

MINE SUBSIDENCE INSURANCE FUND
BOARD MEETING
MINUTES
DECEMBER 18, 2001

A regular meeting of the Mine Subsidence Insurance (MSI) Board was called to order at 10:00 a.m. on December 18, 2001 in the Department of Environmental Protection's Conference Room located on the 12th Floor of the Rachel Carson State Office Building, Harrisburg, Pa. Board members present at the meeting were: J. Scott Roberts, Director, Bureau of Mining and Reclamation, Designated Chairman for David Hess, Secretary of the Department of Environmental Protection (DEP); Michael Burkett, Actuary, Designated Representative for Board Member M. Diane Koken, Commissioner of Insurance; and Kathleen M. Peterson, Associate General Counsel, Assistant Director of the Bureau of Human Resources, Designated Board Member for Barbara Hafer, State Treasurer. Also attending were: Marc Roda, Assistant Counsel; Robert W. Agnew, Chief, Division of Environmental Analysis and Support; Ed Motycki, Chief, Subsidence Section, District Mining Operations; Lawrence Ruane, MSI Program Administrator; Fran Williams, MSI Program Supervisor, and Patricia Woods, Secretarial Supervisor, Bureau of Mining and Reclamation.

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

1. Approval of the Minutes of the Previous Meeting

Minor editorial changes were made to the draft minutes, which were then unanimously approved.

2. Discussion of House Bill 401

The Board reviewed the current version of House Bill 401, which would amend the MSI Act to provide a grant and loan program funded by the MSI Fund and administered by DEP. It would also require lenders to provide mortgage applicants with information about MSI, a provision that is so beneficial to the MSI Program that the DEP would recommend passage of the bill even though it is not in favor of the grant provision. The bill has been tabled in the Senate Appropriations Committee due to objections by the mortgage bankers. A representative of the insurance agents has recommended replacing the lender notification requirements with provisions that allow Pennsylvania licensed insurance agents to submit MSI applications and be paid a commission for resulting policies. The Board will be invited to participate in a discussion with the representative of the insurance agents and DEP.

3. Update of Mine Subsidence Insurance (MSI) Marketing Campaign

DEP staff presented summary information regarding marketing efforts from January of 2000 to June of 2001. Most significant were the campaigns that occurred just prior to and after a major subsidence event in southwestern Pennsylvania that occurred late in November of 2000. The campaign just prior to the event resulted in a small but measurable increase in subscriptions. However, the ads had the effect of stimulating news coverage of the subsidence event that followed. The enhanced news coverage

resulted in very large numbers of subscriptions. The effectiveness of the campaign that followed the event was enhanced by both the previous ads and the news coverage and caused subscriptions to again rise sharply. The results confirmed that marketing conducted immediately after a subsidence event will be most effective, as the marketing consultant had predicted. It also demonstrated that the news media is influenced by recent marketing efforts. It heightens their awareness of a subject and stimulates their interest in it, thus making it news.

4. Review of Operational and Financial Performance

The Board reviewed financial and statistical information related to the MSI Funds performance during Fiscal Year (FY) 2000-2001. In summary, the Total Liability and Fund Equity rose from \$29,614,955 in FY 1999-2000 to \$33,277,341 in FY 2000-2001. Requests for insurance rose dramatically from 3,486 to 8,141 and policies in force from 45,420 to 52,395 while the number of claims fell from 15 to 14. Notable among the data were the number of claims because they have decrease every year since 1996 while the number of policies in force have increase. During a discussion of this issue, the Board and DEP Staff concluded that mine subsidence events are so unpredictable that any short-term trend should not be mistaken for an indication of the number of future events. Board Representative Mr. Burkett noted that the Average Premium Per \$1,000 Coverage for State Fiscal Year 2000 was reported as \$0.87 but should have been \$0.93. The correction will be made, the error researched, and the reason for it reported to the Board at the next annual meeting.

5. Investment Review

Board Delegate Ms. Peterson presented a report from the Treasury that identified MSI Fund investments and returns. During the fiscal year, the MSI Fund earned \$1,855,771 on its investments. The average rate of return during that period was 5.9%.

6. Premium Rates and Coverage Limits Review

DEP Staff presented premium rate and coverage limit information to the Board for their annual review. After a discussion of the rates and limits, the Board unanimously decided to maintain the current rates and limits during the upcoming fiscal year, FY 2001-2002. It further instructed the staff to submit documents for consideration at the annual meeting in 2002 that would increase the residential limit of coverage from \$150,000 to \$250,000.

7. Review of Proposed Budget and Consideration of FY 2002-2003
Authorization to Expend Resolution

After a discussion of the proposed operating budget for the MSI Program in FY 2002-2003, the Board unanimously approved an authorization to reimburse DEP for the administrative costs of the MSI Program in an amount not to exceed \$2,941,014.

8. Inflation Factor Calculation

DEP staff provided the Board with a demonstration calculation of the annual inflation factor. That factor is used to provide policyholders with an option to renew their coverage

at an amount that is adjusted for inflation. The actual inflation factor will be calculated with the most recent data available at the end of the year, incorporated into the database on December 31, 2001, and reported to the Board at the next annual meeting.

9. Sworn Statement of Loss

The Board considered a recommendation by the DEP staff to replace the Sworn Statement of Loss, a form used to process claim payments, with a letter that would accompany a proceeds check. That change would reduce the time it takes to process a claim by about a month without negatively impacting the integrity of the claim payment process. The Board directed the staff to prepare the letter for review and comparison with the Sworn Statement.

10. Other Business/Adjournment

With no other issues before the Board, a motion to adjourn was unanimously approved.

SUMMARY OF ACTIONS TAKEN BY THE BOARD

1. Unanimously approved the December 14, 2000 Board Meeting Minutes with changes.
2. Unanimously agreed to keep the current premium structure.
3. Unanimously agreed to proceed with proposed rulemaking package.
4. Unanimously approved adjournment.

KEY OBLIGATIONS:

1. DEP will make changes to last Board Meeting Minutes.
2. DEP will keep the Board informed of House Bill 401 and invite the Board to participate in discussions of bill.
3. DEP will research the reason for an error in the Premium and Claim Amounts Per \$1,000 of Coverage.
4. DEP will submit replacement documentation for the Sworn Statement of Loss.
5. DEP will propose increasing the coverage amount to \$250,000.
6. The new inflation factor will be entered into the computer systems on December 31, 2001 and reported to the Board at the next meeting.