...celebrating 25 years of managing risk.
It is with great pride that we present the 2013 Association of Washington Cities Risk Management Service Agency (AWC RMSA) Annual Report to the RMSA Board of Directors, Operating Committee, and Membership. Looking back over our 25-year history, the accomplishments and successes achieved in 2013 are representative of the accomplishments the AWC RMSA Program has seen since its doors opened in 1989.

Each and every day we work diligently to respond to inquiries, assist members with claims, and help members resolve urgent issues. Our team members are continuously in the field working with elected officials and city staff on ways to proactively manage risk inherent in cities and towns. We know that AWC RMSA members do not join our program simply to secure insurance coverage. They join RMSA for the support and resources we provide to help manage risk, drive down costs, and to make for stronger and safer communities.

2013 was truly a banner year for AWC RMSA. Our robust loss prevention and training programs contributed to a very low volume of claims submitted - 280 as compared to 315 claims just five years ago. Financially, $1.4 million was added to our net position, increasing our statutory confidence level to 98%, far exceeding the minimum statutory level of 70%.

Finally, as we look back on 25 years of service to our members, we are proud that the RMSA membership has grown from the original 35 members in 1989 to 92 members in 2013. We are proud that our net position increased from its original $130,983 to $9.6 million, and we are especially proud of being one of the most successful and respected risk management pools in the State, and in the Country.

We look forward to continued outstanding service, and financial success for our members, for many years to come.

Michael McCarty
Chief Executive Officer
Association of Washington Cities
A vision... 

from the RMSA President

There’s no time like the present to start talking about the future, and AWC RMSA’s future is filled with excitement and endless opportunities.

When Ralph Waldo Emerson coined the idiom “build a better mouse trap,” he likely did not have risk management pools in mind, but his words ring true to the industry, more so than any other. It’s widely known that it’s impossible to completely eliminate risk, it’s only possible to identify it, reduce it, and manage it.

To this end, your RMSA staff is continuously and introspectively asking, what more can they do; what else can they offer; and what do members truly need? They do this because they are not satisfied with maintaining the status quo. Many things have changed over the last 25 years, and that is reflected in today’s AWC RMSA. They constantly strive to offer new and relevant training opportunities, enhanced coverage, and provide innovative solutions to membership inquiries.

The RMSA promise to its membership is simple. It’s a commitment to finding ways to use the financial resources you’ve worked hard to build to aggressively reduce your risk, secure your assets, and support your communities.

As we plan for the years ahead, RMSA will not slow in its efforts to provide responsive and focused customer service, meaningful loss prevention resources, and efficient claims handling. We will leverage our position with brokers, insurers, and contracted vendors to continually secure and prove our place at the top of the pooling industry. We will help members make use of the grant funds secured from reinsurers and other resources. We will strive to help cities and towns manage their risk with loss prevention inspections, the RMSA U online learning resource, and our customized in-person training sessions. We will promote and utilize our Pre-Litigation Program funds, and will take advantage of the continued support and resources available through the various AWC sponsored conferences, webinars and resource materials.

With an eye toward member education, loss prevention, and technological advancements, we are focused on continuing our efforts toward maintaining a strong financial position, stable rates, exceptional service levels, and the broad risk management resources and options offered. We are excited to have you join us as we find ways to build a better risk pool.

Steven Ekberg, President
Risk Management Service Agency
Councilmember, Gig Harbor
Loss Prevention

The goal of loss prevention is to reduce the frequency and severity of losses. RMSA uses a number of strategies to help our members reduce the potential for losses, including: training opportunities, grants and scholarships, inspections, model forms and procedures, contract review, and consulting with members to help reduce claim frequency and severity. An overview of 2013 loss prevention activities are highlighted below.

- Training opportunities were offered on-site, on-screen, and on-line. RMSA sponsored and conducted 20 on-site regional training courses including Elected Officials Roles & Responsibilities, Do’s & Don’ts of Land Use Planning, Reducing Police Liability, Reducing Public Works Liability, and Defensive & Distracted Driving. A total of 240 individuals attended the on-site courses; 28 different members used RMSA-U online training to complete 41 different topics; and 694 free on-line training courses were completed.

- Ninety-four Loss Prevention Grants were awarded in 2013 totaling $67,470. Loss Prevention Grants enable our members to complete projects which directly reduce the chance of a claim or property damage.

- RMSA awarded $10,289 in scholarships which helped our members attend professional education seminars and workshops.

- Half of the RMSA membership received their bi-annual on-site loss prevention inspections.

- Contract and agreement review is a critical means for our members to either transfer risk to the appropriate party, or to not inadvertently assume unanticipated risks. We reviewed an increasing number of construction contracts and interlocal agreements for RMSA members.
Financial Highlights

AWC RMSA finished 2013 in excellent financial condition, reporting an increase in net position (fund balance) of $1,407,840. Factors that contributed most to these outstanding results are summarized below.

- RMSA saw significant improvement in the actuarial estimate of claim reserves as compared to the prior year. Overall, the estimate for prior claim reserves (case reserves plus reserve for claims incurred, but not reported-IBNR) declined approximately $640,000. What this means is that $640,000 of the $1.4 million net income relates to positive adjustments to prior claim reserves as estimated by PricewaterhouseCoopers in the year-end actuarial analysis.

- Additionally, claims with accident dates in 2013 are projected to be lower. As a result, the current year claim estimate is lower by $215,000 in 2013 as compared to 2012, and can be attributed to positive trends in claims development and overall improvement in claim activity.

- These positive results provided the resources necessary to build reserves, and to increase RMSA confidence levels to 98% as determined by third party actuaries. State regulators have established that pools must operate at a minimum of 70% confidence level as a solvency measure, and RMSA well exceeds this requirement.

- Receipt of grant money totaling $50,000 from Berkley, reinsurance carrier for the pool, enabled RMSA to enhance loss prevention efforts through member education and training opportunities.

- Total premiums paid for excess liability and property insurance decreased in 2013 by approximately $278,000.

- The AWC RMSA financial position is the strongest it has ever been with assets totaling $16,901,781. The Unrestricted Net Position (fund balance) increased 18% to $9,149,811 (12/31/13 as compared to 12/31/12). All of these factors combined, point to a positive future for AWC RMSA.
# Comparative statement of net position

**December 31, 2013 and 2012**

## ASSETS:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$12,103,503</td>
<td>$12,034,367</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Excess/Reinsurance Recoverable</td>
<td>992,280</td>
<td>-</td>
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<tr>
<td>Member Deductibles</td>
<td>33,228</td>
<td>26,516</td>
</tr>
<tr>
<td>Prepaid Expense</td>
<td>1,173,970</td>
<td>500,985</td>
</tr>
<tr>
<td><strong>Total Current Assets:</strong></td>
<td>$14,302,981</td>
<td>$12,561,868</td>
</tr>
<tr>
<td><strong>Noncurrent Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Receivable</td>
<td>40,000</td>
<td>42,500</td>
</tr>
<tr>
<td>Reinsurance Deposit</td>
<td>239,149</td>
<td>239,149</td>
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<tr>
<td>Equity In NLC MIC</td>
<td>2,319,651</td>
<td>2,190,860</td>
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<tr>
<td><strong>Total Noncurrent Assets:</strong></td>
<td>$2,598,800</td>
<td>$2,472,509</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS:</strong></td>
<td>$16,901,781</td>
<td>$15,034,377</td>
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</tbody>
</table>

## LIABILITIES:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claim Reserves:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incurred but Not Reported (IBNR)</td>
<td>$1,004,400</td>
<td>$1,020,166</td>
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<tr>
<td>Unpaid Claims</td>
<td>669,600</td>
<td>680,110</td>
</tr>
<tr>
<td>Unallocated Loss Adjustment Expenses</td>
<td>235,000</td>
<td>285,000</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>211,637</td>
<td>125,943</td>
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<tr>
<td>Payable - Forks Claim</td>
<td>1,210,060</td>
<td>-</td>
</tr>
<tr>
<td>Unearned Member Assessments</td>
<td>-</td>
<td>58,144</td>
</tr>
<tr>
<td><strong>Total Current Liabilities:</strong></td>
<td>$3,330,697</td>
<td>$2,169,363</td>
</tr>
<tr>
<td><strong>Noncurrent Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claim Reserves:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incurred but Not Reported (IBNR)</td>
<td>$3,050,824</td>
<td>$3,456,774</td>
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<tr>
<td>Unpaid Claims</td>
<td>1,370,449</td>
<td>1,666,269</td>
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<tr>
<td><strong>Total Noncurrent Liabilities:</strong></td>
<td>$4,421,273</td>
<td>$5,123,043</td>
</tr>
<tr>
<td><strong>TOTAL LIABILITIES:</strong></td>
<td>$7,751,970</td>
<td>$7,292,406</td>
</tr>
</tbody>
</table>

## NET POSITION:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>9,149,811</td>
<td>7,741,971</td>
</tr>
<tr>
<td><strong>TOTAL NET POSITION</strong></td>
<td>$9,149,811</td>
<td>$7,741,971</td>
</tr>
<tr>
<td><strong>TOTAL NET POSITION AND LIABILITIES</strong></td>
<td>$16,901,781</td>
<td>$15,034,377</td>
</tr>
</tbody>
</table>

The condensed financial statements shown are derived from RMSA's state audited financial statements for 2012, 2013 and do not include notes. A copy of the complete audited financial statements can be obtained from the Pool upon request.
### Comparative statement of revenues, expenses and changes in net position

#### For the Years Ending December 31, 2013 and 2012

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPERATING REVENUES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Assessments</td>
<td>$6,632,447</td>
<td>$7,200,477</td>
</tr>
<tr>
<td>Other Income</td>
<td>63,712</td>
<td>44,914</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>$6,696,159</td>
<td>$7,245,391</td>
</tr>
</tbody>
</table>

| **OPERATING EXPENSES:**        |               |               |
| Claims Loss Expense -- Current Year | $2,425,000 | $2,640,000 |
| Claims Loss Expense -- Prior Years      | (640,165)  | (1,127,595) |
| Unallocated Loss Adjustment Expenses   | (50,000)    | (5,000)      |
| Insurance Premiums                  | 1,971,829    | 2,249,899    |
| Claims Administration and Loss Control Services | 599,939    | 354,311      |
| General and Administrative Expenses  | 1,132,245    | 1,253,118    |
| **Total Operating Expenses**       | $5,438,848    | $5,364,733    |

| **OPERATING INCOME:**           | $1,257,311    | $1,880,658    |

| **NONOPERATING REVENUES/EXPENSES:** |               |               |
| Interest Income                  | $21,738       | $23,915       |
| Increase/<Decrease> in Equity in NLC MIC | 128,791   | 95,930        |
| **Total Non-Operating Revenues and Expenses** | $150,529 | $119,845 |

| **INCOME BEFORE EQUITY DISTRIBUTION:** | $1,407,840 | $2,000,503 |

| Equity Distribution              | 0            | 0            |

| **CHANGE IN NET POSITION:**      | $1,407,840   | $2,000,503   |

| **TOTAL NET POSITION - JANUARY 1** | 7,741,971    | 5,741,468    |

| **TOTAL NET POSITION - DECEMBER 31** | $9,149,811 | $7,741,971 |

The condensed financial statements shown are derived from RMSA’s state audited financial statements for 2012, 2013 and do not include notes. A copy of the complete audited financial statements can be obtained from the Pool upon request.
2013 Claims Report

Liability claims reported in 2013 were primarily consistent with those reported in 2012, with a slight increase in the claims count. In 2013, our primary claims driver was in the General Liability Property Damage category, largely due to a number of sewer back up claims. The members affected by these losses will be working with our loss prevention team to reduce future occurrences. Overall, we saw a reduction in the claims reported in 2013 by approximately 6% (297 in 2012; 280 in 2013) and a rise in claims costs by 53% ($617,110 in 2012; $947,558 in 2013). Our incoming claims have increased from 65 in 1989 to 280 in 2013.

In the last half of 2013, RMSA experienced resolution of several old claims, including one case which went to trial in September 2013. A favorable verdict was rendered in November, and we were able to successfully collect indemnification, in excess of our self-insured retention, from our reinsurer in February 2014.

Looking forward to 2014, the year is off to a great start with our claims department closing more old files and extinguishing potentially problematic exposures for the pool and our membership. Our Pre-Litigation Program is gaining momentum with our membership, and it is likely we will see a reduction in claims as more members utilize this beneficial RMSA resource. The Pre-Litigation Program expended $69,934.12 in 2013, and was utilized by 28 RMSA members to assist with mitigating potential costly litigation matters. It is the goal of the claims department to continue to provide superior claims service to our membership and citizens while focusing on sound and efficient claims handling practices.

| Number of new claims reported: | 280 | 297 | 65 |
| Number of files closed: | 260 | 284 | 49 |
| Number of members | 92 | 91 | 35 |
| 1st party property claims >$50K: | 1 | 2 | 0 |
| 3rd party liability claims >$250K: | 0 | 1 | 0 |

Number of open files (including subrogation) as of:
- January 1, 2014 - 216
- January 1, 2013 - 196
- January 1, 1989 - 16
2013 Claims by Type

- **Cost**
  - Auto Bodily Injury
  - Auto Physical Damage
  - Auto Property Damage
  - Admin Error/Decision
  - Employment
  - Land Use
  - GLBI *
  - GLPD **
  - Property

- **Count**
  - Auto Bodily Injury
  - Auto Physical Damage
  - Auto Property Damage
  - Admin Error/Decision
  - Employment
  - Land Use
  - GLBI *
  - GLPD **
  - Property

* General Liability Bodily Injury
** General Liability Property Damage
AWC Risk Management Service Agency Board of Directors

Steve Ekberg
President
Position 6
Councilmember, Gig Harbor

James Bailey
Position 1
Councilmember, Wenatchee

Robert Whisman
Position 2
Mayor, Deer Park

Jeanne Pettersen
Position 3
Councilmember, North Bend

Graham Hunt
Position 4
Councilmember, Orting

Carrie Lacher
Position 5
Mayor, Friday Harbor

Bret Brodersen
Position 7
Mayor, Tenino

AWC RMSA Operating Committee Members

Duncan Wilson
Chair - Position 7
Town Administrator, Friday Harbor

Dan Frazier
Vice chair - Position 2
Public Works Director, Wenatchee

Vacant
Position 1

Dawn Masko
Position 3
Asst. City Administrator, North Bend

Albert Tripp
Position 4
City Manager, Airway Heights

Molly Towslee
Position 5
City Clerk, Gig Harbor

Londi Lindell
Position 6
City Administrator, North Bend

Mark Bethune
Position 8
City Administrator, Orting

Hester Gilleland
Position 9
Clerk-Treasurer, Raymond
### RMSA Re-Insurance Partners

**General Liability**
- AWC RMSA: $0-250,000
- Berkley Public Entity Managers: $250,001-1,000,000
- Starr Indemnity & Liability Company: $1,000,001-10,000,000

**Property**
- AWC RMSA: $0-$50,000
- Lexington Insurance Company: $50,001-250,000,000

### RMSA Service Contractors

**Insurance Broker**
- Arthur J. Gallagher Risk Management Services, Inc.

**Actuary**
- PricewaterhouseCoopers LLC

**Adjustment Companies**
- VeriClaim Inc.
- Norcross
- ClaimCo Inc.
- J & E Appraisal

**Hotline/Education**
- LocalGovU
- Enquiron

### RMSA Counsel Panel

**Defense Counsel**
- Carlson McMahon & Sealby PLLC
- Etter McMahon Lamberson Clary & Oreskovich PC
- Law Lyman Daniel Kamerrer & Bogdanovich PS
- Morris Law PC
- Sebris Busto James
- Turner Kugler Law PLLC
- Williams Kastner

**Coverage Counsel**
- Cozen O'Connor - Craig Bennion
- Gordon Tilden Thomas & Cordell LLP - Franklin Cordell

**General Counsel**
- Pope Houser & Barnes - Charles H. (Skip) Houser III
Membership Report

Twenty-five years ago, the property and liability insurance industry hardened substantially, pricing cities and towns out of the market, and leaving them alone and virtually uninsurable. With nowhere to turn for the coverage they so desperately needed, a group of 35 cities and towns came together and sought assistance from the Association of Washington Cities. It was at this time that the AWC Risk Management Service Agency was formed.

The AWC RMSA is comprised of a variety of participants, from towns with a population of 80, to cities with populations exceeding 30,000. Since its inception a quarter of a century ago, the AWC RMSA membership is proud to have seen a 150% increase from 35 founding members, to its current 92 members.

What is most meaningful about the members who formed, and have since joined the risk pool, is their understanding that while they may be their own independent entity, they also share the same successes and challenges as their peers. The membership has supported the development of a number of value added services to enhance their program. Loss Prevention Grants are awarded to reduce risks and liabilities; scholarships are given for beneficial educational opportunities; and pre-litigation funds pay for invaluable legal and consultant assistance to prevent costly lawsuits. This robust list of services includes free helplines, training opportunities, and a multitude of resource materials. RMSA members played a significant role in creating these resources.

The very concept of risk pooling is a group of individuals coming together to share the risk, mitigate losses and eliminate exposures. Each member is an active participant who understands they share a common duty and responsibility to the entire membership. The growing success of the AWC Risk Management Service Agency can be attributed directly to its members. Every day we see first-hand the commitment by this membership toward success, and the pride they all feel for having achieved it.
A Special Thank You...

We conclude this annual report by taking the opportunity to recognize and express our appreciation to those who have helped the AWC Risk Management Service Agency achieve the success it has today.

The past 25 years has not been without its share of challenging claims, tested financials, and growing pains which any business endeavor must endure. However, the membership’s commitment to sharing risk, pooling assets, and supporting each other and their risk pool, has resulted in a program which has emerged today in the strongest financial position ever, as well as one of the most respected in the pooling industry.

Recognition for the RMSA program’s success must also be attributed to the Board of Directors and Operating Committee members. Separating the individual needs of their cities and constituents from that of the risk pool as a whole is, at times, difficult, but each Board and Committee member proved worthy of this task. The pool’s financial position and reputation with the State Risk Manager’s Office and State Auditor’s Office is a direct result of this shared commitment and focus.

The relationship between RMSA and its founding sponsor, the Association of Washington Cities has, and continues to, foster support in leadership and collaboration with other AWC member services. AWC also serves as a direct conduit to all 281 of Washington’s cities and towns with the multitude of administrative and legal issues they face. By spreading risk and garnering constant support and efforts by its members, RMSA has seen great success in managing claim costs, building a healthy fund balance, and securing constant rate stabilization, even while the insurance market has continued to fluctuate.

Members of the AWC RMSA realize that they are not buying insurance, but are joining many others cities and towns across the State who face the same fiscal, legal, and administrative challenges as their co-members.

On behalf of the staff who works with you throughout the year, thank you to the Board of Directors, Operating Committee, and entire membership for your support and dedication to the success of this exceptional program you have helped to build.

Mike McCarty  
AWC CEO

Derek Bryan  
Program Manager

Roger Neal  
Loss Prevention Coordinator

Luann Hopkins  
AWC COO  
Director, Member Pooling Programs

Lynda Hummel  
Claims Coordinator

Chase Anderson  
Member Programs Assistant

Linda Triplett  
AWC CFO

Caitlin Magee  
Membership Specialist