



CALIFORNIA JOINT POWERS RISK MANAGEMENT AUTHORITY

BOARD OF DIRECTORS MEETING

February 14, 2002 – 9:35 A.M.

**Hiddenbrooke Golf Club
1095 Hiddenbrooke Parkway
Vallejo, CA 94591**

(707) 558-0330

Minutes

I. CALL TO ORDER:

President Henderson called the meeting to order at 9:35 a.m.

II. ROLL CALL

PRESENT

- | | |
|--|---------------------------------------|
| 1) Darrell Handy, <i>Alameda</i> | 9) Sharon Andrus, <i>San Rafael</i> |
| 2) Bob Koch, <i>Chico</i> | 10) Bill Kaslar, <i>Santa Rosa</i> |
| 3) Robyn Kain, <i>Fairfield</i> | 11) Roger Carroll, <i>SCORE</i> |
| 4) Patricia Born, <i>Fremont</i> | 12) Rick Taylor, <i>Stockton</i> |
| 5) Bill Henderson, <i>Livermore</i> | 13) Barbara Coats, <i>Sunnyvale</i> |
| 6) Randy Graham, <i>NCCSIF</i> | 14) Paul Wildermuth, <i>Vacaville</i> |
| 7) Carolyn Lyons, <i>Roseville</i> | 15) David Lindquist, <i>Vallejo</i> |
| 8) Mary Richardson, <i>San Leandro</i> | 16) Jeff Tonks, <i>YCPARMA</i> |

ABSENT

Lodi, Petaluma, REMIF, Redding

OTHERS PRESENT

- | | |
|---|--|
| 1) Kay Chandler, <i>Chandler Asset Management</i> | 5) Mark McGonigle, <i>Driver Risk Services</i> |
| 2) Lola Deem, <i>CJPRMA</i> | 6) Byrne Conley, <i>Gibbons & Conley</i> |
| 3) Robert German, <i>CJPRMA</i> | 7) Pat Clark, <i>Marsh</i> |
| 4) Caren White, <i>CJPRMA</i> | 8) Phyllis Sammon, <i>Marsh</i> |
| | 9) Gus Guinan, <i>San Rafael</i> |

III. APPROVAL OF MINUTES

A motion by Director Wildermuth, seconded by Vice President Koch, to approve the minutes of the November 15, 2001 Board of Directors meeting, passed unanimously.

IV. PRESENTATIONS

- None

V. CONSENT CALENDAR

- 1. Financial Reports of CJPRMA for the Periods Ending September 30, October 31, November 30 and December 31, 2001**
- 2. Additional Covered Party Certificates Approved by the General Manager**
- 3. Notification of New Claims Received**
- 4. Notification of Claims Closed**
- 5. Appointment of New Board Members/Alternates.**

A motion by Director Kaslar, seconded by Director Kain, to approve the Consent Calendar, passed unanimously.

VI. THIS TIME IS RESERVED FOR MEMBERS OF THE PUBLIC TO ADDRESS THE BOARD OF DIRECTORS ON MATTERS OF BOARD BUSINESS

Board Counsel reported on three recent cases, Dixon v. Livermore, Bernhardt v. County of Los Angeles and the Tucker Land Company case. He also discussed another case in which attorney's fees of \$500 per hour had been awarded.

The General Manager said that they needed to add one item, Born v. City of Loomis, to the Closed Session, on an emergency basis.

A motion by Director Born, seconded by Vice President Koch, to add Born v. City of Loomis to the Closed Session, passed unanimously.

VII. ACTION CALENDAR

6. Report on Office Space

The General Manager said that, after an extensive search, new office space had been located in San Ramon. He said that the move would occur during the month of May. He said that the increased cost for the new space was approximately \$28,800 per year. He said that they would continue to look for a lot upon which to build, or for a building to purchase, as a permanent facility.

7. Report from Investment Manager

Ms. Kay Chandler, of Chandler Asset Management, was present to discuss the Investment Report, dated December 31, 2001.

Additionally, she discussed the fluctuations in the economy and what that meant in terms of interest rates and the investment portfolio, as well as the impact that the events of September 11 had had on investments. She said that their portfolio had done quite well, despite declining yields elsewhere. She said that the investment policy that the Board had adopted, and that had been implemented, was working well and that they were in compliance with every aspect of it.

Ms. Chandler then addressed the proposed resolution of the PG&E note. She said that her firm had joined with a group of other bond holders and retained legal counsel so that they could have a voice in the PG&E bankruptcy proceedings. She said that the group had negotiated a settlement, for bond holders, with PG&E, and that she was asking the Board to authorize her to sign the settlement and support agreement on their behalf. She said that the terms of the settlement agreement stated that all of the bond holders would receive back interest from March 1, 2001 through the current date (approximately \$60,000); that they would be paid within ten days of the judge approving the agreement; and that from the date that they received the interest, interest would accrue and be paid every six months at the coupon rate on the bond, which was 5.93%. She said that, in return, the bond holders would be required to support PG&E's reorganization plan and no other. She said that her feeling was that, as fiduciaries of CJPRMA, their role was to do everything they could to ensure that the bond was paid.

Director Born asked what supporting PG&E's plan meant. Ms. Chandler said that it meant not supporting the PUC's plan. She said that it meant that they couldn't file another claim or vote for another plan.

Vice President Koch asked if they would be using CJPRMA's name for political purposes. He said that that could be a problem if it got back to their

public agencies. Ms. Chandler said that she would ask that question of the attorneys and get back to them. She said that Chandler Asset Management would be the signatory to the agreement, and not CJPRMA.

Vice President Koch asked if you had to be a signatory in order to get paid. Ms. Chandler confirmed that bond holders that did not sign would not get paid.

Ms. Chandler said that there were about \$5 billion in PG&E bonds outstanding and that the agreement would not go into effect unless the owners of \$3 billion signed it. She said that the people in the ad hoc committee represented about \$2 billion and that they knew of approximately \$1 billion more who were planning to sign. She said that Chandler Asset Management represented \$2 million in PG&E bonds.

The General Manager asked how soon they would need to have an answer. Ms. Chandler said that they were expecting the payment to be made prior to April 1, and that they would need an answer before that.

President Henderson asked if Ms. Chandler could provide them with a summary report. Ms. Chandler said that Board Counsel had just received it.

The General Manager suggested that they pass a motion that granted Ms. Chandler the authority to sign the agreement on their behalf, subject to Board Counsel's review of the settlement documents. He said that if, for some reason, Board Counsel objected or had questions, then he would have veto power.

President Henderson said that he would like to be able to take the proposed agreement back to his finance director for review.

Ms. Chandler said that it would also be possible for them to withdraw their support for the agreement after the interest payment had been made. She said that they would just not be part of the group going forward.

Board Counsel said that, if they had a note that was not covered by the settlement agreement, the value would be less. He said that, if they signed the settlement agreement, they could sell the note for full value.

The General Manager said that CJPRMA was the owner of the bond, so it would be CJPRMA supporting the agreement and not the individual members.

Director Tonks said that they had a fiduciary duty to CJPRMA. He said that, if the agreement protected the assets of CJPRMA, their fiduciary duty required them to accept it.

Director Richardson said that, as an employee of a city currently involved in a lawsuit against PG&E, she would want to make sure that the city was comfortable with the position she took as a board member.

Ms. Chandler said that they would sell the bond as soon as it hit par. She said that she thought that the price of the bond, after the back interest payment, would be very close to the cost of the bond. She said that if they were to sell it that day, without the accrued interest, they would lose money.

President Henderson said that they could just sell the bond and not have to worry about the PG&E agreement. Ms. Chandler said that they could but that it seemed uneconomic to her. She said that they could not take politics into account when performing their fiduciary duty.

President Henderson said that he was not comfortable making this decision without talking to other people in his organization.

Ms. Chandler said that, if people signed the agreement so that the interest would be paid, and then dropped out of the agreement later, leaving less than \$3 billion worth of bonds under the agreement, then interest would stop accruing.

The General Manager said that they could sign the agreement, get the interest and then sell the bond.

President Henderson said that they should have enough time to take a copy of the settlement agreement back to their agencies for discussion.

The General Manager asked if they could have until March 1 to make a decision. Ms. Chandler said that she would need to have an answer sooner than that.

President Henderson asked what the Government Finance Officer's position was. Ms. Chandler said that they had not taken a position. She said that her other client, another public agency, had already executed the agreement.

A motion by Director Lindquist, seconded by Director Wildermuth, to grant Chandler Asset Management the authority to sign the PG&E agreement on behalf of CJPRMA, and to sell the bond once the back interest has been received, passed by a vote of 10 to 2, with four abstentions.

8. Report from Broker on Insurance Renewals

Ms. Phyllis Sammon and Ms. Pat Clark, of Marsh, were present to provide a status update on the renewals of the various commercial insurance programs.

Ms. Clark said that they had been in the excess liability market as well as the auto physical damage market since November. She said that the market issues that they were facing were capacity, pricing and availability. She said that there were some very positive things about their excess reinsurance placement. She said that (1) they had two strong partners on their program; (2) they had made a very prudent decision in November to purchase an extra \$10 million in coverage; and (3) they had a high attachment point. She said that there might be some slight reinsurance modifications, but that they would keep everyone informed as they went forward.

Ms. Clark said that the second commercial line she would talk about was Auto Physical Damage. She said that Fireman's Fund had been a longtime partner with CJPRMA on the APD program, and that they wanted to stay with it. She said that she had spoken to the underwriter and that, at that point in time, he was only anticipating a nominal increase, but that that was subject to change. She said that they would strive to get the quotes ready for the April retreat, but that the market might not allow it.

President Henderson said that most of the members were in the midst of the budget process. He asked Ms. Clark if she could estimate what kind of increases they could anticipate. Ms. Clark said that it was too early to make any guesses. Ms. Sammon said that, on the property side, the majority of the increases were between 50% and 100% and that sometimes they were as high as 200%. The General Manager suggested that they just double what they paid last year. Ms. Sammon said that that would probably be the best thing to do. She said that they were in an enviable position on the property line, because they were still involved in a three-year deal. She said that there could still be modifications to that line, or to the excess line, which could result in increases. Ms. Clark said that that applied to both the property and casualty lines. She said that they needed to remember that they were coming off of a three-year program for reinsurance that had been purchased in a very soft market.

The General Manager said that they also needed to factor in increases in payroll. He said that he would estimate a minimum increase of 20% to 25% on the liability program and a 100% increase in the other program lines, just to be safe.

President Henderson asked if the same increases could be expected on their individual crime policies. Ms. Clark said that those increases would not be as substantial as they would be in the property and casualty markets.

Ms. Sammon suggested that they carefully check the credit ratings of any policies they received from third parties. She suggested that they use Standard & Poors, as well as Best, for rating purposes.

Ms. Sammon said that the property market had started to tighten in 2000 after catastrophic losses in 1999, but that they had entered into a three-year rate guarantee program at that time. She said that they had a good loss history. She said that there could still be some modifications to the program due to the renewal of treaties. She said that what they were seeing was the exclusion of terrorism, which was currently covered under their program. She said that there should be no modifications, though, because the contract didn't expire until 2003.

President Henderson asked if there was any word from Washington on the FEMA issue. Ms. Sammon said that they had heard nothing regarding the terrorism, earthquake or flood issues.

Ms. Sammon said that, if the excess property carrier (Chubb) needed to reduce its limit, they could look at quota sharing or making one carrier \$95 million excess of \$5 million and having another carrier cover the top layer, or even consider reducing the limits. She said that fire limits were per occurrence with no aggregate. She said that they needed to think about whether they had any concentration of high values where an explosion or fire would be considered as one occurrence.

Ms. Sammon said that they would try to have renewal quotes by April.

Director Kaslar asked if every property participant really did a full value assessment every six months. He said that he only did it once a year. Ms. Sammon said that once a year was what was asked for.

9. 2001 Claims Audit

Mr. Craig Bowlus, of Marsh, Inc., was present to discuss the results of the 2001 Claims Audit.

Mr. Bowlus only had four recommendations. They were:

- 1) CJPRMA should increase its focus on monitoring reporting from members when there is a personnel change in the City Attorney's office, Risk Management or when there is a change in TPAs. Any reporting lapses should be aggressively pursued.
- 2) CJPRMA should add copies of the audit review sheets to its files. Copies of excess reserve evaluation sheets should be added to watch list files.

- 3) In consideration of the hardening insurance market, CJPRMA should clearly document the basis for the reserves it sets within the risk-sharing layer.
- 4) Members should inspect older playground equipment and insure there are no protruding bolts that could seriously injure a user.

Mr. Bowlus said that they General Manager had been very proactive and creative in resolving cases.

He also said that the disparity between primary and excess reserving had, for the most part, disappeared.

Board Counsel said that, currently, the General Manager would request that reserves be set on specific cases at Board meetings. He said that if they wanted to change that, they could have the General Manager put reserves on cases as the need arose.

Director Kain said that she thought it was better to be conservative and keep the reserves up until a file had been closed.

Director Handy said that he agreed with Director Kain and that they should keep reserves on a case until it was closed. He said that they could decrease reserves based on risk.

The General Manager said that they were reserving at full value, based on the anticipated loss, so that there would be no surprises down the road, but that they could change that philosophy, if the Board so desired.

President Henderson asked the Board if they felt that the reserving practices needed to be changed.

Director Wildermuth said that he agreed with the conservative approach. He said that they could give the General Manager authority to set reserves, as needed, and then bring them to the Board for confirmation. The Board agreed.

10. Review of Organizational Goals and Objectives

The General Manager said that the Annual Report would be sent to the printers, shortly, that a marketing brochure had been created for use on a temporary basis, and that he had had a lot of contact with outside organizations regarding membership. He said that he and President Henderson had visited the City of Richmond, with positive results, and that

PERMA was going to make application. Director Born said that she had had contact with the City of Hayward and that she and the General Manager would be meeting with its City Attorney. She said that she had also talked to the City of Daly City, which currently had a \$100,000 SIR, but that they might be too small. She said that they had been very receptive and that she would follow up. She said that she and Director Coats had talked to the City of Santa Clara and that they would be a great addition. The General Manager said that President Henderson had talked to the City of Salinas and that they had sent them some information as well. The General Manager said that he had made it clear to the people he was talking to that he was not selling something, and that they would need to make application and meet certain criteria in order to become members.

VIII. COMMITTEE REPORTS

A) Claims: Patricia Born, Chair

Director Born said that the Claims Committee was still gathering model policies dealing with the mentally ill and sexual harassment. She asked that the members send such policies to Board Counsel. Board Counsel said that he had three different model policies for the Claims Committee review at their next meeting. Director Born said that they would schedule a meeting prior to the April Board meeting.

B) Coverage: Jeff Tonks, Chair

The Coverage Committee had nothing to report. The General Manager said that they would schedule a meeting prior to the April Board meeting.

C) Personnel: Carolyn Lyons, Chair

The Personnel Committee had nothing to report.

D) Communications: Bob Koch, Chair

The Communications Committee had nothing to report.

E) Finance: Paul Wildermuth, Chair

The Finance Committee had nothing to report.

IX. CLOSED SESSION

1. **Government Code Section 54954.5(a)**

Case Review/Planning

2. **Government Code Section 54956.9 (a)**

Conference with Legal Counsel - Pending Litigation

Name of Case: County of Solano v. City of Vallejo

Court: Court of Appeals, First Appellate District

Case No.: A082666

3. **Government Code Section 54956.9 (a)**

Conference with Legal Counsel - Pending Litigation

Name of Case: Lifton v. City of Vacaville

Court: United States District Court, Eastern Division of California

Case No.: CIV-S-98-1678 DFL DAD

4. **Government Code Section 54956.9 (a)**

Conference with Legal Counsel - Pending Litigation

Name of Case: Thompson v. City of Orinda

Court: Contra Costa County Superior Court

Case No.: C 98-03939

5. **Government Code Section 54956.9 (a)**

Conference with Legal Counsel - Pending Litigation

Name of Case: Norman v. City of Stockton

Court: San Joaquin County Superior Court

Case No.: CV 013110

6. **Government Code Section 54956.9 (a)**

Conference with Legal Counsel - Pending Litigation

Name of Case: Davis v. City of Auburn

Court: San Placer County Superior Court

Case No.: SCV9736

7. **Government Code Section 54956.9 (a)**

Conference with Legal Counsel - Pending Litigation

Name of Case: Born v. City of Loomis

Court: Placer County Superior Court

Case No.: SCV10973

X. ACTION ON CLOSED SESSION ITEMS

A motion by Director Born, seconded by Director Andrus, to approve the proposed settlement of \$2.85 million in Norman v. City of Stockton, passed unanimously.

XI. ADJOURNMENT

The General Manager said that the April meeting would be two and a half days, with the first day for the Board meeting and the remainder of the time for training. He said that he would encourage them to bring people to the training sessions if they felt that it would be beneficial to them.

A motion by Director Born, seconded by Director Wildermuth, to adjourn the meeting at 1:15 pm, passed unanimously.