

## MINUTES

### COMMONWEALTH OF PENNSYLVANIA COAL AND CLAY MINE SUBSIDENCE INSURANCE FUND BOARD MEETING

October 8, 1998

A regular meeting of the Mine Subsidence Insurance Board was called to order at 10:00 a.m. on October 8, 1998 in the Department of Environmental Protection's Conference Room located on the Fifth 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 Kathleen M. Peterson, Assistant General Counsel, Designated Board Member for Barbara Hafer, State Treasurer. Also attending were the following DEP employees: Curt Pieper, Special Assistant to the Deputy Secretary for Mineral Resources Management; Michelle Miller, Information Specialist; Marc Roda, Assistant Counsel; David Hogeman, Chief, Division of Environmental Analysis and Support; Frances Williams, MSI Program Supervisor, Wilkes-Barre MSI Office; Ed Motycki, Chief, Mine Subsidence Insurance Section, McMurray MSI Office; Lawrence Schnurr, MSI Program Supervisor, McMurray MSI Office, Samuel Faith, Assistant to the Director of the Bureau of District Mining Operations; Ann Wildeman, Chief, General Accounting, Comptroller's Office; Mary Ann Ingreem, Administrative Assistant, Bureau of Mining and Reclamation, and Lawrence Ruane, MSI Program Administrator. Also attending were Zachery Rubinich, Chester Lonicchio, Lou Stacis, Paul Polack, and Aldona Stremmel, students from the Widener School of Law.

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

#### I. Approval of the Minutes of Previous Meetings

The minutes of the October 7, 1997 Board meeting and December 11, 1997 Work Session were unanimously approved.

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

Michelle Miller, Project Manager for the marketing campaign, reported that the Berry Group, Inc., MSI's marketing consultant, was completing its preliminary evaluations and developing a marketing plan intended to:

- 1) Target all paid media marketing, i.e., television, print, radio and promote mine subsidence insurance in conjunction with subsidence events.
- 2) Support public outreach efforts conducted by the Department which include exhibits and presentations.
- 3) Stimulate interest for insurance throughout the year by placing stories in newspapers and magazines.

During a general discussion of mine subsidence events that have occurred over the last few years, the staff noted that many structures affected were uninsured. The staff also noted that, although there are only about 45,000 MSI policies currently in force, the Department estimates there are more than 1,000,000 structures at risk from mine subsidence. As a result, the need for the public to purchase protection against the financial losses caused by mine subsidence is enormous, as is the potential for the marketing efforts to be successful, over time. If the efforts of the marketing campaign are successful and the number of policyholders greatly increases, premium rates could be dramatically decreased thus providing further economy to the policyholders while maintaining the Fund's solvency and self-supporting status.

### III. Review of Fiscal Year (FY) 1997-1998 (FY 97) Operational and Financial Performance and Premium Rate Review

The Board reviewed documents that demonstrated the operational and financial performance of the MSI Program and Fund from State FY 87 through FY 97. The staff noted that the trend of moderate growth experienced by the MSI Fund over the last decade continued in FY 97. Between FY 96 and FY 97, policies in force rose slightly from 43,589 to 44,319, the unreserved fund balance increased from \$15,039,743 to \$17,149,560, and underwritten coverage increased from 3.48 billion dollars to 3.64 billion dollars. Based upon the performance of the Fund, the Board took no actions to modify the MSI premium rates. Board Representative Michael Burkett noted that he has created a spreadsheet to track the statistical and financial information and, upon request, would make it available to the staff.

### IV. Review of Proposed Budget and Consideration of FY 1999-2000 (FY 99) Authorization to Expend Resolution

The DEP submitted to the Board a document outlining the administrative expenses it expects the MSI Program to incur in FY 99. The staff noted that the MSI complement rose by seven positions since FY 97 and is expected to increase by five more by the end of FY 99. These increases are in keeping with the complement control efforts undertaken throughout state government, the intent of which is to align program staffs with the programs to which they provide the majority of their time. Studies demonstrated that seven DEP employees needed to be moved from other program areas to MSI because the majority of their time was spent on MSI work. Additionally, the staff noted that many DEP employees continue to contribute efforts to the MSI Program but often do not code that time against the MSI Program. Continued efforts which will be made by the DEP to accurately account for the time expended toward specific program areas may result in an

increase to the number of employees on the MSI complement. Also, the DEP intends to expend efforts to meet MSI Program objectives that have not been met or that have been only partially met in the past. These activities have been referred to as the backlog, but since efforts are not planned to address old work, but only to complete new work, the term backlog is being replaced by objectives that have not been met. Five new positions will be filled to meet those efforts. Since operating expenses are a function of the number of employees, those costs will rise accordingly. The Board noted the substantial increase to the mainframe computer charges and asked the staff to further investigate the way in which those costs are calculated.

A motion to approve a resolution to expend up to \$2,617,323 million from the MSI Fund for administrative expenses of the program in FY 99 was made and seconded. Board Member Kathleen Peterson asked the DEP staff to clarify if excess reserves could be used to either reimburse policyholder premiums or pay for administrative expenses. The staff noted that, although the law provides for either, the Board has historically opted to pay for the administrative expenses and allow the fund balance to grow as opposed to refunding premiums. By so doing, the MSI Program has relieved the taxpayers from the burden of financing a program that has a demonstrated ability to be both self-supporting and solvent. Having concluded its deliberations on the question, the Board unanimously approved an authorization to expend up to \$2,617,323 from the MSI Fund for the administrative expenses of the MSI Program in FY 99.

V. Inflation Factor Review and Resolution to Adopt Revised Inflation Factor

A motion to approve a resolution to establish an annual inflation factor that is used to adjust coverage to keep pace with increased construction costs was made and seconded. After authorizing some changes to language in the resolution, it was passed unanimously. In further discussions, the Board established that the DEP staff would calculate all subsequent annual inflation factors using the most recent 12 months of Boeckh Index data available, including Internet data. The Board further established that DEP staff would also provide the Board Members with notification of the new rate once it is calculated.

VI. Next Meeting and Adjournment

The Board had stipulated previously in the meeting that subsequent regular Board Meetings should continue to be held concurrently with the submission of the state budget request. With no further business before the Board, the meeting was adjourned by unanimous consent of the Board.

## **KEY OBLIGATIONS**

1. The DEP staff will request from Board Member Mr. Burkett a copy of a spreadsheet that demonstrates the operational and statistical performance of the MSI Program and Fund.
2. At the next regular meeting of the MSI Board, the DEP staff will provide the Board with the formula or calculation used by the Bureau of Information Systems (BIS) to determine mainframe costs.
3. Prior to the end of the calendar year, the DEP staff will use the most recent 12 months of Boechk Index data available, including internet data, to calculate an inflation rate that will provide a coverage option to policyholders who wish to increase cover to keep pace with inflation. The DEP staff will also provide the Board Members with notification of the new rate.
4. The DEP staff will circulate the Board resolutions for signatures.
5. The DEP staff will establish the next regular Board Meeting to coincide as closely as possible with the date the state budget request is submitted to the Governor's Office.