A Short History of the Public Agencies Risk Management Association (PARMA)

Introduction

This “Short History of PARMA” was initially prepared for the Central Valley Chapter of PARMA and was presented to the Chapter in December 2012. It is an attempt to document the beginning of the public sector risk management profession in California and the role played by PARMA. I was challenged to compile this history by Rick Buys, former PARMA president and longtime staff member of one of the first joint powers agencies for self-insurance in California, the Contra Costa County Municipal Risk Management Insurance Authority (now the Municipal Pooling Authority).

He challenged me, as one of the “last standing members” from the 1970’s who might remember the early days, to document the genesis of PARMA for current risk managers and others who will follow in the footsteps of the early risk management leaders. My goal was to complete it in time for the 2014 annual meeting, its 40th anniversary of PARMA. I barely made it.

Public sector risk management has had a roller coaster ride since its beginning. Proposition 13, then the recessions of the early 1990’s and the 2006-2009, caused large reductions in the budgets of public entities. Many risk management positions were eliminated, reinstated, and then eliminated again. Through all these challenging periods, PARMA has been a constant source of support to all those in the professional—from the novice to the seasoned veteran. This short history is dedicated to all those who have contributed to PARMA and the advancement of a satisfying and rewarding career. It has been a pleasure to know and work with many of the hundreds of members over the last four decades.

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CEO, Bickmore

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(Past Parma V.P. 1981-84, Member of the Board of Directors (1979 -1984), First Legislative Chair, 1979-1984)).
In the Beginning

Few risk management professionals still active in the profession today remember the first insurance crisis that jump-started the risk management movement in the public sector. It occurred not in the 1990’s, nor the 1980’s, but actually in the mid-1970’s. Prior to 1961, public entities were virtually immune from tort liability because of a legal doctrine known as “sovereign immunity,” or the “king can do no wrong” (its origins are from across the pond). In 1961 the California Supreme Court decided that such “a rule was an anachronism, without rational basis, and has existed only by force of inertia (source: California Joint Committee on Tort Liability, January 1979, p. 78-249). So, in the 1960’s California public agencies found it more challenging to secure insurance for tort liability exposures. A few commercial insurance companies stepped in to cover the public agencies, such as Firemen’s Fund, Admiral, and United Pacific Indemnity. These insurers normally offered first dollar policies (or low deductible “package policies”) covering general liability, personal injury liability, automobile liability and physical damage, property, and crime coverage. Public official’s errors and omissions coverage had not yet been invented. Often the placements were handled by local independent insurance agents’ associations in each county or city. The local agents association would select from their ranks a lead agency (usually one well-connected politically, and the spoils (commissions earned) would be divided up by the association, with the lead agency getting a larger share. Worker’s compensation was always an exposure to public agencies, but nearly all public entities were covered on a first dollar basis by the State Compensation Insurance Fund, the designated insurer for all public entities. No agency could be turned away from coverage and all placements were direct. The State Fund would not allow placements from independent agents or brokers. Commercial insurers could not provide coverage to the public sector until the 1980’s. Consequently, throughout the 1960’s and early 1970’s most public entities bought insurance each
year and never thought of having a “risk manager”. Risk transfer was the method of the day, except for a few super agencies like L.A. County, City and County of San Francisco, Contra Costa County, and the City of San Diego. These agencies were early adopters of a new concept called “self-insurance,” or in some cases “going bare.” Insurance companies did not want to cover the massive tort exposures of these entities, and these entities soon tired of escalating W.C. premium payments of the State Fund (L.A. County was self-insured in the 1950’s!).

Things changed radically in the mid-1970s. Suddenly, trial lawyers discovered that suing public agencies was a lucrative profession and California courts quickly eroded the governmental immunities that remained after passage of the Tort Claims Act of 1963. W.C. premiums continued their upward spiral, while service from the State Fund found new lows, both in the areas of loss control and claims adjusting. A huge migration from the State Fund began as many public entities found that self-insurance was a financial attractive. Soon, a cottage industry of third party claims adjusters (Bierly, R.L. Kautz, ESIS, Gates McDonald, Freese and Gianelli, John Glenn Adjusters, and Brown Brothers) aggressively sought public entity business and began promoting the advantages of self-insurance. And then, insurance brokers, both retail and intermediaries, entered the domain to provide brokerage services for the placement of “excess insurance” over self-insured retentions (SIR’s). At that time, SIR’s were generally $50,000 to $100,000 per occurrence. Some of the most notable brokers and intermediaries were: James Bradley of I-West, Marsh and McLennan, Kindler and Laucci, Sedgwick, Mike McAulliffe, Sanders and Sullivan, Giddings Corby Hines, and Frank B. Hall.

By 1975 things had worsened for the public sector on the liability front. Several insurers were losing their appetite for public entity business due to growing losses and a downturn in investment income (the stock market had tanked). Previously, a little known secret was that insurance companies were earning more on investment income that in underwriting profits. This was exposed in a popular book, the Invisible Bankers (1982) by Andrew Tobias, a former partner of Ralph Nader. Premiums reached a level at which many public agencies decided to self-insure their liability risks as well. A memorandum prepared by Fred Stabell, Management Services Director of the City of Fremont (and founding member of
PARMA) was distributed later to PARMA members (once it was formed) and other public agencies, described the situation:

“During the past few years the number of insurance companies willing to provide municipal liability insurance has diminished substantially. This situation was complicated further when the largest insurer of California cities withdrew from the market on July 1, 1974. At the same time, cities have realized substantial premium increases coupled with a reduction in insurance coverage. A key issue confronting cities and insurance carriers is the increasing loss trend both as to the frequency of claims as well as the average cost per claim. The increase in frequency appears to stem from an increasing claims consciousness on the part of the public, which the increase in the average cost per claim is the result of inflation (!). Another factor causing increased premiums is the erosion of immunities by the courts and the legislature” (October 20, 1975).

Soon, the early adopters of self-insurers were spreading the gospel of the “time value of money,” “control your own destiny,” “manage your risks,” “go bare,” “State Fund service is horrible” or “bring it on, trial lawyers, we dare (deny) you!” Many of the pioneers of the self-insurance movement in California were once again insurance brokers (the same brokers and intermediaries placing excess W.C., plus insurance underwriters such as William Malone of Transcontinental and Steve Petrakis, of S.K. Petrakis, who used Meade Insurance and later Planet Ins. Co. (which was owned by United Pacific Indemnity/Reliance—which later went bankrupt) and claims adjusters such as George Hills and Co., Carl Warren and Co., and Gallagher-Bassett).
The Growth of the Professional Risk Manager in the Public Sector

More and more public agencies realized that a new expertise was needed to help manage these self-insurance programs. Some began hiring staff to handle the self-insurance programs and service providers, or to establish in-house claims units, and to develop more sophisticated loss control programs. The general understanding at that time of what a “risk manager” did was described as:

“Risk managers, employed by most large corporations, decide what insurance to buy, then work with the big commercial brokers to obtain it at on the best possible terms. (Someday, as they and their staffs grow more sophisticated, they will routinely deal direct with insurers, eliminating the middle man.) In addition they attempt to prevent losses” (Tobias, p. 36).

The early orientation of risk management was insurance. Consequently, many of the early risk managers were recruited from the insurance industry (commercial insurance companies and the State Fund). Later years more and more were recruited from within the public sector. These risk managers had either a human resources, legal, or financial background. The chart below is a general illustration of the various sources of many of those in the risk management profession.

Some of the early pioneers in the emerging field of risk management during the 1970’s were:

Jerry Surfus, County of Los Angeles
Bob Walters, City of San Diego
Bob Bowman, East Bay Municipal Utility District
Vince Pisani, Sacramento County
Don Blackhurst, County of Santa Clara
Terry Roberts, Fresno County
Jim Gale, Kings County
John Williams, City of Long Beach
Don Blum, San Mateo County
Public agencies throughout the state began establishing and recruiting for risk management positions. By today’s standards, the salaries offered during this period were extremely low. Shown below are advertised “Risk Manager” positions and the annual salaries. (Source: Job Finder and job announcements received by the author):

San Jose, City of: $10,152 to $12,672 (1979)—a little low for the market, but above minimum wage at the time

Fremont, City of: $20,400 to $22,800 (1977)—a real plumb of a job

Napa County: $16,776 to $20,232 (1977)—I almost got this one

East Bay Municipal Utility Dist. (1979)—$23,920 to $27,936—on the high end for the period
Sacramento County—$23,132 to $26,628 (1978)—Vince Pisani had moved on to the private sector and higher wages

Stanislaus County—$21,804 to $26,436 (1977)—the valley was catching up

County of San Diego—$25,788 to $28,404——everyone’s dream job

County of Sonoma—$23,064 to $28,032 (1979)—great job if you can get it

Merced County—$26,125 to $31,741 (1982)—up a little from the 70’s

According to the Wall Street Journal, corporate risk managers’ average annual salary was $28,880 in 1978 (WSJ, July 30, 1978, citing a study by from the Risk and Insurance Society (RIMS)). It also indicated that RIMS membership had grown from 1500 members in 1973 to 2800 members in 1978. This membership growth corresponds to the growth of the number of public sector risk management positions in California and throughout the United States during this period.
PARMA Is Born

As the movement to self-insurance grew, a group of Bay Area finance directors got together with the support of the League of California Cities to discuss the formation of an organization whose purpose would be to serve as a forum for sharing techniques and ideas to improve the risk management and self-insurance programs of California public agencies.

Led by forward thinkers such as Ben Francis, of the Santa Clara Valley Water District, Al Alves, City of Santa Clara, Don Blackhurst, County of Santa Clara, Bob Bowman, EBMUD, John Ablan, Port of Oakland, and John Williams, City of Long Beach, they began efforts to form an association. Ben Francis and Don Blackhurst met in fall of 1974 and roughed out draft bylaws which were enacted on October 24, 1974. The first formal meeting of the newly formed “Public Agency Risk Managers Association” was held on January 23, 1975 in the City of Fremont, with Finance Director Fred Stabell, serving as host.

The agenda for the meeting was:

1. “A Complete Self-Insurance Program” Vince Pisani, Risk/Safety Officer, Sacramento County
2. “Building Valuations” Ben Francis, Assistant Administration and Finance Manager, Santa Clara Valley Water District
3. Election of Officers
4. Lunch ($5)

The first Board of Directors was selected at the meeting:

Don Blackhurst, President (County of Santa Clara)

Robert Bowman, V.P. (EBMUD)

Ben Francis, Secretary /Treasurer

Irv Nicholas, U.C. (Irv left after a brief period and joined Fred S. James (later bought by Sedgwick). He was replaced by Alex Ransone, Redwood City)

Robert Walters, City of San Diego

Fred Stabell was appointed as Membership Chair, and Frank Mugartegui, City of Sacramento, the Program Chair.
PARMA started with 16 initial members, but by the time it published its first membership list, it had doubled to 29 members (with two hand written additions—S.F. and Sunnyvale). Of these members, 25 were Bay Area agencies, four from Southern California, and two from the Sacramento area. None were from the Central Valley.

Annual dues for public agency members were only $20 (dues are still a bargain at $100). Associate memberships were $100. The first financial statement prepared by Treasurer Francis shows a balance of $124.66 (2/25/1975). By year-end, its financial position had improved to $1,371.20! Meeting registration cost, including lunch was a steep $5. Later the second year costs for a Bay Area Chapter meeting went up to $6.

For five years all of the meetings were held in the Bay Area—either at a member’s office or at exotic locations such as the Hegenberger Hyatt, Holiday Inn (San Jose), Oakland Hilton, Brawley’s (Fremont), La Fuente (Fremont) and Francesco’s (Oakland), before upgrading to the Sea Wolf at Jack London Square. For the first three years, the meeting usually started in around 9:00 a.m. and ended after a lunch. The first all day PARMA “conference” occurred in November 1979 under the leadership of PARMA’s third President, John Ablan--cost--$30. I’m not sure of the cost of the current conference, but it’s still a bargain compared to many other risk management conferences.

By then, there was a growing membership from other regions of the state—primarily Sacramento and the Central Valley. Both these regions established local Chapters in 1980, the latter being led by Mr. Roberts and Mr. Gale. Then, in 1981, PARMA held statewide workshops, creatively advertised as “Nuts and Bolts of Risk Management” as a concerted effort to attract members and begin a chapter in Southern California. A Southern California chapter was successfully formed, even though many public agency members from the region were enticed to join a fledgling national organization which had been formed in 1978 using PARMA as a model—the “Public Risk and Insurance Management Association” (PRIMA). PARMA was well established by then, with 114 members many who became members in both organizations. PARMA was approached by PRIMA to become a subchapter of PRIMA, but the independent streak in the PARMA Board at the time responded “Thanks for the offer, but no thanks, were doing just fine”. PARMA and California’s lead was clearly recognized and PRIMA elected Don Blackhurst as its first president. Don was PARMA’s first president as well (1975-1976).
PARMA led the way for many similar organizations. From its trunk, many branches spread, expanding the mission of public sector risk management.
The Emergence of Joint Powers Agencies (JPAs) for Self-Insurance

In 1981 many of PARMA’s member organizations had joined a new movement towards “joint powers agencies” for their insurance, self-insurance, and risk management needs (partially replacing commercial insurance). The JPA movement had started in 1974 (the Schools Insurance Authority began providing commercial insurance coverage to the school districts in the Sacramento area through a joint purchase arrangement. SIA then later moved to a self-insured W.C. program. Many more JPA’s for self-insurance were formed in the late 1970’s. PARMA recognized the unique needs of California’s growing number of JPA’s and assisted them with the formation of a separate organization, the California Association of Joint Powers Authorities” (CAJPA).

The first CAJPA annual conference was held jointly with PARMA in January 19-21, 1983, at the Sacramento Inn. CAJPA’s first annual meeting was held the day before, followed by the PARMA meeting the next two days. The event is well remembered by attendees as being the only one in which an entire high school band (the Jesuit High School) marched and played through the luncheon (a surprise to the diners).

This meeting was the very first PARMA annual meeting held in a location other than in the Bay Area. It was also the very first that extended into two days—and had corporate sponsors. The planners of this milestone event were President Joe Farrell (SIA), Michael Fleming (newly hired staff analyst at the CSAC-EIA and now its Executive Director), Mike Kielty, risk analyst at the SIA, and now owner of George Hills and Co.), and the author of this history (then VP of PARMA and General Manager of CSAC-EIA).

In a memoriam to former President Farrell, who passed away in 1991, then President Harry Bruno wrote:

“Joe showed us that a conference can and should have elements of social interaction. He told me that he had two goals for PARMA: spend all the money in the treasury and exceed the 200 mark in membership before his term in office was completed in 1983.”

He accomplished the latter goal, but not the former because he met his match with lifelong PARMA Treasurer, Ben Francis.

The relationship between PARMA and CAJPA has continued for the next thirty plus years, although in 1985 CAJPA went on to have its own annual conferences in fall each year at Lake Tahoe.
PARMA Now and in the Future

Now PARMA has a membership of 621 strong, nearly two thirds as large as the national PRIMA. Its annual meeting attendance has averaged over 1200 during the last four years. Its attendance often exceeds that of the national PRIMA’s annual conference. Since the Sacramento meeting, annual meetings have been held alternating between Northern California and Southern California (this policy was initiated under the presidency of Jeff Pettegrew in 1984). Since that time meetings have been held in resort locations such as Palm Springs, Santa Barbara, Anaheim (Disneyland), and Monterey, with an occasional meeting in San Diego or Sacramento. There has never been a meeting in Fresno, Stockton or Bakersfield, and little local support for these venues for some reason. Perhaps it’s the because of the thick tule fog prevalent during the month of February, when PARMA holds its meetings. This year PARMA returns to where it all began, the San Jose area.

In the mid-1990s, the PARMA leadership recognized that the conferences had become so large, that a professional conference manager was necessary—and the long term relationship with Brenda Reisinger began. Once she took over the conference planning, Ben Francis and others final could enjoy the event. Until then, it was always handled by board members and volunteers from members (whose support continues). An indicator of the size of today’s conference is the number of private service firms exhibiting at the annual conference—46! PARMA has come a long way from the first annual meetings where two brokerage firms put their tri-fold brochure on the registration table. Attendees signed their names—payment for lunch was on the honor system. There were no “stinking badges!” Either you knew everyone, or you introduced yourself.

The number and salaries of risk managers continued to grow throughout the 1980’s. Then, the real insurance hurricane hit (both in California and nationally around 1985). More primary and excess insurers withdrew from the public entity market, leaving municipalities high and dry. Hence, the next big push to form more self-insurance JPA’s and to hire risk managers. But, by then PARMA was well-established and its members were courted with many new job opportunities. We can thank Time Magazine and the shortsightness of the commercial insurers for the opportunities in the risk management profession, past, present, and future.

Some say that the Golden Age of public risk management and PARMA was the late 1980s to the mid-1990s. Under strong leadership and visionaries such as Joe Tonda, Jeff Pettegrew, Harry Bruno, Jim Hart, Julius Scoggins, and Patricia Hayes (later Patricia Scoggins) PARMA
grew and expanded the activities of its local chapters and the annual conference. With the strong advocacy and support from PARMA, risk management in the public sector grew and thrived, not without its ups and downs. The priority given to risk management has varied dramatically as the budgets of state and local governments have ebbed and flowed.

There may be city managers, county administrators, finance directors, and council members who wonder why their agencies need a risk manager. Why not just buy “insurance” and let the insurance agent handle everything? And, there may be risk managers who don’t participate in PARMA meetings, local or annual. What are the key issues that need to be addressed by risk managers and their agencies—tort reform, W.C. reform, increasing Labor Code Section 4850 costs, cyber liability, the aging workforce, deteriorating infrastructure?

The public sector risk managers of today need to identify major initiatives that can provide cost relief to their employers, while continuing to improve on programs that have protected their public and employees. Risk managers must continue efforts to show their relevancy and to be recognized as professionals in their field, just as the first risk managers had to do in the 1970’s and 80’s when risk management assumed a vital role to the mission of the public entities throughout California.

PARMA can, and needs to, continue being the connection that brings the many together to share their knowledge, experiences, and ideas for the future.
About the Author

Gregory L. Trout, after an enjoyable stay at the University of California, Santa Barbara, started his career as a commercial lines underwriter for Fireman’s Fund Insurance Company in Sacramento over 40 years ago. Because of the many unprofitable accounts that he underwrote, Fireman’s Fund was sold to American Express around 1972 as an investment write-off. In 1975 he moved to a lifelong profession of risk management, JPA formation and management, and risk consulting. He joined PARMA in 1976 and served as its Vice President for four years under John Ablan and Joe Farrell (both deceased but whose influences still are present).

He was tempted to accept various risk manager positions, public and private sector, during the early years of his career, but ended up following an alternate, related, career course—one of forming and managing many JPAs (CSAC-EIA, and many others with unusual acronyms—Cal TIP, MMIA, CHWCA, CHARMA, PIC, NPU, CVAG, CARMA, CSRMA, HARRG, etc.) Had he taken a risk manger’s position, he would now be retired living in Sedona, Arizona with his wife Melanie of 44 years and Gracie, their French bulldog.

No one in his family really understands what he does for a living. Just that he has to get out a “big agenda” or a “huge report” or go to a “very important meeting” nearly every day. He is currently CEO of Bickmore, a risk consulting, pool administration, and actuarial firm.

He has temporary possession of PARMA’s historical files and records and is looking for any interesting stories about the early days of PARMA or risk management. Then, he will finalize this “short history.” His email address is gtrout@bickmore.net.

Any errors in this history are his alone. As time passes, it has become harder to be sure of certain dates, people, and events.