

ATTACHMENT 1

DRAFT MINUTES

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

December 9, 2010

A meeting of the Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on December 9, 2010, 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 as follows: Thomas Callaghan, Director, Bureau of Mining and Reclamation, Designated Chair for John Hanger, Secretary of the Department of Environmental Protection (DEP); Michael McKenney, Director, Property and Casualty Bureau, and Designated Representative for Board Member Robert L. Pratter, Acting Commissioner of Insurance; and Craig Schwartz, Esq., Assistant Counsel and Alternate for Karen Spencer Kelly, Esq., Chief Counsel and Designated Representative for Board Member Robert McCord, State Treasurer.

Also attending the meeting for the Treasury Department was John Small, Deputy State Treasurer for Cash Management and Investments. The following employees from the Office of the Budget, Comptroller Operations were in attendance: Rosemary Witzel, Commonwealth Account Manager; and Jeremy Barge, Commonwealth Accountant. The following DEP employees were in attendance: Michelle Moses, Esq., Assistant Counsel; Daniel Lapato, Policy Office; Paul Pocavich, Chief, Division of Environmental Analysis and Support; Edward Motycki, Chief, Subsidence Section; Maurice Gardner, Civil Engineer; Lawrence Ruane, MSI Program Administrator; and Nicholle Harman, MSI Board Recording Secretary.

Issues discussed and actions taken at the meeting:

Call to Order/Approval of December 10, 2009 MSI Board Meeting Minutes

The Board reviewed, corrected and then unanimously approved the minutes of the December 10, 2009 Board Meeting.

Review of Operational and Financial Performance Reports

The Board reviewed charts and graphs prepared by DEP and the Comptroller's Office that summarized the operational and financial performance of the MSI Program and MSI Fund (Fund). Comptroller's Office staff noted an upcoming change to the accounting methods used to measure the value of investments made by Treasury, which include MSI Fund reserves. In the future, investments will be valued at their current market values.

Review of Investment Report

Mr. Small summarized the investments of the MSI Fund and explained that the Treasury invests MSI funds in two investment pools; Pool 98, which primarily contains long term investments

including equities and bonds, and Pool 99, which contains short term investments or cash equivalents. The average monthly rate of return on the Pool 98 investments during State Fiscal Year (FY) 2010 was 9.41 percent and the average monthly rate of return on the Pool 99 investments was 0.29 percent. Mr. Small noted that Treasury will be reconstituting the Pool 98 into the Pool 198 Fund. The Pool 198 funds will be more conservatively invested than the Pool 98 funds. Mr. Small also noted an upcoming change to the accounting systems that will result in the posting of investment values at their market values. Due to the market conditions that will likely exist during the initial year the accounting change is made, MSI funds should, on paper, show a significant increase in value during FY 2011.

Review of Inflation Factor

As required by law, the Board provides MSI subscribers with an annual inflation protection premium option that allows subscribers an option to increase coverage to an amount that is commensurate with increased building costs. The Board evaluated the proposed inflation factor of 4.5 percent and unanimously approved it as the inflation factor for the 2011 calendar year.

Business Issues

Having previously reviewed the operational and financial performance of the MSI Program and Fund, the Board considered various business issues and made no changes to the policy premium rates, coverage limits and insurance producer commission rates. In addition, the Board made no adjustment to the calculation used to determine the amount of reserves in lieu of reinsurance and did not authorize a distribution of premium back to those who were subscribers during FY 2010. The Board also authorized funds to pay for the processing of mine maps into electronic formats, which are essential to the automated MSI application and marketing processes.

Program Costs Reimbursement

After reviewing proposed expenditures to administer the MSI Program during FY 2011 that were provided by DEP, the Board unanimously approved an expenditure of up to \$3,654,364 from the MSI Fund to reimburse DEP for MSI Program's administrative costs incurred during FY 2011.

Review of MSI Marketing Campaign

DEP staff reported that actions are continuing to transition away from mass marketing campaigns and to move toward promoting MSI coverage primarily through direct marketing. Using Geographic Information Systems (GIS), customized direct marketing materials are being developed that combine property ownership and location data acquired in electronic format from county courthouse offices with mine maps being developed by DEP. These materials both narratively and graphically inform property owners that their structures are undermined and need MSI coverage. The marketing materials will initially be delivered through the US mail. In the future, email and other electronic messaging systems will also be used to deliver the marketing materials. This method of direct marketing is expected to be significantly more effective than traditional mass marketing.

Update on House Bill 523

House Bill 523, which would have created landslide funds and programs managed by DEP, was not enacted.

Other Business, Next Meeting and Adjournment

The Board established that the next annual meeting would be held on December 14, 2011, and the meeting was adjourned at 11:00 a.m.

SUMMARY OF ACTIONS TAKEN BY THE BOARD:

1. Approved the minutes of the December 10, 2009 MSI Board Meeting.
2. Made no changes to premium and commission rates, coverage limits, did not distribute premium back to subscribers and authorized an inflation factor of 4.5 percent for the 2011 calendar year.
3. Agreed to provide up to \$3,654,364 from the MSI Fund to reimburse DEP for the costs it incurs administering the MSI Program.

KEY OBLIGATIONS:

DEP will do the following:

1. Correct an error on the December 10, 2009 meeting minutes.
2. Effective January 1, 2011, adjust the inflation factor in the automated billing systems to 4.5 percent.