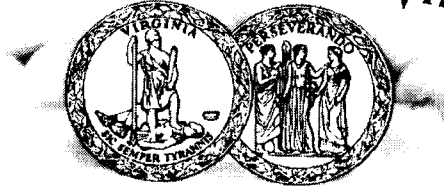


**EXAMINATION REPORT**  
**of**  
**VIRGINIA TRANSIT LIABILITY POOL**  
**CROZIER, VIRGINIA**  
**as of**  
**JULY 31, 2010**

**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 July 31, 2010, 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 18th day of March, 2011

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
December 17, 2010

Honorable Alfred W. Gross  
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**

Crozier, 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, 2006. This examination covers the period from August 1, 2006 through July 31, 2010.

#### **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 July 31, 2010:

<u>Representative</u>	<u>Member</u>
Rollo C. Axton	Fairfax Connector, Fairfax County Fairfax, Virginia
Michael J. Carroll	Greater Lynchburg Transit Lynchburg, Virginia
Mike E. Guy	District Three Governmental Cooperative Marion, Virginia
Corey A. Hill	VDRPT Richmond, Virginia
John A. Lewis	Greater Richmond Transit Company (GRTC) Richmond, Virginia
Kris L. Miller	Fairfax Connector, Fairfax County Fairfax, Virginia
Sandra D. Modell	Alexandria Transit Company Alexandria, Virginia
Carl A. Palmer	Greater Roanoke Transit Roanoke, Virginia
Reginald S. Smith	Harrisonburg Transit Harrisonburg, Virginia

Officers

Rollo C. Axton  
 Sandra D. Modell  
 Michael J. Carroll

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 July 31.

**ADMINISTRATIVE AND OTHER SERVICES AGREEMENT**

Effective August 1, 2009, the Pool entered into an administrative and other services agreement with The Risk Management Center, Inc. ("RMC"). 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, RMC 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 compensation for its administrative audit amounts; 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.

As compensation for its administrative and member services, RMC shall receive \$347,190 annually, payable in monthly installments, plus allowable expenses not to exceed \$4,000 per year.

### 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 its claims services, RMC shall receive a maximum of \$169,500 annually, including expenses, payable in monthly installments.

Optional consulting services are available from RMC at an hourly rate of \$75 for its professional staff and \$30 for its clerical staff as requested and approved by the Board.

For the 2009/2010 fiscal year, the Pool incurred \$534,096 in total administrative, member service and claims service fees related to this agreement representing 11.7% of the aggregate annual gross contribution paid by members.

## **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 January 13, 2009</u>	<u>Acknowledged May 6, 2010</u>
1994/1995	\$ 16,807	
1995/1996	403,519	
1996/1997	162,614	
1997/1998	449,876	
1998/1999	869,348	
1999/2000	607,984	
2000/2001	252,819	\$ 260,207
2001/2002	<u>83,550</u>	<u>85,992</u>
Total	<u>\$ 2,846,517*</u>	<u>\$ 346,199*</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 July 31, 2010, the restricted surplus account balance was \$6,230,845.

### 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 July 31, 2010, \$276,518 remained in the contingency fund. This balance is 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 July 31, 2010, 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	\$14,000,000 each occurrence per coverage line per named insured. Combined Single Limit: \$15,000,000.
General Liability	\$1,000,000 each occurrence per coverage line per named Insured	\$14,000,000 each occurrence per coverage line per named insured. Combined Single Limit: \$15,000,000.

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 \$15,000,000 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	\$15,000,000 each occurrence all named insureds
(2) Specific Coverage	\$100,000 each vehicle	\$700,000 each vehicle

For Automobile and General Liability coverages, GRTC has a \$350,000 self-insured retention and Harrisonburg 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 allowed the Pool to become a founding member of GEM and secure their 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 July 31, 2010, the GEM investment balance was \$833,791. This balance is net of cumulative interest received and reflects the market valuation of the Pool's investment in GEM.

### **FIDELITY BOND COVERAGE**

At July 31, 2010, 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, 2006 through July 31, 2010. Assets were verified and liabilities were established at July 31, 2010. 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 July 31, 2010, a statement of revenue, expenses and changes in members' equity for the fiscal year ended July 31, 2010, a statement of changes in members' equity for period under review and a statement of cash flows for the fiscal year ended July 31, 2010. The financial statements are presented in conformity with generally accepted accounting principles. This presentation has been approved by the Bureau.

**BALANCE SHEET**  
**JULY 31, 2010**

**Assets**

Current assets	
Cash and cash equivalents	\$1,538,344
Cash and cash equivalents-claims account	245,975
Receivable from reinsurer	289,535
Member contributions receivable	69,779
Reinsurance premiums receivable	32,378
Other assets and prepaid expenses	16,345
Member deductible receivable	1,079
Total current assets	<u>\$2,193,435</u>
Noncurrent assets	
Cash and cash equivalents-restricted	\$6,230,845
Cash and cash equivalents-restricted (VDRPT)	276,518
G.E.M. investment	833,791
Total noncurrent assets	<u>\$7,341,154</u>
<b>Total assets</b>	<u><u>\$9,534,589</u></u>

**Liabilities and Members' Equity**

Current liabilities	
Unpaid losses	\$920,000
Member contributions refundable	186,075
Accounts payable	17,533
Total current liabilities	<u>\$1,123,608</u>
Noncurrent liabilities	
Unpaid losses	\$1,063,218
Incurred but not reported (IBNR) reserve	1,400,506
Total noncurrent liabilities	<u>\$2,463,724</u>
<b>Total liabilities</b>	<u><u>\$3,587,332</u></u>

**Members' Equity**

Restricted equity	
Board restricted surplus	\$6,230,845
VDRPT contingency fund	276,518
GEM investment	833,791
Unrestricted members' equity (deficit)	(1,393,897)
<b>Total members' equity</b>	<u>\$5,947,257</u>
<b>Total liabilities and members' equity</b>	<u><u>\$9,534,589</u></u>

**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN MEMBERS' EQUITY**  
**FOR THE YEAR ENDED JULY 31, 2010**

<b>Operating revenues</b>	
Member contributions	<u>\$4,561,251</u>
<b>Operating expenses</b>	
Reinsurance premiums	1,957,882
Losses incurred	1,242,321
Other	<u>677,055</u>
Total operating expenses	<u>\$3,877,258</u>
Operating income	<u>\$683,993</u>
<b>Nonoperating revenues</b>	
Investment income	
Interest and dividends - restricted	\$8,603
Interest and dividends - unrestricted	<u>4,003</u>
Total nonoperating revenues	<u>\$12,606</u>
Net change in members' equity before other	\$696,599
<b>Other</b>	
Increase in G.E.M. investment-restricted	<u>245,014</u>
<b>Net change in members' equity</b>	<b>\$941,613</b>
Members' equity at beginning of year	<u>5,005,644</u>
<b>Members' equity at end of year</b>	<b><u><u>\$5,947,257</u></u></b>

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

	<u>2006/2007</u>	<u>2007/2008</u>	<u>2008/2009</u>	<u>2009/2010</u>
Members' equity, beginning of fiscal year	* <u>\$5,738,774</u>	<u>\$5,952,663</u>	<u>\$5,996,872</u>	<u>\$5,005,644</u>
Adjustment for previous examination changes	\$145,418			
Net change in members' equity before other adjustments	(17,807)	(27,218)	(1,048,346)	696,599
Other adjustments:				
Transfer to restricted equity	51,491			
Increase in G.E.M. investment	<u>34,787</u>	<u>71,427</u>	<u>57,118</u>	<u>245,014</u>
Net change in members' equity	<u>\$213,889</u>	<u>\$44,209</u>	<u>(\$991,228)</u>	<u>\$941,613</u>
Members' equity, end of fiscal year	<u><u>\$5,952,663</u></u>	<u><u>\$5,996,872</u></u>	<u><u>\$5,005,644</u></u>	<u><u>\$5,947,257</u></u>

\* Adjusted members' equity from previous examination

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JULY 31, 2010**

**Cash flows from operating activities**

Cash received from members	\$4,754,029
Cash paid for claims, net of recoveries	(3,596,286)
Cash paid for reinsurance, net of refunds	(1,991,237)
Cash paid for other operating expenses	(694,092)
<b>Net cash used by operating activities</b>	<b><u>(\$1,527,586)</u></b>

**Cash flows from investing activities**

Investment income received	\$12,606
<b>Net cash provided by investing activities</b>	<b><u>\$12,606</u></b>

**Net decrease in cash and cash equivalents** (\$1,514,980)

**Cash and cash equivalents at beginning of year** 9,806,662

**Cash and cash equivalents at end of year** \$8,291,682

**Reconciliation of operating income to net cash used by operating activities**

Operating income	\$683,993
Change in operating assets and liabilities:	
Recoverable on paid losses	(289,535)
Member deductible receivable	15,154
Reinsurance premium receivable	(32,378)
Member contribution receivable	145,275
Other assets and prepaid expense	1,923
Accounts payable	(19,937)
Member contributions refundable	140,837
Member deposit payable	(108,488)
Unpaid losses	(1,798,987)
IBNR	(265,443)
<b>Net cash used by operating activities</b>	<b><u>(\$1,527,586)</u></b>



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

1. The results of this examination reflect a members' equity deficit for the 2002/2003, 2005/2006, 2006/2007, 2007/2008 and 2009/2010 fiscal years of \$110,912, \$375,735, \$181,449, \$1,541,297 and \$466,348, 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**

Effective August 1, 2010, two of the Pool's ten members withdrew their membership. While the Pool maintained stable membership and premiums during the period under review, the subsequent loss of these members accounted for a significant decline in total member contributions for the 2010/2011 fiscal year as compared to the 2009/2010 fiscal year. The decline in member contributions was offset by a 9.1% rate increase billed to the continuing members as recommended by the Pool's actuary.

**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, George E. Morgan, CFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, reading "Darrin P. Bailey, Sr." in a cursive script.

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



STATE CORP COMMISSION  
BUREAU OF INSURANCE

11 MAR 10 AM 9:22

Post Office Box 245  
Crozier, VA 23039-0245

(804) 784-0394 - (804) 784-0396 fax

March 7, 2011

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 July 31, 2010

Dear Mr. Smith:

Thank you for the above referenced Examination Report. The draft report was shared with the Members' Supervisory Board by email on 12/17/10. I have been instructed to respond to your 2/17/11 letter.

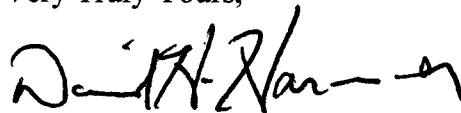
The Board does not wish to request a hearing before the Commission. Our response to the recommendation on page 14 of the report follows.

1. Agree. The Board is monitoring this situation. At 7/31/10 there was a total unrestricted members' equity deficit of \$1,393,897. Mindful of the need to fund deficit years the Board has been allocating all dividends to the Board Restricted Surplus account for several years. The express purpose of the Board Restricted Surplus is to fund deficit years. The Restricted Surplus account balance of \$6,230,845 on 7/31/10 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 July 31, 2010. The Pool had some adjustments to membership effective 8/1/10 that we hope will better position us to grow surplus in the years ahead. 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 long horizontal stroke at the end.

David H. Harmer, CPCU, AIC, MBA  
Administrator  
Virginia Transit Liability Pool

Cc Members' Supervisory Board – by email on 3/7/11  
Stephen D. Rosenthal, Esquire – by email on 3/7/11