MINUTES

SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY
MEETING OF THE FINANCE COMMITTEE
Tuesday, September 13, 2022, 12:00PM
Via Zoom Tele or Video Conference

Call To Order: 12:02PM

1. Roll Call

Member	Present	Absent
Michael Brownrigg	X	
Rebecca Mendenhall	X	
Rich Lee	X	
Al Royse	X	
Jay Benton	X	

SBWMA Staff Members Present: Joe La Mariana, John Mangini, Cyndi Urman, Jean Savaree,
Others Present: John O'Neil, Risk Strategies Insurance Brokerage & Jared Beck Risk Strategies Insurance Brokerage

2. Public Comment

Pursuant to Government Code Section 54954.3(a), members of the public wishing to address the Committee may do so, and the comments shall be limited to the Special Meeting notice topic(s). Speakers may join the Zoom meeting via the meeting link and using the "raise hand" feature and the Clerk of the Board will call on people.

None

3. Executive Director's Welcome *(Verbal Only)*

Executive Director La Mariana gave a brief welcome noting that the committee was here to discuss captive insurance options for the agency and that the takeaway that he'd like from the committee and Risk Strategies team is next steps and budget considerations. He then gave the following updates.

- He noted that the Finance Committee's last meeting of the year will be October 18 which will be a first look at the 2023 operating budget and capital improvement plan.
- Concurrently staff is at the tail end of the feasibility study on the site optimization plan. There will be a Board study session on the proposed concepts and the technical report on October 27. He noted that one thing that has become clear is that the site is not adequate for the future, so this report is looking at a combination of things to re-work the site to make it more viable, at some point all the plans will come to this committee to help figure out how to fund the site's future needs.
- Also, at the October 18 Finance Committee meeting staff has invited Recology General Manager Evan

Boyd to attend to present Recology's request for additional compensation for SB 1383 requirements compliance.

- The two SBWMA sponsored battery bills have passed their respective houses and are on the governor's desk for final approval.

4. Consent Calendar

Consent Calendar item(s) are considered to be routine and will be enacted by one motion. There will be no separate discussion on these items unless members of the Committee, staff or public request specific items be removed for separate action. *Items removed from the Consent Calendar will be moved to the end of the agenda for separate discussion*.

A. Approval of Minutes from the June 14, 2022 Finance Committee Meeting

Motion/Second: Royse/Brownrigg
Roll Call Vote: 4-0-1-0

Member	Yes	No	Abstain	Absent
Michael Brownrigg	X			
Al Royse	X			
Jay Benton			X	
Rebecca Mendenhall	X			
Rich Lee	X			

5. Study Session: Captive Insurance Discussion Property Insurance

John O'Neil of Risk Strategies noted that this is an opportunity to educate the Finance Committee on what Captive Insurance is and how it may benefit the SBWMA by possibly giving the Agency a little more cost control in the future. He introduced Jared Beck, Managing Director of Risk Management Advisors, whose whole focus is captive insurance.

Jared Black gave a PowerPoint presentation highlighting these topics; what is a captive, benefits of a captive; different types of captives and the reinsurance program.

Member Benton asked how much capital would be considered well capitalized to establish a pure captive, and he asked for clarification on the note premium cannot exceed $2.3M in the presentation.

Jared Black answered that the premium not exceeding number is a specific tax deduction selection that companies can make, and under that $2.3M premium selection no taxes are paid on the premium. Regarding capital he noted that all captives have a minimum amount of capital required which may be more depending on the risk. He noted that for most domiciles the minimum amount of capital is $250,000 for a peer or single parent captive.

Jared Black continued his presentation noting that for a period of time the Agency would continue to pay premiums to the traditional high deductible insurance company and at the same time pay premiums to the Agency's own insurance captive company. The goal being to centralize the insurance function in the Agency's own insurance company and build capital surplus to gain opportunities to enter the re-insurance market. He then went over some financial modeling.

Member Brownrigg asked what the investment income in the projection was based on, noting that the example looked like a private industry example and not what a government agency would typically yield.

Jared Black answered that part of the attractiveness of a captive for a government agency is the captive insurance company's ability to get a higher return. Noting that in this example $2M is invested for a $100,000 yield.

Member Brownrigg asked for clarification asking is the point of setting up a captive that if there is a big claim, the agency doesn't pay the deductible the captive does.

Jared Black answered yes this is not self-insurance for the entire asset, just for the deductible. But, over time the agency is less reliant on traditional insurance markets.

Jared Black continued his presentation noting that in the second example the agency sees more premium savings right away.

Member Mendenhall asked what happens if there is more than one incident in a year, and the captive only has funds for one incident.

Jared Black answered there are safety nets through reinsurance for multiple incidents.

Rebecca Mendenhall noted that in the first year instead of a $1.5M deductible there is a $2M one which would only cover one loss incident of $1.5M. She added that over time it would grow assuming incurred loss expense stays low.

Member Brownrigg commented that right now that is $1.5M in reserves which is held there in case of a catastrophic incident. He asked what the advantages would be of setting up a captive insurance company versus building up reserves.

Jared Black answered that the first advantage is the ability to access the reinsurance market for excess coverage or reinsurance coverage. Secondly centralizing the risk management function putting it all in the captive stabilizes the risk.

Member Royse asked if the intent is to be able to have a larger traditional insurance deductible over time and therefore reduce insurance cost.

Jared Black answered yes that would be the long-term objective.

Staff Mangini asked for further discussion on the reinsurance markets because that seems like a very attractive way to lower premiums.

Member Lee commented that if the SBWMA were to move forward with owning a captive insurance company it would be treated as a component unit of the Agency. He asked if the captive insurance company would also be governed by the SBWMA Board, and subject to the SBWMA's investment policy. He noted that government investments are more conservative and as interest rates continue to rise the investment benefit gets closer and closer to zero, so the investment policy could prohibit some of the investment gains.

Jared Black answered regarding the governing body that possibly it would be the board but, there is some flexibility there, the board could set up a subcommittee to manage the captive company. Regarding the investment policy there is typically a separate investment policy just for the captive.

Member Royse commented that he'd like to know what the reduction in the overall insurance policy is predicted to be, and would the overall insurance be cheaper with access to those additional markets.

Jared Black noted that before the next meeting he would work with staff Mangini to model out some specific scenarios. He noted that they would be based on today's markets and tomorrow's markets could be different.

Member Benton asked for clarification on the $525,000 premium being paid the captive in addition to what the Agency would otherwise be paying if not setting up a captive.

Jared Black answered yes, any allocation that would have been made to insurance reserves would be redirected to the captive.

Member Benton noted that in order to set up a captive an additional $525,000 needs to be passed through to ratepayers as additional cost in year one.

Staff Mangini noted that yes, if the agency wants to maintain reserves at up to 10% of expenses, then there would be a need for additional money fund the reserve.

Member Royse commented that the Agency has to come up with the initial cost, but over five years there will a reduction in the overall insurance costs, where is the inflection point.

Jared Black noted that he would work with John O'Neil to examine this through approaching underwriters to find out when the benefits would kick in.

Jared Black continued his presentation discussing reinsurance and excess.

Executive Director La Mariana commented that one of the benefits of this captive scenario is instead of paying out just the premium this is a way to maintain an ongoing asset to the agency.

Member Royse asked what our current insurance policy coverage is.

Staff Mangini answered $65M which costs $2.1M in premium and a $1.5M deductible

Jared Black explained that the captive would be for $5M of that $65M. This first $5M excess layer: $1M of the risk would be obtained by the captive, and $4M would be laid off to the reinsurers. There would be additional traditional carries on top of that. Separate from that there would be access to reinsurance markets which would be 10-15% savings essentially buying wholesale insurance versus retail insurance.

Executive Director La Mariana added that another soft benefit of potentially setting up a captive is the potential for less carriers, because trying to deal with an insurance incident with the current 14 carries sounds like a nightmare scenario.

Jared Black commented that there is a potential for paring down the carriers over time because the $5M would just be one carrier. He noted that there was a potential for the carriers to be reduced day one because on the agencies excess right now there are 4 carriers, if the current scenario were to be implemented that 4 would become one carrier.

Member Brownrigg asked for staff to provide and understanding the costs of traditional insurance versus a self-insurance captive as an expense would be helpful. What the premium payments are now for insurance with the $1.5M deductible, and what our premium payments would be in the captive insurance scenario including costs for the first year versus the future.

Jared Black continued his presentation going over other considerations and timeline if the committee decides to move forward.

Member Royse commented that conceptually this is something the Agency needs to explore due to the reasons discussed today, but he wants to see the numbers first projected with and without a loss. He thought there was likely benefit without a loss event, but with a loss event he wasn't so sure.

Executive Director La Mariana noted that the next time for this committee to convene on this is October 18, but that meeting is the review the 2023 budget there wouldn't be as much time for a discussion on this topic.

Jared Black agreed that preparing numbers in time for the October 18 meeting would be doable.

6. Finance Committee Member Comments

Member Mendenhall asked to convene the meetings at a time other than 12N going forward.

7. Adjourn 1:28PM