ACCEL
Authority for California Cities Excess Liability
c/o Alliant Insurance Services, Inc.
Corporation Insurance License No. 0C36861
560 Mission Street, 6th Floor, San Francisco, CA 94105

AGENDA

LEGEND: A - Action may be taken
I - Information
1 - Included
2 - Handout
3 - Separate
4 - Verbal

JPA: **ACCEL FINANCE COMMITTEE MEETING**

DATE/TIME: Monday, March 13, 2023 at 2:00 PM

LOCATION: Teleconference
Link: https://alliantinsurance.zoom.us/j/94326018401?pwd=S2NYdGlLUjlnS2dpcndBb0NRZS9ldz09
Meeting ID: 943 2601 8401
Passcode: 316706
Dial: (669) 900-6833

In accordance with the requirements of the Brown Act, notice of this meeting must be posted in publicly accessible places, 72 hours in advance of the meeting, at the office of ACCEL's Secretary.

Per Government Code section 54954.2, persons requesting disability-related modifications or accommodations, including auxiliary aids or services in order to participate in the meeting, are requested to contact Alliant Insurance Services at (415) 403-1400, 24 hours in advance of the meeting. Access to some buildings may require routine provision of identification to building security. However, ACCEL does not require any member of the public to register his or her name, or to provide other information, as a condition to attendance at any public meeting and will not inquire of building security concerning information so provided. See Government Code section 54953.3.

MEMBER LOCATIONS VIA TELE - CONFERENCE

- **City of Modesto**, 1010 10th St., Modesto, CA 95353
- **City of Palo Alto**, 250 Hamilton Ave., 1st Floor, Palo Alto, CA 94301
- **City of Santa Barbara**, 735 Anacapa St., Santa Barbara, CA 93101
- **City of Santa Monica**, 1685 Main Street, Room 131, Santa Monica, CA 90401
- **City of Visalia**, 220 N. Santa Fe St., Visalia, CA 93292

PAGE

A. CALL TO ORDER

B. CONSENT CALENDAR (A)

3-5 *1* 1. Approval of Minutes for the September 29, 2022 Finance Committee Meeting
Members will review this item and may take action to approve or amend.

C. REPORTS

1. FINANCE COMMITTEE

6-8 *1* a) Draft FY 23/24 Administration Budget (A)
Members will review a draft of the FY 23/24 Administration Budget and may take action to provide a recommendation to the Board or give direction.

9-12 *1* b) New Proposed: Service Provider Evaluations Policy and Procedure (A)
The Executive Committee has delegated authority to the Finance Committee to create a new policy and procedure. The Finance Committee may take action to make a recommendation to the Board to adopt the proposed policy and procedure or provide further direction.

13-16 *1 & 3* c) Retrospective Rating Calculation (RPC) (A)
i. Biennial Review
ii. Frequency of Agreed Upon Procedures Audit
Alliant will walk through the formulas of the RPC. Members will discuss the frequency for the agreed upon procedures of the RPC audit performed by Crowe. Action may be taken to provide a recommendation to the Board or direction given.

17-41 *1* d) Review of ACCEL's Target Equity Ratios (A)

The Board delegated authority to the Finance Committee to review ACCEL's Target Equity Ratios. Action may be taken to provide a recommendation to the Board or direction given.

D. PUBLIC COMMENTS (I)

4 The public is invited at this point to address the Committee on issues of interest to them.

ADJOURNMENT

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MINUTES OF THE ACCEL FINANCE COMMITTEE MEETING

Item No. B.1
Finance Committee
March 13, 2023

Thursday, September 29, 2022 at 1:30 PM

LOCATION:
Teleconference

Link:
https://alliantinsurance.zoom.us/j/98126606187?pwd=aFJjdVU1SHExK0VtWXNNMXZGMC9qdz09
Meeting ID: 981 2660 6187
Passcode: 811742
Dial: (669) 900-6833

MEMBERS PRESENT:
Marisa Kahn, City of Santa Barbara Alternate
Sandra Blanch, City of Palo Alto
Oles Gordeev, City of Santa Monica
Charlotte Dunn, City of Visalia

MEMBERS ABSENT:
Joe Rodriguez, City of Modesto

GUESTS AND CONSULTANTS:
Jesse Takahashi, City of Mountain View
Joe Pieksza, Crowe LLP
Adam Randolph, Crowe LLP
Conor Boughey, Alliant Insurance Services
Lorissa Huey, Alliant Insurance Services

A. CALL TO ORDER

Oles Gordeev called the meeting to order at 1:30 PM.

B. Consent Calendar

B1. Approval of Minutes for the August 24, 2022 Finance Committee Meeting

A motion was made to approve the consent calendar.

MOTION: Charlotte Dunn **SECOND:** Sandra Blanch **MOTION CARRIED**

	Joe Rodriguez	Marisa Kahn	Sandra Blanch	Oles Gordeev	Charlotte Dunn
Aye		X	X	X	X
Nay					
Abstain					

C. REPORTS

C1. FINANCE COMMITTEE

C1a. ACCEL 2021-22 Financial Audit Draft

Conor Boughey reminded the Committee that at the last Committee Meeting, Crowe discussed the audit process and any questions the Committee had. The purpose of today's meeting was to review the draft Financial Audit report in detail prior to it being presented to the Board.

The Joe Pieszka, Crowe LLP walked through the draft Financial Audit report with the Committee.

A motion was made to make a recommendation to the Board to receive and file at the October 2022 Board Meeting.

MOTION: Oles Gordeev **SECOND:** Charlotte Dunn **MOTION CARRIED**

	Joe Rodriguez	Marisa Kahn	Sandra Blanch	Oles Gordeev	Charlotte Dunn
Aye		X	X	X	X
Nay					
Abstain					

C1b. Agreed Upon Procedures: Retrospective Rating Calculation (RPC) Audit – Draft Report

Conor Boughey reported that the Board gave direction to the Finance Committee to oversee the Agreed Upon Procedures: Retrospective Rating Calculation (RPC) Audit until completion. The draft report of the Agreed Upon Procedures RPC is completed and Adam Randolph discussed the report in detail.

Members asked questions, which were addressed by Crowe and the Program Administrators.

The Committee has no recommendation on the frequency of this type of audit and wants to discuss it at the Board level.

A motion was made to recommend to the Board to receive and file the report at the October 2022 Board Meeting.

MOTION: Sandra Blanch **SECOND:** Charlotte Dunn **MOTION CARRIED**

	Joe Rodriguez	Marisa Kahn	Sandra Blanch	Oles Gordeev	Charlotte Dunn
Aye		X	X	X	X
Nay					
Abstain					

D. PUBLIC COMMENTS - No Public Comments were made.

ADJOURNMENT

Oles Gordeev adjourned the meeting at 2:51 PM.

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Item No. C.1.a
Finance Committee
March 13, 2023

DRAFT FY 23/24 ADMINISTRATIVE BUDGET

ISSUE: The Board amended the ACCEL Bylaws at its January 2022 Board Meeting which expanded the Finance Committee's Duties:

9. Review and recommend Administrative Budget to the Board.

The Draft FY 23/24 Administrative Budget is being presented to the Finance Committee at today's meeting for the first time, and will be presented at the March Board Meeting as a draft and is annually adopted at the June Board Meeting.

RECOMMENDATION: The Program Administrators recommend the Committee review the Draft Administrative Budget and take action or give direction to the Board at the March Board Meeting. The Final Administrative Budget will be presented at the June Board Meeting for adoption.

FISCAL IMPACT: The Administrative Budget is currently drafted to an increase from $773,533 to $783,760, **a 1.32% increase**. This increase is due to the Claims Administrator Contract Fee, Member Travel and Training, Meeting Expenses, insurance expenses.

ACCEL has entered into a new contract with George Hills, ACCEL's Claims Administrator effective January 2023 with a much higher fee. The Board took action at the October 2022 Board Meeting to increase the meal per diems and the Training Budget per member from $2,000 to $5,000 annually in the ACCEL Travel Policy, and include catered lunch for the Thursday Noon Board Meetings.

Additional Consideration

In favor: The budget reflects the best estimate of anticipated expenses in the next fiscal year. Approval of the budget presented includes an increased travel and training, meeting expenses, Crime and E&O Board premiums, and the new contract with George Hills for Claims Administration. We view this presentation as a conservative budget, and is in line with current inflationary trends. Unspent administrative budget funds are applied as a credit to next year's admin expenses.

Against: If the Committee would like to amend the budget, we could approach the figures more conservatively by increasing or decreasing the training budget. The budget estimates are based on contracted amounts, estimated travel expenses and small (less than $5,000) budget line items. More detail on the legal budget is included on the following page.

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BACKGROUND: Each year the Program Administrators review the compensation section of each consultant's contract with ACCEL, review the budget to date documents and update the Budget to reflect any changes. In addition, the Program Administrators also evaluate any changes in ACCEL's operations that may affect the Budget. Any unused funds are rolled over from one program year to the next.

The adjustments include:

1. Adjust the Professional Services line items to match the current term of each contract.
2. CAJPA Accreditation budgeted amount (charged every three years).
3. Travel and Training Budget.
4. Meeting Expense Budget.
5. Legal Counsel Budget.
    a. The Board took action at its October 2021 Board Meeting to authorize a $500,000 budget for the Brower Law Group (BLG) because ACCEL was involved in litigation with an excess carrier. As of March 2022, $240,000 has been paid to BLG, over two years. Therefore, the prior year FY 22-23, Legal Counsel budget was set at $150K.

       To date, $291,000 has been paid to BLG, over three years. The claim is now settled and recently bills have decreased, in the current year we are at $31K through February, so a sizable return may occur.

ATTACHMENT: Draft FY 23/24 Administrative Budget

ACCEL
DRAFT Budget for 2023-24
Administrative Expenses

DESCRIPTION	2022-23 Administrative Budget	2023-24 Administrative Budget	% Change
PROGRAM ADMINISTRATION	$ 328,500	$ 336,725	3%
CLAIMS ADMINISTRATION - ANNUAL	$ 124,448	$ 195,000	57%
CLAIMS AUDIT	$ 57,985	$ 57,985	0%
INVESTMENT SERVICES	$ -	$ -	0%
CUSTODIAL ACCOUNT/BANKING FEE	$ 4,000	$ 4,000	0%
LEGAL (Coverage Counsel)	$ 150,000	$ 60,000	-60%
FINANCIAL AUDIT + SUPP SCHEDULES	$ 28,000	$ 28,000	0%
ACCOUNTING SERVICES	$ 500	$ 500	0%
INSURANCE AND BONDS	$ 20,000	$ 24,000	20%
MEETING EXPENSES (incl. Teleconferences)	$ 6,000	$ 9,000	50%
PRESIDENT'S CAJPA TRAVEL	$ 1,500	$ 1,500	0%
CAJPA ACCREDITATION (1)	$ 5,000		-100%
TECHNOLOGY SERVICES	$ 1,000	$ 1,000	0%
ACTUARIAL (Bickmore)	$ 13,100	$ 13,550	3%
WC ACTUARIAL	$ -	$ -	0%
MEMBERSHIPS	$ 2,000	$ 2,000	0%
CONSULTING SERVICES	$ 500	$ 500	0%
SAFETY SERVICES	$ 500	$ 500	0%
MISC. EXPENSES	$ 500	$ 500	0%
CONTINGENCY	$ 4,000	$ 4,000	0%
CAJPA TORT LIABILITY PROJECT	$ -	$ -	0%
Membership Travel and Training:			
Board Member Travel	$ 13,000	$ 20,000	54%
Board Member Training	$ 13,000	$ 25,000	92%
SUBTOTAL Member Travel	*$ 26,000*	*$ 45,000*	73%
TOTAL ADMIN BUDGET	**$ 773,533**	**$ 783,760**	**1.32%**
Total Per Member:	$ 59,502.54	$ 60,289.23	**1.32%**

Notes:

(1) CAJPA Accreditation is only paid every three years, last paid in January 2022

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Item No. C.1.b
Finance Committee
March 13, 2023

NEW PROPOSED: SERVICE PROVIDER EVALUATIONS POLICY AND PROCEDURE

ISSUE: At the October 2022 Board Meeting, the Board requested that we pause the surveys this year and develop new Service Provider Evaluations and it delegated authority to the Executive Committee (EC) to complete by June 2023.

The EC met in January 2023 and decided to continue Service Provider Evaluations every year for only the Program Administrators and Claims Administrators. If Members have issues with the other Service Providers, they are directed to bring it up with the Committee that governs each. In addition, the Program Administrators will create a fillable form on the ACCEL Website for Members who wish to provide immediate feedback on any reportable issues. This will be brought to the EC for discussion. If a Member is uncomfortable with the Program Administrators receiving the feedback, the Member could direct it to the Secretary.

The new Service Provider Evaluations will start on August 1, 2023 and the results will be reported at the October Board Meeting. After the original request has been sent, there will only be one reminder to the Board.

The EC has delegated authority to the Finance Committee to create a new Policy and Procedure (P&P) that provides Members with a Credit of $1,000 or $3,000 if they have completed the Service Provider Evaluation.

RECOMMENDATION: The Finance Committee is to discuss the new proposed P&P and may take action to make a recommendation to the Board to adopt or give direction.

Additional Consideration

In favor: Implementing an Admin Credit on the following year's renewal invoice of $500 gives the Members an incentive to complete the Service Provider Evaluations in a timely fashion. In the past, one of the challenges was getting a 100% participation from the membership on the annual surveys.

Against: If the Committee does not want to propose adopting this P&P, it may instruct the Program Administrators to repeal it or revise language.

FISCAL IMPACT: Cannot be determined at this time.

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BACKGROUND: At the October 2018 Board Meeting, the Board discussed creating surveys for all the ACCEL Service Providers:

i. Actuary (*Finance Committee)*
ii. Claims Administrator *(Claims Committee)*
iii. Claims Auditor *(Claims Committee)*
iv. Financial Auditor *(Finance Committee)*
v. Investment Manager *(Finance Committee)*
vi. Legal Counsel *(Underwriting Committee)*
vii. Program Administrators *(Executive Committee)*

The Board agreed to send all the surveys at once year every year on November 1st with a deadline of December 1st. The system that is used for the surveys is Survey Monkey. The results are presented at the January Board Meeting.

At the March 2019 Board Meeting, the Board agreed to that only one reminder will be sent to the Board to complete before the 30-day deadline.

The Program Administrators coordinated with each Committee Chair on what questions and responses should part of the survey for the Service Provider that fall under their Committee's purview. Since each Committee wanted to have a survey sent out for a Service Provider, it is best to send ALL the surveys once a year, even though it may not be the year the Committee conducts Performance Evaluations of a particular Service Provider.

In the past, these surveys were handled by Alliant staff, Mary Lendaris, who then provided the results to the ACCEL President to distribute to the Board because the intent was to keep the results private. At the March 2022 Board Meeting, the Board decided to allow the Program Administrators solely handle the surveys to streamline the process. Therefore, Board Members will see an email from Lorissa Huey on November 1st with the survey links.

In October 2022, the Board requested that we hold off on the surveys this year and develop new Service Provider Evaluations. The Board delegated authority to the Executive Committee. The goal is to complete by June 2023.

ATTACHMENT: Service Provider Evaluation Policy and Procedure – New Proposed

ADMINISTRATIVE POLICY AND PROCEDURE

SUBJECT: SERVICE PROVIDER EVALUATIONS

DATE: March 30, 2023

AMENDED DATE:

REVIEWED DATE:

STATEMENT

The purpose of this policy is to ensure that all Service Providers used by the Authority for California Cities Excess Liability (ACCEL) are evaluated to ensure that they continue to meet the needs and expectations of the Authority. The evaluation process will be completed by all Members.

The following Service Providers fall under the purview of one of ACCEL's Committees: Executive, Claims, Finance, or Underwriting:

i. Actuary (Finance Committee)
ii. Claims Administrator (Claims Committee)
iii. Claims Auditor (Claims Committee)
iv. Financial Auditor (Finance Committee)
v. Investment Manager (Finance Committee)
vi. Legal Counsel (Underwriting Committee)
vii. Program Administrators (Executive Committee)

Only the Claims Administrators and Program Administrators will have annual reviews. The remaining Service Providers will be reviewed as needed, Members can bring up any immediate feedback or reportable issues with the Committee Chair that governs them or the Program Administrators.

PROCEDURE:

1. Annual Service Provider evaluations for the Claims Administrators and Program Administrators will begin on August 1st. The evaluation will focus on the quality of services provided, their responsiveness to requests, their adherence to the terms of the contract, and their overall performance.

2. The Program Administrators will distribute the evaluation forms to all Members. Members will be given a deadline for completing the evaluation. There will only be one reminder sent to each Member after the original request.

3. The Program Administrators will collect all completed evaluation forms and compile the results into a report and include it as a handout to be presented at the October Board Meeting. The Board will discuss and may take action as a result of the surveys at the October Board Meeting, or a subsequent meeting of the Board's choice.

4. Each Member who completes the evaluations will receive an admin credit from the ACCEL

Admin Budget of $500. The credit will be given to Members who complete the evaluation within the deadline provided. The admin credit will be reflected on the Member's July 1 renewal invoice of the following program year.

5. If a Member has any immediate issues with a Service Provider, they should reach out to the Committee Chair directly. The Committee will then work to address the issue and provide a resolution to the Member at its next Committee Meeting.

   It is important to note that Members should only bring immediate issues to the Committee Chair if they cannot be resolved through normal channels, such as contacting the Service Provider directly. Members should not wait until the annual evaluation to bring up any issues they have with a Service Provider, as this may impact the overall evaluation of the provider.

   The ACCEL website has a "feedback form" that goes directly to the Program Administrators for Members who wish to provide immediate feedback on any reportable issues. This will be brought to the Executive Committee for discussion. If a Member is uncomfortable with the Program Administrators receiving the feedback, the Member could direct it to the ACCEL Secretary.

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Item No. C.1.c
Finance Committee
March 13, 2023

RETROSPECTIVE RATING CALCULATION (RPC)
I. BIENNIAL REVIEW
II. FREQUENCY OF AGREED UPON PROCEDURES AUDIT

ISSUE: The Finance Committee requested that the Retrospective Rating Plan Calculation (RPC) be reviewed every odd numbered calendar year. Historically, we reviewed this in person at the Alliant San Francisco Office in January because there was TV screen to project the RPC spreadsheet on, and due to COVID lockdown, we used Zoom and shared screen.

The Program Administrators reached out to the Finance Chair, Oles Gordeev and agreed this review was not necessary in January because we recently completed the Agreed Upon Procedures (AUP) RPC Audit. Crowe presented the audit at the October 2022 Board Meeting. This is the first RPC Audit performed and ACCEL has not established a frequency of review with Crowe yet (the Board wanted to wait until the first one was completed to do so).

At that October Board Meeting, the Board delegated back to the FC to decide the frequency.

RECOMMENDATION: It is recommended that the Committee should discuss the desired frequency of similar reviews.

Additional Consideration

In favor: A 5 years frequency with Crowe is optimal because the AUP RPC audit was for the FY 20/21 Retro. Effective July 1, 2021, is when ACCEL took action to tweak the RPC to reduce the Minimum Member Contribution from 3% to 2%. The FY 21/22 will take 5 years to show up in the calculation.

Against: When the AUP RPC report was presented there were no material findings. The Finance Committee may make a recommendation to decide there is no need to continue have another audit on frequency basis as this is better as a one-time project. While the financial auditor has offered to perform this task, a firm like Bickmore Actuarial may also be able to review the RPC calculation and make more actuarial based recommendations. The Financial Auditor looks for management's accuracy in executing the Board's Financial Plan. A vote against would indicate that the Committee may want to modify the Agreed Upon Procedures.

FISCAL IMPACT: Crowe provided a proposal to perform the RPC audit engagement for $12,500, billed in two installments. Crowe also agreed to continue this audit assignment at a flat rate for two additional years.

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BACKGROUND: ACCEL formerly used an Access database to run the Retro Calculation, and moved to the RPC calculation in 2008. Neither calculation has been audited, the Administrator has an internal review process in which we match the RPC to the MAS, QuickBooks, financial audit and actuarial study. Each year the calculation is run again, and modified from the prior year to match the current year financials.

At the August 2021 Finance Committee Meeting, Crowe presented to the Committee its timeline and processes for the Financial Audit. Members discussed the audit work and asked if Crowe could consider auditing the Retrospective Rating Plan Calculation (RPC). The Finance Committee requested that Crowe provide an RPC audit engagement letter. At the October 2021 Board Meeting, the Board accepted the Retrospective Rating Calculation (RPC) audit engagement letter from Crowe LLP as a one-time audit. The Board agreed that it will later decide the frequency of the audit. The RPC audit report will be delegated to the Finance Committee (FC) for review and brought back to the Board by the March 2022 Board Meeting.

Since the October 2021 Board Meeting, Adam Randolph from Crowe and the Program Administrators met to discuss the "Agreed Upon Procedures" (AUP) for the RPC Audit. The Program Administrators reviewed the AUP with Oles Gordeev, the Finance Chair.

At the March 31 and April 1, 2022 Board Meeting, the Board took action to delegate authority to the Finance Committee (FC) to oversee the Retrospective Rating Calculation (RPC) Audit until completion and then report back to the Board.

At the September 29, 2022 Finance Committee, Crowe presented the draft AUP RPC audit and the Committee took action to recommend to the Board to "receive and file". At the October 2022 Board Meeting, the Board took action to accept the Committee's recommendation.

Within the audit report, there are claim files noted that did not match between the ACCEL Loss Run as of 12/31/20 and the loss details provided in the RPC, these differences are explained below:
1. CBAI010722a: Claims are capped at $4M in the RPC, paid closed.
2. 1897189: No member reimbursement requested (verified with Member & TPA), paid closed.
3. 14-0503-1: No member reimbursement requested (verified with Member & TPA), paid closed.
4. CBAI010990A: Per subsequent Board action, RPC value updated.
5. 15-0383-1 and 15-0544-1: Two claims, two SIRs, claims match, paid closed.
6. 0012800-000: Per subsequent Board action, RPC value updated.
7. 2011-0126: No member reimbursement requested (verified with Member & TPA), paid closed.

When reviewing this item as an action item, the following information was also included:

Additional Consideration

In favor: The RPC calculation was developed by ACCEL, working with ACCEL's actuary and staff to develop a methodology that tracks ACCEL's income and expenses and allocates costs to Members primarily based on Payroll and Claims. The Program Administrators spend many hours calculating and presenting the findings, and the Board and Finance Committee review the results. Auditors would perform a test on payments, payroll and methodology compared to ACCEL's Financial Plan. This audit may alleviate Board concerns of any mistakes within the RPC formulas. A vote in favor of the Agreed Upon Procedures as presented would move this item forward without any modifications to the plan.

Against: Crowe's engagement would test the RPC calculation compared to the intent of the Financial Plan, and we hope the results would indicate little to no findings or misstatements. Our financial auditor has offered to perform this task, but a firm like Bickmore Actuarial may also be able to review our RPC calculation and make more actuarial based recommendations. Our Auditor would be testing for management's accuracy in executing the Board's Financial Plan. A vote against would indicate that the Committee may want to modify the Agreed Upon Procedures.

The RPC is calculated in the following steps:

Step 1: Determine a Member's Contribution. Members' Contributions depend on the size of the member using payroll, any losses the members incur and the rate charged.

$$\left\{\left[\left(\frac{Payroll}{TotalPayroll}\times 65\%\right)+\left(\frac{Claim}{TotalClaims}\times 35\%\right)\right]\times TotalClaims\right\} = MembersContribution$$

Step 2: A 3% minimum Member Contribution is established. If a Member's Contribution is below 3%, the difference is equally subtracted from all other members. This process is recalculated until the 3% minimum is met.

Step 3: A maximum Member Contribution is established. The member with the smallest payroll will pay no more than 3 times their pool deposit towards any Claim, and the member with the largest payroll will pay no more than 2 times their pool contribution towards any Claim. All other members' maximum Member Contribution will be scaled on a logarithmic curve. In the event that all Members reach their Maximum Contribution, an assessment is made, based on percentage share of payroll.

Final Step 4: A claims cap of $4,000,000 per claim is established. The first $4,000,000 of each claim is allocated by the determined Member Contribution. Amounts in excess of $4,000,000 per claim will be allocated by members' percentage share of payroll.

Effective July 1, 2021, the Board took action to tweak the RPC to reduce the Minimum Member Contribution from 3% to 2%.

These calculations include verification of claims data from members, retro payments owed or refunded to ACCEL during FY 2021/22, the Actuary's IBNR as of December 31, 2021 and ALAE as of December 31, 2021. Additionally, the Retro has been updated with the final IBNR and Reserves from ACCEL's Actuarial Study.

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At the June 2017 Board meeting, the board took action to administratively suspend fiscal years up to FY 2007/08, and this year's retro calculation shows the prior funds on account, rolling forward to the FY 2008/09 year.

Also, please remember that the FY 2017/18 year calculation is the test year, and is calculated in the retro formula.

SEPARATE: Retrospective Rating Calculation Excel Spreadsheet of June 2022 Final RPC

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Item No. C.1.d
Finance Committee
March 13, 2023

REVIEW OF ACCEL'S TARGET EQUITY RATIOS

ISSUE: The Board of Directors adopted a Policy and Procedure at the October 2007 Board Meeting that would monitor ACCEL's Target Equity Ratio's annually. A review of this Policy and Procedure is a requirement of CAJPA to have Accreditation with Excellence. To provide overall insight on our funding, financial position, and changes in claims, CAJPA requires JPA's to provide a five-year summary annually to the Board.

The attached Five-Year Financial Comparisons is a summary of key financial criteria provides insight to ACCEL's funding, financial position, and changes in claims. The following summary provides:

1. Changes in revenues
2. Changes in claims
3. Funding confidence level
4. How stress test targets have changed.

Discussion: What we are facing going forward:

a. Liability – increased claims activity that are putting more demands on our capital
b. Our long-term plan to strengthen our Liability program capital.

The Board reviewed the Target Equity Ratios Presentation at the October 2022 Strategic Planning. As a result, the Board directed the Finance Committee to ensure that the current ratios are still appropriate.

RECOMMENDATION: The Finance Committee is asked to review the Target Equity Ratios and may take action to provide the Board a recommendation or give direction if needed.

Additional Consideration

In favor: The ratios indicate they do not work properly when ACCEL is in a negative net position. These ratios are performed annually and prompted ACCEL to implement a corrective funding plan that included collecting retro assessments, raising the confidence level from 80% to 90%, and adopting a negative net position charge of 10% of the prior year's negative position. These steps allow ACCEL towards a recovery.

Against: These ratios were set by CAJPA and is part of the CAJPA Accreditation with Excellence requirement. Changing the ratios could result in ACCEL losing its accreditation with excellence.

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FISCAL IMPACT: The Target Equity Ratios are *only a guideline*; therefore, no funding changes are required due to level of compliance. However, these guidelines can be used to assist in the funding of the pooled layer and retrospective refunds given, so if action is taken, future member contributions or refunds could be affected.

BACKGROUND: It is the goal of the ACCEL Board to fund its risk sharing program in a fiscally prudent manner. The purpose of the Policy and Procedures is to outline the basic financial factors and assumptions utilized to assure adequate funding and stability. The attached documents provide definitions of key terms and concepts to aid in discussions where an understanding of these concepts is required. The attachments also provide a look at ACCEL's financial standing though use of these equity ratios as an outline.

This discussion is designed to further aid the understanding of the equity ratios and amend the current policy if deemed appropriate.

ATTACHMENT(s):
1. ACCEL's Target Equity Policy and Procedure
2. Target Equity Ratios Presentation from October 2022
3. CAJPA Five-Year Financial Comparison Spreadsheet

ADMINISTRATIVE POLICY AND PROCEDURE

SUBJECT: TARGET SURPLUS FUNDING

DATE: October 22, 2007

AMENDED DATE: January 17, 2019

REVIEWED DATE: August 24, 2022

I. PURPOSE

It is the policy of ACCEL to conservatively fund its programs to maintain sufficient assets to pay all losses and avoid substantial fluctuations to contributions. The ACCEL Board of Directors' acknowledge actuarial estimates are relied upon heavily when making financial decisions and that there is a high degree of uncertainty in such estimates due to the possibility of occasional catastrophic claims and inconsistent or inaccurate case reserving; therefore, the Board of Directors desires to fund the Pooled Layer program in a cautious and prudent manner and return equity to its members in an equally cautious and prudent manner.

In order to fund program years in a fiscally prudent manner, the ACCEL Board of Directors collects contributions at an actuarially determined confidence level as determined by the Board annually. The ACCEL Board of Directors strives to annually collect at the 90% confidence level or higher as determined by the actuary.

II. DEFINITIONS

- "Claims Paid to Date" is the amount actually paid on reported claims at the date of valuation. "Claims Paid to Date" includes those amounts paid for both defense and indemnity of claims.

- "Confidence Level" is a statistical term used to express the degree to which an actuarial projection (usually "Ultimate Net Loss" or "IBNR") will be an accurate prediction of the dollar losses ultimately paid for a given program year or combination of years. The higher a "Confidence Level" the greater certainty the actuary has that losses will not exceed the dollar value used to attain that "Confidence Level".

- "Equity" is the amount of funds remaining, after deducting all administrative and excess insurance costs, available to pay claims in excess of actuarial expected losses discounted for investment income at the actuarially determined "Expected" "Confidence Level".

- "Expected" by industry standard translates roughly to the 50% to 56% "Confidence Level" as determined by the independent actuary.

- “Expected Liabilities” is the total of all “Outstanding Reserves” and “IBNR”, discounted, at the “expected” “confidence level”.

- “Incurred But Not Reported (IBNR)” is the estimate of the funds needed to pay for covered losses that have occurred but have not yet been reported to the member and/or ACCEL. “IBNR” includes (a) known and unknown loss events that are expected to be claims; and (b) expected future development on claims already reported.

- “Net Contribution” includes the total contributions from members less the excess insurance cost.

- “Net Present Value” is the discounting of future cash flows to current values by taking into account the time-value of money.

- “Self Insured Retention” is the maximum amount of pooled risk retained by ACCEL before any excess coverage.

- “Outstanding Reserves” are the sum total of unpaid case reserves in the Banking and Shared Risk Layers determined by the ACCEL Claims Administrator.

- “Ultimate Net Loss” is the sum of “Claims Paid to Date”, “Outstanding Reserves” and “IBNR”, all within ACCEL’s Banking and Shared Risk Layers. It is the estimate of the total value of all claims that will ultimately be made against members for which ACCEL is responsible.

III. IMPORTANT EQUITY RATIOS

The ACCEL Board of Directors will only consider returning “Equity” to the members after evaluating and concluding the following ratios remain appropriate for the group prior to and following any potential return of “Equity”:

☞ **“Net Contribution” to “Equity” ratio: Target ≤ 2:1**
This ratio is a measure of how “Equity” is leveraged against possible pricing inaccuracies. A low ratio is desirable.

☞ **“Outstanding Reserves” to “Equity” ratio: Target ≤ 3:1**
This ratio is a measure of how “Equity” is leveraged against possible reserve inaccuracies. A low ratio is desirable.

☞ **“Equity” to “Self Insured Retention” ratio: Target ≥ 5:1**
This ratio is a measure of the maximum amount that “Equity” could decline due to a single loss. A high ratio is desirable.

☞ **Reserve Development:** **Target ≤ 20%**

This is a measure of the change in aggregate ultimate losses from one valuation period to the prior valuation(s). Generally, the one-year and two-year reserve development to "Equity" threshold should be less than 20%.

☞ **Change in Equity:** **Target ≥ -10%**

This ratio measures if a decline in equity in excess of 10% warrants an increase in annual contribution or an assessment.

IV. ANNUAL ACTUARIAL STUDY

ACCEL will conduct an annual actuarial analysis to assist the Board of Directors in making funding decisions on a prospective and retrospective basis.

V. RETROSPECTIVE RETURN OF EQUITY CRITERIA

After annual review of the "Equity" portion of the program, the ACCEL Board will review the Retrospective Refunds available and compare these findings to the "Equity" necessary to hold in the pool. If the Board desires to decrease "Equity", by return "Equity" to the members, it will not return funds if the funding of the program as a whole will fall below the 90% "Confidence Level" and the Board of Directors will only consider returning

"Equity" to the members after evaluating and concluding the Equity Ratios remain appropriate for the group prior to and following any potential return of "Equity". Return of "Equity" may be available from the "closing" of a program year in accordance with the Master Plan Documents (Bylaws).

Authority for California Cities Excess Liability

Target Equity Ratios

PRESENTED BY:

CONOR BOUGHEY, ALLIANT INSURANCE SERVICES

OCTOBER 2022

Target Equity Policy

Purpose:

- Provide guidance to the Board for development of annual funding, dividends and assessment decisions
- Develop set of benchmarks to measure the pools financial stability
- Assist in evaluation and implementation of prudent funding levels
- Expose deteriorating experience before it can have an adverse impact on the pool

Definitions

- "Confidence Level" is a statistical term used to express the degree to which an actuarial projection will be an accurate prediction of the dollar losses ultimately paid for a given program year or combination of years. The higher a "Confidence Level" the greater certainty the actuary had that losses will not exceed the dollar value used to attain "Confidence Level"
- "Equity" is the amount of funds remaining, after deducting all administrative and excess insurance costs, available to pay claims in excess of actuarial expected losses discounted for investment income at the actuarially determined "Expected" "Confidence Level" (1)
- "Net Contribution" includes the total contributions from members less the excess insurance costs
- "Self Insured Retention" is the maximum amount of exposure to a single loss retained by ACCEL (e.g. $4M or $9M)

(1) See Discussion on Page 4

CAJPA "Equity" vs. "Net Position"

- CAJPA's definition of "Equity" is:
  - The amount of funds remaining, after deducting all administrative and excess insurance costs and the amount available to pay claims in excess of the actuarial expected losses discounted for investment income at the actuarially determined "Expected" "Confidence Level"

- Net Position is defined as your Assets subtract <u>all</u> Liabilities
  - For ACCEL the Retrospective Refunds Available are a Liability to the POOL

- Under CAJPA's definition, ACCEL has been evaluated as an Equity pool and we hope this continues

Assets - Liabilities = Net Position

- ACCEL is a Non-Equity pool
- However, under the CAJPA definition of Equity, we can evaluate the pool as an Equity pool
- “Restriction” does not effect this definition of Equity
- ACCEL’s Equity according to the CAJPA definition is $(1,336,797)
- Last year this figure was $4,737,452

Change in Equity Ratio

Target ≥ -10%

- This ratio measures for a decline in equity of more than 10%, which warrants an increase in annual contribution or potential assessments.

- Large fluctuations in equity indicate the program is experiencing change.

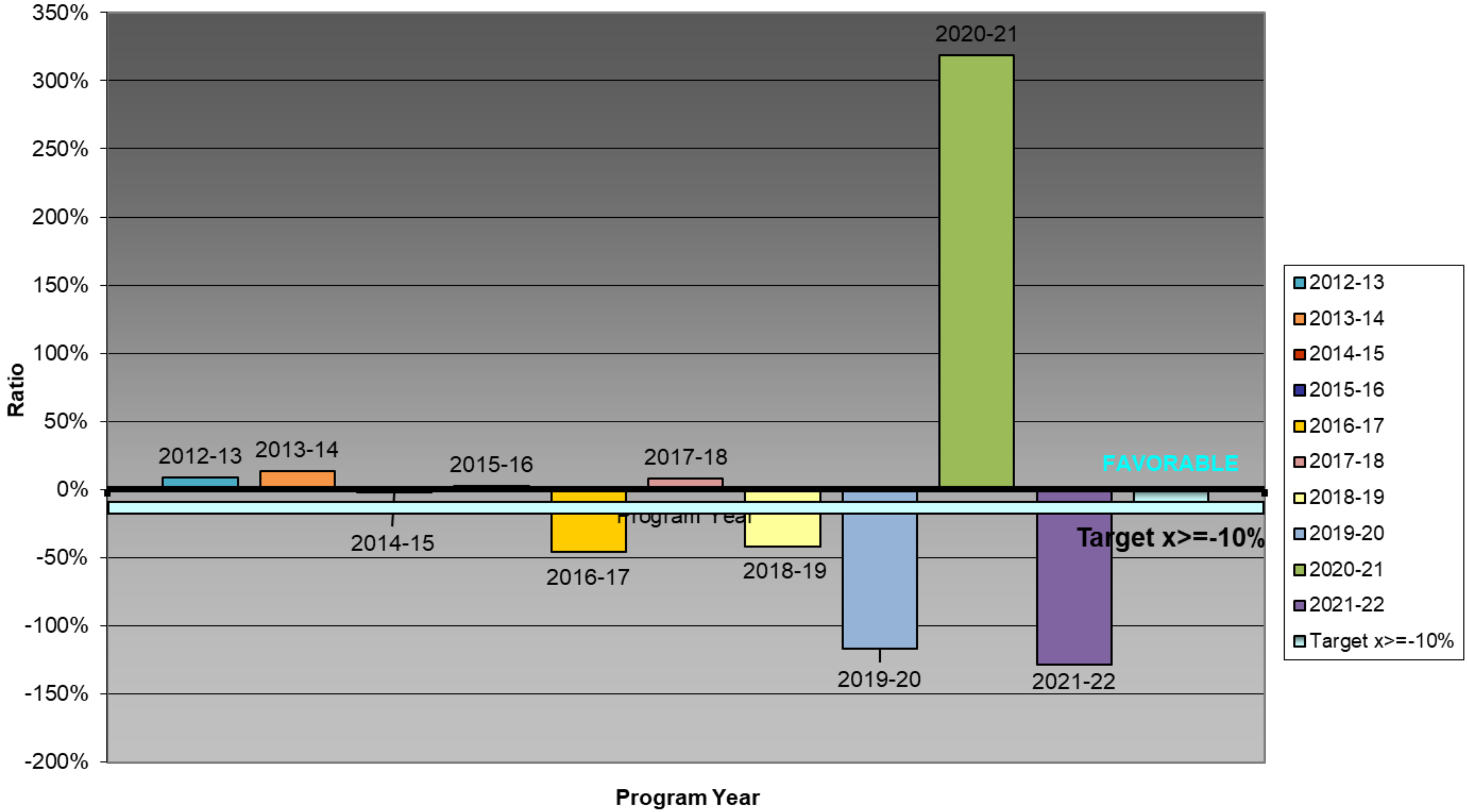
Takeaway: ACCEL's equity dipped negative again after a positive recovery over the prior year. This year's change in equity was due to rapid claims payments as the courts reopened after the COVID pandemic. While this occur, the ACCEL Board also increased its funding and continued suspending the retro funds.

Example: 2021-22

$$\frac{(2021\text{−}22\ \text{Equity}) - (2020\text{−}21\ \text{Equity})}{2020\text{−}21\ \text{Equity}} \geq -10\%$$

$$\frac{\$(1{,}336{,}797)\text{–}\$4{,}737{,}452}{\$4{,}737{,}452} = -128\%$$

ACCEL
Target Equity Ratios
Change In Equity



"Equity" to "Self Insured Retention" Ratio

Target ≥ 5:1

- This ratio is a measure of the maximum amount that equity could decline due to a single loss.
- Assists in determining the feasibility of increasing the pool SIR (currently $9,000,000).
- Protects against possibility of assessment.
- A high ratio is desirable.

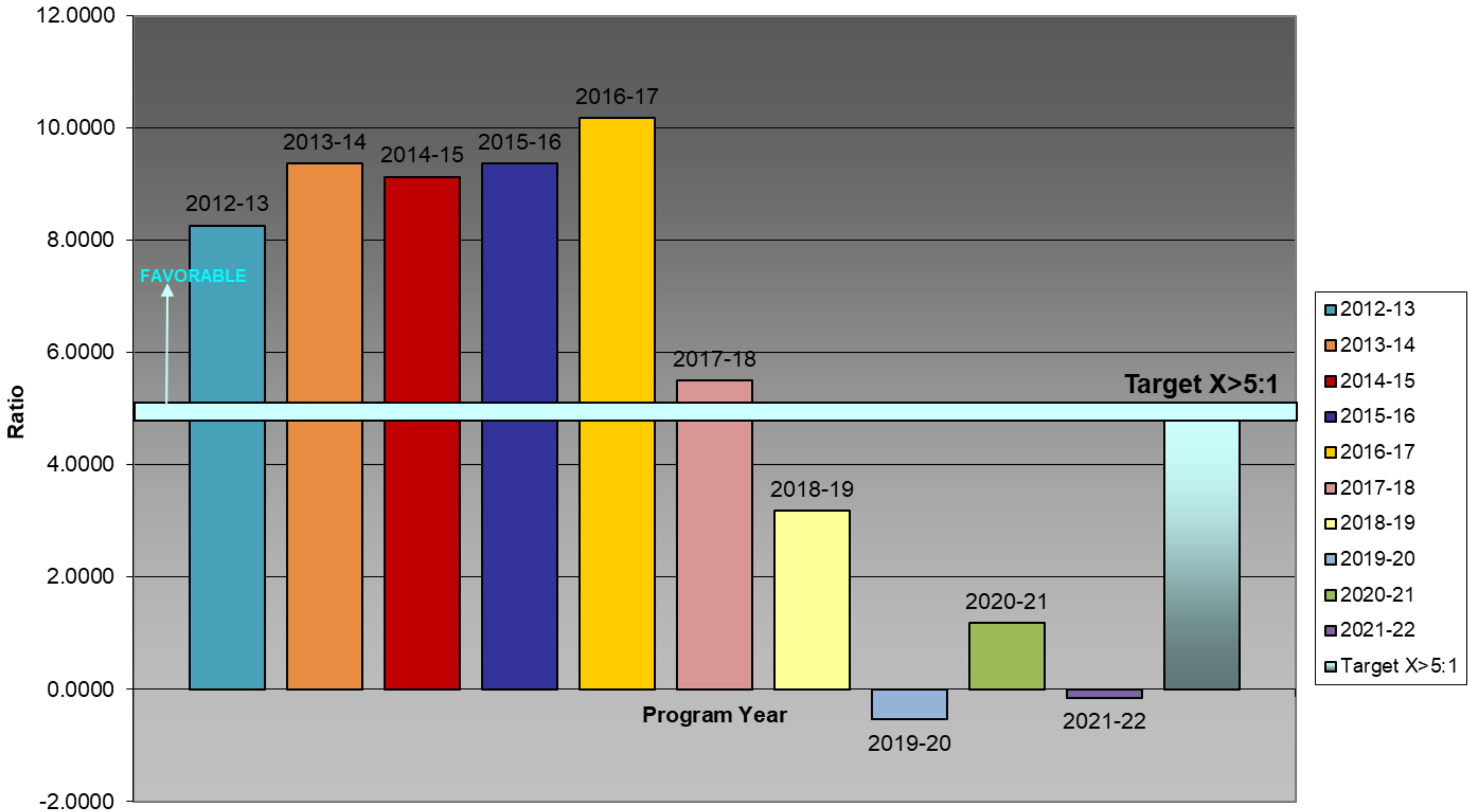
Takeaway: As claims activity rapidly increased in the past years, the Board took action to implement a corrective funding plan. ACCEL increased its SIR from $4M to $9M, and its confidence level to 90% on the $4M excess $1M layer and 75% on the $5M excess $5M layer to prudently fund that larger layer.

Example: 2021-22

$$\frac{\text{Equity}}{\text{Insured Retention}} \geq 5:1$$

$$\frac{\$(1{,}336{,}797)}{\$9{,}000{,}000} = -0.1485$$

ACCEL
Target Equity Ratios
Equity to Self Insured Retention



Ultimate Reserve Development Ratio

Target ≤ 20%

- This is a measure of the change in aggregate ultimate losses from one valuation period to the prior two valuation periods.

- Generally, the one year and <u>two year</u> reserve development to equity threshold should be less than 20%.

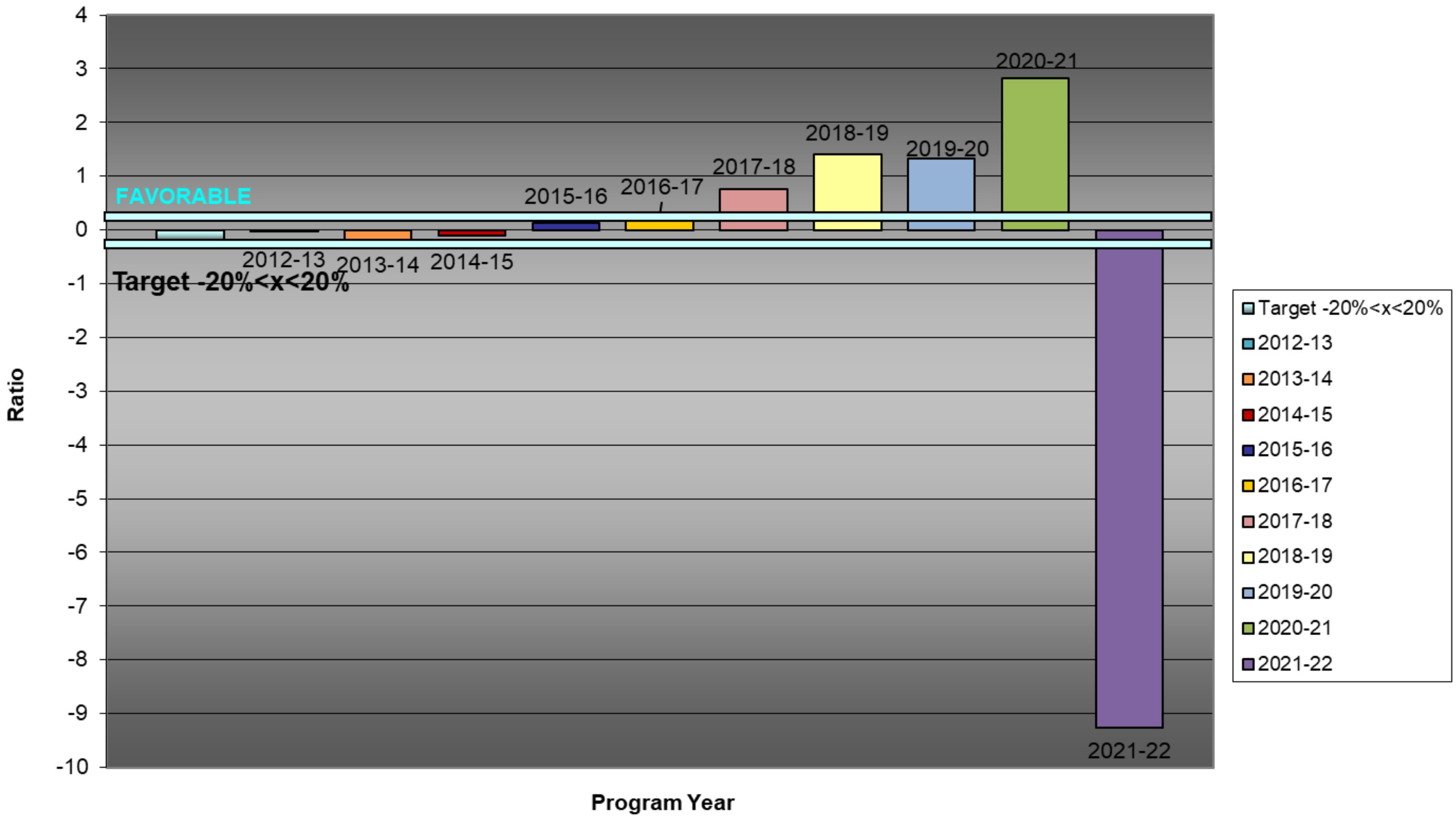
Takeaway: The ultimate incurred losses have increased outside the desirable range. This is an indication of claims activity increasing more than expected by the actuary.

Example: 2021-22

$$-20\% < \frac{(\text{Ultimate Liabilities for Years more that 2 years old}) - (\text{FY2019} \ - 20 \text{ Ultimate Liabilities})}{\text{FY2019} - 20 \text{ Equity}} < 20\%$$

$$\frac{\$155{,}159{,}545 - \$135{,}067{,}917}{\$(2{,}170{,}379)} = -926\%$$

ACCEL
Target Equity Ratios
Reserve Development Ratio



“Outstanding Reserves” to “Equity” Ratio

Target ≤ 3:1

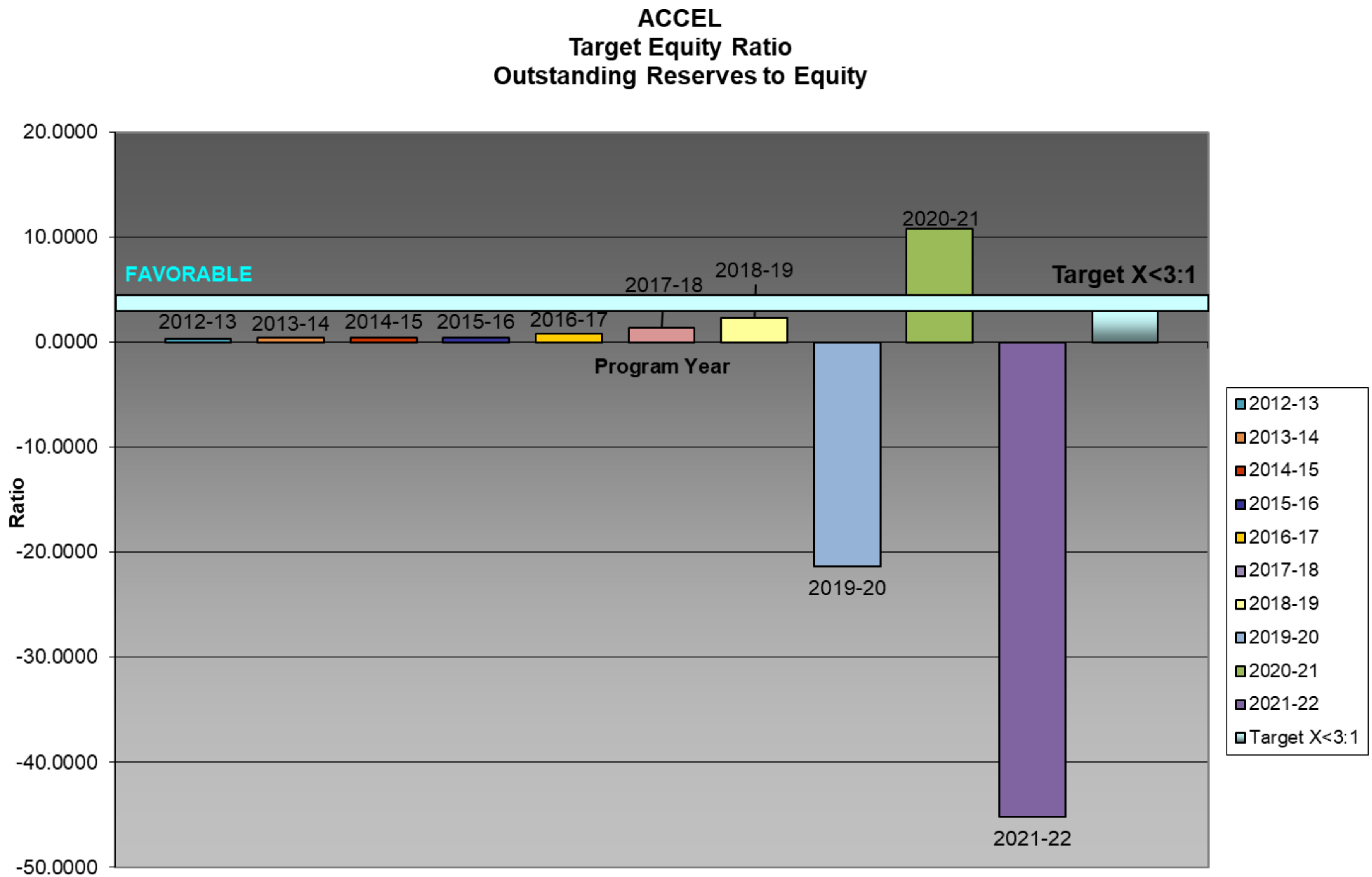
- Comparison of net equity to current potential losses, including IBNR.
- Over time this ratio could indicate changing loss exposures.
- A low ratio is desirable.

Takeaway: This ratio does not work properly if ACCEL is in a negative net position, similar to FY 19-20. The Outstanding Reserves are growing too fast, while there has been a significant amount of claims payments.

Example: 2021-22

$$\frac{\text{Outstanding Reserve}}{\text{Equity}} \leq 3:1$$

$$\frac{\$60{,}423{,}000}{\$(1{,}336{,}797)} = -45.20$$


ACCEL
Target Equity Ratio
Outstanding Reserves to Equity
20.0000
10.0000
0.0000
-10.0000
-20.0000
-30.0000
-40.0000
-50.0000
Ratio
FAVORABLE
Target X<3:1
Program Year
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Target X<3:1

"Net Contribution" to "Equity" Ratio

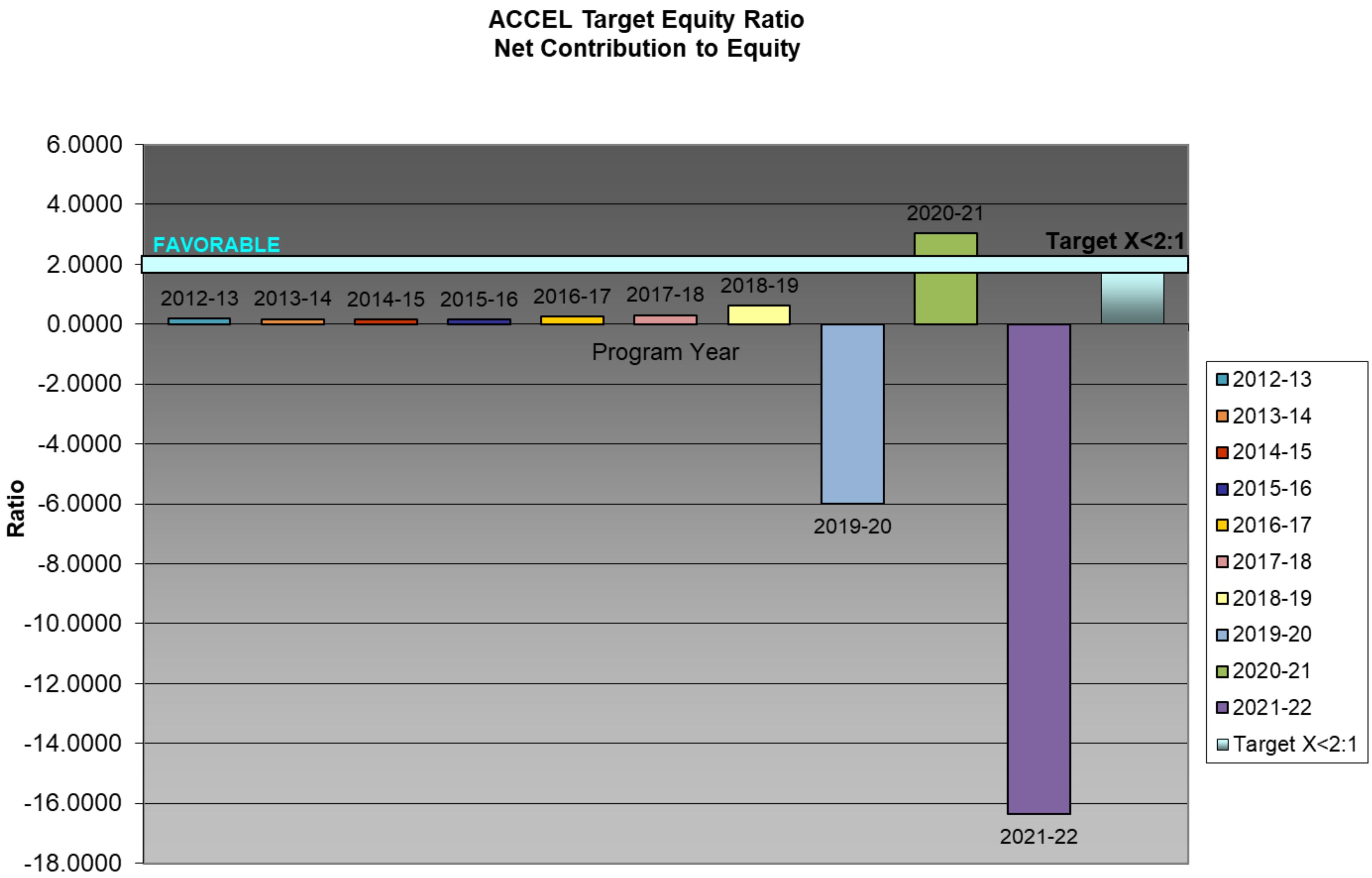
Target ≤ 2:1

- This ratio is a measure of how equity is leveraged against possible pricing inaccuracies.
- Relationship between *annual deposits* and equity.
  - Note: Equity discussion on page 4.
- Illustrates exposure compared to current risk.
- The net contribution or annual deposit is the amount of funding members pays towards funding the pooled layer – this does not include investment income.
- A low ratio is desirable.

Takeaway: ACCEL has many years of prudent funding that lead to a strong overall financial position. Since then, claims values and payments skyrocketed depleting ACCEL's assets. ACCEL reacted and increased its self insured layer and confidence level. This ratio does not work properly when net assets are negative.

Example: 2021-22 $\frac{\text{Net Contributions}}{\text{Equity}} \leq 2:1$

$$\frac{\$21{,}885{,}060}{\$(1{,}336{,}797)} = 16.37$$



ACCEL Target Equity Ratio
Net Contribution to Equity
6.0000
4.0000
2.0000
0.0000
-2.0000
-4.0000
-6.0000
-8.0000
-10.0000
-12.0000
-14.0000
-16.0000
-18.0000
Ratio
FAVORABLE
Target X<2:1
2012-13
2013-14
2014-15
2015-16
2016-17
2017-18
2018-19
2019-20
2020-21
2021-22
Program Year
Target X<2:1

2021-22 Program Year Trends

2019-20

- The results of this years report show a need to increase funding, and consider a reinvestment plan.
- ACCEL's current claims have erased the years of good performance and prudent saving.
- Based on this report, and the financial position of the pool, along with continued increases in reserves, Members will likely be assessed and the Board may want to consider implementing a substantial rate hike to start to collect funding.
- ACCEL continued to maintain enough Assets to meet short term obligations.

2020-21

- ACCEL returns to a positive net position, and ratios indicate the beginning of a recovery.
- ACCEL's claims development hasn't stopped, but it is more stable.
- ACCEL continued to maintain enough Assets to meet short term obligations.
- ACCEL has increased funding to 90%, processed assessments and is now retaining more risk – many implications for the next several years.

2021-22

- ACCEL took a step back this year into a negative net position. This dramatically effects some ratios.
- ACCEL is following its recovery plan by increasing funding, and collecting retro assessments.
- Rapid and large claim payments occurred because the courts opened back up after the COVID-19 pandemic.
- ACCEL continued to maintain assets through investment income to prudently meet short term obligations.

Any Questions?

Input Yellow Cells Only

					Current completed year CY	PY-1	PY-2	PY-3	PY-4	PY-5
		JPA Name	**XYZ**							
		Program	2							
		Coverage	**Laibility**		**2021**	**2020**	**2019**	**2018**	**2017**	**2016**
		IS	Gross Contribution	*don't include dividends*	**$ 25,226,379**	**$ 18,660,480**	**$ 12,540,980**	**$ 10,043,486**	**$ 9,229,749**	**$ 8,498,061**
		IS	Ceded Insurance		**$ 10,837,620**	**$ 5,602,977**	**$ 4,591,350**	**$ 3,317,623**	**$ 3,905,789**	**$ 3,013,249**
		BS	Net Assets		**$ 4,737,452**	**$ (2,170,379)**	**$ 12,693,460**	**$ 22,006,565**	**$ 20,366,791**	**$ 38,155,015**
		BS	Net Investment in Capital Assets		**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
		Program	Self Insured Retention		**$ 4,000,000**	**$ 4,000,000**	**$ 4,000,000**	**$ 4,000,000**	**$ 2,000,000**	**$ 4,000,000**
		BS	Claim Liabilities		**$ 48,263,000**	**$ 42,583,000**	**$ 34,224,000**	**$ 28,000,000**	**$ 28,436,000**	**$ 17,060,000**
		RSI I	Change in PY loss dev.	RSI I	**$ (3,242,837)**	**$ 21,522,688**	**$ 11,708,571**	**$ (535,289)**	**$ 18,302,199**	**$ 12,637**
		Funding confidence level rate			**90%**	**80%**	**80%**	**80%**	**80%**	**80%**
		Actuary est loss valued at								
			Expected		**$ 51,084,000**	**$ 46,295,000**	**$ 29,728,000**	**$ 30,086,000**	**$ 15,959,000**	**$ 16,483,000**
	Actuary Report		70% Confidence Level		**$ 58,440,000**	**$ 52,915,000**	**$ 34,366,000**	**$ 34,719,000**	**$ 18,767,000**	**$ 19,367,000**
	Actuary Report		80% Confidence Level		**$ 65,388,000**	**$ 59,165,000**	**$ 38,766,000**	**$ 39,141,000**	**$ 21,448,000**	**$ 22,136,000**
	Actuary Report		90% Confidence Level		**$ 76,217,000**	**$ 68,841,000**	**$ 45,573,000**	**$ 45,971,000**	**$ 25,629,000**	**$ 26,442,000**
	Proxy factors									
			Calculated factor							
	1.2	Calculated	70% Confidence Level		1.144	1.143	1.156	1.154	1.176	1.175
	1.44	Calculated	80% Confidence Level		1.280	1.278	1.304	1.301	1.344	1.343
	1.814	Calculated	90% Confidence Level		1.492	1.487	1.533	1.528	1.606	1.604
		Calculated claim liability at factor								
			70% Confidence Level		$ 55,212,781	$ 48,672,199	$ 39,563,441	$ 32,311,773	$ 33,439,339	$ 20,044,957
			80% Confidence Level		$ 61,777,093	$ 54,421,065	$ 44,628,888	$ 36,427,175	$ 38,216,387	$ 22,910,888
			90% Confidence Level		$ 72,008,086	$ 63,321,229	$ 52,465,364	$ 42,783,620	$ 45,666,160	$ 27,367,622
	Proxy factor									
	Liab	Forever Pool Considerations								
	1.950	1:50	98% conf level		$ 94,112,850	$ 83,036,850	$ 66,736,800	$ 54,600,000	$ 55,450,200	$ 33,267,000
	2.114	1:100	99% conf level		$ 102,027,982	$ 90,020,462	$ 72,349,536	$ 59,192,000	$ 60,113,704	$ 36,064,840
Solvancy II	2.370	1:200	99.5% conf level		$ 114,383,310	$ 100,921,710	$ 81,110,880	$ 66,360,000	$ 67,393,320	$ 40,432,200

Analysis for development of equity target and for evaluating pools stress tests

JPA **XYZ**
Program **Laibility**

#	Item		Confidence Level Factors	Required Margin	2021		2020		2019		2018		2017	
				Fiscal Year	**2021**		**2020**		**2019**		**2018**		**2017**	
1	Gross Contributions				25,226,379		18,660,480		12,540,980		10,043,486		9,229,749	
2	Less insurance / reinsurance premiums				10,837,620		5,602,977		4,591,350		3,317,623		3,905,789	
3	Net Contributions				14,388,759		13,057,503		7,949,630		6,725,863		5,323,960	
4	Net Assets (Equity)				4,737,452		(2,170,379)		12,693,460		22,006,565		20,366,791	
5	Invested in building and equipment or other				-		-		-		-		-	
6	Net available to fund claims				4,737,452		(2,170,379)		12,693,460		22,006,565		20,366,791	
7	Claim Liabilities (outstanding claims; reserved and IBNR)				48,263,000		42,583,000		34,224,000		28,000,000		28,436,000	
8	Self-Insured Retention - (pooled portion of each claim) *				4,000,000		4,000,000		4,000,000		4,000,000		2,000,000	
9	Claim funding (6+7)				53,000,452		40,412,621		46,917,460		50,006,565		48,802,791	
			Confidence Level Factors	Required Margin										
10			55.0%	-	48,263,000	Met	42,583,000	Not Met	34,224,000	Met	28,000,000	Met	28,436,000	Met
11			70.0%	6,949,781	55,212,781	Not Met	48,672,199	Not Met	39,563,441	Met	32,311,773	Met	33,439,339	Met
12			80.0%	13,514,093	61,777,093	Not Met	54,421,065	Not Met	44,628,888	Met	36,427,175	Met	38,216,387	Met
13			90.0%	23,745,086	72,008,086	Not Met	63,321,229	Not Met	52,465,364	Not Met	42,783,620	Met	45,666,160	Met
14	Forever pool stress Tests	1:50	98.0%	41,112,398	94,112,850	Not Met	83,036,850	Not Met	66,736,800	Not Met	54,600,000	Not Met	55,450,200	Not Met
15		1:100	99.0%	49,027,530	102,027,982	Not Met	90,020,462	Not Met	72,349,536	Not Met	59,192,000	Not Met	60,113,704	Not Met
16	Solvancy II	1:200	99.5%	61,382,858	114,383,310	Not Met	100,921,710	Not Met	81,110,880	Not Met	66,360,000	Not Met	67,393,320	Not Met

#	Equity Target Formulas		Factor	Calculated		Calculated		Calculated		Calculated		Calculated	
17	Current balance no provision			4,737,452		(2,170,379)		12,693,460		22,006,565		20,366,791	
18	Contributions to equity	less than 3:1	3.0	5.32	NotMet	(8.60)	Met	0.99	Met	0.46	Met	0.45	Met
19	Calculated Pool Equity to SIR			1.18	Pool Ratio	(0.54)	Pool Ratio	3.17	Pool Ratio	5.50	Pool Ratio	10.18	Pool Ratio
20	Equity to SIR		4	16,000,000	NotMet	16,000,000	NotMet	16,000,000	NotMet	16,000,000	Met	8,000,000	Met
21	Equity to SIR		5	20,000,000	NotMet	20,000,000	NotMet	20,000,000	NotMet	20,000,000	Met	10,000,000	Met
22	Equity to SIR		6	24,000,000	NotMet	24,000,000	NotMet	24,000,000	NotMet	24,000,000	NotMet	12,000,000	Met
23	Equity to SIR		7	28,000,000	NotMet	28,000,000	NotMet	28,000,000	NotMet	28,000,000	NotMet	14,000,000	Met
24	Equity to SIR		10	40,000,000	NotMet	40,000,000	NotMet	40,000,000	NotMet	40,000,000	NotMet	20,000,000	Met
25	Loss reserves to equity	less than 4:1	4	10	NotMet	(20)	Met	3	Met	1	Met	1	Met
26	Claim Liab with Premium Method	(Claim liab + Prem) times factor	0.25	14,775,155	NotMet	12,046,494	NotMet	9,703,838	Met	7,829,406	Met	8,085,447	Met
27	Claim Liab with Premium Method	(Claim liab + Prem) times factor	0.50	29,550,310	NotMet	24,092,989	NotMet	19,407,675	NotMet	15,658,812	NotMet	16,170,895	NotMet

Definitions:

*SIR	Self Insured Retention, the amount the pool retains on each loss; If more than one SIR for program, use highest for current period.
Contributions to equity	This is a measure of the sensitivity of equity to total contributions. A percentage under 3:1 is considered the proper target
Equity to SIR	This is a measure of the nuumber of catostropic losses the program can absorb at the full SIR. Recommendation 5 times for a pool that is comfortable with assessing, 7 times for a pool that is uneasy about assessing and 20 times for a typical insurance company
Loss reserves to equity	This is a measure of flexiblility the pool has to absorb development of the expected losses. Recommend less than a ratio of 4:1
Claim Liab with Premium Method	This factors the balance of claim liabilities and premiums times a factor to provide a level of equity that is sensitive to recorded claims and premium revenues. an amount greater than 25% is recommended.

Laibility
Program Ratios

		2021	2020	2019	2018	2017	2016
Equity to SIR							
This ratio is a measure of the maximum amount equity could decline due to a single full limits loss. It also measures a funds ability to take a higher SIR. A high ratio is desirable.							
Program Equity (A)		$ 4,737,452	$ (2,170,379)	$ 12,693,460	$ 22,006,565	$ 20,366,791	$ 38,155,015
Program Self Insured Retention (B)		$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 4,000,000	$ 2,000,000	$ 4,000,000
Equity to SIR (A/B)	**Target ≥ 5:1**	**1.18**	**(0.54)**	**3.17**	**5.50**	**10.18**	**9.54**
		Not Met	**Not Met**	**Not Met**	**Met**	**Met**	**Met**
Net Premium to Equity							
This ratio measures whether adverse loss development can be absorbed by net premium. Net premium equals premium received by less premium paid to others (excess).							
Premium Earned		$ 25,226,379	$ 18,660,480	$ 12,540,980	$ 10,043,486	$ 9,229,749	$ 8,498,061
Less ceded insurance		$ (10,837,620)	$ (5,602,977)	$ (4,591,350)	$ (3,317,623)	$ (3,905,789)	$ (3,013,249)
Net Premium Received (A)		$ 14,388,759	$ 13,057,503	$ 7,949,630	$ 6,725,863	$ 5,323,960	$ 5,484,812
Program Equity (B)		$ 4,737,452	$ (2,170,379)	$ 12,693,460	$ 22,006,565	$ 20,366,791	$ 38,155,015
Net Premium to Equity (A/B)	**Target ≤ 2.0:1**	**3.04**	**(6.02)**	**0.63**	**0.31**	**0.26**	**0.14**
		Not Met	**Not Met**	**Met**	**Met**	**Met**	**Met**
Claim Liabilities to Equity							
This ratio is a measure of how equity is leveraged against total reserves. A low ratio is desireable							
Reserves/IBNR (per f/s) (A)		$ 48,263,000	$ 42,583,000	$ 34,224,000	$ 28,000,000	$ 28,436,000	$ 17,060,000
Program Equity (B)		$ 4,737,452	$ (2,170,379)	$ 12,693,460	$ 22,006,565	$ 20,366,791	$ 38,155,015
Claim Reserves/IBNR to Equity (A/B)	**Target ≤ 3.5:1**	**10.19**	**(19.62)**	**2.70**	**1.27**	**1.40**	**0.45**
		Not Met	**Not Met**	**Met**	**Met**	**Met**	
Prior Years' Loss Development to Equity							
This ratio is a measure of the development in prior years' ultimate net loss from one year to the next.							
Prior Year's change in Loss Development (A)		$ (3,242,837)	$ 21,522,688	$ 11,708,571	$ (535,289)	$ 18,302,199	$ 12,637
Program Equity (B)		$ 4,737,452	$ (2,170,379)	$ 12,693,460	$ 22,006,565	$ 20,366,791	$ 38,155,015
Prior Years' Loss Development to Equity (A/B)	**Target ≤ + 20% (any negative is ok)**	**-68.45%**	**-991.66%**	**92.24%**	**-2.43%**	**89.86%**	**0.03%**
		Met	**Met**	**Not Met**	**Met**	**Not Met**	**Met**
Change in Equity							
This ratio measures if a decline in equity in excess of 10% warrants an increase in pricing.							
Program Equity Prior Year (A)		$ (2,170,379)	$ 12,693,460	$ 22,006,565	$ 20,366,791	$ 38,155,015	N/A
Equity Change from Prior Year (B)		$ 6,907,831	$ (14,863,839)	$ (9,313,105)	$ 1,639,774	$ (17,788,224)	N/A
Change in Equity (A/B)	**Target ≤ -10%:1 (any increase is ok)**	**-318.28%**	**-117.10%**	**-42.32%**	**8.05%**	**-46.62%**	N/A
		Not Met	**Not Met**	**Not Met**	**Met**	**Not Met**	N/A
Pool Rate Setting Confidence Level (funding benchmark)		**90%**	**80%**	**80%**	**80%**	**80%**	N/A
Rate setting at atleast 80% confidence level		**Met**	**Met**	**Met**	**Met**	**Met**	
Pool Funded Confidence Level (equity benchmark)		**55%**	**0%**	**80%**	**90%**	**90%**	N/A
Equity at atleast 90% confidence level		**Not Met**	**Not Met**	**Not Met**	**Met**	**Met**	N/A