

MINUTES
COMMONWEALTH OF PENNSYLVANIA
COAL AND CLAY MINE SUBSIDENCE INSURANCE BOARD MEETING

December 11, 2007

A regular meeting of the Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on December 11, 2007 in the 10th Floor Conference Room of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania. Board Members present at the meeting were: Joseph Pizarchik, Esq., Director, Bureau of Mining and Reclamation, Designated Chair for Kathleen McGinty, Secretary of the Department of Environmental Protection (DEP); Chuck Romberger, Director, Property and Casualty Bureau, Designated Representative for Board Member Joel Ario, Commissioner of Insurance; and Leo Pandeladis, Deputy State Treasurer, Designated Representative for Board Member Robin Wiessmann, State Treasurer. Also attending were the following DEP employees: Christina Simeone, Policy Specialist; Marc Roda, Assistant Counsel; Robert W. Agnew, Chief, Division of Environmental Analysis and Support; Edward Motycki, Chief, Mine Subsidence Section, Joseph Taranto, MSI Technical Services Manager; James Holden, MSI Program Supervisor; James Welsh, Technical Services Unit Supervisor; Lawrence Ruane, MSI Program Administrator; and Nicholle Harman, MSI Board Recording Secretary.

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

1. Approval of the Minutes of Previous Meeting

The Board reviewed the minutes of December 14, 2006 MSI Regular Board Meeting. After making editorial revisions, Mr. Romberger noted that the narration in Section 9 needed to be revised to more accurately describe the actions associated with the Consideration of Coverage agenda item and that item 10 was missing. After discussion related to the revisions and corrections, Mr. Pandeladis made a motion to approve the minutes with the corrections and revisions prescribed by the Board and that the approved minutes would be provided to the Board for confirmation. Mr. Romberger seconded the motion and it passed unanimously.

2. Review of Operational and Financial Performance Reports

The Board reviewed reports prepared by DEP staff and the Comptroller that demonstrate the operational and financial performance of the MSI Fund (Fund). During Fiscal Year (FY) 2006-07 subscriptions rose to 57,314, underwritten coverage rose to almost \$7.4 billion, the average policy value rose to almost \$130,000, cash and investments rose to almost \$62 million while the unreserved fund balance rose to almost \$51 million, all of which were record high levels. The number of reported claims fell slightly to 184 while the number of paid claims rose to 41. DEP staff noted that a business practice of making multiple payments for a claim had evolved into what has become a common practice. Multiple payments support a phased

method of repair that first provides for leveling and stabilizing an existing foundation and then provides for repairs to a structure. This practice is efficient and economical, but making multiple payments distorts the number of paid claims and the average claim cost by skewing the number of paid claims upward and skewing the average claim cost downward. Mr. Romberger noted the importance of accurate and consistent claim data to the evaluation of rates, coverage limits and reserve amounts. He noted that there may also be problems with the data related to outstanding claims and that those reports should be scrutinized as well. DEP staff will further analyze its business practices to determine if there are other impacts to its reports and then make revisions to the reports, as required, prior to the next regular meeting.

3. Review of Investment Report

The Board reviewed a report that demonstrated returns on the investments of the MSI Fund's reserves that are made by the State Treasury. The annualized monthly rate of return on MSI's investments during FY 2006-07 was 8.53%, which was up from 5.86% in the previous FY. The equity portion of the MSI investment portfolio was once again primarily responsible for the increased returns. Mr. Pandeladis noted that the pool of funds in which MSI funds are invested does not contain mortgage backed securities. As a result, the performance of MSI's investments should not be significantly impacted by the subprime mortgage problems. However, there is a possibility for a general downturn in the economy during the next year. Should it occur, it would likely result in lower rates of return on investment.

4. Review Demonstration Inflation Factor Report

The Board reviewed a demonstration calculation for an inflation adjustment factor that is used to provide policyholders with an inflation coverage option as part of their policy renewal. This allows the policyholder to adjust their coverage so that it keeps pace with increased repair costs. The projected inflation factor for Calendar Year (CY) 2008 is 4.5%. The actual inflationary factor to be used during CY 2008 will be calculated using the most recent Marshall & Swift/Boeckh Building Cost Index Number for residences that is available prior to the end of the CY, which is the practice that has been established by the Board.

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

The Board reviewed documents pertaining to the premium rates, coverage limits and commission rates. Mr. Romberger recommended that no action be taken to change rates, limits, or commissions until the results of the pending actuarial study can be analyzed by the Board. He then made a motion to keep premium rates, policy limits and commission rates at their current levels. Mr. Pandeladis seconded the motion, and it was approved unanimously.

6. Review of DEP Report for the Legislature

DEP provided the Board with an advance copy of the annual report that DEP is mandated to provide to the Pennsylvania Legislature. The report summarizes the operations of the MSI Program and the contributions to the MSI Fund that have been made by insurance producers. The data in the report summarizes some of the data provide to the Board in its annual meeting. There were editorial revisions provided by Mr. Romberger that will be reflected in the final report. DEP staff will provide the Board with the revised report.

7. Review of MSI Marketing Campaign

The Board reviewed documents prepared by DEP and the marketing consultant who purchases advertisements (media buys), Harmelin Media. They demonstrate the placement of the advertisements, their costs, and their effectiveness. The reports also demonstrate the impact of high profile subsidence events on subscriptions. Media buys were increased in the second half of FY 2006-07 to levels that approached those recommended by MSI's account manager at Harmelin. The account manager recommends increasing the number of advertisements, especially television ads, and to balance their placement among stations and time slots so that the marketing messages are provided consistently to a broad audience. The expectation of the account manager is that sustained mass marketing will be required to gradually increase subscriptions. In addition to gradual increases from the sustained marketing, significant surges to subscriptions would likely result from very high profile subsidence events and the increased marketing conducted by MSI that follows them. The presentation concluded with a review of the proposed marketing plan for FY 2008-09. That plan would continue with media buys at levels and frequencies similar to those conducted in the second half of FY 2006-07. The Plan for FY 2008-09 provides for up to \$400,000 in media buys and up to \$100,000 for media development. Unused media development monies could be used for increased media buys.

8. Consideration of Authorization to expend MSI Funds for Administrative Costs

The Board reviewed estimated administrative costs for the MSI Program in FY 2007-08. DEP estimated that up to \$3,791,078 should be authorized to reimburse it for administrative costs it might incur in FY 2008-09 (the budget). As in past budgets, this budget includes many contingent items. Unless a number of major subsidence events require contingent spending, actual spending will be significantly less than the amount budgeted. After a general discussion of the budget, Mr. Pandeladis made a motion to approve it. Mr. Romberger then seconded the motion, which passed unanimously.

9. Update on Program Improvements

DEP staff provided the Board with an update on program revisions that will result in online applications for insurance and online renewals with credit and debit card premium payments. These systems are planned to become operational in the first half of 2008. The final draft of the actuarial report is expected by the end of December, 2007. The draft regulations are under development and should be ready for the Board's review in March.

10. Consideration of Other Business

The Board established that a special meeting would take place on March 12, 2008 to review proposed amendments to the Chapter 401 regulations and to review the actuarial study. The next regular meeting was scheduled for December 10, 2008. With no other business before the Board, the meeting as adjourned at 11:55 a.m.

SUMMARY OF ACTIONS TAKEN BY THE BOARD:

1. Conditionally approved the minutes of the December 14, 2006 MSI Board Meeting with formal approval occurring subsequently via email verification of final changes.
2. Authorized that an adjusted inflation factor be used to provide policyholders with a coverage option that keeps pace with inflation.
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 \$500,000 may be used for marketing in FY 2008-09.
5. Authorized that up to \$3,791,078 of MSI Funds may be used to reimburse DEP for the administrative costs of the MSI Program that may be incurred during FY 2008-09.

KEY OBLIGATIONS:

1. DEP made revisions and corrections authorized by the Board to the approved minutes of the December 14, 2006 meeting and forward them to the Board for review and approval on December 12, 2007.
2. An inflation factor of 4.5% was established for the 2008 calendar year.
3. DEP is evaluating MSI operating procedures and reports and will make needed modifications to them prior to the next regular Board meeting.
4. DEP will provide a revised copy of its legislative report to the Board.