CSAC EIA / CPEIA Restructure
An Executive Summary

I. INTRODUCTION

This Executive Summary is intended to explain the relationship between the CSAC Excess Insurance Authority (EIA) and the California Public Entities Insurance Authority (CPEIA), and the proposed restructuring of the relationship between the two public entities. Supporting materials include redline versions of an amendment to the joint powers agreement and bylaws, and summaries of the changes to the JPA and Bylaws. In addition, a detailed analysis providing in-depth information about the proposed restructure has been prepared along with a Frequently Asked Questions document and a list of Pros and Cons.

The EIA was formed by and for the California counties in 1979 by the California State Association of Counties (CSAC). Although independently operated, counties must maintain membership in CSAC in order to participate in the EIA's programs. Today, 54 out of the 58 counties in California participate in one or more of the EIA programs. The EIA is recognized as the largest public entity property and casualty pool in the United States. On July 1, 2001 the EIA sponsored the formation of the CPEIA to provide access to the EIA's programs and services to all public entities in California. This was done to provide greater flexibility to member counties in a changing and uncertain environment. Indeed, many of the members of the CPEIA are county affiliated entities such as In-Home Support Services, county contracts with cities and even individual county departments.

The success of the CPEIA in four short years has far exceeded our expectations. CPEIA members' premium volume (approaching $100 million) represents more than one-third of the EIA's total premium volume. CPEIA membership stands at 206 member units. This number includes many other JPAs, who themselves have many underlying public entity members, so the total number of California public entities being served by the CPEIA exceeds 1,400. In fact, over 78% of all California cities are now participating in one or more of the EIA programs through the CPEIA. Attached is an exhibit showing the CPEIA member units and premium volume by program.

II. MUTUAL BENEFIT OF EIA AND CPEIA

In forming the CPEIA it was anticipated that this would be a mutually beneficial relationship for both the EIA and CPEIA. All members would benefit from a larger volume that should produce lower costs and greater stability, lower costs of administration by spreading the cost of services to a larger membership base, provide a risk management solution for local public entities affiliated with member counties, and provide an overall benefit to taxpayers by creating the most efficient delivery of insurance protection possible. We are pleased to report that these benefits have been realized in the following ways over the past four years:

- It is estimated that counties have realized at least $41.5 million in economic benefit due to the CPEIA.
- In addition, counties are receiving the benefit of lower costs of services in excess of $1.6 million annually from administrative contributions made by the CPEIA members.
- It is estimated that CPEIA members have saved more than $116 million through the hard market over the last four years by joining the EIA pool.
- The EIA's Primary W.C. (PWC) Program twice would have terminated or would have had to be significantly restructured to continue to exist had it not been for the CPEIA premium volume.
- The EIA's Primary General Liability (PGL) program has attracted a reinsurance partner that it would not otherwise have attracted because of the combined volume of the EIA and CPEIA.
- County affiliated entities have been well served by the CPEIA. Of the 206 member units in CPEIA, 62 are county related or affiliated entities including IHSS entities, and county operations where county risk management has some involvement in the risk management of the entity.

The bottom line is that by increasing the membership, we are better able to retain more risk and transfer less risk to the commercial insurance market. We have also been able to attract new reinsurers based upon our larger size and the reinsurance has been dramatically cheaper on a per member basis. Counties were already combining their pooling and purchasing power, but still received an additional $41 million benefit. CPEIA members gained even more ($116 million) because they were not receiving the volume discounts prior to joining that the counties were already receiving.

III. CURRENT EIA / CPEIA STRUCTURE

The CPEIA was organized as a separate joint powers authority pursuant to Government Code 6500 et seq. The CPEIA and the EIA are two separate legal entities that have entered into a contractual agreement that allows members of the CPEIA to participate in the EIA's insurance programs and related services. The CPEIA is governed by a Board of Directors consisting of 11 members including 2 members appointed by the EIA Executive Committee. The president of the CPEIA is provided an ex-officio (non-voting) seat on the EIA's Executive Committee. CPEIA members are eligible to sit in a voting capacity on all committees of the EIA except the Executive Committee and have been guaranteed at least one seat on all key committees.

The CPEIA Board has full authority to act on behalf of the CPEIA membership; however, they have been given no authority in matters relating to the operation and administration of EIA Programs. The EIA, working through its various committees and

Board, retains the sole authority to decide all matters relating to its programs including underwriting and rating decisions affecting county and CPEIA members.

When CPEIA members join an EIA Program they are treated as full participants in that program with the same rights and obligations as county members (other than voting rights). Contributions of CPEIA members are fully pooled and co-mingled with contributions of EIA members. CPEIA members have the same dividend potential and assessment risks as county members and are 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 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 EIA/CPEIA relationship was structured this way primarily because of the clear lines that were drawn between counties and non-counties by creating a completely separate organization. Goals of retaining county control, and not disturbing the relationship with our founding organization, CSAC, were accomplished. Now that we have a proven track record with the CPEIA, we have determined that there is a better way. Our intention is to restructure the relationship to ensure, and enhance county control and provide meaningful participation opportunities for our non-county members.

IV. PROPOSED RESTRUCTURE

It is proposed that the CPEIA members be permitted to join the CSAC EIA directly thereby eliminating the need to maintain the CPEIA as a separate legal entity. In order to accomplish this restructure, the EIA JPA Agreement needs to be amended to alter the membership requirements and voting rights.

The proposed JPA amendment will create two classes of membership: Member Counties (those counties that maintain their membership in CSAC) and Public Entities (those public entities in the State of California that do not maintain membership in CSAC). All Member Counties continue to be represented on the Board of Directors. Public Entity members will receive seven voting seats on the Board of Directors and will have three alternate directors that are permitted to vote in the absence of one of the seven. These 10 Public Entity Directors will be elected by the Public Entity membership and will include three designated seats in the categories of cities, schools, and special districts. Currently there are 54 member county directors to which we would add seven Public Entity directors for a total of 61 eligible voting directors. Therefore, the Public Entity membership would control approximately 11.5% of the votes. There is a provision that the Public Entity representation on the board can never exceed 20%.

In addition, the existing Executive Committee will be expanded from 9 voting seats to 11 voting seats. The two new Executive Committee seats will be designated for representatives from our 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 seven representatives that are elected to the board by the Public Entity membership.

There is 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. Once the new structure is put in place, there will be no need to continue with the CPEIA, which will be terminated in due course.

What Does Not Change. The new structure provides limited voting rights on the Board of Directors and Executive Committee to public entity members. Beyond this governance change, all other operational aspects will remain the same. There is still a one county, one vote provision and our relationship with CSAC is still preserved. 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 levy the one-half percent participation fee to public entity members for the benefit of the county members. We will continue to provide one designated seat on key committees for public entity representation. Public Entity members will continue to be required to pay an additional broker fee to ensure that the service provided by EIA staff to member counties does not deteriorate.

Impact of the Restructure. We believe that the elimination of the CPEIA is in the best interest of both the EIA and CPEIA. The proposed restructure will simplify the organizational relationship and actually provide a higher level of control for the member counties. Adoption of the proposal will result in the sharing of the decision-making responsibilities under a new structure guaranteeing an overwhelming majority representation by the counties. Future changes to this new structure could only be implemented via an additional JPA amendment controlled by the counties. At the same time, this is an opportunity to provide a real and meaningful voice and level of participation to our CPEIA membership. The principles that the EIA was built upon and that have made the EIA so successful – primarily member involvement and member loyalty – apply to CPEIA members as well. Many CPEIA members recognize the benefits of pooling and want to be "participants", as opposed to "purchasers" of insurance. This structure will make it more likely that CPEIA members will remain in the EIA programs even as the insurance market softens. We believe the proposed restructure has found the appropriate balance between county control and meaningful public entity participation.

V. KEY DATES IN THE AMENDMENT PROCESS

The restructuring and amendment of the EIA JPA Agreement is a lengthy process. The following is a recap of prior activities that have led us to this point as well as a tentative timeline of the key dates that will result in the completion of the restructure by the March 2006 EIA Board of Directors meeting.

Prior Activity

- April 2004 – Spring retreat discussions initiated the concept of merging the CPEIA Board with the EIA Board so that the CPEIA Board would not be an independent body.
- June 2004 to February 2005 – Discussions with the Board of Directors regarding the merger concept. Executive Committee held detailed discussions and ultimately requested a draft of legal documents that would accomplish the restructure.
- Thursday, March 3rd, 2005 – Workshop with the EIA Board to discuss the restructure concept.
- Friday, March 4th, 2005 – Direction by the EIA Board of Directors to continue discussion on the topic and to schedule another board workshop in advance of the June Board meeting.
- Thursday April 7 – Friday April 8, 2005 – Executive Committee and Committee Chairs retreat. Agenda included development of Pros/Cons of restructure and determination of the format of the May 6, 2005 board workshop.
- Friday, May 6, 2005 – Second board workshop on restructure at the Sacramento Hilton.
- Friday, June 3rd, 2005 – Approval by the EIA Board of Directors to circulate the proposed JPA amendment to all member counties and county counsels for review and comment.
- Friday, October 7th, 2005 – End of review and comment period and approval by the EIA Board of Directors to send the JPA amendment to the boards of supervisors for approval (two-thirds vote required or 36 member counties).

Future timeline

- Friday, March 3rd, 2006 – End of boards of supervisor voting and determination of the outcome of the vote. Action by the Board of Directors to approve the corresponding Bylaws amendment, if the JPA amendment is successful.
- March 31, 2006 or July 1, 2006 – Deadline for CPEIA members to execute the amended EIA JPA Agreement to remain in the Property Program (March 31 renewal) or all other programs (July 1st renewals).

CPEIA Member Units & Premiums

TOTAL GROSS PREMIUMS (Millions)			
Program	**EIA**	**CPEIA**	**Total**
PGL	2.35	1.247	3.598
GL1	14.94	5.718	20.658
GL2	5.412	2.596	8.008
Med Mal	12.232	0.000	12.232
Property	30.011	2.880	32.891
PWC	30.147	43.990	74.137
EWC	28.621	31.309	59.93
EIA Health	29.454	3.208	32.662
Misc.	3.758	1.426	5.184
Total	156.926	92.374	249.3

Gross Premium = Pool contributions plus Reinsurance

Member Units By Program		
Program	**No. of Members**	**Gross Premium (Millions)**
PGL	26	$1.247
GL1	48	5.718
GL2	2	2.596
Med Mal	0	0.000
Property	17	2.880
PWC	22	43.990
EWC	90	31.309
EIA Health	1	3.208
Total	206	$90.948

CPEIA Units by Type of Entity			
Type of Entity	**Stand Alone**	**JPA**	**Total**
City	60	7	67
County Operations	18	4	22
IHSS Public Authority	33	0	33
Schools	17	9	26
Fire	0	5	5
Parks	0	2	2
Special District	48	3	51
Total	176	30	206

5/16/2005