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ELECTRONICALLY  
**FILED**  
Superior Court of California,  
County of San Francisco

**06/21/2019**  
**Clerk of the Court**  
BY: ERNALYN BURA  
Deputy Clerk

9  
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 COUNTY OF SAN FRANCISCO

12 **INSURANCE COMMISSIONER**  
13 **OF THE STATE OF CALIFORNIA,**

14 Applicant,

15 v.

16 **GREAT STATES INSURANCE COMPANY,**  
17 **a California domiciled insurance company,**

18 Respondent.

Case No. CPF01320047

**NOTICE OF HEARING FOR  
APPLICATION AND APPLICATION  
FOR ORDER APPROVING PAYMENT  
OF LIQUIDATOR'S  
ADMINISTRATIVE EXPENSES,  
APPROVING THE FINAL  
DISTRIBUTION OF ASSETS, AND  
CLOSING THE ESTATE**

Date: August 30, 2019  
Time: 9:30 a.m.  
Dept: 302

**Reservation No.: 06180830-12**

23  
24 TO ALL INTERESTED PARTIES AND THEIR ATTORNEYS OF RECORD:

25 PLEASE TAKE NOTICE that August 30, 2019 at 9:30 a.m., or as soon thereafter as the  
26 matter may be heard, in Department 302 of the Superior Court of California for the City and  
27 County of San Francisco, California, located at 400 McAllister Street, San Francisco, California  
28 94102, the Insurance Commissioner of the State of California ("Commissioner"), in his capacity

1 as Conservator and Liquidator of Great States Insurance Company ("Great States"), will, and  
2 hereby does, apply to the Court for an Order (1) approving the final distribution of estate assets of  
3 Great States; (2) approving payment of the Commissioner's expenses for the period April 1, 2001  
4 through March 31, 2019 in the amount of \$4,584,651; (3) approving the Commissioner's reserve  
5 closing budget; and (4) closing the Great States estate, and discharging the Commissioner as  
6 conservator and Liquidator, upon the filing of a declaration that the Liquidator has distributed the  
7 assets of Great States in accordance with this Court's order approving final distribution.

8 This application is made pursuant to Insurance Code sections 1033, 1035, 1036 and 1037,  
9 which authorize the Commissioner to pay expenses incurred in the administration of insolvent  
10 insurers pursuant to court approval, and to distribute assets. This application will be based on this  
11 notice of application and application, the memorandum of points and authorities filed in support  
12 thereof, the declarations of John Battle, Dick Oshita, and Raymond Minehan filed in support  
13 thereof, the files and pleadings in this case, and such oral argument as may be made in support of  
14 the application at the hearing on this matter.

15  
16 Dated: June 20, 2019

Respectfully Submitted,

17 XAVIER BECERRA  
18 Attorney General of California  
19 KAREN W. YIU  
20 Supervising Deputy Attorney General

21   
22 HEATHER B. HOESTEREY  
23 Deputy Attorney General  
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26 SF2001CV0407

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9 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
10 COUNTY OF SAN FRANCISCO  
11  
12

13 **INSURANCE COMMISSIONER OF THE**  
14 **STATE OF CALIFORNIA,**

15 Applicant,

16 v.

17 **GREAT STATES INSURANCE**  
18 **COMPANY, a California domiciled**  
19 **insurance company,**

20 Respondent.  
21  
22

Case No. CPF01320047

**MEMORANDUM OF POINTS AND  
AUTHORITIES IN SUPPORT OF  
APPLICATION FOR ORDER APPROVING  
PAYMENT OF LIQUIDATOR'S  
ADMINISTRATIVE EXPENSES,  
APPROVING THE FINAL DISTRIBUTION  
OF ASSETS, AND CLOSING THE ESTATE**

Date: August 30, 2019  
Time: 9:30 a.m.  
Dept: 302

**Reservation No.: 06180830-12**

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## INTRODUCTION

Pursuant to Insurance Code sections 1035.5 and 1037,<sup>1</sup> applicant Insurance Commissioner of the State of California (“Commissioner”), as Conservator and Liquidator of Great States Insurance Company (“Liquidator”), seeks this Court’s approval of the Liquidator’s proposal to distribute the remaining assets of Great States Insurance Company (“Great States”), and close the Great States estate. In this liquidation, all claims received as a result of the proof of claims process conducted by the Liquidator have been adjusted, all assets have been collected, and essentially all administrative tasks have been completed. The Liquidator has completed the administration of Great States’ liquidation, and this case should be concluded.

The Liquidator therefore respectfully requests this Court enter an Order: (1) approving the final distribution of estate assets of Great States; (2) approving payment of the Commissioner’s expenses for the period April 1, 2001 through March 31, 2019 in the amount of \$4,584,651; (3) approving the Commissioner’s reserve closing budget; and (4) closing the Great States estate, and discharging the Commissioner as Conservator and Liquidator, upon the filing of a declaration that the Liquidator has distributed the assets of Great States in accordance with this Court’s order approving final distribution.

## BACKGROUND

Great States was a property and casualty insurer domiciled in California and licensed to transact insurance in California, Arizona, Colorado, Illinois, Indiana, Kentucky, Nevada, New Mexico, Oklahoma, Oregon, Texas, Tennessee, Utah, and Wisconsin. Among the states in which Great States was licensed, it transacted workers’ compensation insurance in California, Arizona, Colorado, Illinois, Nevada, New Mexico, Texas and Wisconsin. It did not actively transact insurance in the remaining states. This Court placed Great States into conservation on March 30, 2001 and into liquidation on May 8, 2001, after finding Great States to be statutorily insolvent. (See Declaration of John Battle in Support of Application (“Battle Decl.”), ¶ 4.)

### I. CLAIMS

Upon this Court’s entry of a liquidation order after finding Great States to be statutorily

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<sup>1</sup> All further statutory references to the Insurance Code will be by section number only.

1 insolvent, the Liquidator transferred all open claims to the insurance guaranty association  
2 (“IGA”) for each state in which Great States wrote business. Thus, in accordance with each  
3 state’s insolvency statutes the affected IGA became responsible for administering and paying the  
4 open claims of that state’s residents. In turn, the IGA of each affected state filed a claim against  
5 the Great States estate.

6 As to new claims against Great States after it went into liquidation, the Liquidator  
7 published notice to creditors that claims against the insolvent estate of Great States had to be filed  
8 by the Claims Bar Date of December 2, 2001, pursuant to section 1021. (Battle Decl., ¶ 6; see  
9 also § 1021.) The Liquidator adjudicated all relevant Proofs of Claims (“POCs”), resulting in a  
10 final approved amount of \$70,352,496.45 on 34 approved and adjusted Class 2 claims. (Battle  
11 Decl., ¶ 6.)

12 Section 1033, subdivision (a) authorizes the Liquidator to make a distribution of assets on  
13 claims in a statutory insolvency proceeding according to the priorities specified therein. (§ 1033,  
14 subd. (a).) Section 1033, subdivision (a)(2), delineates into classes the priority for which claims  
15 and fees are to be paid in the liquidation of a California insurer, as follows:

16 Class 1: expenses of administration;  
17 Class 2: claims of state guaranty funds and claims for return premium;  
18 Class 3: claims having preference under the laws of the United States;  
19 Class 4: unpaid insurer examination fees due the State of California;  
20 Class 5: taxes due to the State of California;  
21 Class 6: claims having preference under the laws of the State of California; and  
22 Class 7: claims of creditors not included in Classes 1 through 6.

23 (Battle Decl., ¶ 7; see also § 1033, subd. (a)(2).)

24 Because Great States transacted only workers’ compensation insurance and would not be  
25 able to pay claims below Class 2, the only claims eligible for payment were those of insurance  
26 guaranty associations and non-IGA return premium claims. Based upon his analysis of the assets  
27 of the estate, the Liquidator determined early that sufficient assets did not exist to pay claims  
28 below Class 2 claims, and creditors below Class 2 were notified that their claims would not be  
adjudicated. (Battle Decl., ¶ 7.)

IGA liabilities fall under Class 2. As of April 1, 2019, the approved IGA liabilities for  
Great States claims totaled \$70,159,325.17. (Battle Decl., ¶ 8.) This figure includes each of IGA’s

1 actual paid claims, administrative expenses, and discounted reserves for future liabilities. In  
2 addition, claims for return premiums also fall under Class 2. (*Ibid.*) Individual IGA statutes vary  
3 in their treatment of such claimants. Some states pay return premium claims in full. Other states  
4 allow limited payments by the IGA. To the extent that the IGA does not pay the return premium  
5 claim, that policyholder will have a non-IGA Class 2 claim in the Great States liquidation estate,  
6 and the Liquidator filed a claim on behalf of such claimants pursuant to section 1025.5,  
7 subdivision (a). The Liquidator has adjudicated all such return premium claims due non-IGA  
8 claimants and has determined the total to be \$193,171.28. (*Ibid.*) Thus, the total approved amount  
9 for all Class 2 claims – both IGA and non-IGA – is \$70,352,496.45. (*Ibid.*)

## 10 **II. DISTRIBUTIONS**

### 11 **A. Statutory Deposits and Early Access Distributions**

12 The Liquidator released a statutory deposit in the amount of \$50,183 to the state of Illinois  
13 and one in the amount of \$101,128 to the state of Nevada. (Battle Decl., ¶ 9.) With respect to  
14 New Mexico, the statutory deposit exceeded its claims against it. (*Ibid.*) The Liquidator released  
15 \$3,471.28 to New Mexico, and the estate of Great States received the amount remaining in the  
16 deposit of \$206,183.41. (*Ibid.*)

17 In addition, the Liquidator made two early access distributions to the California Insurance  
18 Guarantee Association (“CIGA”) and other IGAs totaling \$10,000,000 with no distributions made  
19 to date to non-IGA Class 2 claimants. (*Ibid.*) The early access distributions occurred pursuant to  
20 Orders of this Court obtained on January 30, 2006 and November 6, 2006. (Battle Decl., ¶ 9.)  
21 While the early access distribution amounts were determined based on preliminary estimates of  
22 each IGA’s ultimate Class 2 liability, with the imminent closure of Great States, these estimates  
23 have been subject to a final true-up. (Battle Decl., ¶ 10.) The Commissioner has completed a final  
24 true-up with the amounts due each IGA in the final distribution, as well as for non-IGA Class 2  
25 claimants, and those amounts are detailed in Argument section I (A), *infra*.

### 26 **B. Surety Bonds in Lieu of Statutory Deposits**

27 Although Great States fulfilled its workers’ compensation statutory deposit obligation by  
28 posting cash in Illinois, New Mexico and Nevada, in California and Arizona Great States instead

1 obtained a workers' compensation "surety bond" to satisfy such statutory obligations.<sup>2</sup> (Battle  
2 Decl., ¶¶ 11, 12.) Great States' California surety bond was issued by American Home Assurance  
3 ("AHA") and was recently the subject of a commutation agreement which was approved by this  
4 Court on November 7, 2018. (Battle Decl., ¶ 11.) The commutation settlement resulted in AHA's  
5 payment of \$7,150,000 to resolve all present and future obligations under the bond, with a net  
6 settlement amount to CIGA of \$7,145,115 after deducting, with CIGA's permission, the  
7 Commissioner's remaining expenses in collecting on the bond. Factoring in earlier payments  
8 plus interest totaling \$13,325,316.74 previously transferred to CIGA, the Commissioner  
9 determined CIGA's payments from the AHA surety bond to total \$21,802,854.74. (*Id.*)

10 Great States also obtained a surety bond from the same surety, AHA, to fulfill its Arizona  
11 workers' compensation statutory deposit requirement as well ("Arizona surety bond"). (Battle  
12 Decl., ¶ 12.) The Special Fund of the Industrial Commission of Arizona ("ICA") thereafter  
13 collected from AHA on the Arizona surety bond. (*Ibid.*) In 2014, however, the Arizona  
14 Legislature passed a law, effective June 30, 2015, which transferred the rights and obligations  
15 related to the payment of workers' compensation claims of insolvent insurers from the ICA to the  
16 Arizona Property and Casualty Insurance Guaranty Fund ("APCIGF"). (2014 Ariz. Legis. Serv.  
17 Ch. 186.) Effective March 21, 2019, the ICA and the APCIGF entered into an agreement settling  
18 all of AHA's obligations on the Arizona surety bond, yielding a net settlement amount of  
19 \$3,355,005.19 to be paid to ICA, following the deduction of ICA's attorney's fees totaling  
20 \$94,994.81. (Battle Decl., ¶ 12.) Combined with AHA's earlier payments totaling \$5,515,006.12  
21 to the ICA, AHA's payments on the bond to the state of Arizona totaled \$8,870,011.19. (*Ibid.*)

22 The recoveries by CIGA and the ICA against AHA pursuant to the California and Arizona  
23 workers' compensation surety bonds are applied as a credit to reduce the claims of CIGA, the  
24 ICA and the APCIGF in the Great States liquidation, as would be the case of a cash workers'  
25 compensation statutory deposit, pursuant to section 1035.5, subdivision (d). (Battle Decl., ¶ 13.)  
26 In light of the transfer of obligations from the ICA to the APCIGF, however, the two funds are

27 \_\_\_\_\_  
28 <sup>2</sup> Great States posted neither a statutory deposit nor a surety bond in Colorado, Texas and Wisconsin.

1 currently in discussions about the proper allocation of proceeds in a final distribution of Great  
2 States. (Battle Decl., ¶ 14.) Rather than delay the closure of the estate and burden it with  
3 increased administrative expenses while the two entities determine the proper allocation, the  
4 Liquidator obtained a release agreement from both parties. (*Ibid.*) Pursuant to such agreement, the  
5 Liquidator is authorized to make distributions to an escrow fund, subject to the ICA's and  
6 APCIGF's agreed upon allocation in the future, without the involvement of the Liquidator. (Battle  
7 Decl., ¶ 14 & Exh. A.)

### 8 **III. ASSETS**

9 The Liquidator is responsible for marshalling assets for the insolvent Great States estate.  
10 The Liquidator has diligently pursued premium collections and payment pursuant to reinsurance  
11 treaties. Reinsurance collectibles have been Great States' largest balance sheet asset. Over the  
12 course of the liquidation, the Liquidator billed and collected on paid losses on each of the  
13 reinsurance contracts. In some instances, the Liquidator chose to commute the reinsurance treaties  
14 so that the estate would not remain open indefinitely to collect on reinsurance claims. This was  
15 particularly necessary in light of the fact that workers' compensation insurers such as Great States  
16 tend to have long tail claims.

17 The Commissioner entered into commutation agreements with General Reinsurance  
18 Corporation, Swiss Reinsurance America Corporation (an AON Benfield reinsurer) and Munich  
19 Reinsurance America, Inc. (See Declaration of Disk Oshita in Support of Application ("Oshita  
20 Decl."), ¶ 4.) This Court's approved these agreements on April 4, 2005, April 16, 2009, and May  
21 24, 2013, respectively. (*Ibid.*)

22 Through March 31, 2019, the Liquidator received \$20,205,380.22 from reinsurers, broken  
23 down as follows:

24	1998-2001	General Reinsurance Corporation	\$	4,529,880.33
25	1989-1994	AON Benfield reinsurers	\$	462,239.90
26	1994-1998	Munich Reinsurance America, Inc.	\$	<u>15,213,259.99</u>
27	Total:		\$	20,205,380.22

28 (Oshita Decl. ¶ 4.)

1 In some instances, collection on reinsurance was not fully realizable, and the Liquidator has  
2 written off \$24,373,879 as uncollectible. (Oshita Decl., ¶ 5.) Specifically, Great States had two  
3 nonperforming reinsurance programs: (1) reinsurance written by Reliance Insurance Company  
4 (\$1,052,295) and (2) an intercompany pooling arrangement with affiliates of Great States,  
5 including HIH America Compensation & Liability Insurance Company (\$23,321,584). (*Ibid.*)  
6 The Liquidator has determined that reinsurance from each of the two programs is not collectible  
7 for two reasons.

8 First, in October of 2001, the Commonwealth Court of Pennsylvania ordered Reliance  
9 Insurance Company into liquidation. (Oshita Decl., ¶ 6.) According to the Statutory Liquidator's  
10 decision in the Reliance Insurance Company liquidation, the (Great States) Liquidator's proof of  
11 claim was assigned a priority level E. (*Ibid.*) The classification includes general creditor claims.  
12 (*Ibid.*) Because there is a very low probability of distribution of assets to priority level E claims,  
13 the (Great States) Liquidator applied a 100 percent disallowance for its reinsurance claim in the  
14 Reliance estate. (*Ibid.*)

15 Second, HIH America, along with its participating affiliate insureds, Great States and HIH  
16 America Insurance Company of Hawaii, Inc. ("HIH Hawaii"), entered into a Reinsurance Pooling  
17 Agreement in January 1999. (Oshita Decl., ¶ 7.) Pursuant to the agreement, HIH America  
18 reinsured the participating insurers and retroceded back to the participating insurers certain  
19 liabilities based on a contractual formula. (*Ibid.*) In May 2001, HIH America's affiliates Great  
20 States and HIH Hawaii were ordered into liquidation by their respective domiciliary states,  
21 California and Hawaii. (*Ibid.*) All claims submitted under the reinsurance pooling agreement were  
22 classified as general creditor claims. (*Ibid.*) Moreover, the Liquidator closed the estate of HIH  
23 America with this Court's approval on December 31, 2015 with insufficient funds to pay general  
24 creditor claims. (Oshita Decl., ¶ 7.) The Commissioner has thus applied a 100 percent  
25 disallowance with respect to the remaining pooling balances due to the Great States estate  
26 pursuant to the reinsurance pooling agreement. (*Ibid.*)

27 The Liquidator has collected all assets and resolved all outstanding reinsurance, a major  
28 milestone that supports closure of the estate. (Oshita Decl., ¶ 8.) Moreover, all legal issues have

1 been resolved and all claims have been adjusted. Therefore, this estate is ready to be closed.

## 2 **ARGUMENT**

### 3 **I. THIS COURT SHOULD APPROVE THE LIQUIDATOR'S REQUEST FOR THE** 4 **DISTRIBUTION OF GREAT STATES' REMAINING ASSETS, CLOSURE OF THE ESTATE,** 5 **AND THE COMMISSIONER'S DISCHARGE AS LIQUIDATOR, BECAUSE THE** 6 **LIQUIDATOR HAS COMPLETED ALL ADMINISTRATIVE TASKS.**

7 Except for those final duties relating to closure, the Liquidator has completed all  
8 administrative tasks in connection with the liquidation of Great States. The Liquidator has paid  
9 operating expenses incurred in the administration of the Great States estate pursuant to section  
10 1035, which mandates that all expenses of estate administration shall be paid out of the assets of  
11 the insolvent insurer and approved by the court. (§ 1035.) All claims have been adjusted or  
12 otherwise transferred as part of the Liquidation Order. All assets have been marshaled, all  
13 administrative tasks have been completed, and all legal matters have been resolved. Accordingly,  
14 the Liquidator requests that a proposed final distribution of assets, payment of administrative  
15 expenses for the period April 1, 2001 through March 31, 2019, and a proposed closing reserve be  
16 approved, and that the estate be ordered closed.

#### 16 **A. Final Distribution of \$20,714,518 From the Available Assets Should be** 17 **Approved.**

18 The financial status of the Great States estate for the period from April 1, 2001 through  
19 March 31, 2019 is set forth in Great States' Statement of Assets and Liabilities and the Statement  
20 of Changes to Net Assets, attached as Exhibit A to the Declaration of Ray Minehan in support of  
21 Application ("Minehan Decl."), ¶ 3, Exh. A.) The Statement of Assets and Liabilities show that,  
22 before distribution and closing expenses are paid, the estimated available assets of the Great  
23 States estate are \$21,079,082.<sup>3</sup> The Statement of Changes to Net Assets demonstrates how  
24 income recoveries, expense activities, claims and tax adjustments contributed to the total change  
25

26 <sup>3</sup> The actual amount available for distribution is subject to adjustment for investment  
27 income and changes in the market value of investments that have been posted as of the date the  
28 investments are withdrawn from the investment pool. As of March 31, 2019, there was \$64,276  
in Accrued Investment Income. Because this income has not yet been realized, however, it was  
not included in the distribution calculations. At the time of distribution all accrued investment  
income will have been realized and will be included in the funds available for distribution.

1 in net assets of the estate, from the inception of the liquidation to the statement date. Before  
2 distributions and closing expenses are paid, as of March 31, 2019, the remaining assets available  
3 for distribution total \$21,079,082. (Minehan Decl., ¶ 3.) In light of the remaining net balance, the  
4 Liquidator proposes to make a final distribution of assets on claims in accordance with the  
5 priorities specified as authorized by section 1033, and thereafter close the estate.

6 Excluding the expenses of Class 1 (Administrative Expenses) already paid, and after  
7 allowing for a closing reserve of \$364,564, the Liquidator proposes to distribute a total of  
8 approximately \$20,714,518. (Minehan Decl., ¶ 4.) The proposed distribution will be distributed  
9 between Class 2 IGAs and Non-IGA claimant as follows: \$20,545,539 to the IGAs and \$168,979  
10 to the Non-IGA Class 2 claimants. The amounts distributed to the Class 2 claimants – both IGA  
11 and Non-IGA – will result in a distribution percentage of 87.47% of such claims in the  
12 liquidation. (*Ibid.*)

13 The Liquidator's proposed distribution to each IGA is as follows:

14 Escrow Account of Industrial Commission of		
15 Arizona /Arizona Property Casualty Insurance Guaranty Fund: <sup>4</sup>	\$	11,378,399.91
16 California Insurance Guarantee Association:	\$	2,510,151.78
17 Colorado Insurance Guaranty Association:	\$	5,961,303.37
18 Illinois Insurance Guaranty Fund:	\$	191,080.13
19 Nevada Insurance Guaranty Association:	\$	416,989.21
20 Texas Property & Casualty Ins. Guaranty Association:	\$	58,271.52
21 Wisconsin Insurance Security Fund:	\$	<u>29,343.08</u>
22 Total:	\$	20,545,539.00

23 A statement showing the estimated cash available for final distribution and a list of the  
24 Liquidator's proposed distribution to Non-IGA Class 2 claimants is attached as Exhibit B to the  
25 Minehan declaration. (Minehan Decl., ¶ 5, Exh. B.)

26 To the extent that there are any unclaimed distributions (i.e, uncashed checks), the  
27 treatment of such unclaimed distributions is governed by Code of Civil Procedure 1517 and

28 <sup>4</sup> See discussion in Background section II (B), *infra*.

1 Insurance Code section 12937, which provide that if any distributions remain unclaimed after six  
2 months from the date of final distribution, they shall be escheated and deposited into the  
3 Insurance Fund. (Code Civ. Proc., § 1517; § 12937.) Accordingly, the Commissioner will wait  
4 the six-month period provided for in Code of Civil Procedure section 1517, and thereafter void  
5 any non-negotiated checks and escheat all undeliverable amounts and amounts of non-negotiated  
6 checks to the Insurance Fund.

7 **B. The Liquidator's Payment of \$4,584,651 for Administrative Expenses for**  
8 **the Great States Estate for the Period of April 1, 2001 through March 31,**  
9 **2019, and Retention of a Closing Reserve, Should be Approved.**

10 The Liquidator has paid all operating expenses incurred in the administration of the Great  
11 States estate pursuant to section 1035, which mandates that all expenses of estate administration  
12 shall be paid out of the assets of the insolvent insurer and be approved by the court. (§ 1035.)  
13 The Liquidator's administrative expenses are entitled to Class 1 priority status over and above all  
14 other expenses of the estate pursuant to section 1033, subdivision (a)(1). (1033, subd. (a)(1); see  
15 also Minehan Decl., ¶¶ 6-7 & Exh. C.) The total amount of administrative and operating expenses  
16 incurred between April 1, 2001 and March 31, 2019, for which the Commissioner is seeking court  
17 approval for payment, is of \$4,584,651. (Minenan Decl., ¶ 7.)<sup>5</sup> This is comprised of two general  
18 categories: (1) Direct Administrative Expenses and (2) Allocated Expenses. (*Ibid.*)

19 **1. Category One – Direct Administrative Expenses**

20 Direct Administrative Expenses are expenses charged directly to the estate and consist of  
21 costs from four separate categories: (1) Legal Expenses; (2) Consultants and Contractors; (3)  
22 Compensation and Benefits; and (4) Office Expenses. Direct Administrative Expenses do not  
23  
24  
25

26 <sup>5</sup> On March 19, 2002 this Court approved certain expenses for the limited period of April  
27 1, 2001 through September 30, 2001, in the amount of \$471,801. The period for which the  
28 Commissioner now seeks approval – April 1, 2001 to March 31, 2019 – subsumes this initial  
period and includes items not covered in the initial categories of expenses, including legal and  
consulting expenses. (Minehan Decl., ¶ 6.)

1 include expenses incurred by work performed by CLO employees, which are separately treated as  
2 Allocated Expenses. (Minehan Decl., ¶ 8.)

### 3 Legal Expenses

4 The Commissioner has incurred and paid legal expenses in the amount of \$130,878.  
5 (Minehan Decl., ¶ 9.) These expenses, in turn, have been divided into the categories of “DOI  
6 [Department of Insurance] Legal,” “DOJ [Department of Justice] Legal,” and “Other Legal.”  
7 (*Ibid.*)

8 The category of “DOJ Legal” refers to legal expenses incurred primarily in connection with  
9 the matters filed before this Court. (Minehan Decl., ¶ 9.) The category of “DOI Legal” refers to  
10 legal expenses for the work of the California Department of Insurance’s legal staff in connection  
11 with the conservation and liquidation of the Great States estate. (*Ibid.*) The category of “Other  
12 Legal” refers to legal expenses incurred in connection with the retention of outside counsel by the  
13 Commissioner. (*Ibid.*)

### 14 Consultants and Contractors

15 The Commissioner has incurred and paid \$880,408 in administrative expenses for  
16 consultants and contractors. (Minehan Decl., ¶ 10.) These expenses have been divided into six  
17 categories: “Accounting and Auditing,” “Software Contractor Expense,” “Actuarial Expense,”  
18 “Temporary Help Expense,” “Other Professional Fees,” and “Tax Consulting and Compliance.”  
19 (*Ibid.*)

20 “Accounting and Auditing” refers to fees paid to the accounting firm of Pricewaterhouse  
21 and the California Department of Finance for financial reviews and tax audits. (Minehan Decl., ¶  
22 10.) “Software Contractor Expense” refers to fees paid to consultants who managed the databases  
23 for Great States. (*Ibid.*) “Actuarial Expenses” refers to fees paid to Milliman USA, Inc. for  
24 actuarial studies performed on Great States’ reinsurance. (*Ibid.*) “Temporary Help Expense”  
25 refers to compensation paid to temporary employees hired by the CLO. (*Ibid.*) “Other  
26 professional fees” includes amounts paid to benefits and employee assistance companies who  
27 assisted former Great States employees on benefits questions and job counseling. (*Ibid.*) These  
28 fees also include amounts paid for premium audit services and premium collection services – both

1 tasks integral to managing a workers' compensation carrier. (Minehan Decl., ¶ 10.) "Tax  
2 Consulting and Compliance" refers to amounts paid for the preparation of tax returns that Great  
3 States is required to file and for tax consultation. (*Ibid.*)

#### 4 Compensation and Benefits

5 The Commissioner has incurred and paid \$70,158 in administrative expenses for  
6 compensation and benefits. (Minehan Decl., ¶ 11.) This expense category covers payroll, vacation  
7 accrual, COBRA benefits and other benefits for former employees of Great States who the  
8 Commissioner hired in the immediate aftermath of the conservation and early phases of the  
9 liquidation of Great States. (*Ibid.*)

#### 10 Office Expenses

11 The administrative expenses for office expenses that the Commissioner has incurred and  
12 paid totals \$501,119. (Minehan Decl., ¶ 12.) These expenses have been divided into the  
13 categories of "Office Rent," "Storage Rent," "Record Retrieval" and "General & Administrative."  
14 (*Ibid.*) \$328,941 of these expenses was incurred in the initial year of conservation and liquidation.  
15 The initial-year expenses consist primarily of those incurred for rent, telephone, commissions and  
16 premium taxes, as well as reconciliation of intercompany accounts expenses. (*Ibid.*) Office  
17 expenses incurred subsequently consist primarily of approximately \$165,000 for record storage  
18 and record retrieval. (*Ibid.*)

### 19 **2. Category Two – Allocated Expenses**

20 Allocated expenses are *indirect* CLO administrative expenses that cannot be directly  
21 charged to a specific estate, but which were allocated to the Great States estate under a formula  
22 based on the ratio of CLO employee hours charged directly to the specific estate to total CLO  
23 employee hours charged directly to all estates. (Minehan Decl., ¶ 13.) For example, if CLO  
24 employees directly charged 200 hours to a specific estate and 2,000 hours in total was directly  
25 charged to all estates, the allocation ratio would be 10 percent (200 hours divided by 2,000 total  
26 hours). (*Ibid.*) Thus, 10 percent of all indirect CLO administrative expenses that cannot be  
27 directly charged to a specific estate would be allocated to that specific estate. (*Ibid.*) In applying  
28 the allocation formula to Great States for the period 2001 through 2019, it is charged 1.7 percent

1 of CLO's total indirect administrative expenses. (*Ibid.*)

2 CLO's compensation expense is the largest component of expenses that are allocated.  
3 (Minehan Decl., ¶ 14.) The next largest component is rent for the CLO's office. (*Ibid.*) Other  
4 expenses that cannot be charged directly to a specific estate are health insurance, payroll taxes,  
5 retirement plan contributions, training, vacation time and CLO meeting time that is not estate  
6 specific. (*Ibid.*) It would not be economically feasible to try to break down all such expenses so  
7 they can be allocated directly. (*Ibid.*)

8 Pursuant to the allocation formula, the Commissioner has incurred and paid Allocated  
9 Expenses totaling \$3,002,088 for the period of April 1, 2001 through March 31, 2019. (Minehan  
10 Decl., ¶ 15.) These expenses have been divided into the categories of "General Allocated  
11 Expenses," "Affiliate Allocations," "CDI Allocated Expenses" and "Allocation of Claims  
12 System" administrative expenses. (*Ibid.*)

#### 13 General Allocated Expenses

14 These expenses, totaling \$2,934,679, are primarily for compensation to CLO employees.  
15 (Minehan Decl., ¶ 16.) In addition to salary, the expenses include health insurance, payroll taxes,  
16 CLO 457(b) contributions, training and non-estate specific meeting time. (*Ibid.*) These expenses  
17 also include the CLO's office expenses, such as rent and other facilities charges. (*Ibid.*)

#### 18 Affiliate Allocations

19 These expenses, totaling \$9,808, primarily reflect the CLO's slight modification to its  
20 allocation formula that resulted in undercharges in prior years to a number of insolvent estates,  
21 including Great States. (Minehan Decl., ¶ 17.) This amount is the correction of undercharging  
22 Great States in prior years. (*Ibid.*)

#### 23 CDI Allocated Expenses

24 These expenses, totaling \$5,762 reflect allocated expenses for the time spent by an  
25 oversight committee consisting of Deputy Insurance Commissioners from the California  
26 Department of Insurance to oversee the activities of the CLO. (Minehan Decl., ¶ 18.) Each estate  
27 pays for a portion of these expenses based on an allocated formula. (*Ibid.*)

#### 28 Allocation of Claims System Administration

1        These expenses, totaling \$51,839 reflect the allocated expense of the database claims  
2        system that is shared among all of the estate liquidations being handled by the Commissioner.  
3        (Minehan Decl., ¶ 19.)

### 4                    **3.     Closing Budget**

5        The Liquidator estimates that a reserved closing budget for Great States of \$364,564 should  
6        be sufficient to cover the anticipated costs required to handle all administrative matters required  
7        to close the estate. (Minehan Decl., ¶ 20 & Exh. D.) This reserved sum represents the estimated  
8        expenses of post-closing administrative functions and includes legal fees, final audit fees, final  
9        tax advice and preparation fees and administrative expenses. (Minehan Decl., ¶ 20.) To the extent  
10       that Great States' final administrative expenses exceed \$364,564, the Commissioner is authorized  
11       to pay any excess closing and administrative costs out of the funds appropriated for the  
12       maintenance of the California Department of Insurance pursuant to Insurance Code section 1035,  
13       subdivision (a). (Minehan Decl., ¶ 21.) On the other hand, to the extent that Great States'  
14       administrative expenses are less than the reserved closing budget of \$364,564, the Commissioner  
15       should be authorized to pay the remaining reserve pro rata to approved Class 2 claimants as set  
16       forth in Exhibit B to Minehan, declaration. (*Ibid.*) However, the Liquidator should be authorized  
17       to forego distributing unused funds in the closing budget which do not meet the total distribution  
18       dollar threshold of \$25,000, as an amount less than this would likely exceed the administrative  
19       costs associated with making an additional distribution. (*Ibid.*) These administrative duties and  
20       associated expenses include verification of addresses and wire instructions, maintenance of the  
21       database, production of a revised check run, answering questions from claimants and extending  
22       the six-month escheatment period. (*Ibid.*) Thus, in the unlikely event that there are any unused  
23       funds from the closing budget, and they do not meet this dollar threshold, they should be  
24       transferred to the Insurance Fund, with a full accounting of any such transfer included in the  
25       Liquidator's declaration of compliance filed with this Court. (*Ibid.*; see also § 1035, subd. (a).)

### 26                    **C.     The Request for Closing the Great States Estate and Disposing of its** 27                    **Physical Records Should be Approved.**

28        The Liquidator has completed the liquidation of the Great States estate, resolved all legal

1 issues, collected all of its assets, and adjusted or otherwise resolved all of the claims against it.  
2 All administrative tasks have been completed. Accordingly, the Liquidator requests that this  
3 Court order the estate of Great States be closed and the Commissioner discharged as Conservator  
4 and Liquidator upon the filing of a declaration that the Insurance Commissioner has distributed  
5 the assets of Great States in accordance with this Court's order approving final distribution.

6 Finally, the Liquidator requests that he be allowed to dispose of the physical records of the  
7 Great States estate. Pursuant to the previous conservation and liquidation orders, the Liquidator  
8 took custody and control of approximately 2841 boxes of Great States' business records and  
9 closed claims files. (Battle Decl., ¶ 15.) In recent years, the Liquidator has had infrequent need to  
10 access the records he maintains, while the associated storage costs continue to accrue. (*Ibid.*) For  
11 example, for the past five years, the Liquidator has received very few requests to access such  
12 records, and most of such requests could be easily addressed by accessing the Liquidator's  
13 electronic records as opposed to physical records. (*Ibid.*) The costs associated with storing  
14 physical records is substantial: \$8,263 per year. (*Ibid.*) As the Liquidator has minimal need to  
15 access such records, and because the costs of storing such records is substantial, it is in the  
16 interest of the estate's creditors not to continue to store such records.

17 Accordingly, by this application, the Liquidator gives each IGA Notice of the Liquidator's  
18 intent to dispose the physical records associated with that IGA and an opportunity for the IGA to  
19 object. In the absence of any objections by the IGAs, the Liquidator requests authorization to  
20 forego additional unnecessary storage and maintenance expenses and to initiate disposal of Great  
21 State's physical records. The Liquidator will continue to maintain the estate's electronic records  
22 following the estate's closure for a period of three years from the date of this Court's Order, and  
23 will then destroy all electronic records, except those records necessary for examination by the  
24 Department of Finance or the auditor of the Commissioner's books and records pursuant to  
25 section 1061.

## 26 CONCLUSION

27 The Liquidator has completed the liquidation of Great States and should be allowed to  
28 disburse the remaining assets so that this estate can be closed and the Liquidator discharged.

1           Therefore, the Liquidator respectfully requests that the Court issue an order:

2           1.       Approving the Liquidator's payment of general operating and administrative  
3 expenses in the total amount of \$4,584,651 for services rendered to the Great States estate and  
4 paid April 1, 2001 through March 31, 2019;

5           2.       Authorizing the Liquidator to distribute approximately \$20,545,539 to the IGAs  
6 and \$168,979 to the Non-IGA Class 2 claimants for a total final distribution of \$20,714,518, and  
7 to retain the sum of \$364,564 for payment of administrative expenses incurred but not paid by the  
8 Liquidator as of March 31, 2019, and for future administrative and closing costs;

9           3.       Authorizing the Liquidator to pay any excess closing and administrative costs out  
10 of the funds appropriated for the maintenance of the Department of Insurance and to the extent  
11 administrative expenses are less than the reserved closing budget of \$364,564, authorizing the  
12 Liquidator to make a pro rata distribution of the excess funds to approved Class 2 claimants;  
13 however; authorizing the Liquidator to forego distributing excess funds from the closing budget  
14 not meeting the total distribution dollar threshold of \$25,000, and to transfer any such funds to the  
15 funds appropriated for the maintenance of the Department of Insurance;

16          4.       Authorizing the Liquidator to initiate the destruction of physical records of the  
17 Great States estate, while continuing to maintain electronic records for a period of three years  
18 following the Court's issuance of the requested Order, except for electronic records necessary for  
19 examination by the Department of Finance or state auditor, and authorizing the Liquidator to  
20 maintain in the Conservation & Liquidation Office imaged databases of all records of Great  
21 States for a period of three years from the date of this Court's Order, and thereafter authorizing  
22 the Liquidator to destroy all records of Great States, except for those records necessary for  
23 examination by the Department of Finance or the auditor of the Commissioner's books and  
24 records pursuant to section 1061;

25          5.       Approving the closure of Great States, and discharging the Commissioner as  
26 Liquidator and Conservator of Great States, upon the filing of a declaration that the Liquidator  
27 has distributed the assets of Great States in accordance with this Court's order approving final  
28 distribution.

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Dated: June 20, 2019

Respectfully Submitted,

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8

ELECTRONICALLY  
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Superior Court of California,  
County of San Francisco  
**06/21/2019**  
Clerk of the Court  
BY: ERNALYN BURA  
Deputy Clerk

9  
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 COUNTY OF SAN FRANCISCO

12 **INSURANCE COMMISSIONER**  
13 **OF THE STATE OF CALIFORNIA,**

14 Applicant,

15 v.

16 **GREAT STATES INSURANCE COMPANY,**  
17 **a California domiciled insurance company,**

18 Respondent.  
19  
20  
21

Case No. CPF01320047

**DECLARATION OF JOHN BATTLE IN  
SUPPORT OF APPLICATION FOR  
ORDER APPROVING PAYMENT OF  
LIQUIDATOR'S ADMINISTRATIVE  
EXPENSES, APPROVING THE FINAL  
DISTRIBUTION OF ASSETS, AND  
CLOSING THE ESTATE**

Date: August 30, 2019  
Time: 9:30 a.m.  
Dept: 302

**Reservation No.: 06180830-12**

22 I, John Battle, declare,

23 1. I am employed by the Conservation and Liquidation Office ("CLO") of the Insurance  
24 Commissioner of the State of California ("Commissioner"), as the CLO's Chief Claims Officer. I  
25 have personal knowledge of the facts set forth herein and if called upon as a witness, I would  
26 testify as set forth below.

27 / / /

28 / / /

1           2.     As the Chief Claims Officer, I supervise the CLO's Claims Department. I oversee the  
2 administration of all claims submitted by policyholders and creditors of the insolvent insurers  
3 being liquidated or conserved by the Commissioner.

4           3.     I have more than 50 years in handling claims, primarily in a workers compensation  
5 and general liability environment. Prior to my employment with the CLO, I was employed in  
6 various management capacities since 1975, and later as the Vice President for Claims for the  
7 Superior National Insurance Group, Inc. ("Superior National") and its subsidiary companies,  
8 which liquidated in 2000. I have worked in a liquidation environment exclusively since Superior  
9 National's liquidation. I became employed by the CLO on July 1, 2004 and I am currently  
10 responsible for the claims against the insolvent estate of Great States Insurance Company ("Great  
11 States").

12          4.     The Commissioner was appointed as Conservator of Great States by this Court on  
13 March 30, 2001 and was thereafter appointed as Liquidator of Great States by this Court on May  
14 8, 2001, pursuant to Insurance Code sections 1011 and 1016.<sup>1</sup>

15          5.     As Liquidator, the Commissioner has been directed to liquidate and wind up the  
16 business affairs of Great States in accordance with the applicable provisions of the Insurance  
17 Code.

18          6.     Pursuant to section 1021, the Liquidator published notice to creditors that claims  
19 against the insolvent estate of Great States had to be filed by the Claims Bar Date of December 2,  
20 2001. The Liquidator adjudicated all relevant Proofs of Claims ("POCs"), resulting in a final  
21 approved amount of \$70,352,496.45 on 34 approved and adjusted Class 2 claims.

22          7.     The Liquidator is authorized by section 1033 to make a distribution of assets on  
23 claims in a statutory insolvency proceeding according to the priorities specified therein. Section  
24 1033, subdivision (a)(2), delineates into classes the priority for which claims and fees are to be  
25 paid in the liquidation of a California insurer. The priorities are as follows:

26     / / /

27     / / /

28                 <sup>1</sup> All further statutory references to the Insurance Code will be by section number only.

1 Class 1: expenses of administration;  
2 Class 2: claims of state guaranty funds and claims for return premium;  
3 Class 3: claims having preference under the laws of the United States;  
4 Class 4: unpaid insurer examination fees due the State of California;  
5 Class 5: taxes due to the State of California;  
6 Class 6: claims having preference under the laws of the State of California; and  
7 Class 7: claims of creditors not included in Classes 1 through 6.

8 Based upon his analysis of the assets of the estate, the Liquidator determined early on that  
9 sufficient assets did not exist to pay claims below Class 2 claims, and creditors below Class 2  
10 were notified that their claims would not be adjudicated.

11 8. Claims by state insurance guaranty associations (“IGAs”) fall under Class 2. As of  
12 April 1, 2019, the approved IGA liabilities for Great States claims totaled \$70,159,325.17. This  
13 figure includes each of IGA’s actual paid claims, administrative expenses, and discounted  
14 reserves for future liabilities. In addition, claims for return premiums also fall under Class 2.  
15 Individual IGA statutes vary in their treatment of such claimants. Some states pay return  
16 premium claims in full. Other states allow limited payments by the IGA. To the extent that the  
17 IGA does not pay the return premium claim, that policyholder will have a non-IGA Class 2 claim  
18 in the Great States liquidation estate, and the Liquidator filed a claim on behalf of such claimants  
19 pursuant to section 1025.5, subdivision (a). The Liquidator has adjudicated all such return  
20 premium claims due non-IGA claimants and has determined the total to be \$193,171.28. Thus,  
21 the total approved amount for all Class 2 claims – both IGA and non-IGA – is \$70,352,496.45.

22 9. The Liquidator released a statutory deposit in the amount of \$50,183 to the state of  
23 Illinois, and one in the amount of \$101,128 to the state of Nevada. With respect to New Mexico,  
24 the statutory deposit exceeded its claims against it, and the Liquidator released \$3,471.28 to New  
25 Mexico, and the estate of Great States received the amount remaining in the deposit totaling  
26 \$206,183.41. In addition, the Liquidator made two early access distributions to the California  
27 Insurance Guarantee Association (“CIGA”) and other IGAs totaling \$10,000,000 with no  
28

1 distributions made to date to non-IGA Class 2 claimants. The early access distributions were  
2 made pursuant to Orders of this Court dated January 30, 2006 and November 6, 2006.

3 10. While the early access distribution amounts were determined based on preliminary  
4 estimates of each IGA's ultimate Class 2 liability, with the imminent closure of Great States,  
5 these estimates have been subjected to a final true-up. The Commissioner has completed this  
6 final true-up.

7 11. Great states fulfilled its workers' compensation statutory deposit obligation by  
8 obtaining a workers' compensation "surety bond" in the state of California. Great States'  
9 California surety bond was issued by American Home Assurance ("AHA") and was recently the  
10 subject of a commutation agreement which was approved by this Court on November 7, 2018.  
11 The commutation settlement resulted in AHA's payment of \$7,150,000 to resolve all present and  
12 future obligations under the bond, with a net settlement amount to CIGA of \$7,145,115 after  
13 deducting, with CIGA's permission, the Commissioner's remaining expenses in collecting on the  
14 bond. Factoring in earlier payments plus interest totaling \$13,325,316.74 earlier transferred to  
15 CIGA, the Commissioner determined CIGA's payments from the AHA surety bond to total  
16 \$21,802,854.74.

17 12. Great States also obtained a surety bond from AHA to fulfill its Arizona workers'  
18 compensation statutory deposit requirement ("Arizona surety bond"). The Special Fund of the  
19 Industrial Commission of Arizona ("ICA") thereafter collected from AHA on the Arizona surety  
20 bond. In 2014, however, the Arizona Legislature passed a law, effective June 30, 2015, which  
21 transferred the rights and obligations related to the payment of workers' compensation claims of  
22 insolvent insurers from the ICA to the Arizona Property and Casualty Insurance Guaranty Fund  
23 ("APCIGF"). (2014 Ariz. Legis. Serv. Ch. 186.) Effective March 21, 2019, the ICA and the  
24 APCIGF entered into an agreement settling all of AHA's obligations on the Arizona surety bond,  
25 yielding a net settlement amount of \$3,355,005.19 to be paid to ICA, following the deduction of  
26 ICA's attorney's fees totaling \$94,994.81. Combined with AHA's earlier payments totaling  
27 \$5,515,006.12 to the ICA, AHA's payments on the bond to the State of Arizona totaled  
28 \$8,870,011.19.

1           13. The recoveries by CIGA and the ICA against AHA pursuant to the California and  
2 Arizona workers' compensation surety bonds are applied as a credit to reduce the claims of CIGA  
3 and the ICA and the APCIGF in the Great States liquidation, as would be the case of a cash  
4 workers' compensation statutory deposit, pursuant to section 1035.5, subdivision (d).

5           14. In light of the transfer of obligations from the ICA to the APCIGF, however, ICA and  
6 APCIGF are currently in discussions about the proper allocation of proceeds in a final distribution  
7 of Great States. Rather than delaying the closure of the estate and burdening it with increased  
8 administrative expenses while the two entities determine the proper allocation, the Liquidator  
9 obtained a release agreement from both parties requiring the Liquidator to make a distribution to  
10 an escrow fund, subject to the ICA's and APCIGF's agreed upon allocation in the future, without  
11 the involvement of the Liquidator. Attached hereto as "**Exhibit A**" is a true and correct copy of  
12 the May 31, 2019 Agreement and Release by and between ICA, APCIGF and the Commissioner,  
13 in his capacity as Liquidator of Great States.

14           15. Pursuant to the previous conservation and liquidation orders, the Liquidator took  
15 custody and control of approximately 2,841 boxes of Great States' business records and closed  
16 claims files. The annual costs associated with storing these physical records is \$8,263. The  
17 Liquidator has had infrequent need to access the records he maintains. For example, over the past  
18 five years, the Liquidator has received very few requests to access such records, and most of such  
19 requests could be easily addressed by accessing the Liquidator's electronic records, as opposed to  
20 accessing the physical records being stored at substantial cost.

21           I declare under penalty of perjury under the laws of the State of California that the  
22 foregoing is true and correct and that this declaration was executed on June 20, 2019, at San  
23 Francisco, California.

24   
25 \_\_\_\_\_  
26 JOHN BATTLE  
27  
28

## **EXHIBIT A**

**AGREEMENT AND RELEASE**  
**BY AND BETWEEN**  
**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND,**  
**SPECIAL FUND OF THE INDUSTRIAL COMMISSION OF ARIZONA**  
**AND**  
**LIQUIDATOR OF GREAT STATES INSURANCE COMPANY**

**RE: In the Matter of the Liquidation of Great States Insurance Company**

This Agreement and Release ("Agreement") is entered into by and between the Arizona Property and Casualty Insurance Guaranty Fund ("APCIGF"), the Special Fund of the Industrial Commission of Arizona (the "Special Fund"), and California Insurance Commissioner Ricardo Lara in his capacity as Liquidator of Great States Insurance Company ("Liquidator"); (collectively, "the Parties") on this 31<sup>st</sup> day of May, 2019, as follows:

**RECITALS**

WHEREAS, prior to June 30, 2015, the Special Fund was responsible for the payment of workers' compensation liabilities in the State of Arizona associated with insolvent carriers, including Great States Insurance Company; and

WHEREAS, effective June 30, 2015, Arizona law transferred workers' compensation liabilities associated with insolvent carriers from the Special Fund to APCIGF and required the Special Fund to transfer \$222,848,153 to APCIGF; and

WHEREAS, APCIGF and the Special Fund submitted overlapping Proofs of Claim (#99116 & 99116(a)) in the Matter of the Liquidation of Great States Insurance Company as a result of the transfer of funds and liabilities; and

WHEREAS, the Liquidator issued a Notice of Claim Approval in the Matter of the Liquidation of Great States Insurance Company on April 3, 2019 ("Notice of Claim Approval"), approving the claims of both Arizona entities in the total amount of \$24,625,570.91; and

WHEREAS, the Parties wish to avoid any delay in the closure of the estate and wish to avoid the increased administrative burden associated with determining the proper allocation of estate distributions as between the Special Fund and APCIGF; and

WHEREAS, the purpose of this Agreement is to provide authorization to the Liquidator to make any and all distributions pertaining to workers' compensation liabilities owed to the Special Fund and/or APCIGF into a joint escrow account, subject to future division and allocation by the Special Fund and APCIGF without involvement of the Liquidator; and

WHEREAS, APCIGF and the Special Fund have established a joint escrow account ("Arizona Property and Casualty Insurance Guaranty Fund and ICA Special Fund Escrow Account") at Wells Fargo Bank (Routing Number [REDACTED]; Account Number [REDACTED]) ("the Joint Escrow Account") for purposes of receiving recoveries related to insolvent insurers such as Great States Insurance Company.

NOW, THEREFORE, in consideration of the mutual promises, representations, releases and agreements set forth herein, and for other good and valuable consideration the sufficiency of which is hereby acknowledged, the Parties agree as follows:

#### AGREEMENTS

1. APCIGF and the Special Fund hereby accept the Notice of Claim Approval.
2. APCIGF and the Special Fund hereby authorize the Liquidator to make any and all final distributions pertaining to workers' compensation liabilities in Matter of the Liquidation of Great States Insurance Company pertaining to APCIGF and/or the Special Fund into the Joint Escrow Account without the need for the Liquidator to allocate distributions by and between APCIGF and the Special Fund.
3. The Liquidator shall make a final distribution or distributions to the Joint Escrow Account in accordance with this Agreement and a Court Order obtained from the liquidation court presiding over the liquidation of Great States Insurance Company.
4. Upon the Liquidator's distribution into the Joint Escrow Account of any and all final distribution or distributions, APCIGF and the Special Fund agree to irrevocably and unconditionally release and discharge the Liquidator and his officers, officials, agents and employees from any and all claims, demands, liens, agreements, covenants, actions, suits at law or equity, obligations, debts, damages, judgments, liabilities, attorneys' fees, costs and expenses whatever kind, in connection with the Liquidator's making final distribution or distributions into the Joint Escrow account without the need for the Liquidator to allocate distributions by and between APCIGF and the Special Fund. APCIGF and the Special Fund, either together or individually, shall make no demands and shall raise no claims, suits or causes of action against the Liquidator in any judicial, administrative, or other proceeding whatsoever in connection with the Liquidator's making final distribution or distributions into the Joint Escrow account without the need for the Liquidator to allocate distributions by and between APCIGF and the Special Fund.
5. This Agreement will be effective upon the date that a duly-authorized representative of each of the Parties has signed the Agreement.

///

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6. This Agreement may be amended only by a written agreement signed by a duly authorized representative of each of the Parties.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date above first written.

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND**

By \_\_\_\_\_

Printed Name \_\_\_\_\_

Title \_\_\_\_\_

Date \_\_\_\_\_

**SPECIAL FUND of THE INDUSTRIAL COMMISSION OF ARIZONA**

By James Ashley

Printed Name JAMES ASHLEY

Title ICA DIRECTOR, SPECIAL FUND INV. COMM. MEMBER

Date 5-31-19

**RICARDO LARA, INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA,  
in his capacity as Liquidator of Great States Insurance Company**

By David E Wilson

Printed Name David E Wilson

Title CEO + SDIC

Date 5/31/2019

6. This Agreement may be amended only by a written agreement signed by a duly authorized representative of each of the Parties.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date above first written.

**ARIZONA PROPERTY AND CASUALTY INSURANCE GUARANTY FUND**

By Michael E. Surguine  
Printed Name Michael E. Surguine  
Title Executive Director  
Date May 31, 2019

**SPECIAL FUND of THE INDUSTRIAL COMMISSION OF ARIZONA**

By James Ashley  
Printed Name JAMES ASHLEY  
Title ICA DIRECTOR, SPECIAL FUND INV. COMM. MEMBER  
Date 5-31-19

**RICARDO LARA, INSURANCE COMMISSIONER OF THE STATE OF CALIFORNIA,**  
in his capacity as Liquidator of Great States Insurance Company

By \_\_\_\_\_  
Printed Name \_\_\_\_\_  
Title \_\_\_\_\_  
Date \_\_\_\_\_

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ELECTRONICALLY  
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Clerk of the Court  
BY: ERNALYN BURA  
Deputy Clerk

9  
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 COUNTY OF SAN FRANCISCO

12 **INSURANCE COMMISSIONER**  
13 **OF THE STATE OF CALIFORNIA,**

14 Applicant,

15 v.

16 **GREAT STATES INSURANCE COMPANY,**  
17 **a California domiciled insurance company,**

18 Respondent.  
19  
20  
21

Case No. CPF01320047

**DECLARATION OF DICK OSHITA IN  
SUPPORT OF APPLICATION FOR  
ORDER APPROVING PAYMENT OF  
LIQUIDATOR'S ADMINISTRATIVE  
EXPENSES, APPROVING THE FINAL  
DISTRIBUTION OF ASSETS, AND  
CLOSING THE ESTATE**

Date: August 30, 2019  
Time: 9:30 a.m.  
Dept: 302

**Reservation No.: 06180830-12**

22 I, Dick Oshita, declare,

23 1. I am employed by the Insurance Commissioner of the State of California's  
24 Conservation and Liquidation Office ("CLO") as a Reinsurance Manager. In my role as  
25 Reinsurance Manager, I have worked on matters related to the conservation and liquidation of  
26 Great States Insurance Company ("Great States"). I have personal knowledge of the matters  
27 contained in this declaration and, if called as a witness to testify, I could and would competently  
28 testify to them.

1           2.     I have more than 30 years of experience in handling reinsurance matters.

2           3.     By virtue of my work on the Great States estate, I am familiar with the contractual

3 relationships between Great States and its reinsurers.

4           4.     Over the course of the conservation and liquidation of Great States, the reinsurance

5 department of the Insurance Commissioner of the State of California (“Commissioner”), as

6 Liquidator of Great States Insurance Company (“Liquidator”) reached commutation agreements

7 with General Reinsurance Corporation, Swiss Reinsurance America Corporation (an AON

8 Benfield reinsurer) and Munich Reinsurance America, Inc. This Court approved these

9 agreements on April 4, 2005, April 16, 2009, and May 24, 2013, respectively. Through March

10 31, 2019, the Liquidator received \$20,205,380.22 from reinsurers, broken down as follows:

11	1998-2001	General Reinsurance Corporation	\$	4,529,880.33
12	1989-1994	AON Benfield reinsurers	\$	462,239.90
13	1994-1998	Munich Reinsurance America, Inc.	\$	<u>15,213,259.99</u>
14		Total:	\$	20,205,380.22

15           5.     The Liquidator has written off \$24,373,879 as uncollectible. Specifically, Great

16 States had two nonperforming reinsurance programs: (1) reinsurance written by Reliance

17 Insurance Company in the amount of \$1,052,295; and (2) an intercompany pooling arrangement

18 with affiliates of Great States, including HIH America Compensation & Liability Insurance

19 Company in the amount of \$23,321,584. The Liquidator has determined that reinsurance from

20 each of these two programs is not collectible.

21           6.     The Liquidator has determined that the reinsurance written by Reliance Insurance

22 Company is not collectible because in October of 2001, the Commonwealth Court of

23 Pennsylvania ordered Reliance Insurance Company into liquidation. According to the Statutory

24 Liquidator’s decision in the Reliance Insurance Company liquidation, the (Great States)

25 Liquidator’s proof of claim was assigned a priority level E. The latter classification includes

26 general creditor claims. Because there is a very low probability of distribution of assets to

27 priority level E claims, the (Great States) Liquidator applied a 100 percent disallowance for its

28 reinsurance claim in the Reliance estate.

1           7.     The Liquidator has further determined that the intercompany pooling arrangement  
2 with affiliates of Great States, including HIH America Compensation & Liability Insurance  
3 Company ("HIH America"), is not collectible because HIH America, along with its participating  
4 affiliate insureds, Great States and HIH America Insurance Company of Hawaii, Inc. ("HIH  
5 Hawaii"), entered into a Reinsurance Pooling Agreement in January 1999. Pursuant to the  
6 agreement, HIH America reinsured the participating insurers and retroceded back to the  
7 participating insurers certain liabilities based on a contractual formula. HIH America's affiliates,  
8 Great States and HIH Hawaii were ordered into liquidation by their respective domiciliary states,  
9 California and Hawaii, in May 2001. All claims submitted under the reinsurance pooling  
10 agreement were classified as general creditor claims. Moreover, the Liquidator closed the estate  
11 of HIH America with this Court's approval on December 31, 2015, with insufficient funds to pay  
12 general creditor claims. The Commissioner has thus applied a 100% disallowance with respect to  
13 the remaining pooling balances due to the Great States estate pursuant to the reinsurance pooling  
14 agreement.

15           8.     All known collectible reinsurance transitions are completed.

16           I declare under penalty of perjury under the laws of the State of California that the  
17 foregoing is true and correct and that this declaration was executed on June 19, 2019, at San  
18 Francisco, California.

19 

20 DICK OSHITA  
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8

ELECTRONICALLY  
**FILED**  
Superior Court of California,  
County of San Francisco  
**06/21/2019**  
Clerk of the Court  
BY: ERNALYN BURA  
Deputy Clerk

9  
10 SUPERIOR COURT OF THE STATE OF CALIFORNIA  
11 COUNTY OF SAN FRANCISCO

12 **INSURANCE COMMISSIONER**  
13 **OF THE STATE OF CALIFORNIA,**

14 Applicant,

15 v.

16 **GREAT STATES INSURANCE COMPANY,**  
17 **a California domiciled insurance company,**

18 Respondent.

Case No. CPF01320047

**DECLARATION OF RAYMOND J.  
MINEHAN IN SUPPORT OF  
APPLICATION FOR ORDER  
APPROVING PAYMENT OF  
LIQUIDATOR'S ADMINISTRATIVE  
EXPENSES, APPROVING THE FINAL  
DISTRIBUTION OF ASSETS, AND  
CLOSING THE ESTATE**

Date: August 30, 2019  
Time: 9:30 a.m.  
Dept: 302

**Reservation No.: 06180830-12**

19  
20  
21  
22 I, Raymond J. Minehan, declare:

23  
24 1. I make this declaration in my official capacity as the Chief Financial Officer at the  
25 California Insurance Commissioner's Conservation and Liquidation Office ("CLO"). I have  
26 served as the Chief Financial Officer of the CLO since May 2005. Previously, I was a Chief  
27 Financial Officer and Chief Administrative Officer at two investment banks. Prior to that, I spent  
28

1 17 years, the last five of which as an audit partner, at Arthur Andersen & Co. I hold a Bachelor  
2 of Arts degree in finance from Golden Gate University.

3 2. My duties as the CLO's Chief Financial Officer include oversight of the CLO  
4 Accounting Department and the Human Resources Department. In addition, I am a member of  
5 the Executive Committee of the CLO. As the CLO's Chief Financial Officer, I supervise the  
6 preparation of financial statements at the CLO, which are prepared in a systematic manner in the  
7 ordinary course of business, with entries being made into those financial statements at or about  
8 the time that the events described occur. I am familiar with the documents and files maintained  
9 by the CLO pertaining to the records of the insolvent estate of Great States Insurance Company  
10 ("Great States") and the assets and liabilities of the Great States estate. I have personal  
11 knowledge of the matters contained in this declaration and, if called as a witness to testify, I could  
12 and would competently testify to them.

13 3. Attached and incorporated herein as "**Exhibit A**" is a true and correct copy of the  
14 "Statement of Assets and Liabilities" and "Statement of Changes to Net Assets" for Great States  
15 as of March 31, 2019. The Statement of Assets and Liabilities show that, before distributions and  
16 closing expenses are paid, the estimated available assets of the Great States estate are  
17 \$21,079,082, excluding \$64,276 in accrued investment income which has not yet been realized.  
18 The Statement of Changes to Net Assets demonstrates how income recoveries, expense activities,  
19 claims and tax adjustments contributed to the total change in net assets of the estate, from the  
20 inception of the liquidation to the statement date. Before distributions and closing expenses are  
21 paid, as of March 31, 2019, the remaining assets available for distribution total \$21,079,082.

22 4. Excluding the expenses of Class 1 (Administrative Expenses) already paid, and after  
23 allowing for a closing reserve of \$364,564, the Insurance Commissioner of the State of California  
24 ("Commissioner"), as Liquidator of Great States Insurance Company ("Liquidator"), proposes to  
25 distribute a total of approximately \$20,714,518. This proposed distribution will be distributed  
26 between Class 2 claims arising under Insurance Code section 1033, subdivision (a)(2), i.e.  
27 insurance guarantee associations ("IGAs") and non-insurance guaranty association Class 2  
28 claimants ("Non-IGA claimants") as follows: \$20,545,539 to the IGAs and \$168,979 to the Non-

IGA Class 2 claimants.<sup>1</sup> The amounts distributed to the Class 2 claimants – both IGA and Non-IGA – will result in a distribution percentage of 87.47% of such claims in the liquidation.

5. The Liquidator's proposed distribution to each IGA is as follows:

Escrow Account of Industrial Commission of Arizona /Arizona Property Casualty Insurance Guaranty Fund:	\$	11,378,399.91
California Insurance Guarantee Association:	\$	2,510,151.78
Colorado Insurance Guaranty Association:	\$	5,961,303.37
Illinois Insurance Guaranty Fund:	\$	191,080.13
Nevada Insurance Guaranty Association:	\$	416,989.21
Texas Property & Casualty Ins. Guaranty Association:	\$	58,271.52
Wisconsin Insurance Security Fund:	\$	<u>29,343.08</u>
Total:	\$	20,545,539.00

A statement showing the estimated cash available for final distribution and a list of the Liquidator's proposed distribution to Non-IGA Class 2 claimants is attached and incorporated herein as "**Exhibit B.**"

6. The Liquidator has paid all operating expenses incurred in the administration of the Great States estate pursuant to Insurance Code section 1035, which mandates that all expenses of estate administration shall be paid out of the assets of the insolvent insurer and be approved by the court. On March 19, 2002 this Court approved certain expenses for the limited period of April 1, 2001 through September 30, 2001, in the amount of \$471,801. The period for which the Commissioner now seeks approval – April 1, 2001 to March 31, 2019 – subsumes this initial period and includes items not covered in the initial categories of expenses, including legal and consulting expenses. The Liquidator now seeks approval of expenses paid by the Liquidator for the period from April 1, 2001 through March 31, 2019.

<sup>1</sup> The actual amount available for distribution is subject to adjustment for investment income and changes in the market value of investments that have been posted as of the date the investments are withdrawn from the investment pool.

1           7.       Attached hereto as “**Exhibit C**” and incorporated herein by reference is a true and  
2 correct copy of a computer print out showing itemized operating expenses the Great States estate  
3 has incurred in this April 1, 2001 through March 31, 2019, in the total amount of \$4,584,651.  
4 These operating expenses consist of two categories of expenses: Direct Administrative Expenses  
5 and Allocated Expenses.

6           8.       Direct Administrative Expenses are expenses charged directly to the estate and  
7 consist of costs from four separate categories: (1) Legal Expenses; (2) Consultants and  
8 Contractors; (3) Compensation and Benefits; and (4) Office Expenses. Direct Administrative  
9 Expenses do not include expenses incurred by work performed by CLO employees, which are  
10 separately treated as Allocated Expenses.

11          9.       The Commissioner has incurred and paid \$130,878 in legal expenses in this  
12 liquidation. These expenses have been divided into the categories of “DOI [Department of  
13 Insurance] Legal,” “DOJ [Department of Justice] Legal,” and “Other Legal.” The category of  
14 “DOJ Legal” refers to legal expenses incurred primarily in connection with the matters filed  
15 before this Court, including the preparation of pleadings and appearances before this Court. The  
16 category of “DOI Legal” refers to legal expenses for the work of the California Department of  
17 Insurance’s legal staff in connection with the conservation and liquidation of the Great States  
18 estate. The category of “Other Legal” refers to legal expenses incurred in connection with the  
19 retention of outside counsel by the Commissioner.

20          10.      The Commissioner has incurred and paid \$880,408 in administrative expenses for  
21 consultants and contractors. These expenses have been divided into six categories: “Accounting  
22 and Auditing,” “Software Contractor Expense,” “Actuarial Expense,” “Temporary Help  
23 Expense,” “Other Professional Fees,” and “Tax Consulting and Compliance.” “Accounting and  
24 Auditing” refers to fees paid to the accounting firm of Pricewaterhouse and the California  
25 Department of Finance for financial reviews and tax audits. “Software Contractor Expense”  
26 refers to fees paid to consultants who managed the databases for Great States. “Actuarial  
27 Expenses” refers to fees paid to Milliman USA, Inc. for actuarial studies performed on Great  
28 States’ reinsurance. “Temporary Help Expense” refers to compensation paid to temporary

1 employees hired by the CLO. "Other professional fees" includes amounts paid to benefits and  
2 employee assistance companies who assisted former Great States employees on benefits questions  
3 and job counseling. These fees also include amounts paid for premium audit services and  
4 premium collection services—both tasks integral to managing a workers' compensation carrier.  
5 "Tax Consulting and Compliance" refers to amounts paid for the preparation of tax returns that  
6 Great States is required to file and for tax consultation.

7 11. The Commissioner has incurred and paid \$70,158 in administrative expenses for  
8 compensation and benefits. This expense category refers to payroll, vacation accrual, COBRA  
9 benefits and other benefits for former employees of Great States who the Commissioner hired in  
10 the immediate aftermath of the conservation and early phases of the liquidation of Great States.

11 12. For the last category of administrative expenses, the Commissioner has incurred  
12 and paid \$501,119 in office expenses. These expenses have been divided into the categories of  
13 "Office Rent," "Storage Rent," "Record Retrieval" and "General & Administrative." \$328,941 of  
14 these expenses were incurred in the initial year of conservation and liquidation. The initial-year  
15 expenses consist primarily of those incurred for rent, telephone, commissions and premium taxes  
16 as well as reconciliation of intercompany accounts expenses. Office expenses incurred  
17 subsequent to those incurred during the early phases of the conservation and liquidation consist  
18 primarily of approximately \$165,000 for record storage and record retrieval.

19 13. Allocated expenses are *indirect* CLO administrative expenses that cannot be  
20 directly charged to a specific estate but which were allocated to the Great States estate under a  
21 formula based on the ratio of CLO employee hours charged directly to the specific estate to total  
22 CLO employee hours charged directly to all estates. For example, if CLO employees directly  
23 charged 200 hours to a specific estate and 2,000 hours in total was directly charged to all estates,  
24 the allocation ratio would be 10 percent (200 hours divided by 2,000 total hours.) Accordingly,  
25 10 percent of all indirect CLO administrative expenses that cannot be directly charged to a  
26 specific estate would be allocated to that specific estate. For example, in applying the allocation  
27 formula to Great States for the period 2001 through 2019, it is charged 1.7% of CLO's total  
28 indirect administrative expenses.

1       14.       CLO compensation expense is the largest component of expenses that are  
2 allocated, the next largest component is rent for the CLO's office. Other expenses that cannot be  
3 charged directly to a specific estate are health insurance, payroll taxes, retirement plan  
4 contributions, training, vacation time and CLO meeting time that is not estate specific. It would  
5 not be economically feasible to try to break down all such expenses so they can be allocated  
6 directly.

7       15.       Using the allocation formula, the Commissioner has incurred and paid Allocated  
8 Expenses totaling \$3,002,088 for the period from April 1, 2001 through March 31, 2019. These  
9 expenses have been divided into the categories of "General Allocated Expenses," "Affiliate  
10 Allocations," "CDI Allocated Expenses" and "Allocation of Claims System" administration  
11 expenses.

12       16.       General Allocated Expenses, in the amount of \$2,934,679, are primarily for  
13 compensation to CLO employees. In addition to salary, the expenses include health insurance,  
14 payroll taxes, CLO 457(b) contributions, training and non-estate specific meeting time. These  
15 expenses also include CLO's office expenses such as rent and other facilities charges.

16       17.       Affiliate Allocations, in the amount of \$9,808, primarily reflect the CLO's slight  
17 modification to its allocation formula that resulted in undercharges in prior years to a number of  
18 insolvent estates, including Great States. The amount above is the correction of undercharging  
19 Great States in prior years.

20       18.       CDI Allocated Expenses, in the amount of \$5,762, reflect allocated expenses for  
21 the time spent by an oversight committee consisting of Deputy Insurance Commissioners from  
22 the California Department of Insurance to oversee the activities of the CLO. Each estate pays for  
23 a portion of these expenses based on an allocated formula.

24       19.       Allocation of Claims System administration expenses, in the amount of \$51,839,  
25 reflect the allocated expense of a database claims system that is shared among all of the estate  
26 liquidations being handled by the Commissioner.

27       20.       In determining the proposed amount to be distributed by the Great States estate, the  
28 Liquidator has retained sufficient assets to provide for the payment of estimated closing expenses

1 of administration. After taking into account the amount included for the proposed distribution, the  
2 Liquidator estimates a reserved closing budget for the Great States estate of \$364,564 should be  
3 sufficient to cover anticipated costs over the next three years. This reserved sum represents the  
4 estimated post-closing expenses of administration such as legal fees, final audits and tax  
5 preparation fees and other final administrative expenses. A breakdown of the closing budget is  
6 attached hereto as "**Exhibit D**".

7 21. To the extent that Great States' final administrative expenses are greater than  
8 \$364,564, the Commissioner is authorized to pay any excess closing and administrative costs out  
9 of the funds appropriated for the maintenance of the California Department of Insurance  
10 ("Insurance Fund") pursuant to Insurance Code section 1035, subdivision (a). To the extent that  
11 Great States' administrative expenses are less than the reserved closing budget of \$364,564, the  
12 Commissioner is authorized to pay the remaining reserve pro rata to approved Class 2 claimants.  
13 However, the Liquidator is authorized to forego distributing unused funds in the closing budget  
14 which do not meet the total distribution dollar threshold of \$25,000, as an amount less than this  
15 would likely exceed the administrative costs associated with making an additional distribution.  
16 These administrative duties and associated expenses include verification of addresses and wire  
17 instructions, maintenance of the database, production of a revised check run, answering questions  
18 from claimants and extending the six-month escheatment period. Thus, any unused funds less  
19 than the \$25,000 threshold should be transferred to the Insurance Fund and will be accounted for  
20 in the Liquidator's Declaration of Compliance filed with this Court.

21 I declare under penalty of perjury under the laws of the State of California that the  
22 foregoing is true and correct and that this declaration was executed on June 20 2019 at San  
23 Francisco, California.

24   
25 RAYMOND J. MINEHAN  
26  
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28

## EXHIBIT A

Insurance Commissioner of the State of California  
Conservation & Liquidation Office

**Great States Ins Co**  
**STATEMENT OF ASSETS AND LIABILITIES**  
As of March 31, 2019

	(Opening Balance)		
	Mar 31	Mar 31	
	2001	2019	Change
<b>ASSETS</b>			
Cash and cash equivalents, unrestricted	7,810,927	21,079,082	13,268,155
Accrued Investment Income	125,852	64,276	(61,576)
Recoverable from reinsurers	29,057,929	-	(29,057,929)
Other receivable	47,310,264	-	(47,310,264)
Other assets	676,956	-	(676,956)
<b>Total Available Assets</b>	<b>84,981,927</b>	<b>21,143,357</b>	<b>(63,838,570)</b>
<b>LIABILITIES</b>			
Secured claims	332,018	-	(332,018)
Insurance Guaranty Association (IGA) Claims	30,701,893	70,159,325	39,457,432
Non IGA Claims	42,001	193,171	151,170
Early access and other Class 2 distributions	-	(40,827,648)	(40,827,648)
California and Federal claims having preference	-	-	-
All other claims	53,905,697	11,917,620	(41,988,077)
<b>Total Estimated Liabilities</b>	<b>84,981,609</b>	<b>41,442,468</b>	<b>(43,539,142)</b>
<b>NET ASSETS (DEFICIENCY)</b>	<b>318</b>	<b>(20,299,110)</b>	<b>(20,299,428)</b>

**STATEMENT OF CHANGES TO NET ASSETS**  
Inception to March 31, 2019

<b>Income</b>		
Litigation Recoveries	-	
Premiums and Other Collections	2,393,855	
Salvage/Subrogation Recoveries	16,656,008	
Other Revenue	5,817,168	
Net Investment Income	5,551,013	
		30,418,043
<b>Less: Operating Expenses</b>		
Legal and Professional	1,011,286	
General and Administrative	571,277	
Allocated Expenses	3,002,088	
Loss (Gain) on Disposition of Assets	47,975	
		4,632,626
<b>Less: Losses and Other Expenses</b>		
Incurred Losses and Claims Expense	45,566,575	
Federal Income Taxes	518,270	
		46,084,845
<b>Changes to Net Assets</b>		<b>(20,299,428)</b>

**EXHIBIT B**

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**Great States Ins Co. Estimated Cash Available for Final Distribution**

Pool balance as of 3/31/2019	21,079,082
Less	
Estimated Closing Budget	364,564
<b>Estimated Available Cash</b>	<b>20,714,518</b>

	Approved POC	Prior Distribution*	Final Distribution	Total Distribution	Final Distribution %
IGA	\$ 70,159,325	\$ 40,827,648	\$ 20,545,539	\$ 61,373,187	87.48%
Non-IGA Class 2	\$ 193,171	\$ -	\$ 168,979	\$ 168,979	87.48%
	\$ 70,352,496	\$ 40,827,648	\$ 20,714,518	\$ 61,542,166	87.48%

\*Prior distribuion consists of statutory deposits, early access distributions and surety bond distributions to California and Arizona.

# Great States Final Distribution - Non-IGA Claimants

liq_no		app_amount		Final Payout
40966	\$	47,964.00	\$	41,957.11
41651	\$	42,340.00	\$	37,037.45
41830	\$	31,314.00	\$	27,392.32
42393	\$	11,598.00	\$	10,145.50
35677	\$	9,927.00	\$	8,683.77
41853	\$	8,858.00	\$	7,748.65
40853	\$	7,586.00	\$	6,635.95
40747	\$	6,129.00	\$	5,361.42
38223	\$	5,498.00	\$	4,809.44
41055	\$	4,787.00	\$	4,187.49
42513	\$	3,703.00	\$	3,239.25
42519	\$	3,517.00	\$	3,076.54
41060	\$	2,422.00	\$	2,118.67
40326	\$	1,743.00	\$	1,524.71
41370	\$	1,286.00	\$	1,124.94
41444	\$	1,006.00	\$	880.01
36114	\$	768.00	\$	671.82
41270	\$	503.55	\$	440.49
41534	\$	461.00	\$	403.27
41314	\$	428.00	\$	374.40
29893	\$	363.00	\$	317.54
41491	\$	270.00	\$	236.19
42215	\$	269.45	\$	235.70
40727	\$	177.00	\$	154.83
42112	\$	155.61	\$	136.12
41723	\$	97.67	\$	85.44

**EXHIBIT C**

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## Great States Insurance Company

## Expenses incurred from April 1, 2001 to March 31, 2019

	1-Apr 2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	31-Mar 2019	Apr 1, 2001 to Mar 31, 2019
<b>Legal</b>																				
DOI Legal	2,875	7,403	9,145	6,412	5,591	(3,720)	5,811	(5,381)	6,640	272	2,786	4,597	6,772	(3,124)	1,563	1,158	5,976	564	100	55,440
DOJ Legal	5,628	13,505	10,390	5,662	8,572	(4,588)	79	-	3,338	-	85	-	3,655	510	510	-	-	(85)	43	47,304
Other Legal Expense	485	15,566	2,843	1,402	7,838	-	-	-	-	-	-	-	-	-	-	-	-	-	-	28,134
Total Legal Expenses	8,988	36,474	22,378	13,476	22,002	(8,307)	5,890	(5,381)	9,977	272	2,871	4,597	10,427	(2,614)	2,073	1,158	5,976	479	143	130,878
<b>Consulting &amp; Contracting</b>																				
Accounting & Auditing	12,324	21,631	9,785	17,932	3,755	-	-	-	4,670	6,305	3,405	2,395	7,186	3,973	3,715	3,612	6,059	7,523	170	114,439
Software Contractor Expense	13,180	4,154	-	-	235	195	-	-	-	1,069	-	-	-	-	-	-	-	-	-	18,833
Actuarial Expense	(11,805)	-	-	-	-	-	-	15,600	1,580	9,763	21,509	-	-	-	-	-	-	-	-	36,646
Temporary Help Expense	40,226	-	-	2,163	3,774	-	-	-	-	-	-	-	-	-	-	-	-	-	-	46,163
Other Professional Fees	240,198	161,942	17,113	-	6,793	1,200	-	-	-	-	-	-	-	4,440	-	-	-	-	-	431,687
Tax Consulting and Compliance	-	10,300	10,300	12,478	14,424	14,300	11,839	13,500	14,301	15,101	13,500	16,425	14,299	13,499	15,099	13,499	13,876	15,900	-	232,640
Total Consultant Expenses	294,124	198,027	37,199	32,573	28,980	15,695	11,839	29,100	20,551	32,237	38,414	18,820	21,485	21,913	18,814	17,111	19,935	23,423	170	880,408
<b>Compensation &amp; Benefits</b>																				
Salaries & Wages Expense	201,843	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	201,843
Payroll Tax Expense	15,488	-	(636)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,852
Pension Plan Expense	60	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	60
Employee Benefits Expense	(146,828)	56	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(146,772)
Training & Education	-	175	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	175
Total Compensation & Benefits	70,563	231	(636)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	70,158
<b>Office Expenses</b>																				
Office Rent	43,479	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43,479
Storage Rent	8,826	9,076	9,062	9,863	5,752	11,292	9,102	8,749	10,903	11,643	11,056	7,937	8,798	7,318	7,348	7,449	7,464	8,263	2,162	162,062
Record Retrieval	-	977	2,000	4,484	876	244	1,072	187	396	549	587	274	56	35	91	52	88	26	-	11,994
General & Administrative	276,636	(7,105)	476	5,796	8,152	1,187	2,256	5,500	8,255	18	9	31	27	43	-	(8,364)	17	(9,372)	23	283,584
Total Office Expenses	328,941	2,947	11,538	20,142	14,780	12,724	12,430	14,436	19,554	12,210	11,652	8,242	8,882	7,396	7,439	(863)	7,569	(1,084)	2,185	501,119
<b>Allocated Expenses</b>																				
Allocated Expenses	61,585	337,452	144,449	138,927	165,969	213,894	201,817	183,997	138,994	80,387	105,309	217,060	158,347	213,440	145,707	136,753	115,330	125,460	49,800	2,934,679
Affiliate Allocations	-	-	-	-	(709)	230	-	10,287	-	-	-	-	-	-	-	-	1,406	(1,406)	-	9,808
CDI Allocated Expenses	13	786	656	838	559	1,464	839	607	-	-	-	-	-	-	-	-	-	-	-	5,762
Allocation of GOLD admin	-	-	-	-	-	-	(1,028)	4,109	4,903	4,105	3,741	6,056	6,374	5,063	3,319	15,124	26	46	-	51,839
Total Net Allocated Expenses	61,598	338,238	145,106	139,765	165,820	215,588	201,629	199,000	143,897	84,492	109,050	223,117	164,721	218,503	149,026	151,877	116,762	124,099	49,800	3,002,088
<b>Total Expenses</b>	<b>764,215</b>	<b>575,916</b>	<b>215,584</b>	<b>205,957</b>	<b>231,582</b>	<b>235,699</b>	<b>231,788</b>	<b>237,155</b>	<b>193,980</b>	<b>129,211</b>	<b>161,987</b>	<b>254,775</b>	<b>205,515</b>	<b>245,198</b>	<b>177,351</b>	<b>169,282</b>	<b>150,242</b>	<b>146,918</b>	<b>52,297</b>	<b>4,584,651</b>

**EXHIBIT D**

Great States Insurance Company  
Estimated Administrative and Closing Budget  
For April 2019 to March 2020

Description	Amount
<b>Direct Expenses</b>	
Administration Expenses	
Destruction of Boxes	\$ 18,262
Storage	\$ 12,394
Department of Justice	\$ 4,250
Department of Insurance Counsel	\$ 5,696
External Auditor - Department of Finance	\$ 23,300
Distribution Audit	\$ 15,000
Tax consultants - PWC	\$ 30,200
<b>Indirect Expenses</b>	
Allocated Expenses: CLO department overhead costs	\$ 255,463
<b>Total Estimated Budget</b>	<b>\$ 364,564</b>

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*Attorneys for  
Conservation & Liquidation*

ELECTRONICALLY  
**FILED**  
*Superior Court of California,  
County of San Francisco*  
**06/21/2019**  
**Clerk of the Court**  
BY: ERNALYN BURA  
Deputy Clerk

SUPERIOR COURT OF THE STATE OF CALIFORNIA  
COUNTY OF SAN FRANCISCO

**INSURANCE COMMISSIONER OF THE  
STATE OF CALIFORNIA,**  
  
Applicant,  
  
**v.**  
  
**GREAT STATES INSURANCE  
COMPANY, a California domiciled  
insurance company,**  
  
Respondent.

Case No. CPF01320047  
**PROOF OF SERVICE**  
  
Date: August 30, 2019  
Time: 9:30 a.m.  
Dept: 302  
  
**Reservation No.: 06180830-12**

**DECLARATION OF SERVICE BY U.S. MAIL**

Case Name: **Insurance Commissioner of the State of California v. Great States Insurance Company**

Case No.: **CPF01320047**

I declare:

I am employed in the Office of the Attorney General, which is the office of a member of the California State Bar, at which member's direction this service is made. I am 18 years of age or older and not a party to this matter; my business address is 455 Golden Gate Avenue, Suite 11000, San Francisco, CA 94102-7004.

On June 21, 2019, I served the attached

**NOTICE OF HEARING FOR APPLICATION AND APPLICATION FOR ORDER APPROVING PAYMENT OF LIQUIDATOR'S ADMINISTRATIVE EXPENSES, APPROVING THE FINAL DISTRIBUTION OF ASSETS, AND CLOSING THE ESTATE**

**MEMORANDUM OF POINTS AND AUTHORITIES IN SUPPORT OF APPLICATION FOR ORDER APPROVING PAYMENT OF LIQUIDATOR'S ADMINISTRATIVE EXPENSES, APPROVING THE FINAL DISTRIBUTION OF ASSETS, AND CLOSING THE ESTATE**

**DECLARATION OF JOHN BATTLE IN SUPPORT OF APPLICATION FOR ORDER APPROVING PAYMENT OF LIQUIDATOR'S ADMINISTRATIVE EXPENSES, APPROVING THE FINAL DISTRIBUTION OF ASSETS, AND CLOSING THE ESTATE**

**DECLARATION OF DICK OSHITA IN SUPPORT OF APPLICATION FOR ORDER APPROVING PAYMENT OF LIQUIDATOR'S ADMINISTRATIVE EXPENSES, APPROVING THE FINAL DISTRIBUTION OF ASSETS, AND CLOSING THE ESTATE**

**DECLARATION OF RAYMOND J. MINEHAN IN SUPPORT OF APPLICATION FOR ORDER APPROVING PAYMENT OF LIQUIDATOR'S ADMINISTRATIVE EXPENSES, APPROVING THE FINAL DISTRIBUTION OF ASSETS, AND CLOSING THE ESTATE**

**[PROPOSED] ORDER APPROVING PAYMENT OF LIQUIDATOR'S ADMINISTRATIVE EXPENSES, APPROVING THE FINAL DISTRIBUTION OF ASSETS, AND CLOSING THE ESTATE**

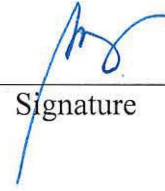
**NOTICE OF PAYMENT OF COURT REPORTER FEE**

by placing a true copy thereof enclosed in a sealed envelope with postage thereon fully prepaid, in the United States Mail at San Francisco, California, addressed as follows:

(SEE ATTACHED SERVICE LISTS)

I declare under penalty of perjury under the laws of the State of California the foregoing is true and correct and that this declaration was executed on June 21, 2019, at San Francisco, California.

Pauline Santamaria  
Declarant

  
Signature

<u>CLAIMANT</u>	<u>ADDRESS</u>	<u>CITY</u>	<u>STATE</u>	<u>ZIP</u>
SUMMIT RIDGE CORPORATION	Redacted	Redacted	Redacted	Redacted
VITAL PROCESSING SERVICES, LLC	Redacted	Redacted	Redacted	Redacted
DVC CONSTRUCTION, INC.	Redacted	Redacted	Redacted	Redacted
ILLINOIS CHILDREN'S ALLIANCE	Redacted	Redacted	Redacted	Redacted
JACK THOMPSON OLDSMOBILE	Redacted	Redacted	Redacted	Redacted
MADERA MECHANICAL, INC.	Redacted	Redacted	Redacted	Redacted
MENARD COUNTY SCHOOL & COMMUNITY TASK FORCE	Redacted	Redacted	Redacted	Redacted
NEW VISION INTERNATIONAL HOLDINGS, INC.	Redacted	Redacted	Redacted	Redacted
QUALITY S MANUFACTURING, INC.	Redacted	Redacted	Redacted	Redacted
NORTHERN REHABILITATION & SPORTS MEDICINE ASS	Redacted	Redacted	Redacted	Redacted
TANIC RUBBER PLATE CO. INC.	Redacted	Redacted	Redacted	Redacted
BHVT MOTORS, INC.	Redacted	Redacted	Redacted	Redacted
CUMBERLAND COUNTY CUSD NO. 77	Redacted	Redacted	Redacted	Redacted
THOMAS D NELSON	Redacted	Redacted	Redacted	Redacted
FARNSWORTH COMPANIES	Redacted	Redacted	Redacted	Redacted
FOLSOM DISTRIBUTING CO. INC.	Redacted	Redacted	Redacted	Redacted
FORESIGHT UTILITIES LLC	Redacted	Redacted	Redacted	Redacted
HOLLAND AND HART LLP	Redacted	Redacted	Redacted	Redacted
KASCH MOTORSPORTS INC.	Redacted	Redacted	Redacted	Redacted
KOEDYKER & KENYON CONSTRUCTION, INC.	Redacted	Redacted	Redacted	Redacted
LAND OF HOPE, INC.	Redacted	Redacted	Redacted	Redacted
NACKARD BOTTLING COMPANY DBA PEPSI COLA BOTTL	Redacted	Redacted	Redacted	Redacted
RP DECKING, INC.	Redacted	Redacted	Redacted	Redacted
SOUTHWEST METALSMITHS, INC.	Redacted	Redacted	Redacted	Redacted
SUTTON FORD, INC. OLYMPIA FIELD FORD SALES, I	Redacted	Redacted	Redacted	Redacted
T L C TRANSPORT INC.	Redacted	Redacted	Redacted	Redacted

**Service Lists:**

<b>NEW MEXICO</b> New Mexico P&C Insurance Guaranty Association PO Box 27815 Albuquerque, NM 87125	<b>ARIZONA</b> Arizona P&C Insurance Guaranty Fund Attn: Michael E. Surguine 100 N. 15th Ave, Suite 102 Phoenix , AZ 85007
<b>ARIZONA</b> Industrial Commission Of Arizona Attn: James M. Porter 800 W. Washington Street, Suite 307 Phoenix, AZ 85007-2922	<b>CALIFORNIA</b> California Insurance Guarantee Association Attn: Brad Roeber, Exec Director PO Box 29066 Glendale, CA 91209-9066
<b>COLORADO</b> Colorado Insurance Guaranty Association 1720 S Bellaire St Ste 408 Denver, CO 80222-4320	<b>ILLINOIS</b> Illinois Insurance Guaranty Fund 150 S. Wacker Suite 2970 Chicago, IL 60606
<b>NEVADA</b> Nevada Insurance Guaranty Association 3821 W Charleston Blvd Ste 100 Las Vegas, NV 89102-1859	<b>TEXAS</b> Texas P&C Insurance Guaranty Association 9120 Burnet Rd Austin, TX 78758-5204
<b>WISCONSIN</b> Wisconsin Insurance Security Fund 2820 Walton Commons W Ste 135 Madison, WI 53718-6797	<b>INDIANA</b> Indiana Insurance Guaranty Association 3502 Woodview Trace, Ste 100 Indianapolis, IN 46268
<b>KENTUCKY</b> Kentucky Insurance Guaranty Association 10605 Shelbyville Road Louisville, KY 40223	<b>OKLAHOMA</b> Oklahoma P&C Insurance Guaranty Association 2601 Nw Expressway, Ste 800e Oklahoma City, OK 73112
<b>OREGON</b> Oregon Insurance Guaranty Association 10700 Southwest Beaverton Hwy, Ste 426 Beaverton, OR 97005	<b>TENNESSEE</b> Tennessee Insurance Guaranty Association 3100 West End Ave, Ste 670 Nashville, TN 37203-5805
<b>UTAH</b> Utah P&C Insurance Guaranty Association Po Box 1608 Sandy, UT 84091-1608	<b>CALIFORNIA</b> Jennifer Chambers California Dept Of Ins 45 Fremont Street, Floor 24 San Francisco, CA 94105
<b>ILLINOIS</b> Thomas Jenkins Locke Lord LLP 111 South Wacker Drive, Ste 4100 Chicago , IL 60606	<b>CALIFORNIA</b> Randall Doctor The Doctor Law Group 1 Market Street, Spear Tower, 36th Fl San Francisco , CA 94105
<b>CALIFORNIA</b> David Wilson Conservation & Liquidation Office 100 Pine Street, Suite 1200 San Francisco, CA 94111	<b>AUSTRALIA</b> Wendy Neill HIH Group (In Liquidation) GPO Box 2707 Sydney NSW 2001, Australia
<b>AUSTRALIA</b> Wendy Neill HIH Group (In Liquidation) Level 11, 117 Clarence Street Sydney NSW 2000, Australia	