

MINUTES

COMMONWEALTH OF PENNSYLVANIA COAL AND CLAY MINE SUBSIDENCE INSURANCE BOARD MEETING

December 15, 2004

A meeting of the Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on December 15, 2004 in the Department of Environmental Protection's Conference Room located on the 12th Floor of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania. Board members present at the meeting were: Joseph G. Pizarchik, Esq., Director, Bureau of Mining and Reclamation, Designated Chair for Kathleen McGinty, Secretary of the Department of Environmental Protection (DEP); Chuck Romberger, Designated Representative for Board Member M. Diane Koken, Commissioner of Insurance; Michael Dillon, Assistant General Counsel, Designated Representative for Board Member Barbara Hafer, State Treasurer; and Lee Siegel, Chief Economist, State Treasury. Also attending were the following DEP employees: Marc Roda, Assistant Counsel; Marjorie Hughes, Regulatory Coordinator; Robert W. Agnew, Chief, Division of Environmental Analysis and Support; Zach Church, Environmental Policy Specialist; Lawrence Ruane, MSI Program Administrator; and, Lara Logan, Bureau of Mining and Reclamation, Clerical Support and Mine Subsidence Insurance Board Recording Secretary. Claire Pantaloni, Director of Industry Research, Insurance Agents and Brokers of Pennsylvania, was also in attendance.

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

I. Approval of the Minutes of Previous Meeting

The Board reviewed the minutes of the December 18, 2003, MSI Regular Board Meeting. Chuck Romberger made a motion to approve the minutes. Michael Dillon seconded the motion, which then passed unanimously.

II. Review of Operational and Financial Performance Reports

Larry Ruane reviewed the operational and financial performance reports. He noted that the number of applications, policies in force, new policies and paid claims all increased over the previous fiscal year, while the number of filed claims decreased. During a general discussion of the various graphs and tables contained in the reports, Mr. Romberger recommended that the premium projections on the graph titled "Insurance Producer Premiums" be removed. That graph would then be consistent with the other graphs in the reports and only demonstrate factual, historical data. The other Board members were in agreement with that change. Mr. Ruane stated that premium projections would be removed from next year's report. The Board then directed that the Comptroller's Office be contacted to address the

following three questions: (1) What is the purpose of a new line item in the Comptroller's reports titled "Reserves for Direct Charges and Payroll" and why was it not reported prior to FY 2003-04?" (2) Could future multi-year indicators in the "Statement of Changes in Unreserved Fund Balance" report be indicated with XXXX? (3) Why did the "Uses of Cash" in FY 2003-04 increase so significantly over the previous year's uses?

III. Review of Investment Report

Mr. Siegel gave an overview of the Treasury's investment report. It demonstrated that the average monthly rate of return on the Fund's investments was 3.76%. Mr. Siegel also noted that the "Net Income/Gain in the Treasury's report is a different measure financial performance from the "Interest Income" in the Comptroller's report. The "Net Income/Gain takes into account unrealized gains and losses that are associated with the performance of equities, which are now contained in MSI's portfolio.

IV. Review Demonstration Inflation Factor Report

Mr. Ruane reviewed the Inflation Factor Report. The factor of 6.5% to be used in State Fiscal Year (FY) 2004-05 is much higher than the 2.92% factor used during FY 2003-04 and reflects the dramatic increase in the cost of building supplies.

V. Consideration of Premium Rates, Coverage Limits and Commission Rates

The Board reviewed the premium rates established by the Fund for FY 2003-04. Based upon the financial performance of the Fund, as most significantly demonstrated in the "Pure Premium" graph, Mr. Romberger recommended that the premium rates for FY 2004-05 remain unchanged from the previous year. Mr. Dillon then made a motion to keep the existing premium rates in effect through FY 2004-05. Mr. Romberger seconded the motion, and the Board approved it unanimously.

VI. Consideration of Authorization to Expend MSI Funds for Administrative Costs

Mr. Ruane reviewed the estimated administrative costs for the operations of the MSI Program in FY 2005-06. After a general discussion of various proposed expenditures, Mr. Romberger moved that the Board authorize an expenditure of up to \$3,230,820 from the MSI Fund to reimburse DEP for the administrative costs of the MSI Program during FY 2005-06. Mr. Dillon seconded the motion, and the Board approved the motion unanimously.

VII. Review of DEP Report for the Legislature

Amendments to the act governing the administration of the MSI Fund and Program that were passed on December 9, 2002 and became effective on July 8, 2003, now require that DEP provide an annual report to the Pennsylvania State Legislature that summarizes the operations of the MSI Program and the contributions to the MSI Fund that were made by insurance producers. Mr. Ruane reviewed the report for FY 2003-04 with the Board. After a general discussion of the report, Mr. Romberger recommended that the line item titled "Estimated Lifetime Premiums" contained in the "Statistical/Financial Summary" section of the report be removed so that only factual historical data is contained in the reported. The other Board members concurred. The Board also recommended that the footnotes be more explicit. Mr. Ruane stated that he would make those modifications to the draft report.

VIII. Promulgation of Amendments to 25 Pa. Code Chapter 401

Mr. Roda and Mr. Ruane discussed proposed changes to the Chapter 401 regulations, which govern the operations of the MSI Program. Most significant to the proposed changes are the elimination of provisions in the regulations that conflict with provisions in the "Insuring Agreement," which is the contract between policyholders and the MSI Fund, and the improvements to the definition of some terms. By law, the MSI Board may establish provisions of coverage through either regulations or provisions of the policy. The Board has determined that provisions of coverage that are subject to periodic change, such as limits of coverage and premium rating criteria, are best established in the insurance policy where changes can be made more expediently than through the regulatory process. Based on the recommendation of Mr. Roda, Mr. Dillon moved that the Board adopt the amendments. Mr. Romberger seconded the motion and the Board approved it unanimously.

IX. Review of Mine Subsidence Insurance Marketing Campaign

Mr. Ruane reviewed the marketing efforts conducted during the last fiscal year. The focus of those efforts was to encourage insurance producers to register to use the online application systems and submit the applications of their customers who are at risk from loss. The systems provide an online mine inventory systems to determine if coverage is needed. They also provide marketing materials that may be used by the insurance producers to encourage their customers who are at risk to apply for coverage. There were 781 registered insurance producers by the end of FY 2003-04 who had created 1,405 policies and earned \$89,291 in commissions.

X. Status of HB 148 (Loans and Grants and Water Supply)

Mr. Ruane reviewed aspects of House Bill 148, which would provide loans for repairs of uninsured damages that were caused by mine subsidence and would provide emergency relocation grants for those who are displaced by mine subsidence. Mr. Pizarchik noted that the bill now provides for loans to pay for the replacement and repair of water supplies that are damaged by mine subsidence, items not covered by an MSI policy. DEP has taken a position supporting the bill.

XI. Proposed Program Improvements

Mr. Ruane asked that the Board approve an expansion to have commission payments go directly to insurance agencies as well as to the individual agents. Mr. Romberger moved to approve this expansion. Mr. Dillon seconded the motion, and the Board approved it unanimously. Mr. Ruane then asked the Board to approve the use of electronic systems that would expand online or web based applications from insurance producers to individuals. Those systems would also provide for premium payment via credit cards and allow policyholders to renew coverage electronically. Mr. Romberger moved to approve the use of those new systems. Mr. Dillon seconded the motion and the Board approved it unanimously.

XII. Consideration of Other Business

There was no other business. The meeting was adjourned at 11:15 a.m.

SUMMARY OF ACTIONS TAKEN BY THE BOARD:

1. Approved the minutes of the December 18, 2003 MSI Board Meeting.
2. Established that the factor used to adjust coverage to keep pace with inflation during calendar year 2005 would be 6.5%.
3. Established that premium rates and coverage limits would not change from those that were effective in the previous year.
4. Authorized that up to \$3,230,820 of MSI Funds may be used to reimburse DEP for the administrative costs of the MSI Program that will be incurred during FY 2005-2006.
5. Approved the proposed amendments to the Chapter 401 regulations.
6. Approved the development of online applications and electronic premium payment systems.

KEY OBLIGATIONS:

1. What is the purpose of a new line item in the Comptroller's reports titled "Reserves for Direct Charges and Payroll," and why was it not reported prior to FY 2003-04?

This new item is required because the new accounting systems (SAP) closeout differently than the previous accounting systems and require this new line item be included to identify costs that have occurred but have not yet been recorded as expenditures. Previous accounting systems provided for those costs to be netted out and did not require a separate line item to achieve balance.

2. Could future multi-year indicators in the “Statement of Changes in Unreserved Fund Balance” report be indicated with XXXX?

A format of XXXX will be used to indicate multiple years in future “Statements of Changes in Unreserved Fund Balance.”

3. Why did the “Uses of Cash” in FY 2003-04 increase so significantly over the previous year’s uses?

The “Uses of Cash” increased most significantly due to increased claim costs in FY 2003-04.