

ATTACHMENT 1

DRAFT MINUTES

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

January 11, 2018

A meeting of the Coal and Clay Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on January 11, 2018, in the 12th Floor Conference Room of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania.

Board members present at the meeting were Thomas Callaghan, Director, Bureau of Mining Programs, Department of Environmental Protection (DEP), Designated Chair for Patrick McDonnell, Secretary of DEP; Mark Lersch, Director, Bureau of Property and Casualty Insurance, Designated Representative for Board Member Jessica K. Altman, Acting Commissioner of Insurance; and Veronica Hoof, Assistant Counsel, Designated Representative for Board Member Joe Torsella, State Treasurer.

Also in attendance were Mike Kondrack, Cash Management and Investments, State Treasury; and, Paul Jones, Michelle Baker and Becky Medeiros, Comptroller Operations, Office of the Budget. The following DEP employees were in attendance: Laura Edinger, Office of Policy; Michael Bodnar, Environmental Group Manager, Mine Subsidence Section, Bureau of District Mining Operations; and, from DEP's Bureau of Mining Programs, Paul Pocavich, Environmental Program Manager, Amy Berrios, Administrative Officer and Lawrence Ruane, MSI Program Administrator.

Following are issues discussed and actions taken at the meeting:

Approval of the January 12, 2017 MSI Board Meeting Minutes

The Board reviewed and unanimously approved as final the draft minutes of the January 12, 2017 MSI Board Meeting.

Program Reports

The Board reviewed reports provided by DEP staff that demonstrated the operational and financial performance of the MSI Fund over the most recent ten fiscal years (FY). The reports showed that there continued to be moderate growth to most of the fundamental program measures during FY 2016 (July 1, 2016 through June 30, 2017), similar to the performance demonstrated during the nine previous years in the report. During FY 2016, the number of subscriptions rose slightly from 58,137 to 60,526. The average policy value rose from about \$187,000 to about \$191,000 and the underwritten value of all the policies in force climbed from about \$10.9 billion in FY 2015 to about \$11.5 billion dollars in FY 2016, while the average premium continued to be very affordable at about 50 cents per \$1,000 of coverage. The number of mine subsidence damage claims filed fell slightly from 248 in FY 2015 to 197 in FY 2016. And, while the number of supported claims rose by only one during those years, from 7 to 8, the value of paid claims rose from approximately \$271,000, or about \$38,500 per claim, to approximately \$625,000, or about \$89,000 per claim.

Financial Reports

Financial reports provided by the Office of Comptroller Operations demonstrated that the financial position of the MSI Fund continued to be sound during FY 2016. The Statement of Cash Flows identified that combined premium and interest income, less cash in transit, was \$8,318,689, which was sufficient to offset all administrative and claim expenses of \$3,823,330

while also contributing \$4,495,359 to the MSI Fund's equity, which is extensively committed to reserves that offset potential losses. Loss reserves include reserves against potential losses that are assumed by the MSI Fund in lieu of the purchase of very costly reinsurance. The "Unreserved Fund Balance" at the close of FY 2016 was \$1,080,346.

Investment Reports

Investment reports provided by the Pennsylvania Treasury demonstrated that the value of the MSI Fund's investments continued to grow at a rate commensurate with other investments of the Commonwealth that are managed and invested by the Treasury Department. On a cost basis, the value of MSI funds invested by the Treasury during FY 2016 in its longer-term pool of funds (Pool 198) rose from \$89,815,908 to \$92,180,398. Pool 198 funds are invested in fixed income investments, equities, cash and cash equivalents, and alternative investments. Those investments had an average yield of 2.58 percent during FY 2016. Also on a cost basis, the amount of MSI funds invested in Treasury's pool of short-term funds (Pool 99) increased from \$15,659,035 to \$17,789,904 during FY 2016. At the close of FY 2016, Pool 99 funds were invested entirely in cash and cash equivalents and had an average yield of 0.81 percent.

Routine Business

After the review of the operational and financial performance of the MSI Program and Fund, the Board considered the routine business required for the administration of the MSI Fund and unanimously established the following:

1. A policy coverage Inflation Factor of 4.1 percent will be established;
2. The existing Policy Premium Rates would be maintained;
3. Claim Payment Deductibles would remain at \$0;
4. The Incident Costs calculations would remain unchanged;
5. The existing insurance producer Commission Rates would be maintained;
6. The existing maximum coverage amount of \$500,000 would be maintained;
7. The formula used to calculate the Loan and Grant Funding Limit for grants and loans to improve the MSI Program would remain unchanged;
8. The formula to calculate the Reserves in Lieu of Reinsurance would remain unchanged; and
9. A Premium Distribution to subscribers was not proposed by the Board.

Reimbursement for Program Costs

The Board reviewed estimated costs of the MSI Program for FY 2018 and considered a reimbursement to DEP for expenditures it may make as it administers the MSI Program. The estimate includes contingent spending for costs associated with claims and policy applications that would be in excess of normally anticipated levels so that funding is available to provide uninterrupted service. The Board then unanimously approved an expenditure of up to \$3,530,430 from the MSI Fund to reimburse DEP for the administrative costs of the MSI Program during FY 2018.

Other Business, Next Meeting and Adjournment

The Board established that the next regular meeting of the MSI Board will be held at 10:00 a.m. on January 10, 2019, in the 12th Floor Conference Room of the Rachel Carson State Office Building, 400 Market Street, Harrisburg, Pennsylvania. With no further business before the Board, the meeting was adjourned at 10:25 a.m.

KEY OBLIGATION: DEP will revise program systems to provide a coverage inflation option of 4.1 percent.