

BOARD OF DIRECTORS MEETING JANUARY 15, 2021



Board of Director Minutes

BOARD MEMBERS PRESENT:

Kristin Bennett, Kristen Colonell, David Crews, Tom Turrell, Dave Eastin and Mike Page

BOARD MEMBERS ABSENT:

Stephanie Watson

POOL STAFF PRESENT:

Steve S. Fast, Tod Walkington, Craig Hein, Audrey Mauser, Mary Lee Gibson, Steve Armstrong and Jillian Harclerode

POOL STAFF ABSENT:

None

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 timelines.

II. CALL TO ORDER:

Dave Crews called the meeting to order at 9:05 am.

III. Discussion Items

A. Reinsurance Market Update

Karen Graham with Arthur J. Gallagher provided the Board an update on the reinsurance market. Comparatively, CSDSIP had the least dramatic rate increase likely due to rate corrections over the last few years. 2020 has been the most challenging year for the industry in the last 15 years due to catastrophic weather events, interest rates at historical lows, and rapid liability increase likely due to social inflation.

Ms. Graham advised that the 2021 market is demanding for insurance buyers. They should expect COVID exclusions on all lines of coverage and carriers to exit the market. She is seeing Liability carriers leaving Oregon and Washington and she has heard that they are looking closely at Colorado. Carriers are experiencing decline in investment income and inadequate return on investment without new capacity coming into the market. Carriers reducing their limit capacity and dramatically increasing rates. She is seeing that carriers are reluctant to consider education accounts with poor loss history. There is a change in appetite in Cyber that is impacting the public sector and school districts including some carriers, including our incumbent carrier Chubb, who are not taking new insureds. Carriers not releasing rates in a timely manner, leading to delays and little time for insureds to review quotes and work through their internal processes. She is seeing carriers starting to put pressure on self-insurance pools to address or non-renew problematic members.

B. Legislative Update

Elizabeth Rosen with Political Advocacy, Inc. provided the Board with an update of the 2021 legislative session. The 2020 session was long due to the many stops and starts due to COVID causing most of the 711 introduced bills to be postponed. Delayed tax returns created delays for joint budget committee and a \$3 billion shortfall which lead to increase in Budget Stabilization Factor. Some of this money came from Building Excellent Schools Today (BEST) Fund and a small increase to the Coronavirus Aid, Relief, and Economic Security (CARES) Act money that did not offset this loss. Last year the \$225 million payment to PERA was canceled and there was a 5% cut to state personnel. Big bills in the session included Sick Leave for Employees (SB20-205), Unemployment insurance (SB20-207), Whistleblower Protection Public Health Emergencies (HB20-1415). In Colorado, Democrats maintain majority in both chambers. Historically the Senate has been close so this is a significant departure from history. The Gallagher Amendment Repeal likely means more funding for school entities but may be offset by State Income Tax Cut ballot measure. The Paid Family Leave, Tobacco & Nicotine tax ballot measures also passed with potential impacts to schools. Due to December forecast, the State is now facing a budget surplus and is attempting to refund previously cut programs. Enrollment declines could lead to an \$83 million cut to state school funding.

Ms. Rosen shared that the 2021 session could include legislation on changes to anonymity in Safe 2 Tell to give schools more flexibility, behavioral health analysts in schools, potential requirements for epilepsy seizure training in schools, administration of inhalers for respiratory distress, allowing Medical Marijuana to be held on school grounds without administration responsibilities on administrators, civil action statute of limitations on sexual assault allegations and potential move to make the new rule retroactive, bullying legislation, and an amendment to the Colorado Premises Liability Act due to the Wagner versus Planned Parenthood decision due to the concern that property owners and businesses are saddled with unreasonable security obligations and are foreclosed from summary judgement in this kind of litigation.

Concern that Space Force is moving to Alabama and potential new security measures to address uptick in unemployment fraud were also discussed.

C. Asset Management Update

John Utter with the Royal Bank of Canada addressed changes to the economic outlook due to COVID-19 pandemic, characterized by a large gap between those benefitting economically and those experiencing large losses. Overall, economically speaking 2020 ended up better than expected due to monetary and fiscal stimulus supporting the economy. Interest rates remain low and anchored for the time being. Total COVID fiscal stimulus since February is projected to be \$3.5 trillion. Quick action on the recovery front likely came from lessons learned in the 2008 recession. The Federal Reserve is attempting to keep balance sheets calm throughout the pandemic. The Federal Open Market Committee (FOMC) modified inflation targets to achieve an average of 2% over time but getting it to 2% and keeping it there will be very difficult. Projected interest rates near 0% through 2023. So far increased spending has not created large inflation. Instead, it is fueling asset price increases. Inflation may also be held down due to aging and slowing population growth and technological improvements

driving efficiency and reducing prices. The Standards & Poor's (S&P) 500 index ended 2020 up +16% due to forward-looking nature of the stock market.

The economic outlook has light at the end of the tunnel; however, uncertainty remains high especially regarding permanent versus temporary job losses. Employers remain unsure if they will be able to hire back full staff as COVID restrictions lift. The United States (US) Treasury rates remain low and will likely stay low, anchored by the feds accommodative policies and muted growth and inflation expectations. The US Gross Domestic Product (GDP) is expected to hover around 4%, and short-term interest rates are likely to be at or near 0%.

CSDSIP's portfolio had around a 2% portfolio return due to lower interest rates driving bond prices up. The market yield of the portfolio is about 0.5% which is good compared to the benchmark of less than a quarter percent. Mr. Utter does not expect a major change in this outlook in the next few years and stated that the goal over the near future is to try to generate income from a very liquid profile.

D. Equity Rate Model Review

Mr. Fast and Mr. Walkington presented the Equity Rate Model Review to the Board. This included a review of the model that was presented at the December Board Meeting and incorporated what it would look like with any of the three 2021 Rate Structures proposed to the Board. The review also included prospective outcomes with three options of modifiers, including an increase or decrease of 2.5% which is what Members have historically seen applied as loss experience modifiers, driven by Member loss experience. They were provided with examples of how a credit or debit may apply, in addition to examples of underwriting comments as to whether or not the modifier would be further adjusted. This factor would be applied in place of our actuarial loss experience modifiers as our loss experience modifier.

It was discussed that the market factor and competition should be included with loss experience when considering whether or not to apply this new factor. The Board discussed the desire to keep rates steady and increases conservative as well as the desire to reward good behavior and Pool history with more favorable rates.

E. 2021 Rate Structure

Mr. Walkington provided the Board with the 2021-2022 Rate Structure. He reviewed the rate options which included projected contributions, estimated reinsurance ceding costs, estimated operation expenses, projected losses and projected Net Income for 2021-2022.

IV. Agenda Approval

A. Additions Deletion to Agenda

Mr. Fast added item 3. Staffing Discussion to section VI. Standing Reports, A. Executive Director's Report.

V. Action Items:

A. 21-01 GP-3: Resolution to Approve December 11, 2020 Meeting Minutes

Resolved, that the Board approve the December 11, 2020 Minutes as presented.

1st Dave Eastin

2nd Tom Turrell

Unanimous approval by Board Members

B. 21-02 EL-7/EL-8: Resolution to Approve the 2021 Rate Structure

Resolved, that the Board approve the 2021 base rate structure to include a base rate change of 1% across all lines.

Additionally, the Board approves the development and implementation of the Experience Modifier with a range of +2.5% to -2.5%.

1st Kristin Colonell

2nd Tom Turrell

Unanimous approval by Board Members

VI. Standing Reports:

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

1. Board Director – Succession Planning

Mr. Fast discussed the need to begin planning for potential replacement of Board Directors due to their staffing changes within our Members. The opportunity to keep current Directors as community members was discussed. Members will be informed that 2 incumbent Directors would like to remain on the Board in a community member capacity and there is a potential for an opening. This messaging should take place in or around May 2021.

2. Policy Governance Review – Governance Process (GP) & Board/Staff Relationship (B/SR)

The Management Team has review GPs 1-13 and B/SRs 1-5 and provided their feedback which is grammatical in nature, the changes did not change the intent. Mr. Fast stated that he is working on posting the Board Meetings and Minutes on the website. He will incorporate the revisions for review at the next Board Meeting.

3. Staffing Discussion

Mr. Fast stated that Rendall Wright, our Senior Property Claims Representative, has announced that he intends to retire from the Pool on July 1, 2021, but can assist with his transition until December 2021. Mr. Fast would like to post Mr. Wright's position as soon as possible so that the new person can work with Mr. Wright to learn the position. The Board is in agreement.

The new Claims Position that was approved in our 2020-2021 budget has not been hired due to the pandemic. With claims starting to increase and the need for property adjusters, this is a good time to hire the Claims Representative who can focus in handling property

claims and learn from Mr. Wright and his replacement. The Board agrees with this as well.

Mr. Fast also stated that Mr. Walkington has also announced his intention to retire in 1.5 years. As we are doing with Mr. Wright's replacement, he would like to do the same with Mr. Walkington. As this will impact the next budget cycle, he will include additional funding in that budget to allow for a smoother transition. The Board is in agreement.

B. GP-3-6. Board Monitoring Report:

The Board will monitor its process and performance at each meeting. Self-monitoring will include comparison of Board activity and discipline to policies in the Governance Process and Board-Staff Relationship categories.

VII. Information Items:

None

VIII. Future Meeting Dates:

April 29th & 30th, 2021 – Board Work Session and Meeting

July 11th – 13th, 2021 – Board Work Session & CSDSIP Member Conference (Keystone, CO)

September 24, 2021 – Board Meeting

December 10, 2021 – Board Meeting

IX. Adjournment

The meeting was adjourned at 12:05 pm.