

DRAFT



ABAG PLAN CORPORATION

**Board of Directors
Planning Meeting
October 18, 2006**

**Club Room
Half Moon Bay Lodge
2400 S. Cabrillo Highway
Half Moon Bay, CA 94019**

Summary Minutes

PRESIDING:

Larry Anderson

Burlingame

MEMBERS PRESENT:

| | |
|--------------------|---------------------|
| Bronda Silva | American Canyon |
| Wendè Protzman | Atherton |
| Heather McLaughlin | Benicia |
| Jesse Takahashi | Campbell |
| Laura Allen | Colma |
| Sandy Abe | Cupertino |
| Julie Carter | Dublin |
| Kristi Chappelle | Foster City |
| LeeAnn McPhillips | Gilroy |
| Jud Norrell | Half Moon Bay |
| Terry Houk | Half Moon Bay |
| Phil Rose | Los Altos |
| Carl Cahill | Los Altos Hills |
| Emma Karlen | Milpitas |
| Jack Dilles | Morgan Hill |
| Maureen Lennon | Pacifica |
| Gary Broad | Ross |
| Jim O'Leary | San Bruno* |
| Shawn Mason | San Mateo |
| Jim Steele | South San Francisco |

LEGAL COUNSEL:

Peter Urhausen, Gibbons & Conley, for the City of Pacifica

STAFF PRESENT:

Marcus Beverly, ABAG PLAN Risk Manager,
Angela Salsbury, ABAG PLAN Claims Manager
Ken Moy, ABAG PLAN Legal Counsel, for agenda items 7-12

MEMBERS ABSENT

| | |
|----------------|----------------|
| M.L. Gordon | East Palo Alto |
| Kathy Leroux | Hillsborough |
| Orry Korb | Los Gatos |
| Jeff Killian | Millbrae |
| Gary Galliano | Newark |
| Angela Howard | Portola Valley |
| Jeff Maltbie | San Carlos |
| Barbara Powell | Saratoga |
| Jim Randall | Suisun |
| Peggy Curran | Tiburon |
| Susan George | Woodside |

1. CALL TO ORDER & INTRODUCTIONS / OPENING REMARKS:

The meeting was called to order at 8:40 a.m. Larry Anderson, Chair and City Attorney of Burlingame, welcomed those in attendance. Introductions were made by members and attendees.

2. PUBLIC COMMENTS: None

3. APPROVAL OF MINUTES, BOARD OF DIRECTORS MEETING JUNE 7, 2006

The Board of Directors meeting minutes for June 7, 2006, were approved as presented.
/M/Mason/S/Chappelle/C/approved

4. Overview of Past & Current Strategic Objectives

Marcus Beverly presented a Power Point overview of the PLAN's strategic objectives over the years, particularly how our funding philosophy has developed and led us to our current objectives. This included a discussion of pool funding objectives in general and how they impact the amount of reserves needed to achieve them.

For example, some pools maintain reserves for outstanding liabilities at a 70% confidence level or lower, but are prepared to assess members when needed and tend to pay for other services themselves or in administrative fees. The PLAN members have maintained reserves in excess of a 90% confidence level in order to be able to raise the pool's Self-Insured Retention (SIR) as needed to provide additional limits or in response to insurance market cycles. In addition, the members have leveraged those funds to provide risk management services and grants, maintain annual premiums at a 50% confidence level, and absorb the impact of a large loss.

The presentation included a review of our strategic objectives over the last five years and the most current objectives, set in 2004, that focused primarily on investing in risk management programs. We have achieved a number of the objectives, including higher limits of coverage, and continue to focus on each member completing the standards in the Risk Management Policy. The Board also reviewed an outline of staff's expected strategic objective focus over the next three years.

The Board members and staff discussed our funding goals and the rationale behind prior decisions. Discussion included current member objectives, how much in reserve is enough, other uses of funds, incentives, and the various tradeoffs between funding, services, and risk. Staff provided a comparison of the pool's net expenses with and without the SIR fund as a way of illustrating the pool's efficiency, expense trends, and cost of maintaining current reserves.

5. Future Needs & Strategic Issues

The discussion continued after a break with a focus on the future needs of the pool. Members were asked to rank their preference for a number of uses of our reserve funds, with the following results:

Uses for Reserve Funds
Rank Your Preference
First & second-place votes listed after choice

- # 1 Reduce Premiums (subsidize the rate) 9 + 4 = 13 total
- # 2 Increase Services - esp. Risk Control 7 + 4 = 11 total
- # 3 New Programs or Coverages 0 + 6 = 6 total
- # 4 Stabilize Premiums (cap individual increases) 3 + 1 = 4 total
- # 5 Dividends 0 + 2 = 2 total
- # 6 Increase Occurrence Limit (more insurance or higher SIR) OK with \$15-20 Mil
- Growth 0
- Increase or decrease SIR (buy less or more insurance) 0
- Other? 0

Discussion of coverage included pollution, EPL, Work Comp, and inverse, especially in light of the likely impact of Proposition 90 if it passes in November.

Board members and staff also reviewed the trends that may impact the pool, including loss trends, changing demographics, budget pressures, the impact of GASB 45 on medical benefits, more government service mergers, and the increasing strain on infrastructure.

Members provided feedback regarding the strengths, weaknesses, opportunities and threats facing the pool, including the prospect of losing members, the impact of natural disasters, and the difficulty of updating our risk coverage agreement.

Overall the members expressed a positive view of the pool's current direction and strengths, including the risk management programs, active participation by members, and resources that give us options and the ability to maintain and improve our current offerings.

The general direction provided by the Board was to affirm the objectives from 2004, with continued emphasis on risk management, maintaining the higher limits we have achieved, and continuing to refine how we use reserves to provide incentives for members to maintain sound risk management programs. Other goals such as premium stability will need to be addressed as we implement these changes and determine the impact of recent claims on the pool.

6. Risk Management & Administrative Services

A. Staffing and Funding of RM Services

Marcus Beverly discussed the agenda packet report outlining the current staffing and funding of our risk management programs. The report includes a breakdown of staffing and administrative activities divided between claim, pool and risk management functions. Most of the risk management program has been outsourced to various consultants, with a portion of the activities done in-house, primarily by accounting staff and the Risk Manager. The outsourced functions have been paid for from reserves thus far.

The Board was asked for feedback regarding their satisfaction with the current level of services, staffing, and funding, and to provide direction regarding whether or not certain functions should be provided in-house. The functions were broken down into administrative

analyst and outside technical services. The Board and staff discussed the pros and cons of staffing v. contracting for the services, including the expected cost of a staff position and the cost we are currently paying to outsource.

The general consensus was that the members were happy with the services being offered and the personnel providing them. There is some expectation that the amount of in-person assistance needed will level off once members have achieved the best practice standards, but we may also find raising awareness of risk management will lead to more need for technical assistance. In addition, the RM Policy calls for in-person follow up every 2-3 years as a means to audit members and to assist in implementing new standards. Given that we are still uncertain of our ultimate needs, and because we need flexibility in the technical skills provided, the members agreed we should continue to outsource this function.

As for the administrative analyst function, there is a certain amount of the work, such as contract management, that can't be outsourced. However, there are some other clearly defined functions, such as training coordination and risk management analysis, that could continue to be outsourced. The Board discussed the assumptions made in the report, the pros and cons of hiring a staff person, and the options we have for staffing outside or sharing resources. The direction provided was that staffing the position made sense if needed to continue the administration of the risk management program. The issue will be addressed in more detail with the Risk Management Committee at their meeting on December 6.

B. Allocation of Administrative Expenses

Marcus Beverly presented a staff report recommending several changes in the administrative expense allocation formula for FY 07-08 funding. The first recommended change is to allocate 20% of the total expense to the Property Program, and the remaining 80% to the Liability Program. The Property Program expenses would be allocated to members using the same formula as in the Liability Program, with a certain amount of fixed expense and a variable component based on the number and size of a member's claims.

The presentation outlined the current Liability expense allocation formula and the rationale behind splitting the total between fixed and variable expenses. A breakdown of the amount of expense associated with claims administration v. all other was provided and discussed, including the rationale for staff's recommendation to change the percentage of fixed v. variable expenses from the current 60-40% split to a 33-67% split.

Another recommended change was to cap a member's total administrative expense to no more than 100% of its loss funding. For smaller members the fixed portion of the administrative expense has increased over the years to be more than their loss funding. While smaller members would be expected to pay a higher percentage of admin to loss funding than larger members, due to the relatively higher overhead costs of servicing any smaller customer, the current balance between overhead and funding has made us uncompetitive. Reducing the fixed expenses from 60% to 33% will correct much of this, but if any member's expense remains greater than their loss funding, staff recommends the expense be capped.

After discussion, a motion was made to accept the recommendations listed in the requested action of the staff report:

- Split the total admin 20% to the Property Program and 80% to the Liability Program
- Split the expenses for both Programs 33% fixed, 67% variable, keeping the current variable allocation.
- Cap the expense to any one Member at no more than 100% of loss funding.

/M/Rose/S/Broad/C/approved

7. Dispute Resolution

Kenneth Moy, ABAG PLAN Legal Counsel, presented and discussed a memo to the Board reviewing the PLAN's options for dispute resolution on coverage decisions. He described how the PLAN may address this issue in the future by amending the Revised Risk Coverage Agreement (RRCA).

The key issue is whether disputes will be resolved by litigation or a form of alternative dispute resolution that grants deference to the Board's decision on coverage. There was general discussion regarding the benefits of alternative dispute resolution.

The Board members and staff discussed the fact that amending the RRCA requires approval by all PLAN Program Members and that such approval may include a vote at the City/Town Council. Phil Rose of Los Altos voiced a concern that council members might feel that they are giving up a right (to file a lawsuit) and therefore may not agree to alternative dispute resolution. The Board also discussed whether or not to include amendments of other provisions of the RRCA.

The general direction of the Board was to move forward with a recommendation to amend the RRCA to include alternative dispute resolution for coverage disputes. In addition, the Board expressed a desire to review any other proposed changes to the RRCA or the Memorandum of Coverage.

8. Belvedere – Withdrawal Status and Process

(note – item was addressed out of order, after item 6. and before item 7.)

Marcus Beverly advised the Board that Belvedere was informed in writing that no decision has been made regarding an allocation of funds and what, if any, funds may be due or payable as a result of their withdrawal. While staff had anticipated the Board would discuss the issue at this meeting, there is no pressing need to do so, and as such the time was spent focusing on the strategic issues normally addressed at this meeting.

Please Note: Item 9. was discussed in closed session pursuant to the requirements of the Ralph M. Brown Act. All actions taken were announced in open session prior to the adjournment of the meeting.

9. Conference with Legal Counsel – anticipated or existing litigation

- Pacifica v. ABAG PLAN**

10. Open session – Announcements

Kenneth Moy announced that the Board met and discussed the subject lawsuit and no reportable action was taken by the Board.

11. Other Business – none presented

12. Adjournment – meeting was adjourned at 3:45 p.m.

Respectfully submitted,



Marcus Beverly
Risk Manager and Secretary