CSAC EIA / CPEIA Restructure
Purpose and Transition Plan

*** Action Required By Members ***

I. PURPOSE

This report is intended to explain the historical relationship between the CSAC Excess Insurance Authority (EIA) and the California Public Entities Insurance Authority (CPEIA), and the restructure of the relationship between the two public entities. This report provides details about the changes to the organizational structure and relationship between the EIA and CPEIA. The organizational structure has changed and is currently in transition requiring CPEIA members to take action in order to remain participants in the program(s).

II. BACKGROUND/CURRENT STRUCTURE

The CSAC Excess Insurance Authority (EIA) was formed by and for the California counties in 1979. Currently, 54 out of 58 counties in California participate in one or more of the EIA's programs. The EIA is governed by a Board of Directors consisting of a representative and alternate from each of the member counties (54-member Board). The Board of Directors elects a 9-member Executive Committee to oversee EIA operations. In addition, there are 15 other Committees appointed to oversee and govern the insurance programs and services provided by the EIA. Members of these Committees are appointed by the Executive Committee from among the EIA and CPEIA membership.

At inception (July 2001), the CPEIA was organized as a separate joint powers authority. The CPEIA has been governed by a Board of Directors consisting of 11 voting members including 9 members elected by the CPEIA membership and 2 members appointed by the EIA Executive Committee (currently the President and Vice President of the EIA). The President of the CPEIA (and the Vice President as alternate) has held an ex-officio (non-voting) seat on the EIA's Executive Committee.

A contractual agreement was entered into by the EIA and CPEIA that allows members of the CPEIA to participate in the EIA's insurance programs. The CPEIA participation has been part of the EIA budget and overall financials and there has not been a separate CPEIA budget or financial statement. CPEIA, as an entity, has no assets and no liabilities.

As CPEIA members joined an EIA Program, they have been treated as full participants in that Program with the same rights and obligations as county members (other than voting rights). Contributions of CPEIA members have been fully pooled and co-mingled with contributions of EIA members. CPEIA members have the same dividend potential and assessment risks as county members and have been governed by the same allocation formulae when determining premium. The only difference in premium development is that CPEIA members pay an additional one-half percent participation fee that county members do not pay and CPEIA members pay a special broker fee to Driver Alliant that counties do not pay. The broker fee is required because Driver Alliant staff have been tasked with the responsibility of servicing CPEIA members in a more direct way to be certain that the level of service provided to county members by EIA staff is not reduced due to CPEIA involvement.

The CPEIA Board has had full authority to act on behalf of the CPEIA membership; however, they have had no authority in matters relating to the operation and administration of EIA Programs. The EIA, working through its various committees and Board, has retained the sole authority to decide all matters relating to its programs including underwriting and rating decisions affecting county and CPEIA members.

The growth and success of the CPEIA in five years has been nothing short of phenomenal! Annual premium volume contributed by CPEIA members is approaching $100 million. In some programs, CPEIA premium volume actually exceeds EIA premium volume. CPEIA members understood when joining the EIA programs that, while there is risk-sharing between CPEIA and EIA members, they were joining a county-run and controlled program and the intention was, and is, to remain under the control of the counties who formed the EIA. However, recognizing the importance of the CPEIA member participation, the CPEIA Board of Directors expressed a desire and need to have a greater voice in the organization. Responding to this need, the concept of allowing CPEIA members to join the EIA directly, and participate in the governance of the organization was conceived and unanimously supported by the CPEIA Board of Directors. This "restructure" required an amendment to the EIA JPA Agreement which needed to be approved by two-thirds of the member county boards of supervisors. On February 28, 2006, the two year restructure project was completed with the successful amending of the EIA Joint Powers Agreement. On March 3, 2006, the EIA Board of Directors amended the EIA Bylaws to incorporate certain details of the restructure arrangement.

III. ORGANIZATIONAL RESTRUCTURE

With the successful amendment of the EIA Joint Powers Agreement, CPEIA members can now join the EIA directly, thereby eliminating the need to maintain the CPEIA as a separate legal entity. A new governance structure was developed to allow for public entity (non-county) participation in the governance of the organization. The EIA JPA now distinguishes between two types of membership: member counties and member public entities (those public entities in the State of California that are not counties). Member counties continue to each have a voting seat on the Board of Directors. Public entity members have 7 voting seats on the Board of Directors and 3 alternate directors that are permitted to vote in the absence of 1 of the 7 directors. These 10 public entity directors will be elected by the public entity membership and will include 3 designated seats in the categories of cities, schools, and special districts. Based on the current membership, there are 54 member county directors to which we are adding 7 public entity directors, for a total of 61 eligible voting directors. In order to provide an opportunity for participation while at the same time maintaining county control, a provision was made that public entity representation on the Board cannot exceed 20%.

To further expand the opportunity for public entity participation in the governance, the existing Executive Committee will be expanded from 9 voting seats to 11 voting seats. The 2 new Executive Committee seats are designated for representatives from the public entity membership. The public entity members on the Executive Committee will be elected by the 61 member Board of Directors and must come from the 7 representatives that are elected to the Board by the public entity membership.

The JPA now also includes a provision for the public entity membership to conduct an annual membership meeting that will be primarily for the purpose of information exchange and to foster communication among the many entities that do not have voting representation on the Board.

Once this new structure is fully implemented, there will be no need to continue with the CPEIA, and that separate entity will be terminated in due course. We are allowing plenty of time to fully transition to the new structure so that no one's program participation is immediately threatened. A summary of the transition plan is more fully discussed in final section of this report.

What Does Not Change. The new structure provides the public entity membership with voting rights on the Board of Directors and Executive Committee. Beyond this governance change, all other operational aspects remain the same. We will continue to co-mingle and fully pool risks between all participating entities. The rating formulae and dividend and assessment provisions will be the same. We will continue to collect the one-half percent participation fee from public entity members. We will continue to provide one designated seat on key committees for public entity representation (this is the minimum guaranty – in many cases, non-county representatives have more than one seat). And, the public entity members will continue to pay an additional broker fee to Driver Alliant as the EIA's servicing arm for the public entity members.

IV. PURPOSE OF RESTRUCTURE

We believe that the elimination of the CPEIA is in the best interest of both the EIA and CPEIA members. The new structure of the EIA significantly simplifies this organization which had been operating as a single risk pool on the one hand, but under the banner of two separate entities on the other hand. Both entities conducted meetings from time to time requiring a duplication of effort that has now been eliminated. In addition, other processes and procedures will be simplified such as the accounting function. Most importantly is the ability to provide a real and meaningful voice and level of participation to the public entity membership. This fosters member involvement and member loyalty, which is extremely important to this organization, and strikes a balance between county control and meaningful public entity participation.

In order to promote stability of membership, the EIA added a provision in the JPA Agreement that, if a member withdraws from a program, the member will be precluded from participating in that program for a period of three years. While this new provision is not necessarily related to the governance of the organization and applies equally to county members and public entity members, it was inserted for the purpose of encouraging the long-term commitment to the EIA and the programs, which is vital to the success we have enjoyed over the years.

V. TRANSITION PLAN

In order to complete the restructure, a transition plan has been developed which will be implemented over the next six months. The transition plan includes the following provisions:

Public Entity Member Transition

The process to transition public entity members into the EIA has just begun. To join the EIA, the public entity must execute the EIA Joint Powers Agreement. In doing so, they will maintain dual membership in the EIA and the CPEIA until the CPEIA is terminated. **Public entity members are encouraged to join the EIA between now and July 1, 2006.** The public entity members that execute the JPA Agreement by July 1, 2006 will be eligible for one of the public entity board of directors' seats, and will participate in the vote of the public entity directors election this summer. All CPEIA members maintaining membership in an EIA Program are already automatically approved for membership in the EIA if they join by March 31, 2007 for Property, and July 1, 2007 for all other programs.

Any CPEIA Property Program member that does not execute the EIA JPA Agreement by March 31, 2007 will be deemed to have withdrawn from that Program. Any CPEIA member in all other Programs must execute the EIA JPA Agreement by July 1, 2007 or at the end of any extended commitment period, whichever is later. Failure to execute the EIA JPA Agreement 60 days in advance of these dates will have the same affect as giving notice of intent to withdraw from the applicable Program(s).

Board of Directors Transition

The first election of the public entity members to the EIA Board of Directors will take place prior to October 1, 2006, based upon the public entity members on record as of July 1, 2006. Until this first election, the size and quorum requirement of the EIA Board of Directors will remain at 54 and 28, respectively, until October 1, 2006 when the public entity Board members are seated. Then, the size and quorum requirements will expand to 61 and 31, respectively.

Executive Committee Transition

Likewise, the size and quorum requirements of the EIA Executive Committee will remain at 9 and 6, respectively. The Committee will expand following the October 6, 2006 Board meeting when the public entity members are first elected to the Executive Committee. At that time, the size and quorum requirement will expand to 11 and 7, respectively.

With the transition underway, no new members will be accepted into the CPEIA. When all of the business of the CPEIA has been completed, a vote of the CPEIA membership (three-fourths majority required) will take place to terminate the CPEIA as an entity. It is expected this will occur prior to July 1, 2007, to be effective July 1, 2007.