

***Ohio Petroleum Underground Storage
Tank Release Compensation Board***

Estimated Unpaid Claims Liability

As of June 30, 2009

**Petroleum Underground Storage Tank Release Compensation Board
Estimate of Unpaid Reimbursement Liability
For the Year Ended June 30, 2009**

Purpose of Report

The Petroleum Underground Storage Tank Release Compensation Board (the Board) was created in 1989 to administer Ohio's Underground Storage Tank (UST) Financial Assurance Fund (the Fund). The Fund was created in response to Environmental Protection Agency (EPA) regulations requiring responsible persons to demonstrate the capability to pay for correction actions caused by accidental releases of petroleum from UST systems and costs for third party liability resulting from releases. The Fund generally reimburses UST owners up to \$1 million per release, less a deductible. An owner may receive up to \$4 million per year, depending on the number of tanks owned. The deductible is based on the number of tanks owned and fees paid in a given year. To obtain a Certificate of Coverage and be eligible for reimbursement from the Fund, owners must participate in the Fund by paying an annual per-tank fee and demonstrating compliance with federal and state regulations as well as complying with the Board's internal procedures regarding the reporting and remediation of releases.

In 2003, the Board retained Pricewaterhouse Coopers LLP (PwC) to estimate the unpaid reimbursement liability of the Financial Assurance Fund (Fund). Following the completion of that report, the Board, at the encouragement of its then auditors, Deloitte & Touche, LLP and the State Auditor's Office, elected to complete the fiscal years' 2004 through 2006 estimates of unpaid reimbursement liability in-house using existing Board personnel.

In 2007, management believed an adjustment being made to estimate future costs for the impact of risk-based corrective action (RBCA) may no longer be necessary. As this would result in a material change from prior analysis, the Board contracted with Pinnacle Actuarial Resources, Inc. to perform an independent review of the assumptions and methodology being applied to estimate the Fund's unpaid reimbursement liability. Pinnacle determined that because many years had passed since the introduction of RBCA, the underlying development data is reflective of that change and further adjustment is no longer considered to be necessary. In November 2007, Pinnacle issued its report on the Fund's unpaid liability as of June 30, 2007.

As in previous years wherein the assumptions and methodology remained static, the Board's in-house personnel prepared the fiscal years' 2008 and 2009 estimates of the unpaid reimbursement liability. As the UST regulation environment changes or other related assumptions change, it is the Board's intent, as it did in 2007, to outsource this report to an independent firm to allow for updates and changes in the assumptions.

The following report and schedules estimate the Fund's loss reserves for the year ended June 30, 2009.

Approach

Similar to previous loss reserve estimates, the Board's staff has prepared this report and corresponding estimates as of June 30, 2009 using the same assumptions and actuarial methods as those utilized in previous analyses. The following five actuarial methods were used in projecting ultimate fund losses by program notification year:

- Paid loss development
- Average loss
- Bornhuetter-Ferguson using average loss and paid loss
- Ultimate gross face value adjusted for disallowed costs and deductible recoveries
- Bornhuetter-Ferguson using ultimate gross face value and paid loss

Based on the results of these five tests, ultimate losses are selected by program notification year. The results of the various methods are summarized in Reported Exhibit 4 along with the selected ultimate reimbursement amounts.

The estimated liability on the incurred but not reported (IBNR) claims as of June 30, 2009 was determined by estimating the ultimate claims by program release year using the following two actuarial methods:

- Reported claim development
- Bornhuetter-Ferguson using exposures and reported claims

Because of regulatory requirements that the Board receive an Application for Eligibility within one year of the release date, the liability on unreported claims is limited to only the latest release year. For fiscal year 2009 this is the period of July 1, 2008 through June 30, 2009.

In addition to the IBNR claims, a number of applications for eligibility are pending review and determination. These are added to the IBNR counts. Based on past history, the Board estimates that approximately 67% of the IBNR and pending applications will be determined eligible.

Findings

Based on management’s analysis, the Fund’s total unpaid loss liability as of June 30, 2009 is estimated at \$40,398,101.

The table below details this amount and compares it to the estimate of the unpaid loss liability as of June 30, 2008.

Petroleum Underground Storage Tank Release Compensation Board Financial Assurance Fund Summary of Unpaid Liabilities			
<u>Valuation Date</u>	<u>Claims Reported As of Valuation Date</u>	<u>Claims Unreported As of Valuation Date</u>	<u>Total</u>
June 30, 2009	\$38,325,371	\$2,072,730	\$40,398,101
June 30, 2008	\$40,531,925	\$2,085,600	\$42,617,525

Changes from Prior Estimates

Reported Claims

The reduction in the estimated unpaid liability for reported claims from the June 30, 2009 valuation is a result of claim reimbursements being paid at a rate greater than the increase in the ultimate estimated loss. In the Board’s reports, estimated ultimate loss increased approximately \$6.6 million from June 30, 2008 to June 30, 2009. By comparison, in fiscal year 2009, the Board reimbursed approximately \$8.8 million.

Gross face value adjusted for non-reimbursable and undocumented costs and deductible amounts is a measure of the amount the Fund will ultimately pay. Changes in the Ultimate Gross Face Value are a factor of reported Gross Face Value and the items listed under “Considerations” within this report. The increases in Gross Face Value lead to increases in the estimates of ultimate losses. The following chart summarizes the increase in the estimated ultimate loss:

Estimated Ultimate Loss			
Notification Year	June 30, 2009	June 30, 2008	Difference
1989	22,300	22,500	-200
1990	27,397,600	27,313,600	84,000
1991	48,788,900	47,718,000	1,070,900
1992	28,133,600	27,315,200	818,400
1993	22,020,900	21,532,900	488,000
1994	15,989,900	15,776,100	213,800
1995	17,004,200	16,796,900	207,300
1996	27,116,400	25,908,800	1,207,600
1997	7,805,500	7,604,200	201,300
1998	7,853,800	7,374,000	479,800
1999	6,391,000	6,258,000	133,000
2000	2,092,200	2,081,700	10,500
2001	1,354,200	1,304,200	50,000
2002	1,378,200	1,392,800	-14,600
2003	1,197,400	1,198,900	-1,500
2004	1,307,700	1,311,900	-4,200
2005	2,409,800	2,396,400	13,400
2006	2,693,400	3,201,800	-508,400
2007	2,679,600	2,470,900	208,700
2008	1,927,200		1,927,200
Total	\$225,563,800	\$218,978,800	\$6,585,000

Reimbursements for corrective action costs were paid as follows:

Paid Loss			
Notification Year	June 30, 2009	June 30, 2008	Difference
1989	22,040	22,040	0
1990	26,998,611	26,636,477	362,134
1991	46,156,302	44,706,491	1,449,811
1992	25,689,614	24,417,021	1,272,593
1993	19,228,659	18,614,933	613,727
1994	13,931,275	13,126,513	804,762
1995	13,621,444	12,976,566	644,878
1996	21,342,784	19,849,278	1,493,506
1997	5,903,603	5,445,769	457,834
1998	5,644,990	4,957,419	687,571
1999	4,136,882	4,003,705	133,177
2000	1,408,846	1,353,895	54,951
2001	712,911	626,138	86,773
2002	462,891	449,102	13,789
2003	379,277	317,162	62,115
2004	410,271	329,381	80,890
2005	762,340	492,394	269,946
2006	342,632	102,636	239,996
2007	83,057	19,955	63,102
2008	0		0
Total	\$187,238,430	\$178,446,875	\$8,791,555

Unreported Claims

Unreported claims has two components:

- Incurred but Not Reported; and
- Undetermined eligibility applications.

The estimated loss on unreported claims decreased less than 1% from June 30, 2008 to June 30, 2009.

Considerations

Changes in the methods utilized to make selections in the process of determining the estimated ultimate loss will have an impact on the loss reserves. The change in the method of selection for the valuation period ending June 30, 2009 is discussed below:

- Selection of the Average Gross Face Value (Reported Exhibit 22)

As of June 30, 2009 the method to select the average gross face value for notification years 2006 through 2008 utilized the volume weighted average of all notification years. This varied from the method used for the selections in the previous year's report which was based on the preliminary average gross face value.

This change resulted in decreases in the selected average gross face value for the notification years of 2006 and 2007 and in ultimate face value of \$1.8 million and \$1.9 million, respectively.

The results of the selections on the estimated ultimate face value are show below:

Estimated Ultimate Face Value			
Notification Year	June 30, 2009	June 30, 2008	Difference
1989	38,000	38,182	-182
1990	45,699,000	45,475,832	223,168
1991	81,830,000	80,832,757	997,243
1992	48,827,000	48,489,603	337,397
1993	41,357,000	41,192,086	164,914
1994	31,225,000	31,217,407	7,593
1995	32,780,000	32,976,256	-196,256
1996	54,684,000	53,620,410	1,063,590
1997	14,207,000	13,989,596	217,404
1998	17,605,000	16,999,607	605,393
1999	11,667,000	11,976,879	-309,879
2000	7,001,000	6,918,041	82,959
2001	5,286,000	5,289,708	-3,708
2002	5,400,000	5,377,666	22,334
2003	4,598,000	4,616,579	-18,579
2004	4,857,000	4,898,206	-41,206
2005	8,638,000	8,565,598	72,402
2006	9,957,000	11,767,782	-1,810,782
2007	6,923,000	8,840,478	-1,917,478
2008	9,733,000		9,733,000
Total	\$442,312,000	\$433,082,673	\$9,229,327
2006 & 2007			-\$3,728,260

The selection of the average gross face value also had an effect on the selected average loss which is utilized in the calculation of the estimated loss on unreported claims. The result is shown in the chart below:

Selected Average Loss			
Notification Year	June 30, 2009	June 30, 2008	Difference
2008	36,300	39,600	-3,300

Additionally, revisions in federal law and the Ohio Administrative (OAC) and Revised (ORC) Codes as well as the Board's internal procedures affect the timing and amount of claim reimbursements. The following changes and assumptions are incorporated in previous reports and continue to affect the outcome of management's estimate:

- UST Performance Standards

In 1988, more stringent requirements were mandated for the design, installation, corrosion protection and release detection of petroleum USTs. All existing tanks were required to be upgraded by December 22, 1998. However, because owners were permitted to take their tanks out of service for up to one year prior to replacement, the Board assumes that all tanks meet the new performance standards as of December 22, 1999.

Because the process of removing and replacing tanks leads to the discovery of more releases, the Fund experienced a large number of claims leading up to December 22, 1998. The number of releases versus the number of tanks decreased significantly after the upgrade deadline and the Board assumes that this reduced frequency will continue.

- Change in Procedures for Providing Notification (1996)

Prior to 1996, no restrictions existed with regards to notifying the Board of a release. Consequently, the Board may have not received notification of a release occurring in 1990 until several years later. However, effective in November 1996, a change to the OAC imposed a one-year time limit for notifying the Board of a discovered release. Releases required to be reported to the State Fire Marshal (SFM) prior to January 1, 1996 were now required to be reported to the Board on or before January 1, 1997. Releases occurring thereafter must be reported to the Board within one year from the date the release was required to be reported to the SFM. This change in reporting resulted in the unusually high number of claims reported to the Board during the 1996 notification year and the corresponding increase in gross face value.

- Change in Procedures for Submitting Costs (1999)

Prior to 1999, no restrictions were placed on the timing of cost submissions. Owners could submit costs at any point during remediation or alternatively, wait until all corrective action was complete. However, a change to the OAC in 1999 required that all costs incurred for which remediation was completed prior to July 1, 1999 and that were not previously submitted to the Board, be submitted by July 1, 2000. In addition, costs for program tasks that were completed after July 1, 2000 are required to be submitted within a year of the completion date defined within the OAC.

The immediate effect of this change was a large increase in the amount of submitted costs in the 1999 program year. Requiring timely submission of costs results in the acceleration of the reported gross face value when compared to costs submitted prior to the change.

- Change in Reimbursement of Non Pre-approved Costs

After the Board's staff reviews a reimbursement application, a settlement offer is made to the owner. Settlements are generally determined as the gross face value less non-reimbursable and undocumented costs and an individual owner's deductible amount. Beginning in 1999, certain corrective action costs require the Director's pre-approval in order to be eligible for full reimbursement. Costs that are not pre-approved as required were subject to a 10% reduction in the amount of reimbursement. In 2003, this 10% reduction was increased to 20% and in

April 2005, it was increased to 50%. Because the pre-approval process combined with the penalty for failure to obtain pre-approval when required provides incentive to use the most cost effective cleanup method, management believes this change should have the effect of reducing both gross face value and disallowed costs.

- Introduction of Risk Based Corrective Action (RBCA) (1999)

In 1999, a new set of standards for corrective actions was introduced which impacted all releases occurring on or after March 31, 1999. A Risk-Based Corrective Action (RBCA) process was established, allowing for site specific cleanup remedies based on the anticipated future use of the site. Previous to that time, all corrective actions were held to generic standards without consideration of future site use. It was anticipated that the speed of the corrective action process would be increased and the overall cost of remediation would be reduced with the implementation of the RBCA process.

Responsible persons with claims, where the release date was before March 31, 1999 (regardless of the status of the corrective action), had the option to remediate their sites in compliance with either the original (non-RBCA) standards or the RBCA process. In prior analyses, an adjustment was included to reflect the possible impact of the optional RBCA processing. As Pinnacle determined in 2007, because a significant amount of time has passed since the option was offered, the impact from this program is now imbedded within the data used to develop the estimates and an adjustment is no longer necessary.

- Mandatory Risk Based Corrective Action (RBCA) (2005)

Beginning in March 2005, existing clean ups being conducted under the 1992 or 1999 corrective action rules were required to transition to the 2005 RBCA rules by September 1, 2005 or March 1, 2006, respectively, unless approval to remain in an earlier version of the rule was sought from and granted by the SFM. Under the 2005 RBCA rules, the corrective action levels were lowered thereby increasing the amount of corrective action that must be performed to reach acceptable levels of contamination. In addition, the 2005 RBCA rules require additional testing and reporting. Consequently, the costs of corrective action are anticipated to increase for releases that were transitioned to or occurred after the implementation of the March 31, 2005 corrective action rules.

- Limitations on Annual Reimbursement Amounts

Prior to the 1997 notification year, no restrictions were placed on the amount of funds available to make reimbursements during an annual period. Effective with the 1997 notification year, changes to the OAC required the Board to annually obligate a set amount of funds for the payment of claims reimbursements. The amounts obligated by notification year were as follows:

Years	Annual Obligated Amount
1997 - 2000	\$15 Million
2001	\$12 Million
2002 – 2005	\$10 Million
2006 – 2008	\$9 Million
2009 (Planned)	\$9 Million

Management anticipates future annually obligated amounts may again decrease in notification years after 2009.

- Change in Procedures for Processing and Prioritizing Claims Reimbursement

As a means to collectively settle costs submitted incrementally for reimbursement and to manage the backlog of claims created by the regulations requiring timely submission of corrective action costs for reimbursement, in 2004 the Board began to offer lump sum settlements to the major oil companies for releases for which the SFM had issued a "No Further Action" determination. A summary of those lump sum settlements follows:

Program Year	Lump Sum Payments	Lump Sum Claims
2003	\$663,775	36*
2004	\$1,517,500	91
2005	\$912,000	23
2006	\$1,832,000	34
2008	\$1,820,000	30

*In PY 2007, 24 claims were re-opened and allowed to submit additional costs with a 25% reduction in reimbursable costs, as determined by the Board.

Until April 2005, applications for claim reimbursement were generally settled on a first-come, first-served basis. Applications are submitted incrementally as corrective action program tasks are completed. A change to the OAC in 2005 permits the prioritization of applications based on the NFA status. Consequently, when the SFM issues an NFA, all in-house applications may be simultaneously reviewed and settled.

Both the lump sum settlements and the prioritizing of reimbursement applications according to the NFA status have the affect of accelerating the number of closed claims and the determination of disallowed costs and deductible values.

- Claims Lag

Due to the regulations requiring incremental and timely submission of corrective action costs for reimbursement, the Board has experienced an increase over the past few years in the number of claim reimbursement applications submitted. In addition, the limitation on annual claim reimbursement amounts further slows the processing of claims. This in turn delays the determination of disallowed costs and the issuance of claim reimbursements, affecting the development factors.

- Ongoing Data Clean-Up

Beginning in 1999, the Board began a re-write of its database system. As part of this project, claims reimbursement data was migrated to the new system and data integrity checks were implemented. Over the past several years, the claims tracking data was reviewed and corrected where appropriate. For the period ended June 30, 2009, a net of 14 claims were added to notification year 2007 that were inadvertently omitted from the previous year's report. It is management's belief this does not have a significant impact on the estimation of ultimate losses.

The Board estimates that approximately 99% of the claims tracking and payment data has been reviewed and corrected where appropriate. Changes in historical values will continue to be minimal in future reporting periods.

Limitations / Caveats

The results of this analysis are management's estimates and are likely to change from one evaluation period to the next. The changes are due not only to the uncertain nature of the claims reimbursement process, but also because the past is used to forecast the future, with the assumption that the conditions that existed in the past will continue.