

**LOCAL GOVERNMENT CENTER
BOARD OF DIRECTORS MEETING
Minutes of November 21, 2003**

(Sealed Minutes – To Be Discussed at February 13, 2004 Meeting)

LOCAL GOVERNMENT CENTER BOARD OF DIRECTORS PRESENT: Paul G. Beecher, Chair, City Manager, Dover; Keith R. Burke, Vice Chair, Superintendent, SAU #1, Peterborough; Dr. Scott A. Andersen, Superintendent of Schools, SAU #2, Interlakes and Ashland; Robert A. Beauregard, Selectman, Swanzey; Laurent J. Biron, Business Manager, SAU #38, Monadnock; John P. Bohenko, City Manager, Portsmouth; David R. Caron, Town Manager, Londonderry; Michael J. Cryans, County Commissioner, Grafton County; Peter J. Curro, Business Administrator, Londonderry School District; Kenneth L. DeBenedictis, Superintendent, SAU #41, Hollis School District; James Eich, Selectman, Stark; Samuel J. Giarrusso, Teacher, Amherst; Carol M. Granfield, Town Administrator, Derry; Julia N. Griffin, Chair, Town Manager, Town of Hanover; Harry Hobbs, Teacher, Exeter; Edmund F. Jansen, Jr., Selectman, Rollinsford; Leon S. Kenison, Sr., Selectman, Bow; Stephen A. Moltenbrey, Police Officer, Windham; George N. Olson, Town Manager, Exeter; Timothy L. Ruehr, Business Administrator, SAU #29, Keene School District; Terrie B. Scott, School Board Member, Cornish School Board, Cornish; Dr. James H. Weiss, Superintendent, SAU #17, Kingston; Robert L. Wheeler, Selectman, Goffstown; April D. Whittaker, Town Manager, Enfield

STAFF PRESENT: John B. Andrews, Executive Director; Sandal R. Keefe, Deputy Director and Chief Financial Officer; Wendy Lee Parker, Risk Services Manager; Phillip N. Stewart, Jr., Claims Manager LGC; Maura Carroll, NHMA Legal Counsel; Eleanor Baron, NHMA Communications and Member Services Manager; Donetta J. Haley, NHMA Director of Human Resources; Jon Steiner, Property Liability Trust Manager; Richard C. Dwyer, Operations Manager; Judy Yeaton, Underwriter; Carolyn Hoeker, Administrative Coordinator

CONSULTANTS PRESENT: Robert J. Lloyd, Esquire, Corporate Counsel

Long-Range Planning Committee Report

Dr. Weiss referred to the minutes of the October 28, 2003 meeting of the Long-Range Planning Committee and noted, "This is a condensed version. We spent four hours going over these recommendations because it was a difficult situation. We were brought recommendations and comments by Bob Lloyd and Lisa Chanzit. You have a recommendation in your packet."

Lisa Chanzit stated, "To give a little history, the initial pricing was meant to be breakeven; so, we tried to set initial contributions so that contributions and expenses would offset each other. It has had some problems. The expense ratio has been running 40%, 45%, and 50% for some years. Instead of breaking even, it is behind."

Lisa Chanzit referred to page 14 in the presentation and noted, "When we last priced the program, it was for about a 75% loss ratio."

Maureen Stazinski referred to page 15 and commented, "This indicates ultimate losses by plan year. The rate of increase is slowing down."

Maureen Stazinski referred to page 16. "These rate indications are for the year 2004. The indication is +43%. If all expenses were fixed, it could go down to 23.7%." Lisa Chanzit commented, "If you want it to breakeven, these are the rate assumptions you would have to take."

Maureen Stazinski referred to page 17 and advised, "This will stay the same. That gives us a loss with no rate change."

Dr. Weiss reported, "When our committee met we had some information from Bob Lloyd."

Bob Lloyd stated, "[REDACTED]

John Andrews explained, "One of the reasons for the condensed minutes is that they are very confidential because part of your considerations are not financial."

Dr. Weiss clarified, "We developed a recommendation because we built in two things as follows: 1) We have not reached the critical mass yet; 2) If we eliminate it (WC) now, it would have much larger implications to the entire entity."

Dr. Weiss stated, "At the Long-Range Planning Committee meeting, we developed five recommendations as follows:

1. Keep rates as they are in 2004.
2. Market Workers' Compensation aggressively in 2004 to change the gross revenue of \$1 million.
3. Develop a PLT/WC package-pricing program for July 1, 2004.
4. Develop alternative packages for 2005 with HealthTrust.
5. Authorize staff to use up to \$100,000 in PLT's Members' Balance to meet competitive situations.

These are the recommendations that the Long-Range Planning Committee bring to you today."

[REDACTED]

Keeffe offered, "As of September 30, 2003, the balance was \$353,000; \$647,000 has been used for subsidizing." John continued with, "Will we get that back? I thought it was a loan." Sandal responded, "No, it was capital. You would get it back if they had a gain. It will be written off."

Dr. Weiss noted, "This was an effort to start a new product. The group that came together made a commitment and they knew that may be the expense that would be incurred." Julia Griffin added,

“PLT and HT started it because municipalities asked us to do it because they did not want to deal with PRIMEX³.”

Dr. Andersen inquired as to whether there is “some kind of long-term plan. When do you ‘cut bait’ when you are losing money?” John Andrews commented, “I thought the recommendation was 2004.” Dr. Weiss stated, “We are saying, hold on for one more year.” Dr. Andersen asked, “How long have we been doing this?” Lisa Chanzit responded, “We have been doing it for three and three-quarter years.” Dr. Andersen offered, “There has been no growth. We will waste another \$300,000.” Dr. Weiss emphasized, “We did not waste it; we tried to start a new product.”

Bob Wheeler stated, “The reason we are in this predicament is because we do not yet have the critical mass. How many people here purchased WC from this program? I suggest to you that we look to ourselves and not to the performance of the program as to why the program is where it is. We continue to do business with a group that serves us well. They have a good product and service. They have huge financial reserves. Those of you who are involved in setting tax rates want to hold some money aside. You are told you cannot do that. It is only illegal if you tell about it. You do not have the chance to have a reserve. If you want to pay two times as much as you pay for WC, then continue. However, I would question your ability as an administrator to do that. This is a service that was requested by some people and others thought they would participate, but did not and have not. We did not hear a salesman. We have a sales and service organization. We relied on the good reputation that the organization had, and we did not respond to it. I believe we should not look singly at the people in the WC program. We should look to ourselves. We need to encourage more participation. We need to get this to a critical mass to survive. The ‘root’ of the problem is lack of participation.”

Phil Stewart suggested, “Go back to the question of the rate of growth. It started at about \$300,000. We are projecting the renewal to be at \$900,675 for 2004. We continue to have a steady rate of growth.”

Julia Griffin noted, “PRIMEX³, as of its last audit had \$75 million in Members’ Balance. That is a huge sum of money. When they merged with SchoolCare, they took on about another \$8 or \$9 million. What they do is set your WC rate; they then discount it using Members’ Balance. The amount they give you makes no sense; it is just an amount of money. If you ask for a pattern of experience, they will not tell you that. They use their Members’ Balance. We get frustrated with that practice because we do not like their ethics. They deny a lot of WC claims; they require a lot of interaction. Public works employees can relate to this. The WC Trust was created with money from Members’ Balance from HT and PLT. They quote lower. If we take the step of going with the higher cost product, that increases taxes. Board members struggle with fiduciary responsibility. We have a challenge. I think if we can package this program to make it better, it may work.”

Larry Biron commented, “I have to talk from the other side of the coin. I like NGS no matter what the rates are. They service the case immediately. They react very quickly. The people who get injured, get managed and back to work more quickly. I look at the bottom line. I do not care what the rates are, and I would stay with them. I do not see this service with the competition.”

Keith Burke asked, “What is our loss rate with schools and towns?” Sandal Keeffe offered, “I think Larry Biron is the only school district we have. They had a boiler explosion so their claims were

high.” Larry continued with, “We have an excellent system that the nurses do what they are supposed to do. My business is taking care of the people who work for us.”

Keith Burke queried what our rates are compared to those of PRIMEX³.” Julia Griffin stated, “They are all over the place.”

John Andrews stressed, “They use that \$75 million to manage costs. The reason we started the WC program is because they are using that \$75 million for PLT. They take your Members’ Balance and WC to under rate property and casualty. They will probably do the same with health. They will take WC money and school property and liability balances and use it for health.” Jon Steiner advised, “Julia Griffin’s \$60,000 would be \$120,000 if they did not use that money.”

Keith Burke interjected with, “The critical mass argument is very important. I think it makes sense to have it run another year. I think you find the schools do not use it very frequently.”

John Andrews indicated, “In all liability coverages, you are worried about severity and frequency. Schools have a lot less exposure than public works people.” Keith Burke emphasized, “That is why I am saying to go after the schools to build critical mass.”

Sam Giarrusso stated, “I think we need to embrace this recommendation and attain this critical mass. As long as the competition is out there, you have to deal with it. This organization needs a plan to make it available to sell to other communities. As a teacher, I want to know if I can access it in a reasonable fashion.”

John Eich noted, “In regards to what John Andrews said, if we do not pull this together, PRIMEX³ will buy us with their ‘war chest.’ Where are we going in the long range? We are part of this whole deal. We have to embrace this to succeed.”

Steve Moltenbrey commented, “From an end user perspective, I think we have to see it through. We are not going to beat PRIMEX³ on cost alone because of their ‘war chest.’ Who and how will it be aggressively marketed. The business is out there and it can be done; we need someone to do that.”

Bob Wheeler addressed Julia Griffin and stated, “You talk about the \$120,000 and \$60,000, however, the other thing that was not mentioned is how much are your workers’ claims?” Julia responded, “They are about \$45,000.” Bob continued with, “Do you know where their \$70 million came from? It came from us. We let them do something with our money that DRA will not allow. When someone comes with a price, each one of you has to know what your claims are. They do it because we let them. Every dollar in their ‘war chest’ is a taxpayer’s dollar. We should put a stop to it.”

Tim Ruehr stated, “We keep talking about critical mass. We have a ‘war chest’ also.”

John Andrews commented, “That is why we want to package in the long range. You do have money to compete. The idea is to get over the threshold of the division of money. They have gotten over that.” Paul Beecher interjected with, “They have no scruples.”

Tim Ruehr noted, "We are not competing against the 'war chest.' We are competing against the critical mass. What do we have to do to get to the critical mass? I think that is what we need to look at. Once we let WC go, it will not be good."

John Andrews stressed, "You are the market leaders. You know health, and property liability. PRIMEX³ has the school market for property liability and WC. Their property liability school revenues are something like \$3.5 million. I read something recently in the Harvard Business School magazine; if you are going to compete, you better be a leader. Five years from now, you do not want to find yourself here trying to determine what we did wrong. There is no reason they should take all of our business unless we let it happen."

John Bohenko offered, "I do not disagree about competing. I have concerns about using Members' Balance from HealthTrust. We are trying to build Members' Balance. We raise premiums to do that. I do not want to have to say that I will spend your money to subsidize WC. You may think it is minor and not material, but eventually someone will ask that. If PRIMEX³ is subsidizing health that way, I will never recommend going there. I am dealing with people who put in premium share."

Jon Steiner pointed out, "At the beginning, it was half and half. This is the first time that a full Board could talk around one table. This program has never had the full potential. We never had a forum to discuss that. That was one of the reasons for the merger."

Keith Burke's motion to accept the recommendation of the Long-Range Planning Committee to remain in Workers' Compensation for at least the next year, seconded by Dave Caron, passed with one opposing vote.

Harry Hobbs stated, "In the Budget and Finance Committee meeting, it was said that if we double membership, we would double losses." Lisa Chanzit advised, "It is a combination of critical mass and negotiations for reinsurance and contributions to premiums. The NGS contract would have to be renegotiated. It is a combination of critical mass growing between \$1.25 and \$2 million. Renegotiate some of the things driving costs." Julia Griffin asked, "How many members do you have?" Lisa responded, "We have approximately forty four." Dr. Weiss stressed, "Having a certain amount of critical mass will allow us to renegotiate." Tim Ruehr cautioned, "You have to know how long it will take to increase critical mass." Terrie Scott stated, "I vote to give staff a chance to bring back a plan, and I expect that to be part of the plan." John Andrews advised, "You should be making decisions by September of next year."

Bob Beauregard noted, "I think we are overlooking who the ultimate consumer is. You will lose on some and win on some. I think that is where we are going. It is unfortunate that the competition is using our money to grow. We are the 'gorilla.' It has to all be part of the package; that is what this association is all about."

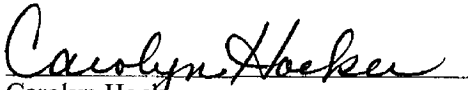
Larry Biron commented, "I would consider changing the name to the Workers' Compensation Managed Care Program."

Paul Beecher noted, "I think when we voted it was that they will come back to us. There are a lot of decisions that have to be made."

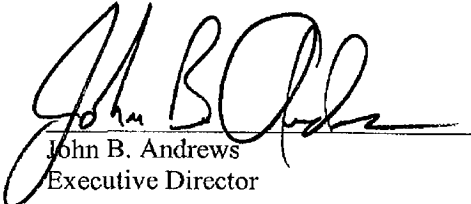
Dr. Weiss' motion to accept the five recommendations proposed by the Long-Range Planning Committee as follows: 1) keep rates as they are in 2004; 2) market Workers' Compensation aggressively in 2004 to change the gross revenue of \$1 million; 3) develop a PLT/WC package-pricing program for July 1, 2004; 4) develop alternative packages for 2005 with HealthTrust; and 5) authorize staff to use up to \$100,000 in PLT's Members' Balance to meet competitive situations, seconded by Steve Moltenbrey, passed unanimously.

John Bohenko stated, "In July, we will have a plan from the staff."

Respectfully submitted,



Carolyn Hoeker
Administrative Coordinator



John B. Andrews
Executive Director