

RESOLUTION NO. 1521

A RESOLUTION OF THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON DECLARING ITS APPROVAL OF RESOLUTION NO. 11-4-10-6 ENACTED BY THE BOARD FOR THE PUBLIC UTILITY RISK MANAGEMENT SERVICES SELF-INSURANCE FUND AT ITS ANNUAL MEETING ON NOVEMBER 4, 2010

BE IT RESOLVED BY THE COMMISSION OF PUBLIC UTILITY DISTRICT NO. 1 OF OKANOGAN COUNTY, WASHINGTON, as follows:

WHEREAS, Public Utility District No. 1 of Okanogan County, Washington (“District”) is a municipal corporation organized and existing under and by virtue of the Constitution and the laws of the State of Washington;

WHEREAS, the District is a signatory to the Public Utility Risk Management Services (“PURMS”) Joint Self-Insurance Agreement, originally dated December 20, 1976, as most recently amended by PURMS’ Resolution on November 12, 2009 (hereinafter, the “SIA”), and thereby is a member of PURMS (“Member”);

WHEREAS, PURMS is an unincorporated association of local government entities organized and existing under the laws of the State of Washington, including RCW 48.62 et. seq. and other applicable statutes enacted to permit and facilitate the joint exercise by local government entities of their powers;

WHEREAS, PURMS exists and operates pursuant to the terms of the SIA for the purpose of providing its Members with joint self-insurance coverage and jointly purchased excess or stop-loss coverage for liability claims, property losses and health and welfare benefits, and joint administration and handling of such claims, through three separate Risk Pools known as the Liability Pool, the Property Pool and the Health & Welfare Pool;

WHEREAS, the District currently participates as a Member in one or more of these Risk Pools and receives the benefits and costs savings of joint self-insurance coverage and administration through such Risk Pools;

WHEREAS, pursuant to § I, ¶ 6 of the SIA, the business and affairs of PURMS are managed and governed by and through its Board of Directors (“Board”);

A. Proposed 2010 Amendments to PURMS’ Liability and Property Premium Assessment Formulas.

WHEREAS, for the reasons stated in PURMS Resolution No. 11-4-10-6 (“Resolution No. 6”), the Administrator for PURMS has proposed consideration of amendments to the Liability Premium Assessment Formula and the Property Premium Assessment Formula (“Premium Assessment Formulas”);

WHEREAS, the Premium Assessment Formulas are used to determine each Member's Assessment Share of an assessment for the cost of the premium for Excess Liability Insurance and/or Excess Property Insurance, as applicable;

WHEREAS, information provided by PURMS' Administrator indicates that the portions of the Formulas that allocate ten percent (10%) of the Assessment amount equally among all Members have, over time and with increased Excess Insurance Premium Costs, resulted in the smaller PURMS Members paying a much higher percentage of their Assessment Shares for this "non-risk-related" element of the Formulas than the other larger Members;

WHEREAS, the proposed amendments to the Premium Assessment Formulas ("Premium Assessment Formula Amendments" or "Amendments") reduce the "10% equal" portion of the Formulas to five percent (5%) and commensurately increase the Formulas' "risk-based" Factors by five percent (5%);

B. General Effect of Amendments to Premium Assessment Formulas.

WHEREAS, the Administrator has provided Members with spreadsheets showing the impact of the Premium Assessment Formula Amendments on Liability and Property Pool Members' Assessment Shares of the Excess Insurance premium for their respective Risk Pools;

WHEREAS, the proposed Amendments result in smaller but fairer Assessment Shares to the smaller Members of PURMS;

WHEREAS, even though the larger Members of PURMS are subject to slightly larger Assessment Shares under the proposed Amendments than under the current Premium Assessment Formulas, the Amendments are not unfair to the larger Members because the Formula factors that are being increased are "risk-based" (i.e. the "Employee Hours Worked" component of the Liability Premium Assessment Formula; and the "Risk-Based" component of the Property Premium Assessment Formula);

WHEREAS, as a result, they are simply paying a greater percentage of Formula Factors that are based actual risk as allocated to them by the Excess Insurance Carrier in calculating the Excess Insurance premium;

C. Consideration and Recommendations re Amendments to Premium Assessment Formula Amendments.

WHEREAS, at the November 4, 2010 annual meeting of the PURMS Board ("Board Meeting"), Members were provided with proposed PURMS Resolution No. 11-4-10-6 ("2010 Resolution No. 6"), entitled "Resolution Approving Amendments to Liability and Property Premium Assessment Formulas Reducing 10% Basic Per Capita Factor to 5%";

WHEREAS, at the Board Meeting, the PURMS Executive Committee, Administrator and Counsel explained the proposed Premium Assessment Formula Amendments and the general

effect of the Amendments on Members' Assessment Shares, and the Executive Committee recommended approval of Resolution No. 6 to the Board and Members;
WHEREAS, the 13 participating Members at the PURMS Board meeting unanimously passed a motion recommending that Members of the Liability and Property Pools approve the Premium Assessment Formula Amendments by the applicable Voting Standards;

D. Voting Standards and Procedures to Approve PURMS' Amendments.

WHEREAS, under ¶ 5.2.2(a) of the Interlocal Agreement (SIA § I), the Liability and Property Premium Assessment Formulas may be amended by Super-Majority Vote of the PURMS Board/Members;

WHEREAS, PURMS 2010 Resolution No. 11-4-10-1, entitled "Application of SIA Voting Standards to 2010 Resolutions and SIA Amendments":

- (a) Establishes a Super-Majority Vote as fifteen (15) affirmative votes of eighteen (18) PURMS Members; and
- (b) Provides that Members that did not participate in the annual Board meeting and vote on the Resolutions presented may vote thereafter by means of this Authorizing Resolution passed by their respective Boards of Commissioners;

E. District's Receipt of Premium Assessment Formula Amendments from PURMS.

WHEREAS, since the Board meeting, PURMS' Administrator has provided the District with the documents comprising the PURMS 2010 Premium Assessment Formula Amendments to be considered by the District, including:

- (a) PURMS' 2010 Resolution No. 11-4-10-6;
- (b) This Authorizing Resolution No. 1521;
- (c) The 2010 Amendments to the Liability Premium Assessment Formula; and
- (d) The 2010 Amendments to the Property Premium Assessment Formula;

WHEREAS, the Commission for the District ("Commission") has reviewed and discussed the Premium Assessment Formula Amendments and finds them acceptable and consistent with the insurance needs of the District as a Member of PURMS.

NOW, THEREFORE, IT IS HEREBY FOUND, DETERMINED, AND ORDERED as follows:

Section 1: The Commission hereby acknowledges receipt of PURMS' 2010 Resolution No. 6 and the PURMS Premium Assessment Formula Amendments;

Section 2: The Commission finds that PURMS' 2010 Resolution No. 6 and the proposed Premium Assessment Formula Amendments adequately and appropriately assist PURMS in prudent and efficient operation and administration of PURMS' Risk Pools, and therefore, benefit the District as a Member thereof;


Section 3: The Commission finds that approving PURMS' 2010 Resolution No. 6 and the Premium Assessment Formula Amendments is in the best interest of the District, and the Commission hereby approves the same.

Section 4: The Commission hereby directs that Trish Butler, in the position of Secretary for the District, shall have, and hereby is specifically delegated authority for and on behalf of the District to execute and return to PURMS' Administrator the following documents:

- (a) PURMS' 2010 Resolution No. 11-4-10-6;
- (b) This Authorizing Resolution No. 1521;
- (c) The signature page for the 2010 Amendments to the Liability Premium Assessment Formula; and
- (d) The signature page for the 2010 Amendments to the Property Premium Assessment Formula;

Section 5: This Resolution shall be in effect from and after its date of passage; provided, it is the intent of this Resolution to approve or ratify an effective date of January 1, 2011 for PURMS' implementation of the Premium Assessment Formula Amendments;

ADOPTED by the Commission of Public Utility District No. 1 of Okanogan County, Washington, at a regular meeting thereof, held on the 7th day of December, 2010.



David A. Womack, President



Ernest J. Bolz, Vice President

ATTEST:



Trish Butler, Secretary

APPROVED:



Michael D. Howe, Legal Counsel



LIABILITY POOL
PREMIUM ASSESSMENT FORMULA
FOR THE
PURMS JOINT SELF-INSURANCE AGREEMENT

Amended and restated as of January 1, 2011

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LIABILITY POOL
PREMIUM ASSESSMENT FORMULA

FOR THE

PURMS JOINT SELF-INSURANCE AGREEMENT

Amended and restated as of January 1, 2011

Overview of Assessment Formulas for PURMS Risk Pools

The “Assessment Formulas” Sections of the PURMS Joint Self-Insurance Agreement (“SIA”) set forth the formulas for assessing the Members of each Risk Pool for the Operational Costs PURMS incurs in operating their respective Risk Pools, including without limitation, Coverage Payments (all Risk Pools), Defense Costs (Liability Pool), Property Claim Costs (Property Pool), Direct H&W Claims Costs and Shared H&W Costs (H&W Pool), and the Direct and Shared Administrative Expenses of all Risk Pools.

The Liability Pool is governed by two Assessment Formulas, one for General Assessments and one for Premium Assessments. The two current formulas for the Liability Pool are:

- (a) The Liability General Assessment Formula (with Annual Assessment Limit) (SIA § VIII); and
- (b) The Liability Premium Assessment Formula (with Added-Risk Pass Through, and without Annual Assessment Limit) (SIA § IX).

The Liability General Assessment Formula was first adopted by the Members of PURMS on December 20, 1976, has been amended from time to time, and was unanimously re-adopted on March 30, 1995. The Liability Premium Assessment Formula (with Added-Risk Pass Through and without Annual Assessment Limit) was unanimously re-adopted by the Board at its General Meeting on December 9, 1994, effective January 1, 1995, and most recently amended effective January 1, 2011.

The Property Pool is also governed by two Assessment Formulas, one for General Assessments and one for Premium Assessments. The two current formulas for the Property Pool are:

- (a) The Property General Assessment Formula (with Annual Assessment Limit) (SIA § XII); and
- (b) The Property Premium Assessment Formula (without Annual Assessment Limit) (SIA § XIII). The H&W Risk Pool is currently governed by one Assessment Formula entitled the H&W General Assessment Formula (SIA § XV).

The Property General Assessment and the Property Premium Assessment Formulas were unanimously adopted by the Members of PURMS effective February 27, 1997, with the Property Premium Assessment Formula most recently amended effective January 1, 2011.

Assessments of Members of the H&W Pool are governed by a single Assessment Formula called the H&W General Assessment Formula (SIA § XV). This Formula covers both the self-insured portion of the H&W Pool's Operational Costs as well as the cost of Stop Loss Insurance. The H&W General Assessment Formula was unanimously adopted by the Members of PURMS on March 16, 2000, effective April 1, 2000, and was amended and restated and unanimously re-adopted by the Members as of December 7, 2001.

These Formulas, as amended from time to time pursuant to § I, § 5.2, are specifically incorporated into the Interlocal Agreement and shall be deemed a part of that Agreement as if fully set forth therein.

LIABILITY POOL PREMIUM ASSESSMENT FORMULA

1. Additional Definitions Liability Premium Assessment Formula. The definitions set forth in the "Definitions" Section of the SIA are applicable to the interpretation of PURMS' Assessment Formulas. The following additional definitions shall also be applicable:

1.1 Added-Risk Pass Through -- shall mean the portion of the Excess Carrier Premium specifically allocated by the Excess Carrier in its normal underwriting to one or more particularly identified risks of a Member's operations that are beyond the types of risks considered by the Excess Carrier in determining its basic premium.

1.2 Excess Carrier Premium -- shall mean the total premium being charged by an Excess Carrier for issuance of an Excess Liability Policy.

1.3 Excess Premium Base Amount -- shall mean the amount remaining after all Members' Added-Risk Pass Throughs are subtracted from the Excess Carrier Premium.

2. Statement of Premium Assessment Formula. The Premium Assessment Formula shall have the same three components as the General Assessment Formula but the percentages for those components shall be 5% Basic Per Capita; 20% Historical Claims Experience; and 75% Employee Hours Worked, and Members' Assessment Shares shall be calculated in the same manner as under the General Assessment Formula using the same basic information (see Formula for General Assessments, § VIII); provided, however, that:

- (a) The Added-Risk Pass Throughs shall be applied in accordance with ¶ 3 below; and
- (b) The "Employee Hours Worked," as calculated under § VIII, ¶ 5, for any Member(s) subject to the Added-Risk Pass Through, shall be reduced by the amount of the Member's Employee Hours Worked that are directly attributable to the underwriting risk that gave rise to the Added-Risk Pass

Through. (For example, if a Member is subject to an Added-Risk Pass Through because of its operation of a dam, the Employee Hours Worked attributable to Employees operating the dam shall be subtracted from the Member's total Employee Hours Worked); and

- (c) The Annual Assessment Limit set forth in § VIII, ¶ 3 shall not be applied.

1. Added-Risk Pass Through. The Added-Risk Pass Through, as applied in conjunction with the Premium Assessment Formula, is designed to "pass through" to a Member as part of its Premium Assessment Share any portions of the Excess Carrier Premium that an Excess Carrier has specifically allocated to that Member as part of the Excess Carrier's normal underwriting practices for the risks posed by the operations of that Member that are in addition to or different from the risks considered by the Carrier in determining its basic premium. While the most likely cause for an Added-Risk Pass Through may be a Member's ownership of a dam, the Added-Risk Pass Through is intended to apply any time an Excess Carrier has made a specific allocation of its Excess Carrier Premium to a Member, regardless of the nature of the risk.

The Added-Risk Pass Through applies to all insurance purchased by PURMS or by the Members through PURMS, including PURMS' Primary Excess Coverage (per § I., ¶ 14.1) any Supplemental Coverages acquired by PURMS (per § I., ¶ 14.3), and any Subgroup Policies. If the Excess Carrier makes no such specific allocations to particular Members, then there is no basis for applying the Added-Risk Pass Through, and therefore, there would be no deductions from the Excess Carrier Premium before the Premium Assessment Formula is applied. For example, if PURMS switches from an Excess Carrier that makes such allocations as would support application of the Added-Risk Pass Through to an Excess Carrier that does not, then the Added-Risk Pass Through would cease to apply.

Finally, in the event an Excess Carrier fails to provide PURMS with the information necessary to calculate the Members' Added-Risk Pass Throughs in sufficient time for PURMS to use it in making its Premium Assessments for the upcoming year, PURMS shall use the current year's Added-Risk Pass Through amounts in determining each Member's Premium Assessment Share for the upcoming year; provided, however, that if such information becomes available to PURMS prior to the time for determining Members' Premium Assessment Shares for the subsequent year, PURMS shall make the appropriate retroactive adjustments to the Premium Assessment Shares the Members actually paid by individually assessing any Member that underpaid and providing for a refund to those Members that overpaid.

2. Application of Premium Assessment Formula with Added-Risk Pass Through. First, the total of all Members' Added-Risk Pass Throughs shall be subtracted from the Excess Carrier Premium, resulting in an amount called the Excess Premium Base Amount. Second, the Premium Assessment Formula, applied with the adjustments provided for in ¶ 2 above, shall be applied to the Excess Premium Base Amount. Third, the Assessment Share of the Excess Premium Base Amount for each Member that has been allocated an Added-Risk Pass Through will be increased by the amount of its Added-Risk Pass Through to determine such Members' total Premium Assessment Share; the Premium Assessment Shares of those Members without Added-Risk Pass Throughs shall be equal to their Assessment Shares of the Excess Premium Base Amount.

Example: Using the same basic numbers that were used in the examples for Member A in connection with the General Assessment formula set forth in § VIII, ¶ 2, assume an Excess Carrier Premium of \$700,000 and an Added-Risk Pass Through to Member A of \$20,000, and further assume no other Members were subject to an Added-Risk Pass Through. The Excess Carrier Premium, less the total of Added-Risk Pass Throughs, yields an Excess Premium Base Amount of \$680,000 (\$700,000 - \$20,000). Member A's Assessment Share of the Excess Premium Base Amount would be calculated as follows: (a) Basic Per Capita = \$6,800 (10% x \$680,000 ÷ 13 Fund Members); (b) Historical Claims Experience = \$46,240 (20% x \$680,000 x 34%); and (c) Employee Hours Worked = \$33,320 (70% x \$680,000 x 7%). Member A's Assessment Share of the Excess Premium Base Amount, therefore, is \$86,360 (\$6,800 + \$46,240 + \$33,320). Adding back Member A's \$20,000 Added-Risk Pass Through yields a total Premium Assessment Share for Member A of \$106,360.

The below-signed Commissioner or authorized employee of Public Utility District No. 1 of Okanogan County, Washington ("District"), hereby certifies that, at a regular meeting of its Commission held on the 7th day of December, 2010, the Commission approved the above amended PURMS Property Premium Assessment Formula.

PUBLIC UTILITY DISTRICT NO. 1
OF OKANOGAN COUNTY
At Okanogan, Washington

By: *Trish Butler*
Trish Butler
Its: Secretary

PROPERTY POOL
PREMIUM ASSESSMENT FORMULA
FOR THE
PURMS JOINT SELF-INSURANCE AGREEMENT

Amended and Restated as of January 1, 2011

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PROPERTY POOL
PREMIUM ASSESSMENT FORMULA
FOR THE
PURMS JOINT SELF-INSURANCE AGREEMENT

Amended and Restated as of January 1, 2011

OVERVIEW OF ASSESSMENT FORMULAS FOR PURMS RISK POOLS

The “Assessment Formulas” Sections of the PURMS Joint Self-Insurance Agreement (“SIA”) set forth the formulas for assessing the Members of each Risk Pool for the Operational Costs PURMS incurs in operating their respective Risk Pools, including without limitation, Coverage Payments (all Risk Pools), Defense Costs (Liability Pool), Property Claim Costs (Property Pool), Direct H&W Claims Costs and Shared H&W Costs (H&W Pool), and the Direct and Shared Administrative Expenses of all Risk Pools.

The Liability Pool is governed by two Assessment Formulas, one for General Assessments and one for Premium Assessments. The two current formulas for the Liability Pool are:

- (a) The Liability General Assessment Formula (with Annual Assessment Limit) (SIA § VIII); and
- (b) The Liability Premium Assessment Formula (with Added-Risk Pass Through, and without Annual Assessment Limit) (SIA § IX).

The Liability General Assessment Formula was first adopted by the Members of PURMS on December 20, 1976, has been amended from time to time, and was unanimously re-adopted on March 30, 1995. The Liability Premium Assessment Formula (with Added-Risk Pass Through and without Annual Assessment Limit) was unanimously re-adopted by the Board at its General Meeting on December 9, 1994, effective January 1, 1995.

The Property Pool is also governed by two Assessment Formulas, one for General Assessments and one for Premium Assessments. The two current formulas for the Property Pool are:

- (a) The Property General Assessment Formula (with Annual Assessment Limit) (SIA § XII); and
- (b) The Property Premium Assessment Formula (without Annual Assessment Limit) (SIA § XIII). The H&W Risk Pool is currently governed by one Assessment Formula entitled the H&W General Assessment Formula (SIA § XV).

The Property General Assessment and the Property Premium Assessment Formulas were unanimously adopted by the Members of PURMS effective February 27, 1997, and were both amended and restated and unanimously adopted by the Board, effective as of November 21, 2002.

The Assessment of Members of the H&W Pool is governed by a single Assessment Formula called the H&W General Assessment Formula (SIA § XV). This Formula covers both the self-insured portion of the H&W Pool's Operational Costs as well as the cost of Stop Loss Insurance. The H&W General Assessment Formula was unanimously adopted by the Members of PURMS on March 16, 2000, effective April 1, 2000, and was amended and restated and unanimously re-adopted by the Members as of December 7, 2001.

These Formulas, as amended from time to time pursuant to § I, § 5.2, are specifically incorporated into the Interlocal Agreement and shall be deemed a part of that Agreement as if fully set forth therein.

PROPERTY POOL PREMIUM ASSESSMENT FORMULA

1. Definitions for the Property Pool Premium Assessment Formula. The definitions set forth in the "Definitions" Section of the SIA (§ II) shall apply to the interpretation of PURMS' Assessment Formulas, except as may be modified specifically or by necessary implication by the Definitions set forth below some of which are specific to this Property Premium Assessment Formula Section.

1.1. Coverage Limit Adjusted Insured Value – shall mean the Risk Adjusted Insured Value of a Property Pool Member's Insured Property after such Risk Adjusted Insured Value has been reduced by the amount of the Property Coverage Limit, or by the amount of the highest Excess Property Insurance Retention applicable to the Insured Property of such Member, whichever is greater, for purposes of calculating each Member's allocation under the 95% "Risk Based" Component of the Property Premium Assessment Formula.

1.2. Excess Carrier Premium -- shall mean the total premium being charged by an Excess Carrier for issuance of an Excess Property Policy.

1.3. Excess Premium Base Amount -- shall mean the amount remaining after all Members' Added-Risk Pass Throughs are subtracted from the Excess Carrier Premium.

1.4. Excess Property Insurance Retention – shall mean the amount of the self-insured retention or deductible imposed under the Excess Property Policy for a Property Loss to a particular Category of Insured Property, or from a Peril in a particular Category of Risk, before the Excess Property Insurance attaches and begins to provide Excess Property Coverage for such Loss. (See § XII, ¶ 2.2.1.)

1.5. Exempted Category – shall mean either an Exempted Category of Insured Property or an Exempted Category of Risk.

1.6. Formula Component (or “Component”) -- shall mean the basic elements for determining a Member’s Assessment Share under the General and Premium Assessment Formulas. For the Liability Pool, the Formula Components consist of the Basic Per Capita, Employee Hours Worked, and Historical Claims Experience (see, §§ VIII and IX). For the Property Pool, the Formula Components consist of the Basic Per Capita, the Relative Insured Value and the Fire Rate Adjusted Relative Insured Value (see §§ XII-XIII).

1.7. Partially Exempt Insured Property – shall mean Insured Property that has been established as “Partially Exempt Insured Property” pursuant to written notice to the Administrator, as provided in § XII, ¶ 2.5.3(a), which is exempted from Assessment under the 70% “Risk Based” Component of the Property General Assessment Formula for the Specific Risk Based Rate(s) associated with the applicable Exempt Category of Insured Property or Exempt Category of Risk, as provided in § XII, ¶¶ 2.5.3(b) and 2.3.3(a), and which is excluded from General Property Coverage for Loss resulting to Property in the Exempt Category of Property and/or from the Peril(s) within the associated Exempt Category of Risk, as provided in § XII, ¶ 2.5.3(c) and § X, ¶ 9.4.

1.8. Property Coverage Limit – shall mean the maximum amount PURMS may be required to pay, including Property Claim Costs, for all Covered Property Claims filed by one or more Members arising from one Property Loss, as provided in § X, ¶ 4, less applicable Assigned or Mandatory Deductibles, and subject to the provisions of § X, ¶ 4.3.1 which provide for Automatic Extended Property Coverage when the applicable Excess Property Insurance Retention exceeds the amount of the Property Coverage Limit.

1.9. Property Premium Assessment – shall mean a Premium Assessment under the Property Premium Assessment Formula (see § XIII).

1.10. Risk Adjusted Insured Value – shall mean the number resulting from application of the applicable Blended Risk Based Rate to the Total Insured Value of a Member’s Insured Property, as provided in § XII, ¶ 2.3.3, and the Risk Adjusted Insured Value of each Member’s Insured Property shall be the Value used for purposes of calculating each Property Pool Member’s Assessment Share of the 70% “Risk Based” Component of the Property General Assessment Formula. (See § XII, ¶ 2.3.4).

1.11. Risk Based Rates – shall mean the property insurance rates, or coverage or classification codes for the various Categories of Insured Property or Categories of Risk, including information regarding the relative relationship of such rates, obtained from the Excess Property Carrier (or otherwise from the property insurance industry, as provided in § XII, ¶¶ 2.3.1 and 2.3.2), used by the Excess Carrier to calculate the premium for the Excess Property Insurance. These are the rates that are used to calculate the relative Risk Adjusted Insured Value of each Member’s Insured Property for purposes of allocating among Property Pool Members the 70% Risk Based Component of the Property General Assessment Formula, and the 95% Risk Based Component of the Property Premium Assessment Formula. (See § XII, ¶ 2.3.4.)

2. Statement of Property Premium Assessment Formula. The Property Premium Assessment Formula has two (2) Formula Components that shall be applied as provided in this §

XIII. A Member's Assessment Share of any Property Premium Assessment shall be the total of the allocations to a Member under each of the two Formula Components.

The "Basic Per Capita" Component allocates 5% of the total Premium Assessment needed among the Members of the Property Pool equally, as provided in ¶ 2.1 below.

The "Risk Based" Component allocates 95% of the total Premium Assessment among Members based on the percentage that each Member's Coverage Limit Adjusted Insured Value bears to the total of the Coverage Limit Adjusted Insured Values of all Members (as provide in ¶ 2.2 below).

Except as provided in ¶ 2.2.2 below (and § I, ¶ 13.5.1 of the Interlocal Agreement), the Insured Values of all of a Member's Insured Property, as listed for such Member in the Schedule of Values at the time of the Assessment, shall be the Insured Values that are used as the basis for calculating a Member's allocation of the 95% "Risk Based" Component of the Property Premium Assessment Formula, regardless of the amounts of the Member's Assigned and/or Mandatory Deductibles applicable to such Insured Property. (See, § XII, ¶¶ 2.3.1 – 2.3.3.)

2.1. "Basic Per Capita" Component at 5%. Five percent (5%) of the amount of the Property Premium Assessment to be levied will be allocated equally among all Members of the Property Pool.

Example of "Basic Per Capita" Component Calculation: Assume a Property Premium Assessment amount of \$778,098. Five (5%) percent times that amount yields \$38,905, which will be divided in equal shares among all Property Pool Members. Assume the Property Pool is composed of 13 Members. \$38,905 (5% of the Property Premium Assessment amount) divided by a hypothetical 13 total Property Pool Members yields an allocation of \$2,993.

2.2. "Risk Based" Component at 95%. Ninety-five (95%) percent of the Property Premium Assessment will be allocated among Members based on the percentage each Member's Coverage Limit Adjusted Insured Value bears to the total of the Coverage Limit Adjusted Insured Values of all Insured Property of all Property Pool Members at the time of the Assessment.

2.2.1. Determination of the Risk Adjusted Insured Value for the Insured Property of Each Member. For purposes of applying the 95% Risk Based Component of the Property Premium Assessment Formula, the Risk Adjusted Insured Value of each Member's Insured Property shall be determined in accordance with § XII, ¶ 2.3.3 of the Property General Assessment Formula.

2.2.2. Reduction of Each Members' Risk Adjusted Insured Value by Amount of Property Coverage Limit, or Highest Applicable Excess Property Insurance Retention, Whichever is Greater, to Establish Each Member's "Coverage Limit Adjusted Insured Value". For purposes of applying the 95% Risk Based Component of the Property Premium Assessment Formula, the Risk Adjusted Insured Value for each Member shall be reduced by the amount of the Property Coverage Limit, or by the amount of the highest Excess Property Insurance

Retention applicable such Member, whichever number is greater, prior to calculation of each Member's allocation of the 95% Risk Based Component of the Property Premium Assessment Formula in accordance with ¶ 2.2.3 below.

2.2.3. Calculation of a Member's Allocation Under 95% Risk Based Component. Each Member's Coverage Limit Adjusted Insured Value shall be compared to the total of the Coverage Limit Adjusted Insured Values for all Members of the Property Pool, and the resulting ratio multiplied times 95% of the Premium Assessment amount needed by the Property Pool shall be such Member's allocation under the Risk Based Component of the Property Premium Assessment Formula.

2.3. Other Rules for Application of Property Premium Assessment Formula.

2.3.1. Property Deductible Credit. The Property Deductible Credit set forth in § XII, ¶ 3 of the Property General Assessment Formula shall not be applied.

2.3.2. Annual Assessment Limit. The Annual Assessment Limit set forth in § XII, ¶ 4 shall not be applied.

2.3.3. Exemption for Members with Total Insured Values Less Than the Amount of the Property Coverage Limit. Any Member of the Property Pool that, at the time of the Property Premium Assessment, has Insured Property with a total Insured Value that is less than the amount of the Property Coverage Limit shall not pay any Assessment Share of such Property Premium Assessment (see also § I, ¶ 13.5.2).

2.3.4. Partially Exempt Insured Property, Including "Mothballed Equipment." Insured Property that qualifies as Partially Exempt Insured Property under § XII, ¶ 2.3.5 of the Property General Assessment Formula shall not be exempted from application of the Specific Risk Based Rate(s) associated with the Exempted Categories in calculating a Member's allocation under the 95% "Risk Based" Component of the Property Premium Assessment Formula; provided, however, if it can be demonstrated that the premium for the Excess Property Policy was reduced by, or a credit was given to the Property Pool in, a specified amount as a direct result of a Member's Insured Property being or becoming Partially Exempt Insured Property, then such Member shall be entitled to a reduction in its Assessment Share under the Property Premium Assessment Formula, or reimbursement by the Property Pool, in the amount saved on the Excess Premium.

3. Additional Premium Required by Property Excess Carrier for Newly Acquired Property, etc. If at any time during the coverage period of the Primary Property Excess Insurance a Member adds property to be covered thereunder (whether Newly Acquired Property, Leased Property, Assumed Liability, or otherwise), and as a direct result, the Property Excess Carrier charges an additional premium, the Member adding the property shall pay the same.

4. Former Members. The Property Premium Assessment Formula shall not be applicable to Former Members for Excess Property Coverage in effect after the effective date of Withdrawal.

5. New Members. A New Member shall be obligated to pay its Assessment Share of any Property Premium Assessment levied after the effective date of its Membership, and in addition, shall pay the amount of any charge by the Excess Property Carrier as a condition of adding such New Member as an Insured under the Excess Property Policy.

The below-signed Commissioner or authorized employee of Public Utility District No. 1 of Okanogan County, Washington ("District"), hereby certifies that, at a regular meeting of its Commission held on the 7th day of December, 2010, the Commission approved the above amended PURMS Liability Premium Assessment Formula.

PUBLIC UTILITY DISTRICT NO. 1
OF OKANOGAN COUNTY
At Okanogan, Washington

By: Trish Butler
Trish Butler
Its: Secretary

Resolution Approving Amendments to
Liability and Property Premium Assessment
Formulas Reducing 10% Basic Per Capita to 5%

PURMS BOARD RESOLUTION NO. 11-4-10-6

For

**PUBLIC UTILITY RISK MANAGEMENT SERVICES
JOINT SELF-INSURANCE FUND**

I.

General Authority

WHEREAS, pursuant to the authority granted in RCW 48.62 et. seq., PURMS has established and operates three Risk Pools through which the members of these Risk Pools jointly self-insure liability, property and health & welfare claims (respectively, "Liability Pool", "Property Pool" and "H&W Pool");

The operation of these Risk Pools and the rights and obligations of the Members of these Risk Pools are governed by an Agreement entitled "PURMS Joint Self-Insurance Agreement" (hereinafter, the "SIA") originally dated December 20, 1976, as most recently amended by PURMS' Resolutions Nos. 11-12-09-2, 11-12-09-3 and 11-12-09-4 on November 12, 2009;

WHEREAS, pursuant to § I, ¶ 6 of the SIA, the business and affairs of PURMS shall be managed and governed by the Board of Directors ("Board");

WHEREAS, § I, ¶ 4.2 of the SIA provides that PURMS shall have all of the authority granted or implied by applicable Washington law;

II.

Re-Evaluation of Liability and Property Premium Assessment Formulas

WHEREAS, Thurston PUD, one of the smallest Members of the Liability and Property Pools, has given notice to the Administrator under ¶ 20.1.1 of the Interlocal Agreement of its intent to withdraw as a Member of the Liability and Property Pools, effective December 31, 2010;

WHEREAS, the primary reason stated for Thurston PUD' withdrawal was that it could obtain equivalent or better liability and property coverage from another public entity risk pool in Washington for less money than it has been paying under the Liability and Property Pool Premium Assessment Formulas ("Premium Assessment Formulas");

WHEREAS, as a result of this circumstance, the Administrator has undertaken a review and evaluation of the fairness and competitiveness of the Premium Assessment Formulas as applied to the small Members of both the Liability and Property Pools, and has reported the following facts and conclusions to the Executive Committee and the PURMS Board;

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III.

Terms of Current Liability and Property Premium Assessment Formulas

WHEREAS, the current Liability Premium Assessment Formula is contained in § VIII of the SIA and is composed of the following factors:

“Basic Per Capita” Component at 10%. Ten percent (10%) of the amount of the Liability Premium Assessment to be levied is allocated equally among all Members of the Liability Pool;

“Historical Claims Experience” Component at 20%. Twenty percent (20%) of the amount of the Liability Premium Assessment is allocated based on the relative relationship of each Liability Pool Member’s Historical Claims Experience to the total Claims Experience of all Members of the Liability Pool; and

“Employee Hours Worked” Component at 70%. Seventy percent (70%) of the amount of the Liability Premium Assessment is allocated based on the relative relationship of each Liability Pool Member’s total Employee Hours Worked to the total Employee Hours Worked of all Members of the Liability Pool.

WHEREAS, the current Property Premium Assessment Formula is contained in § XIII of the SIA, and is composed of the following factors:

“Basic Per Capita” Component at 10%. Ten percent (10%) of the amount of the Property Premium Assessment to be levied will be allocated equally among all Members of the Property Pool.

“Risk Based” Component at 90%. Ninety percent (90%) of the Property Premium Assessment will be allocated among Members based on the percentage each Member's Coverage Limit Adjusted Insured Value bears to the total of the Coverage Limit Adjusted Insured Values of all Insured Property of all Property Pool Members at the time of the Assessment.

WHEREAS, the 10% Basic Per Capita component of each Premium Assessment Formula results in each Member of the Pool paying the same amount (equal shares) of 10% of the Assessment Amount;

WHEREAS, in contrast, the remaining components of both Premium Assessment Formulas are all “risk based”:

Liability Premium Assessment Formula: the 20% Historical Claims Experience and the 70% Employee Hours Worked components of the Liability Premium Assessment Formula are both measures of risk each Member poses to the Liability Pool based on the Member’s Historical Claims Experience and total Employee Hours Worked;

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Property Premium Assessment Formula: the 90% Risk-Based factor of the Property Premium Assessment Formula is also “risk based” – it adopts the same allocation of risk among Members of the Property Pool that is used by the Property Excess Carrier to assign risk to the various Members of the Property Pool and to calculate the Excess Property Premium for the Property Pool as a whole;

IV.

**Fairness Considerations regarding Current Effect of
Property Premium Assessment Formula on Small Members**

A. The 10% Basic Per Capita Factor has a Disproportionate Effect on the Assessment Shares of the Small Members of the Liability and Property Pools.

WHEREAS, the Administrator has reported that, even at the outset, when the Liability and Property Premium Assessment Formulas were established, the 10% Basic Per Capita factor had a disproportionate impact on the small members of both Risk Pools;

WHEREAS, because the 10% Basic Per Capita factor operates for the small Members as a “minimum premium”, small Members’ Assessment Share of the Excess Liability premium based on this factor is a significantly larger percentage of their total Assessment Amount than for the larger Members, and small Members’ shares of the Property Assessment Amount often exceeds 50% of their total Assessment Share;

B. Significant Increases in the Premium for the Excess Insurance over the Years has Exacerbated the Disparate Impact of the Premium Assessment Formulas on the Smaller Members.

WHEREAS, in 1996, when the Liability Coverage Limit (i.e. the Liability Pool’s self-insured retention) was increased to its current amount of \$1.0 million, the premium for the Aegis Excess Liability Coverage was \$437,000; the most recent Aegis premium was \$1,038,865, and increase of almost 240%;

WHEREAS, in 1997, when the Property Pool was formed and the Property Assessment Formula was written, the premium for the Excess Property Insurance was approximately \$285,000;

WHEREAS, since 1997, the Excess Property Premium gradually increased to over \$1.0 million in 2003; the most recent Excess Property Premium is about \$767,000, still a 250% increase over the \$285,000 Excess Property Premium applicable when the Formula factors were first established;

V.

**Importance of Maintaining the Competitiveness of PURMS’
Liability and Property Self-Insurance Program**

WHEREAS, in the Administrator’s view, it is important to PURMS’ organization and business for the Assessment Shares Members of the Liability and Property Pools pay for the “package” of jointly self-insured coverage and the premium for the Excess Coverage remain competitive in the

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market for the small Members of these Risk Pools, including both the commercial insurance market and local government entity risk pools in Washington;

VI.

Administrator's Proposed Changes to Premium Assessment Formulas

A. Terms of the Proposed Amendment to the Property Premium Assessment Formula.

WHEREAS, to mitigate this situation, the Administrator has proposed that:

- (a) The Liability Premium Assessment Formula be amended to reduce the 10% Basic Per Capita factor to 5% and to increase the Employee Hours Worked factor from 70% to 75%; and
- (b) The Property Premium Assessment Formula be amended to reduce the 10% Basic Per Capita factor to 5% and to increase the Risk-Based factor from 90% to 95%;

WHEREAS, the Administrator has provided Members of the Liability and Property Pool with information demonstrating generally what would be the impact of the proposed amendment to the Property Premium Assessment Formula on the Assessment Shares of all Property Pool Members;

B. The Premium Assessment Formula Amendments do not Change the Relative Cost Based on Allocation of Risk among Pool Members.

WHEREAS, reducing the Basic Per Capita factor from 10% to 5% in both Premium Assessment Formulas will have the result of reducing the total amount of the Assessment Shares billed to small Members, and therefore, will necessarily have the effect of somewhat increasing the Assessment Shares that the larger Members will pay for the same Assessment Amount;

WHEREAS, however, the Amendments are not unfair to the larger Members because the Formula factors that are being increased are "risk-based" (i.e. the "Employee Hours Worked" component of the Liability Premium Assessment Formula; and the "Risk-Based" component of the Property Premium Assessment Formula);

WHEREAS, as a result, the proposed Amendments do not alter the of the relative risk among Members measured by the "risk based" factors of the two Premium Assessment Formulas;

WHEREAS, the terms of the Administrator's proposed Amendments to the Premium Assessment Formulas, the effect of the amended Formula on Liability and Property Pool Members' Assessment Shares, and the considerations reflected in this 2010 Resolution No. 6, were reviewed and discussed at prior Operations Committee and Executive Committee meetings;

VII.

Executive Committee Findings and Recommendations

WHEREAS, at its meeting on November 3, 2010, the Executive Committee determined to recommend approval of the Property Premium Assessment Amendments to the PURMS Board;

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WHEREAS, at its meeting on November 4, 2010, the Board reviewed and considered the Executive Committee's recommendations for approval of the Property Premium Assessment Amendments;

WHEREAS, the 13 participating Members at the PURMS Board meeting unanimously passed a motion recommending that Members of the Liability and Property Pools approve the Premium Assessment Formula Amendments by the applicable Voting Standards;

VIII.
SIA Voting Standards

WHEREAS, ¶¶ 5.2.2(a) and 5.3(a) of the Interlocal Agreement, together, provide that the Voting Standard for amending any of the Assessment Formulas is by Super-Majority Vote;

WHEREAS, pursuant to PURMS 2010 Resolution 11-4-10-1, a Super-Majority Vote shall mean the affirmative vote of 15 of the 18 current Members of the Liability and Property Pools;

WHEREAS, under the SIA, a Super-Majority Vote does not require Members to enact Authorizing Resolutions by their governing bodies;

IX.
Need for Implementation of Premium Assessment Formula Amendments in January 2011

WHEREAS, the Administrator and the Executive Committee recommend that the Premium Assessment Formula Amendments be approved for implementation for the next Excess Insurance premium that becomes due in January 2011;

WHEREAS, provided the Administrator obtains a Super-Majority Vote after the PURMS Board meeting, by the procedures authorized in PURMS 2010 Resolution No. 11-4-10-1, the amended Liability and Property Premium Assessment Formulas shall be employed to calculate Members' Assessment Shares of all assessments for Excess Insurance premiums, commencing January 1, 2011.

X.
RESOLUTION

NOW, THEREFORE, be it resolved that:

- A. The Board accepts the Administrator's and Executive Committee's recommendations and hereby approves the proposed Premium Assessment Formula Amendments for the Liability and Property Pools described above;
- B. The Board has recommended approval of the Premium Assessment Formula Amendments to all Members of the Liability and Property Pools;

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- C. The Board further hereby approves the Voting Procedures authorized by PURMS 2010 Resolution No. 11-4-10-1 for determining the Members' approval of this 2010 Resolution No. 6 and the Premium Assessment Formula Amendments;
- D. General Counsel is hereby directed to prepare the language necessary to amend the Premium Assessment Formulas and to provide the Amendments, along with a proposed Authorizing Resolution, to all Members as soon as possible following the Board meeting;
- E. The Administrator is hereby directed, and should proceed forthwith, to obtain Members' Votes on this Resolution No. 6, along with signed signature pages for the Amendments and the Authorizing Resolutions approved by Members' Boards;
- F. The Administrator shall have authority to implement this Resolution No. 6 in calculating Members' Assessment Shares for any Excess Liability or Property Insurance premium due on or after January 1, 2011, provided this Resolution at the time has been approved by a Super-Majority of the Pool Members.

Other than recommending approval of this Resolution No. 6 to PURMS' Members, no formal Vote was taken on this Resolution at the Board's November 4, 2010 meeting, pending approval of the Resolution by the Authorizing Resolution Procedures approved in 2010 Resolution No. 1.

The PURMS Officers whose signatures show below (minimum of two Officers per ILA ¶ 5.7) hereby attest that the Administrator has informed them that this Resolution has been approved by the Members' Authorizing Resolutions, by the applicable Voting Standard(s), as follows: ___ in favor of the Resolution and ___ opposed.

By: _____
Al Littlefield, PURMS President

Date: _____

By: _____
Don Nuxoll, PURMS Vice-President

Date: _____

By: Trish Butler
Trish Butler, PURMS Secretary-Treasurer

Date: _____