



**PUBLIC ENTITY RISK MANAGEMENT AUTHORITY
MINUTES OF THE BOARD OF DIRECTORS MEETING**

March 2, 2023

1. CALL TO ORDER

A regular meeting of the Board of Directors of the Public Entity Risk Management Authority was called to order by President Matthew Schenk at 10:03 a.m. on Thursday, March 2, 2023. The meeting was via teleconference in accordance with Assembly Bill 361, Per Section 54953 of Government Code, wherein public noticing of teleconference locations for each meeting participant is suspended.

2. ROLL CALL

It was determined that a quorum was present.

MEMBERS PRESENT

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| 1. Nicole Jews, <i>Banning</i> | 16. Richard Beltran, <i>March JPA, arrived at item 6A</i> |
| 2. Darcy Wigington, <i>Barstow</i> | 17. Naomi Kamunyu, <i>Moreno Valley</i> |
| 3. Mallory Crecelius, <i>Blythe</i> | 18. Marjorie De La Cruz, <i>Palm Springs Aerial Tramway</i> |
| 4. Kevin Biersack, <i>Cathedral City</i> | 19. Diego Chavez, <i>Murrieta</i> |
| 5. Sandy Krause, <i>Coachella</i> | 20. Lisette Free, <i>Norco</i> |
| 6. Tom Cody, <i>Colton</i> | 21. George Colangeli, <i>PVVTA</i> |
| 7. Geoffrey Buchheim, <i>Desert Hot Springs</i> | 22. Matthew Schenk, <i>Perris</i> |
| 8. Amanda Wells, <i>Eastvale</i> | 23. Joseph Carpenter, <i>Rancho Mirage</i> |
| 9. Michael Gray, <i>GTA</i> | 24. John Davis, <i>Recycling Authority (MD&MRA), arrived at item 6A</i> |
| 10. Rita Perez, <i>Hesperia</i> | 25. Thomas Prill, <i>San Jacinto</i> |
| 11. Adriana Anguis, <i>Holtville</i> | 26. Josie Trevino, <i>Victorville</i> |
| 12. Michelle Bastidas, <i>ICTC</i> | 27. Sophie Smith, <i>VVEDA</i> |
| 13. Rodolfo Aguayo, <i>IVECA</i> | 28. Kevin Kane, <i>VVTA</i> |
| 14. Connie Cardenas, <i>Jurupa Valley, arrived at item 6A</i> | |
| 15. Sheryl Sherman, <i>La Mesa</i> | |

MEMBERS ABSENT, OR PRESENT WITHOUT VOTING DELEGATE

Canyon Lake, SunLine and Westmorland

OTHERS PRESENT

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| 1. Sheryl Garcia, <i>Canyon Lake</i> | <i>Actuarial, left at item 6C</i> |
| 2. Regina Hawkins, <i>Colton</i> | 9. Greg Beaulieu, <i>Bickmore Actuarial, left at item 6D</i> |
| 3. Christian Castro, <i>PVVTA</i> | 10. Bill Taylor, <i>Sedgwick</i> |
| 4. Matt McManus, <i>Alliant</i> | 11. Iris Penales, <i>Sedgwick</i> |
| 5. Jessica Andersen, <i>Eide Bailly</i> | 12. Beth Lyons, <i>PERMA</i> |
| 6. Michael Torcaso, <i>Eide Bailly</i> | 13. Yumi Augustus, <i>PERMA</i> |
| 7. Byrne Conley, <i>Gibbons & Conley</i> | 14. Katie Achterberg, <i>PERMA</i> |
| 8. Mike Harrington, <i>Bickmore</i> | |

3. APPROVAL OF AGENDA AS AMENDED

Staff asked the agenda to be amended for item 6A. The Audited Financials for years ended June 30, 2022 & 2021 were not finalized and ready for presentation. Staff will present the Draft Financial Statements for years ended June 30, 2022 & 2021 during item 6A.

Motion by Director Gray and second by Director De La Cruz to approve the agenda as amended. Directors Jews, Wiginton, Crecelius, Biersack, Krause, Cody, Buchheim, Wells, Gray, Perez, Anguis, Bastidas, Aguayo, Sherman, Kamunyu, De La Cruz, Chavez, Free, Colangeli, Schenk, Carpenter, Prill, Trevino, Smith, and Kane voted to approve the motion. Motion passed unanimously.

4. PUBLIC COMMENTS

None

5. CONSENT CALENDAR

- A. Board Minutes of December 1, 2023
- B. Ratify General Counsel Contract
- C. Member Trust Fund Reports for July through December 2022
- D. Investment Performance Report
- E. Proclamation for Chis Mann, Canyon Lake
- F. Executive Committee Vacancy Position Filled by Thomas Prill, San Jacinto

Motion by Director Colangeli and second by Director Crecelius to approve items A-B and direct staff to finalize; review and file items C-F. Directors Jews, Wiginton, Crecelius, Biersack, Krause, Cody, Buchheim, Wells, Gray, Perez, Anguis, Bastidas, Aguayo, Sherman, Kamunyu, De La Cruz, Chavez, Free, Colangeli, Schenk, Carpenter, Prill, Trevino, Smith, and Kane voted to approve the motion. Motion passed unanimously.

6. ACTION / DISCUSSION ITEMS

A. Presentation of Draft Financials Statements for Years Ended June 30, 2022 & 2021

The draft financial statements were presented by Jessica Andersen of Eide Bailly. The audit is being finalized and will be distributed by June 30, 2023. Following is a summary of the financial highlights for fiscal year ending June 30, 2022:

- Total operating revenues are \$28.6M, an increase of 34.1% or \$14.5M from the prior year. The increase is due to the \$4.8M increase in deposit premiums, and the \$9.5M assessment for the Liability program.
- Total operating expenses are \$15.0M, a decrease of 18.6% or \$3.4M from the prior year. The decrease is attributable to a \$5.1M decrease in the provision for claims and claim adjustment expenses offset by an increase of \$2.1M in excess insurance.
- Non-operating loss is \$1.5M, an increase of 1372% or \$1.4M over the prior year. Investment earnings increased \$4 thousand over the prior year and change in fair value of investments (loss) increased \$1.4M over the prior year.
- Total net position is \$14M, an increase of 615.6% or \$12.1M from the prior year. The increase is mainly due to the assessment of \$9.5M in the Liability program.

Staff asked the Board to approve an extension to present the Audited Comprehensive Financial Report for years ended June 30, 2022 & 2021 until June 30, 2023.

Motion by Director Crecelius and seconded by Director Bastidas to review and file the draft Financial Statements for Years Ended June 30, 2022 & 2021 and extend the deadline to distribute the financial audit to the members through June 30, 2023. Directors Jews, Wiginton, Crecelius, Biersack, Krause, Cody, Buchheim, Wells, Gray, Perez, Anguis, Bastidas, Aguayo, Cardenas, Sherman, Beltran, Kamunyu, De La Cruz, Chavez, Free, Colangeli, Schenk, Carpenter, Prill, Trevino, Smith, and Kane voted to approve the motion. Director Davis abstained. The motion passed.

B. Actuarial Funding Studies for the Liability and Workers' Compensation Programs

Bickmore Actuarial, an independent actuarial firm, conducted funding studies for the Liability and Workers' Compensation programs. The studies used loss data valued as of September 30, 2022 to prepare the 2023-24 funding rates and experience modification (ex-mod) factors.

The liability report reflects the new member retention limits (MRL) and the new methodology for allocating pool costs to the members adopted by the Board in December. In December the Board also approved using uncapped numbers in the ex-mod formula. Because some of the year-over-year changes in premium were quite large, however, Bickmore provided the numbers with an ex-mod cap change at +/- 20% for consideration. In addition, the overall change in premium for the pool layer was separated into its component parts.

The emergence of claims during the 15 months between Aon's most recent report and the current one was generally unfavorable, especially in the most recent two fiscal years, leading to a 12% increase in the average funding rate for 2023-24.

The workers' compensation report continues to use the same member retention levels and allocation methodology used last year. The emergence of claims during the 15 months between Aon's most recent report and the current one was also generally unfavorable, especially in the most recent fiscal year, leading to a 5.5% increase in the average funding rate for 2023-24.

The Executive Committee reviewed the studies at its meeting on February 27 and recommended the Board approve: 1) funding at an undiscounted, 80% confidence level, and 2) apply an ex-mod cap change of +/-20%.

Motion by Director Colangeli and second by Director Gray to approve the following for the 2023-24 fiscal year for the Liability and the Workers' Compensation Programs: 1) funding at an undiscounted, 80% confidence level, and 2) apply an ex-mod cap change of +/-20%. Directors Jews, Wiginton, Crecelius, Biersack, Krause, Cody, Buchheim, Wells, Gray, Perez, Anguis, Bastidas, Aguayo, Cardenas, Sherman, Beltran, Kamunyu, De La Cruz, Chavez, Free, Colangeli, Schenk, Carpenter, Davis, Prill, Trevino, Smith, and Kane voted to approve the motion. Motion passed unanimously.

C. 2023-24 Budget Guidance

Staff reviewed the Budgetary Guidance document included in the agenda. The document provides the 2023-24 estimated deposit contributions for the Liability, Workers' Compensation, Property, and APD programs and the estimated premiums for the Crime, Cyber Liability, EPL (ERMA), and ADWRP programs. These amounts should be used as budgetary guidance by the membership for inclusion in the members' budgets. It is important

to note that no renewal quotes have been received for any program, thus the numbers being provided are estimates. Staff will continue to refine the numbers as quotes are received. The budget will be presented in early June for Board review and approval. Based upon the state of the insurance marketplace, however, it is possible final renewals will not be received until the last week in June.

The liability, workers' compensation, property, and auto physical damage self-insurance programs include three primary budgetary elements:

1. Pool funding (funds losses from the members' retentions to the pool's retention)
2. Excess coverage (excess pools, reinsurance and excess policies)
3. Operating expenses (risk control, staffing, TPAs, etc.)

Pool Level Funding

The liability program was funded at the 80% confidence level in 2022-23. The Board recently adopted a funding policy stating PERMA will fund the Liability program between the 80% - 90% confidence levels. Based upon other anticipated increases, staff used the low end of the funding target, or 80%, in the draft budget. On average the 2023-24 funding rates increased 12% (the range was 1% to 18.5%) from the current year depending on the member retention level (MRL).

The Workers' Compensation program is funded at the 80% confidence level and has been since FY 2015-16. Prior to FY 2015-16 it was funded at a 65% confidence level. On average the 2023-24 funding rates increased 5.5% (the range was -3% to 7%) from the current year depending on the member retention level (MRL).

Excess Liability Coverage

The estimated FY 2023-24 renewal contribution for excess liability coverage (coverage from \$1M to \$50M) is \$9.9 million, which is an increase of \$3 million, or 44%, over the FY 2022-23 contribution of \$7.4 million. We have not received estimates from LAWCX, the workers' compensation excess pool yet (coverage from \$500,000 to statutory), so a 20% increase was used in the estimates.

Operating Expenses

In the estimated 2023-24 budget, administrative expense allocations were made as follows:

- Liability program – 70% of all administrative expenses (the liability claims manager was allocated at 100%)
- Workers' Compensation program – 15%
- EPL program – 5%
- Property program – 5%
- APD program – 4%
- Cyber Liability program – 0.75%
- Crime program – 0.25%
- ADWRP – 0.0%

In December the Board approved a Trust Account Policy which requires every member establish a trust account. Funds in these accounts remain the individual members' funds (i.e. there is no risk sharing), and they are used to pay for claims within the members' retentions. The amounts included in the estimated budget are conservative, and for many members they will decrease in the next version of the estimated budget.

Deposit contributions are based on the member retention levels (MRL) adopted by the Board in December.

Member Payroll is the exposure base used to determine Liability, Workers' Compensation and EPL contributions. Actual 2022 calendar year payroll was used in the 2023-24 annual contributions. The Liability, Workers' Compensation, and ERMA contributions are also experience rated. Experience rating is a method of adjusting the contributions for a risk based on past loss experience for that risk compared to loss experience for an average risk.

In December the liability ex-mod formula was revised for implementation in 2023-24 through Board action. The ex-mod is actuarially developed using five years of losses (capped to \$100,000) and five years of payroll. Although the Board took action to remove the cap in December, changes from year-to-year were capped to +/- 20% based upon unexpected volatility.

The Property Program renewal quote has not been received. The estimate includes a 35% increase. The total insured values (TIV) used in calculating the premiums are from last year and will be updated in April to consider the valuations from the property appraisals. The actuaries are calculating estimates for the self-insured funding layer (\$10,000 to \$100,000) and updates will be included in the next estimate.

The Auto Physical Damage renewal quote has not been received. The estimate includes a 15% increase. The total insured values (TIV) used in calculating the premiums are from last year and will be updated in the next estimate update. The actuaries are calculating estimates for the self-insured funding layer (\$5,000 to \$25,000) and updates will be included in the next estimate.

The Crime renewal quote has not been received. The 2023-24 estimate includes a 25% increase which reflects the possibility of raising the minimum coverage limits from \$1M to \$3M.

Cyber carriers have been overwhelmed with cyber incident claims. PRISM provided an estimated premium range which more than doubled last year's premium. For budgeting purposes PERMA used the high-end of the range.

Employment Practices Liability (ERMA) has not provided contribution indications at this time. The estimate includes a 15% increase.

Alliant Deadly Weapons Response Program (ADWRP) renewal quote has not been received. The estimate includes a 10% increase.

PERMA developed a conservative budget draft using the high end of ranges provided. The hard market, excess/reinsurance renewals, and individual member loss experience will have an impact on final deposit contributions. Members with worse than average losses may experience increases higher than provided in this budget estimate.

D. Investment Performance Report

Although inflation remains elevated, it has shown signs of moderating in recent months, which is raising questions about the path of monetary policy going forward. The Federal Reserve's December meeting suggests that it will raise its target rate by an additional 0.50% during 2023 and keep interest rates at that level through 2023. Federal funds futures suggest, however, that markets think the Federal Reserve will start cutting interest rates before the end of 2023.

As a consequence of differing views regarding the path of Fed policy and developing economic data, interest rates were volatile during the quarter. The 2-year U.S. Treasury

started the quarter at 4.22%, rose to 4.72% during the quarter, and ended the quarter at 4.41%.

Total returns were positive for the fourth quarter as interest rate increases began to moderate and portfolios benefitted from higher earnings on new investments. Returns for the past twelve months were still negative given the magnitude of interest rate increases during the year. However, the portfolio continues to perform well compared to its benchmark.

Additionally, since the CAMP account was funded a little over four months ago, PERMA has earned \$304,905 in interest. The yield continues to increase and is out-pacing LAIF in the range of 2 basis points. This resulted in PERMA earning about \$144K more than if the funds had been left in LAIF. Eide Bailly continues to monitor the spread and deposits will be adjusted as necessary based upon the yield.

E. Presentation of Key Budget Metrics

Staff presented statistical analysis to the Board using key budget metrics. The analysis used actual expenses for 2018-19, 2019-20, and 2020-21, and budgeted expenses for 2021-22 and 2022-23. Financial benchmarking will help PERMA understand how it is performing over time, how it compares to others, and provide new insights and questions for strategic discussion.

7. CLOSING COMMENTS

The Board thanked staff for their efforts in keeping the PERMA Board informed on pool matters and the financial condition.

8. ADJOURNMENT

The meeting of the Board of Directors adjourned at 11:36 a.m.

Respectfully submitted,
Beth Lyons, Board Secretary