

Colorado Special Districts Property and Liability Pool

Evaluation of Administrative Structure and Financial Statements For the Purpose of Assigning a 2023 – 2024 Financial Stability Rating[®]

Prepared by:

Demotech, Inc.
2715 Tuller Parkway
Dublin, Ohio 43017-2310

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INTRODUCTION

Limited Purpose

Colorado Special Districts Property and Liability Pool, the Pool, retained Demotech to evaluate the financial stability, and related information pertinent to the assignment a 2023 – 2024 Financial Stability Rating[®] to the Pool. This report summarizes the information made available to Demotech as of the date of this report, presents our interpretation of the financial stability of the Pool and assigns our Financial Stability Rating[®] based upon the information received and reviewed to date.

Distribution and Restriction of Use

Demotech prepared this report for the board and management of the Pool. This report summarizes the review underlying our assignment of our 2023 – 2024 Financial Stability Rating[®]. The Pool can distribute the report in its entirety. This report must be reviewed and considered in its entirety. Excerpts should not be created nor relied upon. At any given point in time, the latest Financial Stability Ratings[®] assigned by Demotech can be found at www.demotech.com.

RELIANCE UPON AVAILABLE INFORMATION AND DATA

The data and financial information we relied upon was prepared by or prepared under the responsibility of the Pool. Although Demotech analyzed the data for reasonableness and consistency from reporting period to reporting period; we did not verify, review nor audit the data or information that we relied upon.

Limitations

Financial results are compiled using point estimates. As estimates, results are subject to variability. The possibility of variability arises from the fact that all factors affecting ultimate claim outcomes have not taken place and, therefore, cannot be evaluated with certainty. Our evaluation was based on our interpretation of historical experience and operating results as well as our opinion of the financial data provided to us. We have not anticipated extraordinary changes to the various factors that might impact actual, future results and thereby create differences from historical, reported operating results.

We have used analysis methods that we believe could produce reasonable results given current information, the Pool's history, and its business model. No guarantee, expressed or implied, should be inferred that future operating results will be as anticipated by the Pool or as by Demotech. In assessing the reasonableness of the results, we assumed that a range of reasonable estimates of historical results exists. It is our opinion that the Pool's results represent one of the values within the range of reasonable estimates.

The analysis presented in this report is based on the data made available to us as of August 1, 2023. The purpose of this report is to assign a Financial Stability Rating[®] to the Pool for the period 2023 – 2024.

Data Sources

This analysis was based on data provided by the Pool as well as public financial information of traditional insurance carriers. We assumed oral and written representations made by Pool representatives applied to all of the data and information provided to us. If data or information provided was not accurate and complete, conclusions may not be accurate or complete and may need to be revised.

Data Received and Reviewed

The following information was provided to Demotech by representatives of the Pool or acquired through public sources. Information provided by the Pool will be treated as confidential.

- List of the Pool's reinsurers
- Specimen insurance policies
- Terrorism and sabotage underwriting guidelines
- Information related to property insurance contracts placed with Lloyd's
- Property contract endorsement with XL Bermuda
- Property contract endorsement with Swiss Re
- Property contract endorsement with Chubb
- PEL policy
- Pollution policy
- Identity theft policy
- Crime, Fidelity and Deposit policy
- Workers' Compensation excess policy
- Actuarial report related to year-end 2022 loss and loss adjustment expense reserves
- Audited financial statements – 2012 through 2022, inclusive
- Unaudited year to date March 31, 2023 financial statements
- Communication with representatives of the Pool.

Independence of Evaluation

Demotech served as an independent financial analyst of the Pool. No one associated with Demotech has any financial or conflicting interest in the Pool, its affiliates, subsidiaries, parent, or contractors.

BACKGROUND INFORMATION

Pool Background

The Pool is sponsored by the Special District Association of Colorado and provides insurance coverage to participating Special Districts throughout the State of Colorado. The Pool provides property, terrorism, general liability, automobile physical damage and liability, public officials' liability, employee dishonesty and crime, identity theft, pollution liability, worker's compensation and equipment breakdown coverages to its members. At December 31, 2022, there were 2,122 special districts who were members of the Pool for property and liability coverage and 1,205 special districts who were members of the Pool for workers' compensation coverage.

Administration

The Pool has an agreement with McGriff Insurance Services, LLC to operate, administer and manage the Pool. Under this agreement, the management fee is 14.39% of the expiring year's gross written contribution. Under an agreement with the Pool, Sedgwick Claim Management Services, Inc. administers claim processing.

The Pool has entered into an agreement with the Special District Association of Colorado to provide certain administrative services. The fee for these services is computed at 1.5% of the gross annual contributions billed. The agreement may be terminated at any time by mutual agreement of both parties.

Reinsurance and Insurance Products

Reinsurance

The Pool has entered into reinsurance contracts to minimize exposure to large individual losses as well as significant frequency of smaller losses. A summary of coverages in effect as of December 31, 2022 is:

	Limit of Pool Retention per Occurrence	Limit of Total Coverage per Occurrence
Property (Wind and Hail Only)	\$1,000,000	\$750,000,000
Property (All other Perils, including Inland Marine)	\$300,000	\$750,000,000
Terrorism-Property Damage and Business Interruption	10,000	105,000,000
Terrorism – Liability	10,000	10,000,000
Liability	1,000,000	2,000,000
Automobile – Liability	1,000,000	2,000,000
Automobile – Physical Damage (Comprehensive only)	300,000	750,000,000
Public Officials Liability - Employment Related	1,000,000	2,000,000
Public Officials Liability – Non-employment Related	1,000,000	2,000,000
Equipment Breakdown	100,000	100,000,000
Identity Recovery	-	35,000
Pollution Liability	\$100,000	\$1,000,000
Employee Dishonesty and Crime	-	As Scheduled
Coverage A Workers’ Compensation (Presumption Claims)	\$ 2,000,000	Statutory
Coverage A Workers’ Compensation (Firefighters)	\$1,000,000	Statutory
Coverage A Workers’ Compensation (All Other Classes of Employees)	750,000	Statutory
Coverage B Workers’ Compensation	\$ 2,000,000	\$ 2,000,000

Property and Automobile - Physical Damage (Other than Collision)

The Pool is self-insured for losses and loss adjustment expenses up to the greater of \$300,000 or the sum of the individual member's deductible for each occurrence. For 2022, property losses had a \$2,439,877 annual stop loss aggregate limit. Once the stop loss aggregate limit is met exclusive of earthquake and flood losses, the Pool's self-insured retention declines to \$25,000 per occurrence.

Earthquake and flood losses, which exceed either the greater of \$300,000, or the sum of the individual member's deductible of 2% of total value of property damaged (subject to a minimum of \$5,000 and a maximum of \$50,000 per occurrence) per occurrence, are covered 100% under excess policies, with a limit per occurrence and annual aggregate of \$750,000,000, except a \$60,000,000 per occurrence and all member aggregate limit is applied to flood claims which occur within the Special Flood Zones A and V as defined by the Federal Emergency Management Agency. Claims are subject to a deductible selected by the member.

Terrorism

The Pool is self-insured for property and business interruption losses and loss adjustment expenses up to \$10,000 for each occurrence subject to a limit of \$105,000,000 in the aggregate. The Pool is self-insured for terrorism losses and loss adjustment expenses up to \$10,000 per member, per claim, subject to a limit of \$10,000,000 per member, per claim.

Liability - General, Automobile and Public Officials (Excluding Employment Related)

The Pool is self-insured for the first \$1,000,000 of each occurrence. One hundred (100) percent of claims in excess of the \$1,000,000 retention are reinsured under an excess of loss agreement per occurrence per member. Higher limits up to and including an additional \$8,000,000 per occurrence are available depending upon the limit selected by the member and correspondingly reinsured on an excess of loss basis.

Public Officials Liability - Employment Related

Employment related claims are covered the same as all other liability claims, with variable deductible arrangements on an individual district basis.

Equipment Breakdowns

The Pool has entered into arrangements that provide facultative reinsurance coverage for equipment breakdown claims. The Pool retains the first \$100,000 per claim.

Identity Recovery

The Pool has entered into arrangements, which provide 100% facultative reinsurance coverage for identity recovery losses subject to an annual aggregate of \$35,000 per identity recovery.

Pollution Liability

The Pool is self-insured for the first \$100,000 of each occurrence subject to a limit of \$1,000,000 per member per occurrence and a \$5,000,000 all member annual aggregate coverage limit.

Employee Dishonesty and Crime

The Pool has entered into arrangements which provide 100% facultative excess coverage for employee dishonesty and crime claims.

Volunteer Accident Policy

The Pool has entered into an arrangement for volunteer accident policy that provides \$ 25,000 accident medical expenses benefit. It also provides an accident dismemberment benefit maximum up to \$50,000.

Workers' Compensation

The reinsurance coverage limit is as defined in Colorado workers' compensation laws and \$2,000,000 per occurrence related to employer's liability claims in excess of the Pool's retention of \$2,000,000 per occurrence for presumption claim, \$1,000,000 per occurrence for firefighters, and \$750,000 per occurrence for all other classes of employee.

Asset Management

The Pool believes insurance and investment risk are inextricably linked. Consequently, the assumption of risk in either area may impact the Pool's ability to assume risk in the other. Management believes it is imperative that the investment policy provide a framework to manage and adjust investment portfolio risk profiles to accommodate corporate insurance risk preferences.

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government and entities, such as the Pool, deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits.

FINANCIAL STABILITY RATING[®] (Non-NRSRO)

Synopsis of Financial Review

Based upon our review, we believe that the Pool's loss and loss adjustment expense ratios, on both a direct and net basis, and resultant operating results, in conjunction with its business model, administrative capabilities and operating practices, are reasonable given operating conditions, current pricing environment and the demographics associated with the Pool's book of business. Furthermore, management has developed a reinsurance program that supplements the strengths of its current balance sheet.

Our Ratio Analysis and Discussion of Ratios summarized some of the critical analysis that we performed. Concurrently, we developed a Composite Peer Group of carriers licensed in Colorado having a similar size, based upon admitted assets reported at calendar year-end 2023 and a comparable mix of business. The comparison of the Pool to the composite follows this report.

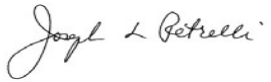
Financial Stability Rating[®] (FSR)

While there can be no guarantees or warranties associated with a PFSR based upon current financial information, it appears to us that the financial statements and other information submitted for our review are consistent with our criteria for assignment of a Financial Stability Rating[®]. Concurrently, it is our opinion, current capitalization provides a sufficient margin to absorb variance between the Pool's anticipated operating results and a worst-case scenario of operating results. It is our opinion that the Pool has earned a Financial Stability Rating[®] of *AAA, Unsurpassed*, our highest rating applicable to a pool. A review of unaudited year-to-date financial statements for calendar year 2023 confirmed this level of FSR.

As part of our overall review process, we will monitor quarterly and annual information produced from the current date through August 31, 2024, inclusive.

Demotech, Inc. was registered with the U.S. Securities and Exchange Commission (SEC) on July 11, 2022 as a national recognized statistical rating agency in the classification of Insurance Companies. However, the SEC's definition of an 'insurance company' does not include special district pools. We have assigned our highest FSR associated with special district or public entity pools, AAA.

Respectfully submitted,

A handwritten signature in cursive script that reads "Joseph L. Petrelli".

Joseph L. Petrelli, ACAS, ASA, MAAA (MBA)
President