



 Association of Bay Area Governments

**ABAG PLAN CORPORATION**

**BOARD OF DIRECTORS**

**PLANNING MEETING**

**NOTES**

**Pacifica, California  
October 7 and 8, 2004**

## “A Unique Opportunity”

### Board of Directors Meeting

#### Purpose

Plan for ABAG Plan Corporation’s future.

#### Outcomes

- Agreement on the strategic directions for ABAG Plan.
- Develop goals and objectives.

#### Agenda – October 7, 2004

9:30am	Welcome – Orry Korb, Chair Introduction of the Facilitator – Marcus Beverly, Director of RM Introduction of Participants – Gail Mancarti, Facilitator	
9:40am	<u>Opening</u> Review Purpose, Outcomes and Agenda Share Expectations for the Session Develop Guidelines for a Successful Session	<b><u>Information</u></b>
10:30am	<u>What is the Opportunity?</u> Current Status / End of a Five-Year Cycle Thoughts on the Past Five Years Thoughts on the Next Five Years “Opportunity Continuum” Activity and Discussion	<b><u>Information</u></b>
Noon	Lunch	
1:00pm	<u>What are the Possibilities?</u> Self-insurance Discussions Purchased Insurance Discussions Thoughts on the Possibilities	<b><u>Information</u></b>
3:30pm	<u>Closing</u> Preview Day #2 Final Remarks Complete Written Evaluation (those not attending on Friday)	<b><u>Action</u></b>
4:00pm	Adjourn	

Please Note: Breaks will periodically be taken throughout the meeting.  
The Board may act on any item on this agenda

**“A Unique Opportunity”**  
**Executive Committee Meeting**

**Agenda – October 8, 2004**

9:00am	Welcome – Gail Mancarti, Facilitator	
9:05am	<u>Opening</u> Review Day #1	
9:15am	<u>What are the Strategic Directions?</u> Define Strategic Direction Draft Strategic Directions Seek Agreement on Strategic Directions	<b><u>Action</u></b>
10:00am	<u>What are the Goals and Objectives?</u> Define Goals and Objectives Draft Goals and Objectives Seek Agreement on Goals and Objectives	<b><u>Action</u></b>
11:15am	<u>Next Steps</u> Identify Actions	<b><u>Action</u></b>
11:30am	<u>Closing</u> Summary Final Remarks Complete Evaluation	<b><u>Action</u></b>
Noon	<u>Adjourn</u>	

Please Note: Breaks will periodically be taken throughout the meeting.  
The Committee may act on any item on the agenda.

## Opening

### **Share Expectations for the Session**

Directions: Meeting participants usually have an idea about what they would like to see accomplished during a session. Often those expectations go unsaid and frequently are unrealized. By sharing these expectations, the group can address them directly thereby increasing the likelihood of meeting everyone's expectations.

#### What are your expectation for the session?

- Agreement on heading for the next 5 years or at least give the Executive Committee ideas.
- An in-depth dialogue.
- Define the goals and objectives so the Executive Committee members can do their work tomorrow.
- Understand what the numbers really mean; when the numbers indicate things are good and when they indicate when things are not good.
- Understand why ABAG Plan is more than just insurance.
- Clear understanding of key points to make decisions about purchasing insurance.
- Opportunity to think about the cities' needs and the shortcomings of the Plan.
- Find out what other Plan-like groups are doing to help us minimize risk and exposure coverage.
- After this session be able to explain to my City Manager the specific services ABAG Plan will provide in the short and long term.
- Learn! Learn!
- Create the elements (factors, details) of the Strategic Plan.
- Learn about trends in insurance (financial and liability) from a member perspective.
- Better understanding of choices and implications.
- Determine how we go about planning for upper limit.
- Decide to go with risk prevention standards or not.
- Explore different levels of success besides lower premiums; e.g., working regionally to mitigate liability we all face.
- Work with you all (Ken).
- Sit back and listen to what you want (Marcus).
- Determine future direction in next 5 years.
- This is a learning experience for me.
- Leave with confidence that the organization can continue to provide insurance and I'm able to explain this to my city.
- Learn about trends in liabilities.
- Understand the trade offs between self-insurance and purchased insurance.

## **Opening**

### **What are your expectation for the session?**

- Find out what we will do with the assessments and how it will feed into our decisions.
- What other services can ABAG offer and its cost; it's hard for me to say that I'm "in the know" about risk management.
- Better understand the risk management process and issues facing the group. Obtain knowledge about other members and come up with things that will work for all.
- Learn about best practices in other cities.
- Create performance measures for the objectives.
- Hope the sun will come out!
- Develop clear and concise strategies that the Executive Committee can take to form goals.
- Hear what members want and how to achieve the goals (Angela).
- Better understand what is and isn't important to the group (Dennis).
- Learn about the trends.
- I'm interested in the risk management piece. My city needs technical assistance and training.
- I'm open.
- Learn about regional training opportunities.
- Need ideas from other members on how to do risk management cost effectively.

## **Develop Guidelines for a Successful Session**

Directions: Guidelines help in having a productive and successful meeting for the group and every participant. Guidelines may be about group or individual behavior. An example is that the session begins and ends on time.

### **What guideline might this group use to support a successful session?**

- Everyone participates.
- Stay on time - try to end the session early.
- Strive to resolve topics – stay on topic until it's done.

## **What is the Opportunity?**

### **Current Status / End of a Five-Year Cycle**

#### **Strategic Planning - Five Year Plan**

##### **2000-01: Administration & Internal Procedures (Year 1)**

- Outsourcing Personnel / Equipment
- Claims Procedures
- RiskMaster
- Web Site Revamp

##### **2001-02: Funding Procedures (Year 2)**

- Lowered SIR
- Purchased XS
- Funding Policy
- No Dividend
- SIR Fund Growth
- Actuary Change

##### **2003-04: Governing Documents & Procedures (Year 3)**

- Committee Roles
- MOC Issues
- Claim Policy

##### **2004-05: Underwriting & Risk Control Standards (Year 4)**

- Risk Management Assessment
- Risk Management Policy
- Model Procedures
- Risk Management Funding
- Incentives / Penalties

##### **2005-06: Long-term Funding Objectives (Year 5)**

- Higher SIR?
- Expand Programs?
- Expand Coverage?
- Growth?
- Dividends?
- Nirvana?

##### **2006-07: Evolution**

- Customize to Member
- Response to Change
- Assess Results
- Start Over with 3-5 Year Review Cycle

##### **2007+: Where do Members want to be?**

## What is the Opportunity?

### **Current Status / End of a Five-Year Cycle (continued)**

Marcus Beverly presented the following chart as an overview of the Liability Program based on the Plan audit dated June 30, 2004.

\$40.6m leverage ( <u>nice</u> to have!)	\$20.3m SIR Fund	Purpose = to safely increase or decrease SIR as needed
<hr/>		
\$20.3m ( <u>should</u> have)	\$6.5m Risk Margin Fund	Purpose = 90% CL
<hr/>		
\$13.8m ( <u>must</u> have)	\$13.8m "Expected" Liabilities	Purpose = 50% CL 50% CC* \$5m SIR

\* For Fiscal Year 2003-2004:  
funding is \$4.1m  
administration is \$1.8m  
investment income \$1.6m  
risk management programs \$200,000 to \$350,000

### **Thoughts on the Past Five Years**

The group read the pre-session Survey responses and briefly discussed the past five years.

### **Thoughts on the Next Five Years**

The group read the pre-session Survey responses and identified the following trends.

### External Trends in the Next Five Years

- Aging infrastructure increases risk.
- Aging people increases claims.
- Increasing sophistication of constituencies increases demand for more diverse services.
- Terrorism increases risk.
- Loss of financial stability via state funding.
- “Blame others” can lead to increasing litigation and increases in the amount of claims.
- Increase in diversity in communities and workforce.
- Natural hazards and their impact on the insurance market.

### City and Town Trends in the Next Five Years

- Chloramine leaching lead increases claims.
- Investment in infrastructure decreases claims.
- Shifting liability; e.g., sewers.
- Increases in clean water standards increases exposures.
- Consolidation of services with other JPA’s and communities increases risk.
- Increase demand for services.
- Other governments shift liability to us.
- Fiscal constraints on services.
- Successful planning; who’s going to replace us at the city/town level.
- New unknown or unidentified risk; e.g., molds.

### ABAG Plan Trends in the Next Five Years

- What can the cities and towns do for the Plan?
  - Inform themselves about their duties in relation to the Plan.
  - Front-side risk management.
- Increase membership.
- Members help each other more.
- Don’t become intoxicated by past successes.
- Document and share best practices.
- Are we in for a big surprise in the next five years?
- Legislative and regulatory “watchdog” in Sacramento.

## “Opportunity Continuum” Activity and Discussion

### ABAG Plan Mission Statement

The purpose of the PLAN is to benefit the citizens of each Member Entity by establishing a stable, cost-effective self-insurance, risk sharing and risk management program for each Member Entity.

### Opportunity Continuum:

SELF INSURANCE				PURCHASED INSURANCE			
[under each SIR and XS location are the number of participants who want the pool to move in this direction over the next 5 years]							
RISK↓			[currently]			RISK↑	N*
\$20m SIR	\$10m SIR	\$7m SIR	\$5m SIR	\$3m SIR	\$1m SIR	\$0 SIR	
-	[6]	[7]	[11]	[1]	-	-	
\$0 XS	\$0 XS	\$3m XS	\$5m XS	\$7m XS	\$9m XS	\$10m XS	\$20m XS
-	[3]	[2]	[4]	[4]	[2]	[6]	[1] [2]
		←BUDGET		STABILITY→			
	GROWTH↓ INSURANCE COST↓					INSURANCE COST↑ MEMBER FUNDING↓	
							N* = Nirvana?

**At \$20m SIR**  
loss funding↑  
stability↓  
SIR↑  
breadth of coverage↓

**At \$10m SIR**  
coverage amount↑  
admin costs↑  
↑↓  
RM programs↓  
member funding↑

**At \$10m XS**  
RM programs↑  
dividends↑  
stability↑  
breadth of coverage↑

**At \$20m XS**  
admin costs↓  
(no inhouse claims)  
SIR↓  
coverage amount↑

## What are the Possibilities?

### **Self-insurance and Purchased Insurance Discussions**

The participants divided into four interest groups:

- \$10m SIR
- \$7m SIR
- \$5m SIR / \$5m XS or less
- \$5m SIR / \$5m XS or more

and answered the following questions:

#1 Collectively state why you believe this needs to be ABAG's future position.

#2 Identify the implications or ramifications of this position in relation to following aspects of the Plan:

- a. administrative costs
- b. loss funding cost (claims)
- c. risk management programs (services and grants)
- d. stability of plan
- e. growth (new members)
- f. amount of coverage (total limits)
- g. amount of SIR (pool limit)
- h. breadth of coverage

#### Group #1 - \$10m SIR

- cost of claims appear to be growing
- absorb the cycle of the insurance companies
- this is where the organization originally wanted to go (\$5m/\$5m)
- cost for excess insurance is more affordable
- stronger risk management programs
- formalize use of ABAG staff and consultation
- greater analysis of trends by agency
- no great interest in more benefits

## **Self-insurance and Purchased Insurance Discussions (continued)**

### Group #2 - \$7m SIR

1. Leverage existing reserve, managed loss prevention, retain interest earnings.
2.
  - a. negligible
  - b. possible increase in numbers and dollars
  - c. increase scope of programs to be absorbed by SIR Reserve
  - d. not significant
  - e. more scrutiny and/or increased entry cost
  - f. 3-maintain existing and 4-increase total up to \$14m
  - g. \$7m gives 3:1 = \$21m limit SIR Reserve
  - h. status quo

### Group #3 - \$5m SIR / \$5m XS or less

The group did not prepare any notes.

### Group #4 - \$5m SIR / \$5m XS or more

- cushion makes \$5m SIR acceptable
  - small difference in cost at upper levels
  - piece of mind
  - achieve goal of plan (risk adverse)
  - insurance may not be available in future
  - shield from BIG HIT
  - take as little risk as possible
  - preserve status quo and tweak
  - awards are getting bigger
- a. administrative cost = cost of premium increases with excess insurance coverage (little or no impact)
  - b. loss funding = no change unless a catastrophic claim happens (which then benefits entities)
  - c. risk management = could affect funding available
  - d. stability = adds stability reduced risk
  - e. growth = attractive
  - f. amount of coverage = increases
  - g. amount of SIR = status quo unless \$3m
  - h. breadth of coverage = might be more inclined to accept other risk

## Self-insurance and Purchased Insurance Discussions (continued)

The participants then took a “straw poll” about the direction the upper limit should take over the next 5 years.

\$10m	=	2 people
\$12m	=	1 person
<b>\$15m</b>	=	<b>13 people</b>
\$17m	=	1 person
\$20m	=	5 people
\$21m	=	1 person

The group then asked itself the preferred method for reaching the \$15m:

<b>“efficient frontier”</b>	=	<b>15 people</b>
\$7.5m SIR / \$7.5m XS	=	0
\$5m SIR / \$10m XS	=	2 people
\$10m SIR / \$5m XS	=	0

The “efficient frontier” is a movable range of SIR and XS that achieves optimization with a \$15m upper limit. The Board of Directors would leave the annual determination of the “efficient frontier” to staff.

In staff’s consideration of determining the “efficient frontier” the following criteria was suggested:

- increase risk management programs
- premium stability as a group – current levels and annual adjustments is ok
- consider using the reserve to temporarily stabilize premiums
- keep upper limit at \$15m and do not retreat from this target – ideal is \$10m to \$15m
- incorporate the ideas presented in the next section titled “Board Ideas for the Executive Committee” into the analysis

The group acknowledged the governance process for the “efficient frontier” recommendation is:

- 1<sup>st</sup> Presented as a staff report at the Actuarial Committee.
- 2<sup>nd</sup> Presented as an Actuarial Committee report to the Executive Committee.
- 3<sup>rd</sup> Presented to the full Board of Directors.

## **Self-insurance and Purchased Insurance Discussions (continued)**

### Board Ideas for the Executive Committee

The final discussion of the day was a “brainstormed” list of ideas the Board would like the Executive Committee to consider at their meeting the following day.

- a. Members are willing to pay for more customized-to-cities risk management programs.
- b. Offer voluntary risk management programs.
- c. Provide more technical field training.
- d. Do not sacrifice the in-house claims staff.
- e. Provide grants to cities that have a tangible value to the pool (e.g., infrastructure).
- f. Explore the concept of the “efficient frontier.”
- g. Continue to share best practices pool-wide through forums, listserves, etc.
- h. Down the road, build in best practices as requirements for members.
- i. Build and strength ABAG Plan as representatives begin to cycle off the Board (create bench strength and succession planning at the member city and town level).

### Closing

#### **Preview Day #2**

The Executive Committee will work with the ideas and directions generated at this meeting to create strategic directions, goals and objectives for ABAG Plan.

#### **Final Remarks**

Each participant had an opportunity to say a few words to close the session.

## **EVALUATION**

Directions: The responses to the following questions will be used as a planning tool for future sessions and be presented in the notes from this meeting.

### **#1 What were the highlights of the session?**

- Small group discussions.
- Small group work. Play dough! Seaside location.
- Marcus's background explanation. Small group exercise and discussion that followed.
- Active participation and very animated discussion.
- Individual groups for discussion.
- Interesting discussion.
- Group discussions. Not too much detail.
- Opportunity Continuum evaluation.
- Interaction and participation of Plan member. Robust discussion of financial status of ABAG. Opportunity Continuum small group discussions and consensus discussion.
- Great, broad participation. Good food. Appreciated the breadth of viewpoints.
- Hearing ideas from each member agency.
- Learning about expectations of members. Evaluating what coverage levels and types are possible and desired by Plan.
- Small group discussions. Healthy discussion of different perspectives.
- Group discussion. Marcus's presentation of current SIR Fund and coverage ratios.
- Very active participation by most members. Effort to understand the math of risk coverage.
- Getting to \$15m total level. Defining the efficient frontier. Seeing how much consensus there was on the importance of risk management programs.
- Marcus did a great job of explaining (or confirming) the relationship of reserves, SIR, liabilities and pool costs. I appreciate concluding the meeting in a timely manner.
- The small group sessions.
- We moved through the agenda with great participation, energy and timeliness. Very productive!!
- Explanation of fund levels. Group exercise.

## #2 What were the lows points of the session?

- None.
- None.
- Noise – difficulty hearing.
- Left a lot up in the air.
- 0
- Not enough time to read materials.
- All good input and good discussion.
- None – very good.
- The realization that I still don't understand.
- When coffee ran out.
- None.
- Room too warm.
- N/A
- N/A
- Talking too much about SIR levels. Didn't talk about programs necessary.
- We spent too much time on discussing expectations; and too much time discussing the self-insurance vs. purchased insurance.

## #3 Were your expectations met?

- Yes, for the most part.
- Yes.
- No, because we didn't get to discuss what was happening within the member cities and pool as a whole. We didn't get to discuss ABAG operations; staff viewpoints; insurance trends; best practices.
- Yes +
- OK.
- Yes.
- Yes, but could have spent more time on some of the other important topics that were raised at beginning – perhaps a future meeting?
- Yes.
- Yes.
- Didn't talk about Risk Programs at all in S.P. exercise.
- Yes.
- Didn't have any specific.
- Yes, and then some.
- Yes.
- Yes.
- Almost, but I may be too dense.
- Yes.
- Yes.

### **#3 Were your expectations met (continued)?**

- Generally yes. However, I expected the 1<sup>st</sup> day group would have some objectives/goals for Board to consider on day 2 (more brainstorming of ideas distilled to 3 or 4 goals for next year).

### **#4 What can be done to improve the next session....**

#### **.... in preparation?**

- Don't think a got the "Scan to Plan" document.
- Advance warning that most of the focus will be on funding issues (insurance vs. SIR, etc.)
- More material on basic information for participants. Review concepts of SIR, SIR Reserve, etc.
- Obtain pre-meeting questionnaire a little earlier.
- More specific information sent prior to meeting.
- List "Best Western" as part of hotel name in location information sent out in advance.
- An article on risk funding for idiots?
- Encourage more folks to attend.
- Well done as is.
- Survey was excellent – maybe we could add "expectations from planning meeting" to the survey. Also, if we're going to discuss Opportunity Continuum again, matrix of costs would be helpful.

#### **.... in delivery?**

- Well planned (double space Survey lists).
- Facilitator should talk less especially during/just after reading assignments and when dividing groups should designate a place for each to avoid the confusion. I like Marcus as a facilitator and do all day!
- Sometimes felt that I was asked to provide input and direction without complete or enough info.
- We talked about expectations but we didn't come back to say our goal was to develop SIR and ex coverage numbers. Too bad we didn't cover some other things also. Fantastic facilitating and Board participation.
- Non – Gail did an excellent job of facilitating.
- Well done as is. Great facilitation.
- Hard to read diagrams on wall; write bigger.
- Start earlier in day.
- Discussion of risk programs.
- Like facilitation. Very organized.
- I liked delivery.

**#4 What can be done to improve the next session (continued) ....**

**.... in follow-up?**

- Memo that summarizes both the principals discussed and the decisions made.
- 0
- I'd like a copy of the Opportunity Continuum.
- Notes will be sent to board members? Listserve will be established? Decisions of Executive Board e-mailed to members?
- N/A
- Let us know what happens from our discussion!

**#5 Other comments:**

- Thanks for all your efforts ABAG staff and Gail!
- Really nice facility and lunch!
- Thanks!
- 0
- Very interesting day.
- Hopefully the data gathered today can help the board set some formal goals and objectives that are the living part of what we follow and committees use for decision making.
- Overall great teamwork exercises.
- Good facilitation.
- I think that new participants should have an orientation session to get them familiar with terms and concepts. This would help avoid the really "basic" questions.
- Meeting room had too many noisy appliances (icemakers, water refilling, etc.) that caused distraction and made it difficult to hear discussion at times. Moderator was okay. Needed to speak louder at times.
- Thank you so much!
- Overall, very well done!
- Appreciated the facilitator's focus. She kept the day on track which was a tremendous plus.
- Thanks!

**“A Unique Opportunity”**  
**Executive Committee Meeting**

**Agenda – October 8, 2004**

9:00am	Welcome – Gail Mancarti, Facilitator	
9:05am	<u>Opening</u> Review Day #1	
9:15am	<u>What are the Strategic Directions?</u> Day #2 Material New Material	<b><u>Action</u></b>
10:00am	<u>What are the Goals and Objectives?</u> Read Survey Results and “Scan to Plan” Identify Goals Identify Objectives	<b><u>Action</u></b>
11:15am	<u>Next Steps</u> Identify Actions	<b><u>Action</u></b>
11:30am	<u>Closing</u> Summary Final Remarks Complete Evaluation	<b><u>Action</u></b>
Noon	<u>Adjourn</u>	

## **Opening**

### **Review Day #1**

The group quickly reviewed the work of the previous day.

### **Parking Lot**

If applicable, items was distributed to the appropriate goal area (see page 20):

- \$15m limit with voluntary program for those members who want \$15+
- Fundamental questions:
  - what is the policy role of the Board
  - what is the professional role of the staffAre the roles and boundaries working for us?
- Use the Risk Assessment tool to its fullest and follow through with recommendations.
- Use the \$20m SIR Fund to pay for risk management programs.

## **What are the Strategic Directions?**

In light of the financial stability and unique funding position of the Plan, much of the conversation in the first day was about providing more risk management services.

The Executive Committee agreed that a single strategic direction for the next five years can best guide the future of the Plan.

### **Draft strategic direction:**

**In the next five years, the ABAG Plan will focus on and invest in risk management programs to support a successful risk sharing pool.**

## What are the Goals and Objectives?

The group drafted the following six goals and sorted them into two categories (managing risk and managing funds):

### Managing Risk

- A. Have more **risk management services** within the next 1 to 3 years.
- In-depth training and technical assistance.
  - Customized training and technical assistance.
  - Obtain and use the Risk Assessment results (follow through with the recommendations).
  - Use the \$20m SIR Fund to pay for risk management programs.
  - Members will pay for risk management programs.
- B. Promote better **communication** between members and ABAG Plan and among members.
- Develop distribution channels for best practices.
  - Encourage and facilitate sharing of resources among members.
  - Create or improve communication venues and forums (e.g., listserve, website, newsletter).
- C. Provide personalized **customer service**.
- ABAB Plan staff focus on member-specific customer service.

### Managing Funds

- D. Achieve premium **rate stability** for the Pool.
- Mute the effects of a significant change in premiums (use the \$20m SIR Fund).
  - Avoid overall premium increases for new programs.
  - Members don't expect a dividend.
  - Create premium predictability.
- E. Reach **higher coverage** limits (\$10 to \$15m).
- \$15m limit with voluntary program for those members who want \$15+.
- F. Place **risk management standards** into future rates.
- Write member-specific exclusions, rewards and penalties.

## **What are the Goals and Objectives (continued)?**

Growth was identified as a goal area to be re-visited in the context of strategic planning in 3 years. An agreement was made not to focus on growth at this time.

The following are ideas about growth that came up in discussion:

- when we say growth, we mean growth of the membership
- choosing new members is very important
- shall we have an entrance fee for new members to buy into the stability of the fund
- should new members pay higher rates for several years until they have established a track record
- ABAG plan needs to be available to any small and medium size city or town within the 9 county ABAG region that meets the Plan's requirements
- at this time we do not do any marketing to attract new members
- right now we select new members based on risk
- idea: take on wider geographic distribution of members to "dilute" risk (e.g., cities and towns in Sonoma county)
- what range of small to medium cities and towns do we want
- idea: leverage the \$20m SIR Fund to promote growth in members

The Executive Committee agreed that the staff and committees can take the 6 goals and attendant comments and create objectives. This work will be presented at a future Executive Committee meeting for consideration before forwarding it onto the full Board for adoption.

## **Special Discussion**

On behalf of the Risk Management Committee, Larry Anderson asked the Executive Committee for ideas about risk management programs.

- a. Reverse Grant (incentive) where a city or town has a need.
- b. Send out a list of things cities and towns can do. Ask agency if they aren't doing any one or several or all of these things call Marcus.
- c. Have subject matter experts on contract to be deployed to members as needed or when a specific request comes in.
- d. Collect best practices and distribute via:
  - site visits
  - newsletter
  - listserve
  - website
  - archive access
- e. Create the ability to ask questions through the listserve or website:
  - member to member
  - member to staff
  - have moderator and rules
- f. Draw on resources of local risk management education programs at colleges for recruitment of interns and low cost training.
- g. Send more Risk Management Committee proceedings out to the full Board.