



City of Naples

City Council Minutes

Regular Meeting 11/19/86

City Council Chambers
735 Eighth Street South
Naples, Florida 33940

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City Council Chambers
735 Eighth Street South
Naples, Florida 33940



Time 9:00 a.m.

Date November 19, 1986

Mayor Putzell called the meeting to order and presided as Chairman:

ROLL CALL: Present: Edwin J. Putzell, Jr. ITEM 2
Mayor
Kim Anderson-McDonald
William E. Barnett
William F. Bledsoe
Alden R. Crawford, Jr.
John T. Graver
Lyle S. Richardson
Councilmen

Also Present:
Franklin C. Jones, Christopher L. Holley,
City Manager Community Services Dir.
David W. Rynders, Gerald L. Gronvold,
City Attorney City Engineer
Mark W. Wiltsie, Jon Staiger, Ph.D
Asst. City Manager Natural Resources Mgr.
Janet Cason, Norris C. Ijams,
City Clerk Fire Chief
Roger J. Barry, Community James L. Chaffee,
Development Director Utilities Director
Jodie M. O'Driscoll,
Deputy Clerk

See Supplemental Attendance List - Attachment #1.

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INVOCATION: Reverend Robert G. Bruce ITEM 1
East Naples United Methodist

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ANNOUNCEMENTS ITEM 3

MAYOR PUTZELL: Advised that he was in receipt of a letter from Neapolitan Enterprises (Attachment #2) requesting a meeting with the City Council on November 25, 1986 at 2:00 p.m., in the Council Chamber, regarding Neapolitan's properties on Third Street, South.

CITY MANAGER JONES: Announced that the location of the November 24, 1986, annexation workshop with the County would be held in the City Council Chamber instead of Cambier Park at 11:00 a.m.

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APPROVAL OF MINUTES ITEM 4

October 22, 1986, Workshop Meeting
October 29, 1986, Workshop Meeting
November 3, 1986, Special Meeting
November 5, 1986, Regular Meeting

Mr. Graver asked that the minutes of November 5, page 3, be corrected to read "Horticultural Plus Sludge . . . millorganite which . . ." The word melaleuca is wrong and should be replaced by millorganite, he said.

COUNCIL MEMBERS	M O T I O N	S E C O N D	VOTE		A B S E N T
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COUNCIL MEMBERS

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Mr. Bledsoe asked that the minutes of October 22, page 7, be corrected to read "due to the 'strong' City Manager form of government."

MOTION: To APPROVE the minutes with the aforementioned changes.

-----ADVERTISED PUBLIC HEARINGS-----

---RESOLUTION NO. 86-5150

ITEM 5

A RESOLUTION AUTHORIZING DREDGING ACTIVITIES IN CHAMPNEY BAY NEXT TO AN EXISTING DOCK LOCATED AT 3595 GORDON DRIVE, SUBJECT TO THE STIPULATIONS SET FORTH HEREIN; AND PROVIDING AN EFFECTIVE DATE.

Title read by City Attorney Rynders.

PUBLIC HEARING: Opened: 9:15 a.m. Closed: 9:22 a.m.

City Engineer Gronvold explained that this was a standard request to excavate down to an elevation of -6.1 to give extra depth in order for a boat to gain access to the existing dock. He continued that this request would not violate any statute, zoning law, ordinance or other restrictions which may be applicable, and, further that it would not be harmful to or alter the natural flow of the navigable water nor would there be biological or ecological adverse impacts. Mr. Gronvold advised that the area to be dredged is 80 feet long and 20 feet wide creating approximately 154 cubic yards of material.

Mayor Putzell asked how deep the water was now, and if it had been dredged before and also how deep the surrounding water was. Mr. William Johnson of W. J. Johnson and Associates, Inc., representing the petitioner, advised that the depth of the water in the immediate area was equal to or in excess of the requested depth. He further advised that to accommodate a marine vessel they were, in actuality, cutting a wedge into the slope of the bank which has become flat from erosion. In response to Mayor Putzell, Mr. Johnson reiterated that the water adjacent to the area to be dredged is greater in depth and further that they are only requesting to dredge to the outboard piling in order to achieve this.

Mr. Johnson explained that further details regarding this application, assembled for the Department of Environmental Regulations, were not included with Council's information. He further explained that the material to be dredged will be placed on the empty parcel of land next to the petitioner. The neighboring property owner has already given his consent, Mr. Johnson added.

Mr. Graver asked Dr. Staiger, the Natural Resources Manager, if he had inspected the area and what his comments were. Dr. Staiger advised that the petitioner is only removing enough material to allow a boat access to the dock. The shoreline is covered with mangroves, but this dredging should not in any way disturb those trees, he said.

Anderson-
McDonald
Barnett
Bledsoe
Crawford
Graver
Richardson
Putzell
(7-0)

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COUNCIL MEMBERS

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Mr. Graver asked City Engineer Gronvold to clarify "Mean Low Tide Level". Mr. Gronvold explained that there are two sets of data to take into consideration regarding this request. The first -6.1' National Geodetic Vertical Datum NGVD and the second -5' Mean Low Water, he continued; combined they compute to the Mean Low Tide Level. Mr. Johnson further clarified that NGVD is expected to replace the Mean Low Water Datum.

Anderson-
McDonald
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Bledsoe
Crawford
Graver
Richardson
Putzell
(7-0)

X		X	
	X	X	
		X	
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		X	
		X	
		X	

MOTION: To APPROVE the resolution as presented.

---RESOLUTION NO. 86-5151

ITEM 6

A RESOLUTION GRANTING A VARIANCE FROM THE CITY'S MOST RESTRICTIVE COASTAL CONSTRUCTION SETBACK LINE TO PERMIT CONSTRUCTION OF A SIX (6) FOOT PRIVACY WALL AND STAIRWELL AT 2050 GULFSHORE COURT; AND PROVIDING AN EFFECTIVE DATE.

Title read by City Attorney Rynders.

PUBLIC HEARING: Opened: 9:22 a.m. Closed: 9:48 a.m.

City Engineer Gronvold advised that the petitioner had made significant changes to the proposed wall as exemplified in the drawings presented to Council (Attachment #3). He further advised that the proposed privacy wall falls into the City's Coastal Construction area and that it has been reduced in height from 6 feet to 4.8 feet. "The new wall is very attractive," he added. Mayor Putzell noted the ornamental gates and asked how far apart they were spaced. Mr. Gronvold advised that there was 24 feet between gates.

Mr. Ed McMahon, representing the Olde Naples Association, advised that they recommended approval of a hedge in lieu of the proposed wall. Mr. McMahon asked if the wall was to be constructed behind the shrubbery and Mayor Putzell advised that the plans showed it would be.

Mr. Steven Brisson, architect for the petitioner, explained the latest modifications to their proposed privacy wall. He further stated that they reduced the height to 4.8 feet and moved it back 3.8 feet from the property line. Mr. Brisson advised that they had planned to landscape, according to their drawings, with 4 foot high seagrapes and coconut palms (see Attachment #3). Another function of the wall, he continued, is to retain 24 inches of fill; a common condition up and down the Gulf front properties. Further modifications include moving the steps of the beach access to the east side of the Coastal Construction Setback line and to create a tree-lined vista. Mr. Brisson noted that the existing hedge is ficus which is very disruptive to foundations.

Mr. Crawford asked about the existing residence access with a gate and if it was on Mr. Condon's property. Mr. Brisson pointed out that sheet one of Mr. Green's drawings incorporated that gate into their proposed fence.

COUNCIL MEMBERS

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Mayor Putzell suggested the petitioner look into the possibility of utilizing a cyclone fence hidden inside the shrubbery to provide privacy. Mr. Brisson advised that they would prefer another possibility because if they utilized the cyclone fence with thorny vegetation, there would be the chance of some civil liability should someone get hurt. The purpose of the seagrapes was to hide the fence. The seagrapes were chosen for their salt tolerance and because they resist windburn, he added.

Mrs. Anderson-McDonald and Mr. Crawford noted that the perforated wire fence hidden in the hedge would have a tendency to look bad if not maintained. She commended Mr. Brisson, and the petitioner, for their cooperation regarding this proposal and further that she saw nothing wrong with the petitioner's request. Mrs. Anderson-McDonald then cited a similar case on 14th Avenue South, Mr. Henry Watkins' property.

Mr. Crawford stressed the importance that this fence continue in the same vein as the original approval of Palmer Estates.

Mayor Putzell explained the reason for discussing the possibility of a cyclone fence was to maintain an attractive walkway to the beach. Mr. Crawford advised that the seaoats were high enough to hide the wall from the beach.

Mr. Graver expressed concern that the proposed wall would create a bowling alley effect for the beach access. He suggested utilizing a 3 foot fence in lieu of the 4.8 foot fence. Mrs. Anderson-McDonald raised the question of safety for Mr. Condon's grandchildren and the possibility of a child being taken if a 3 foot fence were utilized. Mayor Putzell noted that it would not be difficult to snatch a child from Mr. Condon's property because the seawall is only a step away from the proposed privacy wall.

Mr. Richardson asked if this was a totally new wall and plantings and Mr. Brisson advised that it was. City Engineer Gronvold suggested incorporating the requirement of 24 inches of fill into the resolution.

Mr. Richardson moved that Council approve the proposal in accordance with the architectural drawing dated November 8 and the two engineering drawings dated October 2 and November 13, respectively.

Mayor Putzell suggested that in regard to the landscaping that the staff be instructed to follow-up in two years to make sure the property owner is complying with that requirement.

Mr. Crawford asked if it were possible to request Palmer Estates to adopt a codicil regarding landscaping along privacy walls for future sales. Mr. McMahon of the Olde Naples Association suggested that Council approve this as a requirement for a Planned Development (PD). Community Development Director Barry advised that this would not be possible without a public hearing.

COUNCIL MEMBERS

M O T I O N	S E C O N D	VOTE		A B S E N T
		Y E S	N O	

Mayor Putzell advised Council that the petitioner is willing to spend an additional \$20,000 to accomplish this.

MOTION: To APPROVE the resolution in accordance with the architectural drawing dated November 8 and the two engineering drawings dated October 2 and November 13, 1986, respectively, with the stipulation that staff follow-up in two years to assure compliance with the landscaping requirements of the City.

Anderson-
McDonald
Barnett
Bledsoe
Crawford
Graver
Richardson
Putzell
(7-0)

X
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-----END ADVERTISED PUBLIC HEARINGS-----

-----COMMUNITY DEVELOPMENT/P.A.B.-----

---RESOLUTION NO. 86-5152 ITEM 7

A RESOLUTION GRANTING A VARIANCE FROM SECTION 6-29 OF APPENDIX "A" - ZONING OF THE CODE OF ORDINANCES OF THE CITY OF NAPLES EXEMPTING THE REQUIREMENT FOR CONSTRUCTION OF A SIDEWALK ON THE WEST SIDE OF TENTH STREET FROM CREECH ROAD TO APPROXIMATELY 400 FEET SOUTH OF CREECH ROAD IN CONJUNCTION WITH THE DEVELOPMENT OF THE HIBISCUS CENTER COMMERCIAL DEVELOPMENT, SUBJECT TO THE CONDITION SET FORTH HEREIN; AND PROVIDING AN EFFECTIVE DATE.

Title read by City Attorney Rynders.

PUBLIC HEARING: Opened: 9:48 a.m. Closed: 9:56 a.m.

Community Development Director Barry advised that the petition relates to the east property line of the Hibiscus Center. The Zoning Ordinance, he continued, requires that a sidewalk be placed on the property line by the street and the petitioner is asking that this requirement be waived due to the unusual circumstances regarding this case. Mr. Barry noted that the Planning Advisory Board suggested that Council approve the variance subject to the recording of a deed restriction delineating that the present and subsequent owner construct the sidewalk should the balance of the sidewalk be placed on their side of 10th Street South.

Mr. Crawford commented that the development looks very attractive throughout most of the area, however, there was a 20-30 foot section of sod that was missing or has been removed. Mr. Barry advised that staff would check into it.

Mr. Graver asked if the subsequent owners would be legally bound to comply with this requirement. City Attorney Rynders advised that with a deed restriction the subsequent owners would be compelled to comply.

Mr. Dennis Lynch, representing the owners of the Hibiscus Center, advised that their attorney did not have the deed restriction ready at this time, however, he expected to be in receipt of the

COUNCIL MEMBERS

M O T I O N	S E C O N D	VOTE		A B S E N T
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document by Friday, November 21, at the latest. He asked Council if they could approve this item, subject to receipt of the deed restriction, and Mayor Putzell advised that this could be done.

Mr. Graver suggested that at the time of inception of a Planned Development (PD) this possible variance be considered and discussed. Community Development Director Barry advised that Planning Advisory Board Member Lodge McKee suggested the same thing.

Mayor Putzell inquired of Mr. Barry if the proposed computer for the Community Development Department would help in surveillance and tracking of variances of this type and Mr. Barry advised that it would.

Mr. Bledsoe noted that the members of the Planning Advisory Board had all passed this variance with reservations. (Quoted by Mr. Bledsoe and made a part of these minutes as Attachment #4). He further noted that staff recommended denial of this variance because it did not meet the requirements. Mr. Dennis Lynch, representing the owners of the Hibiscus Center, advised that the staff's report was prepared prior to the meeting of the Planning Advisory Board.

Mr. Crawford said that he felt the variance was warranted, provided that the deed restriction be incorporated into it. Mr. Richardson advised that the resolution stipulates that fact.

MOTION: To APPROVE the resolution as presented.

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-----END COMMUNITY DEVELOPMENT/P.A.B.-----

-----SECOND READINGS-----

---ORDINANCE NO. 86-5153 ITEM 8

AN ORDINANCE AMENDING SECTION 8-46 (B)(1) OF THE CODE OF ORDINANCES OF THE CITY OF NAPLES RELATING TO THE CONTRACTORS' EXAMINING BOARD; AND PROVIDING AN EFFECTIVE DATE. PURPOSE: TO CHANGE THE TERMS OF THE CONTRACTORS' EXAMINING BOARD MEMBERS.

Title read by City Attorney Rynders.

PUBLIC HEARING: Opened: 9:56 a.m. Closed: 9:57 a.m.

No one present to speak for or against.

MOTION: To ADOPT the ordinance as presented on the second reading.

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-----END SECOND READINGS-----

-----FIRST READINGS-----

Anderson-McDonald	X		X	
Barnett		X	X	
Bledsoe				X
Crawford			X	
Graver			X	
Richardson			X	
Putzell (6-1)			X	

Anderson-McDonald			X	
Barnett		X	X	
Bledsoe			X	
Crawford			X	
Graver			X	
Richardson	X		X	
Putzell (7-0)			X	

COUNCIL MEMBERS

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---ORDINANCE NO. _____

ITEM 9

AN ORDINANCE RELATING TO THE CITY'S PURCHASING POLICY; AMENDING SECTION 15.12 OF THE CHARTER OF THE CITY OF NAPLES, ENTITLED "COMPETITIVE BIDDING"; AND PROVIDING AN EFFECTIVE DATE. PURPOSE: TO INCREASE THE AMOUNT FOR WHICH COMPETITIVE BIDS ARE REQUIRED FROM \$1,500.00 TO \$5,000.00; TO AMEND CERTAIN PROVISIONS RELATIVE TO WAIVING THE COMPETITIVE BIDDING REQUIREMENTS; AND TO INCREASE THE LIMITATION FOR AWARD OF BIDS AND EXECUTION OF CONTRACTS BY THE CITY MANAGER FROM \$5,000.00 TO \$7,500.00.

Title read by City Attorney Rynders.

Mayor Putzell explained that before a motion could be made, according to a practice adopted by Council in February, the staff must comment on the matter at hand to discuss the various alternatives and to give their recommendations.

Assistant City Manager Wiltsie advised that this ordinance is the result of a workshop on October 29. Mayor Putzell asked that he outline a brief history of this subject for those present. Mr. Wiltsie responded that the recommendation was to change the bidding requirements from \$1,500 to \$5,000. The City Manager would be able to award bids up to \$7,500 without City Council approval. Bids in excess of \$7,500 would be awarded by Council. In response to Mayor Putzell, Mr. Wiltsie advised that the Council presently reviews, in terms of dollars, 96% of the City's bids and 61% of the total number of bids issued.

Mr. Richardson said that this ordinance was the result of a lengthy, but valuable, workshop and that this should be the norm in future cases to assure thorough understanding of what is proposed.

Mayor Putzell commented that this change in bidding procedures reflects inevitable growth in the cost of City government. There is a need to streamline practices, he said, and this proposed change seems reasonable. He questioned, however, the City Manager's recommendation stating that an "informal policy" be adopted requiring all legal bids in excess of \$200,000 be advertised not less than 28 days prior to the public hearing. City Manager Jones explained that informal acceptance of this policy would not make it a part of the ordinance but, instead, would be a directive coming to staff from the Council.

In response to Mayor Putzell, Mr. Wiltsie advised that at the present time there is a minimum of 10 days to advertise a public invitation to bid. The new policy, which would require all bids in excess of \$200,000 to be advertised 28 days prior to the public opening, will be incorporated in the purchasing manual.

COUNCIL MEMBERS	M O T I O N	S E C O N D	VOTE		A B S E N T
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Mayor Putzell said, "If we adopt this motion with respect to this informal policy, the requirement for all legal bids in excess of \$200,000 will require advertisement 28 days prior to public bid opening."

MOTION: To APPROVE the ordinance as presented on first reading and to ADOPT the City Manager's informal policy regarding advertisement of all legal bids.

-----END FIRST READINGS-----

ITEM 10

DISCUSSION WITH REFERENCE TO PROPOSED REVENUE BONDS TO BE ISSUED BY NAPLES COMMUNITY HOSPITAL. REQUESTED BY NAPLES COMMUNITY HOSPITAL.

Title read by City Attorney Rynders.

Dr. John Briggs, Chairman of the Board of Naples Community Hospital, explained that the hospital is requesting that the City validate \$45,000,000 of Industrial Revenue Bonds. The purpose, he said, would be to retire existing bonds and to obtain the advantage of lower interest rates. This would result in a savings of up to \$5,000,000 to \$6,000,000 for the hospital which would help lower medical costs for the community. Dr. Briggs commented that the hospital's bond counsel in New York advised that the name, City of Naples, on a bond issue increases the value of that issue by 10 to 15 basis points over and above the alternate source of bonds.

Mayor Putzell asked how the bonds were to be secured and Dr. Briggs advised that the hospital building, contents, and balance sheets were security. "There will be no burden on the City at all," Dr. Briggs said. Mayor Putzell explained that this move is possible because of a state law that allows governmental bodies, like the City and the County, to provide public bonding authority without personal liability.

Mr. Crawford asked how the hospital anticipated to achieve a \$200,000 savings because the City's name was on the bond issue. Dr. Briggs advised that in New York the name "Naples" is apparently very important and makes the bonds easier to sell which provides for a smaller bonding commission. He further advised, however, that the quality of the bonds were based on the hospital's balance sheet.

Mr. Graver asked if the City would be financially liable should the hospital default. City Attorney Rynders advised that he had examined the documents carefully and was certain that the City would be under no financial obligation.

Mr. Richardson asked if there was going to be a cost to the City and how it be recovered. City Attorney Rynders advised that the City would recover all out-of-pocket expenses from the hospital, and City Manager Jones advised that the Economic Development

Anderson-McDonald
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Council would be the recipient of the excess revenue, above the costs of the City's issue. Mr. Jones further explained that the City has negotiated an agreement with the hospital and the Economic Development Council whereby the hospital pays the City's fee for the bond issue and then, after all City expenses are reimbursed, the City would use the remainder of the fee to obtain membership in the Economic Development Council.

Mr. Bledsoe expressed his disapproval of the hospital paying for the City's membership into the Council. Mayor Putzell explained that the hospital was merely paying a fee for services rendered and that there was no difference between excess dollars in the City's treasury, or any other dollars, to buy a membership in the Council.

Mr. Crawford expressed concern over Section B, page two, of the Memorandum of Agreement in that it should be clearer who the issuer is. City Attorney Rynders advised that the loan agreement referenced in that section provides that the hospital is required to make sufficient installments to pay the principal, premium, and interest, in addition to any costs due. Mr. Rynders said, "Under the Bond Trustee Indenture, local governing issuing authority, providing all the matters have been taken care of appropriately, has no liability or exposure."

Mr. Graver expressed concern that the City may now be approached by other organizations eligible for Industrial Revenue Bonds (IRB's). City Attorney Rynders advised that with the new Tax Reform Act, the requirements are rather strict for the IRB's, and further that it has been his past experience that because of the limitation on the IRB's, it would be unlikely that many requests of this type would be received.

Mayor Putzell pointed out that the hospital was an important institution in the City of Naples and good judgement must be exercised in approval of this and any future requests.

City Attorney Rynders advised that there was a time limit (before the end of the year) regarding this bond issue and further that Council should instruct the Clerk to formally advertise the second reading of the proposed ordinance accepting this issue at a special meeting to be held on December 8, 1986, at 9:00 a.m. The first reading would be held at Council's regular meeting on December 3, 1986, at 9:00 a.m.

MOTION: To DIRECT the Clerk to advertise the second reading of the proposed ordinance for a Special Meeting on December 8, 1986. The first reading of the proposed ordinance to be held at a Regular Meeting on December 3, 1986.

-9-

COUNCIL MEMBERS

M O T I O N	S E C O N D	VOTE		A B S E N T
		Y E S	N O	

Anderson-
McDonald
Barnett
Bledsoe
Crawford
Graver
Richardson
Putzell
(7-0)

		X	X
	X		X
			X
			X
			X
	X		X
			X

COUNCIL MEMBERS

M		S		VOTE		A	
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---RESOLUTION NO. 86-5154

ITEM 11

A RESOLUTION AUTHORIZING THE MAYOR AND CITY CLERK TO EXECUTE AN AGREEMENT BETWEEN PERPETUAL SAVINGS BANK, F.S.B., COLLIER COUNTY AND THE COUNTY WATER/SEWER DISTRICT AND THE CITY OF NAPLES, PROVIDING WATER AND SEWER SERVICE TO RIDGEPORT PLAZA LOCATED AT THE NORTHWEST INTERSECTION OF AIRPORT-PULLING ROAD AND PINE RIDGE ROAD; AND PROVIDING AN EFFECTIVE DATE.

Title read by City Attorney Rynders.

City Attorney Rynders advised that the name of one of the parties to the agreement has been changed from Perpetual Savings Bank, F.S.B., to Ridgeport Plaza Associates Limited Partnership.

Assistant City Manager Wiltsie explained that the proposed agreement between the City, County and the developer involved property on the corner of Pine Ridge and Airport-Pulling Roads for interim service until the County can provide it in approximately eight years; staff recommended approval.

Mayor Putzell asked if the City's obligation to provide service stopped at the end of eight years. City Manager Jones explained that according to Municipal Services Taxing Unit (MSTU) established by the County through an agreement with the City, the City agreed to provide interim service for unspecified periods of time until the County could develop their sewer plant to particular areas. The property owners have taken the initiative to connect to the sewer system and are therefore asking for the interim service, he added. Mr. Jones advised that the City could, however, put economic pressure on the County and the developer to encourage development of the sewer plant in a timely fashion.

Mayor Putzell asked if this property was the one that had been "in a state of hibernation" for quite some time and Mr. Jones confirmed that it was. Mr. Wiltsie advised that the City would be receiving system development fees and normal flow rates with all the lines dedicated to the City.

Mr. Richardson asked what sort of volume was estimated. Mr. Wiltsie reiterated that staff did not expect more than 25,000 gallons a day for the area. Mr. Bledsoe inquired if there would be any financial loss to the City and Mr. Jones advised that the City's fees would be paid with the execution of this agreement and the area would be treated as a regular customer.

Mr. Graver expressed concern at the authorization of temporary and permanent hook-ups to the City's sewer system. He asked Mr. Chaffee how far the City had to go to reach maximum capacity and how this was affected by the areas that were not yet developed. Utilities Director Chaffee explained that at the present time the City has the capacity to serve the area for an interim period and further that the undeveloped areas are the reason the City can provide this temporary service.

COUNCIL MEMBERS

M O T I O N	S E C O N D	VOTE		A B S E N T
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Mr. Richardson asked what the maximum capacity of the City's system would be when the plant expansion is completed. Mr. Chaffee advised that the maximum capacity would be 8,500,000 gallons per day.

MOTION: To APPROVE this resolution, changing the name from Perpetual Savings Bank, F.S.B., to Ridgeport Plaza Associates Limited Partnership.

---RESOLUTION NO. 86-5155

ITEM 12

A RESOLUTION RANKING THE TOP THREE FIRMS IN ORDER OF PREFERENCE TO PROVIDE PROFESSIONAL DESIGN AND ENGINEERING SERVICES FOR THE CAMBIER PARK COMMUNITY CENTER RENOVATION; APPROVING A CONTRACT WITH THE TOP RANKED FIRM OF GEE & JENSON OF FT. MYERS, FLORIDA, FOR SAID SERVICES; AUTHORIZING THE MAYOR AND CITY CLERK TO EXECUTE THE CONTRACT; AND PROVIDING AN EFFECTIVE DATE.

Title read by City Manager Jones.

Community Services Director Holley explained that this item was on the agenda as a result of the architectural firm's review of the proposals for renovation of the Cambier Park Community Center and to negotiate a contract with the top ranked firm. The \$14,000 fee represents 10% of the proposed budget for this renovation, he said.

Mr. Crawford expressed concern regarding a slight overrun in expense for this project. Mr. Holley advised that over a two-year period \$190,000 represented the budget total for the project: \$140,000 for the Community Center and \$50,000 for landscaping. The \$14,000 architecture fee was not included in this budget, but could possibly be recovered by cutting back the landscaping budget or use of the contingency fund.

Mayor Putzell emphasized the need for this renovation to be done in a timely manner for the community's interest. He then asked why the Arbitration Clause in the agreement had been marked out. City Attorney Rynders explained that the City's policy, guided by the Florida Attorney General's office, indicated that local governments are not permitted to arbitrate. Arbitration involves two parties agreeing that a third party will make a decision for them; the only governing body able to bend the will of the City with regard to decisions is a judiciary body. This would be the City's normal remedy in the event of a dispute, Mr. Rynders advised.

MOTION: To APPROVE the resolution as presented.

Anderson-McDonald
Barnett
Bledsoe
Crawford
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Richardson
Putzell
(7-0)

Anderson-McDonald
Barnett
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Graver
Richardson
Putzell
(7-0)

COUNCIL MEMBERS

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---RESOLUTION NO. 86-5156

ITEM 13

A RESOLUTION RENEWING THE CITY'S SELF-INSURANCE PROGRAM; PROVIDING FOR PREMIUMS AND THE LOSS FUND; AUTHORIZING THE CITY MANAGER TO ISSUE PURCHASE ORDERS THEREFOR; AND PROVIDING AN EFFECTIVE DATE.

Title read by City Attorney Rynders.

Finance Director Hanley explained the City's history involving self-insurance. In 1981, the City recognized the cost savings of self-insurance; Gallagher Bassett was then chosen to service the City's claims and select carriers to provide excess coverage above the loss fund with the Lloyds of London as the major underwriter. The City established a loss fund of \$200,000 which meant the City assumed the first \$200,000 in claims and the major underwriters anything above that. There are 13 deductibles within the loss fund for various types of claims: Workers' Compensation, Auto, Public Officials Liability, Property Damage, etc., each set at \$100,000 deductible. At the end of the first year, the City experienced a savings in excess of \$42,000; however, there has just recently been an increase from \$200,000 to \$300,000 deductible due to an increase in claims. Prior to establishing the self-insurance program, the City had a Workers' Compensation rate of 1.23, which was 23% above any other city in the State; it has since improved to .61 which is 39% lower. Mr. Hanley further advised that Gallagher-Basset representative Tony Abella was here to answer questions.

Mrs. Anderson-McDonald observed that the loss histories are noteworthy and asked what the renewal date was for the City's self-insurance. Mr. Abella advised that the anniversary date was October 28, 1986; therefore, a decision should be made.

Mrs. Anderson-McDonald distributed information on rating classifications of insurance carriers for Council's review (Attachment #5). She further explained that she had checked carriers in the 1986 Best Review and that Lloyds of London are not rated because they are not an American carrier. Mr. Abella advised that the Lloyds of London are a group of underwriters and are the strongest company in the world. Mrs. Anderson-McDonald agreed and quoted the ratings of the other carriers: Chubb Group (one member in the group is not rated, but the rest are all "A" rated); Insurance Exchange of the Americas (an unrated carrier with only three years' experience); Employers Reinsurance Corporation (rated as a B+5 carrier); Appalachian Insurance (rated as an A+6 carrier); and Fidelity & Deposit Company (rated as an A+8 carrier). She further explained that the Best Review shows the carriers' performance, history and financial size. Most "B" rated carriers have been known to have substantial losses and go out of business, she explained.

Mrs. Anderson-McDonald referenced Insurance Consultant Lou Cantin's letter (Attachment #6) showing comparisons of premiums and an increase in Public Officials Liability insurance; however, he did not address what coverage the companies provided, she said. Mr. Abella advised that the present arrangement involves a City retention of \$100,000, Lloyds of London retention of \$200,000,

COUNCIL MEMBERS

M O T I O N	S E C O N D	VOTE		A B S E N T
		Y E S	N O	

and the Insurance Exchange of the Americas providing \$700,000 which would give the City a total of \$1,000,000 for each occurrence. Mrs. Anderson-McDonald asked if this was on all the coverages and Mr. Abella advised that it was.

Mr. Abella further advised that the companies were splitting the risks which was normal in self-insurance programs. Mr. Crawford asked about property insurance and Mr. Abella advised that the City has \$100,000 deductible, Lloyds of London picks up \$400,000, and Appalachian is responsible for the excess over \$500,000 up to \$69,000,000.

Mayor Putzell asked what limits the carriers were placing on the City and was advised by Mr. Abella that it would be \$1,000,000 aggregate over the whole program. Mayor Putzell suggested that staff give Council a memo outlining all the coverage details and Mr. Barnett asked that it be in layman's terms.

Mr. Bledsoe asked what the insurance would cover in the event of a severe hurricane. Mr. Abella explained that a severe hurricane would probably cause only 10-20% property damage resulting in between \$7- to \$14-million in claims.

Mayor Putzell asked if Mr. Abella would work with the staff and Mrs. Anderson-McDonald in putting together all the information regarding the City's self-insurance program, in layman's terms, for the Council's perusal.

Mr. Barnett commented that in the future, staff should recognize and utilize any experience that Council members have regarding detailed programs such as this.

Anderson-McDonald	X	X	
Barnett		X	
Bledsoe		X	
Crawford		X	
Graver	X	X	
Richardson		X	
Putzell		X	
(7-0)			

MOTION: To APPROVE the resolution as presented.

*** **

CORRESPONDENCE AND COMMUNICATIONS: None.

*** **

ADJOURN: 10:53 a.m.

E. J. Putzell, Jr.

 Edwin J. Putzell, Jr., Mayor

Janet Cason
 JANET CASON
 CITY CLERK

Jodie M. O'Driscoll
 JODIE M. O'DRISCOLL
 DEPUTY CLERK

These minutes of the Naples City Council meeting were approved DEC 03 1986.

SUPPLEMENTAL ATTENDANCE LIST

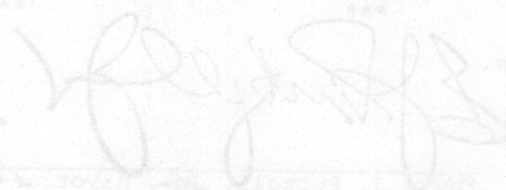
Charles Andrews
Ed McMahon
William Johnson
Steven Brisson

Reverend Robert G. Bruce
George Cecil
Gene Schmieder
Tish Gray

Richard O. Sykes
Herb Anderson
Robert N. Bell

NEWS MEDIA

Tim McCutcheon, TV-9
Chuck Curry, Naples Daily News
Bill Upham, Naples Times
Racheal Kearns, Naples Star



1300 THIRD STREET, SOUTH
Suite 302A
Naples, Florida 33940-7270

ATTACHMENT #2

AREA CODE: 813
TELEPHONE: 261-8936

HAND DELIVERED

Mr. Frank Jones, City Manager
City of Naples
735 Eighth Street South
Naples, FL 33940

Re: Workshop

Dear Mr. Jones:

On behalf of Neapolitan Enterprises, I would like to request a Workshop of the City Council in order to explain to the Council members some of the concepts we are exploring for Neapolitan's properties in the Third Street South and Crayton Cove areas.

We appreciate your consideration of this matter.

Sincerely,

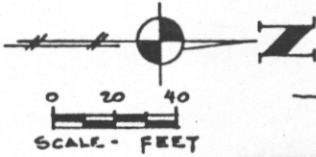
Charles W. Dwight III
mw

Charles W. Dwight III

CWD/mw



GULF OF MEXICO



ELEVATIONS BASED ON N.G.V. DATUM

APPROX. MEAN HIGH WATER +1.5 CONTOUR AS AT 7-28-86

LANDSCAPE FEATURES WATERWARD OF C.C.C.L. & LANDWARD OF EXIST. CONC. SEAWALL ARE:

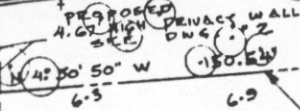
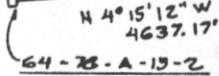
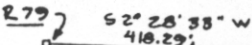
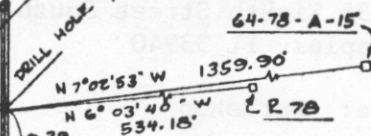
EXIST. WOOD DUNK WALK-OVER STRUCTURE

VEGETATION LINE AS AT 7-28-86
HEAVILY POPULATED WITH SEA OATS

MALAYAN COCONUT PALM 12' TO 18' GRAY WOOD TRUNK (14) TYP.

SPRINKLER HEADS TO 20' S.E.O. (7) TYP.
FLORANTAN SOO

EXIST. CONCRETE SEAWALL W/ LIMESTONE BOULDERS SPRAWLED



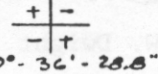
SEE ENLARGED PLAN THIS AREA SHEET NO 2

PROPOSED 6' HIGH PRIVACY WALL

STATE OF FLORIDA DEPT. OF NATURAL RESOURCES & COLLIER COUNTY COASTAL CONSTRUCTION CONTROL LINE PER C.S.B.E. 1 PG 13-25 (RECORDED JULY 29, 1980)

NOTE: CCCL GRID BEARINGS ROTATED TO PLAT BEARINGS

TO GRID BEARINGS



DESCRIPTION

PALMER ESTATES LOT 9 PLAT BOOK 14 PAGE 6 COLLIER COUNTY, FLORIDA

EXIST. 6' C.B.S. WALL 2.7' THICK

WEST 302.94'

EAST 274.25'

5' DRAINAGE & WALL AND/OR HEDG. EASEMENT

16' PUBLIC BEACH WALK ACCESS

GORDON DRIVE



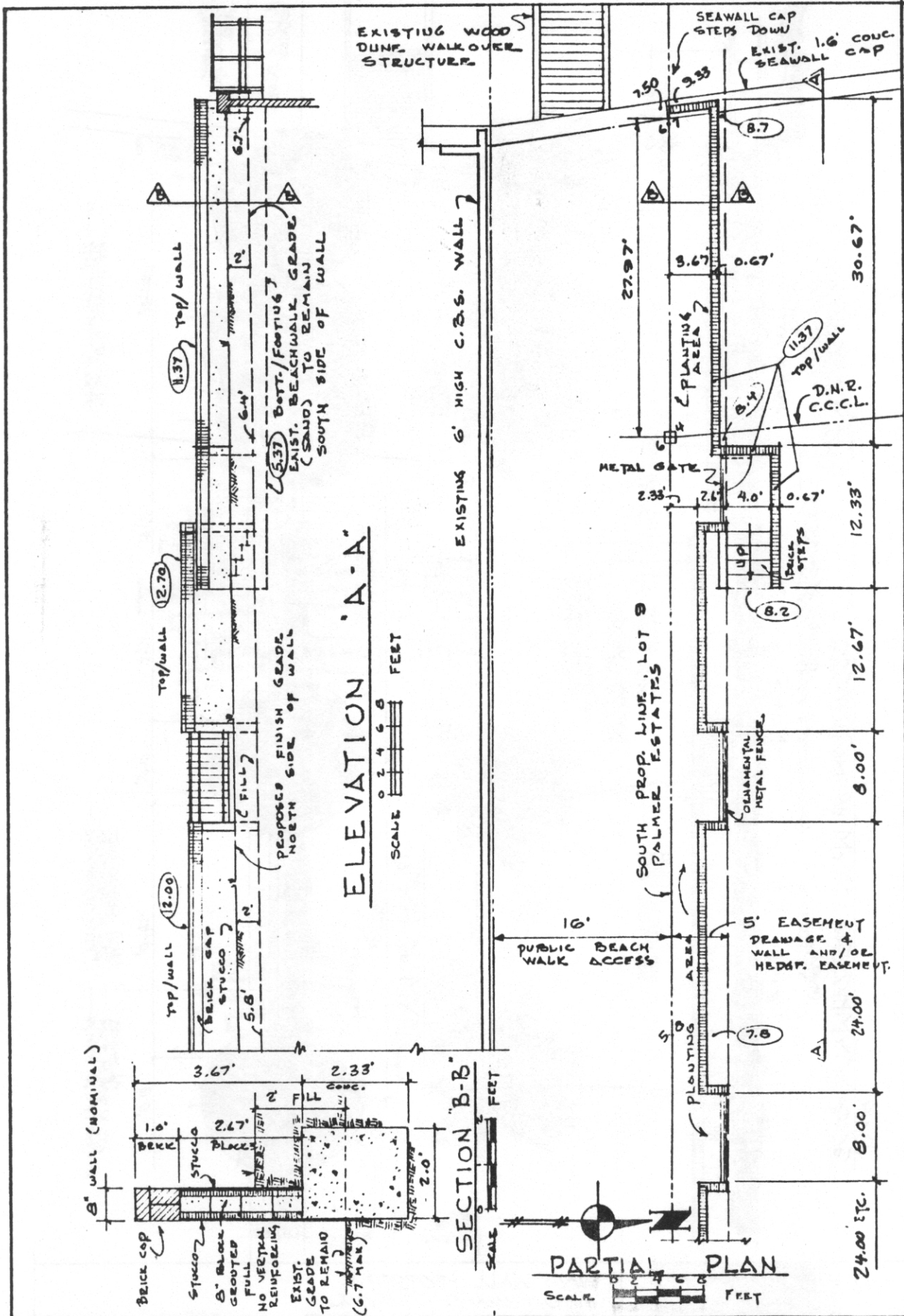
BUREAU OF GREEN AND ASSOCIATES, INC.
SUITE 203 - 600 FIFTH AVENUE SOUTH
NAPLES, FLORIDA 34102-0673

FOR RICHARD CONDON

DATE	BY	REVISIONS
11-13-86	EWS	GEN'L REV.

DR. BY	APP'D BY	SCALE NOTED	PROJECT	TITLE
EWS			C.C.C.L. VARIANCE FOR PRIVACY WALL	TOPOGRAPHIC SURVEY
BOOK	PG.	DATE		
		10-2-86		

SHEET 1 OF 2	
W.O. NO.	FILE NO.
10141	



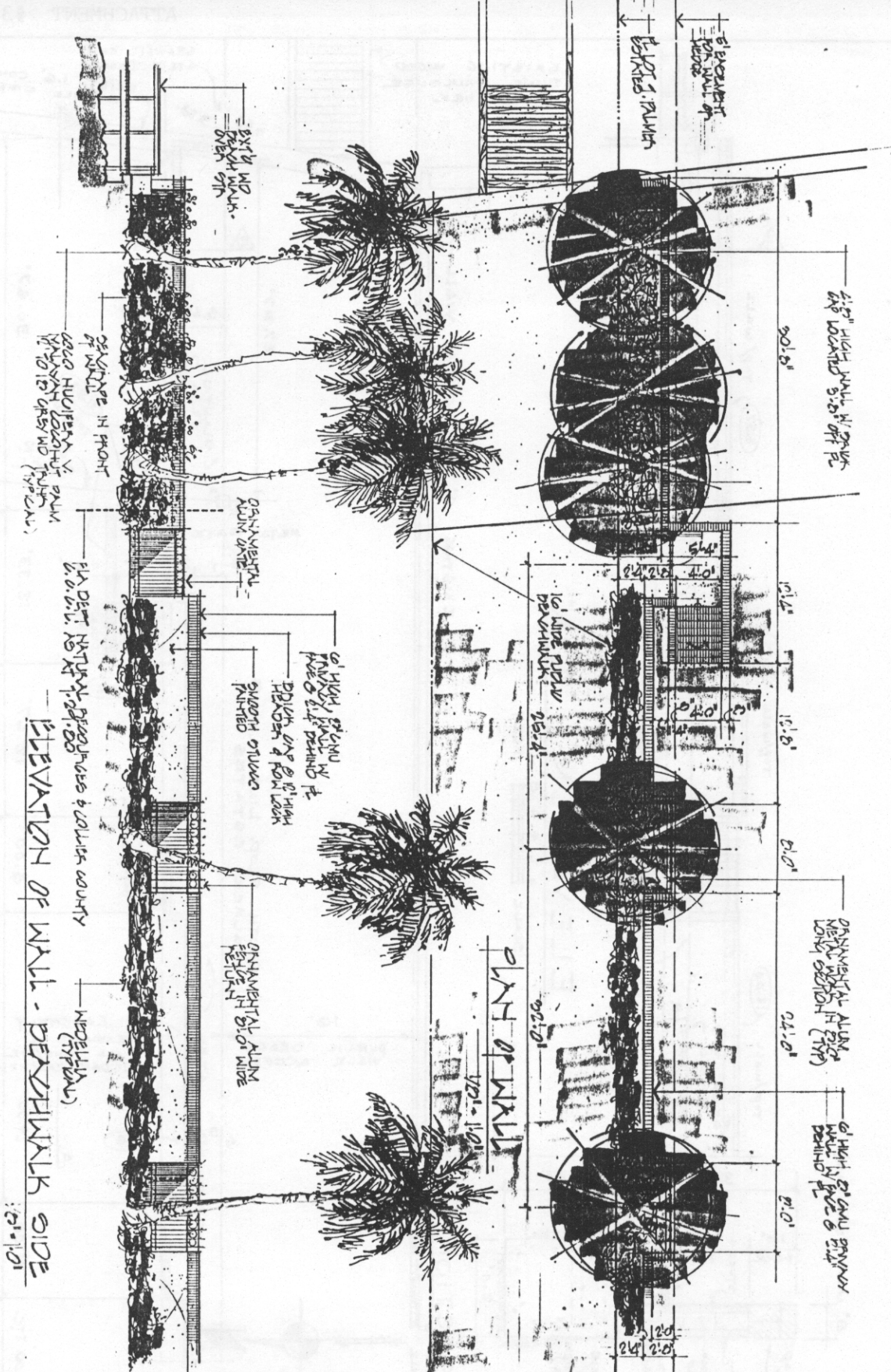
DATE	BY	REVISIONS

BGA BRUCE GREEN AND ASSOCIATES, INC.
SUITE 203 - 600 FIFTH AVENUE SOUTH
NAPLES, FLORIDA 34102-6673

FOR
RICHARD CONDON

DR. BY	APP'D BY	SCALE	PROJECT	TITLE
EWS		NOTED	C.C.C.L. VARIANCE	WALL DETAILS
BOOK	PG.	DATE	FOR	
		11-13-86	PRIVACY WALL	


SHEET **2** OF **2**
S.O. NO. FILE NO.
10141



ELEVATION OF WALL - PEZZI WALK SIDE
 1/2" = 1'-0"

PLAN OF WALL
 1/2" = 1'-0"

11.8.00



STEVEN JAMES BRISSON, A.I.A.
 ARCHITECT
 1111 N. FLORISSANT

PRIVACY WALL PROPOSAL
 MR & MRS RICHARD P. GONDON
 PALMER ESTATES, HAYLES, FLORIDA

Excerpts quoted by Mr. Bledsoe of the Planning Advisory Board's Meeting:

City Council Chamber
735 Eighth Street South
Naples, Florida 33940



PLANNING ADVISORY BOARD

Minutes

Time: 9:00 a.m.

Date: Nov. 6, 1986

Chairman C. Lodge McKee opened the meeting at 9:00 a.m. and presided.

Mr. Quale inquired of Mr. Barry if the sidewalk had been a requirement at the time this PD project had been approved.

Mr. Kixmiller asked Mr. Barry about the future plans to extend 10th Street through to 26th Avenue, and Mr. Barry replied that this extension is indicated in the Comprehensive Plan; however, nothing has yet been accomplished relative this extension.

Mr. Passidomo noted that the zoning ordinance specifically requires a sidewalk for commercial uses rather than in a residential zone, and although this subject sidewalk would not go anywhere at the present time, the zoning ordinance should be adhered to.

Chairman McKee commented that in the future when the board is considering site plans for "PD" developments, it should note particularly the indication of sidewalk(s) and therefore, avoid the possibility of any variance requests made at a later date-such as this petition.

Hispanic households in and Monroe counties studio in Hollywood.

on Channel 23, it had only 20
Please turn to STATIONS / 3F

SICC's 10 stations — five major stations and five low-power stations that broadcast the big station's signals to smaller markets — were controlled by Emilio Azcarraga, millionaire owner of Mexico's Televisa network, who ran them through Rene Anselmo.

ATTACHMENT #5
Page 1

to invoke a "minority policy" under which the sale sold at 75 percent of net value to minority

Hallmark is also opposed by five Hispanic community groups in California and the Los Angeles Board of Supervisors.

es, meanwhile, TVL 0 unsuccessful bidders has charged that the sale was tainted by collusion between the purchasers and the television stations. A group formed by Hispanic investors is challenging the sale.

Larry Amaya, regional representative of American GI Forum, one of the groups, said the sale will "tear the tongue out of our Spanish-speaking communities across this country."

Anselmo, a relative and long-time associate of Azcarraga, was then president of both SICC and Spanish International Network, the main source of programming for the stations.

businessman Jorge Mas member of another unsuccessful bidder, said his group is using legal strategies to ensure the sale is sold to a minority

The community groups feel there is no long-term guarantee that Hallmark will retain the stations' Spanish-language formats. Hallmark's only other Spanish-language venture to date has been a line of greeting cards once discontinued and then revived.

Anselmo quit both positions in May. He was replaced at SICC by Emilio Nicolas Sr., a SICC founder who is president and general manager of KWEX-TV in San Antonio, and at SIN by Azcarraga.

Hallmark is the world's largest greeting-card company. Last year, it acquired a 30 percent stake in SFN Cos., a Chicago-based publishing and communications company.

In the motion filed in Los Angeles, TVL, whose own \$320 million bid was rejected, contends that Nicolas; Joaquin Blaya, WLTU president and

Please turn to SPANISH TV / 3F

tumble to stay



Woolworth has led the charge in the past four-year span, climbing more than 100 percent. Westinghouse, Union Carbide, Owens-Illinois, and American Express are among the winners' list in that

only loser among the 30 Dow stocks that began its long run is Bethlehem Steel, which was a \$15 stock in mid-August of 1982 and is now quoted around \$8.50 today.

These figures demonstrate, the market has reached its fourth year of a bull market that reached its fourth year nearly three weeks ago has not only like the rising tide that lifts all boats but also like the stocks that have not participated.

The Dow index itself, however, has put on a fine show, rising about 145 percent. Market averages have been right in line with the Dow in moving to a whole new level of new records. But it's the Dow that hogs the spotlight. It has taken its position as the pre-eminent market

Please turn to RUSSELL / 2F

Insurance scandal rocks Miami group

By BOB LOWE
Herald Staff Writer

The Insurance Exchange of the Americas — Miami's equivalent of Lloyd's of London — is caught in a \$90 million scandal that threatens the financial health of the three-year-old exchange.

Two Kansas City men who own one of the exchange's 22 insurance-writing syndicates are central figures in a crossfire of litigation that includes accusations of fraud, racketeering and the improper use of tens of millions of dollars.

Their syndicate, as well as another of the exchange's underwriting groups, have been sued in Missouri by a subsidiary of Mutual of Omaha Insurance Co. that alleges they are responsible for millions of dollars in insurance losses.

"This is a major, major scandal," said Gene Witherpoon, vice president of the exchange. "This is the kind of stuff books are written about."

The exchange's \$13 million guaranty fund could also be liable and its member syndicates assessed for \$500,000 each

if the lawsuit is successful. Such losses could wipe out the guaranty fund, ruin many of the syndicates that pool resources to sell insurance through the exchange, and seriously impair its future activity.

Both of the Miami syndicates deny any wrongdoing but have promised the Florida Department of Insurance to stop writing new insurance. One syndicate countersued in Miami, accusing others involved in the complex series of transactions of civil fraud and racketeering.

The company that filed the Missouri lawsuit, Omaha Indemnity, says that its parent company has poured \$90 million into the insurer to keep it solvent as a result of the disputed deals. Losses are still mounting as auditors try to unravel the tangle of transactions.

"This is obviously a black cloud over the exchange," said William Godwin, the Florida Insurance Department's assistant director of company regula-

Please turn to INSURANCE / 2F

PREFACE

Introduction

In *Best's Insurance Reports*, we endeavor to report upon all U.S. domestic (non-captive) property/casualty insurance companies and groups which actively operate in the United States, as well as licensed United States Branches of foreign insurance companies, which possess \$3,500,000 of admitted assets and \$3,500,000 of income from premiums.

In a few instances, reports have been included upon companies with resources and income smaller than one or more of those minimums. This has been done, however, only when the company, so included, is a member of a larger group, or is particularly active in competition for some special class or classes of business, or is operating in a territory more extensive than its resources and volume ordinarily indicate, or which for some special reasons, such as a peculiarity of structure, has been, or is likely to

be, the subject of inquiry by our subscribers.

Historical Development Of This Volume. Our first volume, published in 1900, contained three hundred pages as compared with the present nearly three thousand page book. The tenfold growth is due to an increase in the number of insurance organizations in active operation and to the enlargement of the scope of each report. When the first volume was issued the casualty/surety business was in its infancy. Until 1914 a single volume of the reports covered all the classes of carriers. In that year, however, because many subscribers were interested only in either fire and marine lines or casualty or surety lines, we divided the book into two separate volumes.

Multiple line underwriting operations are now widespread. One company, if financially strong enough, is permitted in all States to write all the enumerated classes of business, in contrast to earlier years, when fire and marine companies

were prohibited from writing casualty and surety business and vice versa. This change necessitated consolidating the two volumes into one over-all publication in 1952. The current volume may, therefore, properly be considered the eighty-seventh consecutive annual edition.

We believe that this volume, together with our monthly magazine (*Best's Review, Property-Casualty Edition*), our weekly newsletter (*Best's Insurance Management Reports*), and our special reporting services, places at the disposal of all interested—in or out of the insurance industry—the most up-to-date information about underwriting insurance companies and organizations. Information on life/health insurance companies operating in the United States is available in *Best's Insurance Reports, Life/Health Edition*. Information on insurance companies operating in other countries is available in *Best's Insurance Reports, International Edition*.

Scope And Content

The A.M. Best Company currently reports on approximately 1,700 property/casualty insurers. Each report begins with the name, address, telephone and telex numbers as well as National Association of Insurance Commissioners (NAIC) and A.M. Best Company numbers. Following this is a review of the insurer's financial statements, investments, history, management (including a list of officers and directors), type and method of operation, reinsurance arrangements, operating comments and our Best's Rating.

In addition, a variety of statistical exhibits are presented, comprising a balance sheet, distribution of premiums by state, by-line underwriting results, summary of operations, and five years of selected financial and operating statistics.

Our reports are presented in alphabetical order by name of the group or unaffiliated company. The reports for affiliated insurers of groups are shown together under the name of the group. For the larger groups, a report of the group precedes the reports on each of the individual members of the group. This reflects the practice of many insurance managements to conduct their business through multiple legal entities for various business, regulatory and licensing reasons.

For your convenience, the Preface is divided into two sections. Section I provides an explanation of Best's Rating System. Section II provides explanations of the financial exhibits and terms used in our reports for those not familiar with insurance accounting terminology.

* SECTION I *

EXPLANATION OF BEST'S RATING SYSTEM

Evaluating the financial condition of an institution cannot be considered an exact science. This is particularly true of property/casualty insurance companies, whose assets largely are invested in interest-sensitive investments such as bonds, and whose liabilities such as loss reserves, primarily are based on actuarial projections of future payments to be made on current policy contracts.

The growth, liberalization and unpredictability of our tort litigation system have seriously challenged the ability of insurers to predict with reasonable confidence the reserves they must establish today to meet future payments.

The objective of Best's rating system is to evaluate the factors affecting the

overall performance of an insurance company to provide our opinion of the company's relative financial strength and ability to meet its contractual obligations. The procedure includes both quantitative and qualitative reviews of the company.

Quantitative Evaluation

The quantitative evaluation is based on an analysis of the company's financial condition and operating performance utilizing a series of financial tests. These tests measure a company's performance in the three critical areas of (1) Profitability, (2) Leverage and (3) Liquidity in comparison to norms established by the A.M. Best Company. These norms are based on an evaluation of the actual performance of the property/casualty industry.

(1) **Profitability:** Profit is essential for an enduring and strong insurer. It is a measure of the competence and ability of management to provide services and prices attractive to policyholders in competitive markets, and to compare favorably with their peers in cost control and efficiency.

We compare net income to net premiums earned and to policyholders' surplus over the past five years to evaluate the degree and trend of overall profitability. The expense ratio is used to compare costs of operations with insurers in similar lines of business. The combined ratio is an indicator of underwriting success relative to insurers in similar lines of business. The yield on investments is an indicator of the contribution of investment income to net income.

The quality of reported net income is reviewed and evaluated. Reported net income can be affected materially by changes in the adequacy of loss reserves, changes in the amount and kind of reinsurance, changes in the difference between statement and market value of assets, and by changes in the amount and kind of direct business.

The stability and trend of net income also are evaluated. A stable net income is important to the stability of an enterprise. An insurer losing half its policyholders' surplus in one year, for example, hardly can be regarded as adequate security for long-term obligations.

(2) **Leverage:** Leverage increases return on capital but also increases the risk of instability. Accordingly, we compare the leverage of each insurer with industry norms to evaluate the relative degree of risk to the policyholder. A conservative level of leverage enables an insurer to better weather occasional storms.

Leverage exists in many forms. We review the leverage of annual premiums and current liabilities to policyholder surplus, both gross and net to reinsurance. We also review leverage in relation to net policyholders' surplus—after deducting investments in affiliates—to evaluate the effect of pyramiding, which is another form of leverage.

Reported leverage also is evaluated for potential effects of loss reserve adequacy, equities in unearned premiums, and differences between statement and market values of assets.

(3) **Liquidity:** An insurer should be prepared at all times, both in the short and long run, to meet its obligations. It does so by holding cash and investments which are sound, diversified and liquid. A high degree of liquidity gives an insurer the flexibility to expand into profitable lines of business and withdraw from unprofitable lines. It enables an insurer to meet unexpected needs for cash without the untimely sale of investments.

We review a company's Quick Liquidity—the amount of cash and quickly convertible investments—to measure a company's ability to reduce liabilities without recourse to selling long-term investments or borrowing. We review Current Liquidity to measure the proportion of net liabilities covered by cash and unaffiliated investments. If this ratio is less than one, the company's solvency is dependent on the collectibility or marketability of premium balances and investments in affiliates.

We evaluate net cash flow which has an important bearing on an insurer's need for liquidity. We also evaluate the soundness, market value and diversification of assets. Putting too many eggs in one basket introduces additional risks to the stability of an enterprise.

We also review the effect of Investment Leverage by comparing with policyholders' surplus the loss that would be incurred by a 20% decline in common stock prices and the reductions in market value of bonds, preferred stocks and mortgage loans caused by an increase of interest rates of two percentage points.

Qualitative Evaluation

Our review also includes a qualitative evaluation of the company's performance in areas such as: (4) the amount and soundness of its reinsurance, (5) the adequacy of its reserves, and (6) the experience of its management.

In addition, various other factors of importance are considered such as the

composition of the company's book of business and the quality and diversification of its assets.

(4) **Amount and soundness of reinsurance:** Reinsurance is essential and plays an important role in risk spreading and the financial security of insurers—especially smaller insurers. We review each insurer's reinsurance program to see whether coverage is adequate for the potential risks involved. If the amount of reinsurance is large we also review diversification, quality and purpose of the reinsurance.

When reinsurance recoverables are relatively small or moderate (less than half policyholders' surplus) it often is advantageous and economic to deal with one reinsurer. But when reinsurance recoverable from one reinsurer exceeds 100% of policyholders' surplus, it can represent a diversification problem. An asset of that size makes the insurer's solvency dependent on a single entity.

When reinsurance recoverables are large, whether diversified or not, there may be quality problems if significant amounts are due from reinsurers that are low-rated or from reinsurers on which we have little information. A Best's Rating may be adversely affected by significant amounts of reinsurance or reinsurance recoverable, especially if the financial stability of the reinsurer is unknown.

Finally, when reinsurance is unusually large in amount, whether or not there are diversification or quality problems, there is the question of purpose. Is the amount and location of reinsurance normal and appropriate for the type and location of risks written by the primary carrier? If not, there is the potential that the amount or location of the reinsurance is motivated by financial, tax or regulatory concerns, instead of risk spreading. Significant amounts of such reinsurance may distort reported results or remove underlying assets and liabilities from normal disclosure and regulatory review. Significant amounts of reinsurance motivated by financial concerns generally have an adverse effect on a Best's Rating.

In general, a Best's Rating is improved by reinsurance that is normal, appropriate and sound. A Rating is affected adversely by reinsurance that is inadequate, excessive, inappropriate or unsound.

(5) **Adequacy of reserves:** An evaluation of the adequacy of an insurer's reserves is essential to an evaluation of profitability, leverage and liquidity. This is because reported net income is what remains after the change in re-

ported reserves has been deducted, and because reported policyholders' surplus is what is left over after reported reserves have been deducted. For many insurers, a 25% change in current loss reserves would exceed five years of net income. For some insurers, the equity or deficiency in reported loss reserves can exceed reported policyholders' surplus.

We evaluate the equity in the unearned premium reserve by estimating the ratio of underwriting expenses to written premiums. This ratio is applied to the unearned premium reserve.

We evaluate the adequacy of reserves for unpaid losses and loss adjustment expenses on an ultimate pay-out basis, and estimate the potential effect of discounting them to present value in recognition of future investment income on the amounts held in reserve for future payments.

We also evaluate the degree of uncertainty in the reserves, recognizing that reserves are only estimates of uncertain future events. If the degree of uncertainty exceeds any equity in the reserves, and is large in relation to net income and policyholders' surplus, the quality of profitability and leverage measures is reduced.

(6) **Management:** The competence, experience and integrity of management, although elusive qualities to measure, are important determinants for success in the insurance business, where financial responsibility and security are more vital than in most other forms of business activity.

During the past 80 years we have developed close working relationships with the managements of the insurance companies we report on. Obviously, this knowledge of the character and operating philosophy of a company's top management team plays an important role in our continual evaluation of the performance of an insurance company.

Adjustments for Rating Analysis

For companies assigned a Best's Rating (A+ to C), their Leverage and Liquidity Tests for the current year also are shown as adjusted by us for Rating analysis. This is not to suggest that the reported data or statutory accounting is incorrect.

First, these "Adjusted Tests for Rating Analysis" reflect our adjustments to selected balance sheet items to provide a more current and comparable basis for the evaluation of the performance of an insurance company. Items evaluated for adjustment include: equity in unearned premiums, adequacy of

loss reserves on a present value basis, adjustment to market value of bonds, preferred stocks and mortgages, and a review of conditional reserves.

Second, and equally important for rating analysis are adjustments that reflect an insurer's relationship with other affiliates and companies; when a company owns subsidiaries, the adjusted tests for the parent company are based on the consolidation of the group. When a company is 100% reinsured, the adjusted tests shown are those of the reinsurer. When a company participates in a qualified pooling arrangement, the adjusted tests shown are based on the consolidation of the pooling companies. When an insurer invests in a subsidiary that is not a property/casualty company, the invested asset is excluded to remove the effect of pyramiding.

Rating Assignment Procedure

Assignment of Best's Rating and Financial Size Category is made in the spring of each year shortly after the company has submitted its annual financial statement (due March 1). Official notification by letter is sent to the chief executive officer of each company together with a preliminary proof of the company's report and financial exhibits as they will appear in our various publications. The company is permitted up to 15 days to comment on and discuss its report and Rating before release of the Rating via our weekly publication, *Best's Insurance Management Reports*. The assigned Rating subsequently is reviewed based on the company's six and nine months' quarterly financial reports. The company is notified of any proposed change in the Rating, which again would be communicated to our subscribers via our weekly and monthly publications.

Best's Rating Classifications

Of the 1,700 companies reported on in *Best's Insurance Reports*, approximately 1,300 (75%) are assigned a Best's Rating ranging from A+ (Superior) to C (Fair). The remaining 400 (25%) are classified as Rating "Not Assigned." As discussed further in the Preface, the "Not Assigned" category has ten classifications which identify why a company was not eligible for a Best's Rating. Explanations of the six Best's Rating classifications follow:

A+ (Superior)

Assigned to those companies which in our opinion have achieved superior overall performance when compared to the norms of the property/casualty insurance industry. On a relative basis A+ (Superior) rated insurers generally have demonstrated the strongest ability to meet their respective policyholder and other contractual obligations.

A (Excellent)

Assigned to those companies which in our opinion have achieved excellent overall performance when compared to the norms of the property/casualty insurance industry. On a relative basis A (Excellent) rated insurers generally have demonstrated a strong ability to meet their respective policyholder and other contractual obligations.

B+ (Very Good)

Assigned to those companies which in our opinion have achieved very good overall performance when compared to the norms of the property/casualty insurance industry. On a relative basis B+ (Very Good) rated insurers generally have demonstrated a very good ability to meet their policyholder and other contractual obligations.

B (Good)

Assigned to those companies which in our opinion have achieved good overall performance when compared to the norms of the property/casualty insurance industry. On a relative basis B (Good) rated insurers generally have demonstrated a good ability to meet their policyholder and other contractual obligations.

C+ (Fairly Good)

Assigned to those companies which in our opinion have achieved fairly good overall performance when compared to the norms of the property/casualty insurance industry. On a relative basis C+ (Fairly Good) rated insurers generally have demonstrated a fairly good ability to meet their respective policyholder and other contractual obligations.

C (Fair)

Assigned to those companies which in our opinion have achieved fair overall performance when compared to the norms of the property/casualty insurance industry. On a relative basis C (Fair) rated insurers generally have demonstrated a fair ability to meet their policyholder and other contractual obligations.

Best's Rating Modifiers

The following Rating Modifiers may be assigned to a Best's Rating classification of A+ through C. These modifiers are used to qualify the status of an assigned Rating. The modifier will appear as a lower-case suffix to the Rating. (i.e. — A c or B w or C x).

• **"c"**—Contingent Rating. Temporarily assigned to a company when there has been a decline in performance in its profitability, leverage and/or liquidity but the decline has not been significant enough to warrant an actual reduction in the company's previously assigned Rating. Our evaluation may be based on the availability of more current information and/or contingent on the successful execution by management of a program of corrective action.

• **"w"**—Watch List. Indicates the company was placed on our Rating "Watch List" during the year because it experienced a downward trend in profitability, leverage and/or liquidity performance, but the decline was not significant enough to warrant an actual reduction in the assigned Rating. Our evaluation may be based on the availability of more current information and/or contingent on the successful execution by management of a program of corrective action.

• **"x"**—Revised Rating. Indicates the company's assigned Rating was revised during the year to the Rating shown.

The following Rating Modifiers are used to identify a company whose assigned Rating is based on an affiliation with one or more other property/casualty insurers.

• **"s"**—Consolidated Rating. Indicates the Rating is assigned to a parent company and is based on the consolidated performance of the company and its domestic property/casualty subsidiaries in which ownership exceeds 50%. The Rating applies only to the parent company as subsidiaries are normally rated on the basis of their own financial condition and performance.

• **"e"**—Parent Rating. Indicates the Rating assigned is that of the parent of a new affiliated company. To qualify, the new company must be eligible for a Rating based on its own performance after attaining five consecutive years of representative experience and have interim leverage and liquidity performance comparable to that of its parent. For in-

formation regarding the parent company see *Best's Insurance Reports*.

• **"r"**—Reinsured Rating. Indicates that the Rating and Financial Size Category assigned to the company are those of an affiliated carrier which reinsures 100% of the company's net business. For information regarding company's reinsurer see *Best's Insurance Reports*.

• **"p"**—Pooled Rating. Assigned to companies under common management or ownership which pool 100% of their net business. All premiums, expenses and losses are prorated in accordance with specified percentages that reasonably relate to the distribution of the policyholders' surplus of each member of the group. All members participating in the pooling arrangement will be assigned the same Rating and Financial Size Category, based on the consolidated performance of the group. For information regarding the members of the pool see *Best's Insurance Reports*.

• **"g"**—Group Rating. To qualify for a Group Rating, the companies in the group must: be affiliated via common management or ownership; pool a substantial portion of their net business; and have only minor differences in their underwriting and operating performance. All members will be assigned the same Rating and Financial Size Category, based on the consolidated performance of the group. For information regarding the members of the group see *Best's Insurance Reports*.

Ratings "Not Assigned" Classification

Approximately 400 or 25% of the companies reported on in *Best's Insurance Reports* are not eligible for a Best's Rating (A+ to C). These companies are assigned to a Rating "Not Assigned" classification (abbreviated NA) which is divided into ten classifications to identify the reason why the company was not eligible for a Best's Rating. The primary reason is identified by the appropriate numeric suffix. If additional reasons apply, they will be referred to in the report on the company as set forth in *Best's Insurance Reports, Property/Casualty Edition*.

• **NA-1 Inactive**—Assigned to a company if it has no net insurance business in force or is virtually dormant. We may continue to report on an inactive company if it is associated with an active group or an unaffiliated stock company pending sale to a new owner.

• **NA-2 Less than Minimum Size**—Assigned to a company whose admitted assets or annual gross premiums written do not meet our minimum size requirement of \$3.5 million. Exceptions are: the company is 100% reinsured by a Rated company; or is a member of a group participating in a business pooling arrangement; or was formerly assigned a Rating.

• **NA-3 Insufficient Experience**—Assigned to a new company which has not accumulated at least five consecutive years of representative operating experience. Additional years of experience may be required if the company is principally engaged in "long tail" casualty lines (such as professional malpractice liability) whereby the development and payment pattern of the loss reserves may not be sufficiently mature at the end of five years to permit a satisfactory evaluation of their adequacy. For most new companies, the year that we anticipate assigning a Rating is referred to in the report on the company as set forth in *Best's Insurance Reports, Property/Casualty Edition*.

• **NA-4 Rating Procedure Inapplicable**—Assigned to a company when the nature of its operations are such that our normal rating procedure for property/casualty insurers do not properly apply. Those companies retaining only a small portion of their gross writings and those writing lines of business uncommon to the property/casualty field are examples of companies that would be assigned to this classification.

• **NA-5 Significant Change**—Assigned to a previously rated company which experiences a significant change in ownership, management or book of business whereby its operating experience may be interrupted or subject to change. Depending on the nature of the change, our procedure may require a period of one to five years to elapse before the company is eligible for a Rating.

• **NA-6 Reinsured by Unrated Reinsurer**—Assigned to a company which (a) has a substantial portion of its book of business reinsured by a reinsurer (or reinsurers) not assigned a Best's Rating or (b) has reinsurance recoverables which exceed its policyholders' surplus due from reinsurers not assigned a Best's Rating.

• **NA-7 Below Minimum Standards**—Assigned to a company that meets our minimum size and experience requirements, but does not meet the minimum standards for a Best's Rating of "C."

• **NA-8 Incomplete Financial Information**—Assigned to a company which fails to submit, prior to our Rating deadline, complete financial information for the current five-year period under review. This requirement also includes all domestic property/casualty subsidiaries in which the company's ownership exceeds 50%.

• **NA-9 Company Request**—Assigned when a company is eligible for a Rating but disputes our Rating assignment or procedure. If a company subsequently requests a Rating assignment, our policy normally requires a minimum period of three years to elapse before the company is eligible for a Rating.

• **NA-10 Under State Supervision**—Assigned when a company is under conservatorship, rehabilitation, receivership or any other form of supervision, control or restraint by state regulatory authorities.

Financial Size Category	Adjusted Policyholders' Surplus	
	(millions of dollars)	
Class I	Up to	1
Class II	1 to	2
Class III	2 to	5
Class IV	5 to	10
Class V	10 to	25
Class VI	25 to	50
Class VII	50 to	100
Class VIII	100 to	250
Class IX	250 to	500
Class X	500 to	750
Class XI	750 to	1,000
Class XII	1,000 to	1,250
Class XIII	1,250 to	1,500
Class XIV	1,500 to	2,000
Class XV	2,000 or more	

The Financial Size Category is an indicator of the relative size of an insurer based on its adjusted policyholders' surplus. The size of risks, which an insurer may prudently underwrite, assume or retain, is closely tied to its adjusted policyholders' surplus, sometimes referred to as its capacity. To provide stability and safety, an insurer should limit its maximum loss exposure on a single risk (or group of related risks) to a relatively small percentage of its policyholders' surplus, normally 1% or 2%, and only in very rare cases as much as 10%.

* SECTION II *

EXPLANATION OF FINANCIAL EXHIBITS

Although most of the financial and statistical exhibits used in our publications are self-explanatory, we have provided below explanations of the various exhibits and terms used in *Best's Insurance Reports* to assist our subscribers who are not familiar with insurance accounting terminology.

Source of Information: The information presented in this volume is based upon each insurance company's sworn annual financial statements as prescribed by the National Association of Insurance Commissioners and as filed with the Insurance Commissioners of the various states in which the companies are licensed to do business. These statements are presented in accordance with statutory accounting requirements and are the official financial statement of the property/casualty insurance companies.

Best's Financial Size Category

The Financial Size Category is based on the company's reported policyholders' surplus plus Best's adjustments to selected balance sheet items to provide a more current and comparable basis for the evaluation of the performance of an insurance company. Items evaluated for adjustment include: equity in unearned premiums; adequacy of loss reserves on a present value basis; adjustment to market value of bonds, preferred stock and mortgages; and a review of conditional reserves.

To avoid confusion of Best's Ratings with the Financial Size Category, the latter is represented by Roman numerals ranging from Class I (the smallest) to Class XV (the largest) as follows:

In addition, our reports reflect supplemental information obtained by us, such as data supplied in response to our questionnaires, state insurance department examination reports, audit reports prepared by certified public accountants, loss reserve reports prepared by loss reserve specialists, annual reports to stockholders and reports filed with the Securities and Exchange Commission.

While the information contained in this report was obtained from sources believed to be reliable, its accuracy is not guaranteed. We do submit the data to a rigorous, computerized cross-checking routine to verify its arithmetic accuracy. However, we do not audit the companies' financial statements and therefore cannot attest as to the accuracy of the data provided to us. Consequently, no representations or warranties are made or given as to the accuracy or completeness of the information presented herein, and no responsibility can be accepted for any error, omission or inaccuracy in our reports. Caution should be used in the interpretation and comparison of the information shown due to differences in the lines of business written, methods of product distribution, investment philosophy, reserving assumptions or for other reasons.

Best's Ratings reflect our opinion as to the relative financial strength and performance of each insurer in comparison with others, based on our analysis of the information provided to us. These Ratings are not a warranty of an insurer's current or future ability to meet its contractual obligations.

BALANCE SHEET EXHIBIT

Provides a year end summary of the company's reported Admitted Assets, Liabilities and Policyholders' Surplus.

- **Unaffiliated Investments.** These investments represent total unaffiliated investments as reported in the exhibit of Admitted Assets. It is cash, bonds, stocks, mortgages and real estate and accrued interest, excluding investments in affiliates and real estate properties occupied by the company.
- **Investments in Affiliates.** Bonds, stocks, and short term investments in affiliates, and real estate properties occupied by the company.
- **Premium Balances.** Premiums and agents' balances in course of collection; premiums, agents' balances and instalments booked but deferred and not yet due; and bills receivable, taken from premiums.

- **Total Admitted Assets.** This item is total assets admitted and valued in accord with state laws and regulations, as reported by the company in its financial statements filed with state insurance regulatory authorities. This item is reported net as to encumbrances on real estate (the amount of any encumbrances on real estate is deducted from the value of the real estate) and net as to amounts recoverable from reinsurers (which are deducted from the corresponding liabilities for unpaid and unearned premiums).

All securities owned by insurance companies must be valued in accordance with the rulings of the National Association of Insurance Commissioners. For many years stocks and non-amortizable bonds have been valued at December 31, market quotations, and all other bonds at amortized values. Starting in 1978 certain preferred stocks may be carried at cost rather than market value.

- **Losses and Adjustment Expenses.** This item represents the total reserves for unpaid losses and loss adjustment expenses, including reserves for incurred but not reported losses, if any, and supplemental reserves established by the company. It is the total for all lines of business and all accident years.

One of the most important factors to consider in determining the reliability of a company writing casualty business is the adequacy of the reserves set up for losses incurred but not yet paid, whether actually reported or incurred but not reported.

- **Unearned Premiums.** The calculated aggregate net amount, after deducting reinsurance credits, which an insurance company would be obliged to tender to its policyholders as return premiums for the unexpired terms, should it wish to cancel every policy in force.

- **Conditional Reserves.** This item represents the aggregate of various reserves which, for technical reasons, are treated by companies as liabilities. Such reserves, which are similar to free resources or surplus, include unauthorized reinsurance, excess of statutory loss reserves over statement reserves, dividends undeclared and other similar reserves established voluntarily or in compliance with statutory regulations.

- **Policyholders' Surplus.** This item is the sum of paid in capital, paid in and contributed surplus, and net earned surplus, including voluntary contingency reserves. It is the difference between total admitted assets and total liabilities.

PREMIUM AND LOSSES EXHIBIT

Embodied in most reports will be found a record of the direct premium written, reinsurance assumed or reinsurance ceded, net premiums written, net earned premiums, unpaid losses and loss adjustment expense reserves and the incurred loss ratio (to earned premiums) on each class of business written. Such data permits interpretation of the factors contributing to variable underwriting results.

- **Direct Premiums Written.** This item represents the aggregate amount of recorded originated premiums, other than reinsurance, issued during the year whether collected or not at the close of the year (plus retrospective audit premium collections), after deducting all return premiums.

- **Reinsurance Assumed.** Premiums received from other insurance companies for reinsurance.

- **Reinsurance Ceded.** Premiums paid to other insurance companies for reinsurance.

- **Net Premiums Written.** This item represents retained premium income, direct or through reinsurance less payments made for reinsurance ceded.

- **Net Premiums Earned.** This item represents the adjustment of the net premiums written with the increase or decrease during the year of the liability of the company for unearned premiums. When an insurance company's business is increasing in amount from year to year, the earned premiums will always, therefore, be less than the written premiums; for, upon the increased volume, the premiums are paid in advance and the company must set premiums representing the unexpired terms of the policies. On a decreasing volume, the reverse is true.

SUMMARY OF OPERATIONS EXHIBIT

This exhibit displays a Statement of Income (earned and incurred) side by side with Funds Provided from Operations (received and paid) showing the detail of operating income, funds from operations, change in policyholders' surplus and change in funds.

- **Net Underwriting Income.** This figure represents premiums earned less losses and underwriting expenses incurred, plus miscellaneous income, less dividends to policyholders, plus miscellaneous adjustments to the current year's policyholders' surplus due to operating income and expenses for prior years.

- **Investment Income.** This includes the interest, dividends and rents earned, less investment expenses incurred, before income taxes and capital gains.

- **Income Taxes.** This item represents incurred income taxes reported in each annual statement for that year plus or minus income tax entries which may be recorded by the company as adjustments to policyholders' surplus for prior tax periods.

- **Other Investment Gains.** This is the net result of realized capital gains, unrealized capital gains, change in non-admitted assets and change in foreign exchange. It is before any income taxes.

- **Net Operating Income.** This item represents premiums earned less losses and underwriting expenses incurred, plus miscellaneous income, less dividends to policyholders, plus miscellaneous adjustment to surplus due to operating income and expenses for prior years, plus net investment income excluding capital gains, less income taxes.

Net Operating Income may be reconciled to Net Income, as reported in the insurer's annual statement, by adding to Net Operating Income, Realized Capital Gains and Adjustments for Prior Years, from the Statement of Income exhibit.

- **Change in Policyholders' Surplus.** This item reconciles the current year end policyholders' surplus with that of the prior year.

COMPARATIVE FINANCIAL AND OPERATING EXHIBIT

In the Comparative Financial and Operating Exhibit, we have pulled together for a five year period a number of the key financial statistics and some of the key analytical tests that we use to assign Best's Ratings each year. In the *Best's Insurance Reports*, we display three Profitability Tests, three Leverage Tests and two Liquidity Tests. For our subscribers' convenience, we have included below the description of not only the Profitability, Leverage and Liquidity Tests shown in this exhibit, but a description of some of the additional Tests that are part of *Best's Advance Rating Report Service* (BARR) or are shown in *Best's Trend Report*.

- **Direct Premiums Written.** This item represents the aggregate amount of recorded originated premiums, other than reinsurance, issued during the year whether collected or not at the close of the year (plus retrospective audit premium collections), after deducting all return premiums.

- **Net Premiums Written.** This item represents retained premium income, direct or through reinsurance less payments made for reinsurance ceded.

- **Net Operating Income.** This item represents premiums earned less losses and underwriting expenses incurred, plus miscellaneous income, less dividends to policyholders, plus miscellaneous adjustment to surplus due to operating income and expenses for prior years, plus net investment income excluding capital gains, less income taxes.

- **Total Admitted Assets.** This item is total assets admitted and valued in accord with state laws and regulations, as reported by the company in its financial statements filed with state insurance regulatory authorities. This item is reported net as to encumbrances on real estate (the amount of any encumbrances on real estate is deducted from the value of the real estate) and net as to amounts recoverable from reinsurers (which are deducted from the corresponding liabilities for unpaid and unearned premiums).

All securities owned by insurance companies must be valued in accordance with the rulings of the National Association of Insurance Commissioners. For many years stocks and non-amortizable bonds have been valued at December 31, market quotations, and all other bonds at amortized values. Starting in 1978 certain preferred stocks may be carried at cost rather than market value.

- **Policyholders' Surplus.** This item is the sum of paid in capital, paid in and contributed surplus, and net earned surplus, including voluntary contingency reserves. It is the difference between total admitted assets and total liabilities.

- **Best's Rating.** Please refer to Section I — Explanation of Best's Rating System for details and description of Best's Rating Classifications.

PROFITABILITY TESTS

- **Combined Ratio.** The sum of the loss ratio, expense ratio and the dividend ratio.

Loss Ratio. The ratio of incurred losses and loss adjustment expenses to net premiums earned, expressed as a percent.

Expense Ratio. The ratio of underwriting expenses, miscellaneous income and expenses and other operating adjustments charged or credited to surplus to net premiums written, expressed as a percent. If miscellaneous income and expense and other operating adjustments exceed 10% of premiums, they are excluded from the calculation and an asterisk appears next to the ratio. In such a case, there is likely to be a one-time charge or other extraordinary item that would distort the ratio. When excluded or whenever significant, an explanation of the charges will be found in the operating comments.

Dividend Ratio. The ratio of dividends to policyholders to net premiums earned, expressed as a percent.

- **NOI to NPE.** Net Operating Income to Net Premiums Earned, expressed as a percent. If in any given year net premiums earned are less than policyholders' surplus, surplus is used in the denominator for that year's calculation. This ratio does not reflect capital gains.

- **Return on Policyholders' Surplus.** The ratio, expressed as a percent, of all operating income, after taxes and other investment gains, to the prior-year policyholders' surplus. In other words, it is the total return from underwriting and investments after tax, related to the statutory net worth at the beginning of the year.

LEVERAGE TESTS

- **NPW to PHS.** Net Premiums Written to Policyholders' Surplus, expressed as a ratio. This reflects the leverage, after reinsurance assumed and ceded, of the company's current volume of net business in relation to its policyholders' surplus. It measures the company's exposure to pricing errors in its current book of business.

- **Net Liabilities to PHS.** Net liabilities equal total liabilities less conditional reserves plus encumbrances on real estate less the lower of receivable from or payable to affiliates less any negative liabilities. This reflects the leverage, after reinsurance assumed and ceded, of the company's unpaid obligations in relation to its policyholders' surplus. It measures the company's exposure to errors of estimation in its liabilities. For this adjusted test, the numerator becomes net liabilities less equity in unearned premiums less equity in unpaid losses.

- **Net Leverage.** The sum of NPW to PHS and Net Liabilities to PHS. This measures simultaneously the company's exposure both to pricing errors and to errors of estimation in its liabilities in

relation to policyholders' surplus.

• **Ceded Reinsurance Leverage.** The ratio of the reinsurance premiums ceded plus the net ceded reinsurance balances for unpaid losses and unearned premiums recoverable plus the ceded reinsurance balances payable, associated with non-affiliates and foreign affiliates to policyholders' surplus, expressed as a ratio.

Reinsurance premiums ceded to non-affiliates and foreign affiliates are estimated by multiplying total reinsurance ceded premiums by the ratio of unearned premiums on reinsurance ceded to non-affiliates and foreign affiliates to the total unearned premiums on reinsurance ceded. Net ceded reinsurance balances for unpaid losses and unearned premiums recoverable equal ceded reinsurance balances on unpaid losses and unearned premiums recoverable from non-affiliates and foreign affiliates, plus an estimate of IBNR losses on reinsurance from non-affiliates and foreign affiliates, less funds held by the company under reinsurance treaties.

This ratio represents the portion of the company's gross premiums and gross liabilities ceded to non-affiliated reinsurers and foreign affiliates, net of any funds withheld. It measures the company's potential exposure to contingent adjustments on such reinsurance and the company's dependence on the security provided by its reinsurance.

• **Gross Leverage.** The sum of net leverage and ceded reinsurance leverage. This measures the company's exposure to pricing errors and to errors of estimation in its liabilities on its book of business as well as its exposure to contingent adjustments and the security of its reinsurance.

LIQUIDITY TESTS

• **Current Liquidity.** The sum of cash and securities (unaffiliated) and encumbrances on other properties to net liabilities plus ceded reinsurance balances payable, expressed as a percent. This ratio measures the proportion of liabilities covered by cash and unaffiliated investments. If this ratio is less than 100, the company's solvency is dependent on the collectibility or marketability of premium balances, investments in affiliates or other uninvested assets. This ratio assumes the collectibility of all amounts recoverable from reinsurers on unpaid losses and unearned premiums.

• **Investment Leverage.** The ratio to policyholders' surplus of 20% of unaffiliated common stock plus the reduction in market value of bonds, preferred stocks, and mortgage loans that would occur if yields at market values rose 2 percentage points (200 basis points), expressed as a percent. This measures the effect on surplus of a 20% decline in common stock prices and a 2% rise in interest rates. Statutory surplus is not affected by a change in bond values, but, if it were, this ratio measures what the effect would be.

• **Loss Reserves Reported.** This item is the total unpaid losses and loss adjustment expenses reported in the annual statement for the year indicated. It is the total for all lines of business and all accident years, and is the amount of reserves as originally reported in each year shown.

• **Loss Reserves Developed to 1985.** It represents the amounts paid up through 1985 plus the amounts still unpaid at the end of 1985 as regards losses and loss adjustment expenses that were unpaid at the end of the year indicated, as reported by the company in its current annual statement. If this is larger than Loss Reserves Reported, it indicates that the original reserve was inadequate in the light of subsequent developments through the current year.

• **Loss Reserves Paid in 1985.** Losses and loss adjustment expenses paid in 1985 on claims that were unpaid at the end of the year indicated. This is not the total paid to date on such claims, just the amount paid in 1985. The amount shown for the latest year is the total paid during the year on all claims. Each amount is the total paid in 1985 on accident years equal to and prior to the year indicated.

• **Loss Reserves Still Unpaid.** Losses and loss adjustment expenses still unpaid at the end of 1985 on claims that were unpaid at the end of the year indicated. This amount is included in Developed to 1985. The difference between this amount and Loss Reserves Developed to 1985 equals the total paid to date on Loss Reserves Reported.

LOSS RESERVE TESTS

• **Development to PHS.** The change in the original loss reserve to date as reported by the company in its latest annual statement to Policyholders' Sur-

plus, expressed as a percent. This measures the size of reserve deficiencies and redundancies in relation to policyholders' surplus. Positive numbers indicate deficiencies (increases in the reserve), and negative numbers indicate redundancies (decreases in the reserve).

• **Developed to Industry Average.** The ratio of developed to 1985 to what the company's loss reserves would have been if they had equalled the industry average reserve level adjusted for the company's mix of business. The industry average reserve is obtained by multiplying the company's earned premium for each line of business and each accident year by the industry average ratio of loss reserves to earned premiums for the same line of business and accident year. The ratio is expressed as a percent.

A company's reserves may legitimately be higher or lower than the industry average because of variations in reserve requirements by state and by subline of business, and because of variations in claim settlement practices from one company to another, but a low ratio may indicate a reserve deficiency unless there is a known explanation for the company's reserves being less than average. In addition, if the trend in this ratio is down, it may indicate that current reserves are less adequate than in previous years. Likewise, a rising trend may indicate that current reserves are more adequate than in previous years. This ratio is similar in concept to developed to net premium earned. However, the latter relates the loss reserves for all accident years to the premium basis for only one year, whereas developed to industry average uses a premium basis of 5 years or more, and consequently is less distorted by changes in premium volume from year to year.

Four important indicators of reserve adequacy are: (1) Projection of Payments in relation to loss reserve still unpaid; (2) Development to Surplus; (3) Developed to Industry Average; and (4) the trend in Developed to Industry Average. If all 4 of these indicators agree in indicating deficient or redundant reserves, there is a high degree of likelihood that the indication is correct. In such cases further information should be obtained to explain the reasons for the indications and to evaluate the magnitude of potential reserve deficiencies or redundancies. A frequent reason for indicated deficiencies is a practice of discounting long tailed reserves to present value to reflect future investment income.

• **Projected to Reported.** This ratio represents the relationship between projected loss reserves still unpaid and reported loss reserves still unpaid. The projected still unpaid is based on the assumption that the current rate of payment shown in paid in 1985 will continue in the future. If the company's mix of business has changed, such as an increase in the proportion of long tailed liability business, or if a loss portfolio transfer has occurred, or if the company's rate of settlement has changed, such an assumption is not valid and this ratio will be distorted. The projected still unpaid equals the sum of the ratios of paid in 1985 to reported reserves plus a ratio of still unpaid to reported reserve for the oldest available calendar year multiplied times reported reserves for the year being projected.

BEST'S TESTS ADJUSTED FOR RATING ANALYSIS

For companies assigned a Best's Rating (A+ to C), their Leverage and Liquidity Tests for the current year are also shown as adjusted by us for Rating analysis. This is not to suggest that the reported data or statutory accounting is incorrect.

First, these "Adjusted Tests for Rating Analysis" reflect our adjustments to selected balance sheet items to provide a more current and comparable basis for the evaluation of the performance of an insurance company. Items evaluated for adjustment include: equity in unearned premiums, adequacy of loss reserves on a present value basis, adjustment to market value of bonds, preferred stocks and mortgages, and a review of conditional reserves.

Second, and equally important for rating analysis are adjustments that reflect an insurer's relationship with other affiliates and companies; when a company owns subsidiaries, the adjusted tests for the parent company are based on the consolidation of the group. When a company is 100% reinsured, the adjusted tests shown are those of the reinsurer. When a company participates in a qualified pooling arrangement, the adjusted tests shown are based on the consolidation of the pooling companies. When an insurer invests in a subsidiary that is not a property/casualty company, the invested asset is excluded to remove the effect of pyramiding.

Types of Insurance Organizations

Insurance transactions are conducted primarily through four types of organizations—stock companies, mutual companies, Lloyds organizations and reciprocal exchanges. A brief description of the legal structure and function of each is as follows:

• **Stock Companies.** Stock companies are corporations, the financial ownership of which comprises capital stock which is divided into shares. Ultimate control of stock insurance companies is vested in the shareholders which participate in ownership and return on capital in accordance with the number and the types of shares which they own.

• **Mutual Companies.** Mutual companies are corporations without capital stock. Ultimate control of mutual insurance companies is vested in the policyholders which participate in ownership, profits and surplus in accordance with the amount of premiums they have paid and the number and type of policies they hold.

• **U.S. Lloyds Organizations.** These organizations formed in this country are voluntary unincorporated associations of individuals. Each individual in the associations assumes a specified portion of the liability under each policy issued. These underwriters operate through a common attorney-in-fact appointed for the purpose by each of the underwriters. The laws of most States contain some provisions governing the formation and operation of such organizations, but these laws do not generally provide a strict supervision and control as the laws dealing with incorporated stock and mutual insurance companies.

Where the operating phase of Lloyds organizations permit the withdrawal of underwriters, it is a customary provision that such retiring underwriters shall not participate in the insuring of new risks after date of notice of retirement, but that funds of the underwriter in possession of the attorney-in-fact shall be held until all liability previously assumed by the underwriter has terminated or been reinsured. The laws of some states in which Lloyds organizations may now operate require that the amount of underwriters' deposits available for the writing of new business shall be maintained at specified minimum amounts.

Should the voluntary or involuntary retirement of underwriters reduce, below the statutory minimum, the sum available for the acceptance of new risks, it would be necessary that the Lloyds be liquidated, even though it might have in its possession funds fully sufficient to meet all of its obligations.

The plans under which Lloyds organizations operate vary considerably. In some cases, the underwriters make deposits with the attorney-in-fact to guarantee the payment of their respective obligations, and they assume no further responsibility for the payment of losses or other claims. In other cases, each underwriter makes a deposit, and, in addition, assumes either a limited or unlimited liability to make further contributions if that action is necessary to meet obligations arising out of the operations of the Lloyds organization. Therefore, the security of such policies hinges upon the financial position of the Lloyds, and in some cases the financial responsibility of the underwriters. In all cases the liability of the underwriters is several and not joint; no underwriter can be held responsible for the obligation of any other underwriter.

• **Reciprocal Exchanges.** These organizations are composed of a group of persons, firms or corporations commonly termed "Subscribers" who exchange contracts of insurance on the Reciprocal or Inter-Insurance plan through the medium of an attorney-in-fact. Under this plan each Subscriber executes an agreement (usually called the Subscriber's Agreement), identical with that executed by every other Subscriber, empowering the attorney-in-fact to assume on his behalf an underwriting liability on policies issued by the Exchange covering the risks of the other Subscribers. He assumes no liability as an underwriter on policies covering his own risk. The Subscriber's liability is several and not joint, and is limited by the terms of the Subscriber's Agreement. Customarily, the attorney-in-fact is compensated by payment of a percentage of premium income, out of which most operating expenses are paid; but a considerable number of exchanges pay their own operating expenses, and compensate the attorney-in-fact by a moderate percentage of premiums, or by some other method.

Policies are issued only to subscribers, except under some Agreements policies may be issued upon the application of a Subscriber, in the name of others, covering property in which the Subscriber has an insurable interest.

The insured named in such a policy (other than the Subscriber) does not execute a Subscriber's Agreement, and assumes no liability as an inter-insurer.

Exchanges may issue policies under which the Subscriber participates in profits or savings and assumes a limited liability for assessment, should such action be necessary to meet obligations arising under the policies issued. A few, those specializing in other than fire risks, write at net rates and return no savings to subscribers; in some of these exchanges members are limited assessments, and in others there is no assessment liability. Still others, of the same class, issue assessable policy contracts, but return no savings to Subscribers.

Reciprocal Exchanges are not incorporated, having no subscribed capital stock, or reserves standing in a corporate name. An Exchange establishes the necessary reserves by requiring that each Subscriber make an advance deposit, or accumulate a reserve fund out of savings. The exchange may keep a separate account for each Subscriber, and his reserve is established as a credit item in such account. Where no other surplus funds have been established, the surplus item appearing in the Exchange's financial statement represents the aggregate of Subscribers' credits.

Some Exchanges possess, in addition, a guarantee fund contributed by the attorney-in-fact, or have established a separate undivided surplus fund. In the case of a few Exchanges confining their insurance underwriting to automobiles, all surplus funds are the property of the Exchange. Where permitted by the Subscriber's Agreement a retiring Subscriber may withdraw reserves standing to his credit.

States and Territories in Which Companies Are Licensed or Do Business

In our report we have listed the states and territories in which the companies are licensed or approved (where required) to do business within certain categories. States have the authority to regulate insurance companies and have controlled insurance mainly through the licensing power. The license is a document that indicates that the insurer has met the minimum requirements established by statute and is authorized to engage in the lines of business for which it has applied.

The importance of a company being licensed in a state is not only the protection to the insured of having the backing of the state's regulatory authorities to assist if a problem arises, but also the fact that the guaranty fund laws generally only apply to licensed insurers. Since each state has its own statutes and there are a number of different licensing requirements, we have used five codes to signify the general status of a company in a particular jurisdiction.

In addition to licensed insurers (an admitted insurer) there are several other specialty types of companies that occur in the field of insurance such as reinsurers and surplus lines carriers.

A reinsurer is a company that agrees to indemnify, for consideration, the ceding company against all or part of a loss which the latter may sustain under policies that it has issued. Reinsurers do not always have to be licensed and may operate on an approved basis in some states. A surplus lines insurer is a company that generally underwrites risks or parts thereof for which insurance is not available through a company licensed in the insured's state (an admitted insurer). This business, therefore, is placed with a non-admitted insurer (a company not licensed in the state) in accordance with excess or surplus lines provisions of state insurance laws.

A brief description of the various types of approval that we have listed is given below which is general in nature as there may be differences in definition among the states, depending upon specific state statutes.

- **State of Domicile.** Is found in the "History" section and is the state in which the company is incorporated or chartered. The company is also licensed (admitted) under the state's insurance statutes for those lines of business for which it qualifies.

- **Licensed.** Indicates the company is incorporated (or chartered) in another state but is a licensed (admitted) insurer for this state to write specific lines of business for which it qualifies.

- **Licensed for Reinsurance Only.** Indicates the company is a licensed (admitted) insurer to write reinsurance only in this state.

- **Approved for Reinsurance.** Indicates the company is approved (or authorized) to write reinsurance in this state. A license to write reinsurance may not be required in these states.

- **Approved or not Disapproved for Surplus Lines.** Indicates the company is approved (or not disapproved) to write excess or surplus lines in this state.

- **Additional Information.** For the most current information on the status of an individual company in a state, an inquiry should be directed to the relevant Department of Insurance as listed on page VI.

July 30, 1986

A.M. Best Company
 Ambest Road
 Oldwick, New Jersey 08858

RISK CONTROL ASSOCIATES, INC.

8130 S.W. 53RD AVENUE

MIAMI, FLORIDA 33143

(305) 665-2143

November 4, 1986

Mr. Frank W. Hanley, Finance Director
City of Naples
735 Eighth St. South
Naples, Florida 33940

Re: "Protected Self-Insurance "

Dear Mr. Hanley,

As you requested, I reviewed the renewal terms and conditions of the City's program. I met with Tony Abella and Nayla Zacur to go over the details of some of the elements of the plan that were not clearly expressed in Mr. Abella's letter of October 22nd.

You were advised in July that the London policy would be based on "claims made" effective at renewal, October 28, 1986, rather than the preferable "occurrence" basis. I have not seen the London form but generally "claims made" limits coverage for claims made and reported to the company within the policy period. There is no problem with this so long as the policy continues in force. However, if sometime in the future the policy were to be discontinued there would be an extended discovery period of only 60 days at no charge. Then you would have the option to extend the discovery period to 24 months at "up to 100% of the premium with new re-set limits and new re-set loss fund". Frankly, I am not sure what this means but it appears to give the company great discretion in setting the terms if the option is exercised but unfortunately there seems to be no alternative.

There have been some technical adjustments relative to excess insurance, public officials liability and emergency medical technicians liability coverage resulting in a reduction in cost from last year of \$21,203. This is offset by increases in property values, workers' compensation payrolls, and boiler and machinery in the amount of \$15,432. Finally, because you have chosen to increase the number of units of loss prevention, Gallagher-Bassett's fee including the CPI adjustment has been raised \$3,600 for a net total fixed cost reduction of \$2,171.

In my opinion, this demonstrates once again that your agents have done a very good job in an extremely difficult insurance market. Please call me if you have any questions.

Very truly yours,


Lucian C. Cantin, ARM

LCC:l