

Board of Trustees Agenda Item

Board Meeting Date: December 6, 2010

Title of Item: Annual Risk Management Report

Background and Analysis:

Risk Management provides an annual report to the Board of Trustees. The primary focus of the report is an update on insurance cost and coverage as well as claims against the District. Insurance costs have continued to decline while coverage remains stable.

The 2009-10 year did not see resolution of litigated claims against the district. Cost of non-litigated claims remained low. Tests of the Emergency Notification System were successful and OSHA training continues to meet requirements and District needs.

Recommendation: Information only.

Submitted by:	Marsha Kelly
Additional contact names:	Kevin McElroy
Is backup provided?	Yes



Risk Management Annual Report

Risk Management supports the District's mission to provide high quality education and promote the development of individuals' abilities. The mission of the Risk Management Department is to provide a safe environment conducive for work and learning, and to protect and preserve district property and assets. The responsibilities of the Risk Management Department include purchasing and managing insurance, managing property and liability claims, providing safety training for faculty and staff and maintaining compliance with OSHA regulations. This report builds on the successes reported to the Board of Trustees last year. The major part of the Risk Management budget is reflected in the purchase of insurance. The total department budget for 2009-2010 was \$1,180,474. The insurance costs were \$798,474 or a substantial part of the total budget.

The General Liability Chart (Chart A) shows coverage from two sources. The beige segment of the columns illustrates the coverage the District purchases from a commercial insurance carrier. The turquoise section of the columns represents the portion of the District's coverage that is purchased from SELF (Schools Excess Liability Fund). The basis for having two liability insurance sources is that it is the most cost effective method for the District's coverage. Purchasing the initial \$5,000,000 in coverage from the commercial insurance market allows the District to shop for the best coverage and most competitive pricing. The first several million dollars are limits where most claims would be covered. Thus they are the most expensive and require annual marketing to ensure the best pricing and coverage. Then, it becomes more cost effective to participate in the SELF pool as these higher dollar limits are less expensive due

to a lower potential claim penetration. However, every year Risk Management compares the cost of the pool coverage with that available from the commercial insurance market to ensure the lowest cost. SELF is the largest liability pool in the country. However, the SELF cost of coverage from 2005 to 2008 increased steadily.

In the 2007-2008 coverage year, the decision was made, based on cost comparison, to restructure the liability coverage. Prior to 2007, the District had purchased three million dollars in liability coverage from the competitive insurance market, over a retention limit. As Chart A indicates, that cost from the commercial market remained relatively stable. However, in the years between 2004 and 2007, the cost of the limits purchased from SELF rose steadily. In the 2007-2008 year the cost of the limits projected to be purchased from SELF increased substantially. Had the program not been restructured, the resulting liability premium would have cost the District \$418,090. The two columns shown for the 2007-2008 year illustrate what the District would have paid as the program had been structured and the amount that was paid under the restructured coverage (\$331,164). The restructuring of liability coverage as described in 2007-2008 resulted in a substantial, 26% saving for the District. As reflected on Chart A from 2008 to 2010 the cost of private commercial insurance has decreased due to the change in the economy and determined negotiations by Risk Management and the District's insurance broker. Current market analysis indicates that pricing will be stable in the coming year for coverage the District purchases.

The Property coverage chart (Chart B) is divided into two sections. The upper section illustrates the limits of coverage purchased by the District (columns) and the premium cost (red lines). The lower chart indicates the Total Insurable Values or exposure of the District. These limits show an increase in 2005-6 due to bond construction. The property values then decreased in 2006-7 due to the

demolition of buildings, such as the campus center at Foothill College, to enable other construction. From that year through the 2009-10 year the total insurable values of the District have increased due to the construction and completion of new buildings.

The upper section on Chart B, Limits and Premiums, indicates the limits of property coverage purchased for the District. The low property loss limits shown for the 2004-5 year represents the reluctance of the property insurance market to extend high limits of insurance as a result of the losses in New York in 2001. That has changed over time and by 2006-7 the District was able to purchase \$250,000,000 in limits for substantially lower premium. In comparing the property value increase in the lower chart (the red lines in each chart) to the property insurance premium increases (the two red lines), it is evident that the premium increases were very modest in relation to the increase in property values covered. For example in 2008-9 the property values rose 23% but the property premium paid by the District increased only 7%.

The other major area of expense for Risk Management is financial claims against the District. In general there are two types of claims: claims requiring litigation and possible court involvement and non-litigated claims without the involvement of an attorney.

At present there are three litigated claims that involve the District in formal litigation. Risk Management staff in conjunction with the general counsel for the District, and our Third Party Administrator, Alternative Risk Services, LLC, is monitoring these active claims and taking action as appropriate. None of the three should constitute a major expense to the District. However, litigation typically moves slowly and these claims will require several months or more for final resolution.

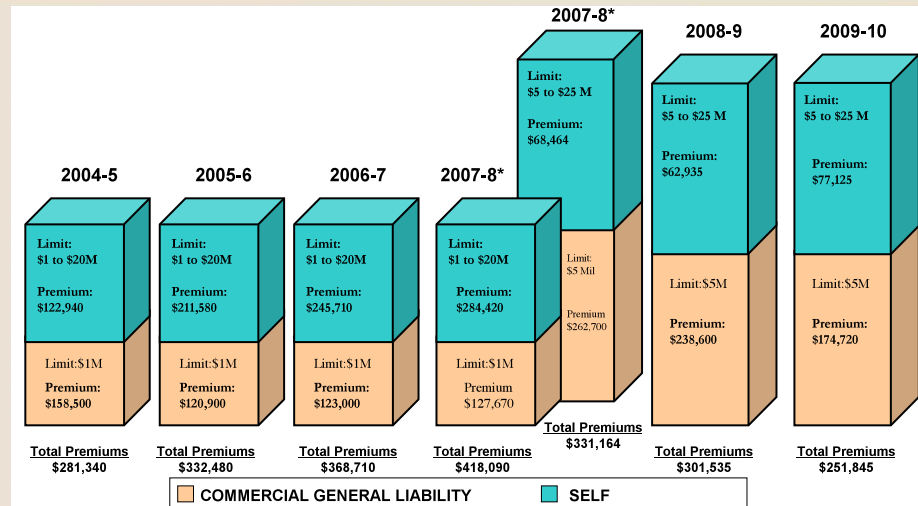
The non-litigated claims are shown in Chart C (Claims Management). The expense for these claims peaked in 2006-7. That peak was due to a single serious accident. While claims costs are highly unpredictable, from 2007-8 through 2009-10 the claims costs have been relatively minor. The chart reflects the amount incurred, or demanded by the claimant, in red. The actual amount paid by the District is indicated in yellow. The difference between the two reflects the diligent work of staff and the District's experienced third party administrator to minimize the amount the District is actually liable to pay.

Risk Management also has the primary District-wide responsibility for Emergency Notification System and its functioning as well as testing the system. Two successful tests of the system occurred in 2009-2010. The Emergency Notification System was also successfully used during a power outage at De Anza College. Primary responsibility for District Emergency Operations Plan and Emergency Operations Center for the District are also under the jurisdiction of Risk Management. Annually the plan is updated and practiced in a tabletop exercise and training is conducted as necessary.

OSHA training classes are carefully monitored so that state and federal requirements are met. However, as new regulations are promulgated by OSHA, Risk Management seeks to add training necessary for the safety of District employees. Training seeks to meet Cal-OSHA requirements. This goal is carefully and continually assessed, taking into consideration OSHA regulations and workers' requests for specific topics as well as injury indicated training needs. The Risk Management OSHA Safety Committee meets every other month to assess the allocation of budget with training needs. This committee is comprised of leads from the various trades as well as management. Courses are added or deleted from the training matrix as the committee deems appropriate and feasible.

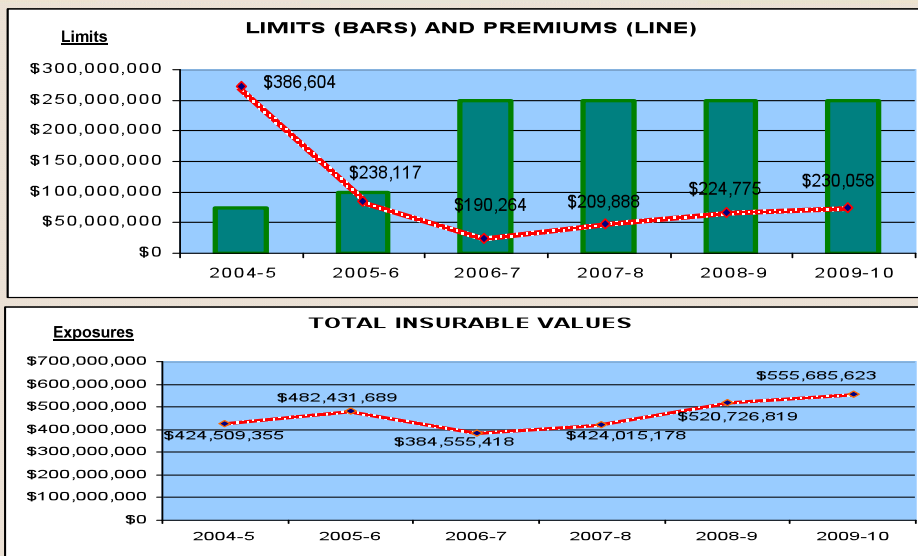
General Liability Historical Premiums

Schools Excess Liability Fund (SELF) VS. Commercial Insurance



*In 2007-8 an analysis was completed for the district's \$1MM to \$8MM limit of Liability insured with SELF, versus the commercial insurance marketplace. It was concluded that by insuring this layer with a commercial market, as opposed to SELF, would reduce the total premium by 26% (\$86,926).

Property - Premiums & Exposures



Claims Management – *Incurred & Paid*

