



SPECIAL DISTRICT RISK MANAGEMENT AUTHORITY

2020-21 ANNUAL REPORT



Maximizing Protection. Minimizing Risk. www.sdrma.org



SDRMA MISSION

SDRMA's mission is to provide excellent risk financing and risk management services through a financially sound pool to California public agencies, delivered in a timely and responsible cost-efficient manner.

SDRMA VISION

SDRMA's vision is to be the exemplary public agency risk pool of choice for California special districts and other public agencies.

SDRMA CORE VALUES

SDRMA's professional expertise, technical knowledge, and understanding of public agency operations, coupled with our commitment to responsive, in-house claims management, proactive loss prevention and cost containment enables our members to allocate more of their vital resources to providing essential community programs and services to their constituents.

BOARD PRESIDENT'S MESSAGE

Special District Risk Management Authority (SDRMA) remains committed to its founding values of quality service, fiscal integrity and stability, and member focused programs that maximize protection and minimize risk.

As natural disasters continue to occur worldwide and significant jury verdicts and settlements are being awarded at record levels, the insurance market continues to face challenges that impact all of us. SDRMA continues to serve our membership to the best of our ability by providing broad coverage, proactive loss prevention, effective claims cost containment, enhanced member services, along with our hands-on personal care. We appreciate the continued commitment of our members participating in our Property/Liability and Workers' Compensation Programs, and our Health Benefits Program groups, as we all work through the challenges of the insurance market together.



Our partnerships with California Special District Association (CSDA), the CSDA Finance Corporation, and the Special District Leadership Foundation provide our members access to valuable services, resources, education and training opportunities.

Special Recognitions for Fiscal Year 2020-21

SDRMA acknowledged the 2020-21 Safety Award recipients by presenting the awards to each recipient virtually:

The *Earl F. Sayre Excellence in Safety Award* was presented to Property/Liability program members demonstrating a commitment to loss prevention and public safety, including their participation in SDRMA and CSDA safety and governance training sessions throughout the year. The large member category recipient was Placentia Library District, and the small member category recipient was Stanislaus Local Agency Formation Commission.

The *McMurchie Excellence in Safety Award* was presented to the Workers' Compensation program members demonstrating a commitment to employee safety and training to reduce workplace injuries. The large member category recipient was Association of Monterey Bay Area Governments, and the small member category recipient was Summerland Sanitary District.

Significant Highlights for Fiscal Year 2020-21

- * Welcomed 20 new members and groups
- * Retained 97% of existing members
- * Received an Unmodified Opinion on our Annual Financial Audit Report
- * Approved Longevity Distribution credits of over \$2,179,568 for Workers' Compensation Program members

On behalf of the Board of Directors, thank you for your support and continued participation in helping make SDRMA the premier risk management program in California for over 35 years!

A handwritten signature in black ink, appearing to read 'Mike Scheafer', with a long horizontal flourish extending to the right.

Mike Scheafer
2020-21 Board President

TABLE OF CONTENTS



05	About SDRMA
06	Organization Overview
07	Program Overview
08	Membership
09	New Members
10	Membership Profile
11	MemberPlus Services™
12	Property/Liability Package Program
14	Liability Program Structure
15	Property Program Structure
16	Workers' Compensation Program
17	Workers' Compensation Program Structure
18	Claims Management and Administration
20	Health Benefits Program
21	Confidence Levels
22	Financial Information - Net Position
23	Financial Information - Changes in Net Position
24	Financial Information - Revenues
25	Financial Information - Expenses
26	Financial Information - Economic and Market Conditions

ABOUT SDRMA

JOINT POWERS AUTHORITY

SDRMA is a public agency formed in 1986, under California Government Code Section 6500 et seq., and was established to provide property and liability coverage protection and risk management services statewide exclusively for California public agencies. In 2003, SDRMA began providing workers' compensation coverage. In 2006, SDRMA began administering a health benefits program in partnership with Public Risk Innovation, Solutions, and Management (PRISM).

The Accreditation Standards span 21 pages including ten broad categories of review including:



- ✦ Governing Documents and Administrative Contracts
- ✦ Government Rules
- ✦ Insurance and Coverages
- ✦ Accounting and Finance
- ✦ Investment of Funds
- ✦ Funding and Actuarial Standards
- ✦ Risk Control
- ✦ Claims Management
- ✦ Operations and Administrative Management

RECOGNITION OF SERVICE AND PROGRAM EFFECTIVENESS

In order to measure the effectiveness of its services and programs, SDRMA participates in state and national accreditation programs.

CAJPA ACCREDITATION: SDRMA participates in the California Association of Joint Powers Authorities (CAJPA) Accreditation Program. The purpose of the program is to promote professional management and fiscally sound practices, provide industry standards, assure governing boards of management's compliance with accepted standards, and maintain a self-regulating process that is ultimately less expensive and more meaningful than State or Federal regulation. CAJPA Accreditation is a measure of how well a pool is being managed and is

evidence of the JPA Board's commitment to high standards. The process includes a review by independent consultants applying a detailed set of standards that have been accepted by the industry as "best practices." Compliance with the standards results in a status of "Full Accreditation" or "Accreditation With Excellence" for a three-year period. Since 2005, SDRMA has been awarded their highest designation, "Accreditation with Excellence." SDRMA received its latest designation in November 2020 and is effective through October 2023.

AGRIIP RECOGNITION:



In September 2021, SDRMA received recognition from the Association of Governmental Risk Pools (AGRIIP) for compliance with AGRIIP Advisory Standards. AGRIIP Recognition is a method for member pools to conduct a comprehensive self-assessment of internal operational procedures against industry best practices. Any pool that meets the Advisory Standards is granted Recognition for three years, helping assure its governing body and members it is operating as effectively as they expect. SDRMA's AGRIIP Recognition is effective through February 2024.

SDLF DISTRICT OF

DISTINCTION:

Since 2013, SDRMA has participated in the Special District Leadership Foundation (SDLF) District of Distinction program, an accreditation



program that enables districts to demonstrate to their communities, legislators, and other key stakeholders their commitment to operate and govern a special district in a sound, responsible manner. In 2020, SDRMA earned SDLF's "Platinum Level," the highest level of distinction that recognizes completion of all SDLF programs demonstrating a comprehensive approach to excellence in district management and governance. This distinction is in effect through December 2022.



SDRMA BOARD OF DIRECTORS

Fulfills the mission of the Authority by establishing policies for the benefit of the members. Responsible for establishing policy, direction and providing general oversight.

- Mike Scheafer, President, Costa Mesa Sanitary District
- Sandy Seifert-Raffelson, Vice-President, Herlong Public Utility District
- Robert Swan, Secretary, Groveland Community Services District
- David Aranda, CSDM, Director, Stallion Springs Community Services District
- Tim Unruh, CSDM, Director, Kern County Mosquito and Vector Control District
- Jesse Claypool, Director, Honey Lake Valley Resource Conservation District
- Thomas Wright, Clovis Veterans Memorial District

CONSULTANTS

- Actuary
- Auditor
- Coverage Counsel
- Defense Counsel
- General Counsel
- Reinsurance Brokers
- Investment Managers

CHIEF EXECUTIVE OFFICER

Develops programs for the benefits of the pool. Manages the Authority in accordance with Board policy and direction. Maintains administrative and operational responsibilities.

- Laura S. Gill, ARM, ARM-P, CSDM, Chief Executive Officer
- Ashley Flores, Management Analyst/Board Secretary

CLAIMS MANAGEMENT / LOSS PREVENTION

Manages claims process for members and the Authority. Coordinates communication between the third party claims administrator, general counsel and management. Assists members in reducing and controlling losses, provides proactive loss prevention and safety training, conducts member safety inspections and reviews loss trends for the members.

- Debbie Yokota, ARM, Chief Risk Officer
- Enriqueta (Henri) Castro, CSP, Safety/Loss Prevention Manager
- Danny Peña, Senior Claims Examiner
- Heidi Singer, Claims Examiner II

FINANCE / ADMINISTRATION

Manages the Authority's funds and financial activities. Ensures financial integrity and accountability and oversight. Coordinates communication between Investment Advisors and management. Coordinates coverages with carriers.

- C. Paul Frydendal, CPA, Chief Operating Officer
- Jennifer Chilton, CPA, ARM, Finance Manager
- Margarito Cruz, Accountant
- Ryan Corp, Accounting Technician

MEMBER SERVICES

Serves as the primary contact between the Authority and its members. Ensures effective communication and information for members. Provides administration and marketing for member growth and retention.

- Ellen Doughty, ARM, Chief Member Services Officer
- Wendy Tucker, AU, Member Services Manager
- Teresa Guillen, Member Services Specialist II
- Candice Richardson, Member Services Specialist I

HEALTH BENEFITS

SDRMA is an administrator for the small group Medical Benefits and Ancillary coverages Program through Public Risk Innovation, Solutions and Management (PRISM).

- Alana Little, Health Benefits Manager
- Michelle Brown, Health Benefits Specialist II

PROGRAM OVERVIEW

SDRMA is a Joint Powers Authority (JPA) with over 35 years of trusted experience. SDRMA has a proven reputation for stable, competitive rates, actuarial based fiscal management, and sound underwriting practices. Our goal is to establish a long-term partnership with our members to positively impact the overall cost of claims and risk management by providing member focused services and safety training. Members can annually reduce their future year contributions up to 15% for completion of SDRMA approved risk management and training programs.

A TRUSTED COMMITMENT TO OUR MEMBERS

- * Reflecting the Values of Our Members: SDRMA is committed to conducting business on behalf of our members by doing the right thing in the right way and at the right time based on the highest professional standards and integrity.
- * Maximizing Coverage and Minimizing Risk: Since formation, SDRMA has successfully met its stated mission by working with and on behalf of its members to develop programs and coverages that provide maximum protection and minimize losses.
- * Protecting Member's Assets: SDRMA protects its members by identifying their exposures and assessing their risks. We aggressively manage and defend claims for damages and maintain a zero tolerance for fraud.
- * Covering our Members: Coverage documents are broad form manuscript policies written on an "occurrence form" to ensure the highest level of coverage and maximum protection of assets for governmental entities providing municipal services.
- * Managing our Financial Responsibility: SDRMA's expenditures on operations, claims, excess coverages and other aspects of the financial strategy are continually monitored and evaluated to protect our members' equity.
- * Maintaining a Fiscally Sound Pool: SDRMA undergoes an annual financial audit and an annual actuarial review to assist with rate setting to maintain pool stability.
- * A seven-member Board of Directors govern SDRMA and possess a firsthand understanding of the complex issues that special districts face in providing a wide variety of services to their customers. Elected from within the SDRMA's program membership, the Board carries out its fiduciary function of overseeing the pool's financial health, operations, and legal compliance and its strategic function of establishing policy, direction, and organizational vision. Board members are directors or managers of member agencies.

SDRMA is committed to conducting business on behalf of our members by doing the right thing in the right way and at the right time.

MEMBERSHIP



NEW MEMBERS

MEMBER RETENTION

Since 2008, we have consistently retained over 96% of our annual membership for both the Property/Liability and Workers' Compensation Programs.

MEMBER ADDITIONS

We extend a warm welcome to the 20 new members/groups that joined in 2020-21.

PROPERTY/LIABILITY PROGRAM

Truckee Tahoe Workforce Housing Agency
San Gabriel Valley Regional Housing Trust
Miraleste Recreation and Park District
Ventura County Transportation Commission
Feather River West Levee Financing Authority
San Diego County Air Pollution Control District

WORKERS' COMPENSATION PROGRAM

Artesia Cemetery District
Big Pine Community Services District
South Santa Clara Valley Memorial District
Calaveras County Resource Conservation District
Antelope Valley Fire District

PROPERTY/LIABILITY AND WORKERS' COMPENSATION

Belvedere Tiburon Library Agency


HEALTH BENEFITS PROGRAM

Utica Water Power Authority
Gold Mountain Community Services District
Cabazon Water District
Workforce Alliance of the North Bay
Northern California Regional Public Safety Training Authority
Fallbrook Regional Health District
Timber Cove County Water District
Triunfo Water and Sanitation District

We believe that maintaining a strong member retention rate and attracting new members reflect our quality of service and programs, member confidence and competitive rates.

SDRMA members provide a wide variety of public services ranging from air quality management to wastewater collection and treatment, as well as municipal services. The diversity of services and risk exposure is beneficial for obtaining the lowest reinsurance cost and in providing broad levels of coverage to our member agencies.

2020-21 Members – By Type	PLP	WCP	HBP
Air Pollution Control / Air Quality Management	13	11	5
Airport	3	5	0
Ambulance / Emergency Services / Life Support	1	2	0
Animal Services	2	1	0
Cemetery	22	30	9
Children Services	1	2	2
Community Services	135	92	24
Economic Development Commission	1	1	1
Emergency / Safety Communications	5	3	1
Fire Protection	19	27	8
Flood Control / Levee / Reclamation / Drainage	19	6	1
Harbor / Port	3	7	1
Healthcare / Medical Services / In Home Support	9	5	7
Housing Authority	1	1	1
Irrigation	8	9	2
JPA	27	20	5
Library	9	9	3
Local Agency Formation Commission	21	12	4
Memorial	12	8	0
Municipal Improvement / Resort Improvement	4	4	1
Municipalities	1	6	19
Pest Control / Mosquito Abatement / Mosquito Vector Control / Eradication	21	11	8
Police Protection	1	0	5
Public Utility	13	15	3
Recreation and Park	18	14	9
Resource Conservation	50	45	9
Sanitary / Sewer / Wastewater	25	19	0
Solid Waste / Waste Management	7	5	2
Transit / Transportation	4	6	8
Water	44	49	9
Totals	499	425	147



In an effort to help our members prevent and reduce claims, SDRMA provides Complimentary MemberPlus Services.™ These are just a few of the types of MemberPlus Services™ provided to our members:

- * Personalized Online Member Resources – MemberPlus Online™ Portal
- * Online Safety/Compliance Training – VectorSolutions™
- * Employment Law Legal Hotline
- * Telephone Triage - Company Nurse (Workers' Compensation members only)
- * Discounts For CSDA Training Including Webinars and Workshops (Safety, Loss Prevention, Claims Handling)
- * On-site Loss Control Visits & Risk Analysis
- * Contribution-Reduction Credit Incentive Program (CIP)
- * Occupational Safety & Health Program
- * Loss Prevention Fund
- * Hazard Identification Survey
- * Claims Policy/Procedure Manual
- * Monthly Review of Claims Loss Reports
- * Monthly Safety Talk Meeting Materials
- * Ergonomic Evaluations of Work Areas
- * Contract Review: Coverage and Indemnification Language
- * Special Events Liability Assistance*

Members can annually reduce their future year contributions up to 15% for completion of SDRMA approved risk management and training programs.

* Additional fees may apply



SDRMA offers a straightforward uncomplicated program. Coverage documents are broad form manuscript policies written on an “occurrence form” to ensure the highest level of coverage and maximum protection of assets for governmental entities providing municipal services. Our programs have a proven reputation for competitive rates, actuarially based fiscal management, and sound underwriting practices. Responsive, in-house claims management and cost containment, combined with tailored safety and loss prevention, provides members an unequalled risk management program.

*SDRMA offers
a straightforward
uncomplicated
program.*

PROPERTY/LIABILITY PACKAGE PROGRAM COVERAGES:

General Liability

Coverage for Third-Party claims and losses arising from members’ operational exposures for Bodily Injury and Property Damage. Coverage provided for such exposures as: Recreational Activities; Premises Liability; Operational Breaches. Coverage included for Boards, employees and volunteers.

Auto Liability

Auto liability coverage protects members from lawsuits for bodily injury and property damage to the public arising out of ownership, maintenance or use of a covered vehicle. Coverage includes: owned vehicles, non-owned and hired vehicles and uninsured/underinsured motorists.

Auto Physical Damage

Auto physical damage (comprehensive and collision) provides protection for damage or loss to a member’s owned vehicle. Comprehensive coverage includes: fire, theft, vandalism, windstorm, hail, flood, glass breakage, damage caused by riot or civil commotion and damage from hitting or being hit by birds and animals. Collision coverage provides coverage for repair or replacement for like kind, type and condition based on actual cash value.

Public Officials and Employees Errors and Omissions

Coverage for public officials and directors “wrongful acts”, alleged or actual negligence, errors or omissions, breach of duty, misfeasance, malfeasance, nonfeasance and defamation.

Elected Officials Personal Liability

This highly specialized unique coverage protects elected and/or appointed officials from claims and settlements arising outside the course and scope of their duties. Coverage includes invasion of privacy, libel, slander, defamation of character, discrimination, false arrest and malicious protection.

Employment Practices Liability

Coverage for claims and losses arising from “wrongful” employment practices. Coverage includes wrongful termination, harassment, hostile work environment and discrimination.

Employment Benefits Liability

Coverage for claims and settlements resulting from the negligent administration of employee benefit plans.

Employee and Public Officials Dishonesty

Coverage protection for member losses resulting from fraudulent or dishonest acts committed by employees, volunteers or board members. Coverage includes: larceny, theft, embezzlement, forgery and wrongful misappropriation.

Property Coverage

Coverage provided for the replacement cost value of reported buildings and contents. Additional extensions provided for accounts receivable, builders’ risk, business interruption, commandeered property, cost of construction, debris removal, electronic data processing, extra expense, fine art (appraised value), flood coverage (annual aggregate), terrorism, pollution clean-up (related to property loss), personal property of others and valuable papers. Valuation: Replacement Cost (w/o depreciation), Mobile/Contractors Equipment: actual cash value.

Boiler and Machinery

Coverage for the “sudden and accidental” breakdown of mechanical and electrical machinery. Coverage includes expediting expenses, business income, extra expense, spoilage, water damage, ammonia contamination, hazardous substances, error in description and newly acquired property.

Cyber

Coverage includes information security & privacy liability, privacy notification costs, regulatory defense and penalties, website media content liability and system damage and restoration (business interruption from hacking or virus).

Ancillary Coverages

Ancillary coverages are offered on a member-by-member basis (such as earthquake).



An important safeguard and strength of our programs is the use of reinsurance to protect the membership from catastrophic losses. As a result of the financial strength and sound financial management of our programs, SDRMA has been able to obtain superior reinsurance coverage for our membership. Our Liability Program reinsurance partners, Old Republic Insurance Company and QBE are ranked among the top reinsurers worldwide.

General Liability (1)	Public Officials E&O (2)	
QBE	QBE	\$ 10,000,000
QBE	QBE	\$ 5,000,000
QBE	QBE	\$ 2,500,000
QBE	QBE	\$ 1,000,000
Old Republic Insurance Company	Old Republic Insurance Company	\$ 250,000
SDRMA Self-Insured Retention		\$ 100,000
\$ 0 Member Deductible		

(1) Specific per Occurrence per Member

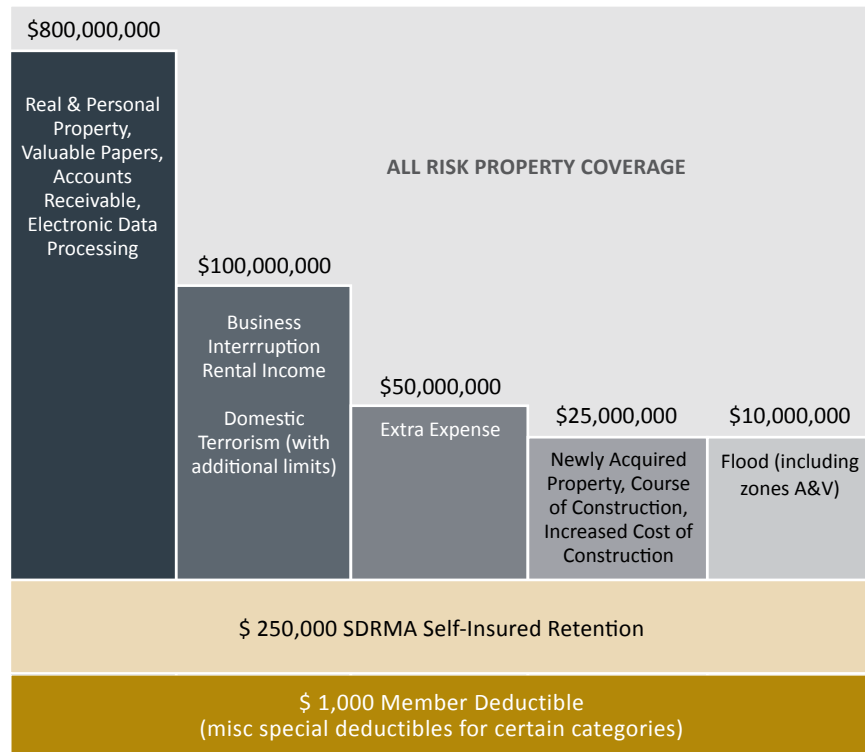
(2) Includes: Employment Practices Liability, Employee Benefits

A.M. Best Credit Ratings has assigned top ratings to our 2020-21 Liability Program reinsurance partners: Old Republic Insurance Company (A+ Superior) and QBE North America (A Excellent).

PROPERTY PROGRAM STRUCTURE

Our 2020-21 Property Program reinsurance partner is Alliant Property Insurance Program (APIP). Formed in 1993 to meet the unique property insurance needs faced by public entities, they are the largest single property placement in the world.

RE INSURED BY: LEXINGTON INSURANCE COMPANY*
(A.M. BEST RATING A EXCELLENT)



NOTES: Property Coverage also includes Boiler & Machinery (which has a separate limit of \$100 million), and Contractors Equipment Schedule, Lease Purchase and Fire Vehicles Scheduled (which have separate sublimits under the property schedule)

* The Lexington Insurance Company is the primary carrier for SDRMA's coverage limits in the APIP program administered by Alliant Insurance Services, Incorporated



SDRMA provides special districts, joint powers authorities, cities and other public agencies with comprehensive workers' compensation coverage. Our Workers' Compensation Program has a proven reputation for tremendous stability, competitive rates, actuarially based fiscal management, and sound underwriting practices. Moreover, our responsive claims management and cost containment, combined with tailored safety and loss prevention, providing Members with a full-service Workers' Compensation Program.

PROTECTING OUR MEMBERS

Our primary objective is proactive prevention - to control and prevent losses, and to lower workers' compensation contributions. Our commitment is to create a safe environment for your employees - which is why our programs are geared to prevent employee injuries, not just provide coverage after they occur. Monthly safety and prevention bulletins are sent directly to all Members and employees.

Our primary objective is proactive prevention - to control and prevent losses, and to lower workers' compensation contributions.

LOSS CONTROL

Our excellent loss ratio is the direct result of the efforts of our Members and a proactive loss prevention program. We provide our Members with a claims procedure manual and training sessions to assist them with preliminary claims processing. In addition, if a Member's Experience Modification calculations are higher than average, SDRMA takes extra steps to help Members bring down their Experience Modification Factor (EMOD).

All Workers' Compensation Programs in California are required by law to provide the same coverage. The difference is, with an SDRMA Program, you receive superior claims management, loss prevention and safety training to help prevent and reduce losses and unequalled value-for-value services.

WORKERS' COMPENSATION PROGRAM STRUCTURE



Currently, our excess partners, Liberty Insurance Corporation, Ace American Insurance Company, Great American Insurance Company and Public Risk Innovation, Solutions, and Management (PRISM) provide insurance coverage for the various structured layers of the Workers' Compensation Program.



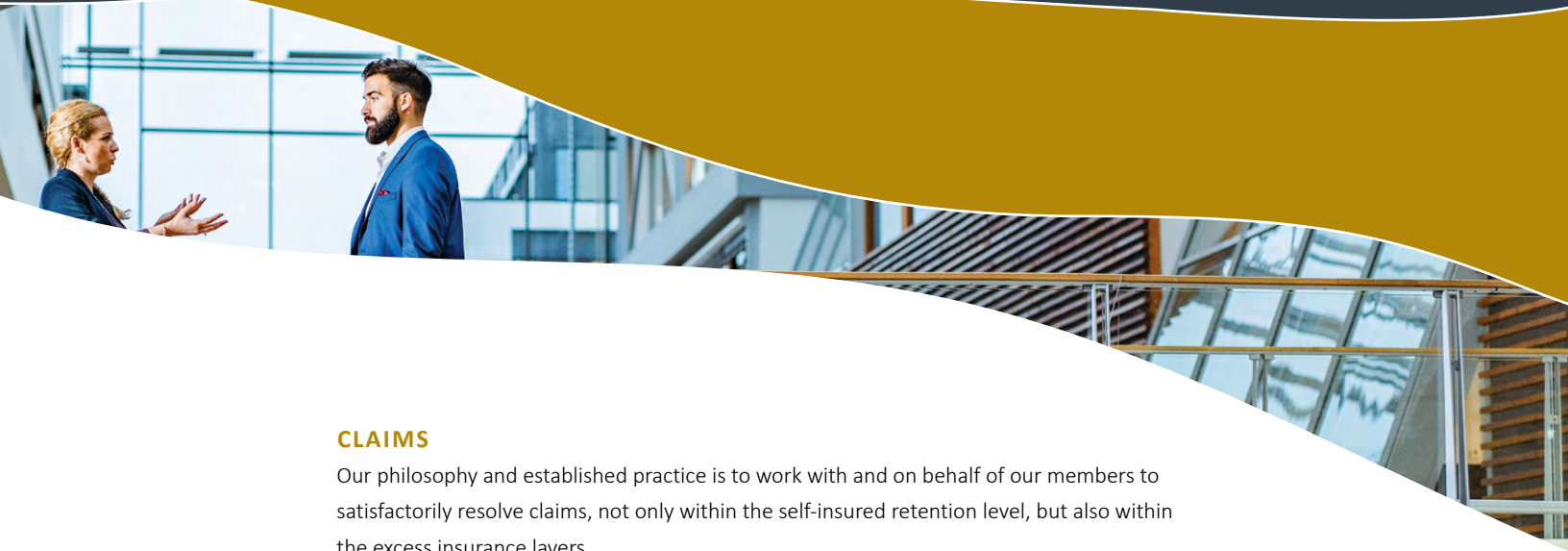
SDRMA recognizes that claims management is a critical component of a risk management program. SDRMA takes a proactive approach to claims management by providing responsive claims management and cost containment, combined with tailored safety and loss prevention programs.

POSITIVELY IMPACTING CLAIMS COST

Our primary program objective is to provide responsive claims management, cost containment, loss control and prevention services that positively impacts the overall cost of property/liability coverages.

- * **Claims Philosophy:** Our philosophy and established practice is to work with and on behalf of our members to satisfactorily resolve claims, not only within the self-insured retention level, but also within the excess insurance layers.
- * **Claims Management:** We aggressively manage and defend claims for damages. SDRMA maintains a zero tolerance for fraud.
- * **Claims Communication:** All claims activity is closely communicated and discussed with our members.
- * **Claims Software:** SDRMA uses claims management software to provide accurate, up-to-date status of each claim, loss run reports and financial information.
- * **Safety/Loss Prevention:** SDRMA member's loss activity is continually monitored and evaluated by our Safety/Loss Prevention team. In the event that a member's loss activity exceeds the pool average, our Safety/Loss Prevention team will contact members to discuss ways to reduce their exposure.
- * **Claims Settlement Authority:** SDRMA's Board of Directors and management team retain ultimate settlement authority and approval of claims within the self-insured retention. We defend claims aggressively and the Board of Directors has instructed staff to make every effort to resolve claims to the benefit of our members.
- * **Claims Education:** SDRMA believes the key to a successful risk management program is quality and relevant education. Our members are provided with a variety of seminars, online and local regional training such as: confined spaces, employment practices and board member ethics and responsibilities. In March, SDRMA offers an annual Education Day for its members at no charge.
- * **Claims Manual:** Members are provided with a Claims procedure manual and the necessary forms.

Our philosophy and established practice is to work with and on behalf of our members to satisfactorily resolve claims.



CLAIMS

Our philosophy and established practice is to work with and on behalf of our members to satisfactorily resolve claims, not only within the self-insured retention level, but also within the excess insurance layers.

California Average Indemnity Cost Per Workers' Compensation Claim: \$28,939
SDRMA Average Indemnity Cost Per Workers' Compensation Claim: \$7,250

SDRMA Average Cost per Claim		
Program Year	Workers' Compensation (Indemnity only)	Property/Liability
2020-21	\$7,250	\$10,563
2019-20	\$7,577	\$11,952
2018-19	\$30,552	\$16,690
2017-18	\$7,294	\$13,713
2016-17	\$13,543	\$19,851

Property/Liability Claims Management Program: Property/Liability claims are processed, managed and adjusted “in-house.” SDRMA utilizes claims management software, and members have online access to claims and loss history information.

Workers' Compensation Claims Management Program: Under the direct supervision of SDRMA's Chief Risk Officer, SDRMA utilizes the third-party administrator expertise of Sedgwick Claims Management Services for workers' compensation claims management. Members have online access to claims and loss history information.



SDRMA, in partnership with Public Risk Innovation, Solutions, and Management (PRISM), offers a small group Medical Benefits Program to public agencies with 2-200 full-time employees. PRISM's small and large group medical pool current participant count is over 40,000 employee lives. Carrier Providers are Blue Shield, Anthem Blue Cross and Kaiser, and there are multiple plan options: HMOs, PPOs, and High Deductible HSA Compatible Plans. Express Scripts, Blue Shield, Anthem Blue Cross and Kaiser are the prescription carriers. Medical benefits rates are based on the physical county of agency.

SDRMA also offers a small group Ancillary coverages program in partnership with PRISM and it is available to public agencies with 2-50 full-time employees. There are several available options for each line of coverage providing maximum flexibility and savings.

Agencies can select which programs they would like to join subject to underwriting approval. The Ancillary coverages program includes the programs and employee counts in the table below:

SDRMA also offers a small group Ancillary coverages program in partnership with PRISM and it is available to public agencies with 2-50 full-time employees.

	Small & Large Group Participant
Program	Count
Dental	90,000+
Vision	40,000+
Life and Short/Long Term Disability	60,000+
Employee Assistance Program	47,000+

SDRMA functions as the administrator of the small group program by marketing the program, enrolling new groups, entering updates for existing participants, answering day to day questions, billing, collecting and remitting the monthly medical and ancillary premiums. Since SDRMA only serves as the administrator of the Health Benefits Programs, there is no liability risk to SDRMA members.

Groups must be public agencies and are not required to participate in other SDRMA programs.

CONFIDENCE LEVELS



PROVIDING CONFIDENCE IN OUR PROGRAMS

The confidence level is a measurement of the Authority's funding level and ability to pay losses. The higher the percentage, the greater the ability to pay losses for current and future claims. SDRMA's Board of Directors has an established policy of maintaining an actuarial confidence level on an undiscounted basis of 90% for both the Property/Liability and Workers' Compensation programs. The Board also requires that an actuarial study be prepared for both programs on an annual basis. Currently, our latest actuarial studies confirm that both our Property/Liability and Workers' Compensation confidence levels exceed 95%. The actuarial industry average is 75% - 85%. With a high ability to pay current and future losses, it is unlikely that our members will pay any assessments.

STATEMENT OF NET POSITION – JUNE 30, 2021 AND 2020

ASSETS	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	\$17,499,585	\$18,043,460
Current investments	1,909,978	6,397,161
Receivables	13,425,569	2,809,293
Prepaid expenses	3,181,089	3,051,926
Total Current Assets	36,016,221	30,301,840
NONCURRENT ASSETS		
Investments at market	99,000,179	94,912,728
Capital assets:		
Land	762,850	762,850
Other capital assets, net	4,081,664	4,699,453
Total Noncurrent Assets	103,844,693	100,375,031
Total Assets	139,860,914	130,676,871
Deferred Outflow On Pensions / OPEB	606,052	595,599
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	1,605,588	1,128,960
Accrued payroll	211,883	189,651
Member payable	2,179,568	563,961
Unearned contributions	10,863,207	10,662,657
Current portion of claim-related liabilities	10,000,000	10,000,000
Total Current Liabilities	24,860,246	22,545,229
NONCURRENT LIABILITIES		
Noncurrent portion of claim-related liabilities	47,965,960	46,674,643
Pension liability, net	907,379	722,588
OPEB liability, net	153,080	141,183
Total Noncurrent Liabilities	49,026,419	47,538,414
Total Liabilities	73,886,665	70,083,643
Deferred Inflow On Pensions / OPEB	237,014	246,193
NET POSITION		
Invested in capital assets, net of related debt	4,844,514	5,462,303
Unrestricted	61,498,773	55,480,331
Total Net Position	\$66,343,287	\$60,942,634

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
JUNE 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Members' contributions	\$45,575,905	\$41,045,906
Health benefits premiums	37,509,933	35,144,043
Dividends income	142,260	94,766
Other income	11	214
Total Operating Revenues	83,228,109	76,284,929
OPERATING EXPENSES		
Claims expense	17,016,698	18,713,401
Insurance expense	17,460,384	16,506,721
Health insurance expense	36,589,764	34,452,195
Contract services and CSDA fees	2,411,481	2,408,186
Salaries and benefits	2,843,327	3,110,965
General and administrative	1,237,786	1,258,166
Depreciation expense	604,634	1,055,311
Dividends expense	142,260	94,766
Total Operating Expenses	78,306,334	77,599,711
Operating Income (Loss)	4,921,775	-1,314,782
NONOPERATING REVENUES AND EXPENSES		
Rental revenue	393,908	430,458
Rental expense	(294,518)	(282,068)
Net Rental Income (Loss)	99,390	148,390
Investment income	379,488	5,744,463
Total Nonoperating Income	478,878	5,892,853
Change in Net Position	5,400,653	4,578,071
Beginning Net Position	60,942,634	56,364,563
Ending Net Position	\$66,343,287	\$60,942,634



The **Statement of Net Position** provides information on SDRMA's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference reported as net position. SDRMA started FY 2020-21 with a net position of \$60.9 million. At the end of fiscal year 2020-21, SDRMA's assets and deferred outflows exceeded liabilities and deferred inflows by \$5,400,653, resulting in a net position of \$66.3 million, which represents a 9% increase to Net Position. Each program's Net Position is allocated between various funds necessary to ensure confidence in our ability to meet financial obligations, funding for catastrophic losses, rate stabilization and other programs and commitments.

The **Statement of Revenues, Expenses and Changes in Net Position** provides information showing total revenue and expense and how SDRMA's net position changed during the year.

REVENUES

Total revenues were \$76 million, an increase of 9%, in 2020-21. This is made up primarily of higher contributions in the Property/Liability program due to the rising cost of excess insurance.

Property/Liability

The Property/Liability program member contributions increased \$6.5 million, or 29%, as compared to 2019-20. The 2020-21 renewal was one of the toughest in the history of the pool, primarily due to the hard market, which has continued to harden. Our reinsurance brokers relayed the volatility of the reinsurance market early in the 2020-21 renewal cycle, which led to the board approving a 21% rate increase for General Liability and a 20% increase for Property. In addition, the board eliminated the volume discount, which gave members additional discounts of between 10% - 50% based on the combined total of their Property, Mobile/Contractors Equipment and Auto Liability contribution. The rate increases and the elimination of the volume discount was necessary to build equity in the net position for the Property/Liability program.

Workers' Compensation

For 2020-21, the Workers' Compensation program saw a 10%, or \$1.9 million, reduction in member contributions, which was primarily due to the impacts of COVID-19 and the "shelter-in-place" order issued by Governor Newsom. Members reported their estimated payroll to SDRMA in February 2020, one month before the shelter-in-place order, with renewal invoices being sent in May 2020. Due to the timing of these events, staff expected significant refunds of contribution to be sent during the annual payroll reconciliation. In August 2021, SDRMA issued a total of \$1.2 million in refunds and \$900,000 in invoices, for a net of \$(300,000).

Health Benefits

The Health Benefits program experienced a 7% increase in premiums due to the following rate increases effective January 1, 2021: a 9.5% increase to medical participant rates, a 4.8% increase to dental participant rates and a 1% increase in SDRMA's administrative fee.



EXPENSES

Total operating expenses were \$78 million for 2020-21.

Significant expense items for 2020-21 include:

- * Health Benefits Insurance is based on the rates set by PRISM for the Health Benefits Program. Rates reflect the charges by the various carriers, a review of SDRMA participant's medical and pharmacy claims experience, the program's overall experience and projected increases in medical and pharmacy costs. SDRMA adds a small administrative fee to the rates billed to the various groups. This entire expense is a pass through to the agencies participating in the program.
- * Property/Liability Excess Insurance continues to increase as the market continues to harden. In 2020-21, excess property rates increased 25% and excess liability rates increased by 30%. SDRMA had to pass these increases onto the members of the Property/Liability program, explaining the 29% increase in Property/Liability revenues.
- * Property/Liability and Workers' Compensation Claims account for a combined 21% of total expenses. Property/Liability claims cost decreased by 26% from 2019-20 primarily due to two large claims that settled at policy limits, well into the excess layer, during 2019-20. In September 2021, SDRMA received actuarial reports for both programs that wrote down the cost of claims for Property/Liability by nearly \$1 million and \$2 million for Workers' Compensation. At year end, Property/Liability had claim liabilities of \$16.6 million and Workers' Compensation had claim liabilities of \$41.3 million. Both programs are funded above the 95% confidence level according to the latest actuarial report dated September 10, 2021.

ECONOMIC AND MARKET CONDITIONS AND OUTLOOK

California Economic Condition and Outlook

The state's economy during 2021 has continued to be impacted by the COVID-19 pandemic. New infections and hospitalizations have dropped as the worst of the current wave is receding. While the economy is open, it is not back to the pre-crisis status. All sectors of the economy are in recovery and job restoration is continuing. Currently, employers now face more employee turnover and will have to make more concessions to maintain key workers. Unfilled positions are common and will have to be tolerated. As the labor market loosens, this will change as more workers return to the labor force and as generation Z college graduates start looking for work.

During 2022, we should expect remote work and virtual meetings to continue. As workers continue to work at home, longer term, most workers will return to the office. While most hybrid work plans call for employees to be in the office two to three days a week, this is not practical for workers who moved more than 50 miles away. Employers will face difficult decisions regarding permanent relocation or remote work arrangements.

Insurance Market Condition and Outlook

SDRMA's mission is to provide risk financing and risk management services through a financially sound pool to California public agencies, delivered in a timely and responsive cost-efficient manner. The ability to meet that mission is, in part, dependent on conditions in the commercial insurance market. The commercial insurance market has business cycle(s) that result in fluctuating rates, availability of coverage and policy limits. These fluctuations are referred to as "soft" or "hard" markets. In a soft-market cycle, pricing is lower, competition is greater, and generally, the market has excess capacity that increases the availability of coverages and higher policy limits. A soft-market cycle is a favorable condition for pools and insurance consumers. The trend in a hard-market cycle is higher/increasing rates with fewer options in availability of coverages and limits. A hard-market cycle is an unfavorable condition for pools and insurance consumers. Historically, insurance market cycles occur every three to seven years. We are currently in a hard market cycle for liability and property programs and a stable market cycle for workers' compensation coverage.



In 2021, SDRMA experienced their toughest property renewal in the history of the pool. This was primarily due to the global market losses that surpassed \$200 Billion from 2017 and 2018 combined, the additional loss development from those two years into 2019 characterized as “creep”, and further catastrophic losses in 2020 and the first half of 2021. During the past three years the property market has continued to harden with additional wildfire and hurricane/weather related losses, further capacity restrictions causing pricing increases, deductible/retention increases, and many additional coverage restrictions in certain geographical areas based on specific loss development. Leading into our fall 2021 property renewals we began to see a stabilization of the property market. This is due to robust rates, new capacity entering the market, and the lack of poor loss development. We anticipate the property market to maintain this stabilization into the first half of 2022. It is still very early to predict what next July brings, but the market is looking for double digit inflationary trend factors (10% to 14%) based on escalated construction costs, especially for public entity property risks. In the liability market, same as with property, the past year was the worst rate environment that SDRMA has experienced in the history of the pool. Excess carriers continue to be hit with very large verdicts and settlements. We believe there will be some natural calming but may not be as positive as possible because of the proliferation of large losses. If SDRMA has a low loss to loss free year and our prior year claims do not develop adversely, we should expect rate increases in the 12.5-20 percent range. However, should SDRMA have claims develop dramatically, rates could be increasing above the 25 percent range.

For workers’ compensation coverage, this market continues to remain fairly stable, and we anticipate medical inflation to cause minor rate increases for excess placements. As a result, we expect percentage rate increases to be roughly 10% conservatively.



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