

SULTAN CITY COUNCIL AGENDA ITEM COVER SHEET

DATE: March 25, 2010

ITEM #: Presentation 1

SUBJECT: Phil Riche - Cities Insurance Association of Washington (CIAW)

CONTACT PERSON: Laura Koenig, Clerk/Deputy Finance Director

ISSUE:

Update on the Cities Insurance Association of Washington (CIAW) program and issues with the Office of Financial Management (OFM) Risk Manager Division.

SUMMARY STATEMENT:

On January 15, 2010 the CIAW was served with an Order to Cease and Desist due to non compliance with new rules adopted by OFM with an effective date of January 14, 2010. Copies of the order and response letters were provided to the Council on January 28, 2010.

The CIAW Board has met on several occasions over the past two months to discuss the options available to comply with the new rules and the requirement to provide reserve funds at the 70% level for potential claims from the 2003-2006 time period. The CIAW and the third party administrator submitted a plan to OFM on February 25, 2010 and expects to receive the review and response to the proposal shortly.

In order to create adequate reserve funds, the CIAW Pool will be required to do a reassessment of premiums. The amount of funds required from each pool member will be collected annually over a five year period as a part of the annual insurance premium. The City reduced its annual premium in 2009 through the contract with the Sheriff's Department and staff will be working with Canfield (third party administrator) to insure that liability insurance premium calculations reflect the reduction in staffing force (L & I hours are one of the bases used for calculation of liability insurance). The insurance cost in 2009 were \$105,224.

Mr. Riche will provide additional information on the option the Board of Directors approved to reduce the assessments from \$3 million to approximately \$986,000.

Attachments: A. Letters from CIAW to Members

Laura Koenig

From: Keri Sonnabend [ksonnabend@canfieldsolutions.com]
Sent: Thursday, March 18, 2010 11:25 AM
Subject: Cease and Desist Update

Dear Member:

Currently the Cities Insurance Association of Washington has complied with the Cease & Desist order from the Washington State Office of Financial Management (OFM). On February 25th the Cities Insurance Association of Washington (CIAW) and our third party Administrator Canfield, submitted a detailed plan to OFM. We believe this plan completely address's the concerns expressed by OFM.

OFM has submitted the plan to the State's consultant, James Marta and Associates, for review. The CIAW and Canfield have worked hard to ensure OFM and its consultant have any and all information necessary. We are anticipate that our plan will be approved shortly. We will continue to update our members regarding the progress of this compliance effort.

In the interim, should you have questions we encourage you to call Canfield at 1-800-407-2027 or visit the CIAW Web site and review the updates and frequently asked questions page. You will find this information under the Member UPDATES heading. The Web site is www.ciaw.us. Thank you for your patience in this matter.

Respectfully,

Wes Crago, Board Chair



Cities Insurance Association of Washington

February 25, 2010

Member

Re: CIAW Funding Plan

Enclosed is Resolution No 09/10-03, passed by the CIAW Board on 22 February 2010. It outlines the plan submitted to the Office of Financial Management (OFM), in accordance with OFM's Order of 14 January 2010. We are sending you this Resolution to keep you informed about how our Program is addressing this issue.

Your organization was a member of the CIAW during the 2002-2006 period, and this resolution does affect you.

Previously, the CIAW submitted two plans to OFM that did not include retroactive assessments. Both these plans were rejected by OFM. OFM insists that a re-assessment is the only method of collection it will accept. Therefore, the CIAW Board has submitted a plan to meet OFM's requirements. Once the plan is accepted by the OFM, we will send you your portion of the assessment.

Your assessment will be divided up over five-years, and will be invoiced beginning in August of 2010.

As stated in the Resolution, the CIAW Board has always acted in a fiscally conservative and prudent manner; not collecting excessive fees to languish in reserve accounts. This philosophy was to leave as much of your revenues in local hands. During the 2002-2006 period, the CIAW funded at the required estimated claims level as established by the program actuary. The adverse development of claims created an adjustment in past actuary estimates which left the unfunded claims liability we have today. The CIAW, from its inception in 1988 and continuing without exception through today, has been and is able to pay all claims promptly when due. This entire dispute with the OFM is concerned with reserve accounts for past years.

As unfortunate as this situation was, the CIAW continues to provide outstanding Property/Liability coverage and services, in partnership with *Munich Re America*, the largest reinsurance company in the world. Our Program currently enjoys a fully funded aggregate stop loss that protects against all future unforeseen claims.

If you would like more information or have questions, please contact the third party administrator Canfield, your local broker, or any CIAW Board member. Thank you for your continued support of your Program, the CIAW.

Respectfully,


Wes Crago, Chairman


Jim Cherf, Administrator

CC: CIAW Board

Enclosure: Resolution



**CITIES INSURANCE ASSOCIATION OF WASHINGTON
RESOLUTION 09-10-03**

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CITIES
INSURANCE ASSOCIATION OF WASHINGTON APPROVING
ASSESSMENTS.**

WHEREAS, the Cities Insurance Association of Washington (CIAW) was created in 1988 because cities, towns and other local governments in the state of Washington were experiencing a trend of vastly increased insurance premiums for the renewal of identical insurance policies, fewer insurance carriers were willing to provide cities, towns and local governments with insurance coverage, and some cities, towns and local governments were unable to obtain desired insurance coverage; and

WHEREAS, RCW 48.62.031 allows jointly purchasing of insurance or reinsurance; and

WHEREAS, cities, special districts, and towns of the state of Washington joined together with other cities, special districts, and towns for the purpose of pooling self-insured losses for property and liability claims arising from negligent or other tortuous conduct, or errors or omissions, of their officials, employees and volunteers; and

WHEREAS, the board has always acted in a fiscally conservative and prudent manner without collecting excessive funds to languish in the program's reserve account, thus leaving tax revenues in the hands of local governments to pay for local government services; and

WHEREAS, RCW 48.62.141 requires every joint self-insurance program covering property and liability risks to provide for the contingent liability of participants in the program if assets of the program are insufficient to cover the program's liabilities; and

WHEREAS, members have signed an interlocal agreement that under section 3.11 allows the CIAW to reassess their regular members; and

WHEREAS, based upon historical spending patterns, the CIAW from its inception (without exception) has been able to pay all claims promptly when due and owing and is confident that the cash flow can meet current needs for paying claims and operation expenses; and

WHEREAS, the program under funded the estimated claims in policy years beginning in 2002/2003; and

WHEREAS, the board has hired an actuary to determine the funding necessary to pay for claims liability and has funded it to that level; and

WHEREAS, the CIAW for the current year of 2009/2010 has overfunded its current stop loss; and

WHEREAS, the additional funding to be collected during the next five (5) years will ensure compliance with the requirement to fund to the 70% confidence level as determined by our actuary as well as cover any contingency; and

WHEREAS, additionally the CIAW will notify the state of any significant changes in operation; and

WHEREAS, the state of Washington, per the newly adopted rules, has ordered the CIAW to submit a plan addressing this issue;

NOW THEREFORE, be it resolved by the Board of Directors of the Cities Insurance Association of Washington as follows:

- 1) The Board approves assessments in the estimated amount of \$ 986,214 to cover actual or projected shortfalls during the policy years from 2002/03 to 2006/07;
- 2) These assessments will confirm that the CIAW is operating in a safe and sound financial condition;
- 3) These estimated assessments will apply to all regular members that participated in the CIAW self-insured retention (SIR) during those five policy years;
- 4) The Board will review the surcharges annually and may amend or modify them by resolution;
- 5) The Board directs it's third-party administrator to allocate and collect these surcharges as outlined in this resolution;
- 6) See attached Exhibit A for Plan details.

ADOPTED BY THE BOARD OF DIRECTORS OF THE CITIES INSURANCE ASSOCIATION OF WASHINGTON THIS 22ND DAY OF FEBRUARY 2010.



Wes Crago, Chairman

EXHIBIT A

CIAW FUNDING PLAN:

- 1) To be invoiced beginning in August of 2010, the CIAW will collect an additional \$ 197,242.80 over its current year's anticipated expenses and claims funding requirements. This additional funding will continue for five (5) years until fully collected.
- 2) To collect additional funding, we will use a combination of members' rates, reviewing excess insurance coverage and limits offered, negotiating the third-party administrator's fees, and providing services in a more cost-effective manner.
- 3) Our progress towards our funding goals will be reviewed annually during the budget process and any adjustments necessary will be added or subtracted from the years remaining in the five (5) years of the plan, including federal tax liabilities, if any are determined, upon approval of the office of Financial Management (OFM).
- 4) The State Risk Manager will be updated each year on the progress of this plan, including the amount invoiced, through the annual report.
- 5) Since this is a dynamic process with factors such as actuary projections, actual claims paid, excess insurance costs and operational cost adjustments each member will be notified prior to invoicing of how much their invoice is of the total premium.



RECEIVED
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BY:.....

February 12, 2010

Dear Membership:

CIAW's Board of Directors wants to keep you informed of events as we continue our work to resolve the issues pertaining to the Cease and Desist Order we received January 14, 2010, from the Office of Financial Management (OFM).

The Board held a regularly scheduled meeting this past Monday, February 8, 2010. The Board invited OFM, and OFM's representatives, to participate in the meeting in order to best address everyone's thoughts, questions and concerns regarding the Order and the best way to address the concerns that led to its issuance. Clearly there exists some difference of opinion between OFM and the CIAW regarding some of the matters underlying the Order. Nonetheless, the Board has now received clear direction from OFM, and is using that direction to develop a plan and course of action going forward. The Board's goal is to submit a plan that will be acceptable to the OFM on or prior to the OFM's February 25, 2010, deadline.

If you would like to be notified of any or all upcoming Board meetings, please contact Canfield at (509) 754-2027 or jbates@canfield-associates.com. As always, if you have any questions regarding this or any other matter, please feel free to contact any of the Board members or the staff at Canfield.

Thank you.

Wes Crago
Chairman

cc: Board of Directors
Canfield



February 1, 2010

Dear Members:

The Board of Directors is sending this letter to keep you informed of events as we work to address and resolve the issues pertinent to the Cease and Desist Order issued on January 14, 2010, by the Office of Financial Management (OFM).

The Cease and Desist Order directed the Board to appear at a meeting in Tukwila last Friday, the 29th of January, in order to discuss the Order in what Ms. Stuber called "an informal setting." We advised the OFM that a number of the Board members were unable to attend the meeting on such short notice, and asked the OFM to reschedule. When it refused, we engaged counsel and attended with a small delegation. We traveled in good faith, with the sincere hope of opening a dialogue regarding the best way to address the OFM's concerns, while still serving the best collective interests of the CIAW's members as a whole.

When we arrived at the meeting place in Tukwila, we discovered that the meeting was actually an open forum for display of a 2-hour presentation by the OFM's consultant, together with lunch, for an audience of some 40-odd people, none of whom were on the CIAW Board. When our counsel attempted to ask several questions at the beginning of the meeting, to clarify its scope, content and purpose, he was interrupted and prohibited from speaking. Therefore, this meeting was neither intended for, nor held as, an opportunity for your Board to meet with the OFM to dialogue. Instead, we were confronted with a 46-page, 85-slide Power Point presentation (which we had not been provided earlier despite our requests for the same). On the advice of counsel, we left the room during the consultant's "presentation."

Although we did not stay to sit through what was obviously orchestrated as a public airing of the OFM's purported "concerns" regarding CIAW's funding deficit, our team advised the OFM and its counsel that we remained willing to meet and speak with them in an appropriate setting, and that we would wait outside until the presentation and lunch were over to do so. The OFM and its attorney accepted our invitation, and we were able to meet with Ms. Isaki, Ms. Stuber, Mr. Marta and the Assistant Attorney General (Mary Ellen Combo) that afternoon. We believe that this meeting was frank and productive. We have asked for a specific response to the draft Plan we previously presented to the OFM on January 25, and we are hopeful that the information we receive from the OFM can be considered and addressed for an ongoing plan for increasing reserves for the 2003 - 2006 claim years.

We noted that the initial "presentation" was attended by a number of persons from competing pools. Thus, we expect that you will soon receive communications from these other entities, ostensibly out of "concern for your welfare". Our Board, and the staff at Canfield, are committed to answer your questions in this regard, and will continue to address rumors and innuendo with facts, documents, and transparency. All of our reports, plans, and submittals are available for your review, and each and every Board meeting is open for you to attend. Please contact any of the Board or staff at Canfield if you have any questions or concerns.

The Board next meets at our Third Party Administrator's Office on the 8th of February, 2010, at 1:00 p.m. In order to continue working with the OFM, Ms. Stuber and Ms. Isaki have been invited to that meeting, and we are hopeful that Mr. Marta may be able to participate telephonically. If you would like to attend, please contact Jenni Bates at Canfield for details. In the meantime, we are hopeful that we will receive additional communications from the OFM regarding our proposed plan, and we will work diligently to consider and respond to any information we receive.

On behalf of the Board,

Wes Crago
CHAIRMAN