SMALL CITIES ORGANIZED RISK EFFORT TRAINING & LONG RANGE PLANNING MEETING AGENDA

1	**Attached**
2	**Hand Out**
3	**Separate Cover**
4	**Verbal**

Date: Thursday, October 22, 2020
Time: 9:00 AM
Location: TELECONFERENCE
Call in number: 877-309-3457
Conference Code: 171 531 3520

PAGE

MORNING TRAINING

Time Certain
8:30 am – 9:00 am

SCORE Orientation for New Members — I 2
The Program Administrators will provide an orientation for new members and answer member questions about SCORE programs and services.

LONG RANGE PLANNING

PAGE

A. CALL TO ORDER – 9:00 am

9:00 am

B. ROLL CALL

C. APPROVAL OF AGENDA AS POSTED — A 1

D. PUBLIC COMMENTS

E. OPENING COMMENTS

1. **President's Report** — I 4
Steven Baker will address the Board on items pertaining to SCORE.

F. FINANCIAL ITEMS

9:15 am – 9:45 am
Pg. 3

1. **Target Funding Benchmarks** — I 2
Marcus Beverly will present an overview of SCORE's financial condition relative to the funding benchmarks established by the Board.

9:45 am – 10:30 am
Pg. 11

2. **Liability Program Analysis** — A 1
The Board will receive an update on CJPRMA's financial status and the impact a higher SIR will have on the Liability Program. This includes a review of the excess insurance market environment, impact on SCORE, and options to address.

10:30 am – 10:45 am

BREAK

10:45 am – 11:30 am
Pg. 22

3. **Workers Compensation Mini-Cities and Administrative Funding** — A 1
The Board will review the Workers' Compensation and Administrative funding formulas and provide feedback regarding potential changes, including a review of the mini-cities criteria and admin allocation.

11:30 am – 11:45am	**Wrap-Up** *Members will provide feedback and direction regarding the day's discussions and preview the items for tomorrow's agenda.*	**I**	**4**
11:45 am – 12:00 pm	***BREAK***		
12:00 pm – 1:00 pm *Pg. 23*	**LUNCH PRESENTATION - Employment Law Hot Topics and Trends** *Sander Van de Heide from Jackson Lewis will present the Board with an update on the latest EPL legal developments and risk management best practices.*	**I**	**4**

IMPORTANT NOTICES AND DISCLAIMERS:

Per Government Code 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 Michelle Minnick at Alliant Insurance at (916) 643-2715. The Agenda packet will be posted on the SCORE website at www.scorejpa.org. Documents and material relating to an open session agenda item that are provided to the SCORE Board of Directors less than 72 hours prior to a regular meeting will be available for public inspection and copying at 2180 Harvard Street, Suite 460, Sacramento, CA 95815. Access to some buildings and offices may require routine provisions of identification to building security. However, SCORE 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

BACK TO AGENDA

Small Cities Organized Risk Effort
Long Range Planning
October 22, 2020

Agenda Item F.1.

TARGET FUNDING BENCHMARKS

INFORMATION ITEM

ISSUE: Marcus Beverly will present the annual review of SCORE's financial condition as of 6/30/20 compared to the Target Funding Policy benchmarks used to guide decisions regarding funding, refunds, and assessments. Suggested changes to the Policy to update some of the language and benchmarks to reflect current practice will also be discussed for possible action later in the meeting.

RECOMMENDATION: None. Information only.

FISCAL IMPACT: None.

BACKGROUND: SCORE maintains a Target Funding Policy to guide the Board of Directors in making annual funding, dividend and assessment decisions for the Banking Layer and Shared Risk Layers, per the Master Plan Document for each Coverage Program. The Policy was last updated on 10/17/14 as a result of changes to the Dividend Assessment Plan (DAP).

ATTACHMENTS: *Funding Benchmark Presentation at meeting*

c/o Alliant Insurance Services, Inc. | 2180 Harvard St, Ste 460, Sacramento, CA 95815| Phone: 916.643.2700 |Fax: 916.643.2750

SMALL CITIES ORGANIZED RISK EFFORT (SCORE)

UNDERWRITING POLICY

Objective

Small Cities Organized Risk Effort (SCORE) has established underwriting criteria for the purpose of evaluating prospective members. Underwriting information is also used for rate and premium calculations and for measuring member performance. Underwriting standards and guidelines are outlined in various governing documents, including the JPA Agreement, Bylaws and SCORE Policies. This Underwriting Policy provides a summary and highlights much of the criteria utilized to complete the underwriting process.

Underwriting Function/Mission

Establishing underwriting criteria ensures that SCORE coverage programs are analyzed for risk exposures, funding requirements, risk retention levels, compatibility between members, and serviceability by staff. Adherence to these Board approved standards and guidelines promotes the continued financial viability and security of SCORE.

New Members

The guidelines for admittance of new members to SCORE are set forth in the Bylaws. Membership is open to any Public Agency that the Board of Directors determines, in its sole discretion, has similar exposures and interests to the Members. Approval of membership by the Board of Directors is required. Applicants accepted for membership must participate in the Liability pooled coverage program and agree to participate as a member for a minimum of three consecutive years.

Application Process

An applicant for membership must complete an application that solicits specific information to assess the applicant's risk exposures, including the following financial information:

a. Current payroll, estimated payroll for the initial Program Year, most recent audited financial statements, budget and other financial data as requested;
b. Payrolls for the previous five years
c. Loss history for the previous five years;
d. Any recent claim or actuarial studies.

In addition, the applicant must provide a fully executed resolution from their governing board seeking membership pursuant to SCORE's policies and may pay an application fee as determined by the Board of Directors.

Underwriting Guidelines

Any prospective member must meet the following minimum underwriting guidelines:

a. Have a loss rate calculated for the past three years that does not exceed the average loss rate of the current members;
b. Demonstrate a commitment to support risk management and safety programs to control or prevent claims;

The Administrator, with the concurrence of the Board of Directors, may waive any of these guidelines or require additional terms and conditions for membership if circumstances warrant.

Mini-Cities Underwriting Guidelines

Any prospective Mini-City member must meet the above requirements as well as the following minimum underwriting guidelines:

a. Mini-Cities Members must have an average calendar year payroll below $500,000 for the three years prior to the subject fiscal year.
b. If a Member's average calendar year payroll for the three years prior to the subject fiscal year drops below the $500,000 threshold they may apply to join the Mini-Cities, subject to Board approval.
c. A Mini-Cities member may apply to leave the group, subject to Board approval and considering the impact on the remaining members.
d. A Mini-Cities member approved to leave the group may not return for three years.

Rate Setting/Funding Requirements

The coverage programs will be funded each year after completion of an independent actuarial study. Rates are established based upon multiple factors, including:

- Payroll exposure
- Loss rates
- Excess rates

- Administrative expenses
- A margin for contingency as prescribed in SCORE's Funding Policy (minimum of Expected Losses with goal of 70% Confidence Level)

Although SCORE's coverage program is based upon risk sharing among its members, to encourage accountability for losses member funding is adjusted after the application of an experience modification factor.

Target Net Position

SCORE has adopted a Dividend and Assessment Plan (DAP) for each of its coverage programs that sets a minimum threshold for Net Position prior to disbursement of any dividends. Dividends are available only to the extent Net Position exceeds five times the Program SIR, plus funding of liabilities from Expected to the 70% Confidence Level, plus any other designated funds, such as Safety Grant funds. Any amounts above those thresholds may be distributed at the Board's discretion. Each Program also sets minimum thresholds for member Banking Layer balances.

Periodic Review

This Underwriting Policy will be periodically reviewed by the Board, at least once every three years. This review should consider:

a. Is the process adequately measuring the risks?
b. Is the process adequately allocating costs?

The Board may delegate the underwriting function as outlined in this Policy to the Executive Committee or any other committee established for the sole purpose of addressing underwriting issues.

ADOPTED BY BOARD OF DIRECTORS
Date: October 27, 2017

SMALL CITIES ORGANIZED RISK EFFORT
WORKERS' COMPENSATION PROGRAM
PROPOSED Fiscal Year 2020-21
Funding 80% CL

Total Admin Expenses:	$857,418	Liability Participants	17
Total Liab Admin Expenses:	$462,251	WC Participants	16
Total WC Admin Expenses:	$395,166	WC members (Mini-Cities as one mei	13
		Mini-Cities Members	4

A	B	C	D	E	F	G	H	I	J
Formula/Allocation	CY 2019 Payroll + 3% Inflation Factor	Relative Loss Rate x Credibility Factor	(Projected Payroll x Ex Mod)/ExP Adjustment Factor	(ExP/$100) x Rate	(ExP/$100) x Rate	(ExP/$100) x Rate	Banking + Shared + Excess Layers	(PP/$100) x Banking, Shared and Excess Rates	(H) - (I)
MEMBER ENTITY	**Projected Payroll (PP)**	**EX MOD**	**Ex-Mod Adjusted Payroll (ExP)**	**BANKING LAYER 80% CL $0 to $25K**	**SHARED LAYER 80% CL $25K to $250K**	**EXCESS LAYER $250K TO STATUTORY LAWCX PREMIUM**	**Loss Funding**	**Unadjusted Loss Funding**	**Ex Mod Impact on Loss Funding Increase or (Decrease)**
Rate/Amount	**1.03**	**Calc**		**$ 1.91**	**$ 4.93**	**$ 1.45**	**Calc**	**Calc**	**Calc**
Colfax	$815,608	0.83	$ 679,401	$ 12,991	$ 33,478	$ 9,837	$ 56,307	$ 67,595	$ (11,288)
Dunsmuir	$867,785	1.04	$ 900,244	$ 17,214	$ 44,361	$ 13,035	$ 74,610	$ 71,920	$ 2,690
Etna	$535,744	0.87	$ 465,921	$ 8,909	$ 22,959	$ 6,746	$ 38,614	$ 44,401	$ (5,787)
Live Oak	$1,393,398	0.74	$ 1,029,142	$ 19,679	$ 50,712	$ 14,901	$ 85,292	$ 115,481	$ (30,189)
Loomis	$1,182,518	0.76	$ 903,453	$ 17,276	$ 44,519	$ 13,081	$ 74,876	$ 98,004	$ (23,128)
Mt. Shasta	$2,507,482	0.85	$ 2,136,478	$ 40,854	$ 105,278	$ 30,934	$ 177,065	$ 207,813	$ (30,748)
Portola	$904,933	1.28	$ 1,158,580	$ 22,154	$ 57,091	$ 16,775	$ 96,020	$ 74,998	$ 21,022
Rio Dell	$1,216,547	0.96	$ 1,170,816	$ 22,388	$ 57,693	$ 16,952	$ 97,034	$ 100,824	$ (3,790)
Shasta Lake	$4,299,509	0.61	$ 2,639,885	$ 50,480	$ 130,084	$ 38,223	$ 218,786	$ 356,331	$ (137,545)
Susanville	$4,420,501	1.10	$ 4,843,804	$ 92,623	$ 238,685	$ 70,133	$ 401,441	$ 366,359	$ 35,082
Weed	$2,269,813	1.09	$ 2,484,338	$ 47,505	$ 122,419	$ 35,970	$ 205,895	$ 188,116	$ 17,779
Yreka	$3,821,757	1.56	$ 5,964,158	$ 114,047	$ 293,892	$ 86,354	$ 494,293	$ 316,736	$ 177,556
Subtotal Members	**$24,235,597**	**0.98**	**$ 24,376,218**	**$ 457,212**	**$ 1,178,211**	**$ 346,195**	**$ 1,981,618**	**$ 1,964,177**	**$ 17,441**
Isleton (do not participate)									
Biggs	$421,306	0.93	$ 391,814	$ 7,492	$ 19,307	$ 5,673	$ 32,472	$ 34,917	$ (2,444)
Loyalton	$161,721	0.93	$ 150,401	$ 2,876	$ 7,411	$ 2,178	$ 12,465	$ 13,403	$ (938)
Montague	$408,234	0.93	$ 379,658	$ 7,260	$ 18,708	$ 5,497	$ 31,465	$ 33,833	$ (2,368)
Tulelake	$423,418	0.93	$ 393,778	$ 7,530	$ 19,404	$ 5,701	$ 32,635	$ 35,092	$ (2,456)
Subtotal Mini Cities	**$1,414,679**	**0.93**	**$ 1,315,651**	**$ 25,158**	**$ 64,830**	**$ 19,049**	**$ 109,037**	**$ 117,245**	**$ (8,207)**
Grand Total	**$25,650,275**	**0.97**	**$ 25,691,869**	**$ 482,370**	**$ 1,243,041**	**$ 365,244**	**$ 2,090,655**	**$ 2,081,421**	**$ 9,234**

SMALL CITIES ORGANIZED RISK EFFORT
WORKERS' COMPENSATION PROGRAM
PROPOSED Fiscal Year 2020-21
Funding 80% CL

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Total Liab Admin Expenses:	$462,251	WC Participants	16
Total WC Admin Expenses:	$395,166	WC members (Mini-Cities as c	13
		Mini-Cities Members	4

A	K	L	M	N	O	P	Q	R	S	T	U	V
Formula/Allocation	10-year Assessment Allocation	(Total Admin x .5)/ Number of Members	(Total Admin x .5)/ %PP	(L) + (M)			(H) + (K) + (N)					Member PP/Total PP
MEMBER ENTITY	**LAWCX ASSESMENT**	**50% ADMIN FIXED EXPENSE**	**50% ADMIN % PAYROLL**	**Proposed Admin Total FY 20-21**	**Admin Total FY 19-20**	**% Change ADMIN**	**Proposed FY 20-21 TOTAL DEPOSIT**	**Prior Year FY 19-20 DEPOSIT**	**$ Change Overall**	**% Change Overall**	**% Change in Payroll**	**% Projected Payroll (%PP)**
Rate/Amount	**Calc**	**$197,583**	**$197,583**	**$395,166**	**$393,651**	**0.4%**	**80% CL**	**80% CL**				
Colfax	$ 158	$12,349	$ 6,272	$18,621	$17,271	7.8%	$75,086	$63,661	$11,425	18%	15%	3.2%
Dunsmuir	$ 374	$12,349	$ 6,674	$19,023	$17,987	5.8%	$94,007	$97,499	-$3,492	-4%	9%	3.4%
Etna	$ (346)	$12,349	$ 4,120	$16,469	$16,828	-2.1%	$54,737	$63,671	-$8,934	-14%	-18%	2.1%
Live Oak	$ (757)	$12,349	$ 10,716	$23,065	$23,070	0.0%	$107,600	$103,427	$4,173	4%	-2%	5.4%
Loomis	$ 223	$12,349	$ 9,094	$21,443	$19,413	10.5%	$96,541	$78,652	$17,889	23%	21%	4.6%
Mt. Shasta	$ 1,192	$12,349	$ 19,284	$31,633	$29,711	6.5%	$209,890	$220,191	-$10,301	-5%	11%	9.8%
Portola	$ 168	$12,349	$ 6,959	$19,308	$17,297	11.6%	$115,496	$70,815	$44,682	63%	27%	3.5%
Rio Dell	$ 112	$12,349	$ 9,356	$21,705	$20,010	8.5%	$118,850	$93,708	$25,142	27%	16%	4.7%
Shasta Lake	$ 1,336	$12,349	$ 33,065	$45,414	$45,223	0.4%	$265,537	$260,114	$5,422	2%	3%	16.7%
Susanville	$ 2,859	$12,349	$ 33,996	$46,345	$44,670	3.8%	$450,644	$396,370	$54,275	14%	7%	17.2%
Weed	$ 803	$12,349	$ 17,456	$29,805	$29,175	2.2%	$236,503	$189,131	$47,372	25%	4%	8.8%
Yreka	$ 893	$12,349	$ 29,391	$41,740	$40,508	3.0%	$536,926	$416,923	$120,002	29%	6%	14.9%
Subtotal Members		**$148,187**	**$ 186,384**	**$334,571**	**$304,334**	**9.9%**	**$2,307,080**	**$1,990,492**	**$316,588**	**16%**	**7%**	**94.5%**
Isleton (do not participat												
Biggs	$ 72	$12,349	$ 3,240	$15,589	$14,908	4.6%	$48,133	$44,618	$3,515	8%	2%	1.6%
Loyalton	$ (61)	$12,349	$ 1,244	$13,593	$12,502	8.7%	$25,996	$20,751	$5,246	25%	41%	0.6%
Montague	$ (174)	$12,349	$ 3,140	$15,488	$14,228	8.9%	$46,779	$37,875	$8,904	24%	24%	1.6%
Tulelake	$ -	$12,349	$ 3,256	$15,605	$14,881	4.9%	$48,240	$44,348	$3,892	9%	3%	1.6%
Subtotal Mini Cities		**$49,396**	**$ 10,880**	**$60,275**	**$89,316**	**-32.5%**	**$169,150**	**$266,406**	**-$97,257**	**-37%**	**12%**	**5.5%**
Grand Total	**$ 6,851**	**$197,583**	**$ 197,263**	**$394,847**	**$393,651**	**0.3%**	**$2,476,230**	**$2,256,898**	**$219,332**	**10%**	**7%**	**100.0%**

SCORE MEMBER PAYROLL AVERAGE OVER PRIOR 3 YEARS

(any member with 3yr payroll average exceeding $500,000 will be treated as a regular full member and will be removed from the MC pool in the Workers' Compensation Program)

			B	C	D			
Formula/Allocation								
MEMBER ENTITY	**3YR AVERAGE ABOVE $500K**	**AVERAGE**	**CY 2019**	**CY 2018**	**CY 2017**	CY 2016	CY 2015	CY 2014
		(B+C+D)/3	Per DE-9 Form	Per DE-9 Form	Per DE-9 Form	Per DE-9 Form	Per DE-9 Form	Per DE-9 Form
Biggs	**MINI CITY MEMBER**	$402,584	$409,035	$401,785	$396,932	$386,860	$380,549	$383,261
Colfax	YES	$756,925	$791,853	$686,919	$792,003	$645,079	$445,047	$444,870
Dunsmuir	YES	$752,985	$842,510	$773,287	$643,157	$636,173	$486,927	$557,832
Etna	Was a Mini-city member last year	$569,238	$520,140	$633,477	$554,096	$365,329	$371,095	$346,139
Fort Jones	Was a Mini-city member last year	$508,858	$533,924	$529,758	$462,893	$302,011	$306,808	$301,682
Isleton	N/A - DOES NOT PARTICIPATE IN WC	$326,640	$379,596	$338,770	$261,556	$194,540	$209,919	$250,125
Live Oak	YES	$1,378,150	$1,352,814	$1,386,601	$1,395,034	$1,357,810	$1,281,001	$1,243,636
Loomis	YES	$983,669	$1,148,076	$945,313	$857,619	$735,943	$738,548	$706,570
Loyalton	**MINI CITY MEMBER**	$125,630	$157,011	$111,547	$108,332	$111,677	$136,627	$135,613
Montague	**MINI CITY MEMBER**	$355,785	$396,344	$319,781	$351,229	$312,529	$325,569	$312,076
Mt. Shasta	YES	$2,234,902	$2,434,448	$2,187,870	$2,082,387	$1,943,730	$1,764,123	$1,708,545
Portola	YES	$772,629	$878,576	$690,093	$749,220	$796,713	$721,331	$618,406
Rio Dell	YES	$1,072,901	$1,181,113	$1,017,409	$1,020,181	$1,006,121	$978,061	$962,896
Shasta Lake	YES	$4,048,222	$4,174,281	$4,059,563	$3,910,822	$3,587,737	$3,431,994	$3,226,333
Susanville	YES	$4,087,180	$4,291,749	$3,992,736	$3,977,057	$3,972,225	$3,674,289	$3,524,068
Tulelake	**MINI CITY MEMBER**	$394,313	$411,085	$398,501	$373,352	$354,832	$349,348	$310,702
Weed	YES	$2,042,382	$2,203,702	$2,123,162	$1,800,282	$1,699,522	$1,541,803	$1,658,551
Yreka	YES	$3,467,976	$3,710,444	$3,490,579	$3,202,905	$2,986,353	$2,827,360	$3,014,230
Grand Total		**$24,280,970**	**$25,816,700**	**$24,087,152**	**$22,939,057**	**$21,395,184**	**$19,970,398**	**$19,705,535**

BOLD STEPS: WORKERS' COMPENSATION

CHALLENGES

- Uncertainty around COVID-19 claims: potential volume, when to report, how to investigate, how occurrence will be defined
- Managing new presumptions
  - COVID-19 and PTSD
  - Unknown risk – don't fund or know how to fund for it
  - Also, dealing with employees not subject to presumption (e.g., teachers)
- Financial health of pool
  - Short- and long-term economic issues of members
  - Demand to keep rates flat
- Access to medical services during pandemic
  - Mental health
  - Rural access
- Increasing competition
- Home working environments, equipment and bandwidth needs
- Staff burnout

ENVIRONMENTAL REALITIES

- Public safety: mutual aid, shutting down due to positive cases, presumptions
- Increased excess/reinsurance costs
- Coverage uncertainties: limitations, legislation, costs
- Social unrest
- Divides in member needs, perceptions between urban and rural communities
- Increased costs due to PPE needs, facility modifications
- Concerns for safety of children and staff with schools opening
- Staffing changes: telecommuting, bringing employees back safely
- Plaintiff attorneys have plenty of opportunities
- Union pressures

GOAL

MEET MEMBER AND POOL NEEDS

MEMBER NEEDS

- Thought leadership from the pool
- Expert help from friendly people (a safe place to ask questions)
- Reassurance to help with fear of making a mistake
- Assurance the pool is more than insurance and is a stable partner
- Continued coverage even with reinsurance, market changes
- Direction re: testing, indemnity benefits, access to doctors, resources
- Need to reopen
- Guidance on when to report a claim
- Defense of case law, protections for employees
- HR and employment law consulting
- Ensured access to the care continuum: doctors, mental health

POOL NEEDS

- Funding: ensure adequate premiums, members' ability to pay; remain fiscally secure long-term
- Loss control: innovation to help members, expanded online training and webinars, FAQs
- Staffing: continued level of staff, ongoing training, remote work, reengineering the office

BOLD STEPS

- Ensure access to medical providers: primary, mental health, telemedicine
- Increase online training for members at every opportunity
- Maximize use of data: translate into useful policymaking (at board, state, national level), use to determine longer-term costs
- Operations: take advantage of technology, rethink how we conduct business at every level
- Help members meet their financial challenges: make adjustments to rates for exposure, declare a dividend, delay contribution collections, make mid-year adjustments on the basis of payroll changes, waive payroll audits
- Access funding from CARES Act; engage with legislature to develop COVID fund for self-insureds/pools using CARES Act funds
- Create a captive or special fund for new exposures
- Conduct lobbying to provide protections for pools/members; create a fund that would reimburse self-insureds and pools for COVID work comp losses
- Consider options for pooled, multi-state work comp coverage
- Loss control: hire to help mitigate/minimize presumption claims, provide grants for work-from-home technology, PPE and sanitation
- Rapid COVID testing for return-to-work
- Embrace social media to be a source of timely information

Small Cities Organized Risk Effort
Long Range Planning
October 22, 2020

Agenda Item F.2.

LIABILITY PROGRAM ANALYSIS

ACTION ITEM

ISSUE: SCORE is still facing a potential increase in its Self-Insured Retention (SIR) with the CA Joint Powers Risk Management Authority (CJPRMA), from $500,000 to $750,000 or more. While the change was planned for July 1, 2020, the $500,000 SIR was offered again and SCORE remained at a $500,000 SIR.

With this history, and pressure on premiums due to increasing claims severity, it is likely SCORE will be faced with an increase in its SIR on July 1, and depending on the funding rates for CJPRMA it may benefit SCORE to increase its SIR to $1,000,000.

The funding rates for CJPRMA have also become an issue due to increased claims severity over the last few years, combined with the ten-year rolling average premium formula CJPRMA uses. While that formula has been successful in smoothing out the inevitable variation in excess claims, it has fallen behind the times in that it does not put enough weight on the recent deteriorating claims experience. As a result, the CJPRMA formula produced a funding total for FY 20/21 approximately $4M below the actuary's projection.

In addition, the net paid over the four years from FY 15/16 has been approximately (-$30M), depleting the group's Net Position and raising the potential for assessments to recapitalize the pool. Attached are two slides from the CJPRMA actuary report from 2019 that illustrate the two issues.

These issues are playing out in the context of increasing reinsurance costs above the CJPRMA $5M SIR, based on industry-wide experience with increasing claim severity. Attached is a summary from a recent AGRiP conference that offers a broad view of the factors that are currently impacting the industry, emerging issues, prospective impacts, and innovations to address. Also attached is a Markel article outlining the issues driving up severity as well as the industry's lag in responding, not unlike CJPRMA.

At this time the Program Administrators do not have the information needed to estimate the impact of increasing the SIR on SCORE's FY 21/22 funding. The estimated difference to move to a $750,000 SIR for FY 20/21 was $35,613 (3%). However, that funding was significantly lower than the actuary's projection and not recommended. With the expected change from the ten-year rolling average to the actuary projection, in addition to expected increases in reinsurance premiums, a reasonable estimate for increased funding is 10% to 15%, without allowance for recapitalization.

An increase in the program's SIR will also impact the annual Dividend and Assessment Plan calculation, in that it calls for a minimum Net Position reserve of five times the SIR, currently $2,375,000 (5x $475,000). *The minimum would increase to $3,625,000 with a $750,000 SIR and to $4,875,000 with a $1,000,000 SIR.* The program is currently well-funded, with a Net Position of $6 million, and so while the potential for a dividend may be diminished, the members are well-positioned to look at funding options for FY 21/22.

Given these potential changes and the members' recent commitment to a higher confidence level for annual funding (increased from 70% to 75% CL in FY 19/20), the Program Administrators have also included a copy of SCORE's Funding Policy with suggested updates for review and discussion. Based on the current market environment and funding philosophy it is due for a review and updating.

Small Cities Organized Risk Effort
Long Range Planning
October 22, 2020

RECOMMENDATION: Review, discuss and provide direction as needed.

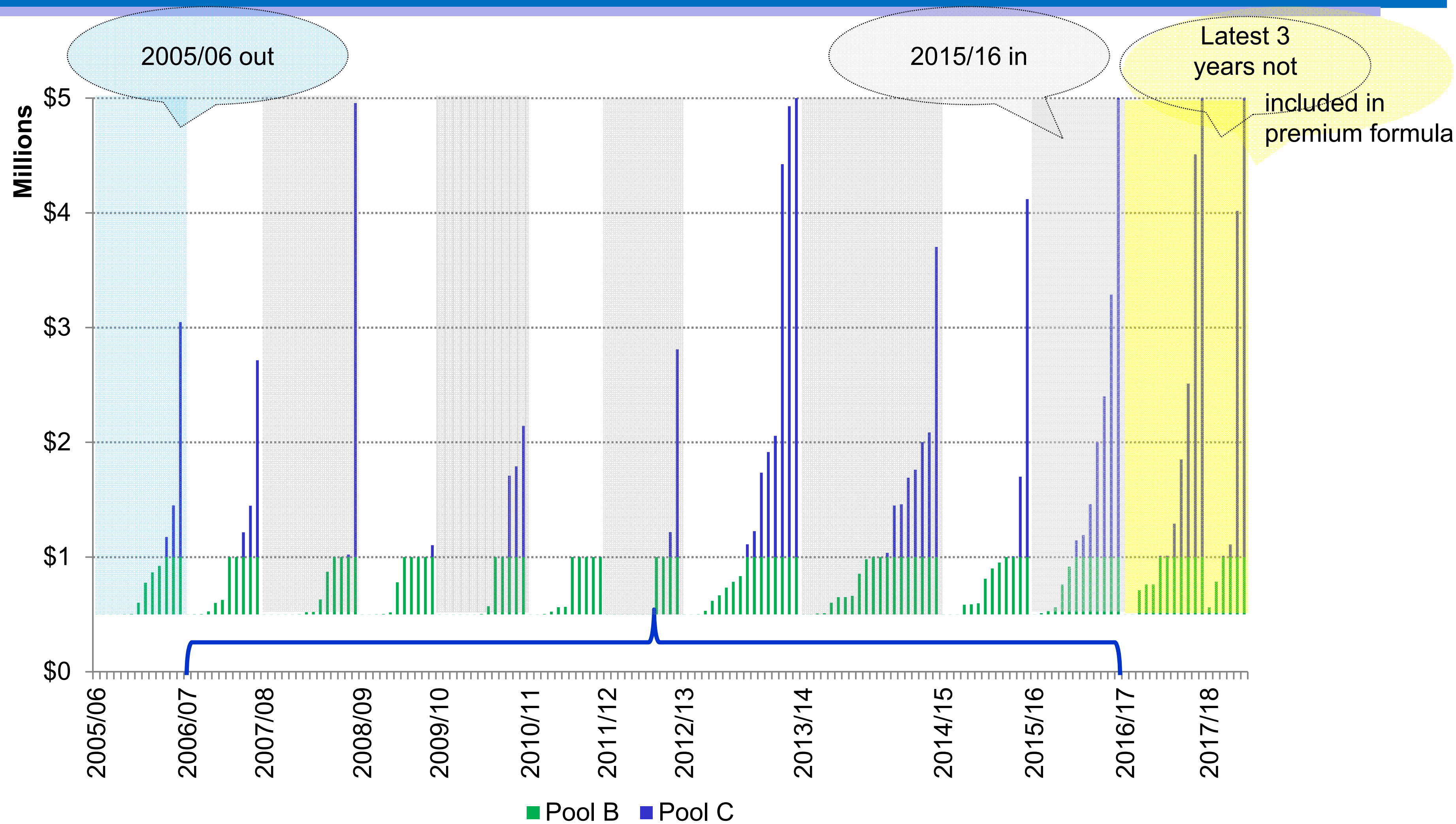
FISCAL IMPACT: To be determined. An increase in SCORE's SIR will increase the self-insured funding but will reduce the excess funding, though not on a 1:1 basis. Additional impacts from a change in CJPRMA's funding formula are expected. The group's benchmark thresholds for net position will also increase, resulting in less margin for payment of dividends or potential assessment.

BACKGROUND: SCORE has been a member of CJPRMA since the excess pool's inception in 1993, and the group's SIR of $500,000 has not changed to date. Inflation and the increase in claims severity over that time, particularly in the last few years, has increased the pressure to raise SCORE's SIR and change the ten-year average funding formula in order to maintain relatively stable and affordable excess coverage.

ATTACHMENTS:
1. CJPRMA Actuary Presentation Slides
2. AGRiP CEO Liability & Property Coverage Innovations
3. Up Next: Hyper Social Inflation – Markel Article
4. SCORE Funding Policy *Draft Revisions 2020*

CJPRMA 13-Year History of Incurred Claims

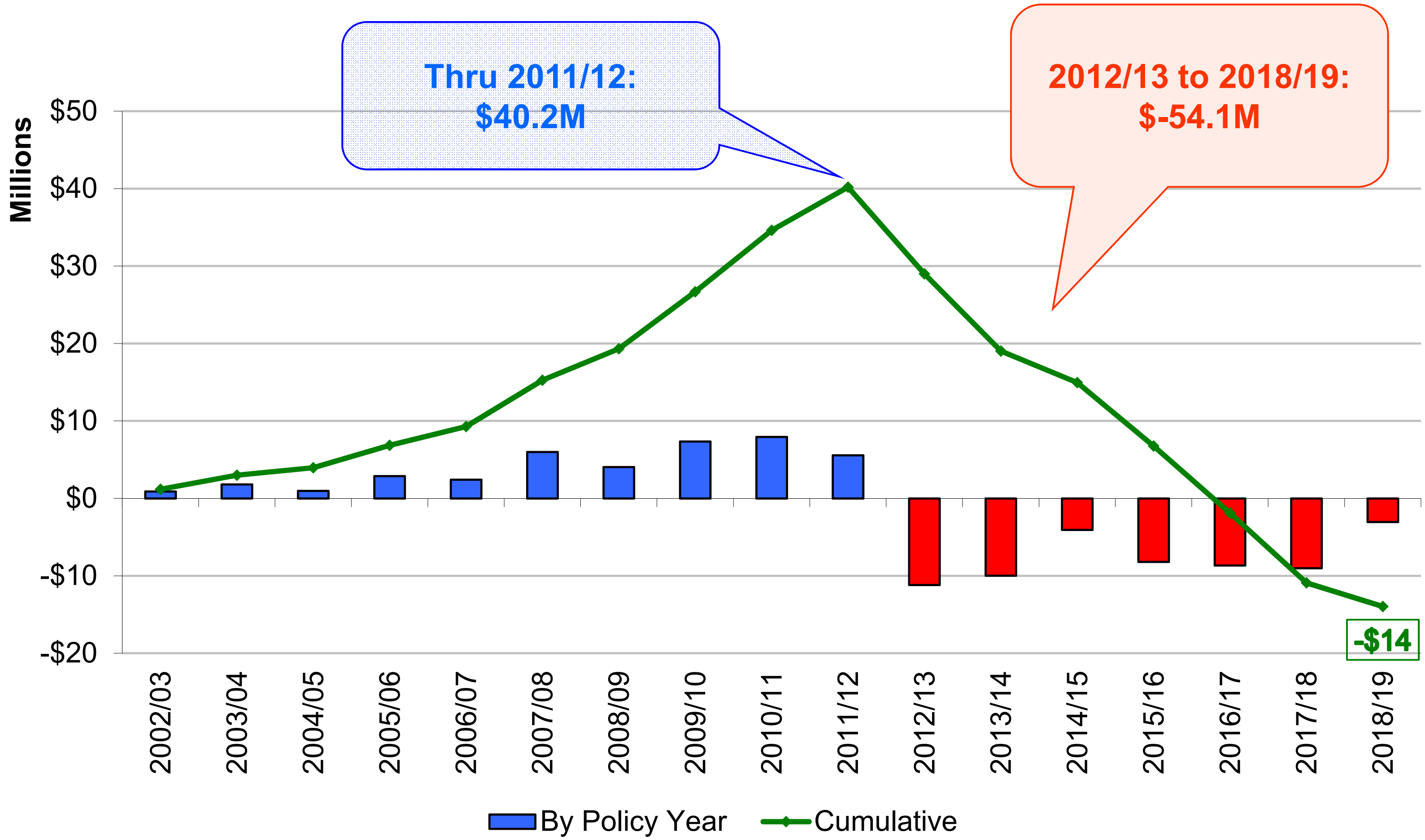
2005/06 to 2018/19 - undeveloped, untrended



Note: Data excludes PERMA and Vallejo.

14

CJPRMA Net Position above ELF
as of June 30, 2019 ~ -$14 million



19

LIABILITY AND PROPERTY COVERAGE INNOVATIONS

ECONOMIC FACTORS

- Fewer claims and costs: work comp, health, auto (however, expect to see work comp presumption claims and costs for COVID increase)
- Greater claims and/or costs: employment, law enforcement, unemployment
- Legislation limiting liability for COVID-19
- Litigation expenses increasing: social inflation, coverage denials, law enforcement, elections

- Significantly declining public entity revenue (circumstances vary by jurisdiction)
- Increased costs of PPE, facility costs for disinfecting
- Stock market volatility
- Less interest earnings (and liability discount factors)
- Strong pool net position; but reserves being used to help members

- Uncertainty on all fronts – economic impacts not yet fully understood
- Financial gap to close differences between current pool coverage for members and reinsurance realities of exclusions (how do we fund newly retained risks)
- Not sure how occurrence language will be applied by reinsurers to pandemic claims

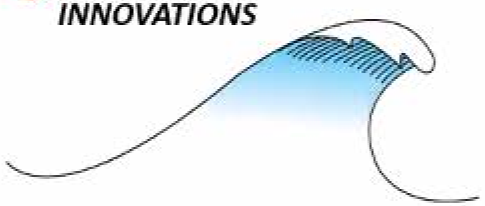
MEMBER INTERESTS

- Meet community demands for services in facilities that are safe
- Increased distance learning (schools)
- Cybersecurity protections for teleworkers
- Finding new funding sources

- Need for continuing information, service from pool; but competing interests and time constraints to focus on coverage or risk management
- Getting work comp coverage for employees who have risk of exposure

- HR challenges to continue benefits, navigate new FSA rules, etc.
- Not enough staffing bandwidth to do all work needed
- Need to do all the same training, education with fewer resources

COVERAGE INNOVATIONS



IN PLACE

- Open meeting protection
- COVID exclusion or sublimit
- Some property coverage for cleaning/disinfecting
- Liability coverage for correctional facilities, inmates
- Gave back 8–15% of premiums due to less exposure (not exactly coverage, but related)
- Closing claims faster because courts are closed (not exactly coverage, but related)

EMERGING

- Expansive cyber protection
- Finding a way to sublimit rather than exclude communicable disease
- Presumption coverage for COVID work comp claims
- Removed the "indirectly" language related to COVID-19 coverage (to expand)
- Focusing on flexible payment terms / equity returns as opposed to coverage expansion
- How to cover work-from-home claims (work comp and use of personal equipment)

PROSPECTIVE

- Pandemic coverage
- Changing coverage from per-occurrence basis to per-employee
- Changing law enforcement presence in schools
- Non direct physical loss business interruption

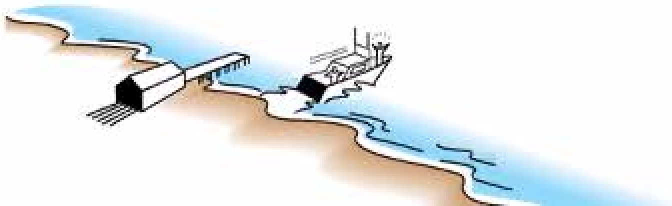
REINSURANCE REALITIES

- Communicable disease exclusion (often non-negotiable)
- Broad exclusions being sought – not just communicable disease (brain injuries, sexual abuse and molestation)
- Increased property deductibles/retained loss requirements

- Lloyd's decisions and underwriting (or refusal to underwrite) are driving market
- Continuing (worsening) hard market and reduced capacity in market; increased reinsurance/excess costs

- Jurisdictional differences make comparison of reinsurance terms, pricing difficult (tort caps, immunities)
- Higher self-insured retentions
- Loss of police qualified immunity could be very damaging for reinsurance relationships

HISTORICAL COVERAGES IMPORTANT RIGHT NOW



- Cyber liability
- Business interruption and supply chain disruption

- Workers' compensation
- Contract coverage (especially labor contracts)

Up next: hyper social inflation?

Social inflation in the time of COVID—Is the pandemic distracting casualty insurers from the bigger threat?

By Mia Finsness, Managing Executive, Global Casualty Underwriting and Claims

If 2019 was the year of social inflation, then 2020 is undoubtedly the year of COVID-19. Since March, all industry focus has been on the pandemic and the effect it will have on profitability across the insurance industry. Fortunately, we can now say eight months into the pandemic that it does not appear that COVID will be a material event for casualty insurers. What should be more concerning is the possibility that the insurance industry's laser focus on COVID is distracting us from the larger, more menacing threat of social inflation.

In a best-case scenario, COVID has provided a momentary pause from social inflation, and the social inflation trends we saw pre-COVID will continue in the same vein as courts reopen. However, the more likely and troublesome scenario is that COVID will exacerbate the previous iteration of social inflation, leading to a new period of "hyper" social inflation.

Social inflation: a recap

Social inflation is a term used to describe the rising costs of US liability claims as a result of societal trends. The term was first coined in the 1980s during the asbestos litigation crisis. The current iteration is attributable to new factors, including:

- **Rising costs and stagnating wages:** Costs are outpacing inflation and the average household income is falling behind inflation. The median annual household income according to the US Census Bureau was $61,937 in 2018.
- **Skyrocketing health care costs:** US health care spending grew 4.6% in 2018, reaching $3.6 trillion, or $11,172 per person, which is the highest of the OECD countries.
- **Pervasive media influence:** Billion-dollar media headlines are the new normal. Data from jury focus groups indicates that potential jurors now perceive such numbers to be "Monopoly money."
- **Legal advertising:** Plaintiffs' attorneys advertise their large wins through a variety of sources and are setting floors for future cases.
- **Changes in the tort landscape:** Damages caps in many states are being successfully overturned.
- **Reptilian trial tactics:** A new school of instruction for plaintiffs' attorneys teaches them how to trigger the reptilian part of jurors' brains that makes them want to punish commercial defendants and award large verdicts.
- **Litigation funding:** Traditional investors are now investing in civil litigation—a $9.5 billion industry—as an alternative to the traditional stock market.
- **Polarized political climate:** The media's focus on polarizing topics like the opioid crisis, mass shootings, and sexual abuse scandals has galvanized grassroots movements in favor of victims and against large corporations.

Social inflation is a uniquely American phenomenon because the United States is the only country in the world that routinely uses jury trials for civil cases. Jurors have unconscious biases derived from the culmination of their life experiences. Their constant exposure outside the courtroom to the media's spotlight on growing inequality in particular breeds resentment and a feeling of powerlessness. As jurors in civil cases involving large, corporate defendants, they have an opportunity to engage in an alternative means of wealth redistribution in the form of colossal verdicts that are seemingly uncorrelated with the injuries suffered.

"... jurors' constant exposure outside the courtroom to the media's spotlight on growing inequality in particular breeds resentment and a feeling of powerlessness."

The following are just a few examples of nuclear verdicts from 2019 that are indicative of the modern social inflation environment:

State	Verdict
Texas	**$80,000,000**
Trucking accident injuring one person.	
Washington	**$123,000,000**
Duck boat accident killing and injuring many.	
Georgia	**$280,000,000**
Trucking accident killing five people.	
Alabama	**$151,791,000**
Automobile accident injuring one person.	
California	**$2,055,200,000**
Pesticide product allegedly harmed two people.	
New York	**$55,900,000**
Medical accident during surgery injuring one person.	
Maryland	**$229,600,000**
Medical accident during a delivery injuring one person.	
Pennsylvania	**$8,000,000,000**
Pharmaceutical product led to unwanted side effects in many persons.	
Georgia	**$125,000,000**
Living conditions in an apartment building complex resulted in one death.	
New York	**$110,200,000**
Construction site accident killing one person.	

Social inflation post-COVID: a prediction

Unfortunately, the pandemic is likely to exacerbate social inflation. Current social and political issues such as police brutality and riots will increase the potential for larger, more socially inflated verdicts, just as polarizing topics like sexual abuse, mass shootings, and opioids contributed to social inflation before COVID.

In addition, the COVID economy will significantly impact jurors going forward. Fifty-nine million people filed jobless claims between March 2020 and September 2020. Unemployment intensifies the pain of rising costs of necessities such as housing, health care, and education. Indeed, the costs of health care in particular have been laid bare by COVID. In 2018, over 157 million Americans received health insurance through their work. During the pandemic, many of the unemployed lost their health insurance.[1] Not having health insurance amplifies the cost of health care when it's needed and has the potential to bankrupt American households, which have median incomes of $61,937 a year.

Compounding this reality is the fact that the pandemic has fueled demand for health care services, particularly for lower income and vulnerable populations who are susceptible to COVID. In June, the *New York Post* broke down a whopping $1.1 million, 181-page hospital bill that a COVID survivor faced.[2] The article drew into sharp focus the staggering costs of health care in the US and made it clear to readers that the pandemic will hit the most vulnerable populations hardest in two ways: first through their health and then through their pocketbooks. Indeed the *Post* article, like many others in the media, contributed to the *perception* of extortionate costs among potential jurors.

Health care is a hot-button political issue in the current election cycle, and there is much publicity surrounding the claim that only in America do people declare bankruptcy from health care costs. Moreover, media speculation regarding inevitable inflation (not of the social kind) due to governmental fiscal policies will only strengthen jurors' perceptions that medical costs will continue to increase over time. Indeed, when they are sitting in the jury box, a suggestion by plaintiff's counsel that future medical costs for a baby with brain damage will be $50 million may not seem so irrational for jurors in light of these influences.

Meanwhile, the US stock market achieved record-breaking highs over the summer. The pandemic has highlighted the disconnect between the stock market, in which only the wealthiest 10% of American households invest, and the rest of the economy. Extensive media coverage related to these events creates the perception among Americans (i.e., potential jurors) that the rich are getting richer while the poor and vulnerable suffer. If there is a chance to engage in some wealth redistribution, it's not unreasonable to believe that jurors will seize the opportunity to "right the ship" and award a large verdict.

Opening of the courts (and the floodgates)

Until recently, most courts were closed and there was an unfamiliar lull in litigation activity as a result. In August, a few civil jury trials began for the first time since the pandemic shutdown and there are already indications that social inflation will not improve post-COVID.

In one of the first trials to resume, a jury awarded $98 million against a public social services organization for the deaths of two children.[3] In addition, several large verdicts were upheld by appellate courts in August, including a $50 million award in a police brutality case, a $59 million award in case involving an exploding Bunsen burner and a $33 million award in an asbestos case.[4]

And what about frequency? Prior to COVID, the consensus was that social inflation was a severity, not frequency, event. In some respects, COVID may result in that trend continuing—at least in the short term. There is evidence to support the notion, for example, that automobile accident frequency is down due to people working from home, but that severity is up due to drivers speeding on empty roads. However, it is questionable whether this trend will endure. New civil case filings in federal court were up 43% as of the end of June—compared to the same time the previous year. The filings were driven by personal injury and product liability cases, which increased nearly fourfold.[5]

Selling insurance during a pandemic

Whether COVID triggered the liability insurance hard market or merely coincided with it is open to debate. Undebatable is the fact that at a time of so much uncertainty, casualty underwriters need to react swiftly to combat social inflation and mitigate long-term exposure to insurers' balance sheets.

Crucially, we will not know for some years whether the premiums we charge today are enough for the policies we sell, because the tail on liability claims is long. It could be anywhere from two to fifteen years depending on the risk class. Fundamentally, the long-tail nature of liability claims reflects the length of time it takes civil cases to churn through the court systems, and this length of time will only increase as a result of pandemic-related court closures.

“. . . we will not know for some years whether the premiums we charge today are enough for the policies we sell, because the tail on liability claims is long.”

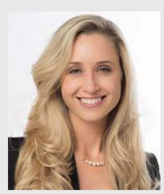
Pricing inadequacy partly explains why some insurers are experiencing social inflation-related pains today. Verdicts rendered in 2020 simply do not reflect underwriters' expectations from years ago when the policies were issued. For example, in 2019 a Maryland jury returned a verdict of $229 million[6] for alleged medical malpractice during delivery of an infant. Approximately $200 million of the award was for future medical expenses, clearly evidencing the jurors' perceptions of skyrocketing medical costs. Notably, the alleged malpractice occurred in October 2014—five years before the jury would ultimately render its verdict. Did insurers in 2014 price for the possibility of such an enormous verdict? The answer is surely “no,” and the industry today needs to start thinking about the cases going to trial tomorrow and the factors that may influence their outcomes.

Many things can happen between an accident that occurs today and a trial that occurs in 2028 that will impact claim valuation. There are too many unknowns to accurately predict what liability claims will be worth in eight years' time, which makes it hard to adequately price policies today. Underwriters who survive this next period of social inflation will be those who not only aggressively push for rate increases, but also meticulously manage their overall portfolios by scaling back limits, diversifying attachment points and risk classes, and tightening up terms and conditions by adding exclusions that mitigate certain “inflammatory” types of exposures like sexual molestation or assault and battery.

“. . . the industry today needs to start thinking about the cases going to trial tomorrow and the factors that may influence their outcomes.”

Conclusion: Batten down the hatches

As we continue to live with COVID and celebrate the long-awaited return of a hard market, we must keep our eye on the ball and remain vigilant at assessing and addressing the looming threat of a post-COVID superstorm of social inflation. Absent any significant changes in the US tort system, or any meaningful economic and social reform, it is likely that hyper social inflation will become a new reality. We must adapt to the times as an industry and be prepared to face it head on.



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[1] “Employer-Based Health Care, Meet Massive Unemployment,” Jeneen Interlandi, *New York Times* (June 29, 2020).

[2] “Breaking down ‘miracle’ coronavirus survivor's $1.1M hospital bill,” Nicole Lyn Pesce, *New York Post* (June 17, 2020).

[3] *Judith Cox et al. v. Washington, Dept. of Social and Health Servs.*

[4] *Black v. Hicks et al.; Yvonne Yanes et al. v. The City of New York; Ann Finch v. Covil Corp.*

[5] “Federal Caseload Rises 30%, Fueled By Product Liability Suits,” Dorothy Atkins, Law360 (August 19, 2020).

[6] *Zubida Byrom et al. v. Johns Hopkins Bayview Medical Center Inc.*

Target Funding Policy

I. PURPOSE

It is the policy of SCORE to conservatively fund its programs to maintain sufficient assets to pay all losses and avoid substantial fluctuations to contributions.

The purpose of this policy is to guide the SCORE Board of Directors in making annual funding, dividend and assessment decisions for the Banking Layer and Shared Risk Layers, per the Master Plan Document for each Coverage Program.

The Board acknowledges 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 Banking ~~Layer~~ and Shared Risk Layer programs in a cautious and prudent manner and return assets to its members in an equally cautious and prudent manner.

II. DEFINITIONS

- Allocated Loss Adjustment Expenses (ALAE) - Expense incurred in settling claims that can be directly attributed to specific individual claims (e.g., legal fees, investigative fees, court charges, etc.)

- Claims Paid to Date: The amount paid on reported claims at the date of valuation, including those amounts paid for both defense and indemnity.

- Confidence Level (CL): An estimated probability that a given level of funding will be sufficient to pay actual claim costs. The higher a CL the greater certainty the actuary has that losses will not exceed the dollar value used to attain that Confidence Level.

- Net ~~Assets~~Position: Total Assets less Expected Liabilities. Previoulsy s~~S~~tated as Net ~~Position~~ Assets in the Statement of Net Position (Balance Sheet). Same as Surplus or Equity in other contexts.

- Expected Liabilities: Outstanding Reserves plus IBNR and Loss Adjustment Expenses, discounted, at the Expected Confidence Level (approximately 55%), as calculated by an actuary.

- Incurred But Not Reported (IBNR): The estimate of funds needed to pay for covered losses that have occurred but have not yet been reported to the member and/or SCORE, and expected future development on claims already reported.

- Net Contribution: Total contributions from members less excess insurance costs.

- Self-~~-~~Insured Retention (SIR): The maximum amount of pooled risk retained by SCORE before any excess coverage is applicable

- Outstanding Reserves: The sum total of claim reserves in the Banking and Shared Risk Layers, determined by the SCORE Claims Administrator.
- Ultimate Loss: The sum of Claims Paid to Date, Outstanding Reserves and IBNR, all within SCORE's Banking and Shared Risk Layers. It is the actuarial estimate of the total value of all claims that will ultimately be paid by SCORE.
- Unallocated Loss Adjustment Expenses (ULAE): Claim settlement expenses that cannot be directly attributed to individual claims (e.g., claims adjusters' salaries, overhead, etc.).

III. FUNDING CRITERIA

The programs shall utilize Expected Liabilities when reporting liabilities in the SCORE Financial Statements and Audit.

Each program's target is to maintain a Risk Margin Fund with assets equal to the difference between Expected Liabilities and Discounted Liabilities at a 90% CL, with a goal of maintaining assets at a 95% CL or greater.

A program may pay refunds only if Assets exceed Expected Liabilities at the 90% discounted CL and as described in the program's Master Plan Documents.

The programs may use Net Position for rate stabilization.

The programs will initially fund each program year at a minimum 60% CL, with a goal to maintain at an 80% to 90% CL.

~~III.~~IV. TARGET FUNDING BENCHMARKS

The SCORE Board of Directors will consider assessments or returning Net ~~Assets~~ Position to members after evaluating funding using ~~and concluding~~ the following benchmarks ~~remain appropriate for the group~~ prior to and following any potential assessment or return of Net ~~Assets~~Position:

Net Contribution to Net Position ratio: **Target ≤ 2~~1~~:1; Goal ≤ 1:1**
This ratio is a measure of how Net ~~Assets are~~Position is leveraged against possible pricing inaccuracies. A low ratio is desirable.

Expected Liabilities to Net Position **Target < 3:1; Goal < 2:1**
This ratio is a measure of how Net Position is leveraged against Expected Liabilities. A low ratio is desirable.

Outstanding Reserves to Net Position ratio: **Target ≤ 1.5:1**
This ratio is a measure of how Net Assets are leveraged against possible reserve inaccuracies. A low ratio is desirable.

Net Assets to Self Insured Retention ratio: **Target ≥ 5:1; Goal $1M SIR**
This ratio is a measure of the number of full SIR losses that could be paid from Net Assets. A high ratio is desirable.

Change in Ultimate Loss Development: **Target ≤ 20%**
This measures of the change in aggregate Ultimate Losses from one year to the next. Increases over successive years indicate a trend that may need addressing through additional funding.

Change in Net Position: **Target ≥ -10%**
This measures the annual change in Net Assets. Decreases over successive years indicate a trend that may warrant an increase in annual contributions or an assessment.

Net Contribution Funding **Target ~~70~~80% CL**
This measures the degree of certainty the actuary has that the recommended annual contribution will be sufficient to pay all claims for that year.

V. POLICY REVIEW

The Program Administrator will submit a yearly report summarizing the programs' financial positions against the guidelines established in this policy. The policy will be periodically reviewed by the Board and revised as necessary.

Draft Revision October 2020

Small Cities Organized Risk Effort
A Joint Powers Authority

Small Cities Organized Risk Effort
Long Range Planning
October 22, 2020

Agenda Item F.3.

WORKERS' COMPENSATION
MINI-CITIES AND ADMINISTRATIVE FUNDING

ACTION ITEM

ISSUE: The Workers' Compensation (WC) Program has undergone changes over the last five years, most notably a change in the allocation of Administration Expenses and the establishment of payroll criteria for members to be in the Mini-Cities Group. Members have requested a periodic review to determine if the changes have had their intended impact and whether or not additional changes need to be considered.

The Mini-Cities Underwriting Guidelines related to the payroll threshold are referenced in the attached Underwriting Policy, and it is also due for a review and possible revision this year. The latest WC budget spreadsheet, member payroll averages, and Mini-Cities members are also attached, with the change in membership for FY 20/21 noted. Also attached is a handout from a recent AGRiP conference outlining challenges, realities, and bold steps for WC programs to spur discussion on the topic, with the goal and the question highlighted in the middle: *Meet Member and Pool needs*.

Is the current formula and overall program meeting member needs? Meeting pool needs for a sustainable future? Need changes to reflect new realities?

RECOMMENDATION: Review and discuss current program funding structure, member needs, and pool needs and provide direction.

FISCAL IMPACT: None.

BACKGROUND: As recently as FY 16/17 there were 10 members in the Mini-Cities pool and the admin expenses were split 50% equal shares and 50% pro-rata based on payroll. Beginning in FY 17/18 the Mini-Cities *no longer were considered one member for purposes of the admin allocation only*, and the group decreased to six members that year. To ease the transition, in the first year the expenses were split 30% fixed and 70% variable. In the following year it moved to 40% fixed, and in FY 19/20 it settled on the current 50% - 50% split. For FY 20/21 the M-C group has decreased to four members, with Etna moving to the larger group based on payroll and Fort Jones leaving the JPA. Funding has also increased from the 75% CL to the 80% CL in FY 19/20.

ATTACHMENTS:
1. SCORE Underwriting Policy, *Draft Revisions 2020*
2. SCORE Workers' Compensation Budget Spreadsheet & Payroll
3. AGRiP CEO Handout – Bold Steps: Workers' Compensation.

A Public Entity Joint Powers Authority
c/o Alliant Insurance Services, Inc. | 2180 Harvard St, Ste 460, Sacramento, CA 95815| Phone: 916.643.2700 |Fax: 916.643.2750

Small Cities Organized Risk Effort
Long Range Planning
October 22, 2020

LUNCH PRESENTATION

EMPLOYMENT LAW HOT TOPICS AND TRENDS

INFORMATION ITEM

ISSUE: Sander Van de Heide from the law firm of Jackson Lewis will provide an update on recent legislation and case law related to Employment Practices Liability (EPL) and hiring best practices and pitfalls, with time for Q&A from the members.

RECOMMENDATION: None.

FISCAL IMPACT: None.

BACKGROUND: None.

ATTACHMENTS: Presentation at meeting

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