



PMMIC • NEWSLETTER

INSURANCE

2894 106th Street, Suite 220 • PO Box 7628 • Urbandale, Iowa 50323
 Iowa Watts: 800.942.1000 • Phone: 515.334.3001 • Fax: 515.334.3013
www.pmmicinsurance.com

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UST Fund Sunset Considerations

The Iowa Comprehensive Petroleum Underground Storage Tank Fund (Fund) is scheduled to have future funding expire on June 30, 2016. The program was created in 1989 with a remedial program (claims that occurred prior to October 26, 1989), an insurance program and a loan program.

The loan program was terminated after the upgrade deadline of 1998. The Insurance Program was transferred to PMMIC in November of 2000. The Fund still handles open claims from the remedial program and provides reimbursement for tank closures, no further action claims, operator training and newly discovered innocent landowner claims.

There were over 6000 claims reported to the program since 1989. Approximately 600 claims remain open today. The fund has spent over \$230 million to date and has approximately \$27million in reserves remaining (amounts the Fund expects to pay to bring claims to closure with the IDNR.) The Fund has over \$30 million in the bank today, with additional revenue of \$28 million expected by the June 30, 2016 sunset date. The Fund appears to be more than adequately funded to address all present Fund liabilities. Almost \$100 million has been diverted from the Fund to the state general fund to address other spending needs of the state. The program was originally designed to be an interim program and has now operated for 25 years.

The Fund Board along with stakeholders from the industry participated in meetings to discuss the impacts of the pending sunset and “What the Iowa UST Fund program should look like in 2016.” PMMIC, PMCI, IDNR, owner-operators, contractors and others from the industry have participated in the discussions.

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Retroactive dates

In a claims-made policy, the retroactive date is the date after which a loss must have occurred for the policy coverage to apply. This article will explain why the retroactive date is so important to UST owners.

When managing a business, you have to identify what obligations you have in your operation that may create a financial liability for you or your company. Once you identify these obligations you can manage them to minimize unknown expenses that could destroy your business plan. Some obligations are obvious such as rent, utilities, payroll, taxes and cost of goods. Others are not as obvious such as liabilities from unexpected events such as accidents, crimes, equipment breakdown and other risks. For these types of liabilities, business owners must decide whether to account for these expenses by relying on their own financial assets (self-insurance) or by transferring the risk through an insurance policy to protect them from a potential catastrophic loss. With insurance, for a fee (premium) you are

protected from large expenses if you have the proper coverage and adequate insurance limits. Your expense at the time of the reported loss is limited to your deductible and the inconvenience of dealing with the loss.

With most risks, you know if you have liability because the event that creates the liability is known. Someone slipped on your floor and was injured. An employee had an auto accident. A windstorm damaged your roof. However, some events occur but you are unaware they occurred and you do not know that damage has been caused. For a construction company it may be a flaw in a previous project that isn’t discovered for years after the project is complete. For a petroleum retailer, a leaking petroleum

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Chairman's Corner

Dear Shareholder,

"There are no secrets to success. It is the result of preparation, hard work, and learning from failure."
Collin Powell.

Preparation and hard work have been key ingredients in PMMIC's success, - the preparation and hard work of our customers. We learned from the mistakes that predate PMMIC. While many state funds and many tank owners in states without funds have found themselves in financial difficulty from costs associated with leaking petroleum storage tanks, PMMIC and our customers have been able to account for and address tank losses. We have done so while increasing PMMIC's reserves and maintaining an AM Best A- (Excellent) rating. The market value of PMMIC shares has increased from \$1.11 in 2008 to \$2.54 in 2014. PMMIC has only denied 0.21% of all claims for technical compliance. PMMIC has successfully closed nearly 80% of all eligible claims to date.

We have been successful because we used the correct tools to address the risks that have overwhelmed others. We work with our customers to stop leaks before they become releases that require corrective action. We don't just talk about loss control, we implement it. We don't wait for problems to overwhelm us in the future to save money today. PMMIC and our customers have invested in the future with real expenditures today. Money spent wisely in the past has saved us many times those expenditures in corrective action costs that have been avoided. We don't wait for government assistance, we take care of ourselves. By being responsible and accountable, we have been successful and expect to be successful in the future.

While you keep your end of the deal, we will continue to keep ours. We will continue to address risks that may impact your business and petroleum operations. We will make products available that will allow you to focus on your strengths while we focus on ours, - risk management. Our past successes are a great foundation for our futures together. We look forward to being even more successful together in the future.

Respectfully,
Ronald L. Burmeister,
Chairman

Board of Directors

Following the Annual Meeting, the Directors held a Board meeting at which they elected officers for the year:

Chairman of the Board
Ron Burmeister

Vice Chairman
Randy Meyer

Treasurer
Jerry Woods

Secretary
M J Dolan

President and CEO
Patrick Rounds

Vice President
Thomas Norris

Vice President
Brian Wiegert

AST Insurance

PMMIC offers both UST and AST insurance coverage. Our AST coverage is similar to our UST coverage but has more options available to meet your business needs.

AST limits range from as little as \$250,000 to a high of \$2 million aggregate coverage. We offer deductibles as low as \$10,000 and as high as \$50,000. With most AST policies, no pre-binding soil or groundwater testing is necessary. Coverage includes loading, unloading and all piping and metering systems. To request a quote, give us a call today; toll free at 800-942-1000 (in Iowa) or 515 334-3001.

Success by Design

All petroleum UST facilities in Iowa have had to satisfy financial responsibility (FR) requirements since October 26, 1990. FR requires that you demonstrate financial ability to pay for corrective action and third party damages from a UST release. Federal law required that all UST facilities have FR beginning with the largest marketing firms in 1989 and small owners by December 31, 1993. 47 states created some form of state program to assist with FR or corrective action of existing releases in the early 1990s. Two state funds are insolvent. Several stopped accepting claims and are still paying old claims today. Of the 36 state funds that still qualify as an acceptable FR mechanism, three take eight or more months to pay claims, 12 prioritize claims for payments and two limit payments based upon cash flow limitations. In several states without state funds owners complain that insurance doesn't pay and the USEPA has conducted a study on the effectiveness of private insurance as an FR mechanism in response to concerns from tank owners and state agencies.

Iowa's program remains solvent and insurance works. So why has Iowa been so successful when so many other states have not been successful with FR requirements?

PMMIC insurance provides FR for approximately two-thirds of all UST facilities in Iowa. Iowa is successful because of PMMIC. PMMIC is successful because we were built on sound principals, and we continue to operate under sound business principals.

Iowa's key principals

Iowa studied the UST problem in detail before creating a government sponsored program. Iowa identified the key issues that needed to be addressed before creating a fund. Iowa noted:

- the difficulty in knowing if tanks had leaked,
- the high cost of corrective action,
- the high cost associated with the installation of new tank systems,
- the lack of available financing for small businesses for corrective action and capital improvements,
- the lack of available insurance coverage based upon existing liabilities, and
- the lack of good actuarial data for projecting leak frequency and severity,

Based on these needs, the legislature stated its intent:

Implementation and interpretation of this Act shall recognize the following additional goals: to provide adequate and reliable financial assurance for the costs of corrective action for preexisting petroleum underground storage tank releases; to create a financial responsibility assurance mechanism that provides certainty, sufficiency and availability of funds to cover the cost of corrective action and third-party liability for prospective releases.

The fund created in this Act is intended as an interim measure to address the short-term unavailability of financial responsibility assurance mechanisms in the private market. This Act shall be administered to promote the expansion of existing assurance mechanisms and the creation of new ones, so that the insurance account may be phased out and discontinued when market mechanisms are generally available.

To minimize societal costs and environmental damage, speed is of the essence in responding to a release and taking corrective action.

Iowa agreed to separate yesterday's problems from tomorrow's problems and agreed to utilize a fee imposed equally on all sales of petroleum to fund yesterday's problems, but at the same time tank owners had three responsibilities associated with receiving reimbursement for existing releases:

1. Owners had to conduct assessments at their own expense and report a release by a date certain (within 15 months of the effective date of the legislation);
2. Owners had to obtain and maintain continuous FR coverage beginning the date they submitted a claim for an existing release; and
3. Owners had to stay in compliance with all regulatory requirements with respect to the operation of their UST system.

To ensure that the state subsidized program was truly interim, the Fund was managed by a newly created state board that did not rely on an existing state agency for its authority. This new board was given the authority to hire contractors to administer the entire UST Fund

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Richard Johnson Retires from PMMIC Board of Directors

Richard Johnson retired from the PMMIC Board of Directors on April 9, 2014 after 14 years of service. Mr. Johnson was the Auditor of the State of Iowa in 1998 when legislation created a new UST insurance Fund Board to oversee the insurance portion of the Iowa Comprehensive Petroleum UST Financial Responsibility Fund. As State Auditor, Mr. Johnson was appointed as a member of that oversight board. As directed by the legislation, the UST Insurance Fund Board reorganized into a private insurance company and Mr. Johnson remained as a director after the privatization. He helped guide PMMIC during this stage and helped establish the governing principals that have ensured PMMIC's success to date.



In 2002, Dick (as his friends know him) retired as State Auditor after serving for over 23 years, but he stayed very active in auditing circles. He is a past Trustee of the Financial Accounting Foundation, Past President of the National Association of State Auditors, Comptrollers and Treasurers, Past President of the National State Auditors Association, and he served on the Auditing Standards Board of the American Institute of CPAs. After graduating with a BS degree in Business Administration from Drake University in 1960 and earning his CPA designation in 1963, Mr. Johnson embarked on a career filled with public service including being

City Clerk and Mayor of Sheldahl, Iowa; President of the Iowa League of Municipalities; Director of Finance in the Iowa Highway Commission; Director of the Administrative Division of the Iowa Department of Transportation; Director of the Motor Vehicle Division of the Iowa Department of Transportation and one of Iowa's longest serving State Auditors.

During his tenure with PMMIC, he helped guide us through privatization, our early years when we became "seasoned" as a private insurance company, and the demutualization of PMMIC through which our members received over \$23 million in a one-time distribution and became owners of a company that is now worth over \$33 million. Throughout his term, Mr. Johnson performed the duties of Treasurer for PMMIC. He also headed our Audit Committee.

In honor of his years of service to PMMIC and our shareholders, the PMMIC Board of Directors gave a charitable donation in the amount of \$10,000 in Dick's name to a charity of his choice. Mr. Johnson chose Hidden Acres Christian Center, a not-for-profit camp and retreat facility near Dayton, Iowa.

We greatly appreciate everything that Dick has done for PMMIC, and we will miss his guidance, keen corporate governance insight, commitment to best practices and his knowledge of audit practices and procedures. Most of all, we will miss his friendly demeanor and caring attitude. Dick and his wife Marjorie are actively retired, living in Sheldahl, Iowa.

UST Fund Sunset Considerations *Continued from Page 1*

Stakeholders goals outlined in the meetings include:

- Closure of eligible claims with IDNR
- NFA Site/Re-Openers funding
- Continued funding for UST removals
- Funding source for government acquired sites (innocent landowner claims)
- Continued funding for Operator Training
- Funding assistance to IDNR
- UST system upgrade assistance

Options for the Fund to address the goals of the parties and meet their obligations discussed in the meetings include the following:

1. Business as usual, do nothing different than the Fund is doing now and close as many files as possible with the funding available.

2. Do settlements with eligible Fund claimants for the expected amount of future payments.
3. Execute Loss Portfolio Transfer(s) (LPT) with PMMIC for the sites PMMIC insures, for sites that have joint liability with the Fund and PMMIC, or enter an LPT with other interested parties for all remaining claims for expected future payments.
4. Transfer all or some of the remaining open claims to IDNR to handle to closure.
5. Attempt to get legislation to continue the funding past the current expiration date.

Many alternatives have been discussed. It is possible that a combination of solutions may

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Jeff Yurgae Elected to the PMMIC Board of Directors

Jeff Yurgae of West Des Moines, Iowa was elected to a three year term on the PMMIC Board of Directors by the shareholders at the PMMIC Annual Meeting of Shareholders on April 9, 2014, in Sheldahl, Iowa. Mr. Yurgae is President and CEO of Mueller-Yurgae Associates, an industry leading food brokerage firm located in Des Moines, Iowa. He has served on the Board of MYA since 2003. He also is a board member of the Consolidated Sales Network which is a network of independent brokers located throughout North America, and serves as a director on the Community Board of West Bank in West Des Moines, Iowa. Mr. Yurgae has a degree in Psychology from the University of Iowa. Jeff will apply his marketing skills and extensive knowledge of the convenience store industry as a member of our Marketing Committee and as a member of our Investment Committee.

The shareholders also re-elected Randy Woodard to a three year term on the Board of Directors. Mr. Woodard is President and CEO of Elliott Oil Company, President of Elliott Transport Inc., and President of Elliott Bulk Services, all of Ottumwa Iowa. He was first elected to the Board in 2012. Mr. Woodard will serve on the Underwriting and Marketing committees.

The other members of the Board include Ron Burmeister, President of Carriage Development Inc., Eldridge, Iowa; MJ Dolan, Executive Director of the Iowa Association of Community College Trustees, Des Moines, Iowa; Randy Meyer, Vice President Fuels, Kum & Go, West Des Moines, Iowa; Eli Wirtz former general counsel for Casey's, Ankeny, Iowa; and Jerry Woods, former CFO of Grinnell Mutual Group (Grinnell, Iowa), Ankeny, Iowa.

UST Fund Sunset Considerations *Continued from Page 4*

employed to wind the program down. Key issues to address include the open claims that have not moved forward with corrective action; new claims under the innocent landowner program; reimbursement for tank closures; operator training; and reimbursement for corrective action if IDNR requires additional corrective action at a "no further action" site.

To address new claims, the Fund will likely continue to operate as it is now for some time into the future and continue to close some of the open claims while opening new eligible innocent landowner claims. To move "idle" claims forward, the Fund Board is considering notifying claimants that if they do not move forward they could lose their funding.

Larger claimants may elect to settle their claims for negotiated amounts. The Fund Board directed Board counsel and the administrator to develop settlement language for claimant releases in anticipation of this option being utilized.

The Fund Board has also requested the Administrator to develop a Request for Proposal (RFP) for potential issuance of LPT(s.)

These options are available to the board today and can be implemented at any time. If the board elects to transfer any assets or obligations to IDNR, or if any attempt is made to continue the flow of funding past the June 30, 2016, date, legislation will be required.

The Fund Board is undertaking a third party actuarial review to determine an accurate (or more accurate) estimation of the Fund's current liabilities. The actuarial data may be used for negotiating settlements or an LPT and will be useful in estimating liabilities and cash flow needs regardless of which option(s) are eventually implemented.

The Fund Board has not established a schedule for implementation of any of the options discussed. PMMIC will continue to monitor the Fund Board's progress and will participate in the development of long-term viable solutions for the program sunset. We will continue to keep our shareholders and our customers updated on the status of the sunset process.

Meet the Loss Control Team

Inspection Supervisor

Brian Pottebaum, is a licensed petroleum storage tank inspector with over 15 years of experience with regulatory requirements and loss control oversight of petroleum storage tank systems. He has been recognized for his role in developing and conducting detailed training sessions for petroleum storage tank owner/operators, inspectors, installers and regulatory personnel in multiple states.



In addition, Mr. Pottebaum is the senior customer service representative for people with questions on regulatory requirements and management of their petroleum storage tank systems. He supervises the petroleum storage tank inspection program and a team of field inspectors. He also develops and writes technical papers on petroleum storage tank equipment, loss control and operational issues. Watch for his next article in the PMCI publication Iowa Oil Spout.

When Mr. Pottebaum is away from work, he enjoys spending time with his wife and three children. He volunteers many hours to charitable events as well as coaching youth sports. He also enjoys Iowa State Cyclone football and basketball, classic cars, and time spent outdoors.

Inspection Technical Manager

Christian Quijano, is a licensed petroleum storage tank inspector with over a combined 10 years of experience in environmental assessment and compliance, in addition to regulatory requirements, inspections, and loss control of petroleum storage tank systems. He is the primary reviewer of all the inspection reports that are conducted and supplied to our office for processing. Mr. Quijano also provides a supporting role in developing and conducting detailed training sessions for petroleum storage tank owner/operators, inspectors, installers and regulatory personnel in multiple states.



In addition, Mr. Quijano acts as a customer service representative for clients with questions on regulatory requirements and management of their petroleum storage tank systems. He is also a supporting point of contact for the petroleum storage tank inspection program and a team of field inspectors.

When Mr. Quijano is away from work, he spends time with his wife and son. He enjoys outdoor activities including mountain biking and snow and water sport activities. He also participates in organized athletics such as baseball, soccer, and triathlon events. He

volunteers time to industry related and community based organizations. He is a graduate of Iowa State University and a season ticket holder and supporter of the ISU basketball program.

Inspectors

Inspectors are responsible for conducting on-site petroleum storage tank loss control inspections and documenting all findings in a report to the client. Inspectors are professionally trained and certified to conduct loss control and compliance inspections in multiple states. The inspectors will occasionally assist our technical manager with report review and processing.

John Fine has worked in the petroleum industry since 1970. His experience includes installation, maintenance and repair of petroleum systems. Mr. Fine was instrumental in developing our current storage tank inspection protocol. Mr. Fine has performed over 10,000 inspections in the states of Iowa, Arizona, Georgia, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wisconsin.



In Mr. Fine's spare time he enjoys spending time with his four daughters and six grandchildren, bicycle riding, & canoeing. John enjoys his volunteer work at his grandchildren's schools as well as the Des Moines Art Festival.

Tyler McQuiston has worked in the petroleum industry for the past 5 years. In that time he has taken part in more than 8,000 UST and AST inspections in the states of Iowa, Arizona, Georgia, Kansas, Missouri, Nebraska, Oklahoma, Texas and Wisconsin.



On Mr. McQuiston's off hours he enjoys playing his guitar, listening to all types of music & going to concerts. He was recently married and enjoys spending time with his wife Rebecca.

Jim Stubbs has more than 18 years of experience in the petroleum storage and distribution industry. Mr. Stubbs' experience includes installation, operation, and maintenance of both UST and AST systems. Jim has completed over 1,500 inspections in the states of Iowa and Missouri.



Mr. Stubbs enjoys spending time with his wife of 29 years and his four sons and four grandchildren. He also enjoys outdoor activities including hunting and fishing.

Retroactive dates *Continued from Page 1*

UST can go undetected for years, but the damage to the soil and groundwater has already occurred. Purchasing insurance for a leak that might occur tomorrow is one thing, but what about the unknown leak that occurred last year? Since many leaks go undetected with existing leak detection methods, yesterday's possible leaks should always be considered when evaluating your UST insurance.

UST insurance is written on a claims-made policy which means that only claims that occur and are reported during the policy period are covered. If a release occurred six months before the inception date of your claims-made UST insurance policy, but was not discovered or not reported until after the policy was in effect, the policy would not cover the claim. If the policy had a retroactive date prior to the date of the release, the release could be covered. By obtaining a retroactive date that predates the inception date of the policy, you are obtaining prior acts coverage that dates back to the stated retroactive date.

If you have been operating a UST system, there is a possibility that it may have already leaked. If you are buying UST coverage for the first time or changing insurers for that system you need to take one of three steps:

1. Conduct adequate soil and groundwater test to determine if there has been a release. If there has not been a release you do not need coverage for yesterday. If you discover contamination you will need to determine the cause, stop the release if it is still occurring and submit a claim with your existing carrier within the reporting period of the existing policy. Again, you will not need coverage for yesterday.
2. Obtain a retroactive date that covers back to the date of installation or the last date when you know for certain that a release had not occurred or when the last release did occur.
3. Do not worry about existing contamination, do not test and do not purchase coverage or yesterday. Instead, self-finance the possible loss by maintaining adequate resources to pay for past contamination when discovered in the future.

If you are purchasing a retroactive date that pre-dates the new policy inception date, there is a risk associated with your previous operations and therefore there will be a premium for this

coverage. Known as "incurred but not reported" losses, these risks are a significant portion of the new insurer's potential losses, and the liability associated with a UST system. For every year of operation there is an additional chance that an unknown loss has occurred. Our studies indicate that up to 90% of all leaks occur outside of the leak detection system and leak detection systems may allow up to 0.2 gallons per hour leak rate per tank. In theory each tank could leak over 1,700 gallons per year and you would not discover the release. Our studies also indicate that most reported releases occur more than one year before they are discovered, so coverage for yesterday's leaks, or discovery of yesterday's leaks is very important. In 2011, the USEPA conducted a "Study On The Effectiveness Of UST Insurance As A Financial Responsibility (FR) Mechanism" in which they found that tank owners may be negatively impacted by coverage gaps when their retroactive date and the tank system installation date differ. The solution is to purchase a retroactive date that covers all possible losses or test your site to prove there have been no previous losses.

Obviously, you will pay a premium if you are changing insurers and you want the new insurer to cover past leaks (prior acts coverage). If there is no premium for this coverage, ask yourself why the insurer would take that risk and not charge you premium. If it appears that you are getting something for free, it may be that you are not getting anything. Retroactive coverage has significant risks and liabilities and must be funded somehow. If you are getting the coverage for free, you may want to question the business plan of the carrier or agent that sold you the policy or ask yourself if you have enough money saved to pay for an unfunded loss. Famed economist Milton Friedman may have summed it up best in his 1975 book, "There's No Such Thing as a Free Lunch".



2894 106th Street, Suite 220
PO Box 7628
Urbandale, Iowa 50323

Phone: 515.334.3001
Fax: 515.334.3013
E-Mail: info@roundsassociates.com
www.pmmicinsurance.com

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Success by Design *Continued from Page 3*

program. With all services provided via publicly bid contracts, the Fund hired professionals with experience in claims administration, accounting and auditing procedures, and ensured that no permanent bureaucracy would be created. They didn't just say it would be interim, they made it interim.

All releases reported after the application deadline became the responsibility of the tank owner's FR mechanism. PMMIC, which at the time was operated similarly to a private carrier, but under the Fund's management, became the preferred choice for most tank owners in Iowa. PMMIC became a private insurance company owned by its customers in 2000 and has never used one dollar of public money for its operations.

Iowa separated old releases from new releases. Iowa fully funded the old release claims with a tax levied on the industry. For new releases, PMMIC was built by, funded by, managed by, and is still owned by its customers. Since 1990, only one claim has been denied for compliance violations (intentional noncompliance). PMMIC

has worked with its customers to ensure that all sites are in compliance with all insurance contract requirements. PMMIC pays claims immediately. PMMIC charges an appropriate, market based premium. PMMIC implemented a stringent loss control program that reduced leaks, stopped existing leaks before they became releases, and aggressively responded when a release did occur. PMMIC fully funded new releases through adequate premiums. PMMIC's customers take their compliance obligations seriously.

PMMIC's customers are accountable and responsible, and so is PMMIC. Success by Design. It isn't that complicated, but for some reason, other states have not been able to replicate our success. Maybe they should read our story.

