

BOARD OF DIRECTORS
MEETING AGENDA
FEBRUARY 1, 2024 WORK SESSION
FEBRUARY 2, 2024 BOARD MEETING

I. GROUND RULES:

GP-11 Board Director Covenants: All members will participate and contribute. We will be solution oriented, action oriented and take risk. We will stay open, restate closure and adhere to time lines.

Board Present: Kristin Bennett, Kristen Colonell, David Crews, David Eastin, Michael Page, Tom Turrell and Stephanie Watson.

Staff Present: Steve Fast, Craig Hein, Lawrence Mundy, Audrey Mauser, Justin Bratt, Mary Lee Gibson, Seng Tsin and Kristin Arnall.

II. CALL TO ORDER:

Director Turrell called the work session to order at 1:00PM.

III. Work Session Discussion Items:

A. 2024 Rate Structure Review (EL-7, 8 & 9) – Management Team and Staff

a. Property Rate Structure Refinements:

Mr. Hein and Ms. Arnall presented a summary overview of their analysis of Member Property contributions correlated to Member Size, region, and individual Member Loss experience. Their analysis concludes that Member rates are equitably distributed based upon their size, region, and loss experience. For example, Members of a similar size, in a similar geographic region are paying similar rates. In most instances, where an individual Member does not fall on or near the curve, the deviation from the curve tracks with their positive or negative loss experience. The model may be used to indicate where an individual Member rate should be based upon another comparative Member. Deviations that are not explained by loss experience may indicate other underwriting factors or judgmental adjustments that have been applied or that may need to be applied. Isolating the size, region and loss experience factors will allow future rating models to be more transparent when it comes to these factors and for more active management of rate models going forward. This will also allow for the abandonment of the Historical Pool Modifier as part of CSDSIPs goal to enhance its rating capabilities.

b. Deductible Factor Refinements:

Mr. Fast, Mr. Hein and Mr. Mundy presented a summary overview and recommendation of Member deductible modifications as developed by Select Actuarial Services. Staff reminded the Board that as a byproduct of the 2022 Deductible and Self Insured Retention (SIR) analysis, updates were made to the components of the deductible rating methodology to better align a SIR offering with existing coverage offerings given recent economic factors impacting the Pool. The modified deductible rating methodology is designed to better manage offset losses to continued equity amongst the membership and allow for the future development of SIR program.

The staff presented a summary of the estimated impact of the modified deductible credit factors by major line of business

c. Loss Experience Modifier:

Mr. Fast and Mr. Mundy presented the Loss Experience Modifier (LEM) as developed by Select Actuarial Services. The LEM is an actuarial evaluation of the Member's expected loss experience v. their actual loss experience. It was noted the LEM would take place of the Equity Experience Modifier developed by staff and implemented in 2019.

The LEM evaluates a Member based upon their exposure size (Contribution) relative to the total exposure (Contribution) of the Membership. Similarly, the Member is allocated a share of the Pool's Unlimited and Expected losses relative to their exposure size and the Member's actual loss experience is compared to their allocated Unlimited and Expected losses. Members whose experience is better than the modeled losses generally would receive a credit and those whose experience is worse than the modeled losses would receive a debit.

The Board would set a debit / credit range, Loss Limit Caps, and the number of years of loss experience to be used in the development of the LEM. These factors would be reviewed annually as a part of the rate development discussions.

Staff reviewed different model options with the Board and provided sample Member outcomes.

d. Base Rate Options:

Mr. Mundy, Mr. Fast and Mr. Hein presented the Board with five rate options for the 2024 – 2025 renewal period. Each option is developed from the ground up using loss projections as developed by Select Actuarial Services, estimated Operating Expenses, estimated Investment Income, estimated Ceded Reinsurance, estimated effects of both the modified deductible credits as well as the implementation of the Loss Experience Modifier and estimated exposure changes for the period. Each model reflects Management's evaluation of the current state of the reinsurance markets and how those markets, in particular Property, will react to the Member's loss experience.

The options presented started with a most optimistic model assuming a \$27M Property Annual Aggregate with modest ceded rate increases and moderate base rate increases. Each subsequent model included more conservative assessments with the most conservative model implementing a \$30M Property Annual Aggregate. Each of the models generated a slight increase, less than 1%, in Member Surplus.

B. Casualty Reinsurance Panel (EL-10)

Kevin Thommes, Underwriter – Old Republic, and Jeff Kassal, Broker – Arthur Gallagher, presented the Board with a general overview of the Public Entity Casualty Market and its impact on Members of the Pool. They reported that the market continues to experience the adverse effects of social inflation on claims related to sexual or physical misconduct. Additionally, they are seeing the increased cost of claims generally as inflation impacts the cost of medical services. Mr. Thommes expressed appreciation for the long term relationship between Old Republic and CSDSIP. He shared that he was looking forward to renewing the program again this year and conveyed that they are not looking at changing terms or conditions for the upcoming year and that rate increase would be less this year for accounts with good loss history.

IV. Work Session Adjournment

The work session was adjourned at 3:49PM.

V. Call to Order:

Director Turrell called the meeting to order at 9:00AM

Board Present: Kristin Bennett, Kristen Colonell, David Crews, David Eastin, Michael Page, Tom Turrell and Stephanie Watson.

Staff Present: Steve Fast, Craig Hein, Lawrence Mundy, Audrey Mauser, Justin Bratt, Mary Lee Gibson, Seng Tsin and Kristin Arnall.

VI. Discussion Item – Executive Director Transition

Mr. Fast discussed the Executive Director transition with the Board. The Board asked Mr. Fast to organize the search process and to develop a transition calendar. The Board affirmed that the full Board would participate in the process. They would retain a professional talent search agency to conduct a broad search of candidates including both external and internal candidates and would develop a process that included staff feedback.

VII. Action Item:

A. 24-14 GP-3: Resolution to approve the December 15, 2023 Meeting Minutes as amended.

1st: Director Eastin

2nd: Director Page

Unanimously approved.

B. 24-XX EL-7, 8 & 9: Resolution to Approve the 2024 – 2025 rate structure that:

a. Includes the Deductible factor changes developed by Select Actuarial Services and presented to the Board;

b. Includes the Loss Experience Modifier developed by Select Actuarial Services and presented to the Board;

c. Targets the overall funding level reflected in Option #3 of the Rating Options presented to the Board:

- d. **Provides a minimum individual year-over-year increase of at least 8% for an Member before accounting for exposure changes;**
 - e. **Provides a maximum individual year-over-year increase of no more than 18% for any Member before accounting for exposure changes;**
 - f. **Allows Management to use its discretion and judgement to further adjust individual Member changes beyond the ranges provided herein on a case-by-case basis, so long as such adjustments do not result in negative net income for the 2024 – 2025 policy year; and**
 - g. **Directs Management to set the appropriate base rate increases for all lines of business, including without limitation Property, School Entity Liability, and School Auto, to effectuate this resolution.**
- 1st: Director Watson
2nd: Director Page
Unanimously approved.

VIII. Standing Reports:

A. Executive Director's Report (EL-10)

- a. 2024 Reinsurance Renewal Strategy
Mr. Fast advised the Board that he and Mr. Hein met with the Gallagher Team to set reinsurance renewal objectives for the 2024 – 2025 term. He advised that while the markets are generally showing some moderation, as compared to last year, the Membership's catastrophic property losses and potential for large casualty loss will negatively impact results for the Pool. He advised that Property will be the primary marketing focus and that the Pool's program will be heavily marketed in London, Bermuda and domestic markets in Atlanta. Mr. Fast advised the Board that the 3 – year Crime program is coming to a close. The program will be marketed, but that he expects that quotes will be increased to reflect inflation effects over the past three years. Mr. Fast reported that early indications from the Cyber market were positive and he is looking to retain the current market and will push to improve terms and conditions where possible.
- b. Policy Governance Review – (GP 1-13, B/SR 1-5)
Mr. Fast advised the Board that was not recommending any changes to either the GP or B/SR sections of Policy Governance. The Board agreed no changes needed at this time.
- c. Strategic Planning Work Session
Mr. Fast advised the Board that the strategic planning work session is scheduled for February 22 and 23. The Board will be joined by Dubravka Romano, Romano Strategy Advisors, who will facilitate the meeting and draft the revised plan. Mr. Fast reviewed a presentation from Ms. Romano as a first step in preparing for the work session.

B. Financial Services Report (EL-10) – L. Mundy

Mr. Mundy presented the Board with interim financial statements as of November 30, 2023. He pointed out to the Board that Reinsurance Receivables are over \$5.8M, primarily due to ceding property claim loss reserves to reinsurance carriers and Net Loss and LAE is \$14.3M, up from \$9.5M the year prior. These amounts are primarily attributable to large wind and hail storms earlier in the year. He commented that underwriting revenue and ceded underwriting revenue are recognized evenly throughout the year, while Net Loss and LAE recognition is driven by the timing and subsequent development of actual claim events. As a result, the ultimate financial results for the fiscal year are highly dependent on claims development throughout the year. Additionally, he pointed out that investment income was a positive \$507,102 moderating overall Net Income to -\$1,839 for year-to-date November 30, 2023.

Mr. Mundy reported that all investments are within policy compliance.

IX. Meeting Adjournment

The meeting was adjourned at 10:45AM.