

MINUTES

COMMONWEALTH OF PENNSYLVANIA COAL AND CLAY MINE SUBSIDENCE INSURANCE BOARD MEETING OCTOBER 8, 1999

A regular meeting of the Mine Subsidence Insurance Board was called to order at 10:00 a.m. on October 8, 1999 in the Department of Environmental Protection's Conference Room located on the 10th Floor of the Rachel Carson State Office Building, Harrisburg, Pa. Board members present at the meeting were: Roderick A. Fletcher, P.E., Director, Bureau of Mining and Reclamation, Designated Chairman for James M. Seif, Secretary of the Department of Environmental Protection (DEP); Michael Burkett, Actuary, Designated Representative for Board Member M. Diane Koken, Commissioner of Insurance; and Craig Schwartz, Associate Counsel, Designated Board Member for Barbara Hafer, State Treasurer. Also attending was Robert Hawkins, Director, Bureau of Cash Management, State Treasury. Additionally, the following DEP employees were in attendance: Ted Kopas, Mineral Resources Management Information Specialist; Joseph Sieber, Policy Specialist, Policy Office; Marc Roda, Assistant Counsel; David Hogeman, Chief, Division of Environmental Analysis and Support; Samuel Faith, Assistant to the Director of the Bureau of District Mining Operations; Richard Wingerd, Accountant, Comptroller's Office; Mary Ann Ingreem, Administrative Assistant, Bureau of Mining and Reclamation; and Lawrence Ruane, MSI Program Administrator.

The following is a summary of the issues discussed and the actions taken at the meeting:

I. Approval of the Minutes of Previous Meeting

The minutes of the October 8, 1998 Board meeting were unanimously approved.

II. Update of the Mine Subsidence Insurance (MSI) Marketing Campaign

DEP staff reported that the Department had been working for more than a year with the Barry Group, MSI's marketing consultant, to develop materials to be used in mass marketing campaigns. Because of the sensitivity of the issue; i.e., people being at risk from mine subsidence, the Governor's Office is closely reviewing the commercials. The Department continues to work closely with the Governor's Office to develop television, radio, and newspaper ads. Final edits are now being made to those marketing materials. Once the materials are approved, marketing campaigns may begin. The Department expects to run a campaign late this year or early next year. In the campaigns, the Barry Group plans to use what is known as a guerrilla marketing technique. As it applies to the MSI marketing campaign, this technique involves waiting for a major mine subsidence event to take place, letting the news media promote it, and then, after the news coverage ends, following up with a mass marketing campaign. In addition to the mass marketing campaign, the Department is also using staff to promote the availability and need for mine subsidence insurance to organizations such as civic groups, bankers, realtors, and any others that can be instrumental in promoting the purchase of MSI. The focus for the MSI Program in the future is to use staff for such public outreach efforts to try to expand coverage.

III. Review of Operational and Financial Performance for Fiscal Year 1998-1999 (FY 98)

The Board reviewed information relevant to the MSI Fund's operations during FY 98. The number of paid claims was down significantly as was the value of paid claims. The number of requests for insurance was down slightly. That was expected because historically, requests for MSI are stimulated by the publicity generated from the news coverage surrounding mine subsidence events. The number of insurance policies grew slightly during FY 98 because slightly fewer policies canceled than were issued. At the same time, the underwritten value of policies in force continued to increase from roughly \$3.65 billion in FY97 to \$3.75 billion in FY 98. The cost of MSI continued to be roughly \$1 in premium for every \$1,000 of coverage at the average coverage level of roughly \$84,000. Cash and investments of the MSI Fund continued to increase from about \$23.4 million in FY 97 to \$26.4 million in FY 98. The staff representative from the Comptroller's Office, in response to a question by Board Representative Mr. Burkett, noted that the difference between the earned premiums in the Annual Statement provided to the Insurance Commission and the earned premiums in the Statement of Changes in Unreserved Fund Balance was due to accounting differences. The Annual Statement is prepared under Government Accounting Procedures (GAP) and the Statement of Changes in Unreserved Fund Balance is prepared on a cash basis. At the end of the presentation, the Board complimented the Comptroller's Office on the quality of the documents they presented.

IV. Investment Review

Mr. Hawkins, Director of Cash Management at the State Treasury, provided an explanation of the investments the Treasury makes with the MSI Fund cash reserves. The Treasury runs a cash management pool known as the Short Term Investment Pool or STIP which is worth over \$7.7 billion, has more than 100 agencies as shareholders, earned \$309 million last year and expects to earn over \$400 million this year. Each day, the various Funds or shareholders are netted out and the Treasury then invests their available funds in the STIP. Treasury requires a very liquid portfolio. The average life of an investment in the STIP at the end of FY 98 was 54 days. Because of the types of investments made by the Treasury, most notably tri-party repurchase agreements, the Treasury is never in a position to sustain a loss. The Treasury's investment priorities are safety, liquidity, and earnings, in that order. Some other allowable investments in the STIP are U.S. and Pa. Government securities, commercial paper (best rated), and banker's acceptance. The Treasury does not purchase derivatives. Treasury compares the performance of the STIP to the Donahue Institutional Bench Mark. This past summer, Treasury was given "prudent person" authority, which allows it to invest in the equity markets and local governments, among other things. It also allows an investment in a security with a life expectancy of 30 years, rather than two years previously allowed. With "prudent person," the Treasury is permitted to invest outside of the STIP and seek more diversity and greater returns. For the last ten years, Treasury has beaten the bench mark. Additionally, the Treasury purchases and loans securities to make additional income.

V. Premium Rate Review

Prior to the Board discussing the reduction of anthracite residential premium rates to make them equal to those offered in the Bituminous Region, Mr. Burkett noted several typographical errors in the existing MSI Schedule of MSI Premiums. When the different rates were established, the claim experience in the Anthracite Region was much greater than that in the Bituminous Region. However, in more recent years, claims in the Bituminous Region have increased. To promote fairness in its premium rate structure, the MSI Program staff recommended the rates be the same in both Regions and suggested that consideration be given to reducing all premium rates. In the Board's discussion of those issues, Mr. Burkett noted that a leveling of residential rates would, at the most, reduce premium income by seven tenths of one percent, a sum that would not be significant to the financial operations of the Fund. He also noted that the surplus of \$26 million was substantial but that, in the past, the DEP had raised concerns about the possibility that a catastrophe, like an earthquake, could trigger widespread subsidence, and the resulting losses could wipe out the Fund. He suggested that the DEP study that issue and retain the services of qualified professionals, like actuaries, if needed. Since there is an expectation on the part of MSI policyholders that all claims will be paid even if catastrophic losses were to occur, it might be prudent for the MSI Fund to purchase reinsurance against excessive losses, if that coverage is affordable. At the end of the discussion, a motion was duly made, seconded, and unanimously passed to reduce the anthracite rates to the level of the bituminous rates.

VI. Review of Proposed Budget and Consideration of FY 2000-2001 Authorization to Expend Resolution

After a brief discussion of insurance marketing campaign expenses and increases to salaries, a motion to approve a resolution to authorize up to \$2,803,596 from the MSI Fund to reimburse the DEP for the cost to administer the MSI Program during FY 2000-2001 was made, seconded and carried unanimously. A resolution confirming this will be forwarded for signatures.

VII. Inflation Factor Calculation

The DEP staff noted that, this year, the DEP received inflation indexes directly from the E. H. Boeckh Division of the Thomson Publishing Company and not through the Construction Review, a federal government publication that was used in the past. Publication of the Construction Review was recently discontinued. The Board unanimously agreed to adopt procedures for calculating inflation factors that require the DEP, during the last week of December, to calculate the inflation factor by using the most recent information available. Then, at the close of business on December 31, the DEP will change the inflation factor in its computer system so that on January 1 the new inflation factor will be applied to all payment notices printed for that year. The DEP will then send the calculation to the Board.

VIII. Annual Meeting

The Board discussed the best date for the next regular MSI Board meeting. Due to the new procedures for calculating inflation factors, the advanced time needed to post the meeting documents on the Web, and the advanced time needed for the Comptroller's Office to prepare its documents, the earliest the annual meeting can be scheduled is second week in December. At that time, estimated expense information would still be contained in the same Board meeting documents that are provided by the Comptroller's Office because the books are not completely closed until the end of January. The staff was directed by the Board to schedule the meeting on a date in December.

IX. Adjournment

A motion to adjourn the meeting was made, seconded, and passed unanimously.

SUMMARY OF ACTIONS TAKEN BY THE BOARD:

1. Unanimously approved the October 8, 1998 Board Meeting Minutes.
2. Unanimously approved the reduction of premium rates in the Anthracite Region to make them the same as those offered in the Bituminous Region.
3. Unanimously approved authorizing expenditures from the MSI Fund for administrative costs up to \$2,803,596.
4. Unanimously agreed to procedures for calculating inflation factors.
5. Unanimously approved adjournment.

KEY OBLIGATIONS:

1. DEP staff will investigate the purchase of reinsurance for catastrophic losses.
2. DEP staff will circulate resolution for spending authorization.
3. DEP staff will calculate a policy inflation rate, notify the Board of the factor, and implement its use at the close of business on December 31, 1999.