

MIAMI VALLEY RISK MANAGEMENT ASSOCIATION



2022 ANNUAL REPORT

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ABOUT MVRMA

MVRMA is a consortium of municipalities located in southwest Ohio, which formed an Association under Section 2744.081 of the Ohio Revised Code (ORC) to act collectively in addressing its members' risk management and risk financing needs. It began operation in December 1988 with six charter members and now has twenty-one members.

MISSION STATEMENT

The mission of the Miami Valley Risk Management Association is to deliver high quality risk management services to its member municipalities in a manner which provides long-term financial stability, minimization of risks and protection of mutual interests.

VISION STATEMENT

The vision of the Miami Valley Risk Management Association is to be the premier property and casualty insurance pool for member municipalities in Ohio.

MEMBERS (Year Joined)

City of Beavercreek (1988)

City of Blue Ash (1992)

City of Englewood (2004)

Village of Indian Hill (1993)

City of Madeira (1994)

City of Miamisburg (1988)

City of Piqua (2002)

City of Springdale (1991)

City of Troy (1989)

City of West Carrollton (1988)

City of Wyoming (1992)

City of Bellbrook (2004)

City of Centerville (2004)

City of Fairfield (2019)

City of Kettering (1988)

City of Mason (1997)

City of Montgomery (1990)

City of Sidney (1993)

City of Tipp City (1996)

City of Vandalia (1988)

City of Wilmington (1988)

MESSAGE FROM THE EXECUTIVE DIRECTOR

We are pleased to offer this 2022 Annual Report to our members and other parties interested in an overview of the Association's activities.

MVRMA experienced another strong year financially. The Association's financial position and performance are summarized in the Condensed Financial Information section below.

Member Refunds: Per pool policy, when all loss year's claims and lawsuits have been resolved, all remaining funds in that year, including interest, are returned to the members. There were no loss year closures in 2022. As of December 31, 2022, MVRMA has returned approximately \$24 million to its members since the inception of the pool from the closure of loss years.

Insurance Programs: MVRMA's insurance program includes general liability, auto liability, public officials' errors and omissions, cyber liability, pollution liability, "all risk" property coverage, crime coverage and boiler and machinery coverage.

The pool's Liability Coverage Document provides coverage for general liability, auto liability, and public officials' errors and omissions. The \$12 million per-occurrence limit is financed by a combination of self-insurance and reinsurance described more fully below.

The pool's property insurance program was placed with the Alliant Property Insurance Program (APIP) again in 2022. The suite of coverages within the APIP program also includes the base cyber liability coverage and pollution liability. The property market has been hit hard in the last few years by significant weather events triggering rate increases of 17%, 22% and 40% in 2019 to 2021, respectively. The 2022 renewal saw a slight easing with a rate increase of 15%. Unfortunately, Hurricane Ian has again disrupted the property market and significant increases are expected again for the pool's July 2023 renewal.

The impact on MVRMA of the increases in excess insurance and reinsurance is mitigated because the pool's self-insured retentions (\$500,000 for liability and \$250,000 for property) provide a buffer from the commercial insurance market. Times like these highlight the effectiveness of the pooling concept.

Investment Performance: The primary objective of the pool's investment policy is preservation of principal. Investments are primarily high-quality corporate

bonds, government agency bonds and money market instruments with a seven-year investment horizon. The current yield on the investment portfolio was 1.78% as of December 31, 2022. The investment markets saw rapid increases in rates of return in 2022. The pool's investment yield will tend to lag market increases or decreases in periods of rapid change as its investment maturities are "laddered" to meet expected cash flow needs over a seven-year period.

Loss Control: The loss control services available to members is a key differentiator between MVRMA and commercial insurance. Later in this report, we provide an update on the pool's loss control activities.

Board of Trustees: As always, I want to thank the MVRMA Board for their vision and leadership.

Anyone who would like more information about the information in this report may contact the Executive Director at 937-438-8878.

Thomas L. Judy, Executive Director

CONDENSED FINANCIAL INFORMATION

The Statement of Net Position

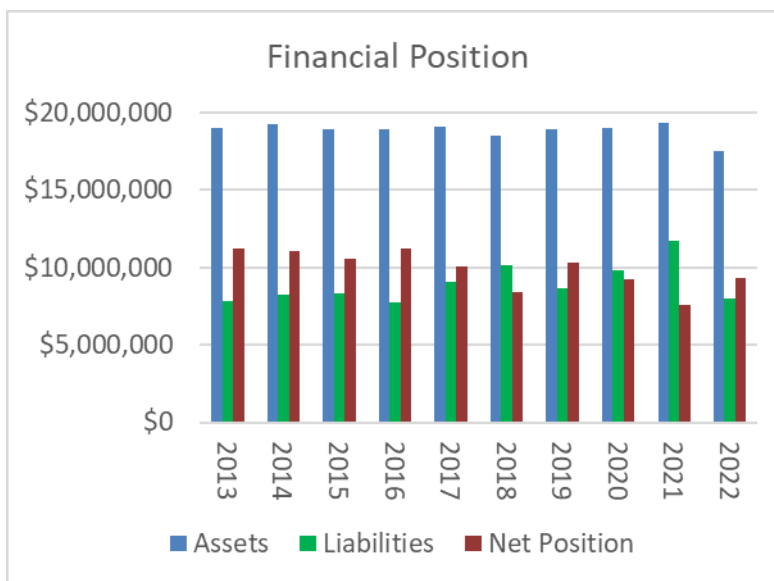
The difference between total assets and total liabilities is reported as “net position.”

The following table presents condensed information on MVRMA’s net position as of December 31, 2022 and 2021.

Condensed Statement of Net Position December 31, 2022 and 2021 (unaudited)

	<u>2022</u>	<u>2021</u>
Assets:		
Cash, cash equivalents, and investments	\$16,188,808	\$17,848,520
Other assets	1,343,791	1,415,785
Total assets	<u>17,532,599</u>	<u>19,264,305</u>
Deferred Outflows of Resources	<u>73,146</u>	<u>81,334</u>
Liabilities:		
Unpaid Claims Losses	3,120,262	4,447,057
Members' dividends payable	4,738,520	6,518,291
Net pension & OPEB liabilities	143,818	323,255
Other liabilities	12,888	179,759
Total liabilities	<u>8,015,488</u>	<u>11,468,362</u>
Deferred Inflows of Resources	<u>311,582</u>	<u>273,588</u>
Total Net Position	<u>\$9,278,675</u>	<u>\$7,603,689</u>

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MVRMA’s primary assets are cash and investments. MVRMA’s Cash and Investment Policy permits investment in United States treasury bills, notes, and bonds; bonds, notes, debentures, or any other obligations or securities issued by any federal agency or instrumentality, including government sponsored enterprises; deposits in eligible financial institutions; bonds, notes, or other obligations of the State of Ohio and its political sub-

divisions; investment grade corporate bonds rated not lower than A2 by Moody’s or A by S&P; and STAR-Ohio or other such investment pools operated or managed by the Treasurer of the State of Ohio. The maximum maturity for MVRMA investments is seven years. The policy provides for diversification and other safeguards necessary to meet the primary objective of preservation of principal.

The single largest liability is the liability for net unpaid losses and loss adjustment expenses. This amount is determined annually with the assistance of an outside actuary and reflects the estimated ultimate loss amounts for currently active claims as well as an estimate for incurred but not reported claims as of December 31, 2022. The claims reserve decreased from \$4.1 million to \$3.1 million during 2022 due to favorable development in prior years’ claims.

The liability for members’ refunds reflects the funds being held in MVRMA’s General Reserve Fund (GRF). The General Reserve Fund accounts for surplus funds returned, but not yet paid, to members primarily from the closure of loss years. Members may withdraw their GRF funds within thirty days after the close of a loss year, or in January of each year, or for the payment of a MVRMA invoice at any time during the year. If they wish, members may leave their funds on deposit in the GRF indefinitely. Interest income is allocated to GRF funds. The members’ refunds liability decreased in 2022 as no loss year closed but members continued to withdraw funds. This amount is subject to wide fluctuations depending on the timing of loss year closures.

The Statement of Revenues, Expenses and Changes in Net Position

This statement reflects operating and non-operating revenue and expenses and how the Association's net position changed during the year.

Operating revenue consists primarily of members' contributions. The major categories of operating expenses are claims and claims adjustment expenses, reinsurance premiums, general and administrative expenses, and dividends to members. Non-operating revenue and expense is primarily related to investment activity.

Condensed Statement of Revenues, Expenses, and Changes in Net Position For Years Ended December 31, 2022 and 2021 (unaudited)

	<u>2022</u>	<u>2021</u>
Operating Revenue	\$6,367,353	\$5,416,717
Operating Expenses:		
Incurred claims and claims adjustment expenses	827,856	2,467,648
Reinsurance premiums	2,362,508	1,808,446
Gen. & admin. Expenses	<u>631,270</u>	<u>885,455</u>
Total Operating Expenses	<u>3,821,634</u>	<u>5,161,549</u>
Operating Income (Loss)	2,545,719	255,168
Nonoperating Revenue (Expense):		
Interest income and realized and unrealized gains (losses) on investments	-859,721	-179,063
Members' dividends	<u>-11,012</u>	<u>-1,724,642</u>
Changes in Net Position	<u>\$1,674,986</u>	<u>-\$1,648,537</u>

Members' contributions accounted for about 95% of operating revenue in 2022. Changes in net position can vary widely from year to year due to fluctuations in incurred claims expense and members' dividends. Although the incurred claims expense is subject to variability, it has remained relatively stable in recent years. Fluctuations in claims expense is moderated somewhat by the insuring of losses above the pool's self-insured retentions of \$500,000 per occurrence for liability claims and \$250,000 for property claims.

Members' dividends expense is incurred when the Board of Trustees closes a loss year. Loss Funds are returned. Dividends from loss year closures can be significant and do not necessarily occur each year. No loss years were closed in 2022. Members' dividends of \$11,012 in 2022 were solely from return of Shock Loss funds.

Net position decreased by \$1.6 million in 2021 primarily as a result of dividends to members of \$1.7 million from the closure of a loss year. Net position increased by \$1.7 million in 2022 due to the significant decrease in the unpaid claims liability as well as there being no loss year closures. The rebound was muted somewhat by unrealized investment losses of about \$860,000. These losses represent no cause for concern as all investments are expected to be held until maturity.

Below are various ratios useful in comparing the results of MVRMA's financial performance and capital sufficiency:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Loss Ratio ¹	41%	33%	43%	78%	22%
Expense Ratio ²	28%	32%	26%	28%	17%
Combined Ratio ³	69%	64%	69%	105%	39%

- 1. Loss Ratio: Ratio of incurred losses and loss adjustment expenses to net members' contributions. A typical insurance industry range is between 75% and 90%.*
- 2. Expense Ratio: Ratio of brokerage and administrative expenses to net members' contributions. The Expense Ratio indicates a pool's operating efficiency. The increases in 2016 – 2019 are primarily attributable to changes in the method of reporting pension expense.*
- 3. Combined Ratio: The sum of the Loss Ratio and Expense Ratio. A Combined Ratio of less than 100% indicates an underwriting profit.*

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Net Position to SIR Ratio	16.8	20.7	18.5	15.2	18.5

Net Position to SIR Ratio: An indication of pool solvency that measures the relationship between the pool's net position (i.e., net worth) and its self-insured retention (SIR). MVRMA's SIR for liability claims is \$500,000 per occurrence. A higher ratio indicates the pool presents less risk and can withstand adverse losses. A general rule of thumb for the insurance industry is a ratio of at least 10 is desirable. Pools tend to be more conservative and maintain a higher ratio.

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Net Position to Loss Reserves Ratio	2.3	3.0	2.19	1.7	3.0

Net Position to Loss Reserves Ratio: This compares the pool's net position (i.e., net worth) to loss reserves (i.e., the liability for unpaid claims), measuring the pool's ability to absorb losses. Generally speaking, the higher the ratio, the more financially able the pool is to absorb costs in excess of the booked reserves. Typical ranges for the insurance industry and insurance pooling are between 0.5 and 2.0.

INSURANCE PROGRAM

Liability: MVRMA's liability insurance program offers coverages based on the special needs of its member cities. The MVRMA Board of Trustees has the flexibility to custom design this coverage through the Board-approved MVRMA Liability Coverage Document. The liability program includes: General Liability, Auto Liability, Employment Practices Liability and Public Officials Errors and Omissions coverage. Limits of coverage in 2022 were \$12 million per occurrence. The pool funded the first \$500,000 of each occurrence. Government Entities Mutual (GEM), a reinsurance captive, reinsured the next \$6.5 million excess of the pool's \$500,000 retention. Genesis provided \$5 million excess of \$7 million for the total of \$12 million per occurrence.

Property: MVRMA provides property coverage through the Alliant Property Insurance Program (APIP). APIP is the single largest property placement in the world. Lexington Insurance Company is the lead insurer on the program. The policy is "All Risk" providing members the broadest form of coverage. The policy includes Commercial Property, Earthquake, Flood, Boiler and Machinery, Auto Physical Damage, Pollution Liability and Cyber Liability. The pool funds the first \$250,000 of most property claims with APIP picking up coverage above that point up to repair or replacement cost.

Crime: MVRMA provides Government Crime Coverage through National Union Fire Insurance Company of Pittsburgh, PA. The plan includes limits of \$2 million per occurrence for employee theft, forgery or alteration, computer fraud, funds transfer fraud and government employee faithful performance of duty. A limit of \$100,000 per occurrence applies to theft of money and securities.

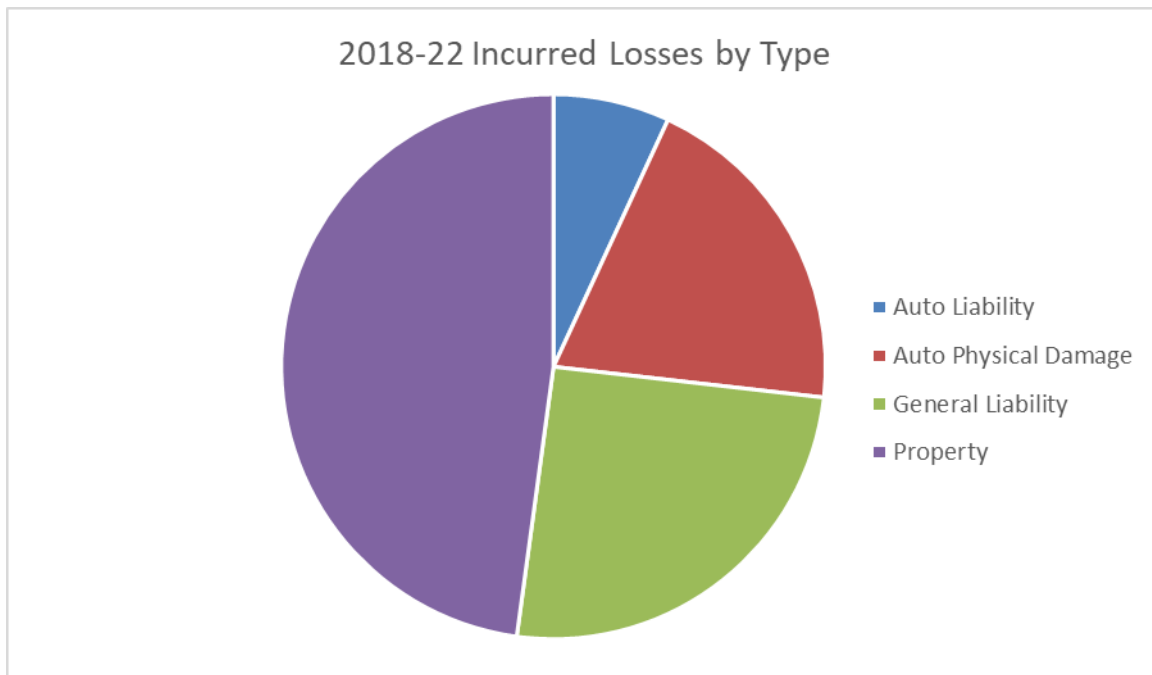
Position Bonds: Surety bonds required by charter, ordinance or statutory requirement are provided by MVRMA. Bonds are provided for the required amount except "all employee" bonds are limited to \$2,500 per employee.

CLAIMS INFORMATION

MVRMA members' claims losses continue to trend well below actuarially-expected losses which generally exceed \$2 million per year. The chart below summarizes incurred claims which represent cash claims payments plus outstanding reserves.

Incurred Claims by Loss Year by Type

Loss Year	Auto Liability	Auto Physical Damage	General Liability	Property	Total
2018	\$78,866	\$256,075	\$710,603	\$315,237	\$1,360,781
2019	\$70,113	\$268,422	\$533,244	\$1,106,600	\$1,888,379
2020	\$69,079	\$344,336	\$356,365	\$1,031,707	\$1,791,487
2021	\$120,307	\$339,627	\$218,195	\$623,247	\$1,310,376
2022	\$222,079	\$412,483	\$236,089	\$888,348	\$1,758,999
Annual Average \$	\$112,049	\$322,189	\$410,899	\$775,028	\$1,620,165



LOSS CONTROL ACTIVITIES

Training

In 2022, MVRMA sponsored 39 training programs with 986 attendees. Staff continues to analyze loss data to provide relevant training that contributes to lowering

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Number of Training Programs	32	34	57	48	26	41	39
Number of Participants	767	640	1,237	757	404	720	986

both the frequency and severity of losses.

The core focus of MVRMA training in 2022 was Driver training, heavy equipment training and Law Enforcement programs.

Highlights include:

- In 2022, MVRMA was approved as an ELDT training provider through the Federal Motor Carrier Safety Administration. MVRMA is now able to provide the newly required driver training for employees who are preparing to get their commercial driver's license.
- MVRMA continued the partnership with the Center for Local Government and the Miami Valley Communications Council to offer a Leadership Academy and Supervisory training. These programs are designed for any supervisors or employees who may have the potential to become supervisors. The program was highly rated by the participants.
- In 2022, MVRMA staff started roundtable groups for IT Directors, Police Chiefs, Fire Chiefs and Public Works Superintendents. These meetings have been highly praised and have opened communication opportunities and information sharing between the MVRMA members.

Best Practices

- MVRMA staff conducted annual visits to each member city’s Police department to evaluate their practices compared to MVRMA’s best practice program. These meetings provide an opportunity for MVRMA staff to discuss claims as well as trends in the area of police risk management with member police representatives.

- MVRMA staff also conducted annual visits to member cities to evaluate all of their city departments based on MVRMA’s Risk Management Best Practices program. These evaluations allow loss control staff to meet with key employees in each city to discuss claims and share best practices recommendations.

<u>2022 Board Officers:</u>
President: Emily Christian, City of Miamisburg
Vice-President: John Crowell, City of Montgomery
Treasurer: Nancy Gregory, City of Kettering
Secretary: Sandy Caudill, MVRMA

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