ITEM NO. 20

STAFF REPORT

CITY OF OCEANSIDE

DATE: May 6, 2015

TO: Honorable Mayor and City Councilmembers

FROM: Human Resources Department

SUBJECT: **ADOPTION OF A RESOLUTION APPROVING AND IMPLEMENTING THE TRANSITION OF GENERAL LIABILITY RISK POOL COVERAGE FROM SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY (SANDPIPA) INTO THE CALIFORNIA STATE ASSOCIATION OF COUNTIES-EXCESS INSURANCE AUTHORITY (CSAC-EIA) EFFECTIVE JULY 1, 2015 AND THE TERMINATION OF SANDPIPA EFFECTIVE JULY 1, 2016**

SYNOPSIS

Staff recommends that the City Council adopt a resolution approving and implementing the transition of General Liability Risk Pool Coverage from San Diego Pooled Insurance Program Authority (SANDPIPA) into the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) effective July 1, 2015 and the termination of SANDPIPA effective July 1, 2016.

BACKGROUND

The City of Oceanside has been a member of SANDPIPA since September 24, 1986. SANDPIPA was created as a joint powers authority in order to provide comprehensive and economical pooled excess self-insurance liability coverage to the members. The City of Oceanside, along with seven (7) other cities, joined in the creation of SANDPIPA to pool losses, claims and funds through shared risk management and loss control services.

Over the last 28 years, additional cities have joined SANDPIPA and it continues to provide a funding mechanism to cover catastrophic losses with stable, equitable distribution of member contributions comprehensive risk management support services and a forum for sharing expertise and experience. Current SANDPIPA members include:

City of Chula Vista
City of Coronado
City of Del Mar
City of Lemon Grove
City of National City
City of Oceanside

City of Encinitas
City of Escondido
City of Imperial Beach
City of Santee
City of Solana Beach
City of Vista

SANDPIPA's General Manager announced in early 2013 of her intent to retire in 2016. She wanted to provide enough notice so the members of SANDPIPA could evaluate options for the ongoing management of the pool. At that time, SANDPIPA conducted a Request for Proposals (RFP) and selected a consulting firm, Bickmore, to analyze various options for program administration including selection and hiring of a new General Manager, contracting for a third-party administrator (TPA), or merging with another pool and dissolution of SANDPIPA with the members seeking individual risk finance programs.

After considering the various options available, including those presented in the Bickmore report, the SANDPIPA Board voted on March 26, 2015 to transition SANDPIPA to CSAC-EIA membership as follows:

1. Transition the General Liability Risk Pool Coverage from San Diego Pooled Insurance Program Authority (SANDPIPA) into the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) "General Liability I" program as a member for Fiscal Year 2015-16;

2. SANDPIPA will be terminated as a joint powers authority effective July 1, 2016;

3. The SANDPIPA Board will continue to control operations during the windup period which is estimated to be six years, so that all members are represented and have a voice in the windup process; and

4. Allocate dividend distribution to the members during a "windup" period.

Each individual SANDPIPA member city can either join CSAC-EIA as individual participants in the CSAC program or join another self-insurance pool, depending on individual member needs and preferences on July 1, 2016. It is not yet known which option each of the member cities will select.

SANDPIPA's liability coverage is on a "claims made" basis, that is, coverage applies based on whether a claim is reported within the program year. CSAC-EIA's coverage is on an "occurrence" basis, that is, coverage applies based on whether an underlying occurrence causing damage took place within the coverage year. In order to avoid a coverage gap, the SANDPIPA Board will issue "extended reporting" coverage for the next several years, covering occurrences taking place during the period of SANDPIPA membership but reported later during the extension period.

After Fiscal Year 2015-16, SANDPIPA will continue to exist, but only in a "windup" phase to pay any outstanding covered claims and to manage and distribute surplus and dissolve the business affairs of SANDPIPA. These duties will be vested in the Board of Directors.

SANDPIPA was created with the purpose of protecting members and saving on liability costs. The steps being taken now by the Board to transition to CSAC-EIA effective July 1, 2015 are consistent with that mission, as the best, safest, most cost effective way to protect member interests going forward.

ANALYSIS

In Fiscal Year 2015-16, the effect of SANDPIPA providing coverage on a pass-through basis, guaranteed to all SANDPIPA members, will be a group savings of an estimated $1.2 million. After July 1, 2015, the actuarial study and financial audit will be completed and will be used to determine funds available for dividend distribution. That distribution would offset the contributions to CSAC-EIA.

During early Fiscal Year 2015-16, the SANDPIPA Board will evaluate the surplus targets and based on the actuarial study and financial audit results, begin the process of distributing the accumulated surplus through dividend declarations to the members over a period of five to seven years. Barring unexpected claims development, the dividends can be increased from this year's figure of $1.9 million to $3 million, with similar dividends to follow for the next five-plus years. SANDPIPA will continue to provide coverage on all covered claims reported during its program years or in the extended reporting period.

FISCAL IMPACT

In Fiscal Year 2014-15, the City of Oceanside paid $917,432 to SANDPIPA for pooled risk liability coverage. This cost was offset by a dividend distribution of $247,645 for a net cost of $669,787 for Fiscal Year 2014-15 payable by the City to SANDPIPA. The initial estimate for CSAC-EIA coverage for Fiscal Year 2015-16 is $619,924. The SANDPIPA dividend distribution for Fiscal Year 2015-16 is estimated to be $346,333 for a net cost of $237,591. This is an estimated savings of $432,196 in Fiscal Year 2015-16 for transition to CSAC-EIA, which is a larger pool with lower costs than SANDPIPA. This cost is charged to the Risk Management Internal Service Fund 151010814.4526 and is allocated to departments annually based on Administrative Directive 18.

The actual savings for the transition from SANDPIPA to CSAC-EIA will not be fully realized until early in Fiscal Year 2015-16.

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

RECOMMENDATION

Staff recommends that the City Council adopt a resolution approving and implementing the transition of General Liability Risk Pool Coverage from San Diego Pooled Insurance Program Authority (SANDPIPA) into the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) effective July 1, 2015 and the termination of SANDPIPA effective July 1, 2016.

PREPARED BY:

Patricia Nunez
Human Resources Director

SUBMITTED BY:

Michelle Skaggs Lawrence
Interim City Manager

Attachment

REVIEWED BY:

Peter Weiss, Assistant City Manager
Jane M. McPherson, Interim Financial Services Director

RESOLUTION NO. ____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF OCEANSIDE APPROVING AND IMPLEMENTING THE TRANSITION OF GENERAL LIABILITY RISK POOL COVERAGE FROM SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY (SANDPIPA) INTO THE CALIFORNIA STATE ASSOCIATION OF COUNTIES-EXCESS INSURANCE AUTHORITY (CSAC-EIA) EFFECTIVE JULY 1, 2015, APPROVING AMENDMENTS TO THE SANDPIPA JPA, AND CONSENTING TO THE TERMINATION OF SANDPIPA EFFECTIVE JULY 1, 2016

WHEREAS, the City of Oceanside is a member of a joint powers authority, the "SAN DIEGO COUNTY CITIES JOINT POWERS AGREEMENT FOR RISK MANAGEMENT SERVICES AND RELATED INSURANCE COVEAGES CREATING THE SAN DIEGO POOLED INSURANCE PROGRAM AUTHORITY FOR MUNICIPAL ENTITIES ("SANDPIPA"); and

WHEREAS, the SANDPIPA Board, representing the member agencies, has determined that it is in the best interest of SANDPIPA members and in the public interest that SANDPIPA join the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) effective July 1, 2015; and

WHEREAS, the SANDPIPA Board, representing the member agencies, has determined that it is in the best interest of SANDPIPA members and in the public interest that SANDPIPA should be terminated effective July 1, 2016, and its assets distributed to members per the Joint Powers Agreement through a multi-year "windup";

NOW, THEREFORE, the City Council of the City of Oceanside does hereby resolve as follows:

1. The City of Oceanside hereby agrees that SANDPIPA shall join CSAC-EIA to provide pooled risk liability coverage effective July 1, 2015;
2. The City of Oceanside hereby agrees to an amendment of the Joint Powers Agreement, substituting "the Board of Directors" for "The Executive Committee" in Article 25.B of the Joint Powers Agreement, so that powers of the Authority for purposes of winding up and dissolving the business affairs of the Authority will be vested in the Board of Directors;
3. The City hereby agrees to an amendment of the Joint Powers Agreement in Article 25A adding "distribution of dividends," after "disposing of all claims," so that the Board of

Directors is expressly authorized to continue to distribute dividends, in accordance with the "plan document" referenced in Article 26, during the period of winding up and dissolving the business affairs of the Authority. The following language is added to Section 25A: "Withdrawn or cancelled members are entitled to participate in dividend distribution after accounting for their Board determined share of administrative expenses."

4. The City of Oceanside hereby provides its written consent to the termination of SANDPIPA per Article 25 of the Joint Powers Agreement, effective July 1, 2016, with SANDPIPA to continue to exist for the purpose of disposing of all claims, distribution of assets, and all other functions necessary to wind up the affairs of the Authority.
5. The City Clerk is directed to communicate this Resolution to SANDPIPA and staff is further authorized to take all actions necessary to implement this direction. .

PASSED AND ADOPTED by the City Council of the City of Oceanside, California, this _____day of _____, 2015, by the following vote:

AYES:
NAYS:
ABSENT:
ABSTAIN:

_____
MAYOR OF THE CITY OF OCEANSIDE

ATTEST:

_____
City Clerk

APPROVED AS TO FORM:

_____
City Attorney