



General Liability 1 (GL1) **Program Budget Policy**

Program Goals for GL1 include the following:

Short Term Goals

- Re-evaluate the risk tolerance and the balance between pooling and transferring risk to the commercial insurance market, with a heavier emphasis on pooling.
- Continue to evaluate and develop service offerings to the members to assist and support their risk management efforts in mitigating/preventing loss.
- Set rates for the upcoming year at an 85% confidence level to increase the net position so that the pool's funding is within the target funding range in three to five years.
- Continue accomplishing action items as outlined on the GL1 Program Strategic Plan approved by the Executive Committee and coordinate the efforts of the Claims Review Committee, Risk Control, and D&A Departments, as needed.
- Continue to increase the use of standardized PRISM GL codes for general liability loss data to allow for better claims analysis and trend identification Evaluate options to increase the usage of PRISM GL codes among the GL1 membership.
- Implement the adoption of monthly data reporting among the GL1 Program membership.
- Continue to roll out the new data analytics platform to allow for benchmarking of claims data, with additional members being brought onboard and new functionality being provided in 2023/24.
- Use multi-year underwriting matrices, where possible, to help stabilize renewal pricing from underwriters.
- Continue to monitor the long-term discount assumption, and make conservative adjustments, as needed.
- Continue to evaluate transfer of risk opportunities in the PRISM captive.
- Market the Program nationwide to improve the diversity of the Program exposure.
- Evaluate alternative insurance options, including insurance linked securities, to mitigate rate increases during the hard market.
- Begin offering Individual Member Corridor Deductible options for members.
- Assist members in evaluating increased SIR levels to assist with budget stability and premium savings.
- Analyze GL1 loss data and evaluate creating different rating groups within the GL1 allocation.
- Determine the optimal level of control/authority PRISM should have to assert more program control in claims, audit, and underwriting, to reduce the costs of claims and, ultimately, member premium contributions.

Long Term Goals

- Maintain funding levels in accordance with the Target Funding Guidelines.
- Maintain an equitable distribution of costs amongst the members through a premium allocation process with appropriate consideration for exposure and loss experience within the pool layer and excess layers.
- Maintain stable pricing year-over-year, striving not to exceed a 15% variance.
- The GL1 risk tolerance is low to neutral. We will protect pool assets through appropriate risk transfer with a bias toward more risk transfer in a soft market and less risk transfer in a hard market. There is a bias toward risk transfer when losses are less predictable and a bias toward risk retention when losses are more predictable and less volatile.
- Maintain multi-year relationships, where possible, with business partners (brokers, underwriters, actuaries, claims administrators, etc.).

Budget Policies for the GL1 Program include the following established by the Board of Directors:

Revenues

- Premiums for retained risk and transferred risk are calculated based on participating member's self-insured retention, exposure, and loss data. Based on actuarial information and market conditions, the Underwriting and Executive Committees advise on program funding mechanisms including how much risk to self-fund, and at what discount rate and confidence level, and how much risk to transfer. Funding includes consideration of the Target Equity Policy adopted by the Board. Final funding decisions and premium allocation methodologies are approved by the Board of Directors.
- Premium in the GL1 Program is not subject to adjustment based on actual payroll.
- Broker fees are charged to all public entity members. The amount charged is a graduated rate based on premiums. The current broker fee rates are 10% of the first \$100k of premiums, plus 5% of premiums from \$100k to \$1M, and 3% of premiums excess of \$1M. Broker fees or commissions may also be charged to members for reinsurance placements and are considered part of the cost and premium for transferred risk.
- The Risk Management Subsidy Program is a voluntary program that was created to offset the direct costs members incur from securing external risk management products and services. Most members choose to contribute at least \$1,000 each year to this program.
- Investment income is budgeted at an estimated earnings rate determined annually and applied to the average daily balance invested in the PRISM Treasury. The estimated earnings rate is determined by the Finance Committee and approved by the Executive Committee and Board of Directors.
- Members may elect to pay their premium on a monthly or quarterly basis. Finance fees are charged based on the internal borrowing rate and the term of the

financing. Administration fees are based on the budget for program and general administration costs and subsidies. Any carryover credit from previous years' administration expense will flow to the Program's Net Position. Program costs are defined below.

Expenses

- Upon recommendation of the Underwriting and Executive Committees, the Board may annually consider returning available net position to members in the form of member dividends.
- Premium for Transferred Risk is the expense for insurance purchased based on the risk financing decisions made.
- The provisions for claims, current year, and provision for claims prior years' are the actuarial adjustments to claim liabilities.
- The provision for ULAE (Unallocated Loss Adjustment Expenses) is the annual adjustment to the liability for the administrative costs of handling the claims for the life of the claim and is charged as part of the admin fee.
- Member claims audits are scheduled for each member or Third Party Administrator (TPA), every two years, or as determined by the Claims Review Committee, unless the member opts out of the claims audit program.
- A claims audit for the PRISM's Claims Department is scheduled every two years.
- Each member is entitled to subsidy of \$2,000 towards the cost of member actuarial studies.
- Other program expenses include program actuarial and consulting costs, legal expenses, ISO fees and any other expenses approved by the various committees.
- There is a \$50,000 contingency budget line item for unforeseen expenses, which is available for use with a two-thirds vote of the Executive Committee.
- The Program has adopted a policy to provide Crisis Incident Management Services. Annually, the Board will determine how to fund for these services.
- Deficits in any program's net cash and investment balance occasionally result from delays in payments from reinsurance carriers and others. In those instances, the cash flow needs of the program are met by other PRISM programs via interfund borrowing. Interest is paid on interfund borrowing in accordance with the annually-adopted internal borrowing rate. This interest expense will be covered from the program's net position.

Transfers

- Transfers out to the General Administration Program are used to pay for the PRISM staff and all other administrative costs. These administration costs are allocated to all PRISM programs based on a three-year average of staff time.
- The administrative costs of the Program are typically set in conjunction with the March Board of Directors meeting as a way to aid members in budgeting by reducing variability in their premiums. Any variance within 2.5% of the set amount

and the final administrative costs are adjusted from the program's Net Position. If the variance falls outside of the 2.5% range, the total budgeted number is brought back to the Board of Directors in June for further action.

- Based on member election, a risk management subsidy of \$1,000 per member, plus any additional amounts elected by members, is transferred to the General Administration Program and added to each member's risk management subsidy account.
- The PRISM Claim system transfer is based on program usage.
- Investment Fees are charged to the program based on the average daily balance of program funds invested.