

**MINUTES OF THE VLCT PROPERTY AND CASUALTY INTERMUNICIPAL FUND,
INC. BOARD OF DIRECTORS MEETING
VLCT OFFICE – MONTPELIER, VERMONT and VIA ZOOM
FRIDAY, OCTOBER 6, 2023**

Directors Present: Jackie Higgins, Aaron Frank, Bruce Urie, Dave Atherton, Jared Cadwell, Rob Gaiotti, Judy Frazier, Kathleen Ramsay (remote), Patrick Moreland, Bryan Young, Erik Wells and Charles Safford

Staff Present: Joe Damiata, Fred Satink, Ted Brady, Seth Abbene, Phil Woodward (remote), Kelly Knotek, Josh Hanford (remote) and Kelley Avery

Others Present: Steve DiCenso and Julia Rosen (Milliman - remote)

President Higgins called the meeting to order at 10:04 a.m. She noted the board meeting agenda should be amended to change Item 8.c. to “Flood Fund” and to add Item 8.d. as “Coverage Changes.”

Upon motion (Atherton/Moreland), duly adopted, the board voted unanimously to approve the meeting agenda as amended.

Upon motion (Cadwell/Frazier), duly adopted, the board voted unanimously to approve the minutes of the July 17, 2023 special meeting.

Ted Brady introduced new VLCT staff member Josh Hanford, Director of Intergovernmental Relations, and Mr. Hanford introduced himself to the board. Attendees then did a quick introduction.

Joe Damiata provided a brief organizational update and reviewed highlights from his board packet memo, including the following:

- The property and casualty claims team is still assessing total damage from the July floods, but the current count stands at around 120 claims spread across 50 members. The PC claims staff are inundated with heavy caseloads with the additional flood losses. The total cost of all flood related claims is still uncertain as field reports are still outstanding. Reserve accuracy will continue to improve over the next several weeks and then staff can begin issuing payments.
- Staff met with the Department of Financial Regulation (DFR), other state officials, and the state’s FEMA consultant Guidehouse to discuss a variety of insurance issues related to the flooding.
- The Origami system implementation is running about a month behind due to complexities related to overlapping the claims and policy systems and another competing IT project for claims that has a November deadline. Staff is still projecting a full go-live date of January 2025.

Seth Abbene reviewed the unaudited financials through the second quarter. Net position increased by 7.1% from year-end, or close to \$4.5 million. This was due to investment gains combined with an operating surplus. Revenues are up \$449,346 compared to this time last year largely due to

increased contributions from modest rate increases. General and administrative expenses are 13.3% higher than this time last year primarily due to budgeted VLCT direct and indirect costs and costs for the new RMIS; however, actual expenditures are still under budget as the RMIS expenses will be delayed to the fourth quarter and into 2024. Current fund year claims paid and reserved are 26.9% over budget due to a few large losses and some reserve adjustments.

Upon motion (Cadwell/Frazier), duly adopted, the board voted unanimously to accept the Q2 Financial Report.

Fred Satink reviewed the second quarter claims report. Workers' compensation claims were somewhat elevated for the quarter in cost and frequency, largely due to one large claim. Property and casualty claims frequency was within the norm for the quarter while the cost average was slightly elevated.

Upon motion (Morland/Atherton), duly adopted, the board voted unanimously to accept the second quarter claims report.

Bryan Young presented the Report of the Joint Investment Committee (JIC). The JIC met on September 8th. The committee and staff met with Dan Smereck from Strategic Assets Alliance (SAA) and Jason Bilodeau, Jim Kaniclides and Emin Hajiyev from Insight. Both the PACIF and VERB portfolios outperformed their benchmarks with PACIF up 2.39% and VERB up 2.06% through July. PACIF's consolidated return, net of fees through June was 2.98%, outperforming the benchmark, while VERB's was 2.65%, slightly trailing the benchmark. The committee also received an overview from Mr. Hajiyev from Insight on the state of the U.S. economy.

Upon motion (Frazier/Atherton), duly adopted, the board voted unanimously to accept the Report of the Joint Investment Committee.

The board moved to Item #7 to discuss a draft of the preliminary 2024 PACIF Budget as the staff from Milliman had not yet joined the call.

Joe Damiata reviewed the draft 2024 preliminary budget which includes an overall increase of 13.4% due to increases in reinsurance costs, expenses for the new claims and underwriting system, and increases to the VLCT administrative line items. Mr. Damiata pointed out that the 2024 rate recommendation of 1.9% put forth by staff and Milliman only have the Origami annual recurring expenses built in and staff recommends that the implementation costs be funded from net position (rather than from the rates). Because of this, the draft preliminary budget as presented will result in an overall deficit of around \$1 million. Staff does not anticipate this preliminary budget will change drastically from the final budget that will be presented in December. Board members asked a couple of questions but overall showed support for the preliminary budget as presented.

Steve DiCenso and Julia Rosen of Milliman presented the 2023 Reserve and Funding Analyses. Overall, Milliman has reduced the central estimate to \$39,079,041 which is a decrease of \$183,257 compared to the year end 2022 analysis. The reduction in the central estimate was driven largely by lower-than-expected losses in workers' compensation and liability claims, while partially offset by slight adverse loss development in property claims and law enforcement liability claims. Based on the actuarial funding analysis, staff proposes to raise \$27,360,135 at a 60% safety margin. This constitutes an overall 1.9% proposed rate increase to members. Milliman's analysis also included a proposed \$1.5 million contribution credit allocated to years 2012, 2014, 2017 and 2019.

Upon motion (Atherton/Young), duly adopted, the board voted unanimously to accept Milliman’s 2023 Loss Reserve and Funding Reports and Contribution Credit Analysis.

Fred Satink discussed the proposed rates for 2024 in detail. Overall, rates will increase 1.9% on a gross-net basis and Mr. Satink shared the proposed overall rate changes by coverage line as outlined in the detailed rate recommendations included in the board packet. Staff also proposed new property rates for buildings and water/wastewater facilities located within flood zone A as they feel it is appropriate to charge more for properties with higher flood risk. In addition, staff proposed a modest increase to the minimum property/casualty charges for small members due to significantly increased costs in cyber and liability reinsurance coverages.

Upon motion (Frank/Cadwell), duly adopted, the board voted unanimously to approve the 2024 proposed rates as presented.

Mr. Satink reviewed the proposed reinsurance coverage changes for 2024 as outlined in the detailed chart included in the board packet. Mr. Satink highlighted pricing, changes in self-insured retentions, changes in reinsurers, increased limits, and aggregate caps. A discussion ensued and the board agreed with staff’s 2024 reinsurance recommendations as presented.

Upon motion (Moreland/Cadwell), duly adopted, the board voted unanimously to authorize staff to bind the reinsurance coverage as presented.

Mr. Satink shared a staff recommendation to set up a designated \$2,000,000 “Flood Fund” which would serve as a form of self-insurance above what is available from PACIF’s reinsurers for losses in high hazard flood zones. After some extensive discussion, including rating options, member mitigation measures and other potential actions, the board agreed to this proposal.

Upon motion (Moreland/Gaiotti), duly adopted, the board voted unanimously to approve allocating \$2,000,000 from net position to designate a flood zone A “fund” as proposed.

Kelly Knotek reviewed changes to the 2024 PACIF coverage documents as outlined in the coverage change memo included in the board packet. Staff also mentioned that all coverage document changes have been reviewed and approved by PACIF’s coverage counsel.

Upon motion (Atherton/Cadwell), duly adopted, the board voted unanimously to approve the 2024 coverage document changes as presented.

Joe Damiata reviewed the proposed contribution credit of \$1,500,000 for 2024 as outlined in Board memo and in Milliman’s presentation to the Board. Staff also recommends continuing to fund the PACIF Grant Program at \$200,000 for 2024 by using funds from net position.

Upon motion (Atherton/Frank), duly adopted, the board voted unanimously to approve a distribution of \$1,500,000 in contribution credits to members for the 2024 renewal and to allocate \$200,000 from net position to fund the PACIF Grant program.

There was no other business.

Upon motion (Frank/Urie) duly adopted, the board voted unanimously to adjourn the meeting (12:22 p.m.).

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Fred Satink". The signature is written in a cursive style with a large, stylized initial "F".

Fred Satink,
Assistant Secretary