



Tony Piasecki,
City of Des Moines

Message from the President

From 2000 through 2011, it has been my honor to serve on the WCIA Executive Committee, eight years as a committee member, two years as vice president and two years as president. I have seen many challenges in those twelve years, but what is most striking to me is the manner with which WCIA has addressed those challenges: always proactive never reactive.

In 2011, we experienced two unique firsts. One was a claim made directly against WCIA as an organization. The Executive Committee created a process within its by-law powers and resolved the claim. And, for the first time in its history, WCIA proposed legislation aimed at codifying best practices for governmental liability pools. 2011 saw membership grow to 150, use of services such as pre-defense review and training increase, and our positive trial results continue. We weathered the storm of key Committee members leaving by filling vacancies with seasoned veterans from our subcommittees. Our financial position remained strong and we were able to enjoy another year of a zero percent rate increase.

Thank you for allowing me to be in a leadership position for this outstanding organization and thank you to every WCIA staff person, every Executive Committee member, and every Board member with whom I have served. I am humbled by your dedication, your professionalism, your enthusiasm, and your friendship.



Lewis Leigh, WCIA

From the Executive Director

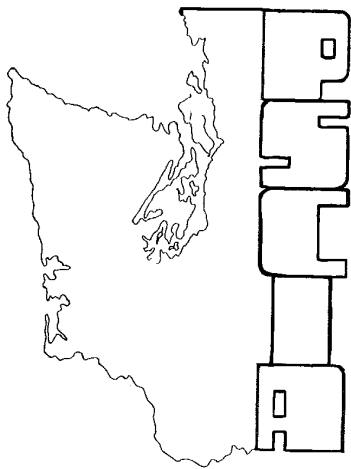
Economic Stress Trickle-down: Pools nationally are feeling their membership's financial stress. Lack of internal membership growth is affecting pool revenues. Risk profiles are changing and member service demands are expanding. While internal growth has moderately affected the Authority, its financials, risk profile and service opportunities are still improving. A less volatile employment practice liability has replaced a more dangerous land use exposure creating a net reduction in loss expenses and an improved risk profile. Total assets (+12%) and net assets (equity, +11%) are still increasing, as is total membership (150). All the numbers are going in the correct direction.

Solvency Philosophy: After 30 years of pooling, two business plans are emerging. WCIA believes that the pool itself has the obligation to assume its own financial solvency and that it systematically accumulate its own equity beyond a WAC requirement of a safe and sound financial redundancy of claim reserves. A pool should not rely upon each individual member to substitute, through a series of cash-calls, for a pool's solvency, particularly in difficult economic times. WCIA, along with nine other Washington municipal risk pools, financially and legislatively support this belief through WAC and RCW strengthening.

Heightened Pool Responsibility: The Executive Committee aggressively expanded the use of Pool equity to supplement member assessments, particularly towards domestic and world events affecting property coverage. The collective member service budget grew to \$1.69 million to assume educational and staff development needs. I.e., 7,012 employees trained at 298 sites and assumption of 241 consulting projects. Litigation success continued at the State Appellate and Supreme courts and Federal Ninth Circuit court, while assuming defense responsibility for red light camera and public defender litigation.

The Authority is changing along with its member's needs, with broadened financial responsibility to maintain risk management momentum.

“REFLECTIONS OF THE WAY LIFE USED TO BE...”



From humble 1981 beginnings, Puget Sound Cities Insurance Authority commenced operation as a regional municipal risk pool. An ICMA solution to repeated insurance industry crises, nine members funded approximately \$750 thousand, of which \$500 thousand created the self insurance layer. Throughout its history, the self insured layer has always been fully funded, eventually expanding to a \$4 million

layer, the largest of any Washington pool.

The Authority has always exhibited an aggressive philosophy. From an investment portfolio maximizing investment income to a willingness to litigate at the State Supreme, Federal Ninth Circuit and even U.S. Supreme Court. This philosophy was applied even further to include international arbitration contesting a reinsurer's denial of liability coverage.

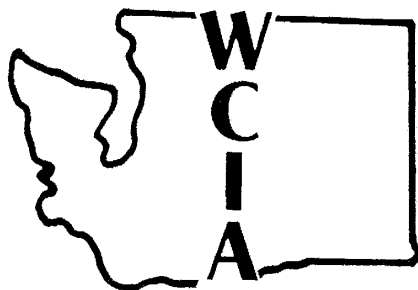
In 1986 the Pool weathered cancellation of all its liability insurance policies, during “the worst insurance crisis in the history of insurance” as dubbed by the industry itself. That sparked usage of higher self insurance layers and a \$25 million equity fund goal. Disgusted with the insurance industry, the Authority dramatically expanded its self insurance philosophy, going “bare” of any insurance coverage for nine years thereafter. In part through the advent of a newly created land use liability risk, reinsurance was incrementally repurchased to its current \$20 million per loss.

During that time period, nineteen eastern Washington cities, experiencing the same crisis, joined the Authority expanding its operations statewide.

Executive Committee representation, claims adjusting services, defense attorneys, trainers and expanded staff services sensitive to Eastern Washington needs, evolved quickly. These changes

yielded a new name, Washington Cities Insurance Authority, to reflect the organization's expanded membership.

Other challenges tested the Authority, from corrective legisla-



tion resulting in RCW and WAC regulation, a sub-prime test of our investment portfolio, grossly expanded liability risks, and an AIG insolvency which threatened the very existence of the insurance industry.

Nationally the WCIA received a 1996 award for creation of the COMPACT, a disciplined training program. It has been accredited by Association of Governmental Risk Pools (AGRIP), a national pooling association since 1994. This accreditation has served as the basis for compliance of state regulation. With nine other accredited pools across the nation, WCIA created a captive reinsurance company called Governmental Entity Mutual (GEM), to capture profits otherwise lost to the insurance industry. In 2003, the Authority purchased and refurbished a commercial office building to mute operating costs, which is now self-sustaining.



The Authority has always benefitted from excellent leadership, beginning with the original board of city managers to creation of an Executive Committee and sub-committee system. The Full Board of 150 members, through a member delegate system, has sustained its pooling knowledge and aggressive support throughout each pioneering effort spanning three decades.

2011 MEMBERSHIP BOARD OF DIRECTORS

ARCH
Aberdeen
Anacortes
Arlington
Auburn
Bainbridge Island
Battle Ground
Benton City
BCES
Bonney Lake
Bothell
Burien
Burlington
Camas
Cashmere
Centralia
Chehalis
Chelan
Cheney
Chewelah
CRESA
Clarkston
Cle Elum
Clyde Hill
Coupeville
Covington
Cowlitz-Wahkiakum COG
Des Moines
Des Moines Pool MPD
Des Moines TBD
EPSCA
eCity Gov Alliance
Edgewood
Edmonds
Edmonds TBD
Elma
ESCA
Enumclaw
Federal Way
Fife
George
Goldendale
Grandview
Grandview TBD
Grays Harbor 911
Hoquiam
Issaquah
Jefferson 911 Communications
Kelso
Kenmore
Kirkland
KRCC
Lacey
La Conner
Lake Forest Park
Lake Forest Park TBD
Lake Stevens
Lakewood
Leavenworth
Leavenworth TBD
Long Beach
Longview
LOTT Clean Water Alliance
Mabton
MACC 911
MACECOM
Maple Valley
Marysville
Marysville Fire District
McCleary
Medical Lake
Medina
Mercer Island
Metro Parks Dist. of Tacoma
Mill Creek
Millwood
Milton
Monroe
Monroe Fire District
Moses Lake
Mount Vernon
Mountlake Terrace
Mukilteo
Newcastle
Normandy Park
Normandy Park MPD
North Bonneville
Northshore Utility District
NWIMT
Oak Harbor
Ocean Shores
Olympia
Olympia TBD
Othello
Pasco
PENCOM
Port Angeles
Port Townsend
Pullman
Pullman MPD
Pullman-Moscow
Regional Airport
Board
Puyallup
Renton
Richland
Ridgefield
Sammamish
SCORE
Shelton
Shelton MPD
Shoreline
Shoreline TBD
Silver Lake Water & Sewer District
Skagit 9-1-1
SNOCOM
Snohomish
SERS
SNOPAC
Snoqualmie
Snoqualmie TBD
Soap Lake
Spokane Valley
Stanwood
Steilacoom
Sumner
Sunnyside
Three Rivers Regional
Wastewater Authority
Thurston County 911
Thurston Co. PUD #1
TRPC
Toppenish
Tukwila
Tukwila MPD
Tumwater
Union Gap
University Place
Valley Com
Valley Regional Fire Authority
Walla Walla
Walla Walla Joint Community
Development Agency
Warden
Washougal
Water Operating Board
Westport
WHITCOM 911
William Shore Memorial Pool Dist.
Woodinville
Woodway
Yakima Valley COG
Yarrow Point
Zillah

“HISTORY IS WRITTEN BY THE VICTORS”

South Correctional Entity Facility (SCORE)



The economy has modified the types and volume of claims and litigation during the multi-year economic downturn. The department budget has also shifted, particularly in the significant expansion of Pre-Defense Review, and the usage of new defense firms and other vendors. Consistent with actuarial loss projections, the claims department can attest to a dramatic change in types of losses defended against, its influence in the Authority's risk profile.

“WCIA is always active in Superior, State Supreme, Federal District and Ninth Circuit courts.”

City of Fife

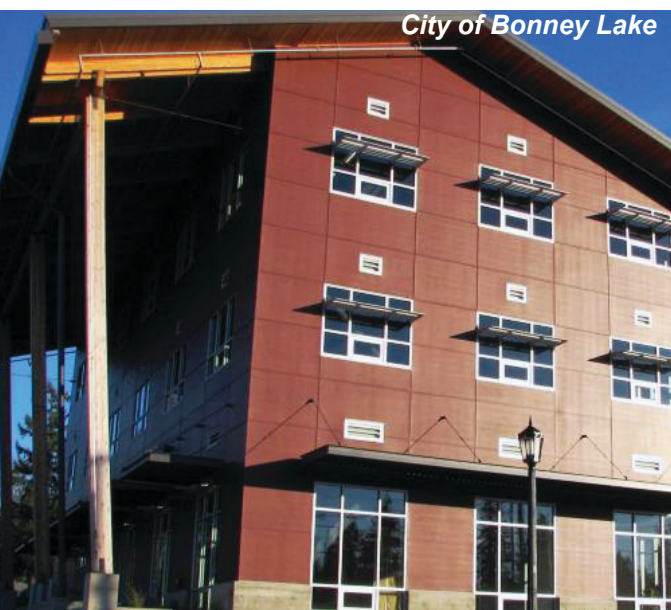


The Pre-Defense Program budget has increased to \$750,000 and has increased its perspective to employment practices liability, a 21 percent increase, and a 14 percent decrease in land-use lawsuits and defense expense. There is a corresponding usage of personnel defense firms and employment investigation expenses. Pre-Defense Review is extremely popular, with only 17 percent of personnel claims being reported without prior Pre-Defense posturing.

Litigation is down 14 percent, with only 40 percent of lawsuits resulting in an indemnity payment. Indemnity payments on 1894 closed claims and litigation for the year totaled \$10 million and legal payments \$8 million.

Year 2011 saw five trials, three defense verdicts, a nominal damage award of \$1 and one plaintiff verdict for below the amount requested. WCIA is always active in Superior, State Supreme, Federal District and Ninth Circuit courts. Several Superior court cases were dismissed on Summary Judgment, with good results in the Washington appeals Courts, including a multimillion dollar land use case being dismissed by the State Supreme Court. We were successful in the Ninth Circuit upholding the dismissal of two cases.

City of Bonney Lake



WCIA created unique coverage applications in 2011, to include red light camera cases across the state and an ACLU backed challenge to the adequacy of municipal public defender programs. This allowed early intervention in issues that would lead to covered allegations and damages which would be significant.

WCIA Staff

Executive Director

LEWIS LEIGH

JASON BARNEY

Senior Adjuster

ANN BENNETT

Deputy Director, Claims & Litigation

LA TONYA BRELAND

Claims Representative

PATTI CRANE

Member Services Manager

TANYA CRITES

Senior Risk Management Rep

REED HARDESTY

Senior Adjuster

LISA KNAPTON

Senior Risk Management Rep

ERIC B. LARSON

Deputy Director, Insurance Programs

JENNIFER LAWSON

Office Assistant/Receptionist

JILL MARCELL

Deputy Director, Admin Services

SHELLEY O'KEEFE

Claims Assistant

MARIA OROZCO

Member Services Assistant

LISA ROBERTS

Risk Services Manager

DEBBI SELLERS

Senior Risk Management Rep

TINA SMITH

Administrative Services Assistant

DANIELLE STEPHENS

Claims Office Assistant

GORDY VAN

Senior Adjuster

TIFFANY WOODS

Programs Assistant



2011 EXECUTIVE COMMITTEE & STAFF—Back Row, L-R: Lisa Roberts; Jill Marcell; Jim Reinbold, Chelan; Jared Burbidge, TRPC; Eric Larson; Mark Bucklin, Counsel; Allen Johnson, Arlington; Paul Schmidt, Oak Harbor; Ron Musson, retired from Richland and Stan Strebler, Pasco. Front Row, L-R: John Caulfield, Mountlake Terrace; Lew Leigh, Ann Bennett, Brenda Heineman, Auburn; Tony Piasecki, Des Moines; Tina Smith and Patti Crane.

Contracted Service Vendors

Accountant: Baber & Mason, CPAs • **Actuary:** PriceWaterhouseCoopers • **Claims Service Company:** Evergreen Adjustment Service • **General Counsel:** Keating, Bucklin & McCormack Inc., P.S. • **Independent Claims Auditor:** Marsh Risk Consulting • **Insurance Broker:** Marsh USA, Inc. • **Lobbyist:** Lisa Thatcher, Inc.



Insurance Authority

30th Anniversary

That was then. . .

- 9 Members
- 1 Staff Member
- \$953,790
Total Assessment
- \$100,000 SIR
- \$746,011
Total Assets

. . . This is Now

- 150 Members
- 19 Staff Members
- \$32 Million
Total Assessment
- \$4 Million SIR
- \$165 Million
Total Assets
- \$500 Billion in Property
Values



City of Anacortes



City of Arlington



City of Auburn



City of Olympia



City of Hoquiam

COMPARATIVE BALANCE SHEETS**AS OF DECEMBER 31,****2011****2010****ASSETS**Current Assets

Cash and Cash Equivalents	\$26,517,622	\$23,678,953
Accrued Interest	554,829	721,366
Investments	128,742,223	112,509,847
Accounts Receivable	90,223	143,946
Prepaid Expenses	<u>3,839,393</u>	<u>4,392,087</u>
TOTAL CURRENT ASSETS	\$159,744,290	\$141,446,199

Non-current Assets

Investments in GEM	1,032,470	1,032,470
Capital Assets	6,181,732	6,124,110
Accumulated Depreciation	<u>(1,284,924)</u>	<u>(1,110,445)</u>
TOTAL NON-CURRENT ASSETS	\$5,929,278	\$6,046,135

TOTAL ASSETS**\$165,673,568****\$147,492,334****LIABILITIES AND NET ASSETS**Current Liabilities

Accounts Payable	\$159,196	\$94,049
Deposits Payable	307,841	334,202
Property & Vehicle Claims Reserve	1,251,885	1,504,368
Reserve for Liability Claims		
IBNR	10,696,450	11,257,925
Open Claims (Case Reserve)	4,933,039	5,099,788
Unallocated Loss Adjustment Expenses	607,256	627,216
Reserve for Increased Confidence Level	<u>14,950,904</u>	<u>15,386,351</u>
TOTAL CURRENT LIABILITIES	\$32,906,571	\$34,303,899

Non-current Liabilities

Compensated Absences	\$94,822	\$87,077
Claim Reserve:		
IBNR	\$28,920,032	\$32,041,786
Open Claims (Case Reserves)	\$13,337,477	\$14,514,782
Unallocated Loss Adjustment Expense	<u>\$1,641,842</u>	<u>\$1,785,152</u>
TOTAL NON-CURRENT LIABILITIES	\$43,994,173	\$48,428,797

NET ASSETS

Net Assets-Invested Capital	\$4,896,808	\$5,013,665
Net Assets-Unrestricted	<u>83,876,016</u>	<u>59,745,973</u>
TOTAL NET ASSETS	\$88,772,824	\$64,759,638

TOTAL LIABILITIES AND NET ASSETS**\$165,673,568****\$147,492,334**

Comparative Statement of Revenues, Expenses & Changes in Fund Net Assets

FOR THE YEARS ENDING DECEMBER 31,	<u>2011</u>	<u>2010</u>
Operating Revenues		
Member Assessments - Liability	\$24,270,237	\$25,574,294
Member Assessments - Property	8,111,936	7,754,179
Member Assessments - Fidelity	121,956	116,156
Seminar Revenues	<u>24,665</u>	<u>21,185</u>
<u>Total Operating Revenues</u>	<u>\$32,528,794</u>	<u>\$33,465,814</u>
Operating Expenses		
Loss and Loss Adjustment Expenses	\$9,840,163	\$9,190,888
Confidence Level Expense (Reduction)	(435,447)	632,687
Insurance - Members	6,556,008	6,031,051
Salaries and Wages	1,736,629	1,678,620
Personnel Benefits	569,490	529,505
Professional Services:		
Claims Adjusting	329,752	289,888
Pre-Defense Review	906,045	745,658
Consultant	376,132	211,653
Legal	55,464	39,855
Actuarial	31,000	28,500
Audit	15,672	27,725
Financial Services	19,179	18,507
Risk Management Audit	11,734	11,734
Rent	120,000	153,333
Transportation	88,684	74,645
Printing	6,976	14,582
Communications	21,163	23,367
Supplies	47,255	48,470
Dues and Conferences	19,527	22,285
Retreat/Board Meetings	23,820	24,950
Depreciation	50,744	46,933
Miscellaneous	33,480	37,066
Repair and Maintenance	12,144	12,995
Seminars and Training	<u>412,689</u>	<u>442,762</u>
<u>Total Operating Expenses</u>	<u>\$20,848,303</u>	<u>\$20,337,659</u>
Operating Income (Loss)	\$11,680,491	\$13,128,155
Non-Operating Revenue (Loss)		
Unrealized Gain (Loss) on Investments	3,751,027	(\$1,342,382)
Realized Gain (Loss) on Investments	3,298,828	425,357
Income from Investment in GEM	-	(36,166)
Investment Income	5,235,684	7,336,883
Net Profit (Loss) from Building Operations	47,156	68,348
<u>Total Non-Operating Revenue</u>	<u>\$12,332,695</u>	<u>\$6,452,040</u>
Income Before Member Contributions	\$24,013,186	\$19,580,195
Net Assets - January 1	64,759,638	45,179,443
NET ASSETS AS OF DECEMBER 31	<u>\$88,772,824</u>	<u>\$64,759,638</u>