RESOLUTION NO. 2018-05

RESOLUTION OF THE BOARD OF DIRECTORS OF THE PUBLIC AGENCY RISK SHARING AUTHORITY OF CALIFORNIA ADOPTING A LIABILITY PROGRAM FUNDING POLICY INCLUDING RATE STABILIZATION FUND

WHEREAS, PARSAC seeks to develop a prudently funded program utilizing an annual actuarial study to estimate the Liability Program's ultimate losses and funding levels; and

WHEREAS, PARSAC has set a target equity goal of $5 million to give the agency the flexibility to increase the pool's self-insured retention (SIR) to $1 million; and

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WHEREAS, PARSAC has created and will maintain a Rate Stabilization Fund in order to mitigate the effect of rate increases; and

WHEREAS, the Board of Directors desires to have a comprehensive review of PARSAC's financial position before deciding on an equity distribution; and

WHEREAS, PARSAC has determined that the establishment and monitoring of four benchmarks attached as Appendix A in conjunction with the Retrospective Premium Adjustment (RPA) calculation will provide the Board with an overall understanding of PARSAC's financial position.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of PARSAC that the Liability Program Funding Policy shall be adopted as follows:

1. Funding for each year will be at the 85% confidence level or at the Board of Director's discretion.
2. The target equity is set at five times a $1 million SIR or $5 million.
3. A Rate Stabilization Fund in an amount not to exceed $750,000 shall be maintained to off-set pool and excess rate increases as determined by the Board of Directors. The fund will be replenished prospectively at the Board of Director's discretion when the fund falls below 50% of capacity.
4. Funding in excess of the 90% confidence level excluding Target Equity and Designated Equity, will be available for distribution at the Board of Director's discretion.
5. If the overall confidence level falls below 70% according to actuarial projections, the Board of Directors may declare an assessment to be shared by all program participants.

6. Upon completing five years, a program year shall be available for RPA.

7. The maximum distribution will be calculated in the following percentages. The distribution will be based on the lower of this item or #4 above.

50% of equity in year 6	80% of equity in year 9
60% of equity in year 7	90% of equity in year 10
70% of equity in year 8	

8. If there are no open claims for a program year, then the year will be declared closed and I 00% may be distributed to members through the RPA.

9. The four benchmarks in Appendix A will be reviewed before an RPA is issued.

Effective Date. This Resolution shall become effective upon approval by two-thirds of the Board of Directors present and voting and replaces Resolution 2014-03.

ADOPTED this 29th, of November 2018.

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John Gillison, President
PARSAC BOARD OF DIRECTORS

ATTEST:

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Joanne Rennie, PARSAC Board Secretary

APPENDIX A - FINANCIAL BENCHMARKS

1. **Net Contribution to Equity**

   Calculation: (Contribution -Excess Insurance) I Equity

   Measures the impact of pricing inaccuracies on equity (a low ratio is desirable). A low ratio indicates that more equity is available to cover under-charged years. The target is less than 200%

2. **Claim Reserves and IBNR to Equity**

   Calculation: (Claim Reserves + IBNR + ULAE) I Equity

   Measures the impact of reserves inaccuracies on equity (a low ratio is desirable). A low ratio indicates more equity available to cover years with large losses. The target is less than 300%

3. **Prior Year Loss Development**

   Calculation: (Year 1 Loss reserves I Year 2 Loss reserves) I (Yr 2 I Yr 3) -1

   Measures the change in loss reserves from one year to the prior year. A lower ratio indicates not much change in reserves between years. Target of less than 20% is desirable.

4. **Change in Equity**

   Calculation: (Year 2 Equity I Year 1 Equity) - 1

   Measures the change in equity. Any increase is desirable. The target is less than 10%.