Nevada Public Agency Insurance Pool
Public Agency Compensation Trust
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Minutes of Joint Meeting of the Executive Committees of Nevada Public Agency Insurance Pool and for Public Agency Compensation Trust

Date: April 24, 2007
Time: 2:00 P.M.
Place: Conference Call and
201 S. Roop St., Conference Room 1
Carson City, Nevada 89701

1. Roll

Members Present: Mike Rebaleati, Alan Kalt, Cash Minor, Claudette Springmeyer, Roger Mancebo, Dan Newell, Mike Tourin, Paul Johnson, Linda Bingaman, Jeff Zander, Lisa Jones, Mike Pennacchio, Toni Inserra
Members Absent: Marilou Walling
Others present: Wayne Carlson, Doug Smith, Debra Connally, Bob Lombard

2. Action Item: Approval of Minutes of Meetings:
a. Joint Executive Committee of March 6, 2007

On motion and second to approve the minutes, the motion carried.

3. Action Item: Approval of Prospective Members
a. POOL – Lincoln County Water District
b. PACT – Lincoln County Water District

Wayne Carlson noted that this district was formed by Lincoln County three years ago, but they overlooked obtaining insurance coverage. The commissioners also serve as the district board. The purpose of the district is to procure water rights. They have one staff member and an office and have had no losses since they were formed. On motion and second to approve membership in both POOL and PACT, the motion carried.

4. Action Item: Select POOL and PACT Program Renewal Options

PACT: Chairman Kalt asked Bob Lombard to begin with a review of the PACT program options. Bob noted that Willis Pooling had approached several markets, some of which declined to offer terms for varying reasons. Several quote options were obtained from Midwest Employers Casualty Company (MECC), County Reinsurance, Ltd. (CRL), Safety National and ACE. In all, there were 16 options that resulted from mixing various layers with multiple insurers. Bob noted that he had shown an illustration of the program costs from the current insurer using the 2006-07 rates and applying them to the estimated 2007-08 payroll as a benchmark for the options. He indicated that MECC offered renewal terms using the current self-insured retentions and limits.

Wayne Carlson noted that while all 16 options were shown, staff had eliminated eight of the options as less attractive than the remaining eight that the Executive Committee would review for presentation to the board. Doug Smith commented that some of the options included use of a captive, if formed by PACT, to take varying portions of the retention and/or aggregate excess limits. After Bob completed his explanation of each option, Doug then reviewed the various scenarios for use of the captive and the advantages of forming a captive. Considerable discussion ensued about each option and whether the captive should be formed as well. Overall, the committee expressed support for formation of the captive and wanted to show some of those options to the board along with options that did not include the captive.

On motion and second to include options 1, 2, 3, 15 and 16 as described below, the motion carried:
Option 1: MECC; current retention structure of $750,000 on police/fire codes, $350,000 on all other codes, a $750,000 corridor deductible and aggregate excess insurance;
Option 2: MECC; current retention structure of $750,000 on police/fire codes, $350,000 on all other codes; a $750,000 corridor deductible, but without aggregate excess insurance; use of the new captive to provide additional specific and aggregate excess coverage;
Option 3: MECC; retention structure of $750,000 on all codes with a $750,000 corridor, but without aggregate excess insurance; use of the new captive to provide additional specific and aggregate excess coverage;
Option 15: CRL/MECC; retention structure of $500,000 on all codes with a $500,000 corridor up to $2,500,000 limit from CRL with the new captive splitting CRL's limit by bearing 25% and CRL bearing 75% of each loss; MECC from $2,500,000 to statutory with aggregate excess insurance; use of the new captive to provide additional aggregate excess coverage;
Option 16: CRL/MECC; retention structure of $500,000 on all codes with a $500,000 corridor up to $2,500,000 limit from CRL; MECC from $2,500,000 to statutory with aggregate excess insurance;

POOL: Chairman Rebaleati asked Bob Lombard to review the six POOL options. Bob commented that he showed in the first column the estimated premiums using the 2006-07 rates and applying them to the 2007-08 exposure bases. He then reviewed the five options from renewing with the same $200,000 property retention and $500,000 liability retentions with current reinsurers to options that included increasing capital to Public Risk Mutual in order for PRM to take additional layers of risk on property and/or liability. One option included a quota share with County Reinsurance, Ltd. (CRL) in which CRL would take 70% or 80% of the CRL layer and PRM would take 20% or 30% of the CRL layer. Also considered was an option for replacing MARP with a CRL/AIG option.

Wayne Carlson reviewed the loss ratio the POOL has with MARP for the last six years, noting that primarily due to a single large loss in 2001-02, the loss ratio was 96% for the MARP layer. The actual loss ratio for that year was 529% and zero for the next five years. In spite of this, MARP reduced its price slightly even though exposures had risen. Regarding AIG, Wayne reminded the committee that the POOL had a history with AIG several years ago in which we had to sue to force them to pay their share in two separate cases due to their claims practices. Even though their price is lower than MARP, he indicated that claims handling must be considered in determining whether to consider their option. Doug Smith echoed the comments from his own experience. Alan Kalt talked about the importance of having strategic partners aligned with our mission. Roger Mancebo commented that since CRL has been a strategic partner, it would be troublesome to have to sue them to get AIG to pay. In addition, Roger said that MARP's price reduction in light of the loss ratio showed their willingness to remain a strategic partner.

On motion and second to include the renewal based upon current terms and Option 3, which increases the property retention to $250,000 plus a $250,000 corridor, including possibly increasing capital to Public Risk Mutual in order for PRM to take additional layers of risk on property and/or liability, the motion carried.

5. **<u>Action Item:</u>** **Review Capitalization Strategy and Retention Options for Captives**

Wayne Carlson reviewed the capitalization strategy spreadsheet he developed in order to assess what the effect of varying retention and captive retention options would have on meeting the board policy objectives to maintain an equity-to-retention ratio of at least 12:1. Strategy spreadsheets were developed for both POOL and PACT considering the various quote options discussed under Action Item 4. Wayne Carlson reviewed the capitalization options for a PACT captive at a minimum of $3,000,000 to $5,000,000 and how those amounts support the various options being considered for PACT. Doug reviewed the reasons for creating a PACT captive and the various options being considered in light of available capital. Doug reviewed the options he would be presenting to the PRM board for consideration and the needed additional capital to support those options.

PACT: On motion and second to recommend to the board to fund the creation of a new captive for PACT and to capitalize it with $5,000,000, the motion carried.

POOL: On motion and second to recommend to the board additional capitalization of Public Risk Mutual in the amount of $2,000,000, the motion carried.

The committee requested that Bob Lombard send them the final presentation slides he would be using at the board meeting.

6. Public Comment

None was received.

7. <u>Action Item:</u> Adjournment

On motion and second to adjourn, the meeting adjourned at 3:31 p.m.