



Budget Development Policy

Governance Section: Finance

Revision Date: 5/23/2024

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Purpose

1. To provide the framework for the orderly development of the Pool's annual budget;
2. To coordinate the work and inputs from management, the Executive Committee (EC), and the Board in the development and eventual adoption of the budget;
3. To evaluate compliance with the Pool's funding targets; and
4. To achieve consistency with the Strategic Plan.

Authority

1. RCW or WAC reference 48.62 Local Government Insurance Transactions;
2. Interlocal Agreement, Sections 4f ("adopt an annual budget") and 13b ("contributions and assessments shall be established . . . in [the] annual budget");
3. Bylaws, Section 4b ("the **Board**. . . [shall adopt the] annual budget");
4. Capital Funding Philosophy, ("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."); and
5. Staff Compensation and Benefits Philosophy Policy.

Policy Statement

1. **Budget overview.** The budget is:
 - a. The primary tool for planning and controlling operations; and
 - b. The document through which the Pool plans for rate stability, predictable Member assessments and reduced reliance upon commercial insurance.
2. **Rate stability.** The budget shall be developed in a manner that supports rate stability. The rate is deemed stable if the total change in rates is 5% or less.
 - a. 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 used as part of calculating the Member's assessment.
 - b. Rate stability is measured as a year over year comparison of the total costs/offsets in section 5a, 5b, 6a, 6b and 6c divided by the contribution generated by the rate outcomes of 2a.
3. **Directions from Executive Committee.** At its July and/or August meeting, the Executive Director will seek direction from the EC as part of initial efforts to build the budget.
4. **Collection of data.** In a timely fashion, the Members shall provide the following one-time estimates or point-in-time datasets:
 - a. Estimated total vehicle miles for all modes to include miles being insured by a Member per contractual agreement with an external party;
 - b. Estimated number of employees (headcount) at 12/31;
 - c. Insured vehicle values (generally from the Vehicle SOV used for underwriting coverage);
 - d. Insured property values (generally from the Property SOV used for underwriting coverage); and
 - e. Member UIM preferences.

5. **Budget expenditure components.** The budget shall be developed to provide for:
 - a. Self-insurance loss funding (ED & Actuary);
 - b. Purchased insurance including reinsurance and/or excess insurance (ED & Broker);
 - c. Other insurance products where policies are issued, examples include but are not limited to: pollution, underground storage tanks, crime & fidelity, directors & officers errors & omissions, and other excess coverages/limits which are optional;
 - d. Other rating cost components (ORCC) including but not limited to: driver record monitoring, uninsured/underinsured motorist (UIM), licensing fees and other purchased services; and
 - e. General and administrative costs.

6. **Budget revenue components.** The budget shall be developed to include and account for:
 - a. Other operating revenues;
 - b. Other non-operating income net of non-operating expense;
 - c. Net investment income which is anticipated investment income/changes in Equity in GEM, less anticipated fair value adjustments that will result in unrealized gain/loss on investments); and
 - d. Contribution to surplus.

7. **Actuarial study.** No later than September the Executive Director shall provide the EC and the Board with an actuarial study. The study shall address:
 - a. Outstanding claim reserves;
 - b. Funding adequacy;
 - c. Projected losses and loss rates;
 - d. Deductible credits for first party coverage;
 - e. Cash flow requirements; and
 - f. The Pool's compliance with (or movement toward) its funding targets.

8. **Draft budget.** The Executive Director shall present a draft budget to the EC and Board at their September meetings. The EC or Board may direct the Executive Director to modify portions of the budget.

9. **Recommendation by Executive Committee.** At its September meeting the EC shall consider the budget and may recommend changes to contributions to surplus and funding targets.

10. **Budget work session.** The President may schedule a budget work session prior to the consideration of the draft budget by the Board. At the work session, the Executive Director shall present and explain the proposed budget with any modifications by the EC or Board. The EC shall make a recommendation to the Board on the proposed budget.

11. **Adoption.** The proposed budget shall be presented to the Board at its annual meeting. After considering recommendations from the EC, the Board shall adopt a budget at this meeting.

History

This policy was completely re-written in March 2024 to follow how the WSTIP budget is developed. It also clarifies that Staff will seek underwriting criteria only one time. Rate modeling language was removed in May 2024.

Amendment

The Pool's Executive Committee may amend this policy.

Passed by the Executive Committee May 23, 2024.

Attest:

Approved as to form:

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