

**EXAMINATION REPORT**  
**of**  
**VIRGINIA TRANSIT LIABILITY POOL**  
**RICHMOND, VIRGINIA**  
**as of**  
**JUNE 30, 2023**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

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I, Scott A. White, 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, 2023, 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 7<sup>th</sup> day of May 2024

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
March 14, 2023

Honorable Scott A. White  
Commissioner of Insurance  
Richmond, Virginia

Dear Sir:

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.

### **SCOPE OF THE EXAMINATION**

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. The last examination of the Pool was made by representatives of the State Corporation Commission's Bureau of Insurance (the Bureau) as of June 30, 2018. This examination covers the period from July 1, 2018 through June 30, 2023.

The Bureau planned and performed the examination to evaluate the Pool's financial condition and operational activities. All accounts and activities of the Pool were considered generally in accordance with the risk-focused examination process contained in the *NAIC Financial Condition Examiners Handbook*.

### **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.

## 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 (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, 2023:

<u>Representative</u>	<u>Member</u>
Sheryl E. Adams	GRTC Transit Richmond, Virginia
Joshua A. Baker	Alexandria Transit Company Alexandria, Virginia
Peter N. Bromley	Fairfax Connector, Fairfax County Fairfax, Virginia
Gerald M. Gatobu	Harrisonburg Transit Harrisonburg, Virginia
Joshua A. Moore	Lynchburg Transit Lynchburg, Virginia

Rhiannon M. Powers

District Three Governmental Cooperative  
Marion, Virginia

Grant A. Sparks

VDRPT  
Richmond, Virginia

Officers

Joshua A. Baker  
Peter N. Bromley  
Gerald M. Gatobu

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, 2019, the Pool entered into a five-year 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 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 received \$702,222 in fiscal year 2023, paid in monthly installments. The compensation related to this agreement represented 17% 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 December 10, 2019</u>	<u>Acknowledged December 16, 2020</u>	<u>Acknowledged November 28, 2023</u>
2011/2012	\$ 230,032		
2013/2014		\$ 659,095	
2015/2016			\$ 767,053
2017/2018			683,689
Total	<u>\$ 230,032*</u>	<u>\$ 659,095*</u>	<u>\$ 1,450,742*</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, 2023, the restricted surplus account balance was \$5,958,772.

### **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, 2023, \$310,496 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, 2023, 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	\$1,850,000 each occurrence per coverage line per named insured	\$18,150,000 each occurrence per coverage line per named insured. Combined Single Limit: \$20,000,000.
General Liability	\$1,850,000 each occurrence per coverage line per named insured	\$18,150,000 each occurrence per coverage line per named insured. Combined Single Limit: \$20,000,000.

The Pool is responsible for the \$1,850,000 self-insured retention. Each Pool member has the option of increasing its automobile and general liability coverage to an amount higher than the basic \$1,850,000 limit offered by the Pool. The additional limits of up to \$18,150,000 excess coverage, 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. As of June 30, 2023, all members of the Pool opted for the full amount of excess reinsurance coverage.

### Automobile Physical Damage

(1) Lot Coverage	\$250,000 each occurrence all named insureds	\$15,000,000 each occurrence all named insureds
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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 \$15,000. The Pool was self-insured for Automobile Physical Damage Specific coverage during the period under review. As of June 30, 2023, all members except GRTC have placed Automobile Physical Damage Lot and Specific coverage through the Pool.

## **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, 2023, the GEM investment balance was \$500,000. This balance is net of cumulative interest received and reflects the market valuation of the Pool's investment in GEM.

**FINANCIAL STATEMENTS**

There follows a statement of financial condition of the Pool as of June 30, 2023, a statement of revenue, expenses and changes in members' equity for the fiscal year ended June 30, 2023, a statement of changes in members' equity for period under review and a statement of cash flows for the fiscal year ended June 30, 2023.

**BALANCE SHEET**  
**JUNE 30, 2023**

**Assets**

Current assets	
Cash and cash equivalents	\$1,233,022
Cash and cash equivalents-claims account	37,975
Investments - current portion	4,460,546
Reinsurance premium receivable	191,294
Accrued interest receivable	63,303
Member deductible receivable	2,671
Member contributions receivable	6,780
Other assets and prepaid expenses	6,143
Total current assets	<u>\$6,001,734</u>
Noncurrent assets	
Investments - restricted	5,950,252
Investments - unrestricted	609,551
GEM investment	500,000
Cash and cash equivalents - restricted (VDRPT)	310,496
Total noncurrent assets	<u>\$7,370,299</u>
<b>Total assets</b>	<u><u>\$13,372,033</u></u>

**Liabilities and Members' Equity**

Current liabilities	
Unpaid losses	\$1,150,000
Member contributions refundable	675,270
Accounts payable	77,718
Total current liabilities	<u>\$1,902,988</u>
Noncurrent liabilities	
Incurred but not reported (IBNR) reserve	\$782,357
Unpaid losses	688,913
Total noncurrent liabilities	<u>\$1,471,270</u>
<b>Total liabilities</b>	<u><u>\$3,374,258</u></u>

**Members' Equity**

Restricted equity	
Board restricted surplus	\$5,958,772
GEM investment	500,000
VDRPT contingency fund	310,496
Unrestricted members' equity (deficit)	3,228,507
<b>Total members' equity</b>	<u>\$9,997,775</u>
<b>Total liabilities and members' equity</b>	<u><u>\$13,372,033</u></u>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN MEMBERS' EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2023**

<b>Operating revenues</b>	
Member contributions	<u>\$4,167,096</u>
<b>Operating expenses</b>	
Reinsurance premiums	\$1,798,804
Other	830,634
Losses incurred	<u>354,450</u>
Total operating expenses	<u>\$2,983,888</u>
Operating income	<u>\$1,183,208</u>
<b>Nonoperating revenues</b>	
Investment income	
Interest and dividends - unrestricted	\$270,124
Interest and dividends - restricted	154,163
Net realized loss from sales and maturities of investments	(39,082)
Change in net unrealized loss from investments	<u>(118,805)</u>
Total nonoperating income	<u>\$266,400</u>
<b>Net change in members' equity</b>	<b>\$1,449,608</b>
Members' equity at beginning of year	<u>8,548,167</u>
<b>Members' equity at end of year</b>	<b><u><u>\$9,997,775</u></u></b>

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**FOR PERIOD UNDER REVIEW**

	<u>2018/2019</u>	<u>2019/2020</u>	<u>2020/2021</u>	<u>2021/2022</u>	<u>2022/2023</u>
Members' equity, beginning of fiscal year	<u>\$5,723,361</u>	<u>\$6,180,629</u>	<u>\$7,318,568</u>	<u>\$8,503,844</u>	<u>\$8,548,167</u>
Net change in members' equity before other	\$582,550	\$1,137,939	\$1,185,276	\$44,323	\$1,449,608
Decrease in restricted equity - GEM investment	<u>(125,282)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in members' equity	<u>\$457,268</u>	<u>\$1,137,939</u>	<u>\$1,185,276</u>	<u>\$44,323</u>	<u>\$1,449,608</u>
Members' equity, end of fiscal year	<u><u>\$6,180,629</u></u>	<u><u>\$7,318,568</u></u>	<u><u>\$8,503,844</u></u>	<u><u>\$8,548,167</u></u>	<u><u>\$9,997,775</u></u>

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2023**

**Cash flows from operating activities**

Cash received from members	\$4,119,972
Cash paid for claims, net of recoveries	(1,008,909)
Cash paid for reinsurance, net of refunds	(1,770,511)
Cash paid for other operating expenses	(830,224)
	<hr/>
<b>Net cash provided by operating activities</b>	<b>\$510,328</b>

**Cash flows from investing activities**

Investment income received	\$297,549
Purchases of investments	(6,994,607)
Proceeds from sales and maturities of investments	6,107,081
	<hr/>
<b>Net cash used by investing activities</b>	<b>(\$589,977)</b>

**Net decrease in cash and cash equivalents** (879,649)

**Cash and cash equivalents and restricted cash at beginning of year** 

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 1,661,142

**Cash and cash equivalents and restricted cash at end of year** 

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 \$1,581,493

**Reconciliation of operating income (loss) to net cash**

**Provided (used) by operating activities**

Operating income	\$1,183,208
Change in operating assets and liabilities	
Member contribution receivable	(2,932)
Member deductible receivable	2,897
Reinsurance premium receivable	28,293
Other assets and prepaid expense	(6,143)
Unpaid losses	(181,687)
Member contributions refundable	(47,089)
Accounts payable	6,553
IBNR	(472,772)
	<hr/>
<b>Net cash provided by operating activities</b>	<b>\$510,328</b>

**RECOMMENDATION FOR CORRECTIVE ACTION****Management and Control**

1. The results of this examination reflect a members' equity deficit for the 2014/2015 and 2017/2018 fiscal years of \$1,766,764 and \$385,680, 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 November 28, 2023, the Bureau approved dividends of \$767,053 and \$683,689 from the 2015/2016 and 2016/2017 fiscal years, respectively. In lieu of a distribution to members, these dividends were transferred to the Pool's restricted surplus account.

**ACKNOWLEDGEMENT**

Acknowledgement is hereby made of the courteous cooperation extended by the Pool's administrator during the course of the examination. In addition to the undersigned, Chris Collins, CFE, and Chamelle Macon, APIR, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gerald T. Hicks II". The signature is fluid and cursive, with a large initial "G" and "H".

Gerald T. Hicks II, CFE, APIR  
Senior Insurance Examiner



# Virginia Transit Liability Pool

Partners in Public Transit

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May 6, 2024

Jennifer K. Blizzard, MBA, CFE, AIAF, AIM, PIR  
Chief Examiner  
State Corporation Commission, Bureau of Insurance  
PO Box 1157  
Richmond, VA 23218

Sent by US Mail and Email (Jennifer.Blizzard@scv.virginia.gov)

RE: Virginia Transit Liability Pool  
Examination Report as of June 30, 2023

Dear Ms. Blizzard:

Thank you for the above referenced Examination Report. The draft report was shared with the Members' Supervisory Board by email on 04/26/2024. Your letter of 04/18/2024 was received by Board Chair, Josh Baker, 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 13 of the report follows.

1. Agree. The Board is monitoring this situation. At 06/30/2023 there were nine open fund years, seven in surplus and two in deficit, yielding a total unrestricted members' equity surplus of \$3,228,507. In particular, the fund years 2014-2015 and 2017-2018 had deficits of (\$1,783,348) and (\$389,301) respectively. Mindful of the need to fund deficit years the Board has allocated dividends to the Board Restricted Surplus account for the long-term capitalization of the pool. The purpose of the Board Restricted Surplus is to fund deficit years. The Restricted Surplus account balance of \$5,958,772 as of 6/30/23 together with the Unrestricted Surplus referenced above will provide the means of funding the deficit years going forward. Also, the Pool's financial ratios at 6/30/23, including the combined ratio, premium to surplus, and liabilities to assets ratios were trending favorably. The 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 that reads "D. H. Harmer". The signature is written in a cursive style with a large, stylized initial "D".

David H. Harmer  
Administrator

cc: Josh Baker, Supervisory Board Chair – by email on 05/06/2024  
Peter L. Henderer, Esquire – by email on 05/06/2024