

**ABAG PLAN Corp.**  
Strategic Planning Meeting October 9, 2002  
Pruneyard Inn Campbell, CA

**Attendees:**

	<u>Name</u>	<u>City/Town</u>	<u>ABAG /Other</u>
1.	Larry Anderson	Burlingame	
2.	Gretchen Conner	Campbell	
3.	Carroll Ferrell	Cupertino	
4.	Julie Carter	Dublin	
5.	LeeAnn McPhillips	Gilroy	
6.	Starla Jerome-Robinson	Los Altos	
7.	Jack Dilles	Morgan Hill	
8.	Barbara Lathrop	Newark	
9.	Jeff Maltbie	San Carlos	
10.	Alex McIntyre	Tiburon	
11.	Dennis MulQueeney		Driver
12.	Eugene Leong		ABAG
13.	Marcus Beverly		ABAG PLAN
14.	Angela Salsbury		ABAG PLAN

Meeting commenced at 9:40. A quorum of the Executive Committee or Board was not present.

Introduction by Gene Leong regarding the posting of the meeting not done in proper location, in violation of the Brown Act, therefore the meeting would be a "social gathering".

First time attendee, Starla Jerome-Robinson , introduced herself to the rest of the members.

Marcus reviewed the agenda for the day, including current financial status and funding ratios, progress in achieving goals from the last planning meeting, issues for the next Board meeting, strategic goals and "pool nirvana", and feedback from the group regarding PLAN strengths, weaknesses, opportunities and objectives.

The group reviewed ABAG PLAN's Mission Statement and how its key points of providing a stable, cost-effective risk management program for each member can be used to evaluate the actions taken by the Members and staff.

## Review of Objectives & Next 8 Months

The eight goals developed at last year's planning session were reviewed and progress in achieving them was addressed. Two of the goals, develop a funding policy & assess potential for wrap up program, have been completed. The Funding Policy was approved at the Board's 5/22/02 meeting and the Members determined a wrap up program was not needed.

Of the six remaining goals, document review and evaluation of our loss prevention approach are the two that should be addressed by the next Board meeting. Other items are ongoing or, in the case of accreditation, will be addressed after the document review process.

The big issues likely to be discussed at the next Board meeting involve dividends and the PLAN's Self-Insured Retention (SIR) for the 2003-04 fiscal year. It is likely we will meet our goal of \$10 million in the SIR Fund by next year, meaning we may have funds available for dividends or for other goals. Much depends on the SIR for next year and whether or not the PLAN wants to raise it to \$10 million at some point.

The PLAN financial statements as of 6/30/02 were reviewed and discussed. Balance Sheet was discussed as well as investments. We are moving money out of LAIF and in to Federal Agency securities that promise a higher return. The liability program has liabilities of \$15.7 million and retained earnings of \$19.3 million. Retained earnings {CPA language} = Surplus or Total Fund {Insurance or Funding Policy language}.

The results were compared to our Funding Policy benchmarks and how achieving them may change our goals in the future. Our SIR to Total Fund ratio is 3.8 to 1, within our goal of 3:1 but still not as high as is typical with other pools.

We talked about the 50% confidence level currently used for determining deposits, our goal of increasing it to the 70% confidence level, and what impact that would have on our deposits, SIR Fund, or dividends.

Other Funding Policy goals were discussed. Additionally, the Funding Policy may need to be amended to include our policy for exiting and re-entry of the POOL members.

## Future Trends and Coverage Issues

Marcus outlined a number of items that may impact the PLAN over the next year, including the hard insurance market, coverage restrictions, PLAN coverage document review, low interest rates, and the 70% funding confidence level.

He noted that some clean up was still needed as well as committee roles for the bylaws. The PLAN Coverage review was discussed and Marcus felt that the dispute resolution was an important issue that we may want to add to our MOC.

Dennis Mulqueeney spoke about the expected increases in property and liability insurance coverage next year. We are expecting property increases but not at the 70% level seen this year, as that market has begun to stabilize. The liability insurance market is still highly volatile and that will impact renewals. We will have a better idea after January 1 renewals. Additionally, he stated that PLAN is well positioned for minimizing any increases because of its strong financial position. Workers Comp will continue to skyrocket in both the public and private sector.

The members were asked about future trends that may impact them and/or the PLAN over the next year or two. There was some discussion about the increase in medical insurance costs, the 3% at 50 and at 55 retirement plan being enacted by many members, state "take aways", sales tax revenues and how all of this has and will continue to impact the member's budgets.

Alex also raised the concern that veteran police and firefighters were retiring, leaving the ranks filled by new recruits with a less trained, less experienced workforce that could increase the city's liabilities. Members were in agreement with some of their concerns and thought that more training was needed to reduce these potential liabilities.

Larry Anderson stated that they are looking to share services with other members (ie: sewer) but that partnering with other members that are not part of the PLAN POOL could present problems.

There was also a discussion regarding rewards v. punishment as a risk management method. Some of the other members commented that each city has different types of risks. Some other risk management controls could be to mandate or recommend that members implement some model best practices documents.

## Managing Pool Funds

Marcus began the discussion with an overview of the PLAN's financial history and general discussion of how to determine what is an adequate amount of retained funds. The answer depends on a number of factors that reflect the goals, risk tolerance, and results of the organization. Strategic goals must be considered when answering that question.

A strategic goal discussed by the group was "Pool Nirvana" - the state of a pool's assets (dividends) and interest income meeting or exceeding its funding and administration expenses. It is another way of looking at the pool's net expense.

Marcus provided an analysis of the PLAN's dividends and interest v. funding and administration over the last 12 years. It revealed the PLAN came close to attaining "nirvana" in the 97-98 fiscal year. However, when the money used to capitalize the SIR Fund is included in the dividends, we have achieved results well in excess of "nirvana" for two years, 97-98 & 98-99, more than enough to achieve net expenses of zero for each year since 97-98.

Given this, should Pool Nirvana be a goal? Is it realistic? What other goals are we setting and achieving in lieu of this goal? The members discussed the issue and felt our current goals, including the SIR Fund, have enabled us to avoid the fluctuations inherent in the insurance market and placed us in a strong financial position. The analysis of the PLAN's yearly net expenses can be used as a general guide to the cost efficiency of the program and how well we are meeting our funding goals.

## W. O. T. S. Analysis

The members were asked to identify Weaknesses, Opportunities, Threats and Strengths (WOTS) of the PLAN and make recommendations for new goals.

### **Strengths of PLAN**

Risk management staff

Responsiveness and accessibility

Availability of documents on website

Lower premiums than commercial insurance market

Proactive claims management (i.e. Incident only reports are investigated immediately)

Good mix of active board members

Orientation of new board members

### **Weaknesses/Threats**

Training for defensive driving/sewer ---reactive v. proactive

3% @ 50---loss of talent---increases in police liability claims

Economy/limited resources/interest rates

Members do not have full-time risk managers

No authoritative presence

Lack of some member's participation

Lack of risk management policies

Assessment of risk management -ie: audit

Protection of our asset base

Electronic fraud

Change of attorneys

Need more litigation status updates &/or file reviews

Hardening of the insurance industry

Diversity of member risks—leads to more difficulty in addressing needs

### **Opportunities**

Better idea where money is actually going

Best practice-sharing good ideas and best practices

Growth

Nirvana

Pay dividend

Develop strong risk management programs

Model ordinances-best practices/audit/

Seminar-money for board members or matching funds

More information

Earthquake insurance

### **Recommendations**

Implement loss control approach

Recommended practices/audit?

List of consultants and lists of model policies

Rent a risk manager

Humiliate non-participants

Good standing v. bad standing members

Current listing of board members and alternates

Continue to evaluate the funding variables to update/revise funding policy

MOC Revision to include one insuring agreement and one section of exclusions

Meeting was adjourned at 2:30 p.m.