



FAIRA BOARD AND EXECUTIVE BOARD MEETING

March 13, 2017 at 10:30 a.m.

Offices of Arthur J Gallagher, 1255 Battery Street, Suite 450, San Francisco, CA 94111

To be posted by all Districts in accordance with the Ralph M. Brown Act, California Government Code Section 54950, et seq.

PRESENT:

Directors: Brennan Blue (Aromas Tri-County FPD), Eric Walder (South Placer FPD), Mark A. Johnson (Fresno County FPD), Peter Liebig (Lakeside FPD), Bill Paskle (Alpine FPD), Richard Pearce (Tiburon FPD), Risk Manager Jonathan Wilby (Orange County FA), Tim Isbell (Bonita Sunnyside FPD), Mark Pomi (Kentfield FPD), Howard Wood (Vacaville FPD)

Absent: President: Mark Shadowens (Northstar CSD), Scott Draper (Mason Valley FPD), Darrin Howell (San Miguel Consolidated FPD)

Staff: Susan Blankenburg (FAIRA General Manager), Richard Blacker (FAIRA Board Liaison Officer), Rachel Simco (FAIRA Administrative Analyst)

Guests: John Hisaw (Lakeside FPD), Don Jesberg (KMC Investments), John Paget (John C. Paget, CPA, P.C.), Loann Le (Arthur J. Gallagher), Marco Guardi (Arthur J. Gallagher)

Item 1. Call to Order and Determination of a Quorum

A quorum of the Board and Executive Board was present and the meeting was called to order at 10:30 AM by Vice President Bill Paskle.

Item 2. Confirmation of Agenda

One change was made to the agenda; Item #9 was removed as it was also under Item #10. A **MOTION** was made to confirm and approve the agenda.

M/S/P Pearce/Johnson

Item 3. Oral Communications to the Board, opportunity for public comment with respect to matters not on the Agenda

No comments from the public.

Item 4. Approval of the Minutes of the September 12, 2016 Board and Executive Board Meeting

A **MOTION** was made to approve the minutes of the September 12, 2016 FAIRA Board and Executive Board Meeting as submitted.

M/S/P Isbell/Walder (Pearce Abstained)

Item 5. Investment Presentation with Don Jesberg of KCM Advisors Receive & File

Don Jesberg provided to the Board the current monthly financial report dated March 9, 2017 in place of the report dated January 31, 2017 that was included in the packet. After a brief introduction and background of KCM's history with FAIRA Don Jesberg explained KCM's mandate to invest reserves into something more productive than LAIF (Local Agency Investment Fund). FAIRA's return via KCM in 2016 was 1.6% compared to LAIF's 0.57%, the U.S. Treasury's 0.85%, and Corporate 2.39% for a 1-3 year benchmark index. These are not comparable as FAIRA's portfolio is managed in a shorter duration in order to have the opportunity re-invest funds when interest rates elevate. Duration: 2.14 years. Book Yield to Maturity: 2.16% - this is considered defensive in the forecast of interest rates which may become higher in 1-2 years. FAIRA's recent purchases in March 2017 include: Hewlett-Packard 2.04% yield, Pitney Bowes 2.50% yield, Discovery Communication 3.04% yield. This shows how we're able to improve yields as we are re-investing funds. The Federal Reserve to discuss this week the economy and interest rates and they feel the economy needs to be in a stimulative state thus they are holding rates low in an effort to simulate economic activity. Rates expected to slowly normalize over next 2-3 years. Around the world rates continue to fall below U.S. rates. Money expected to come into the U.S. from foreign sources looking to take advantage of the highest government interest rates currently available worldwide. The credit Spread between government bond yield and corporate yield expected to shrink as corporations begin to be viewed more favorably for credit worthiness as U.S. economy strengthens. KCM has been able to do better than FAIRA's alternatives. Rich Blacker commented that KCM has done a good job in preserving capital in a difficult market. Pete Liebig asked about interest rate forecasting and Don Jesberg shared that the Federal Reserve sets interest rate policy and rate projection over 1, 2, & 3 years out which is a good indicator of what to expect in the market with the intent to arrive at a neutral rate. A neutral rate is the rate amount where if dropped would stimulate the economy and if raised would slow the economy. Historically the neutral rate was between 4%-5% but now is closer to 2.5% to 3%.

Item 6. General Manager's Report

6.1 Presentation of the 2017-2018 Preliminary Annual Budget Consideration and Possible Action

Preliminary budget includes 7% increase for premiums due to significant development in paid losses over the past 10 months which does not include a recent large fire loss. Worst case scenario FAIRA's renewal rates could increase to 10%-15% which would bring our rates back at where they were last year before FAIRA received a 14% decrease. This budget is conservative in investment income given the current economic climate as Don Jesberg discussed earlier. Brennan Blue asked about moving to a Self Insured Retention (S.I.R.). Susan Blankenburg explained that FAIRA explores SIR options every few years and when the insurance markets ask for unreasonable premiums. Anytime our insurance carrier asks for a significant rate increase we are adamant that every cent is justified. FAIRA would need an actuarial study performed before moving an S.I.R. The last time an S.I.R. option was explored it did not pan out. The loss amount between last year and now is up by an additional \$2.2Million. Rich Blacker clarified that the increase is not generated by new claims but is due to the development of payments on existing claims. The budget will be finalized and re-presented to the Board in June reflecting the actual premiums. A **Motion** to approve the preliminary budget.

M/S/P Johnson/Blue

6.2 Rate Stabilization Fund
Consideration and Possible Action

The Rate Stabilization Fund (RSF) was created during a soft market years ago for FAIRA to use when rates rise. Per the resolution we are not going to collect for this year as the RSF is currently funded between the 15%-20%. Based on how the renewal premium turns out we can discuss in June if it's time to use some of these funds. If our upcoming renewal results in a 15%+ increase it may be a good time to use the RSF. A **Motion** was made to forego collecting funds for the RSF for Fiscal Year 17/18 and retain the funds currently within the RSF and to bring this item back again at the June board meeting when we have the firm renewal premium numbers.

M/S/P Johnson/Pearce

6.3 Update on FAIRA's New Insurance Carrier
Receive and File

Paul Fuller, who negotiated the FAIRA 16/17 renewal with FirePlus, officially notified FAIRA by letter advising that his book of business has been acquired by Allied Public Risk (APR). The entire FirePlus program, including Paul Fuller's team and claims handling operations, has moved from one firm to another which does not have any effect on FAIRA other than new contact information for reporting claims which will be sent out with the new claims kits should FAIRA decide to keep the placement with the FirePlus program. Paul Fuller was also promoted to CEO of APR. Rich Blacker asked if we were looking for alternative markets to place FAIRA coverage with. Susan Blankenburg confirmed that yes we are, however, VFIS isn't looking at the FAIRA program favorably. We strive to look for markets with existing programs tailored to fire district risks. There is no downside to the transition.

6.4 Addition of Loomis FPD as of December 26, 2016
Receive and File

Eric Walder of South Placer FPD manages Loomis FPD by an administrative agreement; it was decided to consolidate the administrative duties of the two districts and submitted to LAFCO for the consolidation process. Over the past 3 years the major losses for Loomis FPD, which had previously prevented them from joining FAIRA, have fallen off. The merge between Loomis FPD and South Place FPD will be completed in about a year. FAIRA has provided a significant premium decrease and enhanced their coverage.

6.5 Withdrawal of Big Bear FPD and Pine Valley FPD
Consideration and Possible Action

Pine Valley FPD provided notice last year but did not finalize their transfer to San Diego County. It now understood that they are in a position to be consolidated by the County and withdraw from FAIRA. We will return Pine Valley FPD's deposit to the RSF. There is also a 10% withdraw fee that Pine Valley FPD will need to pay.

A **Motion** was made to approve the return of the RSF deposit to Pine Valley FPD and collect the 10% withdraw fee.

M/S/P Blue/Pearce

After the 2016/2017 renewal Big Bear FPD found that they have coverage under another pool through the city. This is a late notice falling under the 12 months required. Susan Blankenburg recommends that FAIRA allow Big Bear FPD to exit early. We would collect the 10% withdraw fee.

Rich Blacker suggested that the authority to decide whether or not to collect a withdrawal fee to the General Manager of FAIRA if the premium amount is less than \$1000.

Susan Blankenburg mentioned that the withdrawal fee has never been waived for any exiting member in the past.

A **Motion** was made to allow Big Bear FPD to withdraw from FAIRA early and to allow the General Manger to decide whether or not to collect the withdraw fee if it would cost FAIRA more to collect the fee that the actual fee and to not exceed \$1,000.

M/S/P Pearce/Liebig

6.6 Discussion of the 28th Annual Board Meeting/Dinner Location
Consideration and Possible Action

Susan Blankenburg asked if anyone would like to hold our annual board meeting dinner somewhere other than SF? Other than Maui there were no suggestions.

6.7 FAIRA Elections
Consideration and Possible Action

This year we have 4 seats up for election. We've received 3 of the 4 election forms to date. The last one will be received at end of March. April 1st is the close of the nominations and prepare ballots; April 19 we count ballots; June 12th to certify and announce results on the elections.

Rich Blacker asked if we have received any nomination forms from anyone not currently sitting on the board. Susan Blankenburg confirmed that while we have received a few emails asking what the position entails, no new nomination forms have been submitted.

If we do not receive any new nominations; there is no election per the FAIRA Board Policy.

6.8 FDAC Contract
Consideration and Possible Action

Last year FAIRA entered into a two year agreement with FDAC. We are now entering the 2nd year and we are requesting approval to pay the 2nd annual installment. A **Motion** was made to pay the 2nd \$15k annual installment.

M/S/P Liebig/Isbell (Pearce & Walder Abstained)

Item 7. Board Liaison Officers' Report

7.1 Review of Accountant's Financial Statements
Receive and File

John Paget was called on speaker phone to discuss the recent monthly

financial statement. Rich Blacker stated that he calculated a 1.84% interest rate. The final invoice for the property appraisals was recently submitted for payment. The appraisals were budgeted at \$50,000 and we spent \$48,540 as of February 2017. Rich Blacker's fee is in line with his contract, last year he was still full time for the months of August and September in 2016. The budget now reflects the correct amount at \$3K/month.

John Paget pointed out that we have \$50K budgeted for loss control but have only spent \$401.16 to date. Susan Blankenburg stated that this will be discussed later on in the meeting.

John Paget expressed his frustration that we have \$2.8M with the investment brokerage firm and that state law precludes that we cannot earn any money on those funds. Rich Blacker reiterated what Don Jesberg explained earlier and that it is more important to be safeguard the investment funds than it is to strive for a higher rate of return of investment and be subject to risk and loss of capital.

7.2 Review of Other Financials/Investments (If Needed)
Receive and File

Item 8. Broker's Report

8.1 Property Appraisals Update
Receive and File

The property appraisals began in November 2016. Each member was visited by the appraisal team to appraise the buildings and confirm the reported contents values to avoid underreporting. The initial building/locations count totaled approximately 459 buildings but by the end the appraisal visits there were 147 additional buildings discovered. 60% were larger structures like stations, apparatus housing, etc. The other 40% were minor storage sheds, engine canopy, etc. Each member received their own report to confirm the values for the upcoming 2017/2018 renewal. A concern was raised the appraisal values seemed to be too low and when the appraisal company was contacted they stated that they did not have the ability to adjust the appraisal values even though the cost to rebuild a facility would be higher than the what the report stated. Susan Blankenburg explained that the only consequence to increasing values is that the premium would also increase accordingly. Marco Guardi suggested that perhaps the values seem low because CA currently has a labor shortage. Concerns brought up were that the appraisers walked through too quickly. It was noted that remodels do not change replacement cost. Susan Blankenburg suggested we send an email to all members that if they have any questions or would like to make adjustments to their values to reach out to Rachel/Loann. Loann Le stated that even with the additional 147 buildings that were found the cost of the appraisals was still within the budgeted amount.

8.2 Insurance Renewal Timeline
Receive and File

71% of members have submitted their applications thus far. Loann Le has been calling those members whose applications have not yet been submitted and hopes to have 100% by Wednesday March 15th. While the outstanding applications have pushed the renewal process a little behind schedule with sending out our specs we have already began having conversations with the markets.

8.3 Update on FAIRA's 2017-2018 Insurance Renewal
Receive and File

8.4 Update on Marketing Efforts
Receive and File

We are seeing a \$2.2M increase in claims development which creates a very challenging renewal. The increase is due to development on actual paid claims. This is the first time we've seen an increase of this magnitude. This increase does not include a recent large fire loss. Loann Le is working with the incumbent carrier to try to keep the renewal premium increase to a minimum and marketing to a number of other prospective markets.

**Item 9. Local Gov U Online Training
Receive & File**

Item #9 was eliminated as it is covered below.

Item 10. Loss Control Consultant Rich Blacker and Marco Guardi

10.1 Loss Activity – Year to Date
Receive and File

Marco Guardi discussed the loss activity year to date. In addition to the \$2.2M increase, loss frequency is still appearing in auto liability and EPL (discrimination harassment, and personnel types of claims) which is something that needs to be addressed. To be discussed in item 10.2 below.

10.2 Update on Loss Control Visits
Receive and File

Marco Guardi updated the Board on the Loss Control Visits. The loss control visits performed were targeted due to loss activity. Generally focusing on losses occurring for that particular member and discussions were held regarding what, if any, controls are in place. We are finding a lot of auto liability and EPL claims. Experience has been favorable with districts who have put risk management practices into place. These visits provide the opportunity for Loss Control Team to share the resources available and provide the contacts that members can reach out to for help. Susan Blankenburg said we will check again for the members with the highest loss ratio and see which districts are to be visited in the next fiscal year. Rich Blacker asked if we should consider imposing a deductible for members with high frequency or severity claims. He also explained that this was done in the past on a case-by-case basis and was successful but it was never a formal policy within FAIRA. Susan Blankenburg explained how it could possibly work and that we can come up with some optional parameters and options for a formal policy to present and discuss at the next board meeting in June. There could be some challenges due to difference in size between large and small members, etc.

10.3 New Loss Control & Training
Receive and File

Marco Guardi discussed loss control and training. FAIRA's current carrier gave us \$50k for loss control efforts and we still have most of these funds sitting in the bank as John Paget pointed out earlier. FAIRA needs to report to

the carrier how/where we are using those funds. We have explored various services we could use. Marco Guardi talked about how we could invest that to have the biggest impact on losses. He explained a service called Local Gov U which is an online training source. We've received a proposal from them on EVOC which includes defensive driving which is important for the type of losses we've been seeing. The EVOC series is 5 courses available July 17, 2017. In addition to defensive driving there are courses on HIPPA for 1st responders; workplace bullying, sex harassment prevention, etc. There is a \$10k launch fee which covers 126 seats (i.e. persons to take all courses each year). Brennan Blue mentioned that most FAIRA members already use Target Safety which covers a lot of the same information. Johnathan Wilby stated that the larger members already have these programs. Susan Blankenburg concurs but we also have members who do not have Target Solutions and over the past year we have received requests for some of the courses that VFIS had provided and we would like to be able to make courses available to districts that do not use Target Solutions. We could have a few districts try it out and report back to the board their findings. Johnathan Wilby suggested maybe hiring an independent contractor to visit districts could be valuable. Reimbursing districts who have recently taken courses could also be an option for using the funds. Another option is FireStorm, a firm that provides Crisis Management, business continuity, counseling, etc. and includes one free hour of crisis coaching. Also includes up to 12 webinars. We are exploring ways to restructure the offering from FireStorm.

10.4 Webinar Series
Receive and File

Marco Guiardi discussed the schedule of webinars and asked for any feedback. Feedback received was that there were some technical difficulties during the first webinar and prefer the presenter to not use speakerphone. If we move forward with FireStorm we could incorporate their webinars in our schedule. Attendance was low on fist webinar; one way to boost attendance; that one idea was instead of sending the information to the chiefs we could send to the Training Officers. We will reach out to each district for their training officers' contact info and send the webinar info directly to the training officers.

Item 11. Correspondence and Informational Items

11.1 California Form 700
Receive and File

Rachel Simco noted the 700 forms we've received this year to date.

11.2 Supreme Court Decision No. S218066
Receive and File

Rachel Simco summarized for the Board a recent Supreme Court decision allows any personal electronic devices like smart phones or tablets that have been used for district business are now subject to discovery. The entire case has been posted to the FAIRA website.

11.3 FAIRA Website Overview
Receive and File

Rachel explained the website overview monthly reports show the number of times the FAIRA website is visited and which pages are visited the most. Helps us identify whether or not we're getting traction with the information

we're providing on the website and how often schedule changes are made.

Item 12. Closed Session Conference with Legal Counsel. The Board may enter into closed session at this time.

12.1 Potential Litigation. (Government Code § 54956.9(b)).

12.2 Pending Litigation. (Government Code § 54956.9(a)).

12.3 FAIRA and Third Party Claims Administration Report.

(1) FAIRA Claims and Loss Reports.

The above matters described on the agenda may be held in closed session as a conference with counsel under the provisions of Government Code Sections 54956.9 (a) and (b). If closed sessions are held, a report of actions subject to disclosure will be made by the Authority's Counsel upon return to open session respectively.

Item 13. Other Business

Other business as necessary so that FAIRA can perform its functions as authorized by law and which has arisen within seventy-two (72) hours prior to the initiation of this meeting and may be considered under the Brown Act.

No other business.

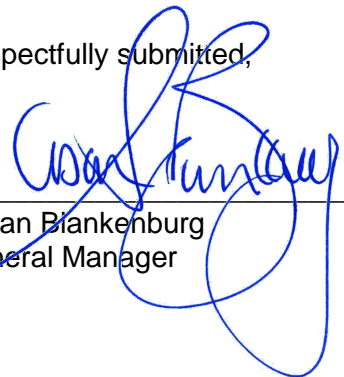
Item 14. Adjournment

I certify that this Authority Agenda was posted and sent by First Class United States Mail to all Member's of the Authority 72 hours before the noted meeting.

A **Motion** was made to adjourn the meeting.

M/S/P Liebig/Wood

Respectfully submitted,



Susan Blankenburg
General Manager