



BOARD OF TRUSTEES MEETING MINUTES
Wednesday December 4, 2024
9:00am - 1:00pm

The Gordon Hotel - Second floor meeting room
555 Oak St
Eugene, OR 97401

PACE Trustees: Tim Belanger (Chair), Business Director, Oregon Trail 46; Dawn Moorefield (Vice Chair), Interim Superintendent, Jefferson SD; David Kruse, Director of Safety & Risk, North Clackamas; Dawn Watson, OSBA Board Member, Phoenix-Talent 4; Olivia Meyers-Buch, Director of Operations and Finance, Corvallis; Jordan Ely, Chief Financial Officer, Northwest ESD; Brad Henry, Chief Financial Officer, Jefferson County SD; John Rexford (Trustee Emeritus), Leadership Support Specialist, High Desert ESD; Sean Taggart, Director of Risk Management, Rogue Community College;

OSBA Staff: Dave Harvey, PACE Administrator; Emily Welborn, PACE Sr. Administrative Assistant; Emielle Nischik, Executive Director; Haley Percel, interim Deputy Executive Director; Michael Miller, interim Legal Services Director; Jaime Conder, Director of Finance and Operations; Adrienne Anderson, Legislative Specialist; Henry van Vuuren, IT Analyst; Charissa Geib, Events Specialist;

SDAO Staff: Scott Neufeld, Deputy Executive Director; Jens Jensen, Property Casualty Claims Manager; Chris Hill, Underwriting Manager; Michael Doherty, Chief Financial Officer; Troy DeYoung, Sr. Risk Management Consultant;

Guests: Craig Scukas, Director PWC; James Marta, CPA; Darrin Hogsed, Russell Investments.

- I. Welcome - Networking and Coffee/Fruit/Yogurt/Pastries - 8:15am-9:00am
- II. PACE Trust Meeting - *Tim Belanger, board chair called meeting to order at 9:01 am.*
 - A. Introductions of guests
- III. Presentations
 - A. Actuary Presentation - *Craig Scukas, Director, PWC*

- a. The actuary presented an update to the capital modeling study done 3 years ago. This analysis looks at the different risk categories (underwriting, reserving, asset/credit, operational) that impact the pool's capital needs.
- b. The analysis showed the biggest change was in the reserving risk, primarily due to the emergence of SAM (sexual abuse and



SAFETY • SERVICE • SAVINGS
A TRUST BUILT FOR STUDENTS

- molestation) claims. These claims are larger in size and have a longer reporting lag, adding more uncertainty.
- c. The capital modeling results indicate there is a 1-in-200 year chance the pool could see a \$48 million drop in capital due to a combination of these risk factors.
- d. The pool's current policy is to target capital at the 1-in-200 year level, with a top end of 2 times that amount before considering actions like reducing premium increases or returning equity.
- e. The board discussed the pros and cons of the 1-in-200 year target versus alternatives like a 1-in-50 year target. Overall, the board seemed comfortable with the current policy approach.
- f. The board also discussed having flexibility within the policy to manage rate stability and the use of equity returns versus premium changes.

B. Financial Audit - *James Marta CPA*

- a. The auditors provided an unmodified, or "clean", opinion on the financial statements, which is the best opinion they can give.
- b. The auditors reviewed the significant accounting policies and estimates used, including the claims liabilities which are the biggest estimates on the financials.
- c. The auditors looked at the systems and controls in place, such as approval processes for budgets, invoices, and contracts. They did not identify any material weaknesses.
- d. The auditors reviewed the balance sheet, which showed the net assets increasing from \$42 million to \$52 million over the past few years, consistent with the actuary's findings.
- e. The income statement showed relatively flat claims expenses, with some "COVID dividend" reductions in 2020-2021. The auditors noted the importance of the pool's investment income in contributing to the capital growth.
- f. The auditors walked through a claims development reconciliation, showing how the actuary's estimates compared to the actual claims experience, with some favorable and unfavorable developments.
- g. Overall, the auditors reported a successful audit with no issues or adjustments identified. They commended the staff for their cooperation and preparation.

C. PACE Trust Investment Update - Russell Investments, Darrin Hogsed (9:58 am) James Marta exits.

- a. For the fiscal year ending June 2024, the portfolio was up 6.4%. For the first 3 months of the current fiscal year, it was up 5.4%, though this dropped to 3% with the market declines in October.



SAFETY • SERVICE • SAVINGS
A TRUST BUILT FOR STUDENTS

- b. The portfolio has a 75% allocation to fixed income, with the goal of preserving capital. This fixed income exposure has been volatile due to the interest rate changes.
- c. International and emerging market equities outperformed US equities in the third quarter, though this trend reversed in October.
- d. The portfolio has a 5% allocation to private credit investments, which have generated strong returns around 11% so far.
- e. Darrin noted the importance of the long-term view when managing the investment portfolio, as short-term volatility is expected but the focus is on achieving the 4.25% target return over time.
- f. The board discussed the pros and cons of the fixed income allocation versus holding individual bonds, as well as the impact of the pool's changing risk profile on the investment strategy.

IV. Action Items

A. Education/Approval Capital Modeling Update – *Michael Doherty & Craig Scukas*

Board chair calls for break at 11:07 am, meeting called back to order at 11:17 am.

- a. *No action on approval of capital modeling at this time, Michael Doherty and Dave Harvey will provide some thoughts and options at the February meeting. Board likes current plan.*

B. PACE Trustee seat 8, Dawn Moorefield, Renewal – *Tim Belanger*

- a. "I move to approve the recommendation to renew Dawn Morefields's position on the PACE Board of Trustees for an additional three-year term, and to send this recommendation to the OSBA Board for approval." Brad Henry motioned. Olivia Meyers-Buch seconded. None opposed. None abstained. Motion passes unanimously.

V. Department Reports

A. General Liability Global Marketplace Update- *Chris Hill*

- a. There are challenges in the liability reinsurance market, particularly around the exposure to sexual abuse and molestation (SAM) claims.
- b. The reinsurance market has seen large settlements and payouts related to SAM claims, leading some major reinsurers to completely withdraw from the public entity business.
- c. This volatile environment has the reinsurers very concerned about their profitability and exposure to SAM claims, especially in states without tort caps.



- d. PACE has had in-depth discussions with their lead liability reinsurer, Genesis, about their claims processes and underwriting. This indicates the reinsurers are closely scrutinizing PACE's program.
- e. PACE will likely need to strategize changes to their coverage limits and structure, such as reducing the \$20 million SAM coverage limit, as the reinsurance market is becoming very reluctant to provide that level of coverage.
- f. The group discussed the challenges of getting legislative tort reform around SAM claims, noting it would likely take a "sacrificial lamb" school district completely imploding before that becomes a priority.
- g. Overall, the liability reinsurance market is in a very difficult state, requiring PACE to reevaluate their coverage approach going forward.

B. Claims Department Report - *Jens Jensen*

- a. Jens provided an update on various property claims, including:
 - A tornado that caused \$175,000 in damages at Neah-Kah-Nie School District
 - A sprinkler loss at Bend-LaPine School District that led to a larger claim due to structural damage
 - Several large snow/ice storm claims totaling over \$2 million at districts like Reynolds, Intermountain ESD, and Corbett
- b. On the liability side, an employment matter lawsuit filed against Springfield School District related to religious discrimination claims around the vaccine mandate.
- c. Jens also reported on a few recent liability claim verdicts, including:
 - A \$231,000 award against Centennial School District in a student sexual abuse case
 - A defense verdict for Northwest Regional ESD in a religious discrimination lawsuit
- d. Regarding the St. Helens situation, Jens noted there are no tort notices filed yet, but the district has several employees on paid administrative leave as the investigation continues. He indicated they are still gathering information and cannot provide many details at this time.
- e. The group discussed the challenges around SAM claims, including the lack of clear legal precedent on the applicability of tort caps, and the need to find the right case to potentially challenge this.

C. Financial Report - *Michael Doherty* John Rexford exits 11:40.

- a. Michael presented the September quarterly financial statements, highlighting a few key items:



SAFETY • SERVICE • SAVINGS
A TRUST BUILT FOR STUDENTS

- b. Revenues came in higher than budgeted, with Chris able to negotiate slightly higher premiums at renewal. This, combined with reinsurance costs coming in lower than expected, is a positive for the upcoming year's budget.
- c. On the expense side, the large property claim from Bend-LaPine School District is being expensed quarterly over the next 4 quarters, with an estimated \$6 million per year from the \$7.5 million retention.
- d. Liability claims are starting the year a bit higher than expected, but Michael is not making any adjustments yet given the overall favorable claims experience.
- e. The equity year accounting model was reviewed, showing the net income by policy year. This helps ensure consistent pricing and identify any years with significant reserve changes.
- f. The model showed a \$1 million increase to the 2021-22 policy year due to adverse development, while the current 2024-25 year is starting higher than prior years.
- g. Overall, operations generated \$1.7 million in net income for the quarter, exceeding the \$750,000 budget. Investment income of \$4.9 million also contributed to the \$5.6 million total net income.
- h. This brings the total retained earnings to approximately \$57.5 million as of the end of the quarter.

VI. Discussion Items

- A. Board Activity Reports - *Trustees*
- B. AGRiP Governance Conference attendance - *Dave Harvey*
- C. PACE Administrator update - *Dave Harvey*
- D. Future Trustee topics and activities - *All*

VII. Informational Written Reports *Usually not discussed unless a Trustee has a question.*

- A. September 23, 2024 and July 22, 2024 meeting minutes
- B. Legal Department Report - *Michael Miller*
- C. Underwriting Report - *Chris Hill*
- D. Legislative Report - *Andrienne Anderson*
- E. Communications Report - *Gina Hutchinson*
- F. Risk Management Report - *Dan Davenport*

VIII. Future Trust Meetings and Trustee Attendance

- A. February 3, 2025, OSBA Offices
- B. April 9, 2025, Sunriver Conference Center
- C. April 10, 2025, PACE Day, Sunriver Conference Center
- D. July 21 & 22, 2025, Riverhouse, Bend OR

IX. Trustee Training Opportunities



SAFETY • SERVICE • SAVINGS
A TRUST BUILT FOR STUDENTS

- A. *Association of Governmental Risk Pools (AGRiP)*
Governance and Leadership Conference
PACE Trust Board attendance
A focus on education for pool governing bodies, with additional leadership and timely operational content.
 - March 16 - 19, 2025; Las Vegas, NV

 - B. *Public Risk Management Association (PRIMA)*
Annual Convention
The Association's mission is to promote effective risk management in the public interest as an essential component of public administration.
June 1-4, 2025; Seattle, WA
- X. Meeting adjourned at 11:57 am.