



## Capital Funding Philosophy

Governance Section: Finance

Revision Date: 9/27/2019

Page: 1 of 3

### Purpose

The purpose of the Capital Funding Philosophy policy is to establish how the pool is funded by identifying a 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 reduce Members' cost of risk." Mission and Vision Policy.

### Definitions

Capital Funding Study – also known as a Target Fund Balance Review study. 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 a financial storm associated with underwriting, reserving, asset and credit, and operational risks, singularly and in combination.

- Underwriting risks are defined as risk that the next year's business result may deviate from the risk planned for or expected.
- Reserving risks are risks that the eventual loss and expense may exceed booked reserves.
- Asset and credit risks are defined as risk that the value of investment assets and receivables may decrease.
- Operational risks are any other unplanned expense that may arise from operations.

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 the two reported as net position. Net position is useful indicator of the pools overall financial position and ability to respond to unfavorable risks.

Rate – Rate as discussed in this policy statement is dollar value determined by the actuary to be multiplied by the member's exposure unit. The rate is a component of the member's assessment.

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

### Background

The Board recognizes that the Pool's historic insurance costs and claim liabilities play a significant role in funding and member contributions for future years. The Board also recognizes that although the Board must have a Pool that is financially capable, each member faces their own financial pressures and prefer lower and stable rates over volatile, surprising rate increases.

Prior financial target policies rightly focused on reducing reliance upon the insurance marketplace and sought to position the Pool for independence from the Market. The Board previously expressed its belief that independence would be reached when the Pool had the net position to support a \$5 million SIR. Prior to 2019 and the adoption of this policy, the Pool believed it would be possible to reach such capacity by 2023. Although reaching independence, as defined, remains a goal, the Board recognizes that 2023 was an arbitrary date based on the best information the Board had in 2013 and it unintentionally conveyed a message to future Board members that this goal was not optional.

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:

1. Fund the Pool to a level that decreases the risk of a potential cash call to the membership.
2. Fund the Pool to a level to withstand financial adversity.
3. Fund the Pool to facilitate flexibility and options should the Pool elect to increase its SIR on the property or liability program as noted in the short-term and long-term goals.

**Capital Funding Philosophy Implementation Tasks**

To implement a capital funding philosophy, the Pool shall:

- A. Conduct an in-depth Capital Funding Study every three years.
- B. To the maximum extent possible, fund the Pool so that the net position falls within the target range established by the actuary.
  - The range is expressed in terms of being able to withstand events that occur once in 100-years to once in 200-years or 1 in 100-year and 1 in 200-year events.
  - The target is expressed as a dollar value range.
- C. Re-evaluate the target net position and check the progress to the goal every year in conjunction with the year-end actuarial study.
- D. Highlight progress to the Board on an annual basis.

**Short-Term Goal: Be Ready for Next Incremental Increase in Self-Insurance Retention**

The Board recognizes the decision to change the SIR is largely dependent on insurance market conditions and Pool choice. The Board also recognizes increases to the SIR are typically incremental, usually in \$500,000 increments for liability and lower increments for property. The short-term goal of this policy is to monitor the need and adequacy to increase the SIR in \$500,000 increments.

**Long-Term Goal: Increase Net Position to Support Options of a Greater Self-Insurance Retention**

The Board maintains a long-term goal of largely being independent of the volatility that can be associated with the insurance marketplace. The WSTIP Board recognizes that the goal for independence is not a "jump" but rather an incremental "march." The Board maintains that the long-term goal of a \$5 million SIR by 2023 should be discussed, monitored, and adjusted at the Board's discretion.

**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 bringing the Pool's net position within target ranges outlined by the most recent Capital Funding Study for the Pool's current retention level while also attempting to anticipate the Pool's next retention level.

**Hold Capital**

Until the Pool reaches its long-term goal, the Board will not consider the return of capital to the membership.

**Amendment**

The Pool's Board may amend this policy.

**Policy History and Repealer**

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

Passed by the Board of Directors September 27, 2019.

DocuSigned by:  
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Staci Jordan, President

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