

HARRP NOTES

Housing Authorities Risk Retention Pool
7111 NE 179th Street
Vancouver, Washington 98686
(360) 574-9035 • (360) 574-9401 FAX
Website: www.harrp.com



PLEASE ROUTE:

- _____ Executive Director
- _____ Accounting / Finance
- _____ Maintenance
- _____ Property Management
- _____ Personnel
- _____ Safety Program Coordinator
- _____ Other

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ANNOUNCING: Free Online State-Specific Employee Handbook Building Tool Webinar

We will be holding two 30-minute webinar sessions to highlight this new feature and how it can benefit your Housing Authority

Please select one of the two sessions below and register using the included link:

- Session I: November 17 at 2:30pmPST** <https://www2.gotomeeting.com/register/834347251>
- Session II: December 2 at 10:00amPST** <https://www2.gotomeeting.com/register/259724242>

AFFORDABLE HOUSING RISK POOL (AHRP)

Beginning in early 2007, the Housing Authorities Risk Retention Pool (HARRP) Board of Directors began exploring the possibility of providing insurance coverage for tax-credit and non-profit affordable housing. The need for stable, affordable coverage for these entities has been requested from HARRP members for years.

The history of HARRP's low rates stems from the benefits that governmental risk pools enjoy. Risk pools are not taxed and are exempt from State insurance regulations, codes and fees. This benefits the public sector and taxpayers by providing less cost to the authority. Internal Revenue Code 115, which allows HARRP to be tax exempt, only permits governmental risks to be pooled.

Inclusion of tax-credit and non-profit housing into HARRP would nullify the IRC 115 exemption, thus rendering HARRP an insurance carrier and the program would soon succumb to large administrative costs that are encountered by all commercial insurers.

Maintaining the IRC 115 exemption is paramount for existing HARRP member inventories. Working around this undisputed requirement, HARRP has developed a proposal for pooling of tax-credit and non-profit affordable housing. The entity, Affordable Housing Risk Pool, or A-HARRP, would be a limited liability corporation (LLC) licensed in Oregon, which allows the greatest flexibility. AHRP would be a taxable entity, however, will be able to minimize the financial impact of operation through HARRP's legislative successes which allow State oversight rather than State Department of Insurance regulation. AHRP pursued, and was successful in obtaining State legislation from California, Oregon and Washington permitting multi-State pooling of these types of affordable housing ventures.

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AHRP will be a wholly owned subsidiary of HARRP. ORAWCA Agency will continue to operate as a subsidiary of AHRP. ORWACA will be instrumental in the acquisition of ancillary coverage, such as builder's risk, earthquake, flood, etc.

The coverage that has been developed for AHRP includes property, general liability and tenant discrimination. AHRP/HARRP would partner with Munich Reinsurance of America, an A+ XV AM Best rated carrier, to provide a level of coverage above AHRP's self insured retention (SIR). This partnership satisfies lender requirements for an AM Best rating. HARRP is continuing to work with the major lenders and syndicators, educating them on the structure and protection AHRP/HARRP provides the investors. Additionally, Munich's partnership will allow limited coverage for contract property management.

Since 2007, the Board of Directors, in its annual rate setting meeting, has elected to grow the surplus position of HARRP for the sole purpose of providing funds to develop an alternative for covering tax-credits and/or non-profits housing.

In these past four years, actuarial studies have indicated small decreases to various lines of coverage, and conversely, small increases for other lines of coverage. Instead of taking small rate decreases or increases, the Board of Directors has elected to hold the rates stable, since 2007. In doing so, HARRP has built surplus that is now earmarked for the possible commencement of AHRP.

The development of AHRP has been very difficult and complicated. Although much of the core elements of this pool have been assembled, there are many other factors in play that make the success, or failure, of AHRP unknown. Factors such as participation on the part of our members, future reinsurance costs, legislative changes, lender unwillingness to accept the proposed pool, and adverse losses all play a huge role in this venture. As the true cost of AHRP will not be fully known for at least a year as the program ramps up, the Board of Directors has decided that utilization of a portion of the surplus that has been built will be used for AHRP's initial year.

The primary hurdle AHRP has faced is the AM Best rating issue. The reinsurance portion of AHRP has been almost two years in the making. HARRP's first run at reinsurance for AHRP, as a stand alone pool, made the rates uncompetitive. In June 2010, the reinsurers were again approached utilizing both HARRP's massive pool and the anticipated participation of members' tax-credit and non-profits (AHRP). The reinsurance rates were hugely discounted based on the immense volume and spread of risk HARRP provides.

In order to achieve this discount, HARRP would now cede a portion of its current SIR to reinsurance. While this reinsurance increases costs for HARRP, several benefits are realized, most notably, reduced loss costs as the reinsurer will cover a portion of each loss previously retained by HARRP.

While AHRP has received an enormous amount of investigation and consideration, it still poses risks to members of HARRP. Surplus will be used to offset possible operating losses for at least the first year, which are predicted until AHRP becomes self sufficient. A disclosure statement, which provides an overview of the structure of AHRP, was sent to all HARRP members in October 2010. The Board of Directors would never arbitrarily launch any program of this magnitude without majority approval from the membership. The disclosure statement and letter from the HARRP President is intended to provide the latest details and solicit a vote from the members.

It is requested that the consent form, which is the last page of the disclosure statement, be submitted to HARRP by December 15, 2010. Based on the vote, the Board of Directors could approve the launch of AHRP, making it officially operational on January 1, 2011. The timing of the approval process is extremely tight, as the reinsurers quotes will expire in mid December.

The timely submission of your vote is critical to AHRP's future. Please take a moment and review the proposal that was sent to your Authority and submit your vote. If you need the disclosure packet again, please let HARRP know. If you have any questions, you are encouraged to call your HARRP representative or the HARRP Executive Director.

2011 HARRP RATES

Typically, the actuarial analysis for the upcoming year's rate setting is discussed in December. With the proposed AHRP dominating the Board of Directors agendas for numerous months, the decision to accelerate the actuarial studies for 2011 was approved in September.

During the October Board meeting, the impact of AHRP on HARRP's rates was presented and discussed. The cost pressure on HARRP by implementing AHRP was critical in the discussions that lead to the decision to release the disclosure packet to members soliciting a vote.

The HARRP actuarial analysis for 2011 rates is now complete. Due to continued investment earnings and a favorable year of losses, there is no cause for increasing HARRP rates for 2011. This is a key component in determining the projected costs to HARRP and AHRP. If AHRP fails to receive majority vote for implementation, HARRP rates will remain the same for 2011, while continuing to build modest surplus. If AHRP receives majority vote for implementation, then HARRP rates will remain the same for 2011 and surplus will be drawn to offset the costs of reinsurance for HARRP and anticipated operating losses for AHRP as it ramps up its operations.

Either way, the rates for 2011 will be, once again, the same. There are two caveats however: the first is that if AHRP launches, auto coverage rates provided by HARRP will increase by 10%. This is because reinsurance would then provide an additional \$1m in coverage for auto liability above HARRP's current \$1m limit. The second caveat is that your authority's rates may fluctuate based on the rating tier assigned, which is derived by the losses incurred. Please see the Tiered Rating section below.

TIERED RATING

Effective on January 1, 2009, HARRP implemented a new rating system. The prior rating system was based on State differentials, with numerous rate credits applied to individual members. A weakness of this system was the degree that overall State rates were influenced by the larger authorities within the program. Consequently, the loss experience of smaller members within each State was not fully reflected, whether that experience was favorable or unfavorable, in the rate that they were charged. Another flaw was the complexity of maintaining and billing different rates for each member.

In order to address these issues and streamline the system, a new approach that gives more weight to an individual member's experience was implemented. Members are placed into one of five tiers (I-V) based on their experience. Separate tiers are assigned for the property and liability programs. The liability assignment is based on each member's weighted exposure in all lines of liability programs. A base rate is calculated for each line of business, and differentials are applied to arrive at each tier rate.

Tier assignments are evaluated each year during the fall, based on the losses through the prior year end. The current assignments for rating year 2011 are based on incurred loss data valued as of December 31, 2009. Losses for the most recent four accident years were included. These losses were then broken down into losses capped at \$50,000 per claim and losses excess of \$50,000 per claim.

Credibility factors are utilized based on the member's number of exposures. This accounts for the larger members having a larger proportionate share of loss exposures, i.e.; number of units, number of employees, total insured values of structures, etc.

Some individual members had loss experience that varied greatly from the overall state rate charged, so the potential for large swings in individual member rates exists during the transition period. In the interest of limiting rate changes to the individual members, a phase in period until 2012 is being used to gradually move members to the indicated rate category that corresponds to their loss experience.

HARRP has again chosen to limit each member to a one-tier change for 2011. For instance, if a member is assigned to Tier III for 2010 for the property program, depending on their loss experience from 2006 – 2009, they can be assigned to a Tier II, III, or IV for 2011 because of the one-tier change limitation. Tier rates will vary around the center rate by plus or minus 10% and 25%.

Your new tier will be reflected in the 2011-2012 billing. If you would like to know the tier assigned to your Authority for 2011, please contact the HARRP office.

Managing the Risk of Old Man Winter



Fall has arrived and old man winter soon follows, Here are some important seasonal risk management loss prevention tips.

- Keep the heat turned on in vacant units to avoid freezing pipes.
- Clear sidewalks of fallen leaves, they cause slip hazards and clog drains which increases the risk of injury.
- If it is rainy or snowy in your area, put rugs in common area entrances.
- It is time to check the wear and tear on all vehicle tires.
- If your units have fireplaces, when was the last time they were cleaned?
- Seasonal fire prevention notices are available on-line by FEMA on Christmas trees and candle safety. They are free and reproducible handouts that should be provided to ALL tenants. You can find it at:

http://www.usfa.dhs.gov/citizens/home_fire_prev/holiday-seasonal/holiday.shtm