PA10-006

HB5011

House	560-564	5
Insurance	10-57, 83-95	61
Senate	987-994	8
		74

H – 1074
CONNECTICUT
GENERAL ASSEMBLY
HOUSE

PROCEEDINGS
2010

VOL.53
PART 2
294 – 594

The bill passes.

Mr. Clerk, please call Calendar 33.

THE CLERK:

On page 22, Calendar 33, House Bill Number 5011, AN ACT EXTENDING THE EFFECTIVE DATE FOR CERTAIN INTERLOCAL RISK MANAGEMENT POOLS, favorable report by the Committee on Planning and Development.

DEPUTY SPEAKER O'ROURKE:

The Chair recognizes Chairman Fontana.

REP. FONTANA (87th):

Thank you, Mr. Speaker.

Mr. Speaker, I move for acceptance of the joint --

DEPUTY SPEAKER O'ROURKE:

One minute, Mr. -- Representative Fontana. Hang on.

Folks, we're getting noisy again. Give your attention to -- Representative Fontana is talking on an important bill.

REP. FONTANA (87th):

Thank you, sir.

Mr. Speaker, I move for acceptance of the Joint Committee's favorable report and passage of the bill.

DEPUTY SPEAKER O'ROURKE:

The question is on acceptance and passage. Will you remark, sir?

REP. FONTANA (87th):

Thank you, Mr. Speaker.

Mr. Speaker, this bill extends by six years the date by which certain interlocal risk management pools must comply with contingency reserve requirements specified by law. It also requires that an interlocal risk management agency, beginning on October 1, 2013, to report annually to the insurance commissioner any surplus or deficit for its preceding fiscal year.

If there's a deficit of $8 million or more, the agency must assess its pool members to eliminate the deficit within three years from the preceding June 30th. The agency determines how to implement that assessment.

I urge passage and would ask to comment further, through you.

DEPUTY SPEAKER O'ROURKE:

Thank you, Representative Fontana. Do you care to comment further?

REP. FONTANA (87th):

Yes.

DEPUTY SPEAKER O'ROURKE:

Please proceed.

REP. FONTANA (87th):

Yes, Mr. Speaker. Thank you very much.

Mr. Speaker, this deals with a particular situation that many smaller towns and governmental entities in Connecticut are currently facing, dealing with their particular interlocal risk management agency, specifically known as MIRMA.

MIRMA is in the process of implementing its plan to eliminate its outstanding deficiency over the next six years and needs the six-year extension contained within this bill in order to implement it properly and completely.

We need to pass this bill this year in order to extend that date so that the entire amount of the deficiency does not fall on its member municipalities beginning on July 1st. I therefore urge passage. Through you.

DEPUTY SPEAKER O'ROURKE:

Thank you, Representative Fontana.

Representative D'Amelio.

REP. D'AMELIO (71st):

Thank you, Mr. Speaker.

You know, Mr. Speaker, every time we do a bill that extends time out, I recall our good friend Representative Reggie Beamon when he was here and he used to get up and make comments on all these bills. But I concur with my colleague on the Insurance Committee.

This bill is needed by several of our communities in the state. If we do not pass this bill, they're going to have a very tough time making their budgets work. So I urge this Chamber's adoption. Thank you.

DEPUTY SPEAKER O'ROURKE:

Thank you, Representative D'Amelio.

Will you remark? Will you remark? Will you remark on the bill before us? If not, staff and guests please come to the well of the House. Members please take your seats. The machine will be open.

THE CLERK:

The House of Representatives is voting by roll call. Members to the chamber. The House is taking a roll call vote. Members to the chamber, please.

DEPUTY SPEAKER O'ROURKE:

Have all members voted? Have all members voted? Please check the board to make sure your vote is properly cast. If all members have voted the machine will be locked. The Clerk will take a tally.

Mr. Clerk, please announce the tally.

THE CLERK:

House Bill 5011.

Total Number voting	147
Necessary for adoption	74
Those voting Yea	145
Those voting Nay	2
Those absent and not voting	4

DEPUTY SPEAKER O'ROURKE:

The bill passes.

Mr. Clerk, please call Calendar 99.

THE CLERK:

On page 12, Calendar 99, House Bill Number 5264, AN ACT CONCERNING THE DUTIES OF THE ADJUTANT GENERAL, favorable report by the Committee on Public Safety.

DEPUTY SPEAKER O'ROURKE:

The Chair recognizes Representative Graziani.

REP. GRAZIANI (57th):

Thank you, Mr. Speaker.

Mr. Speaker, I move for acceptance of the joint favorable committee's report and passage of the bill.

DEPUTY SPEAKER O'ROURKE:

Motion is on acceptance and passage. Will you remark, sir?

S – 601

CONNECTICUT
GENERAL ASSEMBLY
SENATE

PROCEEDINGS
2010

VOL. 53
PART 4
933 – 1266

through the legislative process last year. But I'm happy to see that it's at the front end of the list for this year.

Thank you, Mr. President.

THE CHAIR:

Thank you, Senator Kissel.

Will you remark further?

Senator McDonald.

SENATOR MCDONALD:

Thank you, Mr. President.

If there's no objection, might this be placed on the consent calendar?

THE CHAIR:

Seeing no objection, the item will be placed on the consent calendar.

THE CLERK:

Calendar page 19, Calendar Number 300, File Number 12, House Bill 5011, AN ACT EXTENDING THE EFFECTIVE DATE FOR CERTAIN INTERLOCAL RISK MANAGEMENT POOLS, favorable report of the Committee on Insurance and Planning and Development.

(Senator Coleman of the 2nd in the Chair.)

THE CHAIR:

Senator Guglielmo.

SENATOR GUGLIELMO:

Thank you, Mr. President.

I don't know if this is the right time, but I need to recuse myself under Rule 15.

THE CHAIR:

The journal will so note.

SENATOR GUGLIELMO:

Okay. Thank you very much.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Thank you, Mr. President.

Mr. President, I move acceptance of the joint committee's favorable report and the passage of the bill.

THE CHAIR:

On acceptance and passage, will you remark further?

SENATOR CRISCO:

Yes, Mr. President.

Mr. President, this is -- and members of the circle, legislation that is extremely important to numerous towns in the state of Connecticut who belong to the Interlocal Risk Management Pool, otherwise known as MIRMA. The bill extends the effective dates of contingency reserve requirements of the fund delaying related costs of various municipal, local public agency members from 2010 to 2016. It also requires these pools, if their deficit is more than $8 million on October 1, 2013, and annually thereafter to assess members to eliminate their deficit within three years.

As of February 15, 2010, the municipal MIRMA plan is comprised 60 members, and they had a deficit of approximately 9.6 million.

THE CHAIR:

Thank you, Senator.

Will you remark further?

Senator Caligiuri.

SENATOR CALIGIURI:

Thank you, Mr. President.

If I may, I have a question, through you to Senator Crisco.

THE CHAIR:

Please proceed.

SENATOR CALIGIURI:

Thank you, Mr. President.

For the sake of the record, through you, Mr.

President, the concern that some have expressed with -- with the continuing extension of MIRMA being required to meet its various reserve requirements, is that at some point it may have a large claim for which it will not have enough reserves to actually pay out.

My question, through you to Senator Crisco, keeping in mind that I supported this in committee -- is what is Senator Crisco's view on the assurance and the confidence we should have that ultimately MIRMA would have the resources to pay out on claims notwithstanding the fact that we continue to extend out the dates by which it was required to meet certain financial requirements? Through you, Mr. President.

THE CHAIR:

Senator Crisco, if you care to respond.

SENATOR CRISCO:

Thank you, Mr. President.

Through you to Senator Caligiuri, I assume that since there are some number of towns that are involved, and comprising of 60 members that if there should be a crisis -- and this is one of the reasons why we're taking this action that they would all have to increase their assessment.

THE CHAIR:

Senator Caligiuri.

SENATOR CALIGIURI:

Thank you, Mr. President.

I thank Senator Crisco for that response.

Through you, Mr. President, just a follow-up and to the point that Senator Crisco just made. Is that then the purpose of the language beginning at lines 110 through the end of the bill before us requiring an assessment to be made if there is a deficit up to a certain point beginning October 1, 2013? Is that the means by which we intend to force greater reserves to be posted if these deficits aren't made up faster than that? Through you, Mr. President.

THE CHAIR:

Senator Crisco.

SENATOR CRISCO:

Mr. President, through you to Senator Caligiuri, yes.

THE CHAIR:

Senator Caligiuri.

SENATOR CALIGIURI:

I thank you, Mr. President.

I thank Senator Crisco.

And I think that is a -- that is a good step forward in my judgment. It's a way of both continuing to give the underlying municipalities time to post the reserves that they need to ultimately protect the people they're trying to protect and yet I believe that the language that we've just discussed at the end of the bill puts in some finality on this and will give us all the comfort that over time and in the next few years, the resources will be there to ensure that claims will be satisfied and honored as made especially if larger claims are made. And for that reason, Mr. President, I will support the bill and would encourage others to do so.

Thank you Mr. President.

THE CHAIR:

Thank you, sir.

Will you remark further? Will you remark further? If not --

Senator Crisco.

SENATOR CRISCO:

Thank you, Mr. President. If there's no objection, I request that it be placed on the consent calendar.

THE CHAIR:

I believe that Senator Guglielmo had to recuse himself, therefore, we'll have to go to roll call.

SENATOR CRISCO:

I'm sorry. I'm sorry. I thank you, Mr. President, for reminding me that. No other comments, Mr. President.

THE CHAIR:

Thank you.

If there are no further remarks, the Chair will ask the Clerk to announce that there is a roll call vote in process in the Senate.

THE CLERK:

An immediate roll call vote has been ordered in the Senate. Will all Senators please return to the chamber. An immediate roll call vote has been ordered in the Senate. Will all Senators please return to the chamber.

THE CHAIR:

The machine will be opened.

THE CLERK:

You're missing Prague.

THE CHAIR:

Will all Senators please check the board to make certain that your vote is properly recorded? If all Senators have voted, the machine will be locked. Will the Clerk please announce the tally.

THE CLERK:

Motion is on passage of House Bill 5011.

Total Number Voting	33
Those voting Yea	33
Those voting Nay	0
Those absent and not voting	3

THE CHAIR:

The bill is passed.

Will the Clerk please return to call the calendar?

THE CLERK:

Calendar page 24, Calendar Number 340, File Number 522, substitute for Senate Bill 175, AN ACT ESTABLISHING CONNECTICUT COMPETITIVENESS COUNCIL, favorable report of the Committee on Commerce and Export and Government Administration and Elections.

THE CHAIR:

Senator LeBeau.

SENATOR LEBEAU:

Mr. President.

I move acceptance of the joint committee's favorable report and passage of the bill.

THE CHAIR:

JOINT
STANDING
COMMITTEE
HEARINGS

INSURANCE AND
REAL ESTATE
PART 1
1 – 339

2010

the exit doors until an all-clear announcement is heard.

And just -- thank you, Representative D'Amelio. I have had to evacuate a building on short notice so I do have some experience in that regard.

As I'm sure you are all aware, we intend to follow the precedent we established last year that the public would be afforded two hours of testimony prior to those Legislators, agency heads and municipalities. Thankfully this afternoon, we have actually very few members of the public who have indicated interest in testifying on the bills in front of us, so we will proceed according to bill number.

And so with that, we will move to Senate Bill 52. We do not have anyone signed up to testify as best we can tell. So let me just ask, are there people here who would like to testify on Senate Bill 52? Going once, going twice, done. Very good.

We will then proceed to House Bill 5011, and the first person we have to testify on this bill is James Hayden, the selectman -- or potentially first selectman, I guess, for the town of East Granby. And to be followed, if you would like, by Representative Matt Conway and Representative Annie Hornish. So, Representative -- First Selectman Hayden, please -- please proceed.

JAMES M. HAYDEN: Thank you, Mr. Chair. I would like to thank the Insurance and Real Estate Committee for the opportunity to speak in favor H.B. 5011. In these serious economic times, towns can ill afford to absorb the shock of unbudgeted and unanticipated expenditures. If legislation is not passed, extending the effective date for the Interlocal Risk Management Pools, 48 towns would be looking at a potential liability of $10 million due prior to the end of the current fiscal year.

East Granby has been a member of the Municipal Interlocal Risk Management Agency or MIRMA since its inception in 2002. At that time, the Legislature created MIRMA to increase competition in the workmen's comp marketplace. The Legislation also required MIRMA to meet requirements for specific financial reserves for contingencies by July 1, 2009.

Prior to the end of November 2009, participating towns were not made aware by MIRMA or the State Insurance Department that there was a significant problem on the horizon.

At a December 2009 meeting of participating towns, MIRMA stated it had sustained losses which exceeded the estimates of the actuaries for the program years of July 2002 through June 2009. Due to these extensive negative circumstances MIRMA said it would be forced to levy an assessment on all the members served within those program years.

At the time, MIRMA estimated East Granby, a town of less than 5200 residents with a combined budged of $17 million, would owe approximately $174,000 or more than 1 percent of its entire annual budget for this unanticipated debt.

As of February 5, 2010, MIRMA puts the liability of the town at $184,000. With the state budgetary issues, we are currently seven months into the fiscal year. Towns and cities are still uncertain how much revenue they will receive from the state prior to the end of FY '10.

Debts like the MIRMA assessment and budget uncertainty in this and future fiscal years puts the towns in an untenable financial position, and we ask for financial relief as provided by H.B. 5011.

Additionally, MIRMA has indicated that it would want one-sixth of the total owed by towns to be paid in the current fiscal year. I would ask that the payment schedule be allowed to commence in the next fiscal year, FY '11. This would allow for appropriate financial planning in towns where East Granby -- towns like East Granby, where a one-sixth payment of $31,000 has a considerable impact on operating budgets. H.B. 5011 will be a significant help for MIRMA towns. I ask the Committee and Legislature pass this bill.

Thank you for your time and your consideration.

REP. FONTANA: Thank you very much, Mr. First Selectman, and pleased to have you here.

And as you noted, I forgot to mention that we will be asking people to confine their initial comments to three minutes, and I appreciate your acknowledgment and cognizance of that. So, again, let me thank you for this.

We -- we do appreciate the number of towns that are members of MIRMA and would like it to continue. We're trying to figure out the best way to help steer it back into a very solid fiscal footing.

And regarding the payment issue -- I think that's one of our concerns -- is simply balancing the unanticipated element of the assessment with the fact that we need to begin to turn things around, manage it properly, and our expectation perhaps that towns have maintained some amount of unappropriated fund balance to absorb some of that.

So I don't know if you can comment or not on the status of East Granby's unappropriated fund balance if it has one, but I'd just like to ask.

JAMES M. HAYDEN: We -- we do maintain a cash balance, which I think is probably the same thing that you're talking about. But, with that said, any expenditure would need to go to the town where we don't have a charter, we -- so we have to go to town meetings for those expenditures, and there is significant pressure by the community to maintain a zero tax increase, and it puts a lot of pressure on small towns such as East Granby.

Do we have it in our operating budget? No, we don't.

REP. FONTANA: No, no, but in terms of that cash balance, you know, I guess that my town maintains an appropriate fund balance. It's four or five times the size of East Granby, but its balance is roughly $7 million. So, I guess I was curious whether, in fact, East Granby had a similar buffer if you will.

JAMES M. HAYDEN: We would love to have the $7 million --

REP. FONTANA: Well, again, remember we're five times the size of your town, so --

JAMES M. HAYDEN: But, we do -- we do -- truth be told, we do maintain a cash balance plan to be at around $2 million at the end of the year.

The -- I think my concern is -- is going to -- because ultimately that's going end up as a tax, to replace that money, and to go forward for the next five years. To do so, my concern is, A, the taxpayer impact; and, B, it's totally unplanned. You know, there is not certainty in the world, but if I have a little certainty, I can plan for it. That's why it'd be nice to be able to plan for this in the upcoming fiscal year, not in the current one.

REP. FONTANA: Have you spoken to the people at MIRMA about your concerns?

JAMES M. HAYDEN: Yes, I have. As a matter of fact, I have met and had several phone calls, but I met personally in a private -- private as in, Pat Hemmingway, the chair of MIRMA, came up to East Granby and spent some time with us explaining what had happened. Also, I attended a meeting in Rocky Hill, in December, where we did get information.

But prior to December 9th, I think, second week of December, we had no idea that we had this problem, and the other 47 towns can say the same thing.

REP. FONTANA: So -- so, you're saying that MIRMA had not discussed with you at all, the gap that would need to be closed at some point?

JAMES M. HAYDEN: I -- I just started my second term, so I can speak to the last two years. There was never a conversation with MIRMA regarding potential liability coming up.

REP. FONTANA: Okay, very good.

Questions for Mr. Hayden?

Representative D'Amelio.

REP. D'AMELIO: Thank you, Mr. Chairman.

Mr. Hayden, how -- are you presented with a bill yearly on MIRMA? There's 48 towns that participate, is it all spread out equally among the 48 towns, or is it by size? Would you say --

JAMES M. HAYDEN: It's by projected payroll because it's for workmen's comp, so it's a percentage of payroll. And then, you know, the premium is charged and also then your history, a claim history gets factored in also.

So, we pay an annual bill to the insurance carrier, through MIRMA. This year the insurance carrier is a company called Trident. And so we get an annual bill, and it's generated by the -- the salary cost.

REP. D'AMELIO: So the huge deficit that's there, I mean, how did that happen? Are some towns maybe not paying the bill, or --

JAMES M. HAYDEN: No, my -- and there's others in the room that are probably more qualified to answer that, but let me just share with you what my experience has been with that question. Is -- it's a case of there's money held in reserve. Somebody breaks a leg, they put $250,000 away to handle that liability. If that liability turns out to be a half a million dollars, then there's additional money that they need to go and get. You pool all the 48 towns together and the premium is charged based on what the actuaries consider to be the correct cost of the insurance.

There was a -- right now, my understanding is that there is approximately $10 million liability that needs to be addressed. And they have the right for assessment. As in the 2002, when MIRMA came about, they had the ability to go back. And even if you weren't a member of MIRMA in the current year, if you were in the past, they can go back and do an assessment. And my understanding is, that an entity such as KIRMA has the same ability.

REP. D'AMELIO: How -- how would you know, on a yearly basis, what you owe? Is there a bill that's presented?

JAMES M. HAYDEN: The premium is different than the liability. Yes, you get an annual bill.

REP. D'AMELIO: So the premium is paid?

JAMES M. HAYDEN: Oh, yes, absolutely.

REP. D'AMELIO: But the liability could be more?

JAMES M. HAYDEN: The liability is more. And in the two years that I have been in office, I have not seen a statement showing what the liability is.

REP. D'AMELIO: So you had no idea of what you had to pay on the liability side?

JAMES M. HAYDEN: Correct.

REP. D'AMELIO: Okay. Thank you.

REP. FONTANA: Thank you, Representative.

Representative Altobello.

REP. ALTOBELLO: Thank you, Mr. Chairman.

Good afternoon, Mr. Hayden.

JAMES M. HAYDEN: Good afternoon.

REP. ALTOBELLO: Did not this liability turn up in your annual audit?

JAMES M. HAYDEN: No. This would not be an audit of the East Granby books. This would be the audit of MIRMA and however they did the money.

REP. ALTOBELLO: So it showed no contingent liability in your audit?

JAMES M. HAYDEN: If I'm understanding --

REP. ALTOBELLO: You're -- you're a participant in a pool, and you have -- obviously, you have a liability as a participant, but the auditors didn't catch that?

JAMES M. HAYDEN: No, sir.

REP. ALTOBELLO: So you had no knowledge of this whatsoever? You had no knowledge of a deficit?

JAMES M. HAYDEN: I had no knowledge of a deficit.

REP. ALTOBELLO: None?

JAMES M. HAYDEN: No.

REP. ALTOBELLO: And you're sure it's not in your audit?

JAMES M. HAYDEN: I -- I'll --

REP. ALTOBELLO: As sure as you can be.

JAMES M. HAYDEN: The first thing -- the first thing I'm going to do when I get home is, I'm going to take a look at it. But at this point no. And it was never pointed out to me by our town auditors, our independent auditors.

REP. ALTOBELLO: No notes?

JAMES M. HAYDEN: No notes.

REP. ALTOBELLO: Unfunded liability, no revenue (inaudible)?

JAMES M. HAYDEN: No. Not like a gap 45 on a pension liability or something like that, no.

REP. ALTOBELLO: Which is what this is. Very similar.

JAMES M. HAYDEN: Well, again --

REP. ALTOBELLO: Okay.

JAMES M. HAYDEN: -- there's other folks in the room that know more about this than I do. All I know is I'm dealing with the end result.

REP. ALTOBELLO: Yeah. So you would like to see something in the next fiscal year, if indeed --

JAMES M. HAYDEN: Yes, sir.

REP. ALTOBELLO: Okay. Thank you, Mr. Chairman.

REP. FONTANA: You're welcome.

Representative Schofield.

REP. SCHOFIELD: Thank you, Mr. Chairman.

These are very basic questions, because I just don't understand a lot about MIRMA. Who is MIRMA? Who actually administers MIRMA?

JAMES M. HAYDEN: The -- the -- there is an administrator for MIRMA. His name is Pat Hemingway. He is the one who oversees the -- the entire operation, and hires the actuaries and those sorts of things. And then, we have as member towns, would -- would join that or other organizations to get our workmen's comp insurance. The idea in 2002, was to ensure that there was competition in the marketplace, is what I --

REP. SCHOFIELD: Right, and I -- I see your testimony said it was set up by the State Legislature. So, it's administered by a private sector company? But --

JAMES M. HAYDEN: I don't -- I don't have the answer for that. That's beyond my level of expertise.

REP. SCHOFIELD: Okay. I will have to talk to somebody who understands that, so I can get a better sense of who --

JAMES M. HAYDEN: (Inaudible.)

REP. SCHOFIELD: -- who's the authority and has the sort of responsibility to do this sort of reporting.

And you said you each pay premiums, but the premiums don't cover the liability? What do the premiums cover if not the liability?

JAMES M. HAYDEN: It did not -- in my understanding is it did not cover the entire liability. So the premiums would be set every year, the actuaries and the consultants would say, okay, to service what needs to be serviced, this would be the right amount of premium to charge the towns. It's based -- the total dollar premium, is based on the amount -- the amount of payroll that you spend on board of education and downside. And it appears that the premium over the course of the years, has not been enough to address that.

REP. SCHOFIELD: And -- and the member companies -- the member towns are meant to own all of the risk? It's just pure risk pooling? There's no risk shifting to whoever administers MIRMA?

JAMES M. HAYDEN: I think you're correct on that, but I don't know that to a certainty.

REP. SCHOFIELD: Thank you.

REP. FONTANA: Thank you, Representative.

And just to let people know, we will have after Representative Conway and Hornish testify, we will have a representative from MIRMA testify themselves, so we can -- we can get the answers. Some of the questions will be answered.

Other questions for the First Selectman?

Seeing none. Thank you, Mr. Hayden. And we appreciate you coming in, and we look forward to talking to you further about this.

JAMES M. HAYDEN: Thank you very much.

REP. FONTANA: Thanks.

Representative Conway to be followed by Representative Hornish.

A VOICE: He's from MIRMA?

REP. CONWAY: Insurance and Real Estate Committee, I appreciate the opportunity to testify before you today on behalf of Bill 5011. I'm also a representative in the town of East Granby, Suffield and Windsor. East Granby and are Suffield both members of MIRMA, and that is the reason why I'm here to testify.

And while I support the intent of 5011, it's with provisions that, while we're giving them an extension on the amount of time they're able to carry debt, that they have the financial responsibility as well to ensure that towns are not so negatively impacted by the payments of the assessment that it hurts other services that are vital to that community.

As you heard in previous testimony, this was known to be a liability by MIRMA back in 2007. It was not shared, to my knowledge, in speaking with the selectman of both East Granby and Suffield, Tom Frenaye, who could not be here today, due to having to make revisions to our current budget, with making cuts of 5 percent, as he was directed last night by the board of finance. So he had to sit back today and do that as opposed be here.

But they didn't receive no notification until December 2009, that this assessment, and the amount of this assessment was -- was forthcoming. And to, again, in the middle of a budget year, to then expect them to find the dollar amounts that are being requested, I think is unacceptable. And one -- one size doesn't fit all, in terms of the payback of this liability.

They are all members, but they each have individual responsibilities to their community and their own abilities to pay this back. So, I would ask that that be considered, when we reach an agreement with MIRMA, to how this payback is and to look at specific situations, as we have in East Granby, with an inability to pay this year, and to extend them by a year in the future, so that they can be paid out over the same period of time, but just not starting this fiscal year, and maybe propose language that would -- it would not exceed X percent of the overall town budget in terms of payback of this liability in each year moving forward.

Happy to answer any questions.

REP. FONTANA: Thank you, Representative.

And we will be looking forward to getting specific answers from MIRMA after you and Representative Hornish testify to the questions we've raised about notice, and so forth.

I think that the concern is really, that we do want to ensure the safety and stability and security of this fund.

REP. CONWAY: That should be good.

REP. FONTANA: And I think that when we talked to MIRMA last year, we sort of came to a recognition that we needed to address this sooner rather than later, and we left it to them to identify the best means to do that. And I think that there may or may be an ability to address some of that.

But I think you're right. We have to balance off the concerns, but this is a contractual relationship that the towns voluntarily entered into. So they chose affirmatively to insure with MIRMA, so it's an obligation on their part, it seems to me, to help support the solvency of the fund. And while you're right, that no one likes being hit with things in the middle of a fiscal year, that's why towns keep unappropriated or cash fund balances to try to address these kind of things.

So every town is different, you're right. I don't know that we're going to put in the statute that towns can't contribute more than a certain amount. I think we want to make sure, first and foremost, that this fund is there for them.

REP. CONWAY: Absolutely. And what I would actually -- I mean, I don't want to tell towns, or have us put in legislation, telling towns how. But leave some flexibility within that, the payback of the assessment, to accommodate the needs of specific towns, and let them work it out with -- with MIRMA, but with some certain expectations that you can't pay this year, that you are able to at least increase your payments starting next year for the following five years after that.

MIRMA is not in the position now, with the language in this particular bill, that they need the capital today. They do need it over the next six years. We -- but if we -- so if we give them that opportunity to collect it over that period of time, I think they have a responsibility to those communities that they did not notify so that they could plan how to collect that back and to take -- take that into account in these individual municipalities.

REP. FONTANA: Okay. Any questions for Representative Conway?

REP. D'AMELIO: I just have one.

REP. FONTANA: Representative D'Amelio.

REP. D'AMELIO: Thank you.

Representative Conway, I don't know if you can answer this or not, but, your town's liability towards MIRMA, how much is it?

REP. CONWAY: It's approximately, I believe, as of -- we're still waiting for the final numbers, which we have not received yet. We did have a meeting with MIRMA back in December. It was 467,000, I believe, at the time.

And we're waiting for both the final numbers, and that's divided now amongst three departments within the community. The municipality itself, WPCA, our Water Pollution Control Authority; as well as the school district are all involved in the pool. So it would affect each one of those within the community. Each one of those departments would be affected -- affected by this.

At the time we made the decision to go with MIRMA, or the town made the decision, the difference in the premium at that time was $1,000 a year, between KIRMA and MIRMA. And while the intent of the legislation to create that competition was all well-intended, that -- that competition is costing my community over 60,000 each year, as opposed to 1,000 that they would have, had they made a decision to stay with KIRMA.

So, it's a -- it was a decision the town made, and has a liability for, but not being notified of what that liability is until a month ago, I think is irresponsible on behalf of MIRMA.

Thank you.

REP. FONTANA: Thank you.

Other questions for Representative Conway? Seeing none. Thanks, Matt.

REP. CONWAY: Thank you very much.

REP. FONTANA: Representative Annie Hornish.

REP. HORNISH: Thank you. Good Afternoon. I'm Representative Annie Hornish, and one the towns I represent is East Granby. And I'm here in support of legislation, in support of H.B. 5011, that would extend assessment payments for municipalities impacted by MIRMA, the special assessment.

I submitted some testimony, and there's just one correction in there, I -- I wrote that in my district, East Granby was presented with a bill for 173 and change, that's been -- I just found out that was raised to $184,085.

And what I am here to request is, I would just like to say that these -- these are tough economic times, and it's very stressful for municipalities, as we all know, and that this is -- could be considered an unplanned expense.

And I'm writing in support of this legislation to simply allow towns to delay the start of these payments that were levied against them by MIRMA.

And to begin a five-year payment schedule starting next fiscal year, which is Fiscal Year '11, the debt will still be paid, but it's in a way that is going to minimize impact to towns. And, you know, I think these are -- these are unusually difficult economic times, and I think that flexibility here might be indicated.

My sympathies are extended to towns like East Granby, mostly because its liability was unknown to them until very recently. And it's hard -- it's hard for towns like East Granby who are, you know, being fiscally responsible to plan appropriately when they're being presented with these unanticipated expenses.

So I appreciate your time and consideration of this bill.

REP. FONTANA: Thank you, Representative. Thank you for coming and supporting your colleague and your first selectman.

And just to amplify a little bit of what I was saying to Representative Conway, I think we're trying to balance the needs of municipalities vis-a-vis the needs to make sure that this fund operates properly. And I appreciate the point that you made, which is that this is happening in the middle of a fiscal year, and so to the extent that MIRMA is seeking a full annual allotment, if you will, from towns in the midst of a fiscal year, it makes it more difficult.

So one of the things that I've raised with the possibility of essentially making the first payment be a half, a half payment, you know, a half year, half payment. And doing it for the reason that I think we don't want to unwillingly perpetuate a model in which people, good-intentioned people come to us every year and say something bad has happened, you've got to push off this another year. You've got to put this off another year.

And I think that that may have happened in the past, and I think we want to try to avoid that going forward. And given the tough circumstances that we're in, it's not clear that it's going to be any better next year than it is this year. So to try to forestall the possibility that people will then come back next year and say, Well, guess what? It was bad last year, and this year it's worse, so you've got to push it off again. We want to see if we can try to get the towns agreeing to a system where we can say, okay, this is an obligation that needs to get cleaned up and this is how we're going to do it.

So, thank you for coming, and we'll look forward to working with you and Representative Conway on this problem.

REP. HORNISH: Okay. Thank you very much.

REP. FONTANA: Now before you go, any questions for Representative Hornish?

Seeing none, thank you.

REP. HORNISH: Okay. Thank you.

REP. FONTANA: Okay. We now have three representatives of MIRMA, Tony Palermo, David Denvir and John Patton. You're welcome to come up together or individually as you prefer. Starting with Tony, which is the first one who signed up, I'll leave it to you all.

Let me just say gentlemen, at the outset, I appreciate you coming. And I don't know quite whether we had talked about the scheduling for this hearing, and whether or not Pat could or could not come, but we appreciate your coming, and we wanted to hear it as quickly as possible in order to try to facilitate our resolution. So we appreciate your coming.

And please just state your names for the record.

TONY PALERMO: My name is Tony Palermo. I'm the vice chairman of MIRMA. Actually, today, I put my name on the list to speak only to submit the written testimony of David Denvir, who is our present chairman, who, unfortunately, could not make it. So I turn the floor over to John Patton.

JOHN PATTON: My name is John Patton. I would like to state I'm a member of MIRMA board of directors and the chairman of the MIRMA finance committee.

Also, in 2001, I was first selectman of the town of Willington, and that was one of the two towns that helped form MIRMA, back then.

I submitted written testimony, but there seems to be a lot of questions, which I'm sure you can read the written testimony on behalf (inaudible), some of the questions that you -- that you have, to answer them the best I can, if that works for you, Mr. Chairman.

REP. FONTANA: Definitely works for me.

JOHN PATTON: Okay.

REP. FONTANA: Thank you. I hope more people say that throughout the rest of the session.

My first question is, if you'd just address the manner and timing of notification to your member towns of this liability issue. When --

how and when do you -- did you notify them that there was a gap that needed to be addressed at some point, the size the gap, and the proposed method of dealing with that.

JOHN PATTON: The -- there has been, over the time we have notified towns and members, and I'm going to say it was about 2006, I believe, that we did notify the towns that there was -- there was an issue. And I'm not sure of the exact -- exact year. I'm getting to the point now, where, you know, decades and years, but somewhere around 2005 and 2006, we did notify the towns, at the request of the Insurance Department, that there was an issue.

A lot of the -- the losses at that point were projected losses, actuarial losses, and we were continuing on as our loss ratios continued to decrease, so we were trying to work it out through there so that we would not have come to a point of an assessment.

Remember last year we came before you to kind of do the same -- the same legislation, to really avoid this issue of saying we need to bill you now, because at that point we were all -- it was becoming clear that we needed to do something, but what we did not want to do was send an invoice and say you need to pay us, and you need to pay us now. Because we didn't know the extent of it, as you -- we have to deal with the accountants and the actuaries that come up with some exact numbers of what type of assessment it's going to be -- be out there.

What we also did, was for this current fiscal year, is start a new re -- I'm going to say reinsurance program for the assessments to avoid future assessments for this year and going forward so that we will never be put into this position.

In other words, we have kind of off-loaded the risk there to -- to a private company. And that's -- that was to kind of avoid any future assessments. Unfortunately we have to deal from 2002 until today or until June 30th of 2009.

Part of -- we didn't understand the magnitude or didn't know the magnitude, not understand it, until the actuaries' report for this year. A lot of our projected loses are coming in the last two years, because they're just not -- they haven't kind of fleshed out yet. So a lot these things are just -- the actuaries are either being conservative, our administrators, our third-party administrators are being conservative in their numbers, so that we have a lot of projected losses versus actual losses.

Unfortunately it doesn't matter. The way the legislation is, we need to bill out as if they're actual losses. So then we need to bill out to towns, and towns need to pay us as part of a risk pool. And what we would have is we'd have a large amount of cash sitting in our bank account until we needed to pay it out some time in the future.

That's not our intent. I mean, being a first -- I was a first selectman for many years. I was chairman of the board of finance, not something I'd want for my town, to give cash to somebody else so they could sit there -- so it could sit there in their bank account.

We've -- we've worked with the insurance department really since the inception of the program. They've monitored us. We've worked with them. We give them quarterly reports and at one point monthly reports.

So we've -- we've tried to handle this the best way that we know how. We are a -- right now all of these losses are really -- we don't have a high administrative burden. These losses that are out there, are payments that are made to workers, payments that are made to hospitals, they're -- they're actual money that has gone out to -- to cover losses of municipalities.

And for the Town of Willington, I think we're going to be hit somewhere around $120,000 for the town, so it's -- you know, it's sort of personal for me also.

REP. FONTANA: Okay. John, could you also then address the structure of the proposed assessment, in terms of the dates by which you would seek payment from towns for the repayment of the assessment and why it's structured the way it is?

JOHN PATTON: If the legislation passes?

REP. FONTANA: Well, as I understand it, you've come up with an assessment program, that's not specifically contained in the legislation. The legislation authorizes the continued existence of MIRMA, and it's a date certain by which that assessment would have to occur.

But I believe you've come up with a plan, which is what the first selectman from East Granby and others have talked about.

JOHN PATTON: Okay. If -- if the legislation stays as it is right now, we would have to bill them, they would have to pay us, this fiscal year. Or we can do some sort of assessment financing or premium financing, whatever it happens to be, but somehow we'd have to get cash in to put it into our bank account to cover future losses. If the legislation stays as it -- as it is.

If the -- if the legislation or this H.B. 5011 passes, we can work our cash flow with the towns cash flow. In other words, we don't need it right now. We can work it, whether it's -- I think that right now the idea is about one-sixth the time to pay off, so that we would have sufficient cash -- cash to pay losses as they occur in the future.

The other thing it would allow us to do, which this is -- as I look at the numbers, unfortunately the actuaries don't care what I think, but when I look at them, it allows us to get a better handle on the last two years' losses. Because as time goes on, you get a better handle of what losses are out there, what their -- what their losses -- their actual losses are and we have a better handle on what the projected losses are.

I believe looking at the numbers, as I've looked at them, that we're -- our administrators have become very conservative in their case reserves, and our actuaries have become very conservative in what they consider to be projected losses. So that right now, we're coming at -- we're asking for the last two years for over $5 million for these last two years, whereas when I look at the numbers, because we have gotten much more conservative, because the numbers have become much more conservative, that we'll probably be looking at it in a few years saying, we don't need all that money; we have to start giving some money back.

And I don't -- so, I'd rather give it some time to let those numbers play out a little bit so that you've incurred but not reported numbers that the actuaries come up with, they can get a better handle on them, and we can get a better handle on them, so that we can -- we can assess our cash needs at that point and what our losses are, and work with the towns, and get them -- get them a better number.

REP. FONTANA: All right. Well, John, let me just ask you, if I could, to try to clarify something.

The legislation, as I read it, does not do what you said it does. We do not require you to start assessing towns right away. What we said is that, if you have a deficit by June 30th of 2013, in excess of $8 million, you have to have a plan, and you have to implement a plan within three years to clean that up.

Now, as what I understand is, Pat and you all come up with a plan to do that over the six years between now and that date by which you would have to have cleaned it up, if that was triggered. But there's nothing in the statute, this bill, that says you have to go out May of this year, September of this year, whatever, and start billing people in six annual installments to clean up the assessment, to clean up the liability.

JOHN PATTON: I think that was -- I believe that was last year's bill that I don't think passed. Unless, I -- I may be mistaken. I'm not a -- I'm not a -- I sell dirt and concrete, so I am not a Legislator.

REP. FONTANA: Right. Well, I'm sorry Pat's not here then, because it would be helpful to have Pat --

JOHN PATTON: But that -- that -- that was --

REP. FONTANA: -- here to address that.

But the language last year didn't say that, because this language is the same as last year's, and it didn't say that either. So, that needs to be cleared that we're not saying that. What we're saying is MIRMA has to have a plan to clean this up.

JOHN PATTON: Correct.

REP. FONTANA: And -- and the plan you have put forward to the towns, is a plan you came up with to clean up the mess, not what we're telling you to do.

JOHN PATTON: I didn't -- no, absolutely. I don't -- I don't think that we're saying the Legislature is saying to do it. The Legislature --

REP. FONTANA: Well -- well --

JOHN PATTON: The Legislature --

REP. FONTANA: What you said is the bill before us is requiring you to do that.

JOHN PATTON: No. No. No, not the bill before us. The existing legislation.

REP. FONTANA: All right. The existing state statute.

JOHN PATTON: The existing statute. I'm sorry. My -- my mistake.

REP. FONTANA: All right. When you talk legislation, we start getting a little gray, that's why I want to be clear on that.

JOHN PATTON: I'm sorry. I don't know the terms of art. The existing statute would require us --

REP. FONTANA: It's like cement and concrete, right, John, they're just different things.

JOHN PATTON: It's concrete. I --

REP. FONTANA: To me they're the same, but to you they're different. Right?

JOHN PATTON: No, they're not. I -- I sell -- I sell concrete. I buy cement.

REP. FONTANA: Exactly, right. So you see -- so you could see it's sort of like that.

JOHN PATTON: No, I perfectly understand.

REP. FONTANA: Okay, very good.

JOHN PATTON: What -- no, the existing statute, if this bill passes, this will allow us to come to -- work with the towns to meet our cash needs. We'll work with the towns and the insurance department to make sure that they're happy, but to clean up the past losses on there.

And like I said, from my -- as I look at the numbers, I look at the last two years where the numbers have really -- there's a lot of projected losses there, more than -- more than actual losses, and I would rather give it time to play out to see where it goes. Everybody knows where we're at. Everybody knows that there's a debt out there, and so I would rather see it -- I would rather see the payments match what our cash flow needs are. Much more so, than just having cash in our bank, I don't -- I don't think we need that.

REP. FONTANA: Okay. And then, if I could just -- my third to last question is: Do you think that MIRMA could work with towns like East Granby or others, who are -- Suffield who, are concerned about having to pay one-sixth of that assessment in the midst of a fiscal year, to prorate, essentially, the assessment or to, as you say, finance the assessment to diminish or reduce the size of the assessment in the current fiscal year. Recognizing, that ultimately that will then adjust or affect the impact of the remainder of the assessment over the rest of the fiscal years.

JOHN PATTON: Yes. Yes.

REP. FONTANA: So -- okay. So you could do that and either we could put something here to try to address that, or we could try to see if you guys can talk to Jim and others and to get that worked out.

JOHN PATTON: We're -- yeah, I mean, all the -- all the members of the board are either present or former selectmen or members of the board of finance or town managers, and we're not -- you know, we're in the same boat at everybody -- as all the other members. So we're -- like I say, we're trying to work with everybody to make -- to make this work. It's not a -- it's not a good situation. You know, we're not -- I'm certainly not happy about it, but sometimes it is what it is, and we need to deal with it.

TONY PALERMO: The board of directors is aware of everyone's needs. We've tried to keep everything as open as possible. We've held annual meetings. We've invited all of our members at the time to attend the annual meetings to explain what's going on.

MIRMA is a nonprofit organization. It is owned by its members. And if we're fortunate, and I say "fortunate" only because we don't know what the -- we go with what the actuaries tell us to do. As these cases work out over the next few years, each assessment is done on a pre-year basis. 2002 is held as 2002. Once those cases close out, if there's any money left over, it goes back to the member. There's no money held in any kind of reserve. Once the reserves are met, anything over and above that goes back to the members, and we're looking forward to hopefully that happening.

REP. FONTANA: Okay. Because again, my preference would be ideally that you'd be able work things out informally with some of the towns that are, perhaps, having these issues. But failing that, my concept would be some sort of mechanism where you guys would either finance a portion for them to reduce, not eliminate, but reduce the share expected of them in the current fiscal year.

So I guess that would be sort of what I'd be thinking of, and I just wanted to hear your response.

JOHN PATTON: We're working -- we're working with Webster Bank right now on a -- on a line of credit, premium -- not premium financing, but basically receivables financing. We send a bill out. We're going to get a line of credit based upon what's going to come due to us to help ease some of that cash flow.

And there's also, we work with some of the other companies to do premium financing, which as I looked at it, the interest rates were, that were being quoted, were somewhere around 8 to 9 percent. My -- my take on that would be, I'd rather take money out of the fund balance, the general fund balance that we're receiving 0.25 percent interest rate on, and pay it off, than paying 8 or 9 percent interest rate on that. But that's -- you know, that's sort of my thinking on that.

But it's -- we are -- we are working to eliminate, again, alleviate any cash flow problems as well as trying to work with the towns so that the debts can be paid off, like I said, as -- as the money is needed.

REP. FONTANA: Okay. Representative Megna, Representative Altobello and Representative Schofield.

REP. MEGNA: Thank you, Mr. Chairman.

Are all 169 towns either with KIRMA or MIRMA, with regard to workers' comp?

TONY PALERMO: I don't believe so. There are --

JOHN PATTON: There is another company. Travelers is also in -- in the workers' comp area -- arena, in Connecticut, but they only handle the larger cities. MIRMA -- MIRMA was designed and is based on small towns.

REP. MEGNA: Is there -- there's an existing market place for these municipalities also --

TONY PALERMO: The only other --

REP. MEGNA: -- if they opt to --

JOHN PATTON: The only other option I believe that is out there is KIRMA, for small towns and municipalities. The larger towns may be handled by Travelers. The Hartford used to be in Connecticut. I'm not sure if The Hartford writes Connecticut workers' comp any longer. But, KIRMA is the only other --

REP. MEGNA: KIRMA is the only alternative for these -- for your municipalities and MIRMA?

JOHN PATTON: There are times -- depending upon whether soft market or hard market, there are times when insurance companies kind of make a run --

REP. MEGNA: Right.

JOHN PATTON: -- for workmens' comp. So they'll come in for a couple of years and do whatever they have to --

REP. MEGNA: Is that happening?

JOHN PATTON: -- and then somebody else changes management and they could -- then they go out of the market.

REP. MEGNA: Is that happening now?

JOHN PATTON: I -- I don't believe so.

TONY PALERMO: I don't believe so.

REP. MEGNA: No? Just one follow-up question.

JOHN PATTON: And I'll just -- just to kind of, I know there has been a number of years where in Willington where we have actually gone out -- had our insurance agent go out to bid for workmen's comp, and we've received one -- one bid which was from MIRMA.

REP. MEGNA: Okay.

JOHN PATTON: That's the sort of market that's (inaudible).

REP. MEGNA: One follow-up question. You mention that KIRMA was giving an $8.6 million interest free capitalization loan. Is that kind of the -- is that the competitive disadvantage, or is that why you're pointing that out or?

TONY PALERMO: No. We're pointing that out because when KIRMA started, the Legislature, they needed a workers' comp option in Connecticut. KIRMA was started for that, and the Legislature loaned them $8.6 million to get the program going.

When MIRMA started, we started with nothing. We started with $1,300,000 in premium and a $250,000 gift with one claim the first year, and we don't have that opportunity.

KIRMA, over the years, apparently has built up a fund balance where they have $40 million in the bank. And if they have a bad year, it doesn't hurt them.

REP. MEGNA: Okay. Thank you.

Thank you, Mr. Chairman.

REP. FONTANA: You're welcome.

Representative Altobello and then

Representative Schofield.

REP. ALTOBELLO: Thank you, Mr. Chairman.

Just briefly. Mr. Patton, you're -- you said you're a member of the subcommittee on finance for MIRMA?

JOHN PATTON: Yes. Yes, sir.

REP. ALTOBELLO: Are you still a first selectman by the way?

JOHN PATTON: No. I retired.

REP. ALTOBELLO: Oh, good for you. Selling concrete and --

JOHN PATTON: And -- and crushed stone.

REP. ALTOBELLO: And crushed stone. You must know my cousins, the Suzio's from Meriden then.

JOHN PATTON: They're a -- they're a good competitor.

REP. ALTOBELLO: Yes.

Were there quarterly reports that went out to the towns, to your knowledge, or an annual report or -- I'm kind of --

JOHN PATTON: There's -- there's --

REP. ALTOBELLO: I'm interested in the fact that, it seems like one town is blindsided here or maybe -- maybe it was just that first selectperson that was only there a couple of years and wasn't there in 2001 at the inception of this.

JOHN PATTON: We did have our annual meetings. We did -- I didn't handle the marketing. I can tell you the fact that we gave monthly and quarterly reports to the department of insurance, as they were monitoring quite closely. I didn't handle the marketing. And because we go through our -- MIRMA goes through most of the insurance agents, that handles our marketing and deals with the towns. We don't -- we try not to deal with towns directly unless we need to.

We actually let the insurance agents go out there and work with the towns. I can't answer. I don't have personal knowledge of going out to towns and saying, Hey, we have an issue. I can tell you we have an annual members' meeting. And I can tell you that we work with -- we work with the insurance department and had many, many, many meetings with the insurance department.

REP. ALTOBELLO: But to your knowledge no direct --

JOHN PATTON: I think there was --

REP. ALTOBELLO: -- reporting to the members --

JOHN PATTON: There was a -- there was a letter that went out in, as I said, 2005, 2006, explaining the situation that we were in, and that was the last letter that I remember going out.

Part of -- I'm not being evasive. I mean part of what I -- I know things. I don't know how I know them at times, when I received them as first selectman or whether I went out. I just like -- I can't --

REP. ALTOBELLO: You should run for the Legislature.

Thank you very much. I believe that clears some things up.

Thank you, Mr. Chairman.

REP. FONTANA: You're welcome for that.

Representative Schofield.

REP. SCHOFIELD: Thank you.

I'm -- I'm still perplexed as to how we got to where we are. And I don't want to take everybody's time with a lot of questions so -- and I know you -- you are a busy working with concrete. But I'm sorry, I don't remember your name.

TONY PALERMO: Tony Palermo.

REP. SCHOFIELD: Tony. Mr. Palermo, you're actually an employee of MIRMA?

TONY PALERMO: No. No. I'm vice chairman of the board.

REP. SCHOFIELD: So who actually works there?

TONY PALERMO: Patrick Hemmingway is the one, basically the sole employee of MIRMA.

REP. SCHOFIELD: Okay. Could he or would one of you be willing to just come and talk to me sometime, because I don't understand how you have actuaries. I'm assuming the same actuaries who were telling you that you have much bigger IBNR than you thought you did, are also the same people were setting your premiums, and premiums and IBNR ought to be linked. So, how could they be saying, Geez, you got much bigger losses than you think you do, when they were telling you to have premiums that were far below the amount adequate to cover those losses. I don't -- that's like a total disconnect for me.

TONY PALMERO: They are -- -- they are the same actuaries, Dilling House, or whatever they're called now. I know them as Dilling House.

JOHN PATTON: Howard Watson.

TONY PALERMO: Howard Watson. So I mean, they're an international actuarial firms.

How they did that, I think the losses -- the losses exploded to some extent.

REP. SCHOFIELD: Actual losses and not just IBNR?

JOHN PATTON: Is there some actual losses that --

TONY PALERMO: We -- we had a very small program.

REP. SCHOFIELD: (Inaudible)?

TONY PALERMO: I mean like a million dollar program is a very small, small program.

JOHN PATTON: So you have the law -- you know, the law of small numbers where percentages can vary. We did have, as Tony mentioned, a very large $250,000 loss on the last day of a premium year. So that's a 25 percent swing on nearly the last -- the last day of the year, for that. So that happened. They did their best guess based upon national numbers, when putting this together. And it -- as time goes by, they're looking back saying, Okay, the losses are greater than we thought they -- than we anticipated them to be. So they became much more conservative in how they were doing it.

Last --

REP. SCHOFIELD: But when --

JOHN PATTON: Two year -- two year --

REP. SCHOFIELD: -- they became more conservative, they didn't raise the premiums?

JOHN PATTON: Well, we did.

REP. SCHOFIELD: Okay.

JOHN PATTON: The premiums -- premiums were raised. We followed their advice of how much -- if you're bringing people in, you have to look at their past loss ratio, and you base your premium upon what their past loss ratio is plus your existing book of business, making sure that you meet your certain percentages. That's -- that's how we price things out.

REP. SCHOFIELD: Right. And -- and you --

JOHN PATTON: I can tell you that in the last -- about two years ago, as -- as we're looking at things, and we've got our third-party administrators to have them get a better handle on their case reserve. And, again, because we're working with the department of insurance. You know, they're questioning it. We're questioning it. Our third-party administrators became much more conservative in their case reserves. Our actuaries became much more conservative on their IBNR's.

And, as I mentioned, so now we -- and that really affected the projected losses in the last two years. As -- again, as I look at it, the third-party administrators reserved -- case reserves seems to have stabilized very well, much more stabile than we have in the past. But as actuaries they really can't recognize that until they get a better feedback over a couple of years. So, we're kind of getting a double-whammy over the last couple of years, which is why, in my humble opinion, I'm looking at the same thing.

I think that we need to kind of have a better -- let's weigh this out a little bit. Let's see what this tail is starting to look like, before we -- before we assess people with a lot of money.

What the actuaries also did was look at the past, when they -- when they started and as we were looking at the case reserves. They came back and said, Hey, we've got to adjust prior years' losses because we believe that there's going to be -- those losses are going to be higher than we originally objected, so there was -- there was some large hits in the last year.

REP. SCHOFIELD: How can you not know what your prior years' losses were; those years were closed?

JOHN PATTON: You project the prior year projected losses. So they -- you know, they do their methodology. They wave their hands and come up with numbers, and give you all sorts of different methodologies and models of how they come up with a certain loss ratios.

And they change those. They weighted -- they weighted some loss ratio or some -- some methodologies more than others. So, to the point where they said, We're going to -- we're going to trust these models more than these, so therefore your projected losses are going to be a lot greater. And that also affected us.

REP. SCHOFIELD: Okay. And you mentioned you've now gotten reinsurance, stop loss?

JOHN PATTON: We've had -- there's -- there's two pieces of reinsurance. There's the reinsurance that we've always had, which is the catastrophic-type losses, and we have a $250,000 set point. We also did for this -- this year is we have some reinsurance for, like a reassessment or -- greater than a 62 percent loss ratio, so that we won't go into an assessment position. So we've reinsured against potential losses.

REP. SCHOFIELD: You mentioned yourself that you knew there were -- the problem of small numbers, where you have big fluctuations, and I would have thought an actuary would have counseled you from the beginning of this, very small entity to have that kind of stop loss insurance from the start, not several years into it.

JOHN PATTON: It didn't exist.

TONY PALERMO: It wasn't available until this year.

REP. SCHOFIELD: Really? Okay.

JOHN PATTON: Because, I mean, we -- the only thing that exist -- this is sort of a new model of something that's never been tried before.

REP. SCHOFIELD: Okay.

JOHN PATTON: And I don't think that anybody would have probably given it to us unless we had some sort of track record.

REP. SCHOFIELD: All right. Well, again, if there's someone who can spend a little bit of time with me to help me understand how you got here, I would appreciate that. Thank you.

JOHN PATTON: I'd be happy to.

REP. FONTANA: Thank you, Representative D'Amelio.

REP. D'AMELIO: Thank you, Mr. Chairman.

Your board of directors, how many members and how is that made up?

JOHN PATTON: There's seven members. There's a superintendent from region one district, there's -- I'm sorry. He's not the superintendant. He's the Region One Financial manager. We have two town managers. We use -- I'm an official from the town of Willington; Tony is an official from the town of Westbrook; Dave Denvir, who is formerly the first selectman for the town of Killingworth; and we have Ed Arum, who is the business manager for Region 15, I believe -- I'm sorry -- Barbara Gilbert from Rocky Hill, who is a town manager; and Karl Kilduff from -- he was North Branford, but now (inaudible).

REP. D'AMELIO: Are they asked -- are they asked to serve on the board, or is there like an election held?

JOHN PATTON: There's an election held with the annual meeting.

REP. D'AMELIO: And only the members of 48 towns get to choose?

JOHN PATTON: Yes, sir.

REP. D'AMELIO: The leadership of those towns?

JOHN PATTON: Yes. I guess, they voted the -- the members vote. There's a nominating -- the board of directors, as a nominating committee, puts those people up, then to be voted on at the annual meeting.

REP. D'AMELIO: And then you have another board of finance that's an offshoot of the board of directors?

JOHN PATTON: It's a finance committee that's -- yeah, that's an offshoot.

REP. D'AMELIO: Okay. Now, I'm just trying to grasp this whole thing, and I know it's really complex, but it was formed for workmens' comp because it was very difficult for small towns to find a marketplace back in, what, 2002? Is that why MIRMA was formed?

JOHN PATTON: Prior of that. But, yes, 2002 was when it was formed.

REP. D'AMELIO: Now, when a town is assessed, I mean, do they look at what kind of risk that town has, maybe some towns have employees that do, you know, heavier risk jobs than other towns? Do they pay a heavier premium or, you know, a larger premium than a town that might have like a public works department or something like that?

JOHN PATTON: Yes. Their -- every position is -- has classifications, public works, clerical, official volunteers have their own classification. So every -- every position. Just like in private industry, every, every position has it's own -- it's own rating, particular rating.

REP. D'AMELIO: Okay.

JOHN PATTON: And then the premium would be based upon the payroll.

REP. D'AMELIO: And the premium is like every year it's reviewed like any business?

JOHN PATTON: Correct. It's based upon again, loss ratios from prior years.

REP. D'AMELIO: So, if the town is experiencing more losses, they in a sense, pay for it?

JOHN PATTON: If a town is experiencing more losses, their premium will go up, yes.

REP. D'AMELIO: Will go up, okay.

Now the thing that I'm trying to grasp is, this deficit ballooned to $10 million. How -- how did that occur without actually anyone saying, wait a minute, you know, is this like a self-insured pool?

JOHN PATTON: It's a risk pool. It's a self-insured risk pool.

REP. D'AMELIO: So they're all, all 48 towns are on the hook for this?

JOHN PATTON: Yes.

REP. D'AMELIO: And no one during that period, like, went from 1 million to 3 million to, I don't know how it went to 9 million, but is there a point where, you know, the board said we have to figure out how to resolve this -- this deficit, or, I mean, are you in risk of failing totally?

JOHN PATTON: Are we at risk of failing?

REP. D'AMELIO: Yeah.

JOHN PATTON: There will be a point, if we don't have any cash that, you know, some losses will eventually catch up and we will not have cash to pay. If all the towns said, we're not going to pay, yeah.

REP. D'AMELIO: But, what did the board of directors do to try to kind of, you know, share this information with all of 48 members and to maybe tackle this problem in the past, that it, you know, now it got to the point where -- I mean $10 million is nothing to sneeze at. And we're -- we're looking at this, you know, god-awful economy that we're all facing. No one has the ability to pay. So how do you project that you're going to continue? If the towns don't have the money to pay, and this deficit keeps ballooning, I mean do you see a point where you're going to be critical here?

JOHN PATTON: Well, the deficit doesn't change. The deficit right now is for prior years. Now a lot of that were projected deficits. From this current year that we're in and forward, we have a reinsurance model which will prevent us from ballooning the deficit.

So the deficit is, right now, it is what is. And this current year that we're in and future, we've reinsured ourselves against that sort of -- any sort of increase in that.

REP. D'AMELIO: So you actually bought insurance to help pay for these claims?

JOHN PATTON: Correct. Well, we bought insurance for this year if, for some reason, the losses are great, the losses come in and they're larger than anticipated, we are reinsured against that.

It is a new model. This is not something -- as I said before is not something that existed before. It's something that we really had to kind of create. And so we ended up having that. We always had catastrophic insurance, but we -- we never had -- there was nothing available that would prevent assessments on there.

Because we -- we don't -- you know, we don't benefit if there's a good year. I mean, we have had a good year. We don't -- the board of directors doesn't share in that good year as far as being able to it. It's -- it's -- if there's good years, that money goes back to the members also.

REP. D'AMELIO: Just one more question. I think only one more question. But in order for you guys to keep operating with a $9 million deficit, are you using a system that's pay-as-you-go? How are the workers getting compensated if you have such a huge liability? I mean, where did all that money come from to continue operating even though you're 9 million in the hole. I'm trying to understand if you are self-insured.

JOHN PATTON: Because there's -- because there's a long, long tail. So as I said, if -- if we sent out $10 million in bills, and all the municipalities said this is great, we're going to -- we're going to give this -- you know, we're going to pay the $10 million, we'd put most of that in the bank, and it would sit there, until over the year, until we paid out the losses as they occurred. Right now, these are -- a lot of these are projected losses.

REP. D'AMELIO: They're not losses that have actually happened?

JOHN PATTON: They're not cash that's going out.

REP. D'AMELIO: Okay.

JOHN PATTON: They're just -- we're anticipating based upon with our actuaries and our case reserves that we've looked at, and said, you know, you -- you broke your leg. We think that you're going to be out for 50 weeks so we're going to have to pay you this much. Your medical bills are going to be this much. So we have a case reserve.

And then over that time, we're going to have to pay you. But right now we don't, but we know in the future. So it's become a liability. And then on top of that the actuaries are going to come and say, you know what, we think a couple more people are going to break their leg. We don't know who they are, but we know it's going to happen some time, so you're going to have to put money aside for that also.

Inevitably somebody does. You know, somebody does get hurt or a case explodes where, Gee, we thought it was just a bad back, but now they've got to go for a major operation. So now, instead of a $30,000 case reserve, we've got a $200,000 case reserve.

And those things happen, and that's where the actuaries come in and say we think something is going to happen. We don't know exactly what, but we think something is. And they're -- they're guessing. They're educated guesses, but they're still just guesses.

TONY PALERMO: There's also a window, if someone injures themselves, they've got two years to make that claim. I believe it's a two-year window. So if somebody hurts themselves today, theoretically two years from now, they can make the claim, and it's retroactive back to this years' claims. So look back at this year even though they claimed it in 2012.

REP. D'AMELIO: So, I mean, the workers will be covered? I mean, the money will be there for them, as we speak today, to cover?

JOHN PATTON: Yes. You know, again, as long as the towns live up to their -- their part, which is to eventually, you know, pay the -- put cash into the system, put cash into the bank account, yes, their workers will be covered. If everybody just says no, then eventually we (inaudible).

REP. D'AMELIO: Okay. Thank you, Mr. Chairman.

REP. FONTANA: You're welcome.

Are there questions for -- Representative Schofield. That's fine. No, that's fine. That's what this is for.

REP. SCHOFIELD: Just one other question. About the medical management and returning to work management of -- of these workers. Is it your TPA that does that? And are you satisfied that they have an aggressive program?

I mean to Representative D'Amelio's point, you know, you've got these future losses that are predicted, but what are you doing to manage those losses to make sure that, you know, that the workers are being treated fairly, but also returning to work as promptly as possible and getting better as quickly as possible?

TONY PALERMO: The TPA's that work very differently, in fact, they're very good at what they've done. They report back to our president on just about every case. And on a quarterly basis we have four (inaudible) and we secure a lot of applications as well.

They've also done a lot of risk management services for us where they've gone to the communities, I think on a minimum twice a year basis and worked with communities on risk management.

I know when I was in Westbrook as first selectman, they were there quit a bit. (Inaudible). There was one case last year, which was a bad case. It was a young, not sure the age of the person, but, in a town that didn't have any cases whatsoever, this person was working -- in a public works department working on a tree, and had all the proper gear and had all the helmet on and everything else, and a 6-inch branch swung and hit him in the head, and he's a quadriplegic. But he had everything -- everything was done by the book, and unfortunately, the accident still happened.

Thank you.

REP. FONTANA: Well, thank you.

Any other questions?

Well, Dylan, thank you. Again, I think you said David Denvir is not with us, so --

JOHN PATTON: He had a court date, he was hoping to be here but --

REP. FONTANA: We understand. But certainly and I'm sure you have talked to the first selectman, but if you can structure the proposed assessment in a way that satisfies him and, perhaps, the first selectman of Suffield, that would be wonderful.

Failing that, we'll have to come up with something ourselves to try to address some of their concerns, but we hope and we expect that you guys will work hard to come up with something and let us know how those conversations go, and we'll hold off doing anything here until we give you an opportunity to have those conversations, and let us know how they fare. Okay?

JOHN PATTON: The only thing I would ask is that maybe sooner rather than later.

REP. FONTANA: Well, the beautiful thing is you've got Representative Conway here, Representative Schofield, and you've got Representative Hornish, and First Selectman of Granby.

JOHN PATTON: Oh, I don't -- no, but I'm -- but, you know, as far as, you know, this bill, because of -- because of the existing statutes --

REP. FONTANA: Oh, trust me. No, we'd like to move this expeditiously.

JOHN PATTON: Yes. Thank you.

REP. FONTANA: What we'd like to do is do it, you know, as we proverbially say holding hands and sing Kumbaya. So we'd really love to have the first selectmen of Suffield and East Granby in full force and support of this plan.

So, like I said, if you could just let us know what you can do to try to accommodate some of their concerns, contingent on some of the things that I was talking about, in terms of how we have to have people making a payment of some kind in this fiscal year, keep the program going, and that you have to figure out how it can work actuarially speaking or financially speaking, you know, over a several year period.

But trust me, as -- once you've told us that things are good, we'll be happy to move it along and push it to get it resolved for you.

TONY PALERMO: Thank you very much.

JOHN PATTON: Thank you very much for your time.

REP. FONTANA: Okay. Thank you, gentlemen.

That concludes, I believe, the testimony on House Bill 5011, unless there is somebody else who would like to testify who's here?

If not, we will proceed to House Bill 5002.

And I see no one signed up to testify on House Bill 5002, so unless there's somebody here who didn't sign up, who would like to testify on that.

All right. We will proceed to Senate Bill 19 and ask if there's anybody here who wishes to testify on Senate Bill 19?

And I have no one signed up to testify, so with that, unless somebody comes, we will now proceed to Senate Bill 16.

And with that, I believe we will start with Bob

5011

TESTIMONY IN SUPPORT OF LEGISLATIVE ACTION TO FACILITATE IRMA OPERATION

**TESTIMONY BEFORE
THE INSURANCE AND REAL ESTATE COMMITTEE
OF THE CONNECTICUT GENERAL ASSEMBLY
IN SUPPORT OF LEGISLATIVE ACTION TO FACILITATE
INTERLOCAL RISK MANAGEMENT AGENCY (IRMA) OPERATIONS**

HB – 5011

My name is David Denvir. I am Chairman of the Board of the Municipal Interlocal Risk Management Agency (MIRMA). MIRMA was organized pursuant to Chapter 113a, on "Municipal Risk Management Pools" of the Connecticut General Statues. MIRMA operates as a Workers Compensation (WC) Program.

I am here to make some important points on behalf of MIRMA and its member municipalities and school districts in this State, and any IRMA that may come in the future:

- As a practical matter, an IRMA can not easily survive, let alone be successful under the IRMA Statue with its existing terms, particularly Section 7-479e on "Reserves for Contingency" (or "Surplus" as it is usually called).
- Subsection (c) of this section requires a Workers Compensation pool of an IRMA, like the MIRMA WC Program to maintain a reserve for contingency at a minimum of one hundred thousand dollars for each fiscal year that the pool is in operation to an aggregate of five hundred thousand dollars.
- The Connecticut Local Risk Management Agency (CIRMA) came into existence and operated during its early years when there were no Reserve Contingency requirements now found in Section 7-749e(c).
- CIRMA was given an $8.6 million interest-free capitalization loan by the State through its then existing Municipal Liability Trust Fund.

As a matter of public policy, I submit that the State needs to nurture an IRMA, which is designed to protect public entities throughout the State, and to consider doing what the State can to facilitate IRMA operations, especially if the State is not presently in a position to give MIRMA an interest-free capitalization loan of any dimensions at this time.

As stated earlier, in order to survive and be successful an IRMA needs time to build its membership and WC Premium base and time for is "Incurred But Not Reported" (IBNR) to develop to actual. According to Actuaries the development of the IBNR can take 10-12 years and longer. For this reason alone it is essential that an IRMA be given a suspension of the "Reserve for Contingency" as defined in Section 7-479(e).

We are requesting that the suspension of "Reserve for Contingency" be extended to July 1, 2016, at the option of any interlocal risk management pool organized for less than 10 years as of July 1, 2005.

Then beginning as of July 1, 2017 than interlocal risk management pool shall maintain the applicable reserves for contingency as if its first fiscal year beginning on or after July 1, 2016 was its first year of operation.

Respectfully submitted

David L. Denvir
February 9, 2010

Hartford, Connecticut

5011

TESTIMONY IN SUPPORT OF LEGISLATIVE ACTION TO FACILITATE IRMA OPERATIONS

TESTIMONY BEFORE THE INSURANCE AND REAL ESTATE COMMITTEE OF THE CONNECTICUT GENERAL ASSEMBLY

PAGE 3
LINE 19

HB – 5011

My name is John Patton. I am a member of the MIRMA Board of Directors and the Chairman of the MIRMA Finance Committee.

In 2001, as the First Selectman of Willington, CT, I helped in the creation of the Municipal Interlocal Risk Management Agency (MIRMA) along with the First Selectman from the Town of Chaplin. We formed MIRMA because there was a need to assist the small to medium towns with risk management services as well the need to bring competition to the insurance marketplace for all Connecticut Cities, Towns and Local Public Agencies. At the time MIRMA started operations in 2002, the primary provider of municipal insurance in the State of Connecticut was an IRMA that was started 22 years earlier. Municipalities did not have much of a choice when it came to an insurance provider. Even with MIRMA, insurance providers for the municipal market are still limited but at least there is some competition.

However, any company that is new encounters difficulty in attracting business. An IRMA is no different. It is hard to convince municipalities to help support a new non-profit insurer even if it is competitive in pricing and offers superior service. You have to go out and prove that you do to offer superior service. It takes time to develop a name and reputation for doing what you say that you will do. MIRMA has done just that. This is reflected in the fact that only one member in the last three years did not renew with MIRMA while thirteen members have been added in that same time period. Members are constantly telling us what a great job that we are doing in the area of services. Members have turned out to be our best sales staff.

In addition to service, MIRMA has positioned itself with an excellent reinsurance package with Best Rated A+ carriers. MIRMA has a low retention on a specific occurrence and then coverage to the statutory limits required in CT, as well as unlimited aggregate coverage. Unfortunately, even with these low reinsurance attachment points, MIRMA found itself in a deficit position, in part due to large losses and IBNR. The MIRMA Board has voted unanimously to assess members from July 1, 2002 through June 30, 2009 to eliminate the deficit. As of July 1, 2009, the MIRMA Board named Trident Insurance Company as its Third Party Administrator (TPA) and the Argonaut Insurance Company as its reinsurance provider. The MIRMA's reinsurance coverage for the current year covers all losses in excess of the loss fund. This virtually makes MIRMA a non-assessable program.

On a quarterly basis the premium and losses are reviewed by the Board of Directors. The TPA claim supervisor reviews the loss run and any larger claims. The one thing that we always have a hard time getting our arms around is the "Incurred But Not Reported" (IBNR). We are told by our Actuaries that our Program is too young to use its own development ratios so we have to use national standards. They tell us that an IRMA will need 12-15 years of experience before they can rely on the IRMA's data

Unless the State of Connecticut is willing to provide capital funding as it did with the first IRMA, what is needed is time for the IBNR to run its course. By suspending the contingency reserve requirement until July 1, 2016, for any IRMA formed prior to July 1, 2005, the IRMA's will be able to let the IBNR run its own course and then be in the position to use its own development factors rather national standards. Finally, this extension of time will allow MIRMA to spread the assessment payments of its members over a longer period of time. While this legislation has no dollar impact on the State of Connecticut, it will assist the 63 members that are being assessed in planning and budgeting the assessment over a multiple year payment.

Respectfully submitted

John Patton
February 9, 2009

Hartford, Connecticut

HB5011

State of Connecticut

HOUSE OF REPRESENTATIVES

STATE CAPITOL
HARTFORD, CONNECTICUT 06106-1591

LINE 14
PAGE 3

REPRESENTATIVE MARYANNE "ANNIE" HORNISH
SIXTY SECOND ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING
ROOM 4100
HARTFORD, CT 06106-1591
HOME: (860) 653-0729
CAPITOL: (860) 240-8585
TOLL FREE: 1-800-842-8267
FAX: (860) 240-0206
E-MAIL: maryanne.hornish@cga.ct.gov

MEMBER
COMMERCE COMMITTEE
EDUCATION COMMITTEE
ENVIRONMENT COMMITTEE

February 9, 2010

Insurance and Real Estate Committee
Room 2800, Legislative Office Building
Hartford, CT 06106

Re: Support of legislation to extend assessment payments for municipalities impacted by the Municipal Interlocal Risk Management Agency (MIRMA) special assessment HB5011

Dear Senator Crisco, Representative Fontana, and Honorable Members of the Real Estate and Insurance Committee,

These turbulent economic times have been stressful for most municipalities, and this unplanned expense will be a burden on taxpayers in those towns affected by this special assessment. In my district, East Granby was presented with a bill for ~~$173,893~~. 164,085

I am writing in support of legislation that would allow these towns to delay the start of payments levied as part of this special assessment by MIRMA, and begin a five year payment schedule next year (FY.11).

Thank you for your time and consideration.

Yours truly,

Annie (ab)

Representative Annie Hornish

TOWN OF EAST GRANBY

INCORPORATED 1858

5011

EAST GRANBY, CONNECTICUT 06026

OFFICE OF FIRST SELECTMAN
PHONE (860) 653-2576
FAX (860) 653-4017

LINE # 1
PAGE 1

February 9, 2010

Senator Joseph J. Crisco, Chair
Representative Steve Fontana, Chair
Connecticut State Legislature
Insurance & Real Estate Committee

Re: HB5011 – "An Act Extending the Effective Date for Certain Interlocal Risk Management Pools"

I would like to thank the Insurance and Real Estate Committee for the opportunity to speak in favor of HB5011. In these serious economic times, towns can ill afford to absorb the shock of unbudgeted and unanticipated expenditures. If legislation is not passed extending the effective date for Interlocal Risk Management Pools, forty eight towns will be looking at a potential liability of ten million dollars due prior to the end of the current fiscal year.

East Granby has been a member of the Municipal Interlocal Risk Management Agency (MIRMA) since its inception in 2002. At that time, the Legislature created MIRMA to increase competition in the workmen's compensation marketplace. The legislation also required MIRMA to meet requirements for specific financial reserves for contingencies by July 1, 2009. Prior to the end of November 2009, participating towns were not made aware by MIRMA or the State Insurance Department that there was a significant problem on the horizon.

At a December 2009 meeting of participating towns, MIRMA stated that it had sustained losses which exceeded the estimates of the actuaries for the program years of July 2002 through June 2009. Due to these extensive negative circumstances, MIRMA said it would be forced to levy an assessment on all the members served within those program years. At that time MIRMA estimated that East Granby, a town of less than 5200 residents with a combined budget of $17 million, would owe approximately $174,000 or more than one percent of its entire annual budget for this unanticipated debt.

As of February 5, 2010 MIRMA puts the town's liability at $184,085. With the state budgetary issues, we are currently seven months into the fiscal year and towns and cities are still uncertain how much revenue they will receive from the state prior to the end of FY10. Debts like the MIRMA assessment and budget uncertainty in this and future fiscal years put towns in an untenable financial position and we ask for legislative relief as provided by HB5011.

Additionally, MIRMA has indicated that it would want one-sixth of the total owed by towns to be paid in the current fiscal year. I would ask that the payment schedule be allowed to commence in FY11. This would allow for appropriate financial planning in towns like East Granby where a one-sixth payment of $31,000 has a considerable impact on operating budgets. HB5011 will be a significant help for MIRMA towns and I ask the Committee and the Legislature pass this bill. Thank you for your time and consideration

Sincerely,

James M. Hayden
First Selectman
Town of East Granby

5011

Pat and Tony,

I am sending this email to you in support of HB 5011. As one of the largest municipal insurance brokers in the Connecticut marketplace I think not passing this bill now would have some very negative effects. Many municipalities are struggling financially and for those that are subject to an assessment increase the financial pressure. In addition, HB5011 would allow an additional time period for those municipalities to pay these assessments over a period of years which would in turn add stability to the marketplace for municipal workers compensation coverage. This also increases the likelihood that all assessment $ can be collected which protects the claimants covered by these policies. Extending the statutory requirements via HB 5011 would eliminate the need for the Insurance Department to appoint a receiver and lesson the struggle to collect the $ needed to care for injured workers.

To me, there is no downside to passing this bill. I hope this can be resolved so that we can return our focus to helping our mutual clients. With scant few municipal workers compensation markets in Connecticut not passing HB 5011 increases the likelihood there will not be competition which means costs will rise for all.

Good luck and please keep us posted so we can let our clients know:

John J. Klecha, CPCU, CIC
President
USI Connecticut
530 Preston Avenue
P.O. BOX 1040
Meriden, CT 06450-1040

A Goldman Sachs Capital Partner Company

Phone: 1-203-634-5931
Cell Phone: 1-203-984-4306
Toll Free: 1-800-303-7171
Fax: 1-203-634-5923

Email: John.Klecha@usi.biz

Web: www.usi.biz

Protect. Manage. Grow.

5011

On Mon, 2/8/10, Derrylyn Gorski <*dgorski@bethany-ct.com*> wrote:

From: Derrylyn Gorski <dgorski@bethany-ct.com>
Subject: Support HB 5011
To: Crisco@senatedems.ct.gov, "Rep. Nardello, Vickie" <Vickie.Nardello@cga.ct.gov>
Cc: pat@thehemingways.net
Date: Monday, February 8, 2010, 5:29 PM

Hi Joe and Vickie,
I'm writing to urge you to support HB 5011: AN ACT EXTENDING THE EFFECTIVE DATE FOR CERTAIN INTERLOCAL RISK MANAGEMENT POOLS. There is a Public Hearing on this bill tomorrow, Tuesday Feb. 9, 2010 at 1PM.
I want to thank you both for voting in favor of this bill last year (it was HB 5442 at the time) when it passed the committee unanimously and the House with only three negative votes. It then went to the Senate where it died due to a dispute over the rules for the special budget session that was opened at 12:01 AM and adjourned.

Below is an excerpt from an email I sent you last year explaining my rationale for asking you to support this bill...it still applies.

> " Bethany has directly benefited from the competitive marketplace for purchasing public liability insurance, property and casualty insurance, workers' compensation insurance and excess risk insurance.
> When I was first elected in 2003 the Town of Bethany was involved with an ongoing Workers' Compensation case that was being handled by CIRMA, our Risk Management Agency at the time of the incident.
> The Town changed from CIRMA to MIRMA in 2003 prior to my election. We had a similar incident with a different employee in 2004 under MIRMA as our Risk Management Agency.
> In both cases the employees, members of the road crew, were town residents; in both cases the employees claimed to be "unable" to work, but indeed were working at various odd-jobs around town repairing cars, trackers, lawnmowers and the like. Under CIRMA, we ended up in court, several town employees had to go to court to testify leaving us under-staffed for days. It resulted in a positive outcome; but it dragged on for several years.
> Under MIRMA, the employee was thoroughly investigated and chose to resign. The resolution of that claim was swift and decisive.
> As you know, we had a major claim just this past summer when a dead tree limb fell on the head of a member of our road crew. MIRMA has been very, very responsive in a very difficult situation. MIRMA agreed to change the Case Manager when the wife of the employee felt under-served by her current Case Manager.
> My understanding is that this bill proposes an extension of five years on the capitalization requirement. I believe that the Town of Bethany has benefited from our association with MIRMA. They came in at a lower bid and they have provided excellent service."

As always, thank you for your continued support on issues that effect Bethany residents.
Derry

Derrylyn Gorski
First Selectwoman
Town of Bethany
203-393-2100 x100

5011.

TESTIMONY IN SUPORT OF LEGISLATIVE ACTION TO FACILITATE IRMA OPERATIONS

TESTIMONY BEFORE
THE INSURANCE AND REAL ESTATE COMMITTEE
OF THE CONNECTICUT GENERAL ASSEMBLY

HB – 5011

My name is Karl Kilduff. I have been an active member of the MIRMA Board of Directors since 2004. Presently I serve as the Town Administrator for Darien. At the time of joining the MIRMA Board, I was the Town Manager of North Branford. In both of these communities, a clear choice was made to place workers' compensation coverage with MIRMA.

Good fiscal environment or not, municipalities are challenged with finding cost effective options that deliver the best value for their constituent taxpayers. Competition is critical to developing cost effective insurance solutions – be it the insurance market or not. Clearly, the sense of competition and delivering cost effective solutions were at the heart of the General Assembly's efforts to establish the original IRMA statute. At the time, municipalities had few realistic options for insurance coverage. The State built on its public policy commitment by providing the initial capital for the first municipal IRMA.

A similar circumstance existed in the early 2000s with few insurance alternatives in the State as carriers withdrew from the municipal market. MIRMA was created to address that need. However, MIRMA had to be incubated much like any start-up business – by its own efforts. Recently, MIRMA's efforts have taken the form of assessing its membership to address a deficit situation and to build the reserves required under the IRMA statute.

The decision to assess did not come lightly to the Board. We were all cognizant of the fact the all levels of government face a unique fiscal challenge today. Without the flexibility that would be established by HB 5011 to extend the Reserve for Contingency requirement to July 1, 2016, municipalities will face an undue burden to fund their assessment in an unrealistic short-term as well as deliver core services when State aid is likely to be reduced.

While the State cannot provide the capitalization it afforded the first municipal IRMA, it has the power to create an environment through public policy that will allow the second IRMA to establish itself, receive the capitalization it needs from its membership, and give its member municipalities the time to make its payments without hurting the taxpayers of small town Connecticut.

Karl F. Kilduff
February 9, 2010

5011

TESTIMONY IN SUPORT OF LEGISLATIVE ACTION TO FACILITATE IRMA OPERATIONS

TESTIMONY BEFORE
THE INSURANCE AND REAL ESTATE COMMITTEE
OF THE CONNECTICUT GENERAL ASSEMBLY

HB – 5011

My name is Barbara Gilbert. I am the Town Manager of Rocky Hill and a member of the MIRMA Board of Directors since 2004 and I am currently MIRMA's Treasurer.

Rocky Hill joined MIRMA in 2003 realizing that there was the need to get better claims and risk control services than we were receiving from our incumbent workers compensation carrier. MIRMA has lived up to all of its selling points including a competitive quotation.

Unfortunately, due to a catastrophic loss or two each year as well as the Incurred But Not Reported added to the losses by the Actuaries, MIRMA fins itself in a deficit position. The MIRMA Board has elected to eliminate this deficit by assessing its 63 members. HB-5011 will allow these members to spread the payment of this assessment over several years. This will definitely be a help to Rocky Hill. Based on my conversations with other municipal officials, they all agree that it would help them to spread their assessment over a period of time.

In closing, it is important to Connecticut Municipalities and Local Public Agencies that there is more than one IRMA operating in the State. In order for an IRMA to be a success immediately it needs the same jump start that was given to the original IRMA. It would be a wonderful if the State could provide all IRMA's with a 15 year, interest free $8.6 million dollar nest egg to protect it from any adversity. Unfortunately, with today's financial situation, we all know that this is not reality. However, allowing an IRMA to operate for its first 15 years of its existence without meeting the contingency reserve requirements immediately is a reality. HB-5011 is intended to do just that and this is why I am speaking in favor of this legislation.

5011

STATE OF CONNECTICUT

INSURANCE DEPARTMENT

Testimony of the Connecticut Insurance Department
Before the

Insurance and Real Estate Committee

Tuesday, February 9th, 2010

House Bill 5011—An Act Extending the Effective Date for Certain Interlocal Risk Management Pools

The Connecticut Insurance Department would like to offer the following comments on House Bill 5011—An Act Extending the Effective Date for Certain Interlocal Risk Management Pools.

History

The Municipal Interlocal Risk Management Agency (MIRMA) was formed in January of 2002 under CGS 7-479. At that time the law required a minimum contingency fund (surplus) of $100,000. At June 30, 2002, MIRMA reported surplus of $97,888. By June 30, 2004, surplus had steadily deteriorated to a deficit of $2,228,887.

The Department became concerned with this growing deficit. In early 2005, the Department had several meetings and discussions with MIRMA officers to look at alternatives, one of which was discontinuing operations.

However, on June 2, 2005, the General Assembly passed Public Act 05-65 which amended Section 7-479e to "permit an interlocal risk management pool organized after July 1, 1995 to choose not to maintain a contingency fund as required by current law until July 1, 2010."

The amended statute established a clear schedule for meeting the measurable levels of the required contingency fund. One would presume that MIRMA supported the timetable with a plan to meet the requirements. The amended statute provided five years for MIRMA to eliminate its negative surplus position and to meet the minimum contingency fund requirements.

Since that time the surplus has deteriorated further to a deficit of $9.7 million. [September 30, 2009 Quarterly Statement]. The December 31st, 2009 Quarterly Statement will be available February 15, 2010.

Current Status

As of the latest published Financial Statement (September 30, 2009), MIRMA has $5.3 million in liabilities for known claims. That Statement also shows that cash and cash equivalents of $3.3 million are insufficient to meet those obligations. The Connecticut Insurance Department's concerns relate to the projected inability to pay claims which, absent further contributions and assessments from its members, may leave those injured workers, the employees of the municipalities, school districts and fire districts (who are citizens of Connecticut) without the protection the policies are intended to provide.

An extension of the contingency fund requirement would not address this imminent threat.

Recommendations

House Bill 5011 seeks a further extension of time for MIRMA to meet its financial obligations to policyholders and to the injured workers who expect to have their claims paid.

We believe that this action would not address the more important issue that is critical to the survival of this association. That critical issue is the availability of cash needed to pay the claims of injured workers covered by the policies issued by MIRMA.

Therefore, the Department recommends that no legislative action be taken at this time. MIRMA is currently not in violation of the contingency fund requirements of section 7-479e. Our interpretation of the statute puts the date for meeting the requirement at June 30, 2011.

MIRMA has developed a plan to implement a contractual provision to assess policyholders. Successful implementation of that plan would serve several purposes including:

1. Raise cash to allow MIRMA to continue to pay claims.
2. Decrease the surplus deficiency.
3. Meet the requirements under current state law, Sec. 7-479e.

On a monthly/quarterly basis we have been monitoring MIRMA's financial position. We will continue to do so. With successful implementation of their plan, along with continued favorable experience and appropriate management action, it is possible that MIRMA would not need an extension of the current statute.

The Connecticut Insurance Department appreciates this opportunity to provide testimony on House Bill 5011.