

**SHARP Joint Powers Authority**  
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**BOARD OF DIRECTORS**

**Date:** November 2, 2016

**To:** SHARP Board of Directors

**From:** James Hill – Risk Management Officer

**Re:** **SHARP Strategic Planning Information**

**Action:** None. Information only.

**Summary**

The SHARP Board of Directors was informed at a Special meeting of its Board that all ABAG personnel will merge with MTC staff in the near future. The timeline is targeted at December 31st, however, it is anticipated the action will not occur until early 2017 (1<sup>st</sup> quarter end). This will result in the departure of ABAG from the SHARP WC program and create vulnerabilities in the pooled program given the current size, scale and distribution of risk amongst its five member agencies.

The SHARP Board of Directors at the above referenced meeting directed ABAG/SHARP staff to work closely with the board and each participating member agency to evaluate program options and alternatives in light of the ABAG and MTC merger activity.

ABAG/SHARP staff recognizes program marketing activity (marketing/solicitation of alternative programs) has already been initiated by competitors given the highly competitive municipal insurance arena. Our primary goal is to ensure the success of the program and to allow each member agency to make “informed” decisions with respect to any program alternatives. Staff will work closely with each SHARP member to provide all necessary information and advice on internal and external program options or alternatives.

The following options are being presented to the Board of Directors in an objective manner to allow all participating members to study each option on the surface and evaluate what additional information, facts or factors need to be considered in making key decisions on behalf of each jurisdiction. As a risk sharing organization, these decisions should be based on both collective (SHARP) and independent needs.

**Program Options/Alternatives**

1. Expand the pool and increase member participation through the addition of new member agencies.

This option is contingent upon the successful integration of the SHARP program into the MTC organization. Upon completion of the Implementation Action Plan and restructuring of all program servicing contracts, the SHARP program could develop an aggressive marketing campaign which targets similarly situated member agencies (low frequency; low or no Police/Fire exposure; limited risk bearing capacity) to maintain the pool in its current form and structure.

## SHARP Strategic Planning Information (cont.)

This option will require further review and analysis of the program pricing implications for all remaining member agencies from both a loss funding (premium) perspective and from an internal administrative expense (admin cost) perspective. Historically, our ability to expand the SHARP pool has been challenging given our unique characteristics.

### 2. Merge with another Workers Compensation pool.

This option should be carefully analyzed in the context of member compatibility and in terms of managing risk/exposure (underwriting, pricing and member retention levels). This option requires close scrutiny of any pool being considered for a merger with a focus on its member composition; existing member exposure; loss experience (loss ratio) and all pool administrative requirements (commitments, bylaws, agreements, etc). The recipient pool must also endorse/approve the addition of any new members.

### 3. Members converting to traditional insurance programs (standalone options).

This option would allow members to manage risk independently and select their own level of risk appetite (retention levels). Members would be independent and free to choose their own level of risk retention which can help manage program pricing. Given the low frequency of several of our participating members, first dollar coverage (no retention) may be available at an affordable cost.

This option leaves members vulnerable to the market forces (insurance availability and program pricing). Each member will have to be underwritten separately by classification of risk/exposure and claim experience. This could be problematic for any members with higher experience mods. In addition, members will need to closely scrutinize all internal claims handling needs and other program service aspects (loss control/safety) which will be a function of each individual program and the provider.

Selectivity concerns (adverse selection) should be noted as a natural outcome with this option. Members with lower exposure and favorable experience will be better positioned than other members.

### 4. Group program option(s).

This option may be attractive to our members given the size/scale of the group. There are several qualified partners and programs which may be suitable to SHARP member agencies. Group programs can be structured as risk retention programs (deductible requirement) or first dollar programs (no retention). A group program is designed to allow all participating members to realize the benefit of "economies of scale" in terms of rates (cost) and service needs.

Members considering this option would be subject to all existing group underwriting and performance criteria (historical loss experience).

## **Key Activities**

In light of the impending consolidation of ABAG staff/personnel into the MTC organization and the resulting impact to the integrity of the SHARP program, consideration should be given to the following key activities and timeline.

- ❖ Alternative Program Overview(s) – Provide SHARP members with basic and conceptual overviews of available alternative programs; including presentations by select programs.

## SHARP Strategic Planning Information (cont.)

Overviews to include:

- Underwriting structure (Program retention options, excess insurance and carrier ratings/grade).
- Underwriting application review (underwriting requirements template).
- Claims handling (Claims administration requirements, including TPAs)
  
- ❖ Review of SHARP Program Requirements (Provisional Notice Requirements)
  - Timing requirement (December 2016)
  - Member resolution requirements – i.e. council notice (external)
  - SHARP BOD affirmation (internal)
  - Dissolution requirements/agreements – SHARP pool liabilities
  
- ❖ Underwriting Process and Claims Analysis
  - Review of independent and collective needs; Application process
  - Claims information criteria/format; Confidentiality issues/non-disclosure
  - Comparative cost analysis information (ABAG/MTC)
  
- ❖ Critical dates/timeline
  - Group program presentation option (insurance cooperative) – Nov 2016
  - PNOWL by December 2016
  - Claims information submission (December/January 2016)
  - Underwriting application submissions (December/January 2017)
  - Follow up program presentations (Feb, Mar 2017)
  - Formal decision making period (April 2017)
  - Transition planning (April, May, June 2017)

### **Recommendation**

The current vulnerabilities of the SHARP program given the change in member participation rate, program scale and the distribution of proportionate risk are clearly evident. ABAG/SHARP staff will work closely with each participating member agency to evaluate program alternatives in light of the impact of the ABAG/MTC merger. Staff will review/discuss options with the Board of Directors and will await feedback from members. SHARP Board members will reconvene in the near future for further discussion and action.

The challenges faced by the SHARP Board of Directors are very similar to the challenges faced and communicated to members in 2002. One distinct advantage is SHARP program's current financial position which is very favorable. There are no immediate challenges in maintaining the program in the near term, however, long term implications will continue to be monitored closely.