



SCHOOLS EXCESS LIABILITY FUND EXECUTIVE AND FINANCE COMMITTEE MEETING MINUTES

Time: Thursday, March 3, 2022, 1:00 P.M.

Webinar Meeting Location: Pursuant to Executive Order: N-35-20

Log-In Information: <https://us02web.zoom.us/j/87511972920?pwd=UDhldnE2VGJGdkp4UmFZa2xQTjFJQT09>

MEMBERS

Renee Hendrick, Chair	Area VI Representative
Craig Schweikhard, Vice Chair	Area V Representative
Toan Nguyen, Comptroller	Area VI Representative
David Flores, Secretary	Area II Representative
Steve Salvati, Member-at-Large	Area VI Representative
Cindy Wilkerson, Member Services & Communications Committee Chair (joined 1:03)	Area VI Representative
Tony Nahale, Workers' Compensation Claims & Coverage Committee Chair	Area VI Representative
Terese McNamee (joined at 1:34 p.m.)	Area V Representative
Phil Hillman (joined 1:07 p.m.)	Area VI Representative

GUESTS

Nichole Koenes	Risk Program Administrators (RPA)
Lori Jundt	Risk Program Administrators (RPA)
Mark Priven	Bickmore Actuarial
Mike Harrington	Bickmore Actuarial
Kevin Wong	Gilbert Associates

STAFF

Dave George	Chief Executive Officer
Lois Gormley	Director of Communications and Member Services
Jimmy Rowe	Director of Claims
Susan Casey	Executive Assistant
Zakiya Jahan	Accounting Specialist

I. CALL TO ORDER

Chair Renee Hendrick called the meeting to order at 1:01 p.m. Executive Assistant Susan Casey called the roll and confirmed the presence of a quorum.

II. AGENDA – March 3, 2022

A. Amendments/Adjustments

None.

B. Approval

Schweikhard made a motion, seconded by Salvati, to adopt the agenda as proposed.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – absent during voting
Nahale - aye
McNamee – absent during voting
Hillman – absent during voting

Motion passed.

**III. MINUTES –December 1, 2021 – Executive Committee
- December 1, 2021 – Finance Committee**

A. Amendments/Adjustments

None.

B. Approval

Flores made a motion, seconded by Schweikhard, to approve the minutes of the December 1 meetings as presented.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – aye
Nahale - aye
McNamee – absent during voting
Hillman – absent during voting

Motion passed.

IV. ACTION ITEM

A. Resolution of the Board Relating to Teleconference Meetings and Agendas

Schweikhard made a motion, seconded by Natale, to adopt the resolution as proposed.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – aye
Nahale - aye
McNamee – absent during voting
Hillman – absent during voting

Motion passed.

V. PUBLIC COMMENTS

There were no members of the public who wished to address the joint committees.

VI. CHIEF EXECUTIVE OFFICER'S REPORT

George noted that SELF established an ad hoc committee to make a recommendation regarding the next assessment for AB218 claims, and that committee has been meeting monthly. He invited anyone else interested in joining the committee to let him know.

George said SELF engaged CPSHR to conduct a search for the chief fiscal officer position, and several promising candidates have already been identified. He advised that a final selection will likely take place in late April or early May.

George announced that the claims position has been filled by Craig Nunn, who has over thirty years of claims handling experience, much in the public sector. He added that Nunn will be starting with SELF in early April, and he will be a great assistance for Director of Claims Jimmy Rowe.

George reported that he had dinner recently with representatives of a JPA at the previous week's PARMA conference, and they expressed interest in joining SELF. He said would recommend formal acceptance at the June meeting if the group made the decision to join.

George presented a projected timeline for development of the next AB218 assessment. He noted that the ad hoc committee will be reviewing the 10/31/2021 actuarial report, and Bickmore will provide a 3/31/22 actuarial update of AB218 claims. He said the committee will develop estimates during the spring, in time for budget development. George acknowledged that the timeline will be tight. He observed that based on the financial update later on the agenda, it is likely the Finance Committee will be recommending an assessment at the May and June meetings. He added that SELF will give members the option of paying their second assessment in one payment or three-year installments.

George reported that SELF had just finished its reinsurance marketing efforts. He said that he, Hendrick, and Director of Communications and Member Services Lois Gormley created some pre-marketing videos to provide reinsurers with an overview of SELF and its programs. He noted that SELF representatives participated in several in-person meetings and a few virtual sessions, contacting a total of 28 markets in U.S., London, and Germany. He remarked that all of the meetings went well, and the market seems a bit calmer and more familiar with SELF this year.

George provided an update on the CAJPA accreditation process. He said SELF's application was reviewed at CAJPA's January 18 meeting, and there are now just two small items needed to finalize the process. George indicated that once these two items have been corrected, SELF will be recommended for accreditation "with excellence."

George discussed upcoming member outreach efforts. He said he would be participating in a panel presentation for AGRIP the following week, and he and Hendrick would be making a "Risk Management 101" overview at the CASBO conference for district personnel charged with risk management.

George advised that SELF hosted a JPA symposium on January 25 and 26, which was well received, and participants enjoyed being able to meet in person again.

George stated that SELF's reinsurance brokerage contract expires at the end of June. He noted that WillisRe, now GallagherRe, was officially purchased by Gallagher in December of 2021. He said he was recommending renewing the existing contract, but welcomed direction and feedback from committee members. George expressed his opinion that the broker has done a good job for SELF under some challenging circumstances in a hard market.

Hendrick commented that WillisRe took a more active role in searching for reinsurers and brought more options to the table than the former broker had in previous years. She remarked that although she had some concerns about the firm's internal changes, she was impressed by the team's expertise and effort for SELF this year.

Nguyen asked what renewal term George would recommend. He said he supported renewal of the contract if SELF was happy with GallagherRe's service. He pointed out that SELF was already undergoing a major transition to a new CFO, so it might be prudent to continue with the current broker for now. George responded that SELF has traditionally done three-year brokerage contracts.

Hendrick recalled that the contract includes an "out clause." George confirmed that the contract has a 60-day cancellation clause for any reason.

Schweikhard said he still had a few issues with the current brokerage contract. He pointed out that SELF selected the most expensive vendor, and some of the other, less expensive bidders probably could have done a good job. For that reason, he explained, he did not support renewal because he believed SELF was still paying too much.

Flores commented that he was satisfied with WillisRe's service, especially given the challenging conditions over the past couple years, and supported renewal of the contract.

Salvati questioned whether there were other brokerage firms of comparable size that could handle SELF's needs. George replied that there are three large players in the reinsurance brokerage field: Guy Carpenter, AON, and GallagherRe.

Schweikhard asked about Alliant. George stated that SELF sent the RFP package to Alliant when the contract went out to bid three years ago, but Alliant did not respond.

Wilkerson commented that she agreed with Nguyen that an RFP would be ill-timed because of the current staff transitions. She suggested extending the contract for one or two years.

George indicated that based on the recent reinsurance purchase, broker costs are currently a little over 3 percent, a very competitive rate.

Nahale remarked that he especially liked WillisRe's creativity in dealing with the \$5 million excess of \$5 million layer. He expressed support for a two- or three-year renewal.

Hendrick observed that the team seems to have grown stronger and more motivated since the transition. She recognized that SELF might be paying a bit more, but pointed out that issuing an RFP will require considerable effort.

Schweikhard recalled that WillisRe's contract was \$150,000 more than the next bidder, and SELF's contact people have changed.

George advised that two of the three current team members were working with SELF before, and he said he had not noticed any impact on their handling of SELF's account.

Hendrick questioned whether the narrowing of the field will cause an increase in future rates. George replied that up to three years ago, SELF was paying Guy Carpenter \$660,000 per year, compared to a flat fee bid of \$600,000 from WillisRe (now GallagherRe) and a bid of \$495,000 from AON.

Hendrick observed that the consensus of the committees was that the contract should be renewed for at least another year, but that SELF should remain open to other options in the event that GallagherRe's service becomes unsatisfactory before the term of the contract.

Salvati suggested a two-year renewal, and other committee members expressed support for that approach. George thanked committee members for their feedback.

VII. INFORMATION/DISCUSSION ITEMS

A. Captive Feasibility Study

George said SELF sent an RFP for a feasibility study of a captive insurance program to four firms: AIG; AON; Artex, a unit of Gallagher; and Willis Towers Watson, and he presented the results of the proposals. He observed that because all candidates are well qualified to conduct the feasibility study, he was therefore inclined to select AIG based on price. He welcomed questions and feedback from committee members.

Schweikhard pointed out the broad range of bids, and he asked if the bid proposals were similar. He commented that all of the candidates are well recognized companies. George replied that he did not notice any substantive differences in the bid responses. He said the scope of work is to evaluate the concept of a captive for the Excess Workers' Compensation Program, and also whether such a strategy would help in certain layers of the Excess Liability Program.

Schweikhard expressed support for selecting AIG.

Salvati noted that some consultants provide an initial bid, with the anticipation that additional pieces of work would be needed in the future. He asked whether the firm doing the feasibility study could potentially be involved in the implementation and management of the captive entity. George responded that all four firms would like to be the captive manager. He observed that just doing the feasibility study would not dictate who would be retained for future work. George also pointed out that an external captive manager is not necessarily required, meaning the staff could serve that role, along with appropriate legal counsel and actuarial work.

Committee members expressed support for selecting AIG to conduct the captive feasibility study.

VIII. ACTION ITEMS

A. Approve Financial Audit

Nguyen made a motion, seconded by Flores, to approve the financial audit.

Kevin Wong, Gilbert Associates, provided a summary of the financial audit results as of June 30, 2021. He identified specific communications and disclosures required by professional standards, and he advised that the auditors issued an unmodified opinion, the best possible opinion on the financial statements, and they found no difficulties throughout the audit process. He indicated that SELF's management was very cooperative and well prepared. Wong said that at the close of the audit, SELF management certified in a letter that they had been forthcoming and had provided all relevant documentation.

Wong reported that the auditors found no changes in accounting policies from prior years. He emphasized that claims liabilities are difficult to estimate for risk pools, and the auditors also look at collectability of receivables, investment valuations, and net pension liability. He said the auditors felt that SELF's estimates were appropriate and in line with industry standards.

Wong advised that the scope of the audit went as anticipated, but the timing was a bit delayed. He said Gilbert completed most of the field work in September, but additional actuarial information came in late October or early November, and then Gilbert was able to finish the audit in January, with the audit report issued on February 1.

Wong reviewed the contents of the audit report. He stated that there were no reportable audit findings, and no significant adjustments or disclosures. He drew attention to the opinion on Page 1 and 2, the management discussion and analysis section, budget and actuarial information, and factors impacting SELF going forward.

Wong referred to the Statement of Net Position on Page 9. He observed that the simple graph provides a picture of conditions as of June 30, 2021, compared with 2020 results. He noted that total assets increased, total liabilities increased, and overall net position also increased, primarily due to the AB218 assessments collected. Wong reviewed and discussed the statement on Page 10, showing SELF's activity for the 2020/21 year. He observed that reinsurance premiums increased as the market hardened, and investment income decreased, reflecting the low interest rate environment. Wong reviewed cash flows, and he pointed out the influx of funds from the AB218 assessment collections.

Wong said the audit report also contains notes and supplemental information on specific areas. He noted that the report includes required supplementary information, including a reconciliation of claims liabilities by type of contract, claims development schedules, and pension-related schedules. He pointed out that Pages 35 through 38 show the combined financial statements.

Wong discussed the section dealing with internal controls and compliance, and advised that the auditors identified no material weaknesses and no instances of noncompliance, and SELF was given the best possible opinion.

Hendrick thanked Wong for his report.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – aye
Nahale - aye
McNamee – aye
Hillman – aye

Motion passed.

B. Accept Excess Liability Program Actuarial Study 10/31/21

Flores made a motion, seconded by Salvati, to accept the actuarial report.

Mark Priven, Bickmore Actuarial, reviewed highlights of the actuarial study as of October 31, 2021. He advised that the study indicates a rate increase of about 8 percent, reflecting an increase

in liabilities. Priven clarified that although there was little loss activity between July 1 and October 31, the actuaries based their projection on the detailed information SELF provided about specific claims and the frequency of new claims.

Priven noted that the end of three-year AB218 claims window comes up on January 1, 2023, so there might be a spike in claims later in the year. He said the actuaries assumed a constant rate through the end of the year and included IBNR. He added that some recently reported claims have been relatively small, which could help offset a potential spike later.

Priven presented a slide depicting overall liabilities at various confidence levels and discount rates. He suggested focusing on the 75 percent confidence level and 1.75 percent discount rate. He displayed proposed rates for the \$5 million to \$10 million layer, including the \$2.5 million excess of \$5 million, the \$5 million to \$7.5 million, and the \$2.5 million above that. He noted that the rates are shown at the expected level as well as various confidence levels.

He said the actuaries looked at the impact of the structured reinsurance for the \$5m x \$5m layer, and overall liability was reduced by about \$15 million to \$16 million, based on the assumption that some claims reported during the policy period would be covered in the \$5 million excess of \$5 million layer. Priven presented a slide showing that case reserves went down, but IBNR went up, resulting in an overall increase of about 17 percent in liabilities. He stated that the increase was primarily due to SAM claims.

Schweikhard asked if the shift to claims-made coverage would have an impact on liabilities in future years. Priven replied that liability claims are typically reported within three years or so, so liability would decrease in the second and third year as well.

Priven displayed a slide showing payments, case reserves, and IBNR by accident year. He pointed out that there has been very little claims activity in recent years, so the estimates are based primarily on IBNR. Priven commented that claims activity for the four-month period between July 1 and October 31 was fairly low. He noted that the actuaries made a distinction between AB218 claims and other SAM claims. He compared the rate projections to those in the prior report, and he said there was 5 to 10 percent increase for each layer.

Priven said the actuarial report also includes exhibits showing calculations at other net present value factors, ULAE, funding at different discount rates, and allocation of SAM liabilities based on attachment points and retentions in affected claim years.

Priven said George asked him to explore the idea of a corridor deductible for one large member. For example, he explained, if a member has a \$2.5 million corridor deductible excess of \$5 million, that member would retain the first \$2.5 million of loss; losses exceeding \$2.5 million, they would be insured by SELF. Priven noted that if a member opted for a corridor deductible, that member's rate would decrease to cover the reduction in expected losses in that layer, and SELF would rebate funds in proportion to that member's risk margin. He explained how the actuaries calculated the appropriate rate for a corridor deductible.

Schweikhard asked if the corridor deductible had a significant impact on the rate. Priven said the figures would change a little depending on the size of the member opting for a corridor deductible, but the overall impact would be pretty consistent.

The committee discussed how implementation of the offering would possibly work, communication to the membership, administrative issues and suggested deadlines for notification.

Priven indicated that he would prepare a PowerPoint presentation for the Board meeting.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – aye
Nahale - aye
McNamee – aye
Hillman – aye

Motion passed.

- C. Accept Investment Compliance Report – Month Ending October 31, 2021, November 30, 2021, and December 31, 2021

Schweikhard made a motion, seconded by McNamee, to accept the Investment Compliance Reports.

Nicole Koenes, Risk Program Administrators (RPA), introduced her colleague, Lori Jundt, and explained that RPA is performing CFO functions for SELF pending the hiring of a new CFO. She said RPA's Accounting Department manages the financial statements for a multitude of school districts and other public entities in Arizona and California, and RPA staff has been enjoying working with SELF's team.

Koenes reviewed the monthly Investment Compliance Reports comprising SELF's PFM, CAMP, and LAIF accounts. She noted total investments are up 17 percent since June 30, 2021, with about \$200 million combined for all portfolios. She indicated that about 56 percent of SELF's portfolio is liquid. She reported that the portfolios are in compliance with SELF's investment policy, and she recommended acceptance of the reports.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – aye
Nahale - aye
McNamee – aye
Hillman – aye

Motion passed.

Accept Investment Report –Second Quarter 2021/2022

Nguyen made a motion, seconded by Flores, to accept the Investment Report.

Koenes said the quarterly investment report provides detailed information about SELF's assets managed by PFM for the Excess Liability Program and Excess Workers' Compensation Program. She noted that Sarah Meacham was unable to attend the meeting, but she confirmed the overall market value decline for the quarter and the year, reflecting the changing interest rate environment. Koenes indicated that Meacham pointed out strong long-term growth in the five-year benchmark, which matches the long-term focus of the claim liabilities.

Koenes observed that PFM is managing SELF's portfolio by tactically shifting investments within the current strategy to maintain discipline and weather current market conditions. She noted that the investment report includes details on transactions, a market summary, and portfolio performance. She recommended acceptance of the quarterly report.

Koenes advised that the conflict between Russia and Ukraine will not have much impact on SELF's investments, but SELF has investments from approved issuers that are large multinational corporations that operate in Russia and Ukraine. She indicated that any impact would be limited because 2 percent or less of SELF's portfolios are allocated to those issuers. Koenes stated that PFM does not plan to make any changes to portfolio holdings but will be watching the market for future opportunities. She said Meacham noted there are recent trends pushing U.S. Treasury yields down and prices up, reversing some of the market value declines experienced over the past couple months.

Hendrick thanked Koenes for her report.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – aye
Nahale - aye
McNamee – aye
Hillman – aye

Motion passed.

D. Accept Financial/Treasurer's Report Ending December 31, 2021

Flores made a motion, seconded by Schweikhard, to accept the Financial/Treasurer's Report.

Koenes reviewed highlights of the Financial/Treasurer's Report. She confirmed that SELF has sufficient resources to meet Government Code requirements. She acknowledged that liabilities increased since June 30, primarily reflecting the adjustment for IBNR estimates as of October 31.

Koenes reviewed and discussed the statement of revenues and expenses. She displayed a slide showing the status of the AB218 program separate from the traditional Excess Liability Program. She pointed out the estimated \$30 million deficit for the AB218 program, a substantial portion of which is IBNR.

George noted that actuarial report made a distinction between pre-2008 AB218 claims and post-2009 SAM claims, and that shift is reflected in the June 30 numbers. He said the reason for the distinction is to better target the funding needed

She recommended acceptance of the Financial/Treasurer's Report.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye

Wilkerson – aye
Nahale - aye
McNamee – aye
Hillman – aye

Motion passed.

E. Approve 2022/23 Rates

McNamee made a motion, seconded by Nahale, to adopt the 2022/23 rates as proposed.

George noted that there are a number of factors SELF considers in setting rates, including the equity policy. He observed that one advantage of the three-year structure is that it protects SELF in the \$5 excess of \$5 million rate for the next two years. George said other factors in setting rates are estimated reinsurance cost, administrative costs, and relativity factors to distinguish between K-12 and community college members.

George indicated that SELF is still facing hard market conditions, and although rates will continue to increase, they should increase more slowly. He presented a summary of the proposed rates for each layer and the corridor deductible option at the \$2.5 million annual aggregate threshold. He showed an overview of SELF's reinsurance structure over the past ten years.

George noted that SELF sets rates before knowing the exact costs of reinsurance. He displayed a chart showing projected premiums per ADA for the various insurance layers. He pointed out that this analysis provides a conservative buffer in case reinsurance costs come in higher than anticipated, but all indications are that the increases will be well within this range.

George presented a proposal for 2022/23 rates. He said the proposed rates meet SELF's equity policy, provides a conservative margin for any increases in the final costs of reinsurance, covers the administrative cost burden, and incorporates the actuarially determined relativity factor. He recommended approving the proposed rates and recommending adoption by the Board.

George noted the rate for K12 members will increase by 4.8 percent and the community college rate will increase by 3 percent. Nguyen remarked that these are the lowest increases for the past several years.

George commented that the next AB218 assessment is likely to be a larger number than the first assessment. He said SELF will probably offer a lump-sum payment up front or a three-year installment option. Nguyen recalled that the up-front option worked well; George agreed, noting that over 90 percent chose to pay up front.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – aye
Nahale - aye
McNamee – aye
Hillman – aye

Motion passed.

IX. FUTURE MEETINGS

The committees reviewed the schedule of upcoming meetings.

X. ADJOURNMENT

There being no further business, McNamee made a motion, seconded by Salvati, that the meeting be adjourned.

Vote: Hendrick – aye
Schweikhard – aye
Nguyen – aye
Flores – aye
Salvati – aye
Wilkerson – aye
Nahale - aye
McNamee – aye
Hillman – aye

Motion passed. The meeting was adjourned at 3:10 p.m.