

# CLACKAMAS COUNTY BOARD OF COUNTY COMMISSIONERS

## Study Session Worksheet

**Presentation Date:** February 10, 2015 **Approx Start Time:** 1:30 pm **Approx Length:** 30min

**Presentation Title:** Oregon Public Entity Excess Pool (OPEEP)

**Department:** Employee Services

**Presenters:** Dwayne Kroening

**Other Invitees:** Marc Gonzales, Stephen Madkour, Julia Getchell

**WHAT ACTION ARE YOU REQUESTING FROM THE BOARD?**

The Risk Management Committee is requesting that the Board of County Commissioners give formal approval for Clackamas County to join with other Oregon public entities as a founding member of the Oregon Public Entity Excess Pool.

The final reinsurance premium has been determined and the Intergovernmental Agreement is now finalized and ready for signature.

**EXECUTIVE SUMMARY:**

The County currently purchases excess liability insurance. We retain the first \$1,000,000 of any claim and the insurance provides an additional \$7,000,000. We rely on the protection of the Oregon Tort Claims Act for State claims and excess insurance for claims brought in Federal Court.

"Pooling" is a risk financing method by which similar entities aggregate resources and purchasing power to finance and manage their risk. The Pool is managed by a board of directors composed of one representative from each Pool member.

The benefits of being a founding member are: having a permanent seat on the Board, being a voting member, contributing to how the coverage form is tailored.

The advantages to pooling remain the same:

- More competition in the insurance markets because more carriers will be interested in our business.
- Greater buying power because of the pooling of premium resources.
- Broader coverage – the coverage form can be tailored by the members. As an example, we can include medical malpractice coverage which is excluded from our current excess liability insurance coverage. Currently, this is a self-insured exposure.
- An opportunity to build equity – any funds not used to pay claims will be invested and inure to the benefit of the members
- Long-term premium stability
- Collaboration among the members
- Higher limits (\$9,000,000) than we currently purchase

Our presentation to the Board last May provided information related to the creation of a Pool based on a structure that, not only, aggregated resources and purchasing power in order to finance the purchase of reinsurance, it also included the idea that the members would be interdependent due to a sharing, within a Pool "layer", of the losses that occur. The number of founding members is now four instead of the seven or eight we anticipated initially so we have decided to temporarily change the structure slightly so this interdependence is no longer necessary. The reinsurance will "attach" at the \$1M level after an individual member's self-insured retention has been exhausted. There will be no Pool "layer" (the \$1M layer the pool would pay). We fully expect that other entities will join the Pool in the near future and when financially feasible we will establish the Pool layer at that time.

It is also worth noting that this is a great opportunity for Clackamas County to be a leader in establishing this type of creative risk financing model in Oregon.

#### FINANCIAL IMPLICATIONS (current year and ongoing):

The reinsurance carrier with the best terms and premium has been selected. The premium that Clackamas County will pay is \$160,000, which is \$6,000 less than the County's current premium. Also, the County's portion is expected to be 5% - 10% less than what our premium is projected to be next fiscal year due to the increase in our losses and market conditions. The additional one time capitalization expense of approximately \$40,000 remains the same as what was noted at the previous study session. The capitalization expense is refundable should the County decide pooling is no longer the best option.

#### LEGAL/POLICY REQUIREMENTS:

ORS 30.282 allows for public bodies to self-insure jointly through intergovernmental agreements. County Counsel has reviewed the draft IGA and Bylaws and agrees they meet the requirements of the statute and also supports this proposal.

County Risk Management Rules and Regulations allow for this risk financing option.

#### PUBLIC/GOVERNMENTAL PARTICIPATION:

The founding members will be Clackamas County, Washington County, Deschutes County and City County Insurance Services (CIS).

The CIS Board has approved their participation in the OPEEP.

#### OPTIONS:

1. Give formal approval to participate as a founding member of OPEEP and fund its participation under the terms discussed above.
2. Deny approval and continue the current practice.

**RECOMMENDATION:**

It is the recommendation of the Risk Management Committee that the BCC authorize the County Administrator to sign the Intergovernmental Agreement to become a founding member of the Oregon Public Entity Excess Pool (OPEEP).

**ATTACHMENTS:**

Printed slides describing the OPEEP program.

SUBMITTED BY: Dwayne Kroening

Division Director/Head Approval : \_\_\_\_\_

Department Director/Head Approval : *Dwayne Kroening*

County Administrator Approval \_\_\_\_\_

For information on this issue or copies of attachments, please contact Dwayne Kroening @ 503-655-8576

## Fiscal Impact Form

**RESOURCES:**

Is this item in your current work plan and budget?

YES

X NO

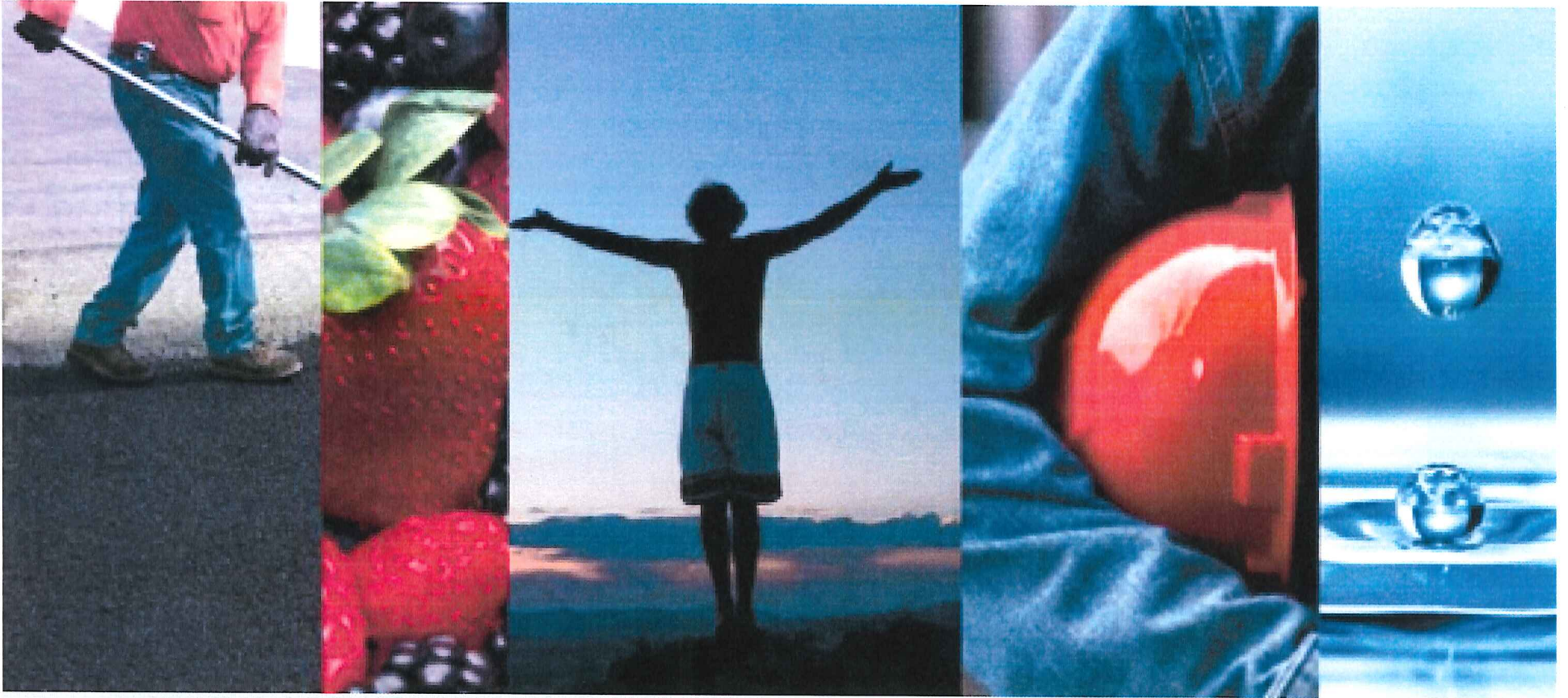
**START-UP EXPENSES AND STAFFING (if applicable):** Estimated \$40,000 initial capitalization cost is being budgeted in FY15/16.

**ONGOING OPERATING EXPENSES/SAVINGS AND STAFFING (if applicable):** matches current ongoing budgetary expenditure for excess liability insurance.

**ANTICIPATED RESULTS:** long term investiture of claims costs savings and more stable insurance premiums.

**COSTS & BENEFITS:**

<b>Costs:</b>							
	<b>Item</b>	<b>Hours</b>	<b>Start-up Capital</b>	<b>Other Start-up</b>	<b>Annual Operations</b>	<b>Annual Capital</b>	<b>TOTAL</b>
	Initial capitalization		\$40,000				\$40,000
	<b>Total Start-up Costs</b>		<b>\$40,000</b>				<b>\$40,000</b>
	<b>Ongoing Annual Costs</b>				<b>\$160,000</b>		<b>\$160,000</b>
<b>Benefits/Savings:</b>							
	<b>Item</b>	<b>Hours</b>	<b>Start-up Capital</b>	<b>Other Start-up</b>	<b>Annual Operations</b>	<b>Annual Capital</b>	<b>TOTAL</b>
	<b>Total Start-up Benefit/Savings</b>						
	<b>Ongoing Annual Benefit/Savings</b>						



# Oregon Public Entity Excess Pool



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ORS 30.282 (6)

ORS 731.036(5)



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# Sponsors

- CIS
- League of Oregon Cities
- Association of Oregon Counties



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# Founding Members

- CIS
- Washington County
- Clackamas County
- Deschutes County



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# Target Participants

Jackson County

City of Medford

Douglas County

City of Eugene

Marion County

City of Salem

Lane County

City of Portland\*

Multnomah County\*

*\*subject to Board approval*



# OPEEP: Provide Excess Liability

1. Better coverage
2. Stabilize premiums
3. Build capital



# Claims and Limits

Participating entities will continue:

1. Maintain current self-insured retention of \$1,000,000
2. Manage own claims
3. OPEEP provides up to \$ 9 million in limits.



# OPEEP Retention

First Year: OPEEP purchases coverage from \$1 million to \$ 9 million. *OPEEP will not retain any risk.*

*The OPEEP Board will decide when it is appropriate for OPEEP to maintain a layer of risks.*





# Requirement #1

Annual contributions must total \$1 million.  
Provide an actuarial study or program projections  
to support this requirement.





# Income Statement

Oregon Public Entity Excess Pool  
 PROJECTED STATEMENT OF REVENUES, EXPENSES, AND  
 CHANGES IN NET POSITION  
 30-Jun-16

Operating Revenues	
Member contributions, net	1,660,000
Total Operating Revenues	1,660,000
Operating Expenses	
Losses and loss adjustment expenses	-
Reinsurance	-
Ceded insurance	1,494,000
Administrative service contract fees	-
Regulatory assessments and other taxes	-
Broker Commission	-
Member services and Program costs	93,900
Professional fees	22,500
Software Licensing	5,000
General and administrative	3,000
Contingency	5,000
Total Operating Expenses	1,623,400
Operating Income	36,600
Nonoperating Income (Loss)	
Paid-in Capital	415,000
Interest income	2,258
Realized gains (loss) on investments sold	-
Unrealized gain (loss) on investments	-
Other	-
Total Nonoperating Income (loss)	417,258
Change in Net Position	453,858
Beginning Net Position	-
Ending Net Position	453,858



# Requirement #2

The program must provide documentation that defines program benefits and administration.

**1. OPEEP IGA**

**2. OPEEP By-Laws**

**3. OPEEP Coverage Document**



# Requirement #3

Program contributions and reserves must be held in separate accounts and used for the exclusive benefit of the program.

**OPEEP is a separate stand-alone legal entity that will be audited by an independent auditor on an annual basis. The financial statements for OPEEP will be prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting standards. The financial statements will be prepared on the economic resources measurement focus and accrual basis of accounting in conformity with GAAP. Under this method, revenues from contributions and interest are recognized when earned and expenses are recognized when goods or services have been received.**





# Requirement #4

The program must maintain adequate reserves, calculated annually on an actuarial basis. See OAR 836-011-0255 related to reserve adequacy. The cover letter should describe the actuarial services that will be employed by the program to meet this requirement. On an annual basis, to support the independently audited financial statement, the Insurance Division requests the actuarial report be filed with the audited financial statement.

**With no risk being assumed, how would you like us to proceed with this requirement?**



# Requirement #5

The program must maintain an unallocated reserve ("surplus") account equal to the greater of:

- 25 percent of annual contributions, or
- \$250,000





# Statement of Net Position

Oregon Public Entity Excess Pool  
 Pro Forma PROJECTED STATEMENT OF NET POSITION  
 June 30, 2016

Assets	
Current Assets	
Cash and cash equivalents	453,858
Investments maturing within one year	
Receivables	
Accrued interest receivable	
Member receivable	
Other deposits and prepaid expenses	
Total Current Assets	453,858
Noncurrent Assets	
Investments	
Capital assets, net	
Total Noncurrent Assets	-
Total Assets	453,858
Liabilities	
Current Liabilities	
Accounts payable	-
Total Current Liabilities	-
Noncurrent Liabilities	
Claims liabilities	-
Total Liabilities	-
Net Position	453,858
Net Position	
Paid-in Capital	415,000
Member Equity	38,858
Total Net Position	453,858



# Requirement #6

Annual audited financial statement.

**OPEEP will be audited annually**



# Requirement #7

Maintain adequate excess of loss insurance.  
Provide a copy of the excess loss policy that the program plans to purchase.

**Reinsurance premium is \$1.6M.**



# Requirement #8

The program, a third-party administrator, or an owner of a third-party administrator may not collect commissions or fees from an insurer.

**No commissions will be received by OPEEP.**



# Requirement #9

Provide the federal employer identification number

**Oregon Public Entity Excess Pool**

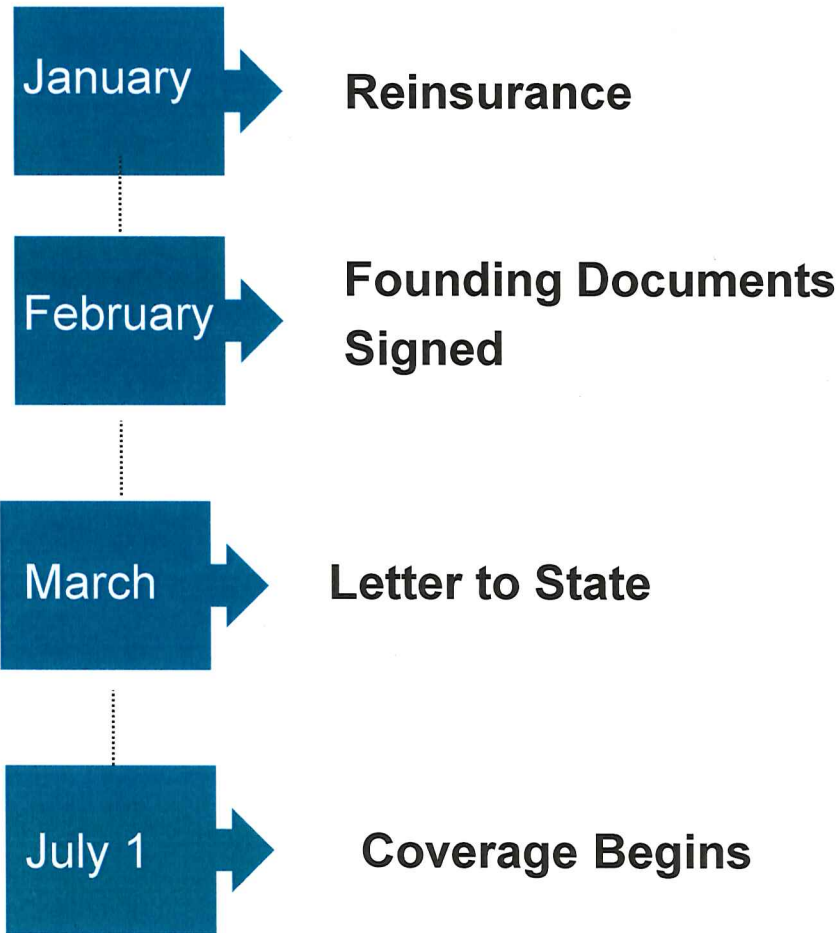
**EIN 47-2190084**



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# Timeline 2015





THANK YOU!



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