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PACIF Board of Directors Meeting Minutes 2021 09-24

VLCT Property and Casualty Intermunicipal Fund, Inc.

Board of Directors Meeting

VLCT Offices, Montpelier, Vermont, and via Zoom

Friday, September 24, 2021

Minutes

Directors Present: Carl Rogers, Jackie Higgins, Aaron Frank, Stuart Hurd, Patrick Moreland, Jared Cadwell, Jerry Storey, Bruce Urie, Erik Wells, Bryan Young and Rob Gaiotti (9:45 – 10:30)

Staff Present: Ted Brady, Joe Damiata, Fred Satink, Jeremiah Breer, Kelly Knotek and Kelley Avery

Others Present: Steve DiCenso and Julia Rosen (Milliman)

President Rogers called the meeting to order at 9:31 a.m.

Carl Rogers requested adding a discussion on the resignation and recognition of board director Jerry Storey under Other Business on the agenda.

Upon motion (Higgins/Cadwell) duly adopted, the board voted unanimously to approve the agenda as amended.

Upon motion (Hurd/Higgins) duly adopted, the board voted unanimously to approve the minutes of the June 25, 2021 meeting.

Joe Damiata provided an organizational update including the following:

- Next week's Town Fair Annual meetings on September 29 will be in a hybrid format, with members attending both remotely and in-person. Board member attendance at these meetings is critical.
- Mr. Damiata, Fred Satink and Katie Buckley did a presentation to the Arkansas Municipal League regarding using ARPA funds for Cyber Security, and the presentation was very well received.
- Redhand Advisors is about halfway through its information gathering process and is expected to present a report next month on potential systems improvement for VLCT.
- PACIF renewal applications went out by email this week to members and are due back October 8.

Jeremiah Breer provided an overview of the financials through June 30, 2021. Net position is up about 2% or \$1.37 million from year-end. Revenues are down slightly from 2020 as expected but are still above budget. Other expenses are generally below budget, but this is largely due to the timing of services. There were modest investment losses for the second quarter.

Upon motion (Higgins/Wells) duly adopted, the board voted unanimously to approve the Q2 Financial Report as presented.

Mr. Damiata presented a Net Position Stabilization Plan in his memo to the board dated September 15, 2021, included in the meeting packet. This plan proposes staff recommendations for moderating net position growth including the following:

- Continue to fund to a confidence level at or slightly above 60%.
- Return \$3,100,000 in net position, with \$1,500,000 distributed as the usual contribution credits and an additional \$1,600,000 distributed as a special, one-time return of net position. Both would be netted off of each member's renewal invoice.
- Change the PACIF Equipment Grant Program to a 100% reimbursement program and increase funding to \$400,000.
- Provide members with access to KnowBe4 Cyber Security Awareness training for the next two years at an estimated cost of \$250,000 annually.
- Provide VLCT with \$150,000 toward member equity training and resources.
- Provide VLCT with a one-time \$100,000 allocation toward IT and data system modernization.

Fred Satink noted that staff has had some difficulties getting clear pricing from KnowBe4, so the included numbers are estimates. Mr. Damiata also noted that while the \$1.5 contribution credit would be calculated in the same manner as previous years, the additional return of \$1.6 million could be distributed the same way credits are typically disbursed, or it could be distributed proportionally based on the percentage of each members' contributions to the total of all member contributions for the years that are selected for contribution credits. The board agreed that the percentage of contributions option for the \$1.6 million one-time special return of net position was the desired distribution method.

Upon motion (Hurd/Urie), duly adopted, the board voted unanimously to approve the Net Position Stabilization Plan.

Mr. Damiata led a discussion on board training topics and provided a list of past training topics and sessions covered. He also reviewed the Board Training Policy. Various possible trainings topics were suggested. The board requested more VLCT staff training on operational topics and potential training on how to be an effective board member. Staff will research these options for future trainings and include these as appropriate for future board meetings.

Mr. Damiata reviewed the report from Willis Towers Watson (WTW), which was intended to independently evaluate the general actuarial assumptions and estimates that Milliman provides with regard to PACIF reserves. Although modestly lower than the WTW estimates, Milliman's reserve estimates were considered in the reasonable range and fell within the WTW high and low range of estimates. Staff believes this secondary review of the primary actuary's work is a prudent practice and something that should be considered every three to four years.

Upon motion (Higgins/Hurd), duly adopted, the board voted unanimously to accept the Willows Towers Watson Report.

Mr. Damiata noted the Trust's general and coverage counsel John Riley has worked for the Trust since its inception in 1986. He has served the Trust very well in that role. In recent years John has mentioned retiring, and staff feels it reasonable to appoint a new general counsel prior to John's retirement to ensure continuity of services. Staff feels Mr. Woodward has the skills and knowledge to serve the Fund well in these capacities. Staff recommends the board consider appointing Phil Woodward, Esq. as the new General and Coverage Council to PACIF, while giving him the authority to use outside counsel for additional services whenever needed. The board expressed their sincere appreciation for John Riley's many years of outstanding service to them, the Fund, VLCT staff, and its members as PACIF's general and coverage counsel.

Upon motion (Cadwell/Higgins), duly adopted, the board voted unanimously to appoint Phil Woodward, Esq. as PACIF Coverage and General Counsel and to authorize him to use outside counsel for assistance when necessary.

With the appointment of Phil Woodward as General and Coverage Counsel, some edits are required to the PACIF Policy Regarding Member Appeal of PACIF Coverage Determinations. Mr. Damiata reviewed these minor changes with the board and asked that the board approve the edits.

Upon motion (Urie/Higgins), duly adopted, the board voted unanimously to approve the changes to the PACIF Policy Regarding Member Appeal of PACIF Coverage Determinations, as presented.

Nominating Committee Chair Aaron Frank presented the report of the Nominating Committee. The committee met on September 14th and approved recommending renewing terms for Jerry Storey, Carl Rogers and Jackie Higgins who all have terms expiring at year-end. However, Jerry Storey has since notified the board he will be resigning from the Shelburne Selectboard at the end of the month, and he will no longer be eligible to serve on the PACIF Board. The committee met again prior to this meeting and recommended that the board appoint Bryan Young to serve out the remainder of Mr. Storey's term.

Upon motion (Moreland/Urie), duly adopted, the board voted unanimously to approve the Report of the Nominating Committee.

Steve DiCenso and Julia Rosen presented the draft actuarial reports of the Reserve and Funding Analyses. Overall, Milliman increased the reserve central estimate to just over \$38.3 million, largely due to current year losses no longer being offset by favorable development in prior years. With regard to funding, management is proposing to raise just over \$25 million at slightly more than a 60% safety margin. The overall recommended change in gross-net contributions results in a decrease in rates of .1%, which includes a rate decrease to workers' compensation of 5% and a rate increase to property/casualty of 4.4%. This is a preliminary report, and a final actuarial analysis will be presented to the board at its October meeting.

Upon motion (Frank/Higgins), duly adopted, the board voted unanimously to accept the draft actuarial Reserve and Funding Analysis reports.

Mr. Damiata briefly reviewed the draft 2022 PACIF Budget. No drastic changes are expected between now and December when the final budget will be presented for approval. The budget is up roughly 3.3% higher than last year due to a 2.2% increase in reinsurance costs. Administrative expenses are up about 6% due to some staff increases and in anticipation of a new VLCT agency management system for 2022.

Fred Satink provided an overview of the 2022 renewal including proposed changes to rates and

reinsurance. The proposed gross-net rate reduction of .1% for all lines reflects the actuary's funding analysis recommendations and staff rate smoothing. He noted that staff's smoothed rates propose to collect a slightly higher amount than the actuarial indication, due to the desire to maintain flat rates.

Fred Satink reviewed staff's recommended reinsurance structure for 2022, which includes renewing with all of the incumbent reinsurers with the same structure, with the exception of cyber coverage. Overall, PACIF's 2022 reinsurance costs are up modestly when cyber coverage is excluded. Staff will have more information by the October meeting with regard to final reinsurance pricing and provide an updated reinsurance chart at that time. Staff will also update the board on cyber coverage developments. Guy Carpenter recommended that staff bind excess property reinsurance coverage with Travelers as soon as possible due to marketplace volatility, so staff is looking for authorization from the board to bind the property reinsurance coverage with the carrier before the next meeting.

Upon motion (Frank/Storey), duly adopted, the board voted unanimously to authorize staff to bind excess property reinsurance coverage for 2022 with Travelers as presented.

Kelly Knotek reviewed the proposed coverage changes for 2022, which consisted largely of language clarifications. Of special note were the changes to certain Crime & Fidelity sublimits from \$25,000 to \$50,000. These changes will make this line of coverage more competitive in the marketplace, and staff feels that the increased limits pose little to no additional risk to the fund, based on past claims history. Two new drone endorsements were also discussed, with the intent of providing liability and physical damage coverage in 2022.

Mr. Damiata reviewed staff's recommendations for the 2021 contribution credit (dispensed in 2021 and netted off 2022 invoices). As mentioned previously in the meeting, staff is proposing the return of \$3.1 million in contribution credits for 2021, with \$1.5 million distributed by the usual method and \$1.6 million as a one-time return of net position via a percentage of contribution method.

Upon motion (Frank/Higgins), duly adopted, the board voted unanimously to approve staff's recommendation for 2021 contribution credits.

In other business, the board recognized exiting director Jerry Storey for his years of service with the PACIF Board and as a member of the Joint Investment Committee. President Rogers noted he has always appreciated Mr. Storey's questions and contributions during their sessions. Mr. Storey shared his regret in leaving and noted he has always considered his work on the board to be meaningful, satisfying, and enjoyable. Staff will be delivering a Certificate of Appreciation to Mr. Storey by mail.

With Mr. Storey's departure, this leaves his position open on the board, and the nominating committee has recommended alternate Bryan Young be appointed as director to serve the remainder of Mr. Storey's term. The board agreed to this recommendation.

Upon motion (Hurd/Higgins), duly adopted, the board voted unanimously to appoint Bryan Young as director to serve out the remainder of director Jerry Storey's term expiring December 31, 2021.

Upon motion (Urie/Cadwell), duly adopted, the board voted unanimously to adjourn the meeting (11:45 a.m.).

Respectfully submitted,
Fred Satink,

Assistant Secretary

Board or Committee:

PACIF Board of Directors

Board/Committee Meeting Date:

Friday, September 24, 2021

Resource Category:

- Minutes
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