REMIF
REDWOOD EMPIRE MUNICIPAL INSURANCE FUND

414 W. Napa St. • P.O. Box 885 • Sonoma, CA 95476 • 707.938.2388 • Fax 707.938.0374
Members: Arcata Cloverdale Cotati Eureka Fort Bragg Fortuna Healdsburg Lakeport
Rohnert Park St. Helena Sebastopol Sonoma Ukiah Willits Windsor

REMIF BOARD OF DIRECTORS' SPECIAL TELEPHONIC MEETING

August 14, 2019 – **9:00 A.M.**
REMIF, 414 W. Napa Street, Sonoma, CA 95476

1. *City of Arcata, City Hall, City Manager's Office, 736 F Street, Arcata, CA 95521*
2. *City of Cloverdale, City Hall, 124 N. Cloverdale Blvd., Cloverdale, CA 95425*
3. *City of Cotati, City Hall, 201 W. Sierra, Cotati, CA 94931*
4. *City of Eureka, 531 K Street, Eureka, CA 95501*
5. *City of Fortuna, City Hall, 621 11th St., Fortuna, CA 95540*
6. *City of Fort Bragg, City Hall, City Manager's Office, 416 N. Franklin St., Fort Bragg, CA 95437*
7. *City of Healdsburg, City Hall, 401 Grove St., Healdsburg, CA 95448*
8. *City of Lakeport, 225 Park St., Lakeport, CA 95453*
9. *City of Rohnert Park, City Hall, City Manager's Office, 130 Avram Ave. Rohnert Park, CA 94928*
10. *City of Sebastopol, City Hall, City Manager's Office, 7120 Bodega Avenue, Sebastopol, CA 95472*
11. *City of Sonoma, City Hall, 2nd Floor, No. 1 The Plaza, Sonoma, CA 95476*
12. *City of St. Helena Fire Dept., 1500 Main St., St. Helena, CA 94574*
13. *City of Ukiah, City Hall, 300 Seminary Ave., Ukiah, CA 95482*
14. *City of Willits, City Hall, City Manager's Office, 111 E. Commercial, Willits, CA 95490*
15. *Town of Windsor, 9291 Old Redwood Hwy., Bldg. 400, Windsor, CA 95492*

AGENDA

CALL TO ORDER: 9:00 A.M.

ROLL CALL

PUBLIC COMMENT
TIME RESERVED FOR THE PUBLIC TO OFFER COMMENTS REGARDING CONSENT CALENDAR OR BOARD BUSINESS NOT LISTED ON THE AGENDA. THE PUBLIC COMMENT PERIOD IS LIMITED TO FIVE MINUTES PER SPEAKER UNLESS ADDITIONAL TIME HAS BEEN ALLOWED BY THE CHAIRPERSON. STATE LAW PROHIBITS ACTION BY THE BOARD ON NON-AGENDA ITEMS.

COMMUNICATIONS - None

PRESENTATIONS - None

CONSENT CALENDAR ***(I) Information Item (A) Action Item***
None

ACTION (A) AND INFORMATION (I) CALENDAR
1. REMIF's Self-Insured Retention Layer on the Property Program (A)

PUBLIC COMMENT
TIME RESERVED FOR THE PUBLIC TO OFFER COMMENTS REGARDING CLOSED SESSION ITEMS THE PUBLIC COMMENT PERIOD IS LIMITED TO FIVE MINUTES PER SPEAKER UNLESS ADDITIONAL TIME HAS BEEN ALLOWED BY THE CHAIRPERSON. STATE LAW PROHIBITS ACTION BY THE BOARD ON NON-AGENDA ITEMS.

ADJOURN INTO CLOSED SESSION - None

REPORT OUT OF CLOSED SESSION

ADJOURNMENT

I, _________________________, certify that this document has been posted at my location on

___________________________(date)

City/Town:_______________________________ ___________________________________

Signature

____

Print Name

Once posted and signed, please scan and email a copy back to Anna Santos at REMIF

Per Government Code section 54954.2, persons requesting disability-related modifications or accommodations, including auxiliary aids or services in order to participate in the meeting, are requested to contact REMIF at (707) 938-2388 ext. 100, 24 hours in advance of this meeting.

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AGENDA ITEM SUMMARY **ITEM 1.0**

TITLE: **REMIF'S SELF-INSURED RETENTION LAYER ON THE PROPERTY PROGRAM; INCREASES TO REMIF'S SELF-INSURED RETENTION (OR DEDUCTIBLE) LAYER**

PRESENTED BY: **AMY NORTHAM, GENERAL MANAGER AND RITESH SHARMA, FINANCE DIRECTOR**

ISSUE

After the June Board of Directors meeting, the excess carrier increased REMIF's self-insured retention (or deductible). Additional funding is needed to account for this increase, unless member deductibles are increased (and then no additional funding is needed). Changes to the property program require ratification by the Board of Directors.

BACKGROUND

I. Background: The State of the Market – Property Coverage

While the property insurance market began to head south earlier this calendar year, the market took a nosedive toward the end of the second quarter of 2019. Initially the market experts projected rate increases of around 10-15%. By late May, the market projections for our renewal were headed towards 40% increases. The accelerator button on rate increases continued through the end of June. While some carriers were cancelling policies all together, particularly in high-risk areas, others were demanding rate increases of between 40% and 70%, on average. Some entities saw increases of between 100% to 400%. Most entities saw both increased premiums and increased deductibles (or increased self-insured retentions), and REMIF was no exception. After the June 2019 REMIF Board of Directors meeting, the carrier that provides our property coverage increased our self-insured retention layer to $250,000 for all property losses, $500,000 for wildfire losses and $1,000,000 for high flood zone areas. **The purpose of this special board meeting is to discuss these increased self-insured retention layers on the REMIF level and to address funding needs for the REMIF layer, or options in lieu of additional funding.**

There were two other times in recent history property rates were similarly negatively affected, but otherwise the property market historically has been fairly stable (until now). The first was after 9/11, where losses were significant, but losses hit within a few days of one another (there wasn't a series of losses). Losses primarily affected the commercial property market. The second was the credit crunch of 08-09. While this primarily affected the banking market, property rates were also negatively affected, since the market was in flux.

This current hard market began in 2017 and is nationwide. It began with three powerful hurricanes which were quickly followed by devasting, catastrophic wildfires. We saw the beginning of a series of catastrophic losses to property insurance carriers in 2017, which showed no slowing down in 2018 (Redding/Paradise/Southern California fires). In 2019, we saw some flooding, although not nearly as catastrophic as the events of the prior year. Additionally, there has been numerous cyber breaches of a significant magnitude, and cyber is covered in many property policies (including ours).

Many feel this time period for the property market is more stressful than the events of 9/11. The market is still making up for losses in 2017 and 2018 and actively attempting to recover lost profits. Losses that were once considered only catastrophic are now starting to become considered more routine, and carriers are adjusting premiums to account for such. It appears we will continue to have tough head winds ahead of us, as the market does not look like it's improving. If there's no catastrophic losses, the market may start to recover in 12-18 months, although it is anticipated rates will continue to increase until the market does recover. Last year, renewals under 20% were considered favorable. If there are losses, increases in the next year will not be modest. Property has become a line of coverage where underwriters are not chasing business and many insureds, particularly in some geographic areas, consider themselves lucky that coverage hasn't been cancelled. Underwriters routinely decline to quote new lines of coverage and new customers.

II. <u>Layers of Coverage</u>

Please keep in mind that for purposes of this conversation, while a bit of an oversimplification, there are three layers of coverage for the property program:

The member's deductible: this is the city's deductible with REMIF (member deductibles were increased to $50,000 at the June board meeting).

The REMIF layer: this is the layer in between the member's deductible and our excess coverage through Alliant (through CJPRMA), called REMIF's self-insured retention layer or our deductible. Our deductibles for 2019-2020 have increased and are outlined below. This is the layer we will be discussing at this special meeting.

Excess layer: Alliant (through CJPMRA) layer: this is the layer after REMIF's self-insured retention layer.

III. <u>Changes in REMIF's self-insured retention layer/deductible – REMIF's layer</u>

In 2017-2018, our (REMIF's) deductible with CJPRMA/Alliant was $25,000.00. (Please note that "all property" is considered to be "general" property losses.) In 2018-2019, our deductible with CJPRMA/Alliant for all property losses was $50,000 for the first loss, $75,000 for the second loss and $100,000 for the third loss. For high flood zones, our deductible was $100,000. It should be noted that the reason for the lower deductibles was that we participated in deductible buy down programs, an option that is up in the air for this year. Initially we thought our deductibles would remain the same for 2019-2020, but that is NOT the case. Our self-insured retention or deductible has increased.

For the REMIF layer, the deductibles for the 2019-2020 year are as follows:

$250,000 all property loss

$500,000 for wildfire loss

$1,000,00 for high risk flood zone loss (called A&V)

At the June board meeting, we funded for last year's deductibles, and we have not funded for these higher deductibles. We do not have sufficient surplus (or reserves) in the property program to fund potential property losses this year or to offer alternatives to funding models.

While deductibles have been affected, it is both important and interesting to note that coverage has not been affected. Carriers are not adding exclusions to coverage and are not removing lines of coverage. If there's a silver lining in this, it's that our coverage has remained the same and was not canceled.

IV. <u>Needs for additional funding and options for funding</u>

For ease of discussion, this item will be discussed in two agenda items: A. all property losses and wildfire losses (since these affect all members); and B. high flood zones (called A&V, since this affects a smaller population of the members). While numbers are provided (attached) for the scenarios below, Ritesh will be present to show any additional options that we may come up, with a live interactive model.

A. Discussion of various options for property (all property and wildfire):

Three options to open discussions on the property (all property and wildfire; high flood zone discussed below):

1. Keep REMIF member deductible the same for all property losses, establish REMIF member deductibles for wildfire, and need for additional funding:

    Member deductible: $50k all property (REMIF covers between $50k and $250k; or $200k)

    Member deductible: $300k wildfire (REMIF covers between $300k and $500k; or $200k)

    REMIF would need to fund (at least) 2 losses at $200k each (or $400k in additional funding); member deductibles would be established for wildfire.

2. Increase REMIF member deductibles for all property losses, establish REMIF member deductibles for wildfire, and need for additional funding:

    Member deductible: $100k all property (REMIF covers between $100k and $250k; or $150k)

    Member deductible: $350k wildfire (REMIF covers between $350k and $500k; or $150k)

    REMIF would need to fund (at least) 2 losses at $150k each (or $300k in additional funding); member deductibles would increase for all property losses; member deductibles would be established for wildfire.

3. REMIF member deductibles:

    $250k all property (REMIF has no layer this year)

    $500k wildfire (REMIF has no layer this year)

    NO need for additional funding

B. Discussion of various options for high risk flood zones (A&V):

Three options to open discussion on the property (high risk flood zones):

1. REMIF member deductibles:

    $100k high flood zones (already bound coverage from $250k to $100k)

    Need to fund additional $193,500 to purchase deductible buy down for $1 million to $250k

2. REMIF member deductibles:

$800k high flood zones (REMIF covers between $800k and $1 million)

Need to fund 1 loss at $200k (or $200k in additional funding)

3. REMIF member deductibles:

$1 million high flood zones

NO need for additional funding

V. <u>A look forward</u>

What can we do moving forward to help reduce increases to the property rates?

We can show the carriers that we are actively controlling risk. We can also show them what we have done to mitigate risks from prior losses and what we are doing to mitigate future losses. What are you doing at your city to mitigate risk? What have you not done and what can you do?

Another option is to voluntarily take on higher retention levels. Rather than taking the lowest deductible option provided to us, we voluntarily take on a higher retention. This will likely result in lower premiums on the excess level, although we will need to fund the REMIF layer appropriately.

I can (and will) start renewal discussions early, although carriers will not lock in rates until at least 30 days before renewal (07/01). Loyalty does still pay off, and carriers like long term relationships with their insureds. I will be meeting with other pools to strategize about the market and alternatives.

A note on forecasting other lines of coverage – liability/health:

While this staff report primarily addresses the property market, it should be noted that there's a firming market in the liability/casualty world as well. With run away jury verdicts (recent $40 million verdict in California against CPS for an injury to a child by his biological father) to an uptick in class action lawsuits (such as Round Up, talcum and EMF/RF), an uptick in employment practices litigation related to the "me too" movement, utility companies lawsuits related to the fires, traumatic brain injuries cases and premises security (lawsuits happening as a result of injuries on a commercial carrier's property), insurers are looking at capacity (the ceiling or the most coverage they will offer), retention (the floor of when their coverage starts), and pricing (the premiums). It is expected that either coverage will be affected (they will start excluding more and more) or one of those three items (capacity, retention or premiums) will be affected. Something has to give.

In addition, while our pool has not experienced significant increases in the health care renewals, many other pools have experienced significant increases, primarily due to increases on the excess layer (called stop loss).

Workers' Compensation and Auto Physical Damage Program (APD):

The good news with these two lines of coverage is that initial indications are that both will not see significant increases in premiums/contributions and no changes to capacity (the ceiling) or our retention layer. This is good, especially considering workers' compensation is our largest program.

FISCAL IMPACT

Between $0 and $400,00 in additional funding

RECOMMENDED ACTION

1. Increase REMIF member deductibles for all property losses, establish REMIF member deductibles for wildfire, and need for additional funding:

   Member deductible: $100k all property (REMIF covers between $100k and $250k; $150k)

   Member deductible: $350k wildfire (REMIF covers between $350k and $500k; $150k)

   REMIF would need to fund (at least) 2 losses at $150k each or $300k in additional funding; member deductibles would increase for all property losses; member deductibles would be established for wildfire.

2. REMIF member deductibles:
   $100k high flood zones (already bound coverage from $250k to $100k)
   Need to fund additional $193,500 to purchase deductible buy down for $1mil to $250k

ATTACHMENTS

1.1 Proposed Additional Property Contributions FY 19-20

REMIF
PROPOSED ADDITIONAL PROPERTY CONTRIBUTIONS 2019-20

	(a) 2019-20 VAR	(b) REMIF Layer Property Contributions	(c) High Flood Zones	(d) High Flood Zones Contribution	(e) Additional Contributions (b) + (d)
ARCATA	86,324,615	$ 18,265	$ 1,277,463	$ 614	18,879
CLOVERDALE	50,722,572	10,732	290,290,892	139,612	150,344
COTATI	28,194,382	5,966	-	-	5,966
EUREKA	217,810,621	46,086	29,337,724	14,110	60,196
FORT BRAGG	71,408,944	15,109	-	-	15,109
FORTUNA	65,646,267	13,890	13,029,858	6,267	20,157
HEALDSBURG	137,775,265	29,151	6,787,299	3,264	32,415
LAKEPORT	62,410,982	13,205	5,975,142	2,874	16,079
ROHNERT PARK	141,308,861	29,899	-	-	29,899
SEBASTOPOL	44,565,529	9,429	20,702,742	9,957	19,386
SONOMA	38,853,991	8,221	-	-	8,221
ST. HELENA	86,762,944	18,358	1,581,651	761	19,119
UKIAH	203,128,442	42,979	19,276,132	9,271	52,250
WILLITS	64,663,152	13,682	14,080,357	6,772	20,454
WINDSOR	116,403,032	24,629	-	-	24,629
REMIF	1,879,775	399	-	-	399
TOTAL	1,417,859,374	$ 300,000	402,339,260	$ 193,502	$ 493,502

$ 193,500	High Flood Zone
300,000	Two self-funding claim within REMIF Layer
$ 493,500	additional funding

a) 2019-20 VAR - number represents the total value of all property at risk 19-20, obtained from CJPRMA, dated 05/28/19.

b) Contribution allocation using 2019-20 VAR.

c) Total High Flood Zones A/V $ Values, obtained from CJPRMA

d) FY 2019-20 Contributions for Flood Deductible Buy Down