

**Meeting Location:  
County of Tulare  
Board of Supervisors Chambers  
2800 W. Burrel Avenue  
Visalia, CA 93291  
May 4, 2018 9:30 AM**

**AGENDA DATE:** May 4, 2018

**ITEM NUMBER:** Item 15

**SUBJECT:** Receive Consultant's Report on Loan Repayment and Reserve Funding Schedule and Provide Direction in Regard to Loan Repayment Amendments (A)

**REQUEST(S):** That the Board review and provide direction on the SJVIA loan repayment for the County of Fresno and the County of Tulare, IBNR reserve funding, and stabilization reserve funding.

**DESCRIPTION:**

To maintain financial solvency for the SJVIA, the County of Tulare and the County of Fresno provided loans to the SJVIA of \$4,000,000 and \$5,000,000 respectively. The SJVIA Board requested that Keenan develop a loan repayment policy to inform and support rate renewals sufficient to repay the loans. Additionally, the SJVIA has an unfunded IBNR reserve and no stabilization reserve for adverse claim activity. Keenan developed a loan repayment and reserve funding schedule and policy which provides the basis for incorporating loan repayment and reserve establishment into renewals for 2019 through 2024.

This is an updated report which includes the following adjustments:

- Applying the interest accrual to loan amounts;
- Developing the SJVIA loan repayment, IBNR reserve, and stabilization reserve over a five-year period.
- Developing the SJVIA loan repayment, IBNR reserve, and stabilization reserve over a two-year period.

**AGENDA:** San Joaquin Valley Insurance Authority

**DATE:** May 4, 2018

**FISCAL IMPACT/FINANCING:**

Loan repayment of \$9,163,970, IBNR reserve establishment of \$5,703,223, and a one-month stabilization reserve of \$5,925,130 for a total of \$20,792,323 to be funded over five years.

**DISCUSSION:**

The SJVIA has loan repayment agreements with each of the two counties.

Both agreements provide that the counties are to be repaid simultaneously, in accordance with the amounts that they loaned. Specifically, the agreement with the County of Tulare provides that both counties “shall be repaid simultaneously based on the principal amount advanced by each of them to SJVIA.” The agreement with the County of Fresno provides that both counties “shall be repaid simultaneously and pro-rata based on the principal amount advanced by each of them to the SJVIA.” That means, given the differences between the principal amounts loaned by each county, for every \$1 repaid to the County of Tulare, \$1.25 must be repaid to the County of Fresno. Those provisions ensure that neither county’s loan is paid in full before the other’s.

The agreements differ, however, on the deadline for repayment. The agreement with the County of Fresno provides that repayment must be no later than December 30, 2021, while the agreement with the County of Tulare provides that repayment must be no later than June 30, 2018. Because of the requirement in both agreements that repayment must be simultaneous and in accordance with the amounts that the counties loaned, that means both loans are due in full no later than June 30 of this year.

The SJVIA has not yet established renewal rates designed to incorporate loan repayment. For that reason, the SJVIA does not currently have sufficient funds to pay both loans by June 30 of this year.

Given those circumstances, the SJVIA Board directed SJVIA staff to seek amendments to the loan repayment agreements. Specifically, the SJVIA Board requested amendments providing repayment over a period not exceeding five years beginning on July 1, 2019, with each county to be repaid “dollar for dollar.”

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The SJVIA presented loan repayment amendments to the County Counsel's office for each of the counties. Both offices returned comments to the SJVIA, summarized as follows:

- The County of Fresno's comments accepted the proposal for repayment over five years, beginning July 1, 2019, but rejected "dollar for dollar" repayment in favor of retaining the current requirement for repayment simultaneously in accordance with the amounts loaned by the counties.
- The County of Tulare's comments rejected the proposal for repayment over five years and instead proposed a two-year repayment period beginning April 1, 2019. The County of Tulare's comments also rejected "dollar-for-dollar" repayment and would altogether eliminate terms requiring repayment simultaneously in accordance with the amounts loaned by the counties. As well, the County of Tulare's comments would add a requirement that repayment to the County of Tulare may be accelerated if the County of Fresno does not remain "current" on its payment obligations to the SJVIA.

In order to resolve this matter, SJVIA staff is requesting the SJVIA Board's official approval to propose a compromise to the counties that will include additional time to repay the loans while ensuring adequate reserve funding. Staff has relied upon SJVIA legal counsel for the summary of the counties' respective proposals above.

**ADMINISTRATIVE SIGN-OFF:**



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Paul Nerland  
SJVIA Manager



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Rhonda Sjostrom  
SJVIA Assistant Manager