

**CITY COUNTY INSURANCE SERVICES
PROPERTY/CASUALTY TRUST**

***RULE PC 1: LOSS FUND PROTECTION AND SURPLUS
DISTRIBUTION***

The City County Insurance Services (CIS) Board of Trustees adopts the following rule regarding the protection of Pooled Risk Retention Program Loss Funds, and the distribution of "Surplus" from such Loss Funds. This Rule, effective April 1, 2009, supersedes and replaces Rule Number 1 which became effective July 1, 2001

A. Loss Funds.

Each Line of Coverage offered as a Pooled Risk Retention Program has a Loss Fund that consists of Member Contributions, investment earnings and other miscellaneous Fees and revenues.

For each Line of Coverage the Member elects in a Coverage Year, a Contribution ("Initial Contribution") is charged in accordance with the Trust's rating guidelines. "Initial Contributions" represent a deposit into the Loss Fund for that Line of Coverage, against which losses and expenses are charged. Rates are based on expected losses, estimated expenses, and a prudent level of reserves determined by the Board.

In any one Coverage Year, the Board's targeted reserve funding level for each Loss Fund is an amount sufficient to pay the expected claims in that year at confidence levels determined by the Board upon the advice of its consulting actuary.

For purposes of this Rule, "Surplus" is defined as those monies remaining in a Loss Fund after the payment of the costs of administration and excess insurance, payment of claims and establishment of prudent reserves for outstanding claims.

In the event of a deficit in a Loss Fund for a Coverage Year, the Trustees may offset the deficit with Surplus accrued in that Loss Fund in other Coverage Years. In their sole discretion Trustees may transfer Surplus among Loss Funds. However, such transfers shall be made only when there is a reasonable expectation that repayment can be made from future contributions and earnings of the Loss Fund that has incurred the deficit.

The Board may impose "Deferred Contributions" for a Loss Fund as described in Section B of this rule.

The Board may declare a Surplus distribution as described in Section C of this rule.

B. Deferred Contributions:

The Board may authorize the collection of Deferred Contributions in one or more Loss Funds in the event that:

- (1) Ultimate losses and expenses exceed Loss Fund revenues for a Coverage Year; and
- (2) In the judgment of the Board, this shortfall presents a threat to the overall fiscal viability of the Trust's Loss Funds.

If the Board authorizes the collection of Deferred Contributions, the following conditions apply:

(1) Deferred Contributions shall be assessed against the Members who participated for such coverage during the Coverage Year for which such Deferred Contribution applies. Amounts due shall be in the proportion that each such Member's contribution and share of losses bear to the total contributions and shared losses of all Members for such coverage in such Coverage Year.

(2) An Entity that participated as a Member during the Coverage Year for which Deferred Contributions are assessed is obligated to pay such Deferred Contribution when requested by the Board, regardless of its membership status at the time such Deferred Contributions are imposed.

(3) The total of all contributions paid by a Member for a Coverage Year, including any Deferred Contributions paid pursuant to this rule, shall be used for purposes of determining distribution of Surplus as described in Part C of this rule.

(4) Members shall be notified by January 31 if the Board proposes to collect Deferred Contributions in the upcoming fiscal year beginning July 1. The Board shall advise Members of their individual Deferred Contribution amount not later than March 31. Such amount will be due and payable at the same time as contributions for fiscal year coverage.

(5) A Member's Deferred Contribution will not exceed 50% of its Initial Contribution, gross of any contribution reduction granted via alternative plan participation.

C. Surplus Distribution.

The Board may consider a distribution of Surplus when Loss Fund amounts for a Coverage Year exceed ultimate losses, expenses and the Board's target level for outstanding claims reserves.

No distribution of Surplus will be made from a Loss Fund until reserves for outstanding claims have been accumulated to the target levels set by the Board, and then only to the extent such reserve levels are not impaired.

If the Trustees determine that, consistent with this rule, a distribution of Surplus is appropriate then funds shall be distributed to the Members in accordance with the following:

(1) If the Board declares a distribution of Surplus from a Loss Fund for one or more Coverage Years, it may direct staff to offset such distribution for individual Members by some, or all, of any Deferred Contributions that Member may be required to pay under Part B of this rule.

(2) No Member shall have a right to any specific share of Surplus funds except as herein provided.

(3) Surplus distributions, as determined herein, and with appropriate offset for Deferred Contributions, shall be by means of contribution credits available to apply to future contribution invoices or, at the sole discretion of the Board, by means of cash payments to current participants in that Line of Coverage. Loss stabilization credits accruing to non-Members expire on July 1 following three complete Fund Years after the distribution is made.

(4) No distribution of Surplus, with the exception of Deferred Contribution offsets as described in Section B of this Rule, shall be made in any manner to any Member that withdraws prior to the end of the period of Membership established by the Trust, which period shall not exceed three (3) full Coverage Years.

(5) At such time as the Board determines an amount of Surplus available for distribution, said Surplus shall be distributed as follows:

i. One-third (1/3) of the Surplus will be distributed to Members who made contributions in the Coverage Year, for the Line of Coverage for which Surplus is to be distributed. The proportion is that which each Member's contribution bears to the total contributions of all Members in the Coverage Year, for the Line of Coverage for which Surplus is to be distributed.

ii. Two-thirds (2/3) of the Surplus will be distributed to Members who made contributions in the Coverage Year, for the Line of Coverage for which Surplus is to be distributed. The proportion is that which each Member's contributions, less incurred losses, bears to the total contributions, and less total incurred losses, of all Members in the Coverage Year, for the coverage for which Surplus is to be distributed. However, no distribution shall be made of the two-thirds of Surplus to Members whose contributions, in the Fund Year, for the Line of Coverage for which Surplus is to be distributed, are less than their incurred losses.

(6) More than one distribution may be made for a given Line of Coverage for any Coverage Year. In the event of a second, or subsequent, distribution the amount to be distributed to a Member shall be computed in accordance with this

rule, based on contributions and loss information as of the date of such later distribution. The amount so determined shall be reduced by any amounts previously distributed to the Member. No adjustment will be made due to changes in incurred losses after the date of the distribution.

D. Other Provisions

Payment of Claims. The Trust will make or secure payment or settlement of claims in accordance with the terms and conditions of the coverage agreements.

Excess Losses. In the event that a single loss or series of losses may exceed the amount of protection afforded by the Loss Fund, other insurance carried by the P/C Trust and provisions for Deferred Contributions under this rule, payment of valid losses shall be the obligation of the individual Member or Members against whom the claim(s) were made and perfected by judgment or settlement.

Adopted by CIS Board of Trustees
March 30, 2009

**CITY COUNTY INSURANCE SERVICES
PROPERTY/CASUALTY TRUST**

RULE PC 2: APPLICATION OF ALTERNATIVE CONTRIBUTION PLANS

The City County Insurance Services (CIS) Board of Trustees adopts the following rule regarding Pooled Risk Retention Program alternative contribution plans. This Rule, effective April 1, 2009, supersedes and replaces Rule Number 2 which was adopted April 6, 2001

ALTERNATIVE CONTRIBUTION PLANS

The CIS P/C Trust Pooled Risk Retention Program offers four different alternative contribution plans that offer a reduction to initial contributions, in exchange for assumption of an initial aggregate layer of risk.

Paid Loss Aggregate Deductible Plans: Offered to those Liability and Worker's Compensation Members that assume responsibility for paying an initial layer of claims, as determined by CIS PC Underwriting staff.

Paid Loss Retrospective Rating (Retro) Plans: Offered to Liability and Workers' Compensation Members. The Liability Retro Plan is administered in the exact same fashion as the Liability Aggregate Deductible plan, but with expanded parameters of savings and risk.

The Workers' Compensation Paid Loss Retro Plan incorporates additional loss-based fees, based upon a percentage of paid losses. Also, for Members who have not reached their maximum liability, additional contribution is collected at closeout which occurs at or before the five year anniversary of the plan.

COLLECTING ALTERNATIVE PLAN CONTRIBUTIONS.

Coverage Year means the 12 month period consistent with the period of coverage for the applicable Coverage Agreement.

1. Paid losses, applicable fees and "closeout" contributions shall be invoiced and paid quarterly. Amounts due shall be considered Contributions subject to the provisions of 3.2A of the CIS Bylaws.
2. The obligation of the Member to pay for losses shall cease when the aggregate amount paid equals the maximum liability under the respective plan.
3. CIS and any Member with an Alternative Plan may, by mutual written agreement, agree to a liquidated value from the remaining payments and liability applicable under the deductible.

4. Surplus distribution which may be due to a Member pursuant to Section C of Rule PC1 shall be computed as if the Member was not on an Alternative Plan. From such distribution shall be deducted the savings, if any, resulting to the Member from the Alternative Plan.
5. Contributions and allocation of losses used to calculate Surplus distribution pursuant to Section C of Rule PC1 shall be computed as if the Member had no Alternative Plan and the full amount of the Initial Contributions had been paid.

Adopted by CIS Board of Trustees
March 30, 2009

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RULE PC 3: OPTIONAL DEFENSE BY MEMBER

The City County Insurance Services (CIS) Board of Trustees adopts the following rule regarding a Member's ability to provide an optional defense. This Rule, effective April 1, 2009, supersedes and replaces Rule Number 3 which became effective July 1, 2001

1. In any liability claim where the Executive Director reasonably believes, on the advice of the CIS Claims Manager, that a Member will object to settlement, or has been informed by the Member of such an objection to settlement, the following actions shall be taken:
 - a. The Member shall be advised in writing of the nature of the proposed settlement and of CIS's reason, in summary, for recommending such settlement.
 - b. The Member shall be advised in writing of its right to prevent CIS from settling the claim as proposed and the consequences of exercising that right as further set forth in this Rule.
2. A Member electing to prevent a proposed settlement pursuant to the Rule shall execute an agreement with CIS accepting responsibility for all additional costs including but not limited to legal and investigative expense and subsequent judgment or settlement, above such costs as would have been incurred had the Member not elected to prevent the proposed settlement.
3. The Member shall have the option of assuming the defense of the claim, in which event CIS shall tender to the Member such sum as would have been paid by CIS under the terms of the proposed settlement but for the Member's election to prevent such settlement pursuant to this Rule. Otherwise, the Trust shall continue to administer the claim and any associated legal defense, with all amounts expended thereupon, in excess of the amount of the proposed settlement prevented pursuant to this Rule, payable by the Member.

Adopted by the CIS Board of Trustees
March 30, 2009