

CharterSAFE
BE SAFE • FEEL SAFE

EXECUTIVE REPORT

April 2019

Protecting **Schools**. Promoting **Safety**. Customizing **Insurance**.

BACKGROUND.

What is CharterSAFE?

CharterSAFE is a nonprofit Joint Powers Authority (JPA) solely dedicated to protecting independent charter schools in California by providing expertise in group insurance, safety, risk management, and human resource consulting. We serve leaders of the charter community who are in need of a comprehensive insurance program and hands-on proactive risk management services - to keep their schools safe and financially sustainable. Our program goes beyond the conventional scope of insurance by protecting both physical and reputational assets, so charter school leaders can focus on what they do best – operating excellent schools.

CharterSAFE’s mission is to provide its members with a strong understanding of charter school risk exposure and mitigation strategies. Founded in 2004 by leaders in the charter school movement and owned by its charter school members, CharterSAFE is led by a California charter school alumna and overseen by a board of directors exclusively comprised of charter school leaders. Joined by a team of dedicated experts, CharterSAFE is a partner to more than 275 members and works to safeguard over 900 schools.

How does a Joint Powers Authority (JPA) work?

Authorized under California Government Code (§6500-6536), a JPA is a contract between two or more similar public agencies (e.g. counties, school districts) for the purpose of economies in achieving a common goal. Pooling together resources allows greater access to insurance with premiums at lower and more stable cost. A JPA is a nonprofit where members are the JPA’s owners, aligning the purpose of the members and the JPA with no conflicting motivation. As specialists on behalf of its members, JPAs annually conduct due diligence, perform trend analyses, protect shared resources, and guide members to avoid pitfalls.

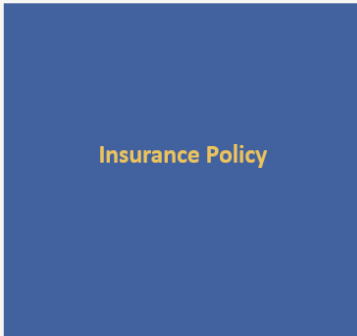
Authorized in the late 1970s, JPAs rose as the solution to an unreliable insurance market that offered little to no stability or risk management for the public scholastic sector. With stronger cost stability and control in safety practices, JPAs remain the de facto insurance and safety solution for cities, school districts, counties, and charter schools. This is evidenced by the fact that 99% of public scholastic entities in California participate in a JPA.

Considering the underlying relationship between insurance companies and customers, JPAs are without question the most effective way to obtain insurance. With traditional insurance, customers pay premium to an insurance company, from which the insurance company takes a profit and uses the rest to pay for claims from customers. An insurance company will have many different types of customers, some much riskier than others. That means that in traditional insurance, despite the façade of a separate standalone policy, all customers share in the risk of one another in addition to paying for the profits of the insurance company. Conversely, a JPA only allows



membership for similar risks (e.g. a JPA for charter schools only). By limiting the risk to similarly operated entities, members are protected because losses are more predictable, and both the JPA and member can focus on effective specialized risk management and safety techniques.

Standard Insurance Policy.



CharterSAFE Membership.

Insurance Policy	HR Consulting	Contract Review
Waiver Forms	Vendor Procedures	Policy Templates
Litigation Assistance	Sexual Abuse Prevention	Best Practices
Safety Consulting	Certified Playground Inspection	Facility Use Agreements

CharterSAFE is uniquely positioned as the only JPA dedicated exclusively to California charter schools. Your membership means access to an insurance and risk management program customized specifically to meet the ever-changing needs of California charter schools; it is not just insurance. Our team is specialized in proactively identifying charter school trends – to develop, communicate and support members in establishing and implementing safety precautions.

FINANCIAL POSITION.

What is CharterSAFE's financial position?

CharterSAFE continues to be in a strong financial position. Member contributions in the 2018-2019 fiscal year so far total \$26.8 million, making total member contributions since the inception of the organization over \$180.3 million.

We maintain operational and financial transparency. Below is a chart showing CharterSAFE's year-over-year financial summary.

	14/15	15/16	16/17	17/18	18/19 <u>Projections</u>
Member Contributions	\$16,495,287	\$19,335,289	\$22,049,518	\$23,970,783	\$26,800,000
Investment/Misc. Income	\$169,506	\$205,166	\$45,341	\$69,435	\$228,401
Total Revenue	\$16,664,793	\$19,540,455	\$22,094,859	\$24,040,218	\$27,028,401
Paid Claims - Cash payments relating to claims	\$5,285,740	\$6,089,687	\$5,728,815	\$7,748,031	\$7,748,106
Change in Claims Reserve - Estimated amounts of future payments relating to existing claims	\$489,061	\$1,651	\$1,248,964	\$415,739	\$1,000,000
Change in Claims IBNR - Estimated amounts of future payments relating to claims incurred but not yet reported	\$977,725	\$1,814,881	\$728,716	\$1,349,633	\$1,611,204
Change in Allocated Loss Adjustment Expenses - Estimated expenses attributed to the processing of existing claims	\$110,009	\$136,240	\$148,325	\$132,403	\$169,596
Total Claims Expense	\$6,862,535	\$8,042,459	\$7,854,820	\$9,645,806	\$10,528,906
Excess Insurance Cost	\$6,435,148	\$7,217,989	\$8,058,817	\$9,107,025	\$9,800,000
Total Claims and Excess Insurance Cost	\$13,297,683	\$15,260,448	\$15,913,637	\$18,752,831	\$20,328,906
Total Claims and Excess Insurance as a % of Member Contribution	81%	79%	72%	78%	76%
Total Operating Expense	\$3,401,855	\$3,429,082	\$3,729,722	\$4,054,633	\$4,400,000
Total Operating Expense as a % of Member Contribution	21%	18%	17%	17%	16%
Cash Balance	\$7,339,063	\$4,850,239	\$4,974,366	\$5,686,372	\$7,800,000
Investments	\$8,426,291	\$12,760,557	\$15,977,263	\$17,011,452	\$19,000,000
Total Liquid Assets	\$15,765,354	\$17,610,796	\$20,951,629	\$22,697,824	\$26,800,000
Actuarial Estimated Outstanding Losses-90% Confidence Level	\$13,791,867	\$16,219,771	\$18,743,784	\$21,304,216	\$24,000,000
Surplus in Excess of 90% Confidence Level	\$3,275,992	\$4,337,057	\$6,171,217	\$6,798,038	\$8,400,000
Net Assets	\$2,517,835	\$3,368,760	\$5,820,260	\$7,053,014	\$9,352,509

Stronger and more stable than ever, CharterSAFE is prepared to help its members with proactive risk management services to support them daily - and when a crisis occurs.

I keep hearing about assessments in a JPA. How is this not a concern for CharterSAFE?

Unfortunately, CharterSAFE has heard this story countless times told by opportunistic insurance agents who rely on fear tactics to create a “wedge” – scaring charter schools into buying inferior insurance from for-profit insurers rather than engaging in honest competition. These fear campaigns typically include statements about the potential for assessments, or other vague risks that are supposedly inherent to JPAs, but not insurance companies. Usually, these so-called “issues” are never fully explained....

How often do assessments actually occur?

An assessment is a security measure that is triggered when a JPA or mutual insurance company does not have sufficient reserves to pay for claims. Within our JPA structure, the possibility of an assessment impacting membership is extremely remote; in our 15-year history, it has never happened. To minimize any likelihood of an assessment, we proactively put two important protections in place:

- 1. Security for “severity” risk** – A protected reinsurance structure to hedge risk through use of multiple highly-rated reinsurers above a much smaller and more manageable pooled self-insurance layer called “the retention”. This arrangement limits loss exposure arising from the occurrence of catastrophic claim events. The bulk of a catastrophic claim (as much as 99%) is transferred to several reinsurers. *Example: CharterSAFE members suffered more than \$10M in losses from the 2018 Camp Fire, but the JPA’s financial responsibility was limited to a single \$25,000 deductible.*
- 2. Security for “frequency” risk** – The JPA’s funding strategy includes a well-funded loss reserve to absorb claims for each annual period, as well as on an aggregated basis over a period of years for open claims. This strategy is designed to provide protection in the event of a large number of small or medium-sized claims impacting the pooled self-insurance layer (or the retention). Additionally, the loss reserve ensures that funds are available to pay for claims in once-in-a-lifetime events.

The recommended funding level for CharterSAFE’s loss reserve is reliably calculated by AON Actuarial Services each year using CharterSAFE’s comprehensive 15-year historical record. It is compiled and analyzed to ensure a funding level that is adequate for the loss experience predicted for future policy periods. This is the same methodology used by insurance companies in the traditional marketplace.

How does CharterSAFE allocate resources to safeguard its members’ best interests?

Serving as a steadfast financial steward on our members’ behalf, the CharterSAFE “prefunds” the pool’s annual loss reserve account based on statistically projected losses at a 75% confidence level. This means each year’s individual member contributions are designed to conservatively exceed the average loss range. This is known as funding for the present (short-term claims) and future (claims reported in future policy periods).

Additionally, we calculate losses *for all years* beginning with the first policy period of the JPA (2004-2005) through present day, funding for past liabilities that will come due. This provides a second look whereby the

open claims are revalued to a 90% confidence factor. This is just shy of 2 standard deviations, a very secure range.

Through our 15 years of operations, CharterSAFE has accrued an overall surplus (or member equity) of \$8.4 million after paying all open and closed claims and meeting the 90% confidence factor funding requirement as of 12/31/18.

To reiterate, it's not the single or even multiple large claims that can threaten the reserves, it is the frequency of claims far above what is statistically expected (well beyond 1 standard deviation for current and future claims and 2 standard deviations for past claim development). Yet, it is difficult to conjure what sort of event could result in this multiple frequency and severity loss scenario. Neither a large natural occurrence nor manmade event would increase the number of claims in a way that would detrimentally impact the reserves. On behalf of its member-owners, CharterSAFE works hard to ensure the financial stability and sustainability of our organization – so that members can rely on our program and services year after year and which makes the risk of an assessment extremely remote.

DUE DILIGENCE AND BIDDING.

I represent a school, why should I be thinking about insurance and risk management?

In a world of classrooms, textbooks and tablets, insurance is typically the last thing on a school leader's mind. It's broadly defined. It's confusing. And, it's something that often only comes up in times of crisis. But proper coverage and preventive measures throughout the academic year can mean the difference between being able to fund a curricular program or having to use those funds to pay for a claim. Those preventive measures are risk management, and it's often forgotten in the discussion of insurance. Figuring out what the risks are at a school and how to manage those risks can be equally as confusing and costly as insurance.

In California, a pooled approach to risk sharing is a coverage method of choice for almost all schools – traditional public and charter alike. As a JPA specific to California charter schools, CharterSAFE is able to focus solely on the shared interests, goals and needs of member schools. Our nonprofit status means that member cost-savings are guaranteed. By acting as a JPA, we can secure lower rates and provide better services. Plus, our size allows for volume discounts and routine competition among vendors.

Historically, the advantage of a JPA is stable pricing, leverage, customized services, broad coverage and control. In the last 40 years, at least 761 insurance companies nationwide have suffered financial impairment, compared to only 1 JPA. Today, virtually all school districts statewide are members of one of more than 50 JPAs that serve the scholastic community and approximately 80% of charter schools are in a JPA.

I see the value in JPAs, but how do I know that my coverage is optimal and fairly priced?

While bidding can lead to competitive pricing and access to innovation in the marketplace, it is time consuming and require expertise to ensure you're getting a worthwhile product or service. Fortunately, a JPA is different. First and foremost, CharterSAFE is owned by its member schools and therefore doesn't have vendor status. CharterSAFE bids on your behalf to lower insurance costs and share risk management resources every year. JPAs like CharterSAFE harness the power of group purchasing to obtain competitive pricing annually. What's more, we can leverage its size to negotiate terms with a roster of leading domestic and international insurance and reinsurance companies, which no individual school could do. Here's a short

list of the (re)insurance companies that CharterSAFE has negotiated with during the last two renewal cycles (2017-2019):

Affiliated FM	Chubb Group	National Union Ins. Co. of PA
AIG	CNA	New York Marine and General
Allianz	FM Global	One Beacon
Allied World National	Gemini Insurance Co.	Princeton E&S
Alterra	Gen/Re (Genesis)	RSUI
Argonaut	Great American	Safety National
Assurance	Hartford Insurance Company	Scottsdale Insurance Co.
AWAC	Hartford Steam Boiler	State National
AXA	Indian Harbor Insurance Co.	Swiss Re
Axis	Liberty Mutual	Travelers
Beazley	Lloyds of London	Westchester Surplus Lines
Berkley	Markel	XL Insurance
Brit	Midwest Employers	Zurich
	Munich Re	

One statement CharterSAFE has heard from opportunistic insurance agents is that a JPA is costly. What they neglect to mention are the superior and appropriate limits, coverages, and services provided by a JPA. CharterSAFE works with over 900 school sites in California, and over the last 15 years, has gained a bird’s eye view on claims trends specific to California charter schools. Coupling its insurance and risk management expertise, CharterSAFE is able to confidently recommend insurance limits, enhance coverages that it writes specific to its members’ needs, and provide customized services to prevent losses for your school. All of these would be additional expenses you would have to pay on top of an insurance premium if you bought insurance separately. Additionally, CharterSAFE understands authorizer insurance and indemnity requirements and ensures all its members meet the requirements, so there is one less pressure in this political environment.

I’m still interested in insurance bidding on my own. What should I keep in mind?

The insurance process is fraught with pitfalls including a lack of transparency when it comes to limits, deductibles, coverages, conditions and all-important exclusions. It is also quite time-consuming.

Additionally, insurance bidding requires a lot of work and in-depth knowledge about insurance programs. School leaders rarely and should not be expected to have this expertise. Here are five key questions we encourage members to ask when bidding insurance:

1. Types of Coverage
 - What coverage exists for my board of directors, staff, students, and financial assets?
(Did you know: some insurance providers erroneously provide School Board Legal Liability as a substitute for Directors and Officers Liability. This poses a potential risk to your nonprofit board members who make some of the most important decisions for your school.)
2. Coverage Limits, Deductibles
 - Are the limits at least authorizer-compliant?
3. Terms, Conditions and Exclusions
 - What isn’t included, and how does that impact coverage?
4. Stability and Track Record of Insurer
 - How long has the insurer been writing charter school-specific insurance?
 - How many other charter schools does the insurer work with?

5. Included Services

- What risk management and loss control services are offered, and what is the cost?

The CharterSAFE team is simply a call or email away in case you have any questions regarding coverage, terms, conditions, or exclusions during your due diligence review.

CHARTER SCHOOL RISK TRENDS AND MITIGATION.

What are the current trends I should be aware of and what is CharterSAFE providing for assistance?

Sexual Abuse/Molestation

It is a fact that sexual abuse and molestation is a pandemic deserving our full attention. Since 2010, CharterSAFE and its reinsurers have paid or reserved over \$26,000,000 for claims involving staff-student molestation. Yes, it's shocking.

It becomes more shocking when you consider that the trend is as bad or worse for *all* youth-serving organizations, especially in California. A significant number of insurers are refusing to cover this risk and are backing out of California completely. It is difficult to determine whether the frequency of these events has risen or if reporting has become more common, but the cost has exponentially grown. Plaintiff attorneys have ratcheted up the typical demand for damages, affected students deal with higher levels of unwanted attention and frustration, school reputations have plummeted, and the lost funds means less investment in the classroom. It has become evident that drastic measures must be taken to preserve our education system. A change in school culture is critical.

CharterSAFE is committed to turning this around within the next three years - and we ask for each member to be part of the solution. What can you do?

- If you haven't already done so, adopt a robust and detailed Student/Staff Interaction Policy (we have a Boundaries Policy template available), train your staff, and vigorously enforce it.
- Comply with Ed Code 44050, which requires schools to provide parents with a copy of the boundaries policy (it can be included in the parent handbook) *and* on your website if you have one. Parents are often the first line of defense, especially when they check their child's social media or phone activity. The boundaries policy offers them tools to identify grooming behaviors and other "red flag" indicators.
- Add the voluntary sexual abuse prevention training module to your annual staff training (offered at no cost by CharterSAFE through SafeSchools.com).
- Take advantage of the WeTip anonymous reporting platform (offered at no cost by CharterSAFE).
- Absolutely take advantage of CharterSAFE's offer to provide in-person staff training on this critical topic. Contact Sue Bedard or Carly Weston for additional information.

Employee Embezzlement (and Theft by Vendors)

This is a trend that is very troubling and is contributing to recent negative press coverage about charter schools. The problem involves embezzlement by school leaders and by fiduciaries such as financial or benefits managers. Often, the fraud takes place over a period of years and involves long-time, respected employees or advisors. It is clear there is a weakness in the audit process at some schools and CMOs. Therefore, we highly recommend that internal controls be established and regularly reviewed to ensure effectiveness. Internal controls are policies and procedures put into place within an organization to ensure continuous accountability and reliability of all financial transactions.

Employment Related Claims Including Wage & Hour Violations

Allegations of employment discrimination, wrongful termination, retaliation, and wage and hour violations continue to vex charter schools. This is another area of coverage in which the insurance marketplace has dwindled and become more restrictive. These claims are especially costly when they involve back wages, unpaid meal and rest breaks, or payroll processing violations. Related fines and penalties are uninsurable, and deductibles are substantial. Qualified human resource expertise is an absolute necessity. CharterSAFE offers no-cost advisory services through our dedicated HR consulting team to help your organization shore up its personnel management structure.

Errors in Pension Plan Enrollment/Administration

Historically, there has been a great deal of confusion in charter schools about rules related to CalSTRS and CalPERS. When enrollment errors are made and compounded over the course of years, an expensive retroactive obligation may result. Both STRS and PERS have become very aggressive in finding these errors. We urge you to take steps to ensure that there are no loose ends in your pension programs, including 403b plans.

Cal OSHA Scrutiny and Fines

Most CharterSAFE members have received or will receive a safety and risk management evaluation that makes note of any compliance programs or plans that have not been adopted. This includes the Safe Schools Plan, Injury and Illness Prevention Plan (IIPP), Roof Access Plan, Heat Illness Plan, and more. Any work-related injury that involves overnight hospitalization requires an employer phone call to the local Cal/OSHA office. CharterSAFE reminds its member schools of this obligation when this type of injury occurs, which typically prompts a visit by an OSHA inspector who will ask to see the mandated plans. Failure to produce the plans and/or to prove that required training has been done will likely result in fines and penalties.

CONTACT OUR TEAM OF EXPERTS.

How can CharterSAFE help my school?

Your job is to focus on student achievement - not to be an insurance and risk management specialist. That's our job.

With over 15 years of experience in pooled insurance and proactive risk management services specifically tailored for California's charter schools, CharterSAFE knows your unique needs. We're your hands-on partner, providing movement-wide insurance and risk management expertise that schools often don't have access to (or the in-house budget to obtain). It's not just an insurance policy - it's a membership with access to services that elevate your school. Contact our team today for one-to-one support as your school navigates its insurance coverage and risk management service needs for the upcoming academic year. You can find our contact information and more information about us at www.chartersafe.org. We are here to help you make an informed choice that best meets your organization's needs.

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