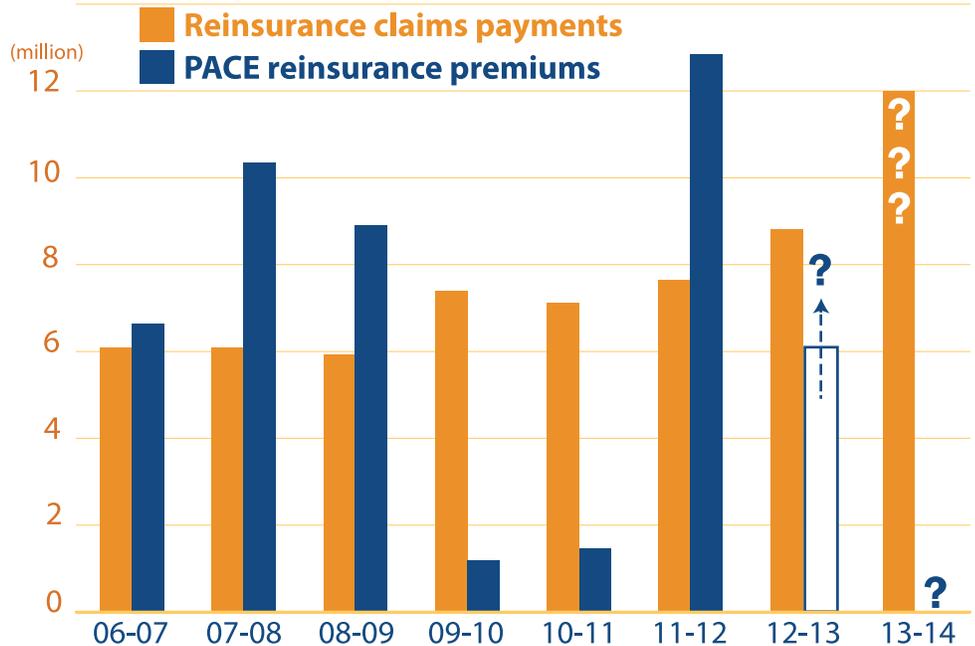
### My organization didn't have any large claims; why are our rates going up?

PACE is a self-insured member pool. Large claims impact everyone in the pool because all of the claim liabilities are shared by the pool members. PACE bases part of its member ratings on individual member claims experience, so members with better claims experience receive lower rates than members with higher claims experience. However, a certain amount of risk sharing is part of any self-insured pool, or for that matter, any insurance company.

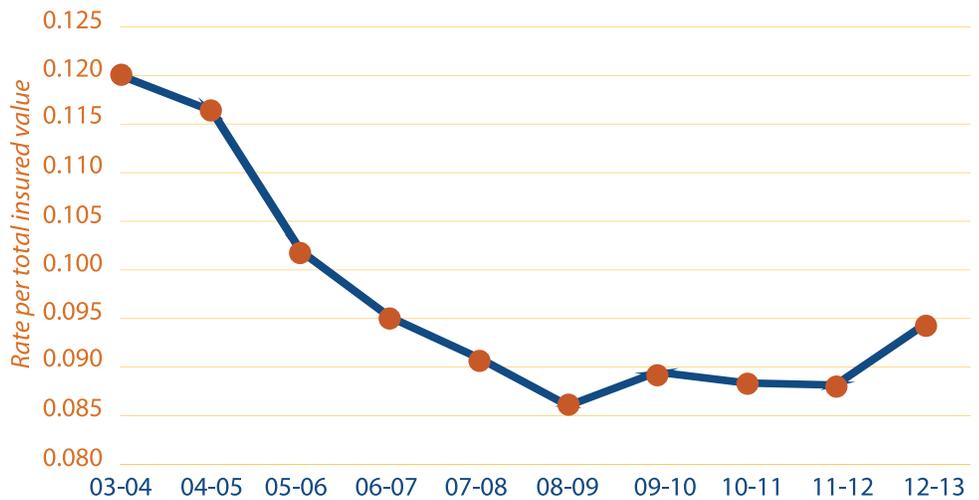
### Why doesn't PACE provide more earthquake insurance?

Currently, PACE buys \$100 million of earthquake and flood coverage. In the event of a catastrophic earthquake or flood that exceeds \$100 million, the \$100 million would be prorated among pool members.

Certainly, the \$100 million of coverage for a catastrophic earthquake is not enough. The pool's challenge is that to purchase an additional \$100 million of earthquake coverage would cost more than \$1.5 million and that cost would have to be paid for by the pool's members. If the PACE Board of Trustees receives an overwhelming request from members to buy the additional coverage, the board can approve such a purchase.



Since PACE was first formed in 2006, the pool's property reinsurer has collected about \$40 million in premiums and has paid out over \$40 million. To break even, the reinsurer needs to maintain about a 66 percent loss ratio.



Property rates for PACE and former SDAO members decreased more than 25 percent from 2003 to 2008. Since 2008, because of several large claims, PACE has had to increase property premium rates.

There is a backstop that might provide financial help in the event of a major earthquake. If the event is declared a national emergency, the Federal Emergency Management Agency (FEMA) will pay up to 75 percent of any uninsured loss for public facilities.

### Why aren't the net assets used to keep member rates in check?

PACE is required by state law and by its own actuarial standards to maintain

a certain level of "net assets." These dollars are the pool's safety net if PACE faces an influx of unexpected claims. (An example would be the increase in sexual abuse claims following the Penn State scandal.) In 2012, PACE liability claims increased \$4 million more than our actuary initially projected. The net assets allows for these claims to be paid without risking the financial stability of the pool. ■

# PACE faced year of transition

PACE faced a challenging year in 2011-12 as larger than expected claims found the PACE Board of Trustees moving to increase rates in future years in order to make sure PACE remains a healthy and viable insurance pool that can meet its member's needs.

"PACE faced a year of transition where the trustees made the hard call to increase premium rates because of the escalating costs of settlement claims," says Frank Stratton, PACE manager and SDAO executive director. "The PACE trustees did not make that decision lightly. They understand the added strain such increases put on already stretched resources. But they also understand their most important charge is to safeguard the continued financial strength of the pool."

Contributions to the pooled program remain strong at \$23.2 million. Total assets increased 12 percent while net assets (unrestricted assets) decreased 31 percent. This level of unrestricted assets puts the pooled program over the 95 percent confidence level.

## More services for members

PACE added more opportunities through its online training program, SafeSchools/SafeColleges. PACE members have FREE access to 15 SafeSchools and 14 SafeColleges online courses focused on property and casualty losses, keeping costs in check and making sure schools are safe. More than 100 PACE members have enrolled in the program and more than 35,000 employees signed up for classes.

## Revenue, assets are up

On the financial front, revenue from premiums increased 10 percent, while total assets increased 12 percent to \$34.3 million. However, claims liabilities, due to an increased trend in general liability claims, increased \$6.7 million, or 48 percent. Net assets decreased 31 percent to \$10.5 million. Overall, PACE remains strong with nearly 300 members participating in the pool and enhanced its position as the state's largest property and liability risk pool for public education in Oregon. ■

*"It's the 'power of the pool' where everyone 'shares the risk,'" says Staci Huffaker, risk manager at Mt. Hood Community College. "There's power in a collective unit working toward a positive goal. We each benefit each other and through PACE we don't bear the burden alone."*

## Financial Summary

	July 1, 2008- June 30, 2009	July 1, 2009- June 30, 2010	July 1, 2010- June 30, 2011	July 1, 2011- June 30, 2012
<b>Assets</b>				
Cash	\$7,331,234	\$551,596	\$635,130	\$2,091,805
Accounts receivable	\$1,421,012	\$1,026,958	\$897,561	\$373,210
Prepaid expenses	--	\$36,601	\$54,910	\$44,504
Interest receivable	\$123,541	\$194,310	\$196,419	\$183,181
Investments	\$10,736,721	\$24,595,120	\$28,843,495	\$31,596,384
<b>Total Assets</b>	<b>\$19,612,508</b>	<b>\$26,404,585</b>	<b>\$30,627,515</b>	<b>\$34,289,084</b>
<b>Liabilities</b>				
Accounts payable	\$495,102	\$148,575	\$76,585	\$1,746,993
Deferred revenue	\$561,513	\$572,477	\$1,046,373	\$1,059,733
Claims payable	\$9,632,355	\$10,995,730	\$14,166,364	\$20,961,110
<b>Total Liabilities</b>	<b>\$10,688,970</b>	<b>\$11,716,782</b>	<b>\$15,289,322</b>	<b>\$23,767,836</b>
<b>Net Assets</b>				
Restricted surplus	--	\$3,085,450	\$3,293,757	\$3,592,819
Unrestricted	\$8,923,538	\$11,602,353	\$12,044,436	\$6,928,429
<b>Total Liabilities &amp; Net Assets</b>	<b>\$19,612,508</b>	<b>\$26,404,585</b>	<b>\$30,627,515</b>	<b>\$34,289,084</b>

To view a full copy of the annual financial statement, go to [pace.osba.org](http://pace.osba.org).

## PACE controls expenses to provide the best value for members

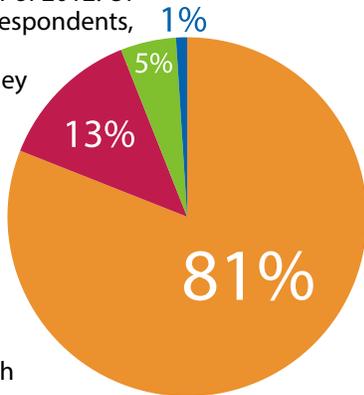
Over its seven-year history, PACE's "expense ratio" – the calculation of fees and underwriting expenses (excluding claims administration expenses) relative to premiums – has averaged 16.8 percent.

The average "expense ratio" for comparable-size commercial carriers with direct written premiums is 24 percent (based on 2011 year-end insurance regulatory filings).\*

\*PricewaterhouseCoopers LLP

# PACE described as helpful, responsive, professional

PACE members are very satisfied with the services received from PACE staff, according to the results of a customer satisfaction online survey and seven focus groups conducted in the spring and summer of 2012. Of the survey respondents, 81 percent indicated they were very satisfied with PACE services with 13 percent indicating they were somewhat satisfied with services.



When asked what three words members would use to describe PACE to a colleague, the most commonly used words were: helpful, responsive and professional.

"We were very pleased with member feedback," says John Rexford, chair of the PACE Board of Trustees. "Although there's always room for improvement, both the online survey and the comments from the seven discussion groups indicate that the PACE staff is focused on providing top-notch service to PACE members."

Survey respondents indicated legal, claims, pre-loss, liability and PACE staff's personal follow-up were the services they valued most.

Respondents gave overwhelming support for creating a "PACE Day" – 93 percent of respondents indicated they would send someone to such an event. And so, the PACE staff has organized the pool's first such event, scheduled for April 26 at the DoubleTree in Portland. And to make it even more inviting, PACE is paying the cost of one hotel night and registration for one person from each PACE member organization.

The seven focus groups were conducted throughout the state – Seaside, Bend and Ontario – and provided members an opportunity to spend an hour discussing how PACE services work for them.

In addition to customer satisfaction questions, PACE members both in the focus groups and in the online survey were asked: "What are the biggest issues facing you regarding property/casualty insurance needs?" Their overriding response centered on the increasing cost of insurance.

"PACE members face a substantial rate increase in 2013-14 that certainly puts a strain on already stretched resources," says Lisa Freiley, OSBA director of legal, labor & PACE services. "It's an increase the PACE Trustees took reluctantly, but with the long-term goal of safeguarding the continued financial strength of the pool."

Other PACE member concerns include aging facilities and a need to better understand risk analysis, i.e., what

should be covered, deductible levels, and balancing coverage with costs.

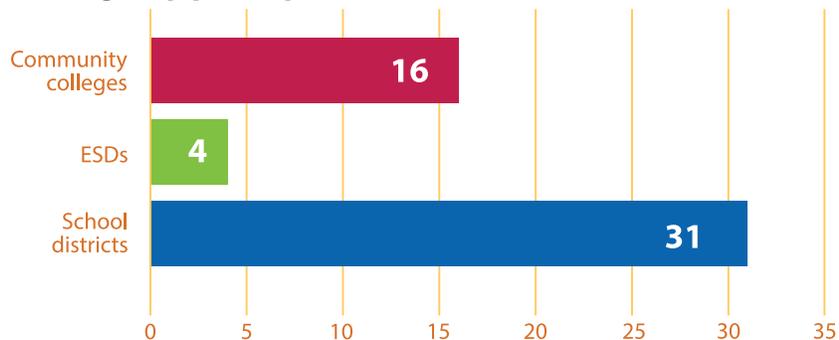
Survey respondents and focus group attendees gave high marks to PACE staff's personal service and the use of independent insurance agents. ■

## Focus group comments

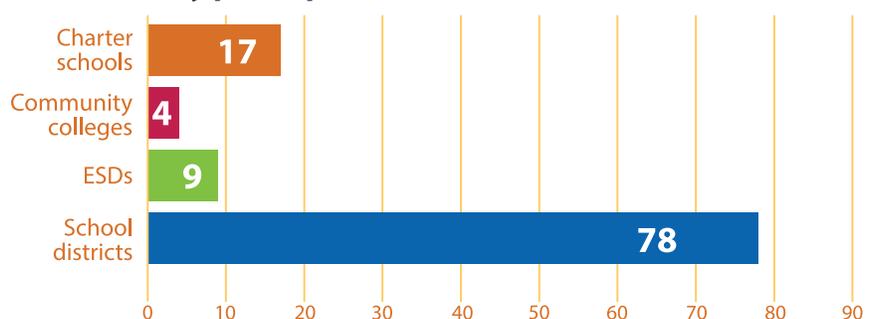
- "We save money every time we call PACE."
- "PACE works with us to solve problems. They don't try to find the cheapest way; they use the best way."
- "Saves us time because PACE does the work."
- "One stop shop. If they can't help, PACE will get you someone who can."
- "PACE helps us keep our claims down and our premiums reasonable."

54% of members participated

## Focus group participants



## Online survey participants



# Online training tailored to member needs

PACE continued its partnership with SafeSchools/ SafeColleges, offering PACE members FREE access to 15 SafeSchools and 14 SafeColleges online courses focused on property and casualty losses, keeping costs in check and making sure schools are safe.

In addition, PACE members also have access to more than 200 expert courses tailored for schools and colleges for just \$1.00 per full-time employee. The online courses offer members unlimited flexibility for accessing, scheduling and documenting training.

That flexibility saves PACE members' staff time and expense, says Candace McGowne, human resource specialist for the Coos Bay School District. "Because the classes are online, employees can take them at their convenience," she says. "It's user friendly, provides valuable information, and I can check to make sure each staff member has completed our required courses."

The Coos Bay School District assigns a group of online courses to each staff member in early August with the expectation that those courses are completed before the district's back-to-school in-service. And then, throughout the year, McGowne assigns additional SafeSchools courses depending on specific staff needs.

"SafeSchools is a valuable resource," McGowne says. "I'm confident that the courses provide valuable information that keeps our staff well informed about how to keep our students safe."

"The free online courses are a way PACE can help our members keep costs down and provide top notch safety training," says Scott Neufeld, PACE director of risk management. The SafeSchools and SafeColleges course are 100 percent school-focused, according to Neufeld. ■

**100** 2011-  
**members** 2012  
**250** different  
**courses**  
**162,523**  
**completions**



SafeSchools courses FREE to member districts:

- Oregon Sexual Conduct
- Oregon Sexual Conduct, Parent Version
- Oregon Child Abuse
- Oregon Child Abuse, Parent Version
- Oregon Bullying Primer
- Bullying Prevention, Complete Course
- Discrimination: Avoiding Discriminatory Practices
- FERPA
- Gang Awareness and Prevention
- Online Safety: Cyberbullying
- Online Safety: Threats of Violence
- School Violence and Weapons
- Sexual Harassment: Staff-to-Staff
- Sexual Harassment: Student Issues
- Sports Supervision and Safety



SafeColleges courses FREE to member community colleges:

- Oregon Child Abuse: Identification & Intervention, Full Course
- Oregon Child Abuse: Identification & Intervention, Refresher
- Conflict Management: Staff-to-Staff
- Dating Violence: Identification & Intervention
- Discrimination: Avoiding Discriminatory Practices
- Diversity Awareness
- FERPA: Confidentiality of Records
- Gang Awareness
- Reasonable Suspicion for Drug & Alcohol Use
- Sexual Harassment: Policy & Prevention
- Sexual Harassment: Staff-to-Staff
- Sports Supervision and Safety
- Visual Weapons Screening
- Workplace Bullying

PACE is "part of my every day routine," says Ely. "I think about calling them first, which helps us prevent problems before they happen."

– Sherry Ely, director of business services, Grants Pass School District

# State Fire Marshal honors PACE staff

PACE staff – Scott Neufeld, director of risk management, and Troy DeYoung, risk management consultant – are now proud winners of the Oregon State Fire Marshal’s Office “Silver Sparky Award” in recognition of their outstanding achievements in fire prevention and safety.

“Troy and Scott have been instrumental in partnering with the Oregon State Fire Marshals Association (OFMA) on two important fire prevention campaigns that focus on Oregon schools,” said Mark Wallace, state fire marshal. “Their commitment to arson and fire prevention spans years of partnership with the OFMA and the Oregon fire service.

“Through their work they have fostered a strong relationship between local fire agencies, local schools and the insurance industry.”

The collaboration created an arson prevention program to help fire districts teach local school administrators the Oregon rules relating to fires set on school property, along with a reward program for information relating to school arson fires.



Troy DeYoung and Scott Neufeld receiving their Silver Sparky Awards from Mark Wallace.

Fire safety is always “front and center” in PACE’s program to help members avoid casualty loss, says Frank Stratton, PACE manager and executive director of the Special Districts Association of Oregon. “Fire safety is such an important aspect of protecting member schools, students and facilities. Scott and Troy exemplify the great work that everyone at PACE does to prevent loss and protect lives.” ■

# PACE website unveiled

The brand-new PACE website will officially debut at PACE Day on April 26 at the DoubleTree in Portland. It’s the product of five months of hard work by staff at the Oregon School Boards Association, especially Josie Hummert, Kathy Knock and Eric Mousel.

The site offers the latest developments and news items, training info, risk alerts, and quick links for claims, agent services and pre-loss legal advice. We’re proud to offer this members-only information as one of the many benefits of being part of PACE.

If you haven’t already seen it, take a look: <http://pace.osba.org>. ■

# 2011-12 Members

Ace Academy	Crook County SD	John Day SD	North Santiam SD	Sheridan Japanese School
Adel SD	Crow-Applegate SD	Jordan Valley SD	North Wasco County SD	Sheridan SD
Adrian SD	Culver SD	Joseph SD	Northwest Regional ESD	Sherman SD
Alsea SD	Dallas SD	Junction City SD	Nyssa SD	Sherwood Charter School
Amity SD	Dayville SD	Juntura SD	Oakland SD	Sherwood SD
Annex Charter School	Days Creek Charter School	Kings Valley Charter School	Oakridge SD	Siletz Valley Early College
Arlington SD	Days Creek SD	Klamath Community College	Ontario SD	Academy
Armadillo Technical Institute	Dayton SD	Klamath County SD	Oregon City SD	Siletz Valley School
Arock SD	Dayville SD	Klamath Falls City Schools	Oregon City Service Learning	Silver Falls SD
Ashland SD	Diamond SD	Knappa SD	Academy	Silvies River Web Academy
Ashwood SD	Double O SD	La Grande SD	Oregon Coast Community	Sisters SD
Astoria SD	Douglas ESD	Lake ESD	College	Siuslaw SD
Athena-Weston SD	Drewsey SD	Lake Oswego SD	Oregon Coast Technology	South Coast ESD
Baker SD	Dufur SD	Lake County SD	School	South Harney SD
Baker Web Academy	Eagle Charter School	Lane Community College	Oregon Trail Primary	South Lane SD
Bandon SD	Eagle Point SD	Lane ESD	Academy Charter School	South Umpqua SD
Banks SD	EagleRidge High School	Lebanon Community Schools	Oregon Trail SD	South Wasco County SD
Bend-La Pine SD	Echo SD	Lincoln County SD	Oregon Virtual Education	Southern Oregon ESD
Bethany Charter School	Eddyville Charter School	Linn-Benton Community	Paisley SD	Southwestern Oregon
Bethel SD	Elgin SD	College	Parkrose SD	Community College
Blachly SD	Elkton Charter School	Linn Benton Lincoln ESD	Pendleton SD	Spray SD
Black Butte SD	Elkton SD	Long Creek SD	People For Coburg School	Springfield SD
Blue Mountain Community	Enterprise SD	Lourdes Public Charter School	People Involved in Education,	Springwater Environmental
College	Estacada SD	Lowell SD	Inc.	Sciences School
Brookings-Harbor SD	Estacada Web Academy &	Luckiamute Valley Charter	Perrydale SD	St. Helens SD
Burnt River SD	Estacada Early College	Schools	Personalized Learning Inc.	St. Paul SD
Butte Falls SD	Eugene SD	Madrone Trail Public Charter	Philomath SD	Stanfield SD
Camas Valley SD	Falls City SD	Malheur ESD	Phoenix-Talent SD	Suntex SD
Canby SD	Fern Ridge SD	Mapleton SD	Pilot Rock SD	Sutherlin SD
Cascade Heights Public	Forest Grove Community	Marcola SD	Pine Creek SD	Sweet Home SD
Charter School	School	McKenzie SD	Pine Eagle SD	The Academy Of Arts And
Cascade SD	Forest Grove SD	McMinnville SD	Pinehurst SD	Academics
Centennial SD	Fossil SD	Medford SD	Pleasant Hill SD	The Lighthouse School
Center for Advanced Learning	Four Rivers Community	Milton-Freewater SD	Plush SD	The Village School
Central Curry SD	School	Milwaukie Academy Of the	Port Orford-Langlois SD	Three Rivers Charter School
Central Linn SD	Frenchglen SD	Arts	Portland Community College	Three Rivers/Josephine SD
Central Oregon Community	Gaston SD	MITCH Charter School	Powell Butte Community	Tigard-Tualatin SD
College	Gervais SD	Mitchell SD	Charter School	Tillamook Bay Community
Central Point SD	Gladstone SD	Molalla River Academy	Powers SD	College
Central SD	Glendale SD	Molalla River SD	Prairie City SD	Tillamook SD
Chemeketa Community	Glide SD	Monroe SD	Prospect SD	Treasure Valley Community
College	Grant ESD	Monument SD	Rainier SD	College
City View Charter School	Grants Pass SD	Morrow County SD	Redmond SD	Triangle Lake Charter School
Clackamas Academy Of	Greater Albany Public Schools	Mosier Community School	Reedsport Community	Troy SD
Industrial Science	Gresham-Barlow SD	Mosier Middle School	Charter School	Ukiah SD
Clackamas Charter Alliance	Harney County SD	Mt. Angel SD	Reedsport SD	Umatilla SD
Clackamas Community	Harney ESD	Mt. Hood Community College	Region 18 ESD	Umpqua Community College
College	Harper SD	Muddy Creek Charter School	Renaissance Public Academy	Union SD
Clackamas ESD	Harrisburg SD	Multisensory Learning	Reynolds SD	Vale SD
Clatskanie SD	Helix SD	Academy	Riddle Education Center	Vernonia SD
Clatsop Community College	Hermiston SD	Multnomah ESD	Riddle SD	Wallowa SD
Colton SD	High Desert ESD	Myrtle Point SD	Ridgeline Montessori Charter	Warrenton-Hammond SD
Columbia Gorge Community	Hillsboro SD	Neah-Kah-Nie SD	School	West Lane Technical Learning
College	Home Source Family Charter	Nestucca Valley SD	Riverdale SD	Center
Columbia Gorge ESD	Hood River County SD	Network Charter School	Rogue Community College	West Linn-Wilsonville SD
Community Roots School	Howard Street Charter School	Newberg SD	Rogue River SD	Willamette ESD
Condon SD	Huntington SD	North Bend SD	Roseburg Public Schools	Willamette Leadership
Coos Bay SD	Imbler SD	North Central ESD	Sage Community School	Academy
Coquille SD	InterMountain ESD	North Clackamas SD	Santiam Canyon SD	Willamina SD
Corbett Charter School	Ione SD	North Columbia Academy	Sauvie Island Academy	Winston-Dillard SD
Corbett SD	Ivy School	North Douglas SD	Scappoose SD	Woodburn SD
Corvallis SD	Jefferson ESD	North Lake SD	Scio SD	Yamhill-Carlton SD
Cove SD	Jefferson County SD	North Marion SD	Seaside SD	Yoncalla SD
Crane SD 4 & UH1J	Jefferson SD	North Powder SD	Sheridan AllPrep Academy	
Creswell SD	Jewell SD			



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