



Capital Funding Philosophy

Governance Section: Finance

Revision Date: 3/27/2026

Page: 1 of 2

Purpose

To establish how the Pool is funded by identifying a risk capital target range for the Pool's net position.

Authority

1. The Pool is enabled to have "maximum flexibility in self-insuring to the extent the self-insurance programs are operated in a safe and sound manner." RCW 48.62.011.
2. "The Pool is empowered to do all things necessary and proper for . . . self-insurance programs for property and liability risks." Interlocal Agreement, Section 3a.
3. The Pool's Board may adopt assessments for Member allocations and contributions. Bylaws, Section 4c.
4. "The Pool's mission is to promote risk reduction with our partners." Mission and Vision Policy.

Definitions

Capital Adequacy Assessment – This is a study completed by an actuary every three years to determine how much capital or net position is needed by a Pool to withstand financial demands associated with various financial risks at various thresholds.

Net position – presents information on all Pool assets and deferred outflows of resources as well as its liabilities and deferred inflows of resources, with the difference between (assets and liabilities) reported as net position.

Self-Insurance Retention (SIR) – the amount of loss exposure assumed or retained by the Pool after which insurance is purchased.

Background

The Board recognizes the Pool must be financially capable to withstand the financial demand brought about by multiple types of risks. The Board further acknowledges the Pool can reassess (call for cash) should additional funds be needed to pay the Pool's liabilities; however, it also recognizes the Members have low desire for such action.

Therefore, the WSTIP Board is adopting the Capital Funding Philosophy outlined below.

Policy / Capital Funding Philosophy

It is the goal of the WSTIP Board of Directors to fund the Pool to a level that:

1. Enables the Pool to withstand significant capital events.
2. Minimizes the likelihood of a reassessment/cash call to the membership.
3. Allows the Pool to continue operations after a capital event.
4. Facilitates rate stability.
5. Contemplates potential changes in insurance marketplace that may affect the Pool's SIR or the Pool's insurance costs.
6. Balances the financial needs of the Pool with the financial needs of the Members.

Capital Funding Philosophy Implementation Tasks

To implement a capital funding philosophy, the Pool shall:

- A. Conduct an in-depth Capital Adequacy Assessment every three years.
- B. To the maximum extent possible, fund the Pool so that the net position falls within the risk capital target range established by the actuary.

Capital Funding Philosophy

Page: 2 of 2

- The risk capital target range is expressed in terms of a lower and upper bound. The lower bound is defined as a 1 in 200-year capital event. The upper bound is defined as 2 times a 1 in 200-year capital event.
 - The risk capital target range calculation will show the lower and upper bound of the current SIR and the lower and upper bound of a \$5 million SIR.
 - The risk capital target range is expressed as a dollar value range.
- C. Re-evaluate the risk capital target range annually. If the net position is within the risk capital target range, no action is necessary. If the net position is outside of the risk capital target range, rate levels will be established to align the net position with the risk capital target range over a reasonable period of time.
- D. Report progress to the Board annually.

How to Use the Capital Funding Philosophy Goals in Other Planning Documents

The Capital Funding Philosophy stated in this Policy is used in many planning documents and other Pool materials. Given the complexity of the goals, the Board adopts the following "short description" of this policy for use in those other materials:

To the maximum extent feasible, in the adoption of the Pool's annual budget, the Board will fund the Pool to a level which anticipates progressing the Pool's net position within the risk capital target range outlined by the most recent Capital Adequacy Assessment.

Hold Capital

The Board will not consider the return of capital to the membership until the net position is above the risk capital target range.

Amendment

The Pool's Board may amend this policy.

Policy History and Repealer

This policy was significantly edited in 2021 in consultation with the Pool's actuary.

This policy repeals the Financial Target Policy as it existed on June 24, 2016.

This policy was revised to shorten the purpose statement in March 2024.

Non-substantive revision in March 2026 to add (assets and liabilities) to the definition of Net Position.

Passed by the Board of Directors March 29, 2024.

Updated by Executive Director for non-substantive changes and reported to the Board on March 27, 2026.

DocuSigned by:

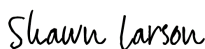


12906B744B7B48D...

Scott Deutsch, President

Attest:

Signed by:



E5F6135235574D5...

Shawn Larson, Secretary

Approved as to form:

DocuSigned by:



8708AFD752304CC...

Richard L. Hughes, General Counsel