CSAC Excess Insurance Authority 2012 Annual Report

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Mission Statement

The CSAC Excess Insurance Authority is a member-directed risk sharing pool committed to providing risk coverage programs and risk management services which are:

Competitive	providing programs which are competitive in scope and price over the long term
Available	endeavoring to make available programs which are flexible in meeting member needs
Responsive	delivering quality, timely services in claims management, loss control, education and communications
Equitable	allocating costs and services between various members in a fair and consistent manner
Stable	ensuring cost-effective, fiscally prudent operations and staffing which maintain financial strength and solvency

Who is the EIA?

- a member-directed risk sharing pool of counties and other public entities committed to providing risk coverage programs and risk management services
- recognized as a leader and pioneer in the Joint Powers Authority (JPA) risk management community
- the first insurance JPA in the State of California to receive the Government Finance Officers Association's Certificate of Excellence in Financial Reporting (for the fiscal year ending June 30, 1994 through June 30, 2011)
- achieved the California Association of Joint Powers Authority's highest designation, "Accreditation with Excellence" continuously since 1989
- earned the Association of Governmental Risk Pools' recognition since 2007
- one of an estimated 150 JPAs currently operating in California

What does the EIA offer its members?

Most importantly, our Competitive Advantage

volume discounts

blending of self-insurance and insurance

responsiveness to members' needs

long-term relationships

Available Coverages

workers' compensation (primary and excess)

general and automobile liability (primary and excess)

employment practices liability

errors and omissions

property

medical malpractice

employee health, dental & other benefits

many other coverages for public entity exposures

Services

loss prevention

online training

technology

legislative review and advocacy

many cost containment service programs

Resources

message board/inquiry forum

informational website

exclusive website area for member-specific information

2012 Executive Committee

Back Row: James Brown, Maryellen Peters, Mark Marshall, Lance Sposito, Peter Huebner, Larry Moss

Front Row: Barbara Lubben, Scott Schimke, Kristin McMenomey, Jim Sessions, Peggy Scroggins

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Letter to our Members

October 29, 2011

GREETINGS!

Often in life, it feels as though we walk a tightrope, balancing demands coming from every direction. In the personal, professional and spiritual aspects of our lives, we wrestle not only with maintaining balance but with identifying where that balance point lies and even maintaining our own personal definition of the word "balance". It is surely a challenge!

In our personal lives we ask ourselves balancing questions like, "Am I spending enough time with my children, spouse, and parents or do I need to focus more on my own personal needs?" At work we ask ourselves, "Am I spending too little or too much time for work? Are my career goals realistically balanced with what I am willing to put into it? Should I work more years so I can afford the retirement that I dream of or am I okay with a simpler and longer retirement?" In our spiritual life we seek balance through guidance, forgiveness and, ultimately, peace beyond the pressures of our work and home lives. Through all of this, we put great effort into finding our optimum "balance" point.

This concept of balance has been the focus of the CSAC Excess Insurance Authority (EIA) in 2012. Short-term vs. long-term needs, actuarially sound contributions vs. program stability vs. member budgets, EIA needs vs. wants, self-insuring the risk vs. transferring or leveraging the risk, county control vs. public entity equity, national expansion vs. California-only membership and, the always prevalent balance between the well-being of the EIA as an organization vs. the well-being of its members.

If you are active in the EIA through involvement in a committee, you have been instrumental in addressing these balancing ideas through your participation. If you are new to the EIA or monitoring it from afar, you can see this active process occurring throughout the entire organization by following committee minutes, attending EIA-hosted events and by reading this annual report.

Since my first EIA function in 1988, I have been fortunate enough to find time in my personal and professional life to be actively involved in the EIA. I have served on the Board, and the Executive, Claims Review and Underwriting Committees. Over the years I have met, worked with and enjoyed the true pioneers of CSAC EIA. Along the way they have provided me with a great deal of direction and balance in my life. I encourage all members to become even more involved in the important work at the EIA. Become a committee member, attend Board meetings, participate in training sessions, and learn about all that the EIA does for its members.

As this chapter of my EIA story comes to a close, I thank each and every one of you for the opportunity you have given me to serve the EIA as its President for 2012. It has been a gratifying experience for me. I trust in-coming President Barbara Lubben, Director of Risk Management, Alameda County, will find the same satisfaction as I have in working with Michael Fleming, Gina Dean and the rest of the EIA staff.

May you all find the balance in your life to enjoy all the wonderful experiences that life has to offer!

Scott Schimke, ARM
2012 President, CSAC Excess Insurance Authority

Organizational Profile

The CSAC Excess Insurance Authority was formed as a joint powers authority in 1979, pursuant to Article 1, Chapter 5, Division 7, Title 1, of the California Government Code (Section 6500 et seq.).The EIA is a recognized leader and pioneer in the JPA risk management community.

"Life is like riding a bicycle. To keep your balance you must keep moving"
Albert Einstein

Over the past 33 years, the EIA has done just that. The organization has grown substantially since inception in terms of membership, programs, and services. During that entire time, the EIA has helped public entities and local communities preserve their resources by reducing their cost of risk and insurance. The EIA has continued to thrive by providing members with exceptional value and service, as well as the opportunity to actively participate in an organization dedicated to the control of losses and cost effective risk management solutions.

The value that the EIA brings to its members is most evident during tough economic times, like the members have been experiencing over the past few years. During this period, the EIA has tried more than ever to help the members balance their budgets by keeping costs as low as possible and distributing dividends where possible yet prudent. Dividends declared in the past three years alone provided almost $30 million back to the members, during a time when the funds were needed the most.

The EIA was there when workers' compensation coverage was nearly impossible to secure for California public entities. The EIA was there when budgets were being slashed and costs needed to be reduced. The EIA will continue to be there for the members in their times of need, whatever those may be.

"Balance, peace, and joy are the fruit of a successful life. It starts with recognizing your talents and finding ways to serve others by using them."
Thomas Kinkade

Providing high quality and efficient services is a top priority of the Board of Directors. Through the efforts of the members, the EIA has created programs and services that are stable, secure and have the flexibility to meet the challenges of the dynamic insurance marketplace and economic turbulence.

While the membership has enjoyed the fruits of its success over the past 33 years, they have continued to refine, restructure and improve the programs and services to ensure that the members' current and future needs will be met. At the same time, efforts are continually made to keep costs as low as possible for members.

In order to measure the effectiveness of its services and programs, the EIA participates in the California Association of Joint Powers Authorities (CAJPA) Accreditation Program. Since 1989, the EIA has been awarded their highest designation, "Accreditation with Excellence". Since 2007, the EIA was also been recognized by the Association of Governmental Risk Pools (AGRiP), a national pooling association. Both the CAJPA accreditation and AGRiP recognition are indications of exceptional compliance with best management practices. Additionally, the EIA was the first JPA in the state to receive the Government Finance Officers Association's Certificate of Excellence in Financial Reporting (FYE 6/30/94 – 6/30/11). We are currently in the process of submitting information for the fiscal year ended June 30, 2012. These recognitions and achievements reinforce the valuable, effective, efficient and stable organization that the members have built for California's counties and, for the past decade, other public entities.

"I always try to balance the light with the heavy -- a few tears of human spirit in with the sequins and the fringes."
Bette Midler

Organizational Profile

continued

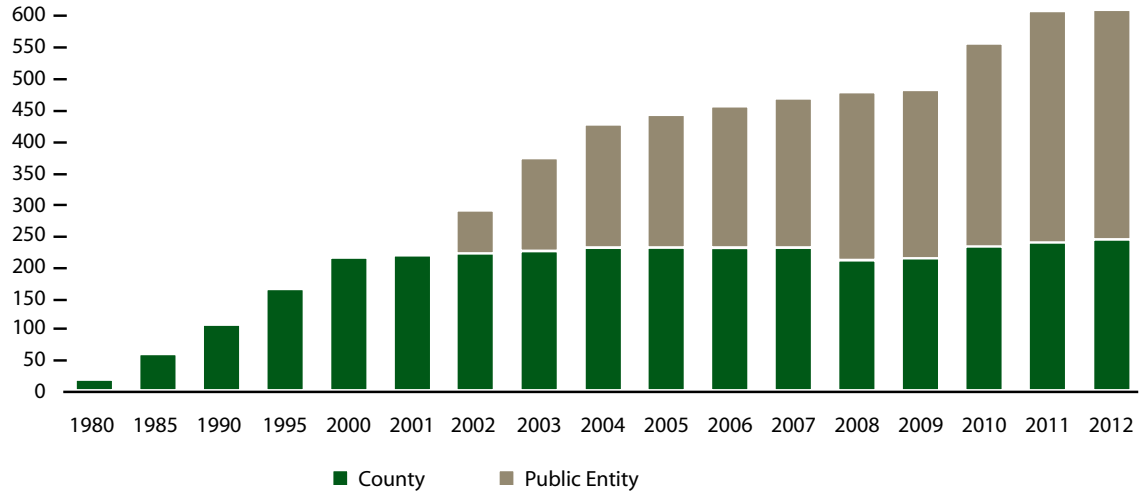
2012/13 Membership

Since the early 2000s, when non-county public entities throughout the state were given the opportunity to access the EIA's programs and services, the EIA has seen significant membership growth. Most of the growth occurred during 2001 to 2004 as a result of conditions in the insurance market. As depicted in the graph below, growth over the past five years has continued, but at a more steady and controlled pace. Growth over the last three years is due, in large part, to the formation of the Dental Program. This Program launched on January 1, 2010 and currently has 123 members. In the graph below, membership is shown in terms of "member units" where each member in each of the programs is counted as one member unit.

The EIA's 54 member counties represent a 93% market share of the 58 counties in the state. While the public entity membership currently consists of 239 organizations, including cities, school districts, special districts, and other JPAs, the actual number of public entities accessing the coverage and services of the EIA are approximately 1,800. In fact, coverage is being provided, either directly or through a member JPA, to more than 60% of the cities in California. While future growth within California is likely to continue at a slower pace, the need for high-quality, low-cost insurance programs remain strong by county-affiliated agencies and local governmental entities.

"There's no secret to balance. You just have to feel the waves."

Frank Herbert



Organizational Profile

continued

Membership Involvement

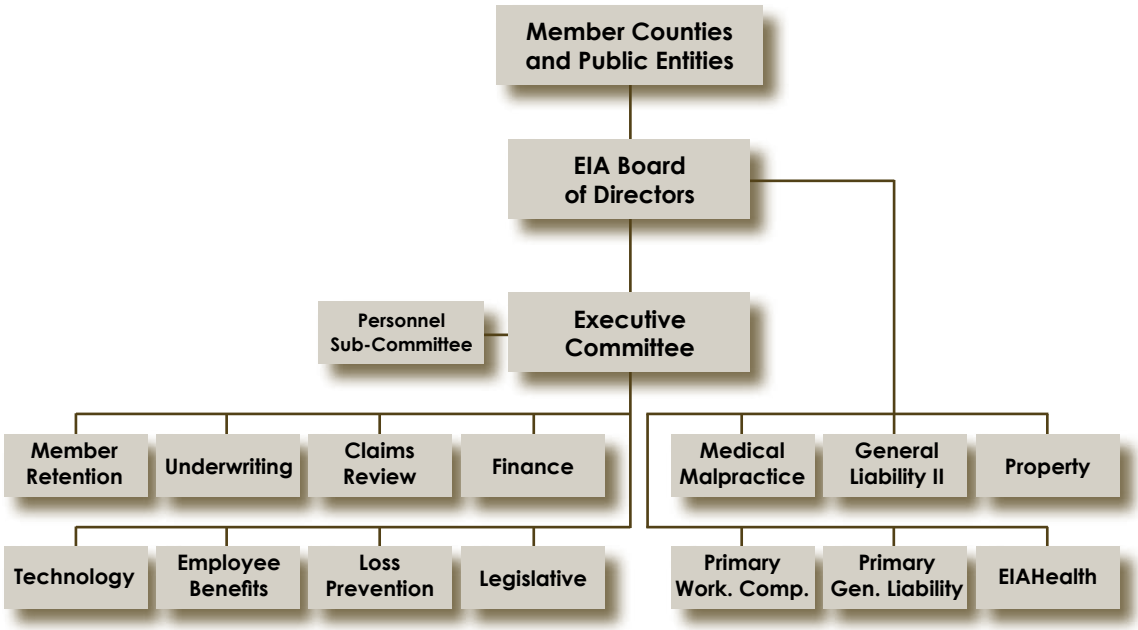
Membership involvement is the hallmark of the EIA and the key to the success of the organization. The EIA members generously provide their time, expertise, and leadership by serving on the Board of Directors and through their involvement on one or more of the EIA's 16 committees. The members' active participation in the development, oversight, and future direction of the EIA's programs and services ensures that the EIA will continue its success for many years to come.

> *"There must be, not a balance of power, but a community of power; not organized rivalries, but an organized peace."*
>
> *Woodrow T. Wilson*

Because member involvement is a critical component of success, the EIA has made this issue one of its highest priorities. Strategies have been implemented to ensure member involvement and active participation – which leads to member loyalty – continue at a high level.

With innovative risk management techniques, cost effective programs and services, solid leadership and, most importantly, member involvement, the EIA will continue to be the "Risk Management Solution" for California public entities well into the future.

Below is an organizational chart depicting the governance structure of the EIA. The Board of Directors is comprised of 61 members, 1 representative from each member county and 7 members elected by the public entity membership. The Executive Committee consists of 11 members elected by the Board of Directors. Each year, the EIA solicits interest from the members to serve on the various committees. Appointments are then made by the Executive Committee from members' participation in the specific coverage program or based upon an individual's background or expertise.



Member Programs & Services

Major Coverage Programs

The EIA members have established 9 major coverage programs. These programs are described in greater detail throughout this report. The EIA has dramatically reduced insurance costs for the members by leveraging the combined purchasing power and financial size of the group. All 9 major programs include a blend of pooled risk and purchased insurance.

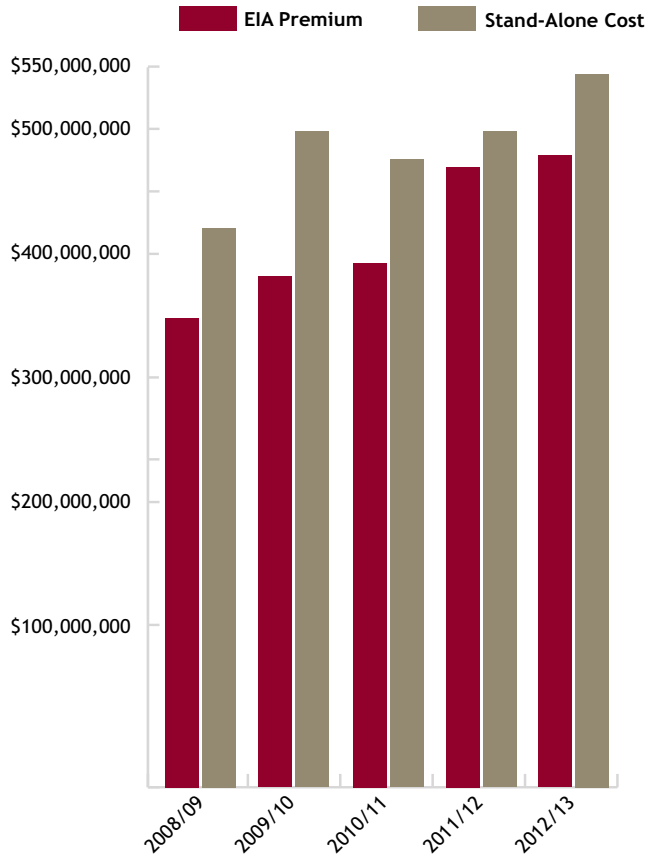
The risk pooling concept allows the program structures to adapt to current insurance market conditions. During hard market conditions, when insurance rates rise above the cost to actuarially fund the group's exposures, the pools expand and less insurance is purchased. When insurance rates decrease to the point where it is more cost effective to purchase insurance, the pools contract and additional insurance is purchased. This flexibility is a perfect example of the "balancing act" required by the EIA to ensure costs are kept low and members are provided with the best possible coverage and service.

"The balance of nature is reached when heating the house costs as much as going south for the winter." - James H. McGavran

The EIA is able to leverage the purchasing power of its membership to secure more cost-effective coverage than members could on their own. This strategy of leveraging volume has also benefited non-members because of the competitive role the EIA has assumed in the public sector insurance marketplace. Annually, the EIA compares the cost of its major programs to the estimated cost members would pay if they were purchasing similar coverage on their own. Below is a chart showing the premium paid over the last 5 years by the EIA members and the premium that is estimated to have been paid by members individually. In just the past 5 years, the EIA has saved California's counties and member public entities over $363 million.

Major Coverage Programs

Five Year Cumulative Premium vs. Estimated Stand-Alone Cost



Another component to the success of the EIA is the long-term partnership with our broker/consultant, Alliant Insurance Services. Along with the EIA staff, Alliant works closely with the Board of Directors and each of the committees to continually refine the programs to ensure the EIA is positioned to provide the best coverage and service possible to meet the members' broad range of needs.

While the EIA has strived to develop long-term relationships with its underwriters and insurance carriers, the insurance placements are continually evaluated. The EIA's committees are actively involved in this process, as they frequently review the insurance placements and program performance. The EIA constantly monitors the insurance marketplace, and through our diligence and relationships in the market world-wide, create opportunities to reduce costs and to enhance coverages for the EIA's members whenever possible.

Member Programs & Services

continued

Miscellaneous and Employee Benefits Programs

"You cannot depend on your eyes when your imagination is out of focus."

- Mark Twain

Part of the balancing the EIA must continually do is to evaluate whether its major coverage programs are addressing all the needs of the members. Where they may not, the EIA provides a variety of group purchase insurance programs to offer the members protection from other exposures. In many cases, members are also provided options to reduce deductibles and purchase additional insurance limits.

Several years ago, through a joint venture between the EIA and the California State Association of Counties (CSAC), the Personal Lines Insurance Program (PLIP) was established to provide discounted homeowners, automobile and other personal lines coverage to employees and retirees of member entities. The PLIP Program is underwritten by Liberty Mutual, who is known for their high-quality customer and claims services. To complement the PLIP Program, a wide range of voluntary insurance products from numerous insurers can be provided on a payroll-deduction basis.

The chart below illustrates the number of members participating in the miscellaneous and employee benefit programs for the current year.

Miscellaneous Program Participation

2012/2013

Member Programs & Services

continued

Member Services

In addition to the EIA's comprehensive coverage programs, numerous risk management programs have been designed to assist members in effectively administering their insurance and self-insurance programs. Some of the services and benefits enjoyed by the members include:

- Financial subsidy programs for actuarial analyses, loss prevention, and risk management
- Wide variety of loss prevention and risk management training programs, provided on a regional basis, on-site for individual members, or through live internet-based sessions
- Extensive loss prevention platform including: web-based training, automated system for monitoring employee driving records, flexible tools to monitor compliance, communication solutions for exchanging information and risk identification and mitigation technologies
- Loss prevention consultation, program assessments, and facility inspections
- Real and personal property appraisals
- Online, anytime access to coverage documents, certificates of insurance, subsidy balances, renewal applications, and property schedules
- Extension of EIA's contracted services at reduced rates for actuarial studies, claims audits, and certificate of insurance management services
- Access to additional programs and services through EIA's membership in the ISO Claims Search Program and Insurance Education Association
- Active presence with the State legislature, taking positions on those items that may impact EIA members

"I've learned that you can't have everything and do everything at the same time." - Oprah Winfrey

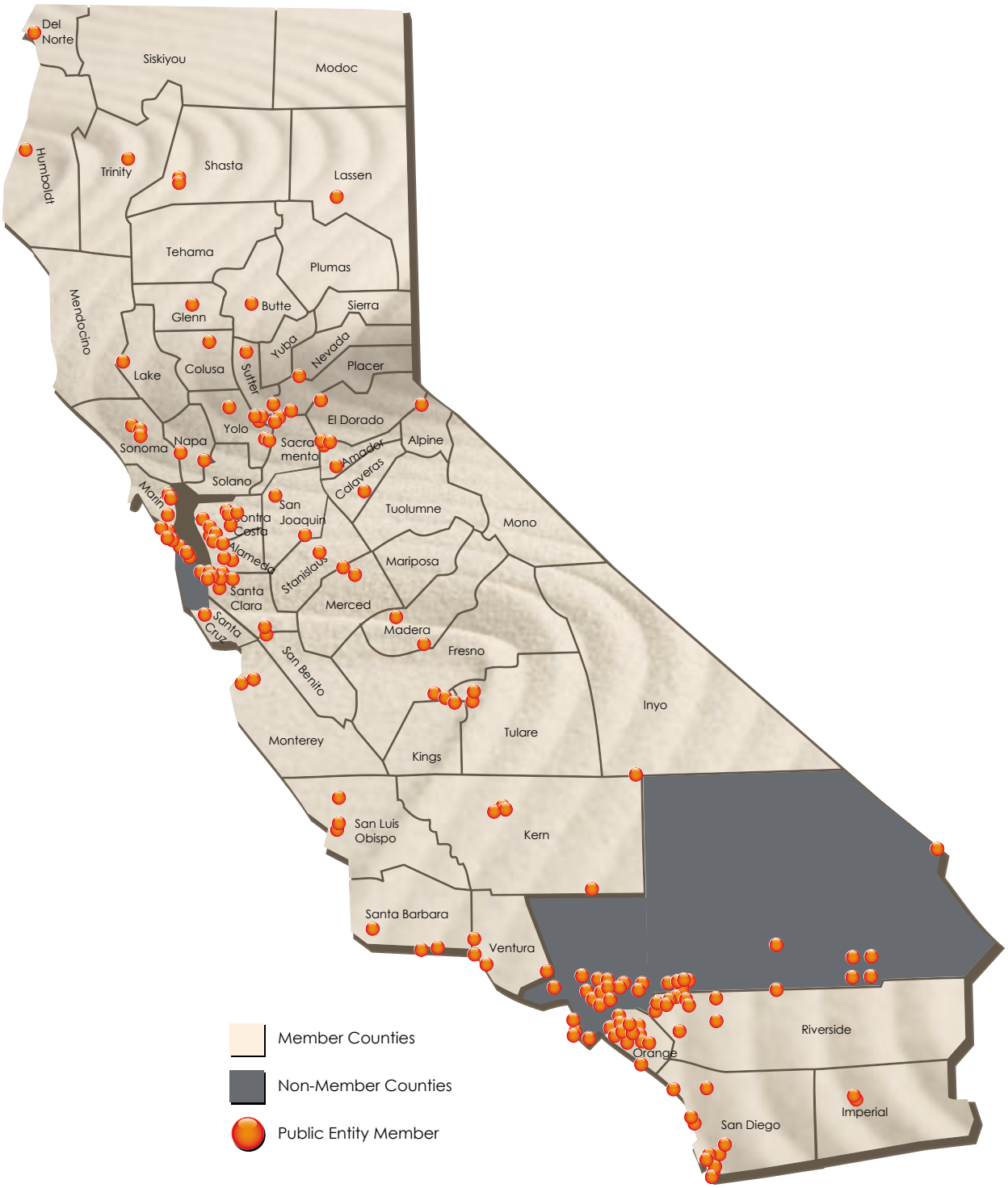
Karen Caoile
Alameda County
Technology Committee Chair

Sam Mann
City of Clovis/LAWCX
Loss Prevention Committee Chair

Larry Scott
Sacramento County
Legislative Committee Chair

CSAC EIA's Members

2012/2013



Primary Workers' Compensation

The Primary Workers' Compensation (PWC) Program provides Excess Workers' Compensation (EWC) Program members the opportunity to secure first dollar coverage instead of maintaining a self-insured retention. The PWC Program provides members with claims administration services, which is accomplished through a choice of 6 claims administrators, and offers several cost containment programs including a medical provider network, an injury reporting service, and a return-to-work program. The PWC Program pays for claims with a blending of pooling and insurance. The first $10 thousand of each claim is paid out of the Program's pool and the Program's insurer, part of the AmTrust Group, pays for the balance of the claim up to the $125 thousand attachment point to the EWC Program. This structure is depicted graphically on page 11.

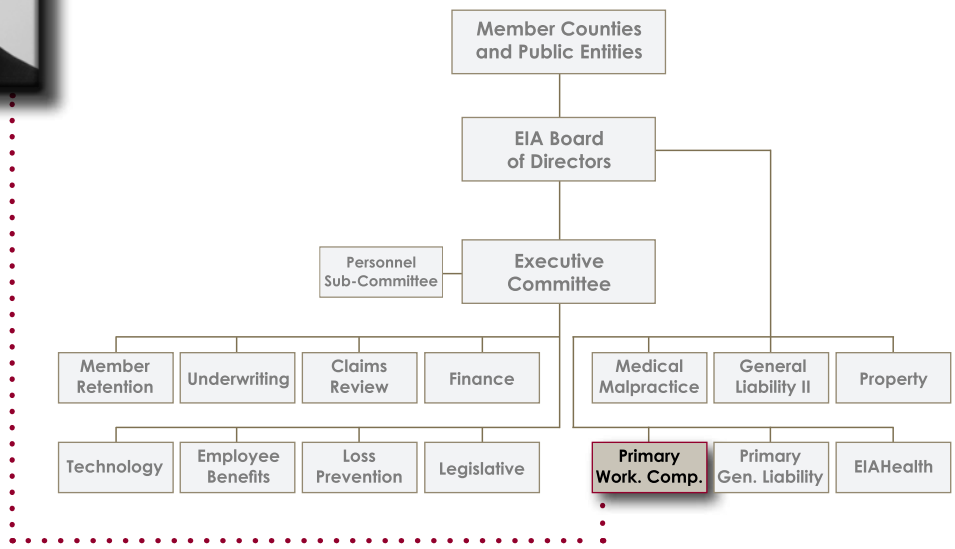
The PWC Committee governs the Program, reviewing all matters pertaining to the Program, including: program funding, coverage issues, claims, claims administration, program services, new member applications and insurance renewals.

The funding of the Program's pooled layer is evaluated each year. In 2009/10, the Committee approved a transaction (loss portfolio transfer) to sell a portfolio of open claims to the insurance market.

The decision to enter into this arrangement was not made lightly. The Committee spent a great deal of time balancing the pros and cons. Their conclusion was to proceed with an agreement that would allow them to retain control of the claims management, and transfer the financial risk, along with a significant insurance premium, to ACE American Insurance Company. While transferring the future financial risk of those claims was important, another significant motivator was the ability to free up substantial amounts of money that would no longer be needed for contingencies. Since doing this transaction, the Committee has already returned $22.5 million to the Program members. Additional distributions are anticipated in the next few years as well.

Peter Cheney

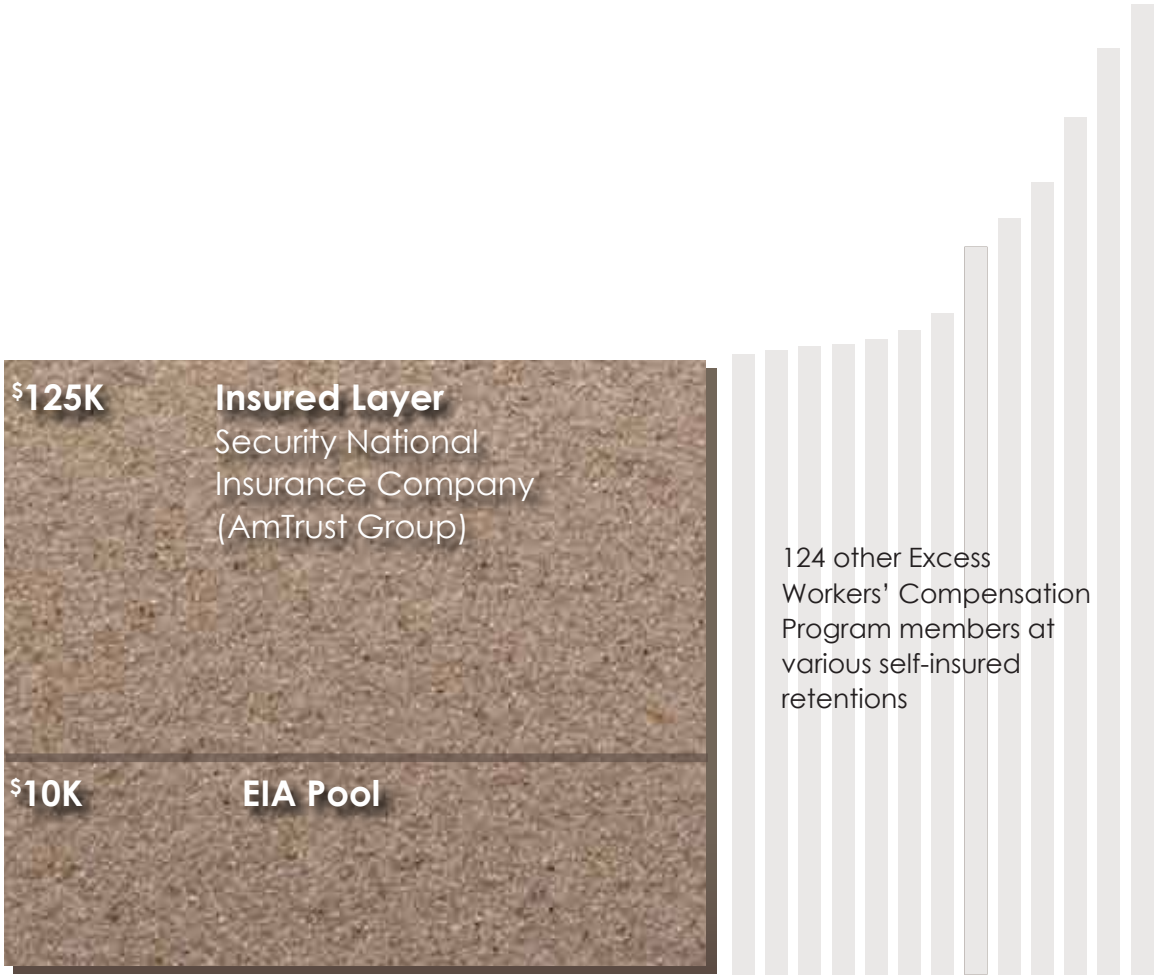
Nevada County
Primary Workers' Compensation
Committee Chair



Primary Workers' Compensation

2012/2013

Statutory — Excess Workers' Compensation Program



Excess Workers' Compensation

The Excess Workers' Compensation (EWC) Program provides members with statutory coverage, subject to the members' self-insured retention ranging from $125 thousand to $5 million. The Program's flexibility in providing many options gives the members the ability to balance their own needs and financial ability to self-insure their risk. Because members maintain a self-insured retention, they are able to manage their own claims, either through a third party administrator of their choice or with their own claims staff. The structure of the Program is depicted graphically on page 13.

Like most markets, the insurance environment is cyclical and the insurance companies will attempt to balance profits and market share. There also will be times when the Program can leverage its volume to secure insurance at a cost that is less than it would be for the combined group to self-insure. Beginning in 2008, the Program took advantage of the softening insurance market by entering into a quota share arrangement for the $875 thousand excess of $125 thousand layer. For the Program, the strategy resulted in reducing costs during some of the most difficult financial times the members had ever experienced. While the structure has changed, the Program continues to transfer risk in this layer. Wesco Insurance Company, part of the AmTrust Group, is currently providing coverage above a corridor deductible. This gives the Program additional predictability in determining the costs for the Program.

The EWC Program has been balancing the "wants" of the members with the "needs" of the Program for years. The Board strives for each of its Programs to have a healthy funding position, but at the same time, balances the need to keep premium costs to the members low and to ensure the Program is not retaining more funding than it needs. For the past few years, the EWC Program has been working towards increasing its overall funding position. Due to a very poor investment climate and adverse loss development, the funding position of the Program has not yet reached the Board's goals. The funding level is very carefully monitored by the Board and committees, and decisions to increase funding levels are continually discussed and "balanced".

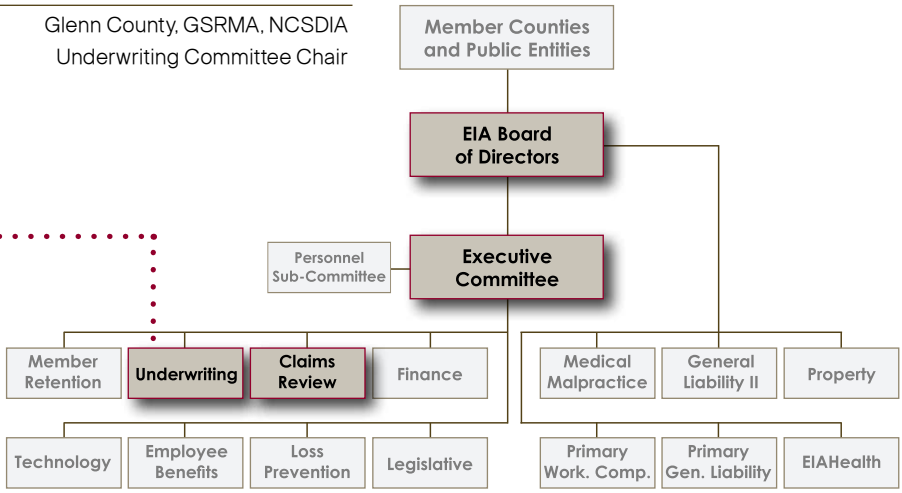
"Truly successful decision making relies on a balance between deliberate and instinctive thinking."
- Malcolm Gladwell

The Board of Directors, ultimately, governs the EWC Program, with recommendations being made by the Executive, Underwriting and Claims Review Committees. The Board has delegated a significant amount of authority to the Underwriting and Claims Review Committees to handle the day-to-day business of the Program. More detail on the Claims Review Committee can be found on page 16.

The Underwriting Committee makes recommendations to the Executive Committee and reviews matters pertaining to the General Liability I (GLI) and EWC Programs, including: new member applications, allocation of premiums, overall program funding and insurance renewals. Additionally, the Underwriting Committee has authority to approve many of the member's routine requests like named insured additions and minor coverage modifications.

Scott Schimke

Glenn County, GSRMA, NCSDIA
Underwriting Committee Chair



Excess Workers' Compensation

2012/2013

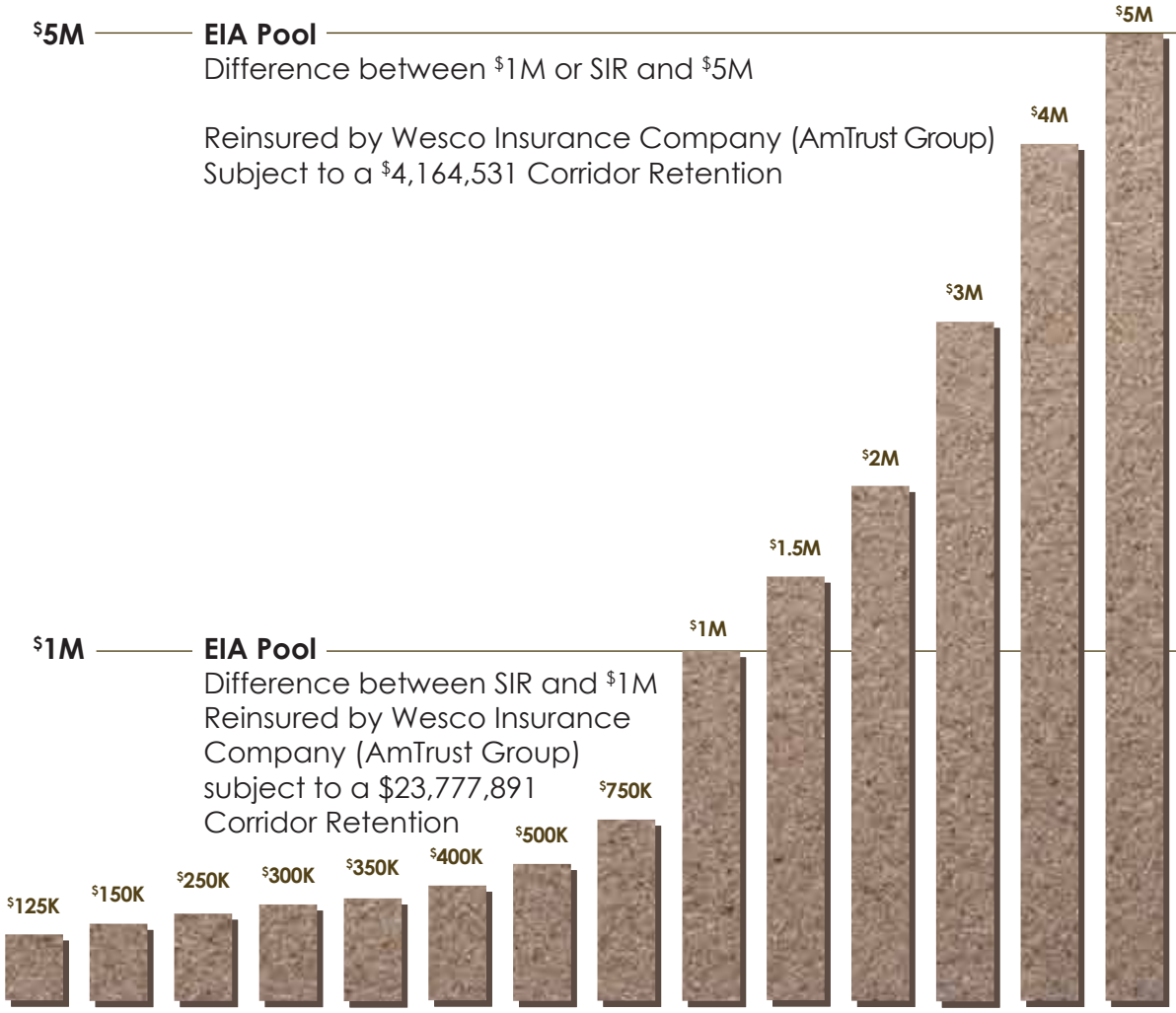
Statutory — **Excess Insurance Layer**
National Union Fire Insurance Company (an AIG Company)
Statutory excess of $50M

$50M — **Excess Insurance Layer**
ACE American Insurance Company
$45M excess of $5M Pool

$5M — **EIA Pool**
Difference between $1M or SIR and $5M

Reinsured by Wesco Insurance Company (AmTrust Group)
Subject to a $4,164,531 Corridor Retention

$1M — **EIA Pool**
Difference between SIR and $1M
Reinsured by Wesco Insurance Company (AmTrust Group) subject to a $23,777,891 Corridor Retention



Primary General Liability

The Primary General Liability (PGL) Program provides members the opportunity to convert their self-insured retention to a $10 thousand deductible. For smaller members, the Program has served to protect them from the financial instability that can come with maintaining a self-insured retention. This support has been significant for the members in terms of managing their cash-flows and budgets.

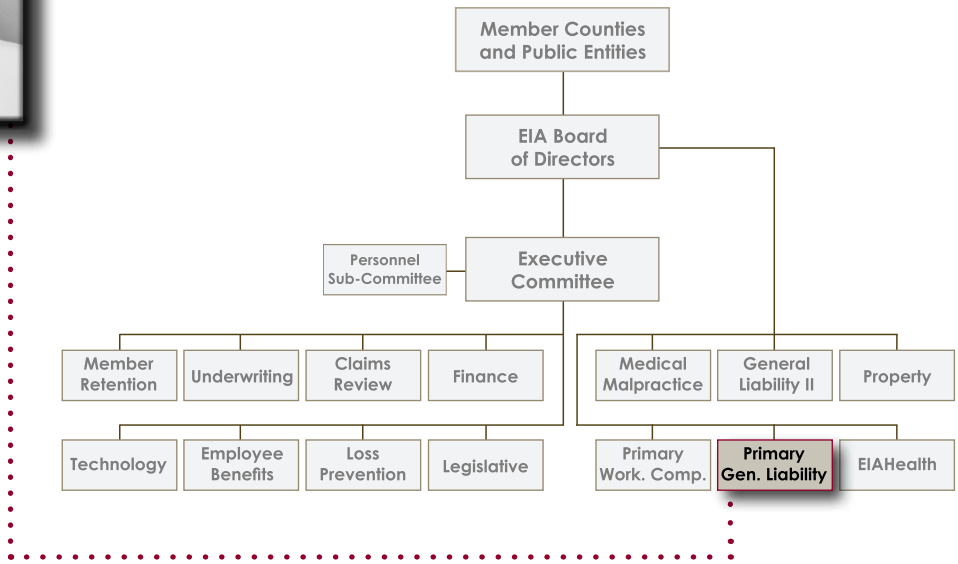
In addition to coverage at a lower level, the PGL Program also provides members with claims administration services, which is accomplished through a choice of 2 claims administrators. Under the Program's current structure, there is no pooling. Instead, the Program's limit is provided through a reinsurance arrangement with ACE American Insurance Company. This structure is depicted graphically on page 15.

Transferring the risk to an insurance company has helped accomplished the PGL members' goals for the Program: keep costs reasonable, maintain stability and ensure the members have the ability to control their claims disposition. At the same time, the members of the Program have shown they can balance the desire to transfer risk with the need to keep costs low. The Committee has demonstrated they are flexible and will react to changes in the insurance environment when necessary. Together, the members have sustained a very successful Program for more than 14 years, and we expect this success to carry on for many years to come.

The PGL Committee governs this Program. They review all matters pertaining to the Program, including: coverage issues, claims, program services, new member applications and reinsurance renewals.

Paul Hight

Sacramento County Contracts
Primary General Liability
Committee Chair



Primary General Liability

2012/2013

$25M — General Liability I Program

$100K — PGL Program
Reinsurance Layer
ACE American Insurance Co.
$90K excess of deductible

$10K — Member Deductible

74 other General Liability I Program members at various self-insured retentions

General Liability I

The General Liability I (GLI) Program provides members with coverage for third party liabilities (including general, automobile, employment practices and errors and omissions), up to a limit of $25 million, subject to the members' self-insured retention, which can range from $100 thousand to $1 million (retentions as low as $25 thousand can be provided on an exception basis). Because members maintain self-insured retentions in this Program, they are able to manage their own claims, either through a third party of their choice or with their own claims staff. The Program funds a $5 million pool and purchases $20 million in reinsurance to achieve the $25 million limit. This structure is depicted graphically on page 17.

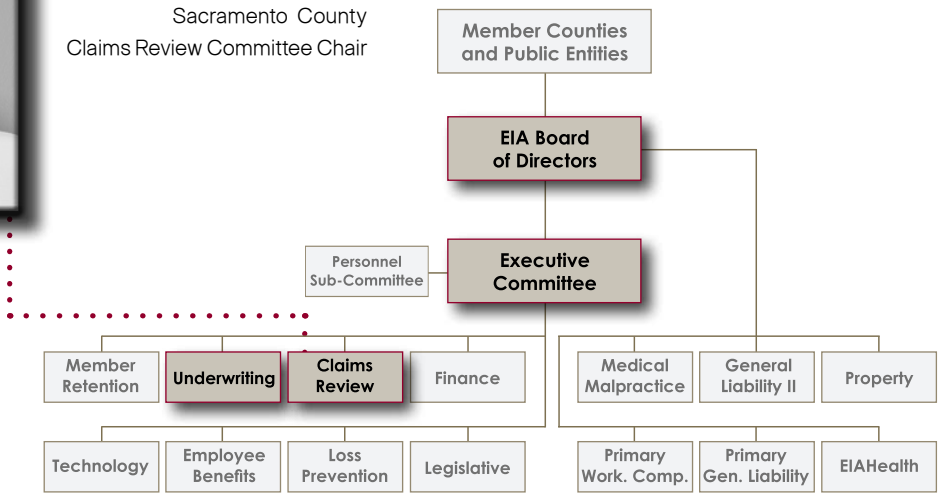
Within the public liability arena, there are many coverage issues to balance. The Program's coverage document is frequently reviewed, and the decisions to grant coverage or exclude risks must be made carefully. The Program has a diverse membership, and the Board and committees must ensure the needs and desires of all members are considered. At the same time, these groups must also consider the potential risk for unanticipated claims to the Program. This ongoing balancing act of providing coverage while protecting the Program's assets is the heart of the EIA.

Like the EWC Program, the GLI Program is governed by the Board of Directors, with recommendations being made by the Executive, Underwriting and Claims Review Committees. The Board has delegated a significant amount of authority to the Underwriting and Claims Review Committees to handle the day-to-day business of the Program. More detail on the Underwriting Committee can be found on page 12.

The Claims Review Committee reviews GLI and EWC claims. They have full authority to authorize settlements and take action regarding claims services, such as cost containment solutions and claims audit services.

Paul Hight

Sacramento County
Claims Review Committee Chair



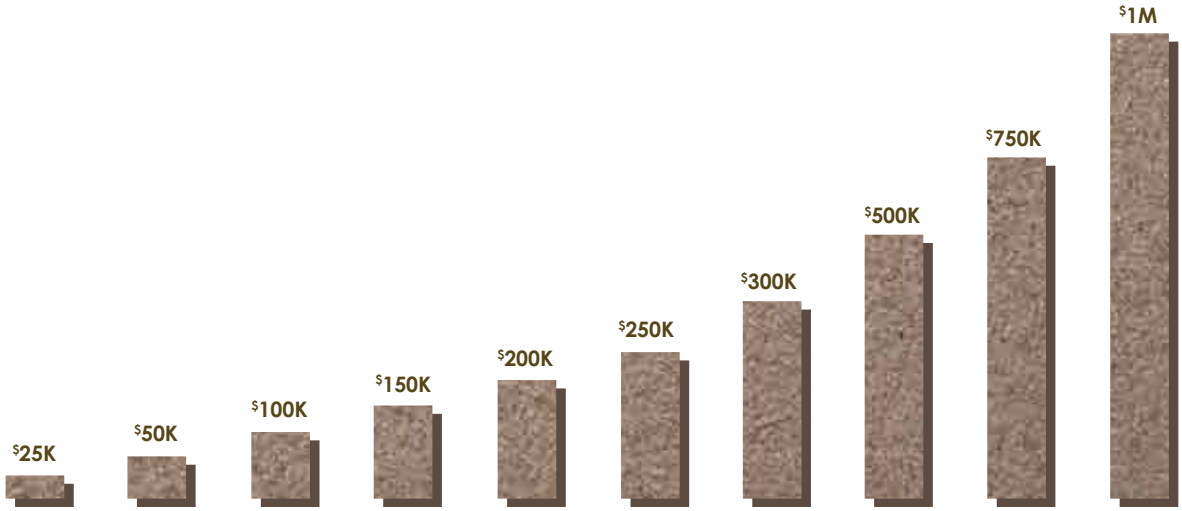
General Liability I

2012/2013

$25M — **Reinsurance Layer**
Starr Indemnity & Liability Co.
$10M excess of $15M

$15M — **Reinsurance Layer**
Ironshore Indemnity, Inc.
$10M excess of $5M pool

$5M — **EIA Pool**
Difference between SIR or PGL and $5M



*19 GLI Program members purchase additional limits through the Optional Excess Liability Program

General Liability II

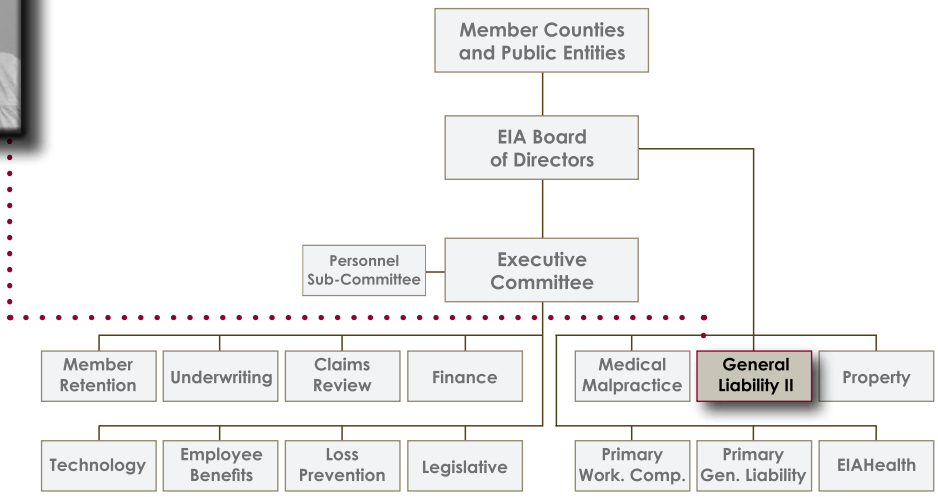
The General Liability II (GLII) Program provides members with coverage for third party liabilities (general, automobile, employment practices and errors and omissions), up to a limit of $25 million, subject to the members' self-insured retentions, which range from $1 million to $3 million. Because members maintain self-insured retentions, they are able to manage their own claims, either through a claims administrator of their choice or with their own claims staff. The Program purchases reinsurance up to $25 million, inclusive of the member's retention. This structure is depicted graphically on page 19.

The GLII Committee governs this Program. They review all matters pertaining to the GLII Program, including: insurance placements, coverage issues, claims administration, program services and new member applications. Another important aspect of the Program that the Committee is involved with is the allocation of premium amongst the members. This is a key area for the Committee in terms of balancing the Program's goals of member equity and Program stability.

Because of a challenging loss history, the Program has had to also balance the desire to keep premium costs down, while ensuring the Program is attractive to the insurance markets. The GLII Program has generally maintained long-term relationships with its reinsurance partners, thus giving the Program the ability to negotiate implementation of changes over a number of years. The Program currently has two reinsurance placements, with AmTrust providing coverage from the member's self-insured retention up to $10 million and Ironshore providing coverage up to $25 million.

Barbara Lubben

Alameda County
General Liability II Committee Chair



General Liability II

2012/2013

$25M — **Reinsurance Layer**
Ironshore Indemnity, Inc.
$15M excess of $10M

$10M — **Reinsurance Layer**
Wesco Insurance Company
(AmTrust Group)
Placed through ANML

*6 GLII Program members purchase additional limits through the Optional Excess Liability Program

Property

The Property Program is the ultimate example of balancing wants, needs, and availability. There is only so much insurance capacity available in the marketplace, in particular as respects earthquake coverage. Ideally, we would like to buy more, but at some point purchasing additional coverage becomes cost-prohibitive or simply unavailable. To address these issues, the Property Program has implemented a unique structure with "Towers" to spread risk both geographically and categorically. This spread of risk allows the Program to access higher limits at reduced costs. Members have $600 million in all risk and $400 million in flood limits. Plus, members that purchase earthquake coverage have access to $307.5 million in earthquake coverage in 1 or more of 5 towers. The Program maintains a $3 million pool, with reinsurance and insurance providing the balance of the limits. The pool exposure is limited to $10 million for the year, and upon exhaustion of the pool's aggregate, the primary reinsurer, Lexington, pays for losses excess of the members' deductibles.

> *"Challenges are gifts that force us to search for a new center of gravity. Don't fight them. Just find a different way to stand" - Oprah Whitney*

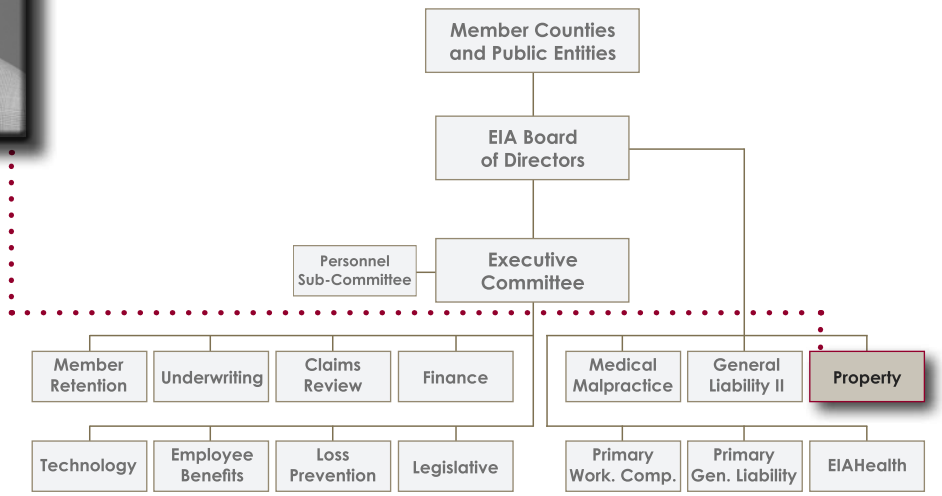
Because this is basically a fully insured program, with members' deductibles ranging from $5 thousand to $150 thousand, the primary reinsurer, Lexington, takes full responsibility for the adjustment of claims. The Program provides real property appraisal services to all members, with each location valued over $250 thousand being appraised every five years.

Each year, the structure of the Property Program is modified based on the insurance market's shift of capacity, pricing adjustments, and overall availability to provide coverage. The Property Committee has done a great job on behalf of the Program members in balancing the desire for stability in structure, with the need to maintain the lowest premiums possible, and the need to purchase enough coverage to ensure the members feel adequately protected from their property risks.

The Property Committee governs this Program. They review all matters pertaining to the Program, including: insurance placements, coverage issues, property appraisals, other program services, and new member applications.

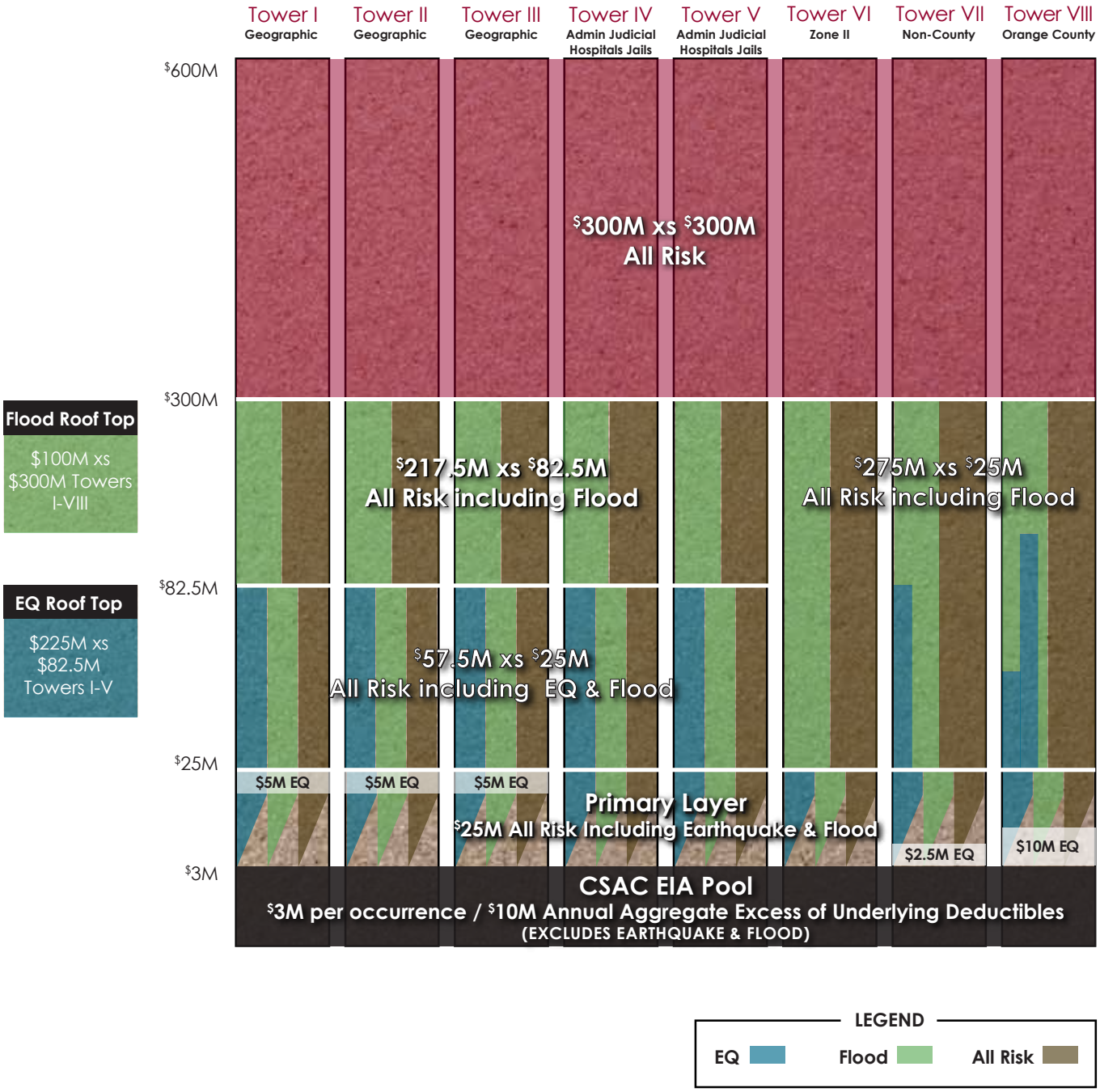
Lance Sposito

Santa Clara County
Property Committee Chair



Property

2012/2013



Medical Malpractice

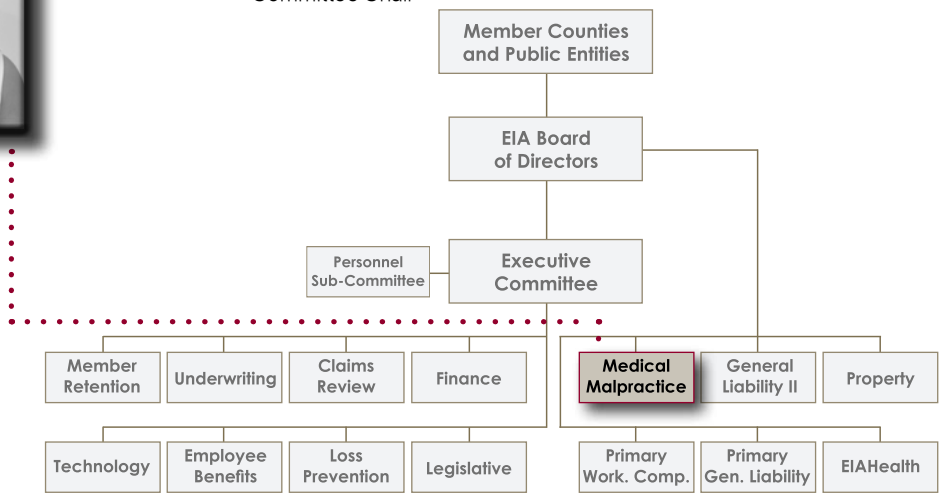
The Medical Malpractice Program provides members with coverage for medical professional services and limited general liability exposures at established healthcare facilities. The Program offers limits of $21.5 million, in addition to the members' deductible or self-insured retention which range from $5 thousand to $1.1 million. For members who maintain a $5 thousand or $10 thousand deductible, claims administration is provided by the Program's claims administrator, Risk Management Services. Members who maintain a self-insured retention are able to manage their claims, either through a claims administrator or with their own claims staff. The Program funds a $1.5 million pool and purchases $20 million of reinsurance to fulfill the limits. This structure is depicted graphically on page 23.

Beginning with the 2010/11 year, the Program's reinsurance agreement was converted from "claims made" to an "occurrence" basis. This has allowed the Program to transfer its liability for tail claims in the reinsured layer to Lexington over the course of a 3-year period. This elimination of the tail exposure will increase stability of the Program, and ultimately help the members and save money when the professional insurance market begins to show signs of change. At the same time, the members have elected to fund the pool exposure on a claims-made basis in order to take advantage of the risk financing benefits of lower cost and greater predictability and stability.

The Program is governed by the Medical Malpractice Committee, who is responsible for all matters pertaining to the Program, including: pool funding, coverage issues, claims, program services, new member applications and insurance placements.

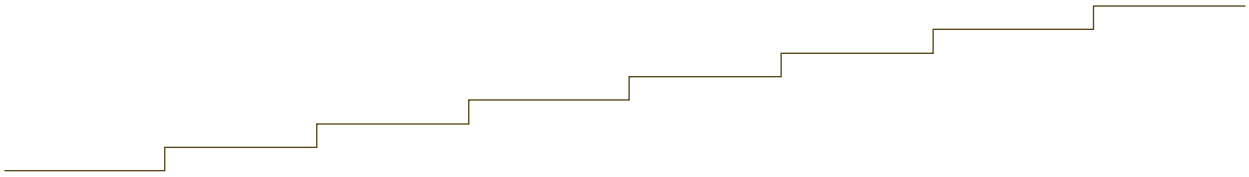
Karen Caoile

Alameda County
Medical Malpractice
Committee Chair

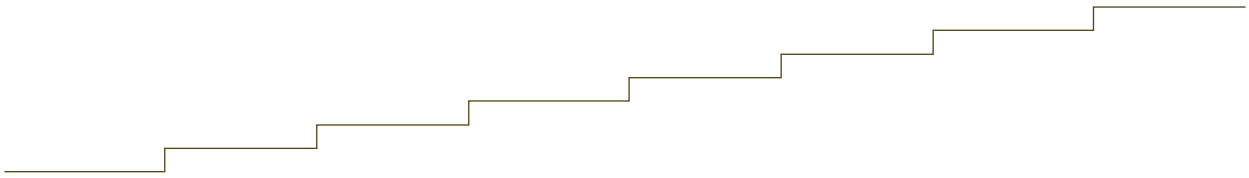


Medical Malpractice

2012/2013



$21,505,000 **Reinsurance Layer**
Lexington Insurance Company (an AIG Company)
$20M excess of $1.5M pool
(Occurrence Basis)



$1,505,000 **EIA Pool**
$1.5M excess of deductible or SIR
(Claims Made Basis)

EIAHealth

The EIAHealth Program provides members an alternative to group health insurance plans using the concept of pooling to reduce insurance premiums through consolidating the fixed costs over a larger population. Members are able to create and maintain their own plan designs within the context of the pooling arrangement, which provides much greater stability than a stand alone program. In addition, small group programs are available with pre-defined benefit options for public employers with less than 250 employees.

The EIAHealth Program partners with Self Insured Schools of California (SISC) for the pooling of PPO type indemnity plans. In addition, HMO options are available to members on an insured basis. This relationship gives the Program more stability and lower rates.

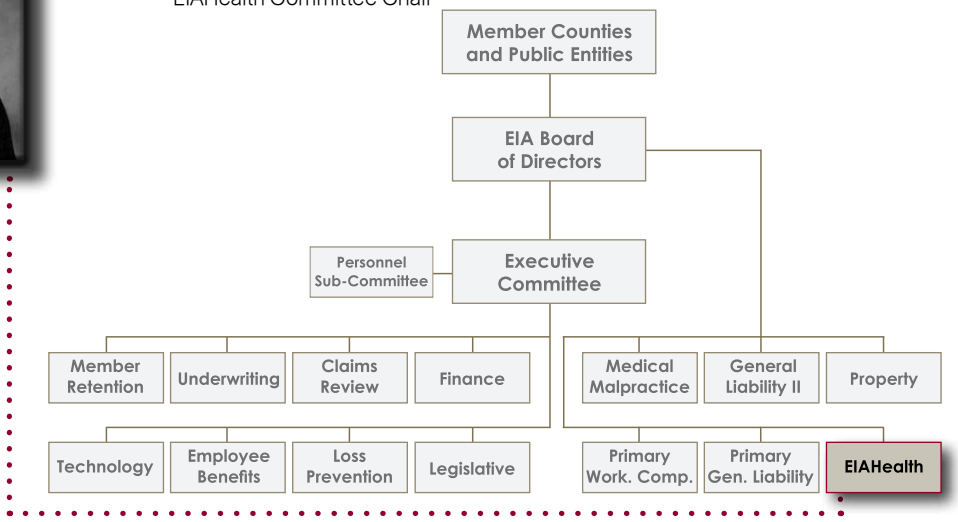
The EIAHealth Committee governs this Program. This Committee reviews all matters pertaining to the EIAHealth Program, including: program funding, new member applications and Program renewals.

EIAHealth Membership

City of Chico
City of Huntington Beach
City of Irvine
City of Merced
City of Oceanside
City of Redding
City of Santa Rosa
City of Visalia
City of Yuba City
County of Amador
County of Calaveras
County of El Dorado
County of Lake
County of Merced
County of Santa Barbara
County of Tehama
GSRMA (small group)
Hi-Desert Memorial Healthcare District
SDRMA (small group)
Superior Court of California,
County of Riverside
County of Santa Barbara
Turlock Irrigation District

Andreas Pyper

Santa Barbara County
EIAHealth Committee Chair



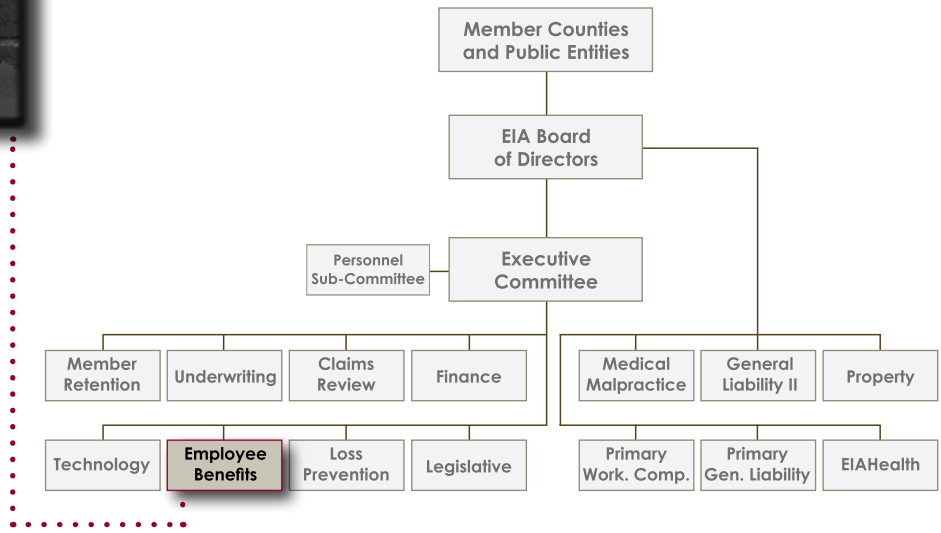
Dental

The Dental Program was launched in January 2010 and has since experienced significant growth. This Program utilizes the pooling methodology to provide members with more predictable and stable dental rates year over year. The Program partners with Delta Dental to provide administrative services, including claims administration and access to the Delta Dental network of providers. The administrative fees in the Program are also some of the lowest offered by Delta Dental of California.

The Employee Benefits Committee governs the Dental Program as well as other miscellaneous employee benefit programs (i.e. Vision, EAP, Life and LTD). This Committee reviews all matters pertaining to the Dental Program, including: program funding, new member applications and Program renewals.

Jill Abel

Yuba County
Employee Benefits Committee Chair



EIA Leadership

2012 Executive Committee

President
Scott Schimke, Golden State Risk Mgmt. Authority

Vice President
Barbara Lubben, Alameda County

Members
Supervisor Mark Marshall, Colusa County
Peggy Scroggins, Colusa County
Larry Moss, East Bay Regional Park District
Kristin McMenomey, Mendocino County
James Brown, Merced County
Maryellen Peters, Placer County
Jim Sessions, Riverside County
Lance Sposito, Santa Clara County
Supervisor Peter W. Huebner, Sierra County

Presidents
Supervisor Barbara Crowley, Tehama Co. 1980-1982
J. Terry Roberts, Fresno County, 1983-1984
Charles Mitchell, Santa Barbara Co., 1985-1986
James L. Gale, Kings County, 1987
John Crane, Calaveras County, 1988
Gail Braun, Sonoma County, 1988-1989
Ronald Whipp, Santa Cruz County, 1990
Norman Phelps, Shasta County, 1991
Charles Graham, Sutter County, 1992
John Larkin, Trinity County, 1993
Arthur Giumini, San Luis Obispo County, 1994
Don Blackhurst, Santa Clara County, 1995
Marcia Chadbourne, Solano County, 1996
Richard Robinson, Tehama County, 1997
J. Terry Roberts, Fresno County, 1998
Robert Kessinger, Colusa County, 1999
Brent Harrington, Calaveras County, 2000
Kimberly Kerr, Humboldt County, 2001-2002
Richard Robinson, Tehama County, 2003
Charles Nares, San Diego County, 2004
David L. Dolenar, Stanislaus County, 2005
Peggy Scroggins, Colusa County, 2006
Marcia Chadbourne, Sonoma County, 2007
Ron Harvey, Contra Costa County, 2008
Supervisor Peter W. Huebner, Sierra County, 2009
Lance Sposito, Santa Clara County, 2010
Jim Sessions, Riverside County, 2011
Scott Schimke, Golden State Risk Mgmt. Authority, 2012
Barbara Lubben, Alameda County, 2013

2013 Executive Committee

President
Barbara Lubben, Alameda County

Vice President
Larry Moss, East Bay Regional Park District

Members
Supervisor Mark Marshall, Colusa County
Peggy Scroggins, Colusa County
Scott Schimke, Golden State Risk Mgmt. Authority
Kristin McMenomey, Mendocino County
James Brown, Merced County
Maryellen Peters, Placer County
Jim Sessions, Riverside County
Lance Sposito, Santa Clara County
Supervisor Peter Huebner, Sierra County

Chief Executive Officers
Gregory L. Trout, 1980-1985
Vincent W. Pisani, 1985-1992
Michael D. Fleming, 1992-Present

Director Emeritus
Supervisor Dick Mudd, 2000-Present

Legal Counsel
Stephen Underwood

Senior Management
Laura Turlington, Chief Information Officer
Jack Blyskal, Chief Claims Officer
Gina Dean, Chief Operating Officer
Michael Fleming, Chief Executive Officer
Marianne Stuart, Chief Financial Officer
Dan Calabrese, Chief Investment Officer

Financial Letter

November 1, 2012

Board of Directors:

"BALANCING ACT" An attempt to cope with several often conflicting factors or situations at the same time...

That perfectly describes what our members have been doing within the EIA and in their governments. Our members make decisions - do we self-fund or insure? Does the EIA pool the risk or reinsure? How do we find the balance between keeping too much in assets and too little? These are questions our members address every time they meet, whether it is deciding to admit a member to a program, increase a self-insured retention, change the discount rate on claim liabilities, or insure a layer of coverage.

This fiscal year, 2011/12, we were able to achieve a state of equilibrium with revenues slightly outpacing expenses. This report is intended to provide those interested in how we got there, with an easy to read overview of the EIA's financial condition, and highlight the financial activity for the fiscal year ended June 30, 2012. Included in this report are comparative financial statements for the years ended June 30, 2012 and 2011, including the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets. This information is derived from our Comprehensive Annual Financial Report (CAFR). The CAFR contains more detailed information and can be found on our website at www.csac-eia.org. Our 2011 CAFR received the Government Finance Officers Association (GFOA) Certificate of Excellence in Financial Reporting. We believe that our CAFR for 2012 will continue to meet the requirements of the Certificate of Achievement Program and we will be submitting our 2012 CAFR to the GFOA.

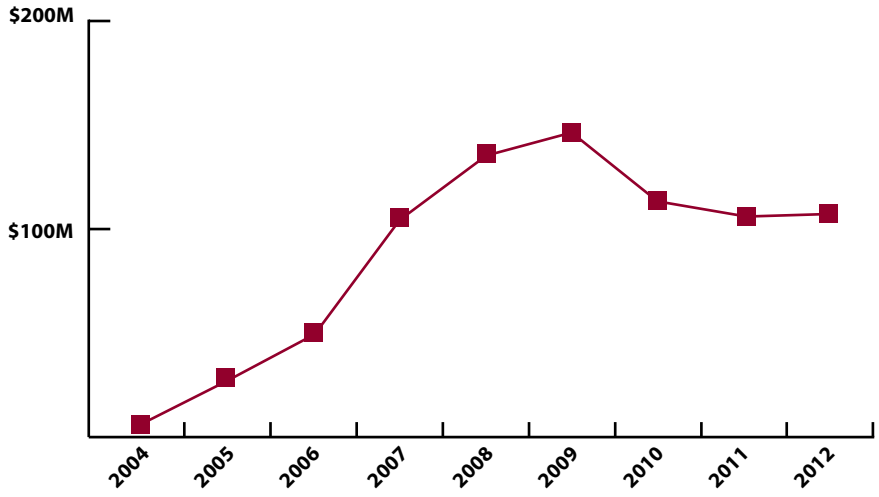
Financial Highlights:

Net Assets

We started the year with net assets of $104 million. Net income not including dividends was $11.5 million. Our strong position in Net Assets in some programs allowed us to return dividends to our members of $10 million, decreasing net assets by that amount. Our ending balance in net assets is $105.5 million.

Net Assets

This chart shows how net assets have changed over time.



Financial Letter
continued

Claim Liabilities

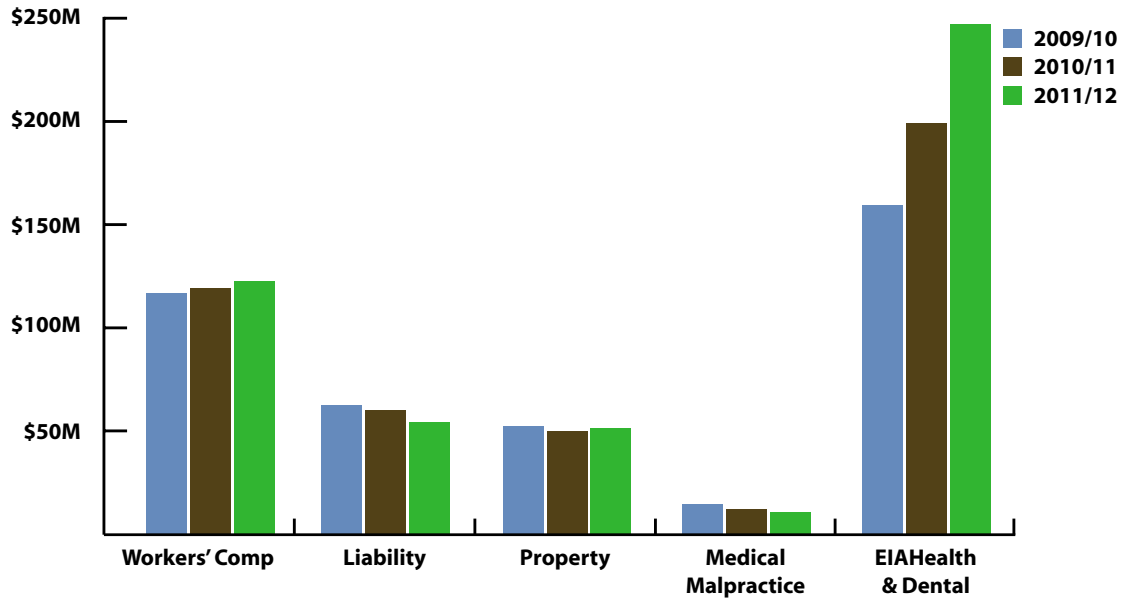
After Net Assets, claim liabilities are the most significant line item on our statements. This year we again lowered our discount rate from 4.27% to 4% in the Excess Workers' Compensation Program, from 2.74% to 2.25% in the General Liability I Program and from 1.97% to 1.75% in the Medical Malpractice Program because of the continuing low interest rate environment. Overall, claim liabilities increased from $423 million to $433 million. All our risk financing programs have net assets in excess of liabilities, a positive fund balance.

Claim Liabilities	Current Year	Prior Years	Total
Beginning Balance	$ -	$422,537,521	$422,537,521
Claim Development	82,282,083	18,794,352	101,076,435
Claim Payments	(27,492,705)	(62,633,389)	(90,126,094)
Balance in Claims Liabilities	$54,789,378	$378,698,484	$433,487,862

Growth in Programs

Our overall revenues increased by 11% or $50 million from $465 million in 2011 to $515 million in 2012. Most of that growth was in the Employee Benefits Programs. EIAHealth revenues increased $43 million, or 24%, and the Dental Program, now in its second full year of operation, had an increase in revenues of over $5 million, or 22%, from $24 million in 2011 to $29 million in 2012. Smaller entities joining the programs accounted for much of this growth.

Program Growth

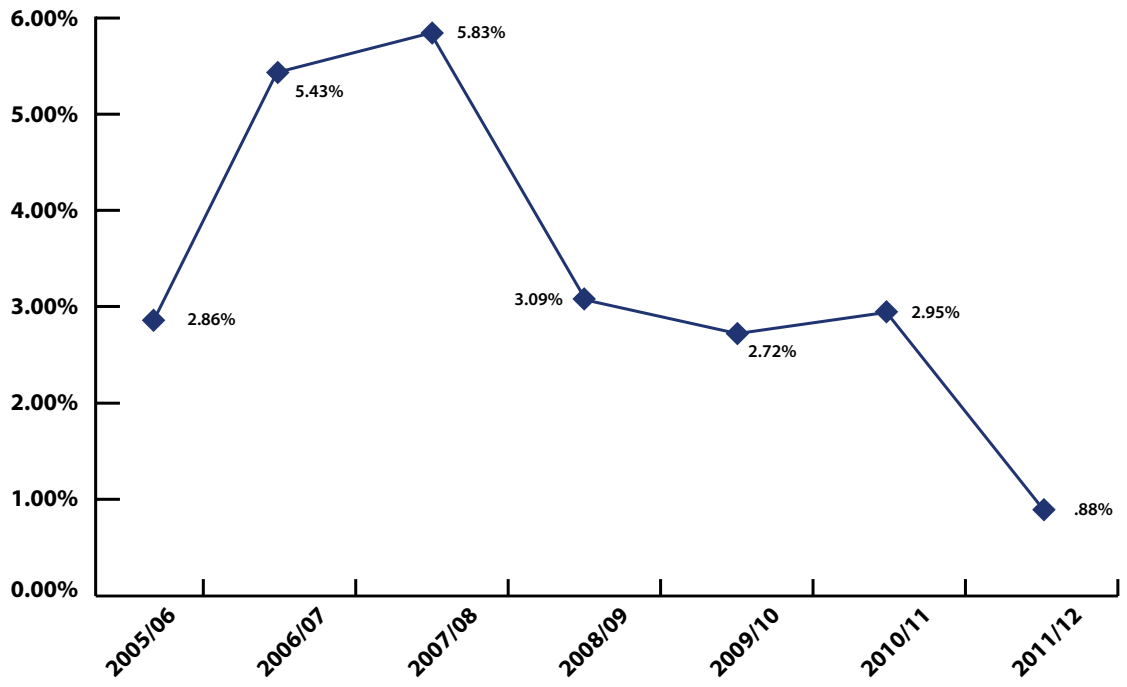


Financial Letter
continued

Investment Income

Falling interest rates and yields continued to impact our investment earnings which were down from $9.7 million a year ago to $5.1 million in 2012. We expect earnings to continue at these lower rates in the near term. Our holdings will mature on average in just under 15 months, so we can take advantage of higher interest rates when the market turns.

Investment Rate of Return



Expenses

The EIA continued to purchase insurance to cover risks when that option was more cost effective than pooling the risk. In 2012, insurance related expense was $380 million, up from $321 million in 2011. Purchased insurance was 73% of all expenses, while claim costs accounted for 20% of all expenses. Administrative costs continued to be less than 2% of overall expenses.

Loss Prevention Expenses

Our members continued their utilization of the Target Solutions Platform. User fees were $348 thousand which partially offset Platform expenses of $1.2 million. Members contributed another $2.1 million to the risk management and subsidy program and spent $1.9 million, leaving a balance of $5.5 million in these subsidy funds at fiscal year-end.

Financial Letter
continued

Our financial statements follow, along with graphs showing our 2012 expenses by program. Through its strong member participation, the EIA continues to weigh alternatives to achieve a balanced and cost effective approach to risk financing for its members.

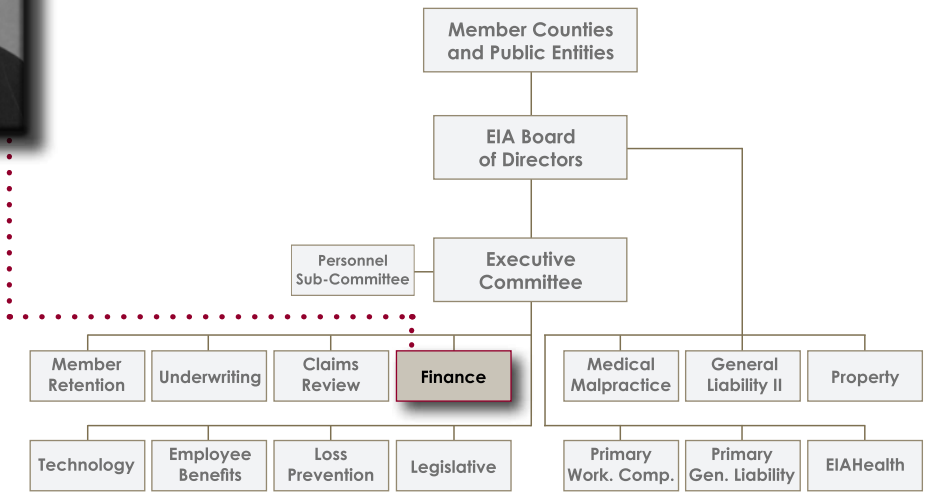
Respectfully submitted,

Marianne I. Stuart
Chief Financial Officer

Michael D. Fleming
Chief Executive Officer
Secretary/Treasurer

Van Maddox

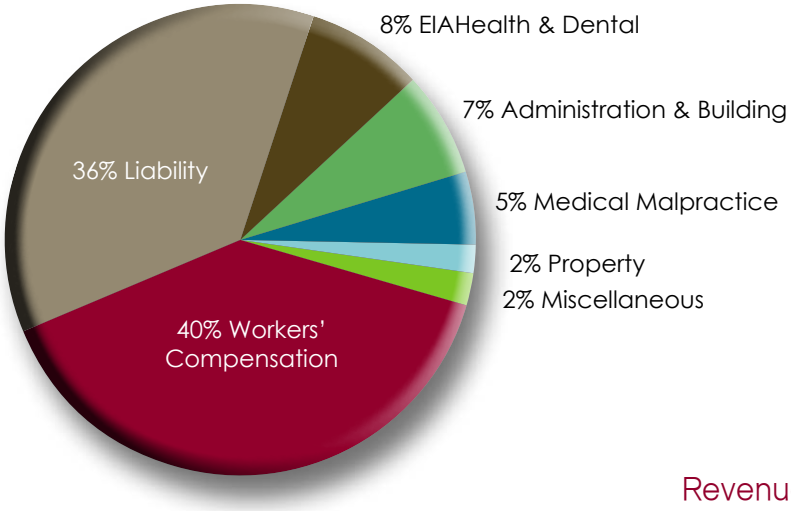
Sierra County
Finance Committee Chair



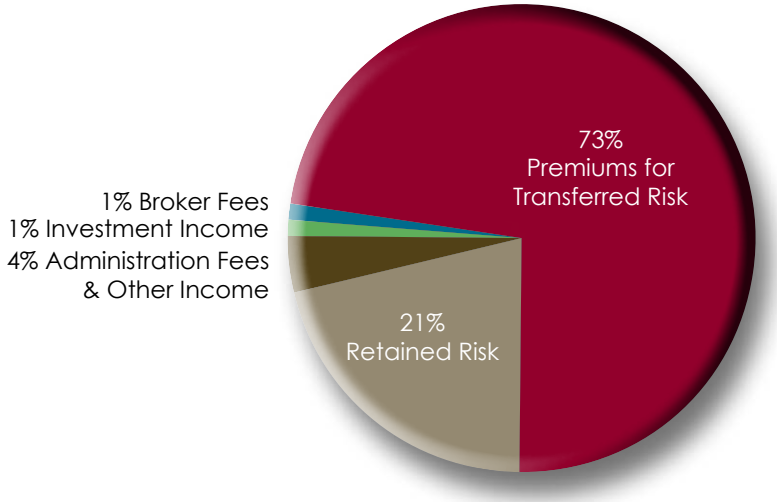
Financial Profile

Financial results in Brief 2012/2013

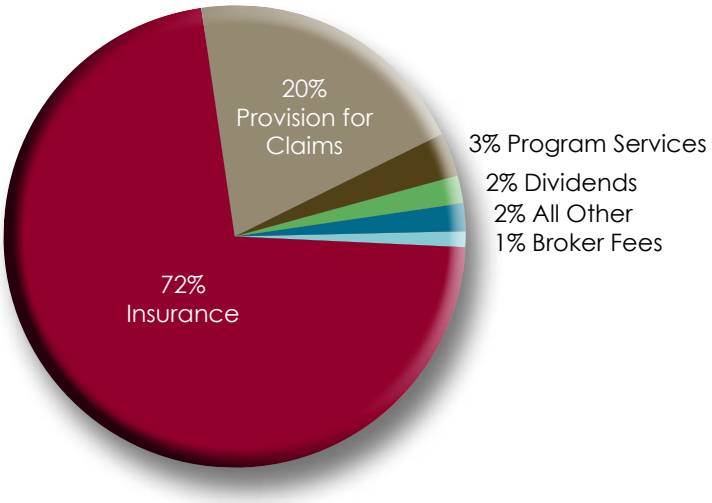
Total Assets by Program



Revenues



Expenses



Financial Profile
continued

Statement of Net Assets, June 30, 2012 and 2011

	June 30, 2012	June 30, 2011
Assets:		
Cash	$300	$300
Cash in Banks	9,870,421	5,825,315
Cash in the EIA Treasury	70,823,337	75,099,674
Total Cash & Cash Equivalents	80,694,058	80,925,289
Investments	389,166,944	376,301,475
Accounts Receivable		
Due from Members	14,819,415	19,206,855
Investment Income Receivable	2,858,667	2,761,445
Reinsurance Claims	5,762,632	6,788,843
Other Receivables	1,070	69,397
Prepaid Insurance and Expenses	71,712,331	68,604,312
Land, Buildings and Equipment (Net)	8,848,705	9,181,260
Total Assets	**573,863,822**	**563,838,876**
Liabilities:		
Accounts Payable	3,630,609	5,267,341
Due to Members	19,449,370	24,560,819
Deferred Income & Deposits from Insurance Companies	11,134,420	6,634,140
Claim Liabilities	395,469,284	384,080,259
Unallocated Loss Adjustment Expense Payable	38,018,578	38,457,262
Compensated Absences	261,864	237,876
Other Post Employment Benefits	347,877	286,540
Total Liabilities	**468,312,002**	**459,524,237**
Net Assets:		
Invested in Capital Assets	8,848,705	9,181,260
Unrestricted	96,703,115	95,133,379
Total Net Assets	**$105,551,820**	**$104,314,639**

Financial Profile
continued

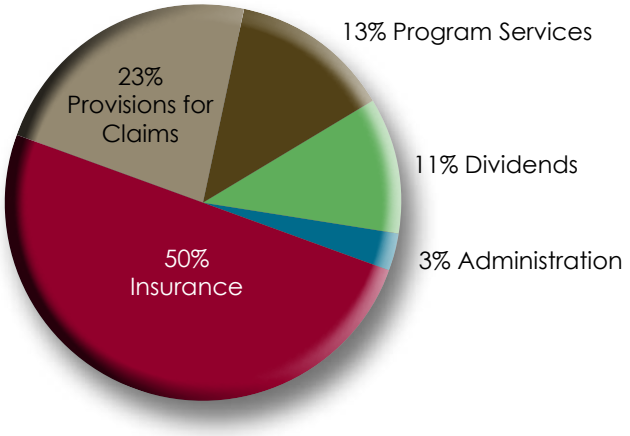
Statement of Revenues, Expenses & Changes in Net Assets
For the Fiscal Years Ended June 30, 2012 and 2011

	June 30, 2012	June 30, 2011
Revenues:		
Premiums for Transferred Risk	$374,220,717	$316,271,011
Broker Fees	7,085,654	6,459,876
Contributions for Retained Risk	108,763,785	119,707,240
Dividend Income	75,314	41,971
Investment Income	5,103,554	9,726,704
Member Services	613,490	530,052
Administration Fees	11,487,622	10,155,392
Public Entity Fees	456,577	408,475
Development Fees	3,550	7,550
Other Income	7,673,338	2,313,897
Total Revenues	**515,483,601**	**465,622,168**
Expenses:		
Member Dividends	10,291,841	11,062,736
Insurance and Provision for Losses:		
Insurance Expense	372,467,736	314,135,445
Broker Fees	7,053,183	6,459,283
Provision for Insured Events	101,501,141	124,443,282
Unallocated Loss Adjustment Expenses	(424,706)	1,127,804
Program Services	13,426,729	12,495,396
Member Services and Subsidies	2,056,405	2,027,109
General Administrative Services	7,118,673	7,150,235
Depreciation and Building Maintenance	755,418	763,844
Total Expenses	**514,246,420**	**479,665,134**
Changes in Net Assets	**1,237,181**	**(14,042,966)**
Net Assets:		
Net Assets, Beginning of Year	104,314,639	118,357,605
Net Assets, End of Year	**$105,551,820**	**$104,314,639**

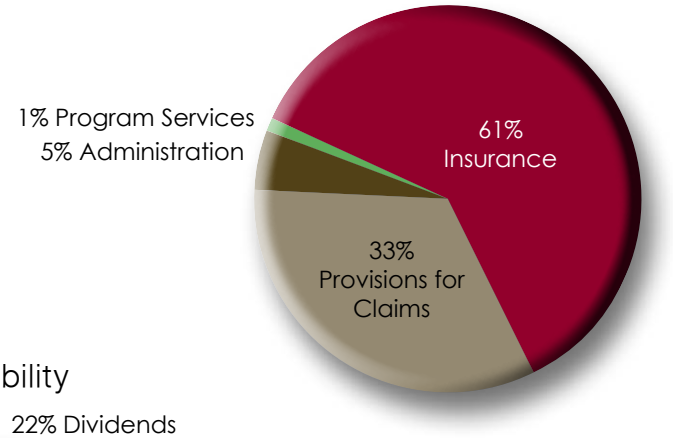
Financial Profile

Operating Results by Program

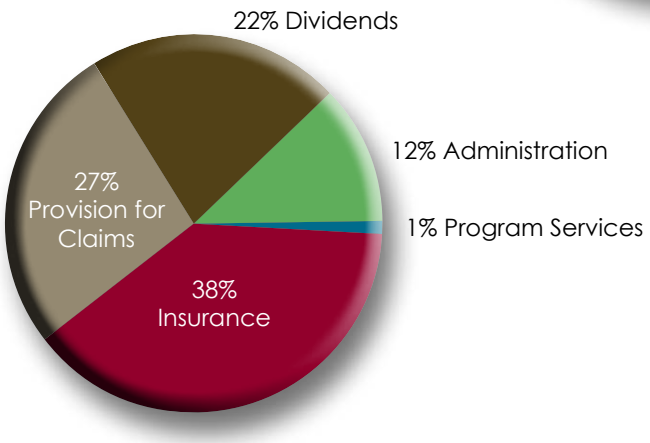
Primary Workers' Compensation



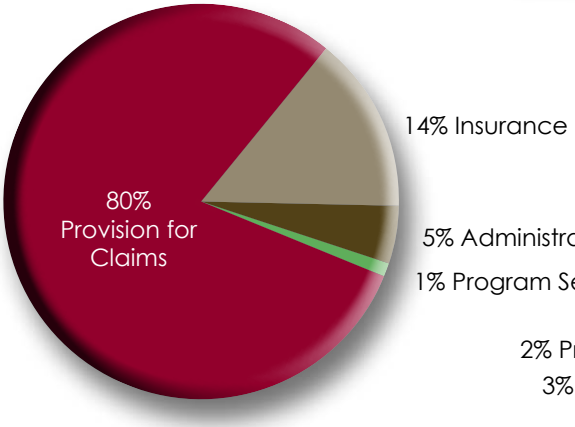
Excess Workers' Compensation



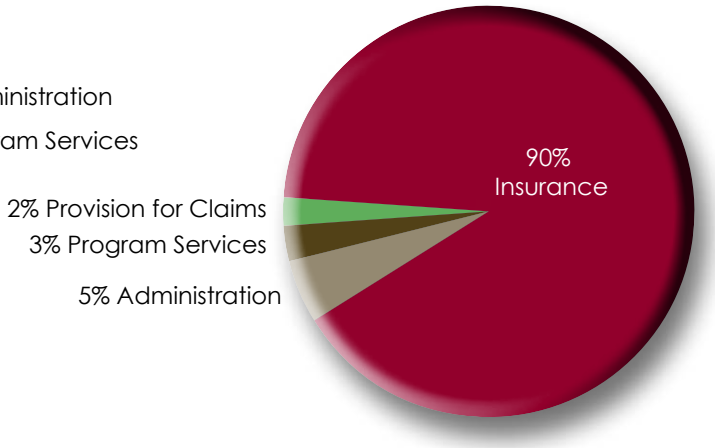
Primary General Liability



General Liability I



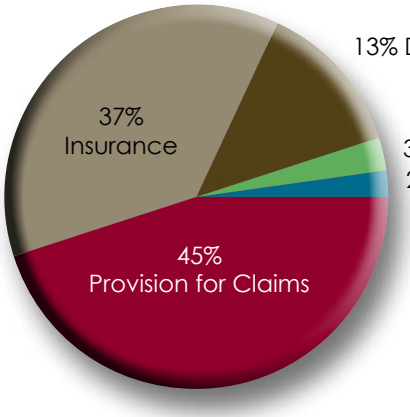
General Liability II



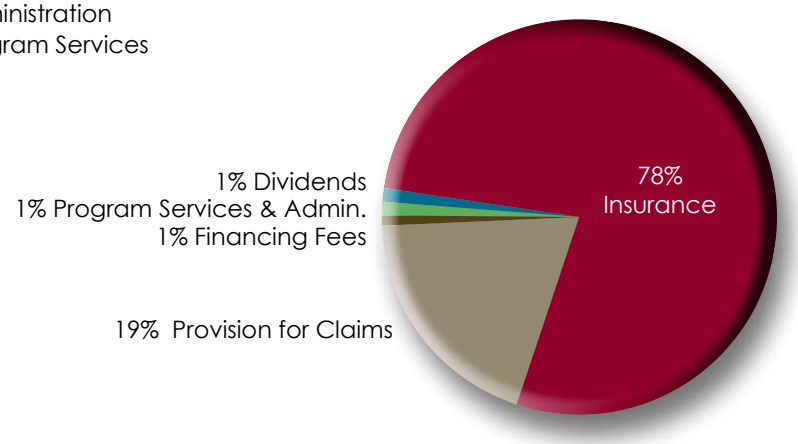
Financial Profile

Operating Results by Program

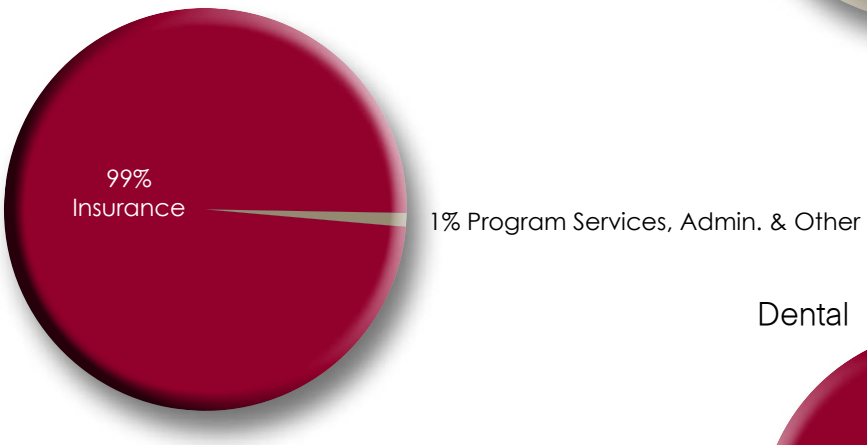
Medical Malpractice



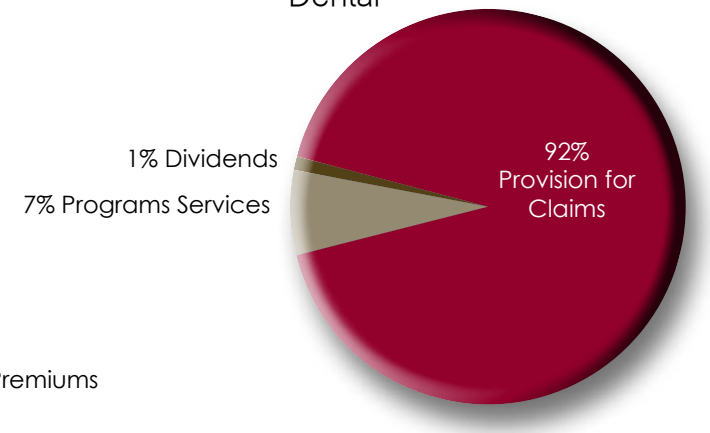
Property



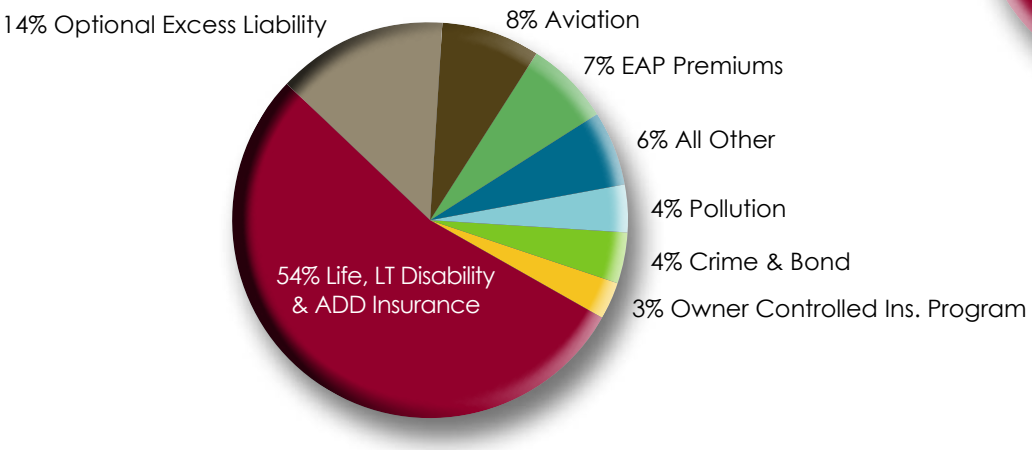
ElAHealth



Dental



Miscellaneous



The Board Of Directors Of The
Association of Governmental Risk Pools
Is Pleased to Grant Recognition To
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Such Recognition is
Granted Only After A
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Documentation Submitted To
Show Compliance With The
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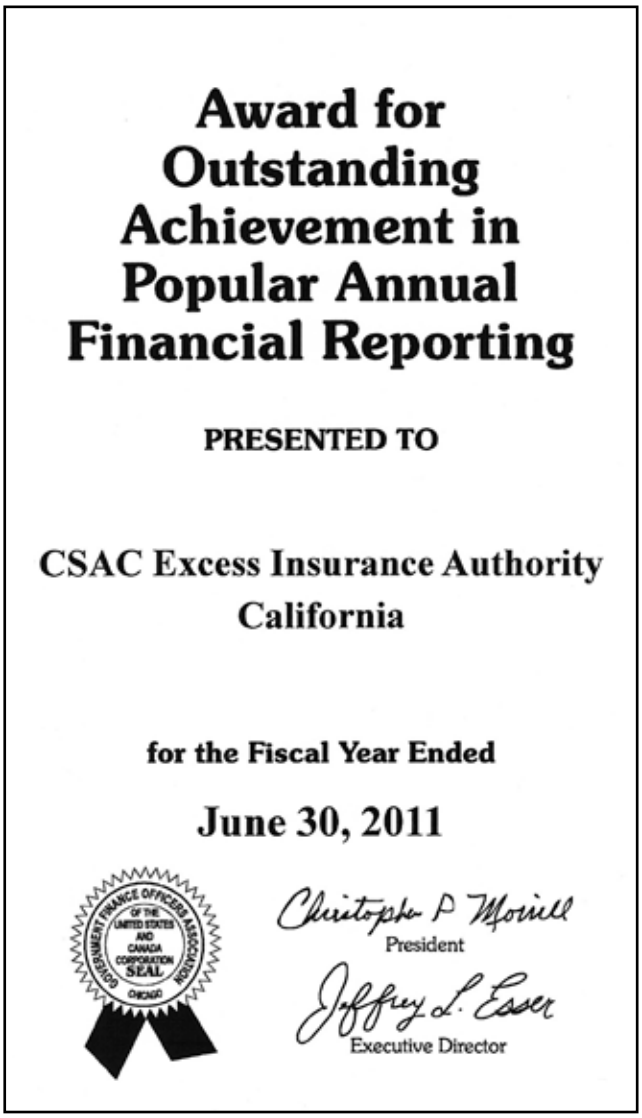
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