

ATTACHMENT 1

DRAFT MINUTES

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

December 11, 2013

A meeting of the Mine Subsidence Insurance (MSI) Board (Board) was called to order at 10:00 a.m. on December 11, 2013, 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 as follows: Thomas Callaghan, Director, Bureau of Mining Programs (BMP), Designated Chair for Christopher Abruzzo, Secretary of the Department of Environmental Protection (DEP); Mark Lersch, Director, Bureau of Property and Casualty Insurance, Designated Representative for Board Member Michael F. Consedine, Commissioner of Insurance; and Kathryn Cerulli, Assistant Counsel, Designated Representative for Board Member Robert McCord, State Treasurer.

Also attending the meeting were John Small, Deputy State Treasurer for Cash Management and Investments, State Treasury; Anne Salem, Assistant Manager of Financial Analysis, Cash Management and Investments, State Treasury, and the following DEP employees: William Cumings, Esq., Assistant Counsel; Janice Repa, Budget Analyst; Miriam Millan-Heffner, Budget Analyst; Lawrence Ruane, MSI Program Administrator; Edward Motycki, Chief, Subsidence Section; Drew Frost, Mine Subsidence Insurance Program Supervisor; Matthew Cavanaugh, Mining Permit and Compliance Specialist; Amy Berrios, Administrative Officer; and Nicholle Harman, MSI Board Recording Secretary.

Issues discussed and actions taken at the meeting:

Call to Order/Approval of the December 11, 2012 MSI Board Meeting Minutes

The Board reviewed the draft minutes of the meeting, and unanimously approved the minutes of the December 11, 2012 MSI Board Meeting.

Program Measures and Financial Reports

DEP staff presented reports that depict the MSI Fund's operational performance and financial position. The data demonstrated that the MSI Fund's operations continued to be stable and that the underwritten value of the policies in force by the end of State Fiscal Year (FY) 2012 was in excess of \$9.5 billion dollars while the total liabilities and fund equity rose to over \$94.3 million dollars.

Investment Reports

Treasury staff presented MSI's Investment Reports. The reports demonstrated that MSI deposits in Pool 99, which are mostly comprised of very short term investments or cash equivalents and had an average value of approximately \$18.9 million dollars, provided income of \$40,409 at an average rate of return of .21 percent. Funds deposited in Pool 198, which are mostly long term investments comprised of equities, bonds and government backed securities and had an average value of about \$73.5 million dollars, provided income of over \$4.9 million at an average rate of return of 6.74 percent.

Business Issues and Actions Taken by the Board

After the review of documents describing the operational and financial performance of the MSI Program and Fund, the Board unanimously established that:

1. A 3.9 percent coverage inflation factor (a premium option that allows subscribers to maintain coverage at levels that keep pace with inflation) would be provided for calendar year 2014;
2. The existing policy premium and insurance producer commission rates would be continued during State Fiscal Year (FY) 2014 (July 1, 2014 through June 30, 2015);
3. The existing maximum coverage amount of \$500,000 would be continued during FY 2014;
4. The Unreserved Fund Balance would continue to be maintained at approximately \$1 million through the use of the Reserves in Lieu of Reinsurance, which would continue to be calculated using the factor range (\$4.44 to \$12.95 per \$1,000 of Underwritten Coverage) that was established by the Board during the April 10, 2012 Board Meeting; and,
5. A distribution of premiums back to subscribers would not be provided in FY 2014.

Reimbursement for Program Costs

The Board reviewed estimated costs for the administration of the MSI Program during FY 2014 and unanimously approved an expenditure of up to \$3,710,877 from the MSI Fund to reimburse DEP for the administrative costs of the MSI Program during FY 2014.

Incidental Costs

In support of the establishment of routine compensation to MSI claimants for costs that are not for repairs but are for costs directly associated with damages caused by mine subsidence, such as increased heating or cooling and temporary relocation and storage costs, DEP staff presented the Incidental Costs Report that included a table that provides compensation amounts based on damage criteria. After discussion, the Board unanimously established the payment of Incidental Costs to qualified claimants based on the Incidental Cost Table provided in the Incidental Cost Report and directed that the MSI Insuring Agreement be revised accordingly.

Insuring Agreement Revisions

In addition to the Insuring Agreement revision for Incidental Costs, the Board unanimously approved the revisions of the Insuring Agreement so that Section 2.A Coverage more clearly states that for a claim to be compensable a subsidence event must occur during the policy period and that the definitions in Section 1. Definitions be alphabetized.

Other Business, Next Meeting and Adjournment

The Board established that the next annual meeting will be held on December 10, 2014. The meeting was adjourned at 10:40 a.m.

KEY OBLIGATIONS:

- 1) DEP will revise the Insuring Agreement to include Incidental Costs.
- 2) DEP will inform applicants and policyholders of the compensation provided for Incidental Costs.
- 3) DEP will adjust the coverage inflation factor to 3.9 percent on January 1, 2014.