

EXAMINATION REPORT
of
VIRGINIA TRANSIT LIABILITY POOL
RICHMOND, VIRGINIA
as of
JUNE 30, 2014

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Virginia Transit liability Pool as of June 30, 2014, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 20th day of April, 2015

A handwritten signature in cursive script that reads 'Jacqueline K. Cunningham'.

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
January 30, 2015

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

VIRGINIA TRANSIT LIABILITY POOL

Richmond, Virginia

hereinafter referred to as the Pool, has been completed. The report is hereby submitted for your consideration.

DESCRIPTION

The Pool is a local government group self-insurance pool licensed to provide risk management and liability insurance coverage to its members pursuant to Section 15.2-2706 of the Code of Virginia and 14 VAC 5-360-10 et seq. (Rules Governing Local Government Group Self-Insurance Pools) promulgated by the State Corporation Commission (the "Commission"). The Pool's members are political subdivisions of the Commonwealth of Virginia or agencies thereof.

The Pool was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of July 31, 2010. This examination covers the period from August 1, 2010 through June 30, 2014.

HISTORY

The Pool was licensed by the Bureau on August 1, 1987. According to its constitution and bylaws, the pool was formed:

... by public transit systems in the Commonwealth of Virginia to provide for cooperative action in providing risk management and to provide the necessary anticipated financing for comprehensive general liability, automobile

liability and automobile physical damage for pool members and their employees.

MANAGEMENT AND CONTROL

Control of the Pool is vested in a Members' Supervisory Board (the "Board") elected by the members of the Pool. The by-laws provide for no less than four nor more than ten Board members, of which a majority shall be elected or appointed officials of members of the Pool. The Board members serve three year terms or until their successors are elected. In addition to the elected Board members, the Virginia Department of Rail and Public Transportation ("VDRPT") shall designate an individual to serve on the Board with full voting powers on all matters which come before the Board and whose presence shall be counted in the determination of a quorum at any meeting.

The Board and officers were as follows at June 30, 2014:

<u>Representative</u>	<u>Member</u>
Mike E. Guy	District Three Governmental Cooperative Marion, Virginia
John E. Jones	Charlottesville Transit Charlottesville, Virginia
Donald W. LeMond	VDRPT Richmond, Virginia
Kris L. Miller	Fairfax Connector, Fairfax County Fairfax, Virginia
Sandra D. Modell	Alexandria Transit Company Alexandria, Virginia
Carl L. Palmer	Greater Roanoke Transit Roanoke, Virginia
Reginald S. Smith	Harrisonburg Transit Harrisonburg, Virginia
Karen L. Walton	Lynchburg Transit Lynchburg, Virginia

Officers

Sandra D. Modell
 Kris L. Miller
 Carl L. Palmer

Chairperson
 Vice-Chairperson
 Secretary/Treasurer

TERRITORY AND PLAN OF OPERATION

The operation of the Pool is confined to Virginia where it is licensed to transact the business of comprehensive general liability, automobile liability and automobile physical damage. Membership in the Pool is available to political subdivisions of the Commonwealth of Virginia or agencies thereof, which operate public transit systems.

All members of the Pool are required to execute member agreements which set forth the rights, privileges, and obligations of the members as well as the terms, coverages, limits and deductibles of the plan.

The Pool has a contractual agreement with an administrator who shall administer and manage the affairs of the Pool in accordance with the policies adopted and established by the Board. The administrator also functions as the claims service agent for the Pool. The Pool's operations are conducted on a fiscal year basis ending June 30.

ADMINISTRATIVE AND OTHER SERVICES AGREEMENT

Effective July 1, 2012, the Pool entered into an administrative and other services agreement with General Risk Services, LLC ("GRS"). This agreement shall automatically renew on a year to year basis unless either party gives written notice of intent to amend or terminate this agreement within 90 days of the annual expiration date.

According to the agreement, GRS is responsible for, but not limited to, the following:

Administrative Services

Maintain an office in the Richmond metropolitan area where the records of the Pool shall be kept; bind the Pool and its members in transactions relating to and arising out of the operation of the Pool as designated by the Board; establish and maintain bank and investment accounts in the Pool's name for the deposit of members' contributions and for the Virginia Department of Transportation Contingency Fund, now administered by VDRPT, provided in accordance with grant agreements and disburse funds to satisfy the Pool's obligations; contract for and obtain annual audited financial statements; represent

the Pool before, and file the required reports with, the Commission and other regulatory authorities as requested by the Board; and negotiate reinsurance directly with the reinsurer.

Member Services

Calculate member contributions and annual audit amounts; maintain a resource library of Pool owned materials for use by members; provide risk management and insurance consulting services to members as directed by the Board; and provide all other services as deemed necessary by the Board.

Claims Services

Handle all claims incurred during the contract period to their conclusion without additional compensation unless approval to transfer them is obtained from the Commission prior to such transfer; provide quarterly loss reports to members; maintain all written and computerized records for availability to the Pool at any time; and provide all other services as expected of a claims service operation.

As compensation for providing administrative and other services, GRS shall receive \$590,089 annually, payable in monthly installments. The compensation related to this agreement represented 15.0% of the aggregate annual gross contribution paid by the membership.

DIVIDEND ACKNOWLEDGEMENT

Any surplus assets accumulated within a fiscal year may be declared refundable by the Board. Payment of this surplus in the form of dividends, however, may not be made until certified by an actuary and the Pool has received acknowledgement from the Bureau.

During the examination period, the Bureau acknowledged the following dividends:

<u>Fiscal Year</u>	<u>Acknowledged October 28, 2011</u>	<u>Acknowledged November 2, 2012</u>
2003/2004	\$ 430,293	
2004/2005	697,273	
2005/2006		<u>\$ 4,507</u>
Total	<u>\$1,127,566*</u>	<u>\$ 4,507*</u>

*In accordance with the Pool's request and pursuant to 14 VAC 5-360-100, the Bureau approved the transfer of the dividend to the Pool's restricted surplus account in lieu of a distribution to members. The restricted surplus account is to be used at the direction of the Board, subject to the approval of the Bureau. At June 30, 2014, the restricted surplus account balance was \$5,081,733.

CONTINGENCY FUND

The Pool has an agreement dated July 6, 1987 with VDRPT for the purpose of establishing a contingency fund of \$350,000. The Pool is required to keep this fund separate from any other funds of the Pool. Any money provided by VDRPT shall be invested as allowed by state law and regulations adopted for local government group self-insurance pools. All interest earned by the investments shall be credited to the contingency fund.

The terms of this agreement state, in part, "The Contingency Fund shall only be used to pay Allowable Claim Payments ... incurred in any pool year against the Pool or any of its members only after the Pool has accrued liabilities in excess of all funds contributed by pool members in such pool year, except for \$35,000." Prior to the use of any of the contingency fund, the Pool shall notify VDRPT in writing of the use of such funds in detail sufficient to establish that such use complies with this agreement. Where practical, the Pool shall provide VDRPT with at least 30 days written notice prior to any expenditure from this fund.

Additional agreements with VDRPT, executed July 1, 1988 and July 1, 1989, provided \$350,000 and \$150,000, respectively, to further assist in capitalizing the Pool.

As of June 30, 2014, \$278,184 remained in the contingency fund. This balance is the net of cumulative interest received and accrued and transfers utilized to cover deficits caused by member claims.

REINSURANCE COVERAGE

The Pool had reinsurance coverage in force at June 30, 2014, as set forth in the following schedule:

<u>Class of Business</u>	<u>Pool's Retention</u>	<u>Limits of Liability of the Reinsurer</u>
Automobile Liability	\$1,000,000 each occurrence per coverage line per named insured	\$19,000,000 each occurrence per coverage line per named insured. Combined Single Limit: \$20,000,000.
General Liability	\$1,000,000 each occurrence per coverage line per named insured	\$19,000,000 each occurrence per coverage line per named insured. Combined Single Limit: \$20,000,000.

Each Pool member has the option of increasing its automobile and general liability coverage to an amount higher than the basic \$1,000,000 limit offered by the Pool. The additional limits of up to \$19,000,000 excess are placed entirely through the reinsurers and are subject to the reinsurer's approval. The Pool has no additional retention for members selecting the higher limits.

Automobile Physical Damage

(1) Lot Coverage	\$250,000 each occurrence all named insureds	\$14,750,000 each occurrence all named insureds
(2) Specific Coverage	\$250,000 each vehicle	\$550,000 each vehicle

For Automobile and General Liability coverages, Pool members have a zero deductible except for, Harrisonburg Transit which has a \$50,000 deductible per occurrence. For Automobile Physical Damage coverage, pool members select deductibles between \$500 and \$10,000.

INVESTMENT IN REINSURER

On December 20, 2002, the Bureau approved the Pool's request to transfer \$500,000 from its restricted surplus account in order to make a capital contribution in Governmental Entities Mutual ("GEM"), a captive reinsurer domiciled in Washington, D.C. The purpose of the capital contribution to GEM was to allow the Pool to become a founding member of GEM and secure its reinsurance through GEM. GEM was created to provide stable and affordable reinsurance to public entities and public entity pools. GEM's capitalization comes from surplus contributions of its members. In order to become a member of GEM each public entity must remit both a premium payment and a surplus contribution. Additional surplus contributions/assessments may be required of a member from time to time if deemed necessary by GEM's Board of Directors. As the Pool is a founding member of GEM, it is entitled to certain membership privileges which may include retrospective premium credits and/or dividends. The Pool's initial surplus contribution was based on a formula that is a proportion of their payments for coverage.

As of June 30, 2014, the GEM investment balance was \$1,334,949. This balance is net of cumulative interest received and reflects the market valuation of the Pool's investment in GEM.

FIDELITY BOND COVERAGE

At June 30, 2014, the Pool was listed as a named insured on a fidelity bond with a \$5,000,000 limit of liability, subject to a \$50,000 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia and covers the period from August 1, 2010 through June 30, 2014. Assets were verified and liabilities were established at June 30, 2014. A review of income and disbursements for the period was made to the extent deemed necessary.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Management and Control
Territory and Plan of Operation
Administrative and Other Services Agreement
Dividend Acknowledgement
Contingency Fund
Reinsurance Coverage
Fidelity Bond Coverage
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of June 30, 2014, a statement of revenue, expenses and changes in members' equity for the fiscal year ended June 30, 2014, a statement of changes in members' equity for period under review and a statement of cash flows for the fiscal year ended June 30, 2014. The financial statements are presented in conformity with generally accepted accounting principles. This presentation has been approved by the Bureau.

BALANCE SHEET
JUNE 30, 2014

Assets

Current assets	
Cash and cash equivalents	\$1,672,515
Cash and cash equivalents-claims account	163,823
Member deductible receivable	28,373
Accrued interest receivable	22,598
Member contributions receivable	65,957
Other assets and prepaid expenses	<u>5,143</u>
Total current assets	<u>\$1,958,409</u>
Noncurrent assets	
Cash and cash equivalents-restricted (VDRPT)	278,184
Investments - restricted	5,081,733
Investments - unrestricted	1,964,780
GEM investment	<u>1,334,949</u>
Total noncurrent assets	<u>\$8,659,646</u>
Total assets	<u><u>\$10,618,055</u></u>

Liabilities and Members' Equity

Current liabilities	
Unpaid losses	\$1,010,000
Member contributions refundable	162,434
Accounts payable	<u>26,560</u>
Total current liabilities	<u>\$1,198,994</u>
Noncurrent liabilities	
Unpaid losses	843,489
Incurred but not reported (IBNR) reserve	<u>1,119,303</u>
Total noncurrent liabilities	<u>\$1,962,792</u>
Total liabilities	<u><u>\$3,161,786</u></u>

Members' Equity

Restricted equity	
Board restricted surplus	\$5,081,733
VDRPT contingency fund	278,184
GEM investment	1,334,949
Unrestricted members' equity (deficit)	<u>761,403</u>
Total members' equity	<u><u>\$7,456,269</u></u>
Total liabilities and members' equity	<u><u>\$10,618,055</u></u>

STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN MEMBERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2014

Operating revenues	
Member contributions	<u>\$3,923,748</u>
Operating expenses	
Reinsurance premiums	\$1,683,853
Losses incurred	1,006,476
Other	<u>708,778</u>
Total operating expenses	<u>\$3,399,107</u>
Operating income	<u>\$524,641</u>
Nonoperating revenues	
Investment income	
Interest and dividends - restricted	\$21,740
Interest and dividends - unrestricted	88,554
Net realized loss from sales and maturities of investments	(69,585)
Net unrealized gain from investments	<u>93,960</u>
Net investments income	\$134,669
Other income	<u>100</u>
Total nonoperating income	<u>\$134,769</u>
Net change in members' equity before other	\$659,410
Other	
(Decrease) in GEM investment-restricted	<u>(6,171)</u>
Net change in members' equity	\$653,239
Members' equity at beginning of year	<u>6,803,030</u>
Members' equity at end of year	<u><u>\$7,456,269</u></u>

STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR PERIOD UNDER REVIEW

	<u>2010/2011</u>	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>
Members' equity, beginning of fiscal year	<u>\$5,947,257</u>	<u>\$6,589,007</u>	<u>\$6,935,918</u>	<u>\$6,803,030</u>
Net change in members' equity before other	\$641,430	\$270,517	(\$563,503)	\$659,410
Increase (decrease) in restricted equity - GEM investment	<u>320</u>	<u>76,394</u>	<u>430,615</u>	<u>(6,171)</u>
Net change in members' equity	<u>\$641,750</u>	<u>\$346,911</u>	<u>(\$132,888)</u>	<u>\$653,239</u>
Members' equity, end of fiscal year	<u><u>\$6,589,007</u></u>	<u><u>\$6,935,918</u></u>	<u><u>\$6,803,030</u></u>	<u><u>\$7,456,269</u></u>

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Cash flows from operating activities

Cash received from members	\$3,896,072
Cash paid for claims, net of recoveries	(558,500)
Cash paid for reinsurance, net of refunds	(1,649,256)
Cash paid for other operating expenses	(706,008)

Net cash provided (used) by operating activities	<u>\$982,308</u>
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Cash flows from investing activities

Investment income received	\$105,856
Purchases of investments	(4,912,201)
Proceeds from sales and maturities of investments	4,279,843

Net cash provided by (used) by investing activities	<u>(\$526,502)</u>
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Net increase (decrease) in cash and cash equivalents	\$455,806
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Cash and cash equivalents at beginning of year	<u>1,658,716</u>
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Cash and cash equivalents at end of year	<u><u>\$2,114,522</u></u>
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Reconciliation of operating income (loss) to net cash

Provided (used) by operating activities

Operating income	\$524,641
Change in operating assets and liabilities:	
Member deductible receivable	18,096
Reinsurance premium receivable	34,597
Member contribution receivable	(51,518)
Other assets and prepaid expense	(350)
Accounts payable	3,120
Member contributions refundable	5,746
Unpaid losses	411,879
IBNR	36,097
Net cash provided (used) by operating activities	<u><u>\$982,308</u></u>

RECOMMENDATION FOR CORRECTIVE ACTION**Management and Control**

1. The results of this examination reflect a members' equity deficit for the 2006/2007, 2007/2008, 2009/2010 and 2012/2013 fiscal years of \$51,235, \$312,950, \$570,325 and \$56,742, respectively. The Board is reminded of its responsibility to assure that the Pool is financially sound and able to fulfill its obligations according to its by-laws.

SUBSEQUENT EVENT

On December 9, 2014, the Bureau approved the Pool's plan to transfer restricted surplus of \$364,185 to the 2006/2007 and 2007/2008 fiscal years for deficit elimination.

CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the Pool's administrator and staff during the course of the examination.

In addition to the undersigned, Chris Collins, CFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Darrin P. Bailey, Sr." The signature is written in a cursive style with a large initial 'D'.

Darrin P. Bailey, Sr., CFE, MHP, AIAF, FLMI
Senior Insurance Examiner

15 APR - 9 11:08:19

April 3, 2015

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission, Bureau of Insurance
PO Box 1157
Richmond, VA 23218

RE: Virginia Transit Liability Pool
Examination Report as of June 30, 2014

Dear Mr. Smith:

Thank you for the above referenced Examination Report. The draft report was shared with the Members' Supervisory Board by email on 04/02/2015. Your letter of 03/30/2015 was received by Board Chair, Sandy Modell, and I have been instructed to respond.

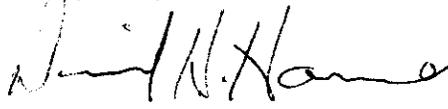
The Board does not wish to request a hearing before the Commission. Our response to the recommendation on page 14 of the report follows.

1. Agree. The Board is monitoring this situation. At 06/30/2014 there was a total unrestricted members' equity surplus of \$761,403, however, as detailed on page 14 of the examination there were four fiscal years in a deficit position. On page 15 it is noted that the deficits for two of the years have already been cured. The remaining years; 2009/2010 and 2012/2013, have deficits of \$570,325 and \$56,742 respectively. Mindful of the need to fund deficit years the Board has allocated dividends to the Board Restricted Surplus account. The purpose of the Board Restricted Surplus is to fund deficit years. The Restricted Surplus account balance of \$5,081,733 as of 6/30/14, together with the Unrestricted Surplus will provide the means of funding the deficit years going forward. Also, the Pool's financial ratios, including the combined, premium to surplus, and liabilities to assets ratios were healthy for the years reviewed and trended favorably in the most recent year ending June 30, 2014. Our reinsurance program is well-established and stable. In short, the Board is acting responsibly to assure that the Pool is financially sound and able to fulfill its obligations according to its by-laws.

We will need 12 certified copies of the final report.

Please let me know if you need additional information. On behalf of the Board, I wish to thank the examiners for their courtesy, professionalism and diligence in conducting the examination.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "David H. Harmer". The signature is fluid and cursive, with a large initial "D" and "H".

David H. Harmer
Administrator

Cc Members' Supervisory Board – by email on 04/06/2015
Stephen D. Rosenthal, Esquire – by email on 04/06/2015