### Texas Council Risk Management Fund

# 2019 ANNUAL REPORT

TEXAS COUNCIL RISK MANAGEMENT FUND



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# CHAIR'S LETTER

### DEAR FRIENDS,

We are celebrating our 31st year of existence as a self-insured risk management fund ("Fund") made up of 33 Texas Community Centers. This year we will continue to build on our past progress and look forward to navigating new challenges.

The Fund's board is proud of the services and coverages that have evolved over our first 30 years. Our financial strength continues to grow. The Fund's effective reinsurance program, attention to risk management and efficient claims administration has helped us navigate our increasing number of claims. Of course, the Fund is also buffeted by severe weather events which lately have included severe hail storms.

Another form of turbulence that affects our system is the biennual meeting of the Texas legislature. Because of the consistent efforts of many of you, our outreach to legislators has been effective in growing their awareness of the population we serve and the needs of our community center system. The resources we need have not kept up with the overall growth of the Texas population and economy, but we are hopeful for increased funding in the Budget bill this year.

The Fund's board strives to address the growing and changing needs of the Fund's member centers. While expanding coverage, the board is always mindful of controlling the cost member centers pay for coverage. Recent improvements in coverage, and a willingness to continue to use surplus to stabilize rates, helps all member centers manage risk and contain costs. The Annual Report chronicles the tremendous growth of the community center system against the steady decrease in the relative cost of coverage. Rates have decreased despite the growth of net operating expenditures, payroll and insured property values. The Fund's emphasis on risk management and focus on expanding coverages and services supports our members in meeting future challenges.

As for future challenges, centers have continued to expand services to help veterans, address substance use by adults and children, and assist adults affected by autism. Funding has been a challenge with changes in Medicaid, managed care, new funding systems (especially as the 1115 Waiver stream dries up) and the CCBHC pilot. New funding sources support centers working collaboratively with a wide assortment of organizations, including law enforcement, schools, medical clinics, and non-profits serving our consumers and patients.

The Fund continues to work with its members to meet old and new challenges with leadership training for center supervisors, liability workshops, risk control and risk management consulting. Recent workshops have addressed Cyber Liability, Procurement, Employment Liability, and this fall, Collaborations. Leadership courses address a wide range of issues including succession planning, multiple generations in the workforce, how to show respect and hiring and discipline. As new issues arise that pose risk to members, coverage enhancements, new services and modifications to safety and leadership training will help centers mitigate their risk.

This Annual Report shows the Fund's strength and success. You will see summaries of services, coverages, our Safety Award winners, and a brief look at some of the challenges I have mentioned.

On behalf of the Fund's board and our third party administrator, we pledge our continued attention to challenges and solutions as our growth continues.

Mary Lou Flynn-DuPart Chair, Board of Trustees



# FUND STRUCTURE AND SERVICES

The Texas Council Risk Management Fund provides many services for its members. The following list highlights the structure and services that distinguish the Fund from its competitors and fulfill its commitment to members.



- The Board of Trustees is composed of trustees from nine different community center boards
- Every center is represented on the Advisory Board that meets with the Board of Trustees. Advisory Board members serve on the committees of the Board.
- Members participate in the accumulated equity of the fund and are exposed to risk to that equity from losses that may exceed the reinsurance program designed to protect the Fund.
- Protection from catastrophic losses through comprehensive reinsurance is provided by Government Entities Mutual and A+ rated reinsurance carriers in a carefully designed program to protect the Fund and its members.
- The Fund retains a portion of each claim. Then reinsurance pays for amounts exceeding the retention up to their limit of liability. Current retentions and reinsurer limits are:

REINSURANCE PROTECTION			
Coverage Program	Fund Retention	Reinsurer Limit of Liability	Total Limits Available
Workers' Compensation –	\$500,000	Satutory	
Liability	\$300,000	\$4,700,000	\$5,000,000
Property	\$150,000	\$350,000,000 —	\$350,000,000

\*Statutory in Workers' Compensation means that there is no maximum limit on medical benefits available for injured workers. \*\$5,000,000 Liability, members may select either \$5,000,000 or \$1,000,000

Risk Management Consulting includes:

- Contract issues,
- Insurance requirements
- Claims analysis,
- Policies and procedures designed to improve risk management
- Comprehensive on site risk management reviews for members result in a report to management and recommendations for improvements in all areas of risk

Risk management review of specific projects, locations or documents

Center security assessments

#### Risk Control

- Facility safety inspections,
- Direct consultations regarding specific safety issues,
- Safety training,
- Help form and coach safety committees
- Investigate serious accidents
- Driver training specific to center vehicles and usage
- Required Van Driver training and train the trainer

Safety Seminars and Training on site for individual members or as regional workshops at several locations around the state. Recent topics include:

- Current claim trends
- Driving Safety
- Ergonomics
- Field Employee Safety
- Security and Threat assessment

Leadership Training for managers and supervisors

- The Fund offers a two day supervisory training which focuses on the fundamentals of effective supervision and leadership. Through this training, Center leaders will develop both classic leadership skills (motivating people, managing diversity, conflict resolution, etc.) as well as the day-to-day management skills (selecting qualified staff, coaching and developing employees for effective performance, and carrying out disciplinary measures when necessary).
- With input from center leadership, a series of 14 courses were developed. This series provides a more in-depth, step-by-step approach to the biggest challenges that supervisors and managers face day to day."

Leadership Training for managers and supervisors is provided through courses in

- Retaining, Encouraging and Developing Employees for Success
- Respect in the Workplace
- Leadership Skills
- Managing Behavior and Performance

Courses are taught either at the center or in regional settings without cost to the member.

Fund publications include:

- Risk Advisor, quarterly newsletter about current trends and developments in safety and risk management.
- Periodic Bulletins provide in depth coverage of current risk management topics such as
- Flood Insurance, Contracts, Property Coverage and Hurricane Preparedness.
- Risk Alerts issued when members need to know about current risk related events such as tropical storms, cyber threats or potential pandemics
- Emergency Management Resources guide (published in 2018) Annual Report

# FUND SERVICES

Legal Loss Prevention is offered by Pam Beach for all employment, contract and regulatory matters.

Annual property valuation updates by formula and periodic professional on-site appraisals ensure currently valued property to prevent under-insurance in the event of a loss.

Accessible and useful website with significant content including

- Upcoming events,
- Registration for workshops and seminars
- Archived publications,
- Risk checklists
- FAQ guidance for contractor and vendor insurance requirements at www.tcrmf.org

Efficient online services for

- Claim reporting and loss history
- Online renewals and
- Online MVR checks with quick, same day response for new hires

Dedicated claims adjusters handle workers' compensation, liability and property claims for the Fund.

Workers' compensation claims adjusters supported by a data analytics feature that evaluates claims in their very early stages to identify need for additional medical resources.

Members participate in the Political Subdivision Workers' Compensation Alliance, a preferred and credentialed network of medical providers that provide immediate access to care, excellent medical outcomes and more rapid return to work for member employees.

Medical bill review for appropriateness, efficacy and cost is standard on every claim.

Accredited nurse case managers are available to help seriously injured workers and their families navigate and understand medical treatment.

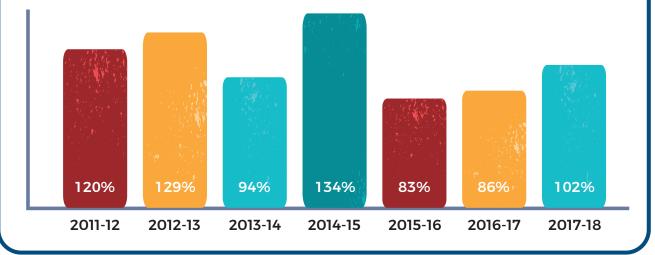
At the discretion of the Board of Trustees, amicus briefs or other legal or regulatory intervention in matters that could have a wide impact on Fund members.

# FINANCIAL HIGHLIGHTS



#### COMBINED RATIOS

The Combined Ratio is an insurance industry standard for measuring the relationship between earned premiums (contributions) and the expenses for operating the insurance company (the Risk Management Fund) plus claims. Due to the relatively small size of the Fund, large claims can cause fairly significant variability in the combined ratio from year to year.

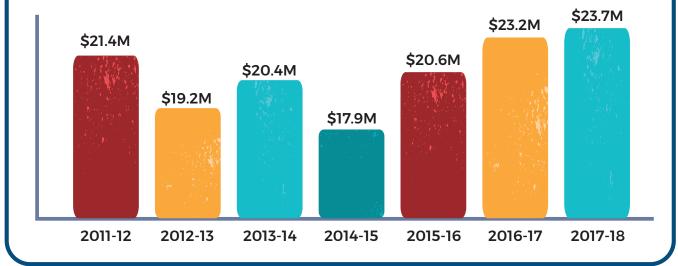




# FINANCIAL HIGHLIGHTS

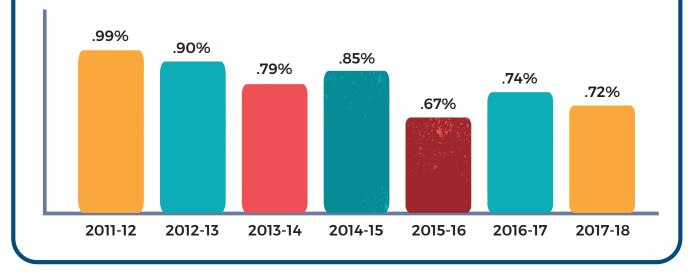
#### NET POSITION -

Net position is the unencumbered surplus of the Fund. It is member equity at risk in the case of claims exceeding the carefully designed reinsurance program and the contributions in a particular year used to pay claims. The Fund's Net Position generally continues to trend upward.



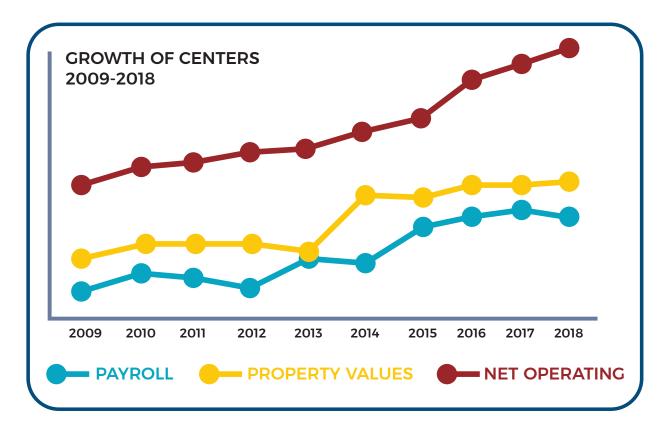
#### MEMBER CONTRIBUTIONS AS PERCENT • OF NET OPERATING EXPENDITURES

This measure represents a benchmark cost of coverage for members of the Fund. The downward trend indicates that members are using a relatively smaller portion of their budget to obtain coverage through the Fund.



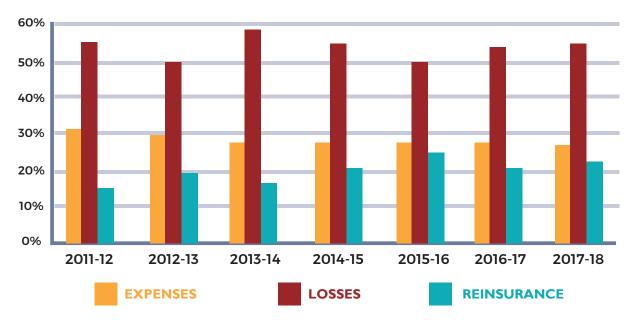
#### **GROWTH OF MEMBERS**

Member contributions are based on variable values for payroll, net operating expenditures and property values as annually adjusted. The next chart illustrates member growth:



#### MEMBER CONTRIBUTIONS AS PERCENT OF NET OPERATING EXPENDITURES

Expenses as a percentage of contributions have been decreasing. Losses are flat with slight variation from year to year. Reinsurance has been increasing in cost due to the Fund's own losses and general market conditions in property reinsurance, partly as a result of Hurricane Harvey. Increases in property reinsurance will have an even greater impact in 2019. These are the components of the Combined Ratio illustrated above.





### REPORT ON The Financials

#### **Independent Auditors' Report**

To the Board of Trustees of Texas Council Risk Management Fund:

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of Texas Council Risk Management Fund (the "Fund"), which comprise the balance sheets as of August 31, 2018 and 2017, and the related statements of operations and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Texas Council Risk Management Fund as of August 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



#### **Other Matters**

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 and the claims development information and changes in claims liabilities presented on pages 25 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Information**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying other financial information, consisting of balance sheets by program as of August 31, 2018, and the statements of operations and changes in net position by program for the year ended August 31, 2018, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Haltzman Partners, LLP

Austin, Texas January 24, 2019

#### TEXAS COUNCIL RISK MANAGEMENT FUND

#### BALANCE SHEETS

AS OF AUGUST 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS: Cash and cash equivalents (Note 3) Investments — at fair value (Note 3) Contributions receivable from members, including	\$ 5,070,436 150,852	\$ 4,164,831 562,894
unbilled contributions of \$743,391 and \$985,079 at August 31, 2018 and 2017, respectively (Note 2) Reinsurance Recoverable - Paid (Note 6) Accrued interest Other assets	 1,531,252 1,781,286 121,065 1,595,886	 2,205,910 1,445,735 111,264 536,771
Total current assets	10,250,777	9,027,405
NONCURRENT ASSETS:		
Investments — Long-term (Note 3)	28,246,135	27,059,566
Other Assets - Long-term	 1,000,000	 1,000,000
Total noncurrent assets	 29,246,135	 28,059,566
TOTAL ASSETS	\$ 39,496,912	\$ 37,086,971
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES: Reserve for losses and loss adjustment expenses — net of reinsurance (Notes 5 and 6)	\$ 4,345,482	\$ 3,667,093
Unearned member contributions	864,091	1,028,494
Other accrued expenses and liabilities	1,454,474	332,531
Accrued support and contract fees Excess equity due to members (Note 8)	96,453 3,276	137,686 149,719
Total current liabilities	 6,763,776	 5,315,523
NONCURRENT LIABILITIES:	<i>, ,</i>	
Reserve for losses and loss adjustment expenses — net of reinsurance (Notes 5 and 6)	 9,074,652	 8,578,053
Total liabilities	 15,838,428	 13,893,576
NET POSITION - UNRESTRICTED	 23,658,484	 23,193,395
TOTAL LIABILITIES AND UNRESTRICTED NET POSITION	\$ 39,496,912	\$ 37,086,971
Audited Financial reports available on request.		

#### TEXAS COUNCIL RISK MANAGEMENT FUND

#### STATEMENTS OF OPERATIONS AND CHANGES IN NET POSITION FOR THE YEARS ENDED AUGUST 31, 2018 AND 2017

CONTRIBUTIONS: Gross earned contributions\$ 13,312,375\$\$	12,877,596 (2,429,254) 10,448,342
Gross earned contributions \$ 13,312,375 \$	(2,429,254)
Reinsurance contributions ceded (Note 6) (2,706,802)	10 448 342
Net earned contributions 10,605,573	10,770,372
LOSSES AND LOSS ADJUSTMENT EXPENSES (Notes 5 and 6):	
Paid losses and loss adjustment expenses 6,625,295	4,799,498
Change in reserve for losses and loss adjustment expenses 1,174,989	1,112,998
	, ,
Net incurred losses and loss adjustment expenses 7,800,284	5,912,496
OTHER OPERATING EXPENSES:	
Contract and support fees (Notes 4 and 7) 1,575,196	1,635,231
Loss control (Note 4) 1,029,104	905,383
Legal and professional fees 131,975	156,868
Other expenses 277,315	399,095
Total other operating expenses 3,013,590	3,096,577
OPERATING INCOME (LOSS) (208,301)	1,439,269
OTHER INCOME:	
Investment income 820,191	539,584
Change in fair value of investments (146,801)	589,853
Total other income 673,390	1,129,437
CHANGE IN NET POSITION - UNRESTRICTED 465,089	2,568,706
NET POSITION - UNRESTRICTED — Beginning of year23,193,395	20,624,689
NET POSITION - UNRESTRICTED — End of year <u>\$ 23,658,484</u> <u>\$</u>	23,193,395

Audited Financial reports available on request.

## COVERAGES

The Texas Council Risk Management Fund offers comprehensive coverage programs designed for Texas community centers. Coverages are subject to constant evaluation and revision based on emerging risks facing members. Coverages have been evolving since the Fund started operations in 1988.



#### **AUTOMOBILE LIABILITY**

Provides statutory coverage for third party claims of bodily injury or property damage due to the operation of member owned or nonowned vehicles in center business.

#### WORKERS' COMPENSATION

The Fund provides statutory Workers' Compensation coverage with unlimited medical benefits and partial lost wages for employees injured on the job and in the course of their employment. Claims adjusters coordinate with center return to work programs and help the injured employee achieve the best medical care and earliest return to work possible.



#### **CYBER LIABILITY**



Cyber Liability provides both liability and property damage coverage for the center's computers, software and data processing operations. Damage to equipment and software by malware, viruses, ransomware or other breach attempts is covered. Liability to the center from breaches to private and confidential information is also covered for breach response, breach forensics, expenses to notify parties who were victims of the breach and any fines levied by regulatory authorities. Coverage is provided by Beazley, LLC., a Lloyd's of London syndicate. Beazley provides a 24 hour breach response to help a center contain a breach, limit damage, respond and determine how the breach occurred.



### COVERAGES



#### **PROPERTY**

Protects center buildings, contents, computers, contractor's equipment and other facilities from all risk of direct physical loss. Coverage includes physical damage to owned or leased vehicles and Flood coverage for locations not in a 100 year flood plain.

#### **ERRORS & OMISSIONS**

Errors & Omissions coverage protects members when allegations of wrongful acts by employees, officers and trustees are made. Errors & Omissions includes coverage for employment related actions by the member and limited defense for professional licensees accused of violations by their licensing boards.





#### **GENERAL LIABILITY**

General Liability coverage responds to bodily injury or property damage to third parties arising out of the member's premises or operations.



# **GLIMPSES OF THE FUTURE**



Every other year the Texas Legislature meets to appropriate a two year budget and consider other laws that could affect community centers. The 2019 legislative session ended with mixed results for Texas community centers.



Funding is always a risk for community centers and their clients. The bounty of the III5Transformation waiver program is ending and the financial commitments centers made to take advantage of the program may cause disruption as funding ends. New clients brought into the center system with innovative programs may have to go without services or seek them elsewhere.



Various social, political and practical considerations are encouraging collaborative relationships between community centers and other local entities such as schools, municipalities, hospitals, law enforcement and non-profits. These relationships are usually governed by memorandums of understanding (MOU's) that may not be fully understood or actually achieve the goals the collaborators envision. One risk centers may face is that coverage for the activities of the collaboration may not be provided by the Risk Management Fund unless the Fund has a chance to evaluate the collaboration and decide to extend coverage. Other activities may be limited by law that collaborators do not understand. For instance, HIPAA prohibits the sharing of personal health information that others like law enforcement may think they can access.



### MEMBERS

Betty Hardwick Center The Center for Health Care Services Central Counties Center for MHMR Services Central Plains Center Metrocare Services Burke Center Denton County MHMR Center Andrews Center Gulf Bend Center StarCare Specialty Health Systems Texana Center Community HealthCORE Spindletop Center Texoma Community Center Tri-County Behavioral Healthcare Helen Farabee Centers Permiacare

MHMR Services for the Concho Valley Nueces Center for Mental Health and Intellectual Disabilities Austin Travis County Integral Care The Gulf Coast Center Center for Life Resources MHMR Authority of Brazos Valley Tropical Texas Behavioral Health ACCESS West Texas Centers Bluebonnet Trails Community Center Pecan Valley Centers Border Region MHMR Community Center Camino Real Community Services The Harris Center for Mental Health and IDD Heart of Texas Region MHMR Center MHMR of Tarrant County

### BOARD OF TRUSTEES



MARY LOU FLYNN-DUPART (1992) Chair Gulf Coast Center

GUS HARRIS (1998) Vice–Chair Spindletop Center

STEVE HIPES (2017) Gulf Bend Center

JOHN JACKSON (2017) Nueces Center for Mental Health and Intellectual Disabilities

RITA JOHNSTON (2015) Betty Hardwick Center LADOYCE LAMBERT (2010) Secretary Permiacare

JUDGE DOROTHY MORGAN (1992) MHMR Authority of Brazos Valley

HARTLEY SAPPINGTON (2012) Bluebonnet Trails Community Services

JUDGE VAN YORK (2010) West Texas Centers

# **GLIMPSES OF THE FUTURE**



As the current workforce ages succession issues arise as key executive and knowledge professionals leave the system.



New generations coming into the workforce have different values and experience that can affect their performance in the service environment that community centers require. Turnover taxes the finances and other resources of a center as well as the delivery of competent care.



The growth of Texas' population imposes increasing demand for services without funding that keeps up with the growth. Texas community centers are resourceful, creative and determined in their efforts to meet these needs, but the lack of money in the system imposes solid limits to what they can accomplish. This limitation places thousands of Texans at risk of suffering the negative effects of mental illness and intellectual disability.



### S A F E T Y A W A R D S

### LIABILITY

Dick DeSanto Excellence in Liability Loss Prevention Outstanding Achievement in Liability Loss Prevention Outstanding Achievement in Liability Loss Prevention

FLEET

Outstanding Achievement in Vehicle Fleet Safety

Center for Life Resources Heart of Texas Region MHMR Center Tropical Texas Behavioral Health

Texoma Community Center

### WORKERS' COMPENSATION

William E. Hall Jr. Excellence in Workers' Compensation
Loss Prevention
Outstanding Achievement in Workers' Compensation
Loss Prevention
Outstanding Achievement in Workers' Compensation
Loss Prevention

ACCESS

Camino Real Community Services

Austin Travis County Integral Care

### OVERALL EXCELLENCE IN RISK MANAGEMENT

Betty Hardwick Excellence in Risk Management.

MHMR Services for the Concho Valley



# **GLIMPSES OF THE FUTURE**



The Certified Community Behavioral Health Clinics (CCBHC) is a new Medicaid demonstration project to enhance treatment of mental health and substance use patients. The basis of the program is to provide a comprehensive mental and physical health approach for the individual. The approach includes a twenty-four hour availability of crisis services, care coordination and evidence based practices. An attractive aspect of the program is increased reimbursement rates to help centers pay for their increased costs. Risks inherent to this kind of service are similar to what community centers have encountered through 1115 Transformation Waiver programs including the addition of facilities and staff and exposure to increased professional liability.



### N A T I O N A L R E C O G N I T I O N

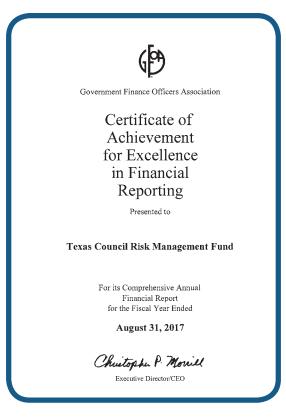
The Association of Governmental Risk Pools accredited the Fund as compliant with their high standards of pool governance and management. The standards are recognized as the "best practices" by public entity pools across the United States. Accreditation is for three years after which the Fund must re-apply.



AGRiP Recognition is a current, industry-specific method for member pools to conduct a comprehensive review and evaluation of internal operational procedures. Approximately one-third of AGRiP member pools have achieved AGRiP Recognition.

The Advisory Standards for Recognition provide a framework to examine current practices and procedures, train new pool leaders, and provide governing bodies with assurance that operational best practices are being met.

The TCRMF has received AGRiP recognition for the 2016 – 2019 period.



## GFOA

Last year the Fund received a Certificate of Achievement for Excellence from the Government Finance Officers Association recognizing excellence in its annual financial reporting and the achievement of the highest standards in governmental accounting and financial reporting.



### www.tcrmf.org

800-580-6467

Texas Council Risk Management Fund P. O. Box 26655 Austin, Texas 78755-0655



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