



September 4, 2024

Jillian E. Thayer
Chief Legal Counsel
Arkansas Bureau of Legislative Research
State Capitol, Room 315
Little Rock, Arkansas 72201

**Re: Arkansas Public School Systems & Public Buildings
Property Insurance Programs
Strategic Consulting Services – DRAFT VERSION**

Dear Ms. Thayer:

We completed our draft strategic consulting report on the current state of operations and financial information for property insurance structures of school systems and other publicly owned buildings in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas. The attached report presents the results of our analysis and includes our recommendations and suggested next steps.

We appreciate the opportunity to be of service to Arkansas Bureau of Legislative Research, and we are available to answer any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "KH", written over a light blue horizontal line.

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Enclosures

Summary of Select States' Self-Insurance Structures

Strategic Consulting Services –
Recommendations & Next Steps

Created for: Arkansas Bureau of Legislative Research
Prepared by: Perr&Knight

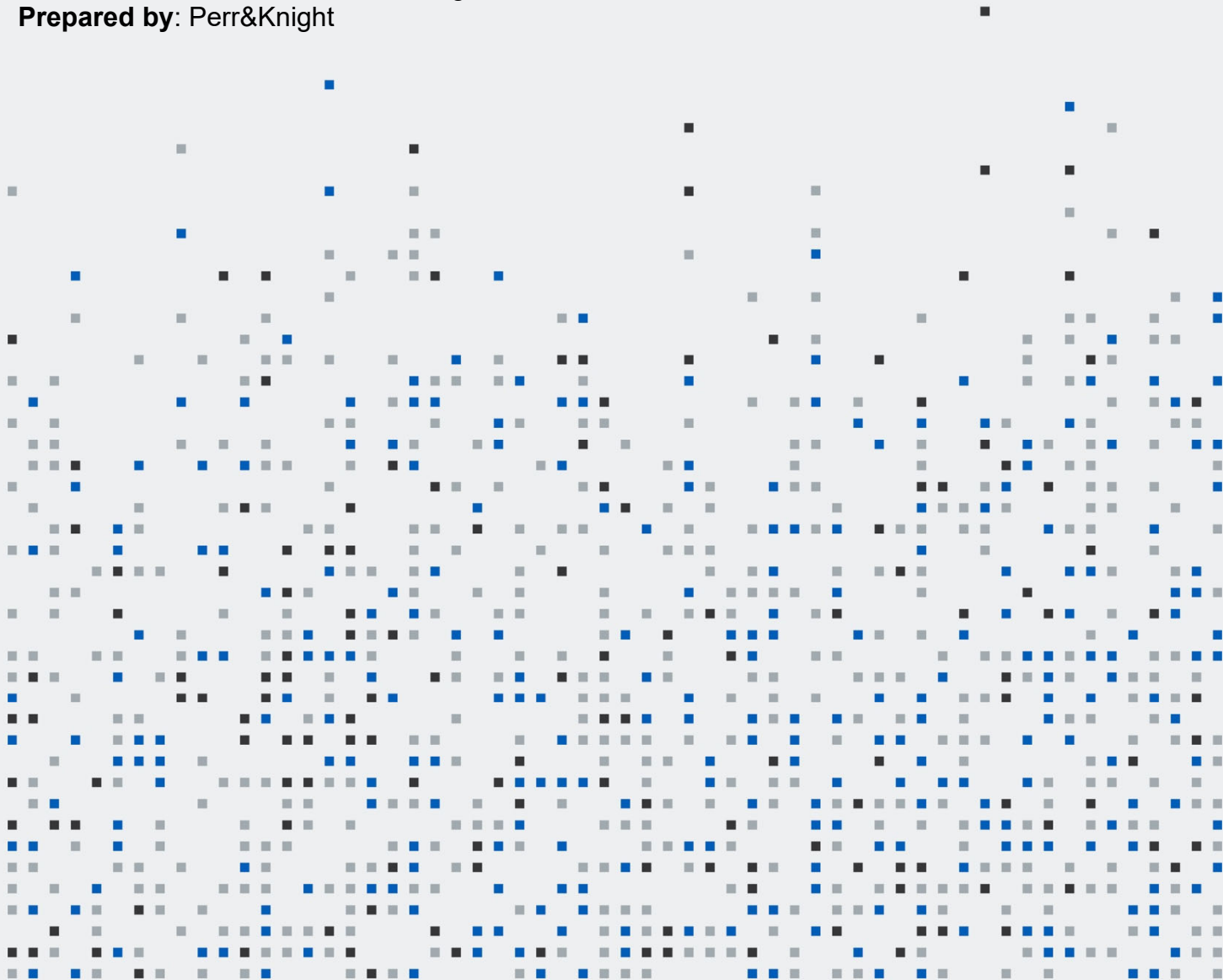


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I. EXECUTIVE SUMMARY

A. Background

The Executive Subcommittee of the Arkansas Legislative Council (“the Subcommittee”) is engaged in a study with the clear intent to develop and implement a strategic plan and legitimate framework for the provision of reasonably priced property insurance coverage options for K-12 school districts and institutions of higher education facilities in the State of Arkansas on an actuarially sound basis while providing for management of the plans through a governing structure and legislative oversight (“the Study”).

Currently, school districts purchase property insurance coverage through one of two separate entities: the Arkansas Public School Insurance Trust (“APSIT”) administered by the Arkansas Insurance Department (“AID”) or the Arkansas School Boards Association (“ASBA”). In addition, the institutions of higher education participate in a property insurance program administered by the Arkansas Insurance Department that also includes property owned and operated by state agencies, known as the Arkansas Multi-Agency Insurance Trust (“AMAIT”). For the 2023-2024 plan year, school districts faced significant increased property insurance premiums under both plans, while the AMAIT agencies faced significant premium increases for both the 2022-2023 and 2023-2024 plan years.

The Study has been ongoing since August 2023, and a determination has been made that it is in the best interests of the state for the K-12 school property insurance plans to be consolidated under one plan administered by the Arkansas Insurance Department. In addition, the Subcommittee is seeking recommendations related to best practices for administration of the plans for property owned by institutions of higher education and state government entities. Collectively, the Arkansas K-12 school districts, institutions of higher education, and state government entities will be referred to as (“the AR Public School Systems & Public Buildings” or “the Entities”).

It is the objective of the Subcommittee, by entering into a contract for consulting services with Perr&Knight, to provide to the members of the Arkansas Legislative Council detailed and accurate information regarding a multi-year strategic path forward for provision of property insurance to the AR Public School Systems & Public Buildings in a manner that will provide for reasonable and predictable premium rates, as well as consistent governance of the plans and legislative oversight, funding mechanisms, and options for revisions to the current plans, including, without limitation, the possibility of implementing a self-insured structure or utilizing re-insurance, or some combination of self-insurance with reinsurance above recommended specific aggregate limits, and recommendations related to possible inclusion of state properties in any plan that is developed.

B. Scope

For the AR Public School Systems & Public Buildings property exposure we performed the following strategic consulting services.

- (1) Led the Subcommittee through a series of questions designed to assess the current state of the AR Public School Systems & Public Buildings' property insurance, including but not limited to items such as:
 - (a) The approximate total replacement cost of all public schools in the state of Arkansas;
 - (b) The total insured value of all public schools in the state of Arkansas;
 - (c) The most recent year's total insurance premium;
 - (d) The current valuation cycle for each school system, if any; and
 - (e) Details on the existing insurance policies, including items such as limits, deductibles, etc.
- (2) Reviewed documents provided by the Subcommittee in support of responses to the questions in scope item (1).
- (3) Researched and prepared a summary of the current state of operations and financial statements for property insurance for school systems in Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas, to the extent this information was publicly available.
- (4) Presented the results of the assessment in a report that summarizes the Subcommittee's responses to key questions, identified gaps and/or limitations in the current operations, and compared the AR Public School Systems & Public Buildings' current operations to public buildings and school districts in other states.
- (5) Using the results of the Actuarial Analysis performed by Perr&Knight dated September 4, 2024 and item (4) above, outlined our recommended next steps.

C. Findings

This report includes an overview of documents and links to websites utilized to summarize each state's initiatives and regulations regarding commercial property insurance. Specifically, it outlines the legislative frameworks, regulatory bodies, financial reports, and key programs that support self-insurance in these states. The included documents provide detailed insights into state-specific policies, compliance requirements, financial information, and procedural guidelines that the states must follow to establish and maintain self-insurance for commercial properties. Additionally, the report highlights online resources and official state websites that offer further guidance and updates on regulatory changes and best practices in the realm of self-insurance for commercial properties, presents the results of our analysis and includes our recommendations and suggested next steps.

We reviewed the AR Public School Systems & Public Buildings' property insurance programs. Currently the state of Arkansas has separate property insurance for AMAIT, APSIT, and ASBA. Table 1 below summarizes the property insurance information for the 2024-2025 plan year, including the total value of all insured properties, the aggregate retention limit for property insurance purchased by the state of Arkansas, and insurance premium payments.

Table 1 - 2024-2025 Fiscal Year Property Insurance Information¹

Agency	Total Insured Value	Aggregate Retained Limit ²	Commercial Insurance Premiums ³	Self-Insurance Premiums ³	Net Position
AMAIT	\$25,354,003,100	\$8,500,000	\$27,112,741	-\$835,895	\$20,046,502
APSIT	\$9,873,125,300	\$6,000,000	\$16,998,650	\$1,030,139	\$14,478,381
ASBA ⁴	\$16,036,657,900	\$3,000,000	\$13,638,169	\$7,198,638	\$24,160,229
Total	\$51,263,786,300		\$57,749,554	\$7,392,882	\$58,685,112

Notes:

1. A history of insurance premiums for each agency is contained in Summary Exhibit 1.
2. In addition to the aggregate retention limit, APSIT properties are subject to a \$2.0M per occurrence deductible, and ASBA is subject to a \$500k deductible and only losses up to a \$750k excess the \$500k deductible erode the aggregate retention.
3. Figures incorporate gross insurance premiums and include other coverages such as cyber and vehicle.
4. Commercial Insurance Premium, Self-Insurance Premium, and Net Position data through fiscal year ending 2023.

AMAIT and APSIT are underfunding the self-insurance portion of their premiums for fiscal year ending 2025. Even with this reduction in Self-Insurance Premiums for these two agencies, the total insurance premiums for the three agencies (self-insurance + commercial insurance) are in excess of \$65.1 million for fiscal year ending 2025. For comparison purposes, the total insurance premiums for all three agencies for fiscal years ending 2022, 2023, and 2024 were \$44.1 million, \$61.2 million, and \$86.8 million, respectively*.

** Please note that the ASBA data is only through fiscal year ending 2023, thus FY 2023 insurance premiums for ASBA were used in the calculation of the total insurance premiums for all three agencies for all years subsequent to FY 2023.*

Our research on property insurance for school systems revealed that of the six reviewed states, all except Mississippi utilize some form of a structured self-insurance plan to cover at least a portion of their property insurance for publicly owned buildings and structures, with Tennessee specifically managing this risk via a captive model. The states' retained risk ranges from a low level of self-insurance for states such as Missouri, which only retains \$500,000 for each claim, to a high in Louisiana, which self-insureds up to \$50,000,000 for perils such as named storm and flood. Additionally, most states include other coverages in their self-insured structures, such as automobile liability and physical damage, various general and professional liability, cyber, and workers' compensation, to name a few. However, for the purposes of our research and reporting, we primarily focused on information related to non-automobile physical damage property insurance coverage on state owned public buildings, including K-12 school systems and higher educational facilities.

Additionally, most states have separate governing agencies overseeing the risk transfer processes for state owned buildings, municipal or locally owned buildings, and school systems, including separate agencies for primary vs. secondary educational institutions. Table 2 provides a summary of the property insurance structures of the reviewed states for publicly owned buildings. For the most part, we were only able to locate publicly available information for one or two of the governing agencies in each state. Table 2 lists the governing agency's total insured value ("TIV"), self-insured retention ("SIR"), commercial insured limits, and typical deductible for the largest self-insured program in each state. Table 3 includes more details on the specific functions of these self-insured programs and coverage provided, including information on the size of the programs in terms of the dollar value of assets. More detailed information can be found in Summary Exhibits 2 and 3, as well as the state specific sections of this report.

Table 2 – Summary of Property Insurance Structures in Select States

State	Est. TIV	SIR	Insured Limits	Typical Ded.
Louisiana (ORM)¹	\$21.5 Billion (2022)	\$50M Per occ. named storm and flood; \$10M per occ. all other perils	\$300M named storm; \$260M flood and earthquake; \$800M all other perils	\$1K non-flood; \$5K flood
Mississippi (MSPI)²	\$7.9 Billion (2023)	No SIR in place	Windstorm: \$300M; Flood: \$200M, \$100M tier 1 and tier 2 coastal areas; Earthquake: \$200M; \$500M all other perils	\$500K for most occurrences
Missouri (MOPERM)³		\$500K Per occ. for all perils	Purchase Insurance above SIR limit	
Oklahoma (OSIG)⁴	\$25 Billion (2023)	\$30M annual agg.; \$25,000 ded,		ded increases to \$100K after SIR annual agg. is exhausted
Tennessee (TCIC)⁵	\$31.4 Billion (2022)	\$7.5 million	between \$7.5 million and \$750 million	
Texas (SORM)⁶	\$80.9 Billion (2016)	\$5M per occ. and \$5M annual agg. from all perils except named windstorm; limits are only eroded after maintenance deds. are exhausted	Windstorm: \$100M; Flood: \$100M; Earthquake: \$100M; \$500M all other perils ⁷	Windstorm & Flood: 3% of value per unit, min. \$500K per occ.; \$250K all other

Notes:

1. Provides coverage for state owned buildings only. The RMI services municipal owned buildings. Parishes separately provide coverage for schools.
2. The MSPI only covers state agency boards and commissions, excluding institutions and property owned by municipalities. The Department of Education manages K-12 schools, without inter-departmental coordination from entities like the Institutions of Higher Learning or the Mississippi Community College Board.
3. MOPERM was formed in the 1980s to cover liability insurance to over 1,000 governments. It was expanded in 2003 to include property coverage. Schools are not included in this program.
4. OSIG protects the physical assets of schools, including buildings, equipment, inventory, and more, against perils such as fire, theft, vandalism, and natural disasters.
5. The TCIC provides self-insurance for property and general liability, covering state-owned buildings and contents.
6. SORM operates under a self-insured structure. Under the Statewide Property Insurance Program, SORM allows state agencies to transfer the financial burden of property damage and asset loss.
7. Different sub-limits apply to the University of Houston school system.

Table 3 – Select States’ Self-Insured Financial Summary*

State	Program Name & Function	Coverages	Assets
Louisiana	ORM – State owned buildings	Property, workers’ comp.	-\$ 18M
	LCPIC – Insurer of last resort	Residential, commercial property	\$ 973M
Mississippi	MDFA – State owned buildings	Property, workers’ comp.	\$ 34M
	IHL – Public Universities	Purchase insurance open market	\$ 8M
	MDE – K-12 schools	Purchase insurance open market	---
	MCCB – Community Colleges	Purchase insurance open market	---
Missouri	MOA – State property fund	Workers’ comp, liability, property, auto	---
	MOPERM – risk pool for member local govts.	Liability, property, cyber (until 2021)	\$ 163M
Oklahoma	OSIG – School risk pool	Property, liability, auto	\$ 40M
	OMES – State owned buildings / assets	Property, human resource, cyber	\$ 20M
Tennessee	TCIC – State owned buildings & contents	Property, workers’ comp.	\$ 40M
	LGIP – General fund, highway, schools, and other	Property, workers’ comp., liability	\$ 50M
	PEP – Member building and personal	Property, workers’ comp., liability	\$ 261M
Texas	SORM – State owned buildings and person property	Property, auto	\$ 8M
	TWIA – Coastal counties residential and commercial property	Property (wind and hail only)	\$ 713M

* More information can be found in Summary Exhibit 3 as well as the state specific sections of this report.

D. Recommendations

Recommendation #1 – Retain More Risk:

Based on the insurance information for the reviewed states and the results of the actuarial analysis performed by Perr&Knight dated September 4, 2024, we recommend the AR Public School Systems & Public Buildings programs take on a greater share of the total insurance risk. In making this recommendation, we considered the advantages and disadvantages associated with increased risk retention. Our primary considerations are outlined below. If the programs were to undertake a change in structure which assumes significantly more risk, additional due diligence to address all the potential risks and rewards is recommended.

Benefits of Retaining More Risk

1. Reduced Risk Transfer Inefficiencies – While the commercial insurance marketplace functions as a reasonably effective means to transfer insurance related risk, it is by no means a perfectly efficient model. Commercial insurance carrier expenses such as commissions, marketing, advertising, premium taxes and overhead expenses are incorporated into the final premiums paid by policyholders. Therefore, the long term expected loss recoveries under an commercial insurance policy are less than the premium paid, resulting in inefficiency. For example, if commercial carrier expenses total 25% of premium, less than 75% of premiums collected are expected to be paid out as losses. By retaining more of the risk in the property insurance program, the amount of insurance premiums paid to carriers would be reduced, thereby reducing the amount of the risk transfer inefficiency experienced by the programs.
2. Reduced Risk Charge – All risk property insurance is typically characterized by a majority of years with below-average losses and a few years with significantly above average losses. As an example, the catastrophe modeling utilized in the Perr&Knight actuarial analysis dated September 4, 2024 estimates average annual losses associated with earthquake and flood of \$34.4 million at fiscal year ending 2025 cost levels. However, there hasn't been a significant claim associated with earthquake or flood losses in Arkansas in nearly two decades. If there is a significant earthquake or flood event in a given year, the associated losses will likely greatly exceed \$34.4 million. Insurance companies calculate and charge premium that cover their long-term average expected losses, operating expenses, as well as the cost of the capital and surplus they must hold to cover the risk they assume. This last component of premium is referred to as the profit and contingency load or risk charge. The insurers use the risk charge portion of the premium to increase their capital and surplus over time to provide for funds needed in years with high claim costs that will deplete capital and surplus. By retaining more of the risk, the AR Public School Systems & Public Buildings would reduce the amount of risk

charge they pay to commercial carriers and be able to use those funds to pay their retained losses.

3. Potential to Earn Investment Income –If the AR Public School Systems & Public Buildings programs retains additional risk via a captive insurance company, they would be able to earn additional investment income on financial assets held as capital and surplus and amounts set aside to pay claims, i.e. loss reserves. As shown on the Balance Sheet of the Pro-Forma Exhibits, the average investable assets are often significantly higher than the beginning net position for that fiscal year. It is this extra leveraging of the loss reserves that affords insurance carriers to make additional investment returns on their held cash positions. Table 4 below shows the difference between the net positions and the average investable assets for Plan C as detailed on Exhibit 2.1.

Table 4 – Comparison of Net Position vs. Investable Assets for Plan C

Item	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030
Net Position	\$44,325,000	\$45,973,539	\$47,859,532	\$49,890,180	\$52,155,925
Ave. Investable Assets	\$54,646,788	\$68,674,965	\$75,150,035	\$80,114,847	\$84,402,806
Difference	\$10,321,788	\$22,701,426	\$27,290,503	\$30,224,667	\$32,246,881

As shown in the table above, the average investable assets are anywhere between \$10 million and \$30 million higher than the net position. This is due to the ability to hold loss reserves at the beginning of the year and invest these reserves until they are necessary to pay claims. At a 3% investment income yield, this annually produces \$300,000 to \$900,000 of additional investment income.

Drawbacks of Retaining More Risk

4. Capital is Put at Risk – Reinsurers serve a major purpose in the marketplace by helping insurers and policyholders to strategically reduce the fluctuations in their financial results and ultimately mitigate insurance risk. By insuring a larger portion of the total risk, there is a greater potential for loss of capital. The risk is greatest in the early years of the self-insurance program as capital is being built.
5. Administrative Cost – There are greater administrative costs associated with a large self-insurance program compared with a fully insured program. If the AR Public School Systems & Public Buildings were to form a captive insurance company, for example, there would be expenses related to captive management, legal, audit, actuarial, and general bookkeeping which may be above and beyond current costs. These administrative costs will offset some of the gains in efficiencies mentioned in item 1 above.

We believe the benefits of retaining more risk significantly outweigh the risks and therefore recommend taking on a greater share of the total insurance risk.

Recommendation #2 – Annually Perform an Independent Actuarial Analysis:

We recommend the AR BLR annually have an independent actuarial study performed to project the funding needed to pay loss and loss adjustment expenses associated with their self-insured insurance risk in the upcoming year. The study will show the expected total cost of claims, as well as at various confidence levels, so the AR BLR can fund at their desired level of conservatism. We offer the following additional recommendations related to annually performing an independent actuarial analysis include:

- ✓ The independent actuarial study should be prepared well in advance of the renewal date, so the upcoming funding needed for the self-insured entity(ies) will be known prior to the renewal. This allows the AR BLR to know well ahead of time what their self-insured insurance costs will be, turning an unknown (the losses associated with the retained risk) into a known quantity, which will reduce surprises in the renewal premiums.
- ✓ Catastrophe losses such as earthquakes and floods are usually low in frequency, but the damage to property of such events is typically very significant. It is rarely, if ever, the case where historical data alone is sufficient to accurately predict catastrophe losses. Rather, catastrophe models are used to estimate the frequency and severity of such losses. An independent actuarial study should include an assessment of catastrophe losses such as earthquake and flood when historical data alone is insufficient to appropriately predict future events.
- ✓ An independent actuarial study should additionally include several retention options to allow the AR BLR to select reinsurance attachment points that optimize the total cost of insurance risk. This will allow the AR BLR to consider the total cost of insurance risk and adjust their level of retention on an annual basis to take advantage of scenarios where the commercial insurance market is hardening by retaining more risk or conversely decreasing their self-insured attachment point(s) if/when the market softens.

Recommendation #3 – Create a Captive, Structured as Outlined in Plan C:

We recommend that the AR BLR form a captive insurance company to be owned and operated by the state of Arkansas for the reasons outlined below. Please note that the formation of a captive does NOT mean that the AMAIT, ASPIT, or ASBA needs to be dissolved or significantly altered. Rather, a captive will primarily act as the risk transfer mechanism through which each of the Entities will run their insurance premiums and claim payments.

Options for Retaining More Insurance Risk (collectively referred to as “the Plans”)

- **Plan A:** Increase the annual aggregate retentions for each of Arkansas’s current entities AMAIT, ASPIT, and ASBA.
- **Plan B:** Maintain the current insurance structure for each of the Entities and create a captive (“the Captive”) to be owned and operated by the state of Arkansas. Use the Captive to retain risk above the Entities’ current retentions.
- **Plan C:** Utilize the Captive to replace the insurance operations of the Entities, while increasing the Entities’ retentions and retaining additional risk above the Entities’ current retentions.

While this is not an all-inclusive list and there are numerous ways to utilize a captive, including varying retentions and attachment points, we believe the Plans form the fundamental framework for the Entities to retain more insurance risk. We’ll explore each of the Plans in more detail. Specifically,

Plan A is the simplest option, requires the least amount of disruption to the current structure, and does NOT involve the formation of the Captive. For this plan, we recommend increasing the annual aggregate retentions for each of the Entities to participate in at least 25% of the first excess layers, while maintaining the current underlying retentions, both the agency retentions and program specific retentions. For example, AMAIT would take 25% of the risk in the \$50 million layer excess its \$8.5 million annual aggregate. Table 5 below shows the potential savings to the Entities associated with participating in the higher layers. More details can be found on the Plan A exhibit.

Table 5 – Estimated Savings Associated with Retaining More Risk

Agency	Aggregate Retained Limit	1 st Excess Layer	Potential Total Savings	Participation Rate	Savings @ 25%
AMAIT	\$8,500,000	\$50M XS 8.5M	\$7,974,984	25%	\$1,993,746
APSIT	\$6,000,000	\$100M XS \$2M/\$6M	\$4,262,795	25%	\$1,065,699
ASBA ⁴	\$3,000,000	\$25M XS \$750K/\$3M*	\$8,358,823	25%	\$2,089,706
Total			\$20,596,602	25%	\$5,149,150

* ASBA is also subject to a \$500k deductible and only losses up to a \$750k excess the \$500k deductible erode the \$3M annual aggregate retention.

As shown in Table 5, retaining an additional 25% of the first excess layer for each entity produces an anticipated premium savings of approximately \$5.1M and exposes the Entities up to an additional \$43.75 million in claims in a worst-case scenario. The Entities have a net position of over \$58 million and are well positioned to retain the recommended amount of additional risk.

Plans B and C require the formation of a captive insurance structure to self-insure part of the risk that was retained via the commercial insurance market and Plan C specifically replaces the insurance operations of the Entities. There are multiple advantages to forming the Captive, which can be realized under either Plans B or C, including the following:

- The Captive will afford the Entities the opportunity to strategically respond when reinsurance carriers offer unusually high premiums for excess layers, especially in situations when rates vary widely based upon market forces. For example, AMAIT's reinsurance renewal premiums for FYE 2025 for coverage excess \$8.5M up to a \$50M aggregate are as shown in Table 6 below:

Table 6 – AMAIT – FYE 2025 Reinsurance Premiums for Coverage \$50M XS \$8.5M

Reinsurer (Parent Company)	Limit	Quoted Premium	Rate per \$100M of \$1K TIV*
AIG	\$25,000,000	\$6,954,314	\$1.102
RSUI Group Inc	\$2,000,000	\$719,091	\$1.425
Berkshire Hathaway Specialty Insurance	\$5,000,000	\$1,963,749	\$1.557
Chubb Ltd	\$5,000,000	\$1,323,561	\$1.049
Starr International Company Inc	\$3,750,000	\$1,440,493	\$1.522
Besso Ltd	\$9,250,000	\$3,728,114	\$1.597
Total	\$50,000,000	\$16,129,322	\$1.279
Total Excl. Berkshire Hathaway	\$45,000,000	\$14,165,573	\$1.248

* Rate per \$100M of \$1K TIV = Quoted Premium / AMAIT's TIV of \$25.231 Billion / Limit x \$100 Million

As shown in Table 6 above, AMAIT is paying an average of \$1.557 per \$1,000 of TIV for each \$100 million of coverage that Berkshire Hathaway Specialty Insurance ("Berkshire") is providing. This rate is 24.8% higher than the average rates of the other insurers offering coverage in the same layer. Unlike Starr International Company and Besso Ltd., Berkshire is not participating in any additional layers in the reinsurance tower. Thus, the Captive would be in an ideal position to decline the coverage that Berkshire is offering and retain the \$5 million excess \$8.5M for AMAIT previously covered by Berkshire. Similar opportunities exist for ASPIT's Tokio Marine Kiln ("TMK") carrier and some of the Lloyds companies for ASBA.

- The Captive can allow for pooling of insurance risk, which is not available under the current three separate agency structure. This pooling of insurance risk allows for smoother and more predictable results. For example, in years where one of the agencies experiences unfavorable results, it's possible that one or both of the other agencies will have average or favorable results. More details can be found in the Perr&Knight Actuarial Analysis dated September 4, 2024.
- The surplus / net positions of the Entities can be pooled as well. This allows for the Captive to have a larger financial backing should the AR BLR elect to utilize the Captive for retaining higher layers of loss in the reinsurance tower for any of the Entities, while still having enough financial support to cover the losses in the lower layers. Pooling the surplus / net position also affords the Entities the opportunity to more consistently invest these funds and make a reasonable investment income return to offset future claims.
- Additional coverages can be added to the Captive to help diversify the risk and further smooth the results. Coverages such as liability and workers' compensation tend to have losses that are uncorrelated with property claims. Therefore, in years when the property coverage experiences unfavorable results, it is likely that the liability and/or workers' compensation results will be average or favorable.
- Arkansas currently has 16 captives domiciled in its jurisdiction. We believe the formation of the Captive, domiciled in Arkansas, will encourage other captives, especially large captives, to domicile in Arkansas. The domiciling of additional captives in Arkansas would produce tax revenue and licensing fees for the state. Table 7 below shows the results of our research on two large US domiciliary states Vermont and Hawaii, as well as a neighboring state, Tennessee. In addition to direct tax and licensing revenue, most captive domiciles require an annual on-site meeting at least once every three years, which indirectly generates additional tax revenue for the domiciliary jurisdictions. We believe having a large captive domicile in Arkansas will encourage captive managers to consider Arkansas as a viable domicile for other large, self-insured entities.

Table 7 – Summary of Captives Domiciled in Select States*

State	# of Captives (Year)	Collective Written Premiums	Tax & License Revenue
Vermont	659 (2023)	\$30.6 Billion	\$35.3 Million
Hawaii	254 (2022)	\$15.6 Billion	Unavailable
Tennessee	164 (2023)	\$2.4 Billion	Unavailable

* Data Sources:

VT – [2023 Vermont DFR Captive Insurance Aggregate Report - public.pdf](#)

HI – <https://cca.hawaii.gov/ins/files/2024/02/2023-IC-Report.Final-Draft-part-1-signed.pdf>

TN – [Tennessee Captive Insurance Section Sees Growth in Four Key Areas in 2023 \(tn.gov\)](#)

Plan B above offers the least disruptive way to self-insure additional risk through the Captive, without making any changes to the underlying operations of the Entities. For Plan B, we suggest having the Captive retain 10% of \$50M XS Layer for AMAIT; 16.75% of \$100M XS Layer for APSIT; and 7.5% of \$25M XS for ASBA. This structure optimizes the use of the Captive to replace reinsurers who are charging above average premiums for their layer of coverage and not participating in any other layers of retention in the reinsurance tower. We suggest funding the Captive with \$23.625 million in initial surplus, as this will be sufficient to cover a maximum one-year loss for each agency. Table 8 below shows the summarized pro-forma exhibits associated with forming the Captive under Plan B. Please see the Pro-Forma Financial Statements for Plan B for more details.

Table 8 – Pro-Forma Financial Summary for Plan B

FY Ending	Underwriting Income	Investment Income	Total Net Income
2026	-\$231,249	\$723,000	\$491,751
2027	-\$254,357	\$778,000	\$523,643
2028	-\$267,741	\$813,000	\$545,259
2029	-\$278,065	\$841,000	\$562,935
2030	-\$286,987	\$865,000	\$578,013
Total	-\$1,993,399	\$4,020,000	\$2,026,601

The results above reflect annual premiums of \$3.3 million to fund the Captive in 2026, increasing by 5% each year. This \$3.3 million premium figure includes all expenses to operate the Captive. For comparison purposes, the commercial insurance premiums, including surplus lines taxes, eliminated by having the Captive replace the insurance operations of these select reinsurers total \$7.3 million. This plan saves the state approximately \$4.0 million annually, while also continuing to build the Captive's net position.

Plan C is essentially a combination of Plans A and B. This plan replaces the insurance operations of the Entities, pools the risks, simplifies and increases the retained insurance structures of the Entities, and will allow for the replacement of excess coverage written by reinsurer(s). Under Plan C, we propose to have the Captive retain a uniform \$2 million per occurrence with a \$15 million annual aggregate for each agency, with the option to potentially retain risk above the aggregate. Should the Subcommittee elect to go with Plan C, we suggest funding the Captive with \$45 million in initial surplus as this will be sufficient to cover a maximum one-year loss for each agency.

Table 9 below shows the summarized pro-forma exhibits associated with forming the Captive under Plan C, including both Expected and Adverse Scenarios. The adverse scenario projects multiple years of losses at the 85% confidence level. Please see the Pro-Forma Financial Statements for Plan C for more details.

Please note that while Plan C initially loses money in the Adverse Scenario, the aggregate loss of premium is only a small percentage of the initial surplus, and the Captive is able to recover these losses within a five-year timeframe.

Table 9 – Pro-Forma Financial Summary for Plan C

FY Ending	Expected Scenario			Adverse Scenario		
	Underwriting Income	Investment Income	Total Net Income	Underwriting Income	Investment Income	Total Net Income
2026	\$9,539	\$1,639,000	\$1,648,539	-\$1,193,751	\$1,639,000	\$445,249
2027	-\$174,007	\$2,060,000	\$1,885,993	-\$3,940,630	\$2,060,000	-\$1,880,630
2028	-\$224,351	\$2,255,000	\$2,030,649	-\$224,351	\$2,255,000	\$2,030,649
2029	-\$137,255	\$2,403,000	\$2,265,745	-\$4,037,790	\$2,403,000	-\$1,634,790
2030	\$653,219	\$2,532,000	\$3,185,219	\$653,219	\$2,532,000	\$3,185,219
Total	-\$547,855	\$10,889,000	\$10,341,145	-\$9,418,303	\$10,889,000	\$1,470,697

The Pro-Forma Financial Statements for Plan C do not consider the Captive retaining losses above the agencies' current attachment points, as we do not know how the reinsurers would reprice their commercial insurance premiums to account for the Captive's higher retention points. Once they are quoted, we suggest reviewing the commercial premiums and strategically position the Captive to replace reinsurers who are charging above average premiums for their layer of coverage and not participating in any other layers of retention in the reinsurance tower (similar to the structure of Plan B).

Final notes on the formation of the Captive

As mentioned above, the formation of the Captive does NOT mean that the current AMAIT, ASPIT, or ASBA need to be dissolved or significantly altered. These entities can continue with their current functions, especially related to items such as:

- Risk Management
- Underwriting
- Claims Handling

Rather, the Captive will simply act as the risk transfer mechanism through which each of the Entities will run their insurance premiums and claim payments.

Finally, each of the above Plans can be created without the infusion of additional capital. The current net positions of the agencies will be sufficient to set up and fund the Captive. For now, we anticipate the insurance operations associated with the current agencies' structures to continue to settle and close claims through the runoff of accident year ending 2025. The Captive will then address claims beginning with accident year ending 2026. However, the Captive can be set up and structured to assume all open and IBNR claims associated with the current agencies' structures.

E. Next Steps

Should the Subcommittee agree to move forward with creating the Captive, we estimate the Captive will take approximately three to six months to form, with set up fees estimated to be approximately \$675,000. Many of the steps can be initiated immediately. Below is a high-level outline of the steps involved with forming the Captive. A few of these steps have already been completed and many can be started concurrent with the drafting of the legislation:

1. Feasibility Study

- Risk Assessment: Analyze the Captive's risk profile, including loss history, risk exposure, and potential future liabilities.
- Cost-Benefit Analysis: Compare the costs of traditional insurance with potential savings from the Captive. Assess tax implications, capitalization requirements, and operational expenses.
- Initial Design: Determine the structure (pure, group, or cell captive) based on financial considerations.

2. Engage Professional Advisors

- Legal Counsel: Consult with legal experts to navigate regulatory and compliance issues.
- Actuarial Consultant: Engage actuaries to estimate the Captive's required capital and expected claims.
- Tax Advisor: Work with a tax specialist to understand the tax treatment of the Captive and its implications.
- Insurance Managers/Brokers: These professionals can help with structuring the Captive, underwriting, and managing day-to-day operations.

3. Form the Captive

- Entity Formation: Register the Captive entity, which typically involves filing articles of incorporation, appointing directors, and drafting bylaws.
- Licensing: Apply for an insurance license. This may require providing a business plan, actuarial study, and other supporting documentation.
- Capitalization: Fund the Captive according to regulatory requirements, ensuring adequate reserves to cover potential claims.

5. Develop and Implement Policies

- Insurance Policies: Draft and underwrite insurance policies tailored to the Entities' needs. This could include coverage for liability, cyber, or workers' compensation.
- Reinsurance: Purchase reinsurance to protect the Captive from large losses or catastrophic events.
- Risk Management: Implement risk management practices to minimize potential claims and optimize the Captive's performance.

6. Operational Setup

- Management: Appoint or hire a captive manager to handle day-to-day operations, including underwriting, claims management, and compliance.
- Financial Management: Establish banking relationships, set up accounting systems, and prepare for financial reporting.
- Governance: Form a board of directors or advisory committee to oversee the Captive's operations and ensure adherence to regulatory requirements.

7. Ongoing Management and Compliance

- Financial Reporting: Regularly prepare and submit financial statements, actuarial reports, and other required documentation to regulatory authorities.
- Compliance: Maintain compliance with all regulations. This includes conducting annual audits and maintaining adequate capital reserves.
- Performance Monitoring: Continuously monitor the Captive's performance, adjusting coverage, premiums, and reinsurance as needed.
- Strategic Reviews: Periodically review the Captive's structure, coverage, and operations to ensure alignment with the Entities' evolving risk profile and financial objectives.

II. LOUISIANA

Program Name: Louisiana Division of Administration – Office of Risk Management

<https://www.doa.la.gov/doa/orm/>

Program Details:

The Office of Risk Management (“ORM”) in Louisiana administers the state’s risk management program and self-insurance fund. The ORM is exclusively responsible for managing all state insurance coverage, both purchased and self-insured, across workers’ compensation, property, and casualty exposures. Additionally, ORM handles all tort claims against the state or its agencies, regardless of their coverage by the self-insurance fund.

The ORM acts as the State of Louisiana's public facilities sub-recipient representative for Federal Emergency Management Agency (“FEMA”) Public Assistance Grants under Subpart G, Title 44 Code of Federal Regulations, as designated by the Commissioner of Administration. While the ORM contracts with a third-party administrator for claims adjusting and loss prevention services, it retains full authority to authorize and approve all claims negotiations and settlements. This ensures that the ORM maintains control over the state's risk management processes and decisions.

The ORM also provides a range of consultative services to its insured agencies, focusing on safety and loss control. These services include elevator inspections, jurisdictional boiler inspections, and electrical equipment testing at state facilities. The ORM reviews agency contracts for insurance and indemnity clauses, issues certificates of insurance, and maintains valuations of state-owned property to ensure comprehensive risk management and proper asset protection.

The ORM is not responsible for any parish school systems, parish court houses, or anything belonging to municipalities.

The State, through its Broker, successfully renewed its property insurance program effective July 1, 2022, covering total property values of \$21.5 billion. Despite disruptions from the COVID-19 pandemic, the State maintained strong communication with the global underwriting community, holding several domestic in-person meetings. The property program's lead is Lloyds of London, Beazley Syndicate, with AIG added as a new participant. The market rate increased by 13.47%, while the total premium rose by 23.57%, which is favorable compared to peers experiencing over 100% increases.

The program also includes diverse market participants, such as Domestic, Lloyds of London, Bermuda, Treaty Reinsurers, Parametric, and Insurance Linked Securities (ILS). The Fine Arts policy, insuring the State's substantial fine arts assets, renewed with a \$400M coverage limit, and minimal premium increase. The Equipment Breakdown policy, covering loss or damage to machinery and related items, renewed with a \$250M coverage limit, and a premium increase due to higher values and a small rate hike.

Additionally, the property terrorism policy, written by Lloyds of London, renewed with a \$150M coverage limit, and a slight premium increase. The broker's annual fee is \$1,050,000, including both property and casualty lines. Financial analysis indicates significant savings from the elimination of surplus lines taxes and surcharges, totaling \$1,744,976 for 2022-2023.

Commercial Insurance Placement Report and Financial Results for the fiscal ending year 2023 (See Appendix A for Full Document)

Coverage Details:

From Website Summary Fiscal Year 2023-2024 (See Appendix A for Full Document)

Primary layers self-insured through the Louisiana Self-Insurance Fund

Property (Structures)

- **Self-Insured Limits:**
 - \$50,000,000 per occurrence for named storm and flood
 - \$10,000,000 per occurrence for all other perils
 - Business Interruption limited to one year
 - Replacement cost on buildings
 - Actual cash value on business personal property and movable/mobile buildings
 - Deductibles:
 - \$1,000 non-flood
 - \$5,000 flood
- **Commercial Excess Limits:**
 - Various international and domestic companies
 - Limits:
 - \$300,000,000 named storm
 - \$260,000,000 flood and earthquake
 - \$800,000,000 all other perils
 - Deductibles: None

Program Name: Risk Management, Inc.

<https://www.rmila.biz/about-us/>

Program Details:

Risk Management, Inc. ("RMI") is a subsidiary of the Louisiana Municipal Association, fully operational since January 1, 1987. It serves as the service agent for the Louisiana Municipal Association's inter-local risk pools, marketing and administering self-funded indemnity programs for Louisiana municipalities, and to assist in the development of new programs to meet the needs of municipal government. The operational management functions under the direction of a Board of Directors, which is made up of Mayors of participating Louisiana Municipalities. The RMI performs the following functions:

- **Operational Management:** RMI's day-to-day operations are handled by an external staff, overseen by a Board of Directors consisting of mayors from participating municipalities.
- **Program Administration:** RMI is part of the Louisiana Municipal Association, focusing on efficiently servicing municipal benefit programs.
- **Loss Control Management:** RMI enacts loss control measures to reduce claims, stabilize premiums, and manage costs through safety and health programs.

Table: 2023 Financials

<u>Program Name</u>	<u>Program Function</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Position</u>
Office of Risk Management (ORM)	Coverage for state owned buildings	(\$17,751,041)	\$20,738,834	(\$38,489,875)
Louisiana Citizens Property Insurance Corporation	Commercial property insurance for individuals who are unable to procure insurance through the voluntary market	\$972,874,558	\$778,276,360	\$194,598,198

Note: See Appendix A for full financial report.

III. MISSISSIPPI

Program Overview: *The program overview was provided via a conversation with George Roberson – Director of Risk, State Floodplain Manager on July 1, 2024*

Conversation Details:

Until 2005, state owned property was almost entirely uninsured. The state of Mississippi would pay property insurance claims on a cashflow basis and only used rough budgets to estimate these costs. In August 2005, Hurricane Katrina caused approximately \$1 billion in damages, which was mostly covered by FEMA. As a result, FEMA mandated commercial insurance coverage for Mississippi's state-owned structures and property. We also discovered that the state only covers state agency boards and commissions, excluding institutions and property owned by municipalities. The Department of Education manages K-12 schools, without inter-departmental coordination from entities like the Institutions of Higher Learning or the Mississippi Community College Board.

Premiums increased significantly last year, similar to the situation in Arkansas, and the budget is allocated through the general fund. Evidence of these market difficulties was presented to the legislature.

Program Name: Senate Bill 2740

<https://legiscan.com/MS/text/SB2740/id/2936648>

Program Details:

During the 2024 session, the Mississippi legislature passed Senate Bill 2740, which allows municipalities and political subdivisions to pool their risks for the sake of realizing more favorable premiums. While buildings such as schools have always been able to do that, this new law allows political subdivisions the option of pooling other properties together such as a school and airport, for instance. It basically expands the risk pool for purchasing power.

The bill authorizes school districts and other educational entities in Mississippi to pool their risks for property insurance. School boards can insure buildings, equipment, and other property against various hazards and are required to maintain insurance to comply with FEMA regulations for disaster assistance. They can also join with other districts and entities to create self-insurance funds or reserves. The administration of these self-insurance programs must be contracted to a third-party and approved by the Commissioner of Insurance. This aims to provide a cost-effective way to manage insurance needs and risks.

Commercial Insurance: Mississippi Department of Finance and Administration (Office of State Property Insurance) – Property Coverage Document

(See Appendix B for Full Document)

Coverage Details:

Mississippi purchases commercial insurance property for its buildings, whereby the assets are worth \$6.6 billion; the personal property has a value of \$1.3 billion; and the total TIV is \$7.9 billion. Other details include:

- **Valuation Basis:** Property is valued at replacement cost new on the same premises, as of the date of replacement, for various categories including buildings, equipment, valuable papers and records, property of others, fine arts, and other property.
- **Permission for Replacement:** The insured is allowed to replace damaged property on the same site or at another site within the policy's territorial limits, with recovery limited to replacement cost on the same site. If property is not replaced within a reasonable period, the insurer is liable for actual cash value at the time of loss.
- **Historic Landmark Properties:** For properties qualifying as Historic Landmarks, the insured has sole discretion over repair, replacement, or rebuilding, with costs not to exceed those necessary to comply with Historical Landmark status requirements.
- **LEED Properties:** For buildings certified as Leadership in Energy and Environmental Design ("LEED") properties, the insurer is liable for costs to recertify the building to its previous LEED level following a loss. This includes hiring LEED Accredited professional engineers for commissioning or retro-commissioning services to ensure proper installation and performance of systems.

Coverage Limits:

Property (Structures)

- **Commercial Limits:**
 - Limits:
 - \$300,000,000 named storm
 - \$200,000,000 earthquake
 - \$100,000,000 to \$200,000,000 for flood (depending on Zone)
 - \$25,000,000 for miscellaneous unnamed locations

- \$50,000,000 for newly acquired property (limits reduced for Named Windstorm)
- \$500,000,000 all other perils
- Deductibles (per occurrence unless otherwise listed):
 - \$500,000 all other perils
 - \$500,000 per building for flood in certain Zones
 - \$500,000 contents for flood in certain Zones
 - \$250,000 for business interruption for flood in certain Zones
 - 2% of TIV, subject to a minimum of \$1,000,000 for Named Windstorm in coastal counties
 - \$1,000,000 all other Wind/Hail

Property (Non-Structures):

Mississippi's commercial insurance program includes coverage for various non-structures ranging from \$1,000,000 for plants, trees, and outdoor lighting to \$75,000,000 for auto physical damage to vehicles not on the road, as well as coverage for several other programs. No specific dollar amounts for deductibles are listed for these other programs, however, some of the programs such as service interruption, ingress / egress, and military authority include waiting periods.

Program Name: Mississippi Institutions of Higher Learning

<http://www.mississippi.edu/newsarchive/newsstory.asp?ID=1165>

Program Details:

The Institutions of Higher Learning (“IHL”) in Mississippi consist of eight public universities: Alcorn State University, Delta State University, Jackson State University, Mississippi State University, Mississippi University for Women, Mississippi Valley State University, The University of Mississippi, and The University of Southern Mississippi. This also includes the University of Mississippi Medical Center, Mississippi Cooperative Extension Service, Mississippi Agricultural, Forestry and Veterinary Medicine, 23 satellite centers, and various other locations throughout the state. All public universities in Mississippi are accredited by the Southern Association of Colleges and Schools.

Pooling insurance policies have significantly saved Mississippi's public universities money. Previously, each university secured its own property insurance, resulting in varied coverage, deductibles, and costs. By forming a collective insurance pool in 2009, they achieved lower premium rates, reduced deductible costs, and increased coverage. Before this group program, universities paid 60% higher premium rates on a TIV of \$2.5 billion. Today (2015), they pay much lower rates on a TIV of \$9.8 billion, saving over \$45 million in premiums alone.

This system-wide approach not only lowered costs but also provided consistent coverage across all universities, including property, business income, and environmental events. Deductibles for specific campuses were significantly reduced, enhancing financial protection. The collaboration, facilitated by insurance broker Willis, leveraged the purchasing power of the entire IHL system, resulting in broader coverage and substantial financial benefits. Additionally, cooperation with insurers has improved campus safety through risk mitigation strategies.

Overall, the system-wide approach to property insurance has provided better protection at a lower cost, benefiting the state, universities, and students.

Table: Financials

<u>Program Name</u>	<u>Program Function</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Position</u>
Mississippi Department of Finance and Administration (Office of State Property Insurance)	Coverage for state owned buildings	\$33,540,395 ('22)	\$13,476,906 ('22)	\$19,636,463 ('22)
Mississippi Institutions of Higher Learning	Group of several public universities in Mississippi	\$8,478,123,111	\$5,703,619,011	\$2,774,504,100
The Mississippi Department of Education	Covers K-12 schools	Information unavailable through public sources		
Mississippi Community College Board	Coordinating board of statewide members that aid educational opportunities for the community college system	Information unavailable through public sources		

Note: See Appendix B for full financial report.

IV. MISSOURI

Program Name: MOPERM – Missouri Public Entity Risk Management Fund

<https://www.moperm.com/our-story>

Program Details:

During the early 1980s, Missouri public entities faced significant liability insurance challenges, with soaring premiums and limited coverage availability. Lobbying groups, including the Missouri Municipal League and Missouri Association of Counties, supported creating the Missouri Public Entity Risk Management Fund (“MOPERM”) to address this crisis.

MOPERM expanded its coverage in 2003 to include property and crime insurance. It operates as a "shared-risk pool," offering affordable and stable insurance to over 1,000 local governments in Missouri. A Board of Trustees, composed of public entity representatives, oversees MOPERM, ensuring tailored coverage for local needs.

In a conversation with Kristen Paulsmeyer, Executive Director, we were informed that they currently cover all perils at a self-insured retention rate of 500K per occurrence.

Program Name: Missouri Department of Insurance School Building Revolving Fund

<https://www.revisor.mo.gov/main/OneSection.aspx?section=166.300>

Program Details:

The link above includes details on a revolving fund known as the “School Building Revolving Fund” in Missouri. Excerpts include:

- “When building replacement is caused by fire or natural disaster, the requirement for a school district to have a long-range capital improvements plan may be waived by the state board of education.”
- "...the school district shall agree to assume all costs, obligations and liabilities for or arising out of establishment, operation and maintenance of the lease purchase property."
- "...neither the state nor any state agency shall have any obligation for such costs, obligations or liabilities unless and until the state board of education takes possession of the property pursuant to this subsection upon a school district's failure to make annual payments as required in the lease purchase agreement."

These provisions suggest that school districts assume full responsibility for the costs, obligations, and liabilities associated with the property purchased through lease agreements from the school building revolving fund. While it doesn't explicitly state that school systems self-insure their property, it implies that they bear the financial burden and risks associated with maintaining and operating the leased properties. This could potentially lead to school districts seeking insurance coverage independently or relying on their financial reserves to cover any losses or liability.

Table: 2023 Financials

<u>Program Name</u>	<u>Program Function</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Position</u>
Office of Administration Division of General Services	State property preservation fund	Information unavailable through public sources		
Missouri Public Entity Risk Management Fund (MOPERM)	Shared risk pool that serves local governments who are members	\$163,326,762	\$102,864,577	\$60,462,185

Note: See Appendix C for full financial report.

V. OKLAHOMA

Program name: Oklahoma Schools Insurance Group

<https://osig.org/who-we-are/>

Program Details:

Oklahoma Schools Insurance Group (“OSIG”) is distinguished by its member-owned risk pool program, which is overseen by school representatives. This governance structure ensures that decisions are made with direct input from those who have firsthand knowledge of the needs and challenges faced by schools. As a nonprofit and tax-exempt organization, OSIG focuses solely on delivering cost-effective solutions to its members.

OSIG provides a variety of risk management platforms at no extra cost to its members. These include HSB water and temperature devices, the Helixintel asset management system, onsite safety inspections, and onsite appraisal services.

In terms of commercial property coverage, OSIG protects the physical assets of schools, including buildings, equipment, inventory, and more, against perils such as fire, theft, vandalism, and natural disasters. The total insured value of assets covered by OSIG is over \$25 billion, with 538 member schools participating in the program. This comprehensive coverage and suite of risk management tools ensure that schools are well-protected and can focus on their primary mission of education.

Self-insured coverages include a per occurrence \$25,000 deductible, that increases to \$100,000 per occurrence once the losses above the deductible exceed an annual \$30,000,000 self-insured aggregate retention. Commercial insurance is purchased above this amount, but the limits are not clear. The property insurance coverage includes auto physical damage for vehicles at premises (i.e. not on the road).

Program Name: Oklahoma Office of Management & Enterprise Services

<https://oklahoma.gov/omes/about-omes/about-omes-landing-page.html>

Program Details:

The Risk Management division in Oklahoma administers the state's self-insurance programs alongside commercial insurance programs, excluding the state employees' group insurance. The division's primary goal is to reduce costs associated with insurance and losses. This comprehensive approach aims to protect the assets of the State of Oklahoma and its political subdivisions through effective risk management strategies.

Oklahoma's self-insurance framework includes both property and liability coverages. The Office of Facilities Management plays a critical role within this framework by overseeing the management, operations, and maintenance of approximately 2.5 million square feet of space in 23 major state buildings, which have a combined value of \$690 million. Key properties under its management include the State Capitol, the Governor's Mansion, and the office buildings in the Capitol Complex.

Through these programs, Oklahoma seeks to balance the benefits of self-insurance — such as greater control over claims and potential cost savings — with the strategic use of commercial insurance to cover certain risks. This dual approach helps ensure that the state can effectively manage and mitigate the financial impact of losses, maintaining the integrity and value of its substantial assets.

2022 Assets Report: (See Appendix D for Full Document)

This document includes several key details such as the inventory list of the state of Oklahoma's assets, their square footage, estimated value, appraised value, and replacement value.

Table: 2022 Financials

<u>Program Name</u>	<u>Program Function</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Position</u>
Oklahoma Schools Insurance Group (OSIG)	Risk-pooling program covering commercial property and physical assets for schools	\$39,952,991	\$32,096,253	\$7,856,738
Oklahoma Office of Management & Enterprise Services	Coverage for the assets of the state of Oklahoma	\$38,667,150	\$9,140,042	\$28,362,078

Note: See Appendix D for full financial report.

VI. TENNESSEE

Program Name: Tennessee Captive Insurance Company

<https://www.tn.gov/commerce/news/2022/8/8/new-tn-captive-insurance-co-to-create-savings-on-insuring-state-property.html#:~:text=Implementing%20the%20Tennessee%20Captive%20Insurance%20Company%20allows%20the,pricing%2C%20and%20underwrite%20the%20state%E2%80%99s%20own%20unique%20risks.>

Program Details:

The following information is based on a conversation we had with Ms. Sarah Gregory, EHS Risk Manager and Mr. Rodney Escobar (title unknown) of the Tennessee Department of Treasury (“the TDT”). Similar to Arkansas, the State of Tennessee experienced a significant increase in their property premiums for state owned buildings in 2018 and 2019. As a result, Tennessee established the Tennessee Captive Insurance Company (“the TCIC”) in 2022 to achieve cost savings in insuring state property. Managed by the Tennessee Department of Treasury, this captive entity provides self-insurance for property and general liability, covering state-owned buildings and contents valued at \$31.4 billion as of July 2022. The primary objective of this approach is to reduce costs by accessing wholesale reinsurance markets and efficiently managing unique risks.

Regulated by the Tennessee Department of Commerce and Insurance, the captive operates under strict oversight to ensure compliance and effectiveness. Its establishment is expected to result in a reduction in overall insurance costs, benefiting taxpayers through lower premiums or future claim payouts. Legislative support underscores the commitment to fiscal responsibility, with the captive governed by the Tennessee Captive Insurance Board, comprised of state officials with expertise in risk management and finance.

The Risk Management Fund, overseen by the Tennessee Department of Treasury, covers building and content losses for all state entities ranging from \$25,000 to \$2.5 million per occurrence and the captive retains losses excess of these retentions, up to \$25 million. Additional coverage for losses above the captive layers and up to \$600 million is secured through contracts with excess insurance policies, which are also funded by the Risk Management Fund. This structured approach ensures comprehensive coverage for state assets while effectively managing risk exposure and maintaining financial stability.

Other notes about the TCIC Program Include:

- The TDT was able to form the TCIC in four months
- The TDT funds the TCIC's losses at an 80% confidence level
- The TDT is considering bringing in workers' compensation into the captive
- The TCIC may increase its self-insurance retention from \$25 million to \$50 million and the TDT is considering sprinkling TCIC into many of the excess layers of the reinsurance tower
- Mr. Escobar suggested moving the fiscal year to start October 1st and running through September 30th. This allows for more time to secure reinsurance as many carriers are very busy in the first half of the year finalizing premiums for July 1st renewals.

Table: 2023 Financials

<u>Program Name</u>	<u>Program Function</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Position</u>
Tennessee Captive Insurance Company	Coverage for state-owned buildings and contents	\$39,730,943	\$25,462,966	\$14,267,977
Local Government Insurance Pool	Exclusively for Tennessee counties and county agencies, funds are member-owned, self-insured entities (general fund, highway departments, schools and other county services)	\$49,228,462	\$28,824,294	\$20,404,168
Public Entity Partners	Membership program covering building and personal property along with other perils for local governments	\$264,267,185	\$147,316,995	\$116,920,190

Note: See Appendix E for full financial report.

VII. TEXAS

Program name: State Office of Risk Management

<https://www.sorm.state.tx.us/insurance-services/property-program/>

Program Details:

The State Office of Risk Management ("SORM") in Texas operates under a self-insured structure. Under the Statewide Property Insurance Program, SORM allows state agencies to transfer the financial burden of property damage and asset loss. This is achieved through customized insurance policies tailored to each agency's specific needs and exposures. By self-insuring, SORM retains greater control over its risk management strategies and can potentially save on insurance premiums by avoiding the overhead costs of traditional insurance policies. However, this approach necessitates careful financial planning and risk assessment to ensure adequate funds are available to cover potential losses.

The Property Program provides coverage on an "all-risk" basis, encompassing a wide range of potential claims, including:

- Severe weather damage (tornado, hail, hurricane, flooding, wildfire)
- Vandalism and arson
- Breakdown or explosion of critical equipment (boilers, heating/cooling systems)
- Building fire, smoke, and lightning damage
- Theft of agency property
- Losses from building collapse, sinkhole damage, and earth movement
- Optional terrorism coverage

Additional services provided by SORM include:

- Loss control inspections
- Appraisals
- Thermographic heat testing
- Oil sample testing
- Architectural reviews of new structures
- 24-hour, 365-day claims contact
- Boiler inspections coordinated with Hartford Steam Boiler (HSB) & Machinery
- These services are designed to support the inspection process and enhance risk management practices across state agencies.

SORM State Insurable Assets Study December 2016: See Appendix F for Full Document

Background

The State of Texas oversees approximately 15,246 state-owned properties, including buildings, land, and contents, with a total estimated replacement cost of \$80.86 billion. Historically, the state has struggled with inconsistent data on these properties, leading to challenges in managing and insuring these assets effectively. House Bill 3750 (84th R.S.) was enacted to address these issues by mandating the collection of detailed information from state agencies and institutions of higher education to provide a comprehensive overview of state-owned properties.

Key Findings

The study identified potential uninsured and underinsured exposures totaling approximately \$59.7 billion. After additional data from higher education institutions, this figure was reduced to about \$7.4 billion. Significant inconsistencies and inaccuracies were found in the reported data, including outdated appraisals, incomplete data on contents, and discrepancies in valuation methods across different state entities. A hybridized insurance strategy is recommended, incorporating centralized property insurance, pooling, self-insured retention limits, and reinsurance for catastrophic losses. Accurate data is essential for effective risk management and insurance planning.

Detailed Findings

The consolidated database includes 13,633 buildings, 1,376 parcels of land, and 237 contents records. The highest concentration of buildings is in Austin, while Houston holds the highest estimated replacement cost. Institutions of higher education own 44% of the reported buildings and 40% of the reported land. Major state entities like the Texas Parks and Wildlife Department and the Texas Department of Transportation own significant portions of the remaining assets.

The state faces significant risk exposure from uninsured or underinsured assets. Comprehensive data could improve risk modeling for hurricanes, hail, and tornadoes, enhancing the state's ability to mitigate potential losses. However, the study highlighted the need for accurate and consistent data on property values, construction, occupancy, protection, and exposure ("COPE") characteristics. Inconsistent reporting and outdated appraisals undermine effective risk assessment and insurance planning.

Data Collection and Consolidation

The data audit revealed discrepancies and omissions that hinder accurate analysis. Consistency and validation issues were noted, with many properties lacking unique physical addresses and

current appraisals. Collecting comprehensive data within the prescribed timeframe posed significant challenges. Procedural impediments and compatibility issues with data formats affected the quality of the consolidated data.

Statewide Strategy for Adequate Insurance

The study recommends a combination of risk retention and risk transfer strategies. Self-insured retention plans and pooling resources can help manage predictable losses, while reinsurance can cover catastrophic events. Traditional insurance can be costly for insuring all state assets, so a combination of reserve funds and reinsurance is recommended for managing large-scale losses.

Recommendations

To address these challenges, the study recommends establishing a centralized database with standardized data elements to ensure uniformity across state entities. Implementing protocols for annual data updates will help maintain accuracy and relevancy. Utilizing the consolidated data for predictive risk modeling, trend tracking, and market rate negotiation can further enhance the state's risk management capabilities. Protecting sensitive information from public disclosure is crucial to prevent security threats and market exploitation.

Conclusion

The 2016 Insurable State Assets Interim Study underscores the importance of comprehensive and accurate data in managing Texas' state-owned properties. By implementing a centralized database, standardized reporting, and a hybridized insurance strategy, Texas can better protect its assets, reduce insurance costs, and enhance overall risk management. These strategies will not only help Texas manage its insurance costs more effectively but also ensure that state-owned properties are well-protected against potential risks and losses.

Summary of Property Insurance Program: See Appendix F for Additional Details

The state of Texas self-insures by establishing limits of liability for various types of perils and specific circumstances. For each occurrence, Texas sets a maximum liability limit, such as \$500,000,000 for all coverage, with specific sub-limits for different risks like windstorms, floods, and earthquakes. These sub-limits indicate the maximum amount the insurer will cover in each case.

For example:

- Windstorms and Floods: \$100,000,000 per occurrence in specified zones, and \$50,000,000 for the University of Houston System.

- Earthquakes: \$100,000,000 per occurrence.
- Miscellaneous: Sub-limits for various other risks like accounts receivable, decontamination, and transit range from \$1,000,000 to \$100,000,000.

Additionally, Texas implements retention and deductible policies to manage smaller claims and reduce the financial burden on the insurance policy. This includes a \$5,000,000 retention per occurrence for all perils except named windstorms and specific deductibles for different risks:

- General Deductible: \$250,000 per occurrence for all perils.
- Named Windstorm: 3% of the value per unit, with a minimum of \$500,000 in designated wind zones.
- Flood and Earthquake: \$250,000 per occurrence in non-special hazard areas.

Texas also utilizes underlying insurance, such as the National Flood Insurance Program (“NFIP”), to cover some risks, excluding them from this policy's coverage if they are already insured by the NFIP.

In summary, Texas self-insures by setting comprehensive liability limits and specific sub-limits for various risks while managing smaller claims through retention and deductibles.

Table: 2023 Financials

<u>Program Name</u>	<u>Program Function</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Position</u>
State Office of Risk Management (SORM)	Provide state agencies with insurance for underinsured buildings, personal property, as well as boiler and machinery	\$7,828,890	\$1,067,906	\$6,760,984
Texas Windstorm Insurance Agency (TWIA)	Coverage for coastal counties (residential and commercial property)	\$713,004,438	\$667,151,378	\$45,853,006

Note: See Appendix F for full financial report.

VIII. CONDITIONS AND LIMITATIONS

This strategic consulting analysis report is intended to provide insights and recommendations based on data provided by the representatives of the AR Public School Systems & Public Buildings, as well as information on the self-insurance structures and financial information of publicly owned buildings and structures in select states obtained through public channels and available at the time of its preparation. However, the following conditions and limitations should be considered when interpreting the findings and conclusions presented in this report:

1. Data Accuracy and Completeness:

- The analysis relies on data provided by the Subcommittee and publicly available sources. While efforts have been made to ensure the accuracy and reliability of this data, we cannot guarantee its completeness or absolute accuracy.
- Any discrepancies or errors in the data sources may impact the findings and recommendations of this report.
- This is a draft version of this report. Efforts were made to contact individuals at various government agencies in selected states. Additional information may surface, which will prove to be useful to the Subcommittee in their efforts to plot a course of action.

2. Scope of Analysis:

- The scope of the analysis was defined by the Subcommittee and may not cover all aspects or areas of potential interest. Some factors relevant to the Subcommittee's strategic decisions may not have been included in the analysis due to the predefined scope.
- The analysis is based on the information and assumptions provided as of the report date. Significant changes in market conditions, regulatory environments, or other external factors occurring after this date may affect the relevance and applicability of the recommendations.

3. Assumptions:

- Various assumptions have been made to conduct the analysis, including but not limited to market trends, competitive behavior, economic conditions, and regulatory changes. These assumptions are based on current knowledge and best estimates but are inherently uncertain.
- The validity of the conclusions and recommendations depends on the accuracy of these assumptions. If any assumptions prove to be incorrect, the results of the analysis may be compromised.

4. Future Projections:

- Any forward-looking statements, projections, or forecasts included in this report are based on current information and assumptions about future events. Actual results may vary significantly from those projected due to unforeseen factors and risks.

By acknowledging these conditions and limitations, the Subcommittee can better understand the context within which this strategic consulting analysis report has been prepared and can use its findings and recommendations more effectively.

DRAFT

IX. DISTRIBUTION AND USE

This report was prepared for the Subcommittee's internal use only for the purpose of researching and reporting on the self-insurance structures of publicly owned buildings and structures in select states, and to provide advice regarding possible changes to the structure of its current property insurance programs. This report should only be disclosed in its entirety, including all exhibits and appendices. This report is not to be used or relied on for any other purpose not listed above. Our consent to any distribution of this report to parties other than the Subcommittee shall be solely for informational purposes and does not constitute advice to such third parties. We assume no liability related to third party use of, or reliance on, this report.

X. SUMMARY EXHIBITS

DRAFT

XI. PRO-FORMA EXHIBITS

DRAFT

XII. APPENDICES

DRAFT

Arkansas Bureau of Legislative Research
Summary Financial Positions for Self-Insured Programs

Summary Exhibit 1

Program	FYE	(1)	(2)	(3)	(4)
		<u>All Coverages</u>	<u>Insurance</u>	<u>Premiums</u>	<u>Net</u>
		Total	Insured	Self-Insured	Position
AMAIT	2011	6,610,961	4,384,983	2,225,978	
	2012	7,576,233	5,265,488	2,310,745	
	2013	7,679,084	5,928,027	1,751,057	
	2014	7,809,316	6,242,471	1,566,845	
	2015	7,846,302	5,993,950	1,852,352	
	2016	8,218,472	5,457,020	2,761,452	
	2017	8,394,159	5,810,381	2,583,778	
	2018	8,203,352	5,685,801	2,517,551	
	2019	8,519,805	6,798,174	1,721,631	
	2020	10,229,615	6,880,827	3,348,788	
	2021	11,644,076	10,841,113	802,963	
	2022	13,105,217	10,886,808	2,218,409	
	2023	27,402,789	20,904,718	6,498,071	
	2024	40,719,248	33,753,782	6,965,466	
	2025	26,276,846	27,112,741	-835,895	20,046,502
ASPIT	2011	5,549,405	3,399,892	2,149,513	
	2012	6,440,437	4,296,448	2,143,989	
	2013	7,392,289	4,730,579	2,661,710	
	2014	7,515,997	4,753,707	2,762,290	
	2015	7,602,310	4,686,958	2,915,352	
	2016	8,272,207	4,712,703	3,559,504	
	2017	8,647,317	5,169,551	3,477,766	
	2018	8,556,385	5,007,739	3,548,646	
	2019	9,219,846	4,676,099	4,543,747	
	2020	10,298,001	6,806,713	3,491,288	
	2021	10,275,701	7,610,916	2,664,785	
	2022	11,517,087	8,534,789	2,982,298	
	2023	12,921,390	10,171,129	2,750,261	
	2024	25,274,928	19,709,293	5,565,635	
	2025	18,028,789	16,998,650	1,030,139	14,478,381
ASBA	2021	16,357,079	8,728,704	7,628,375	
	2022	19,498,246	11,728,903	7,769,343	
	2023	20,836,801	13,638,163	7,198,638	24,160,229

Notes:

(1), (2), (4) from representatives for each program

(3) = (1) - (2)

Arkansas - Bureau of Legislative Research
Overview of Select States' Self-Insurance Structures

State	Self-Insured Retention	Commercial Insurance	Deductibles
Arkansas APSIT	\$2M per occurrence \$6M annual aggregate \$10K to \$25K district ded.	\$840M per occurrence	Zone 2 - \$100K per occurrence; Zone 3 - \$25K per occurrence; Zone 4/5 - \$5K per occurrence
Arkansas AMAIT	\$8.5M annual aggregate \$2.5K to \$250K agency ded.	\$650M per occurrence	5% of the combined value of property at the location where damage or loss occurs or \$25K per location, whichever is greater
Arkansas ASBA	\$750K program specific retention XS \$500K ded \$3M annual aggregate	\$300M per occurrence	\$100K per occurrence deductible applies after erosion of \$3M SIR
Louisiana (ORM)¹	\$50M Per occ. named storm and flood; \$10M per occ. all other perils	\$800M all other perils	\$1K non-flood; \$5K flood
Mississippi (OSPI)²	None	\$500M per occurrence	\$500k per occurrence
Missouri (MOPERM)³	\$500K Per Occurrence for All Perils	Purchase Insurance above the SIR limit; details not provided	Details not provided
Oklahoma (OSIG)⁴	\$30M annual agg; \$25K per occ. ded.	Purchase Insurance above the SIR limit; details not provided	\$100,000 per occ after SIR is exhausted
Tennessee (TCIC)⁵	building and content losses ranging from \$25,000 to \$7.5 million	\$7.5M to \$750M per occurrence	
Texas (SORM)⁶	\$5M per occurrence and \$5M in aggregate annual loss from all perils except named windstorm; limits are only eroded after maintenance deductibles are exhausted	\$500M per occurrence	Named Windstorm & Flood: 3% of value per unit, minimum \$500K per occurrence; Earthquake: \$250K per participant, per occurrence; \$250K all other perils ⁷

Notes:

1. Provides coverage for state owned buildings only. The RMI services municipal owned buildings. Parishes separately provide coverage for schools.
2. The MSPI only covers state agency boards and commissions, excluding institutions and property owned by municipalities. The Department of Education manages K-12 schools, without inter-departmental coordination from entities like the Institutions of Higher Learning or the Mississippi Community College Board.
3. MOPERM was formed in the 1980s to cover liability insurance to over 1,000 governments. It was expanded in 2003 to include property coverage. Schools are not included in this program.
4. OSIG protects the physical assets of schools, including buildings, equipment, inventory, and more, against perils such as fire, theft, vandalism, and natural disasters.
5. The TCIC provides self-insurance for property and general liability, covering state-owned buildings and contents.
6. SORM operates under a self-insured structure. Under the Statewide Property Insurance Program, SORM allows state agencies to transfer the financial burden of property damage and asset loss.
7. Different sub-limits apply to the University of Houston school system.

Arkansas - Bureau of Legislative Research
Overview of Select States' Self-Insurance Structures

State	Wind/Hail	Flood Coverage	Earth Movement
Arkansas APSIT	\$250K per occurrence if annual aggregate is exceeded	\$100K annual agg; no coverage in Flood Zone A; \$10K deductible per school district	\$50M annual aggregate in New Madrid counties; \$100M elsewhere
Arkansas AMAIT	District per occurrence deductibles apply to losses within SIR	Annual Aggregate Limit: \$100M; Exceptions; \$40M annual aggregate in Zones B and X-Shaded, \$10M annual Aggregate in special flood hazard areas (Zone A)	Annual Aggregate Limit: \$200M; \$100M Annual Aggregate limit in zones 2&3
Arkansas ASBA	2% deductible with \$1M min & \$5M max	\$100M per occurrence and annual aggregate; \$250K deductible for non-Zones A & Z; Coverage for Zones A & Z applies XS NFIP	\$100M per occurrence and annual aggregate; 2% deductible
Louisiana (ORM)¹	\$300M named storm	\$260M	\$260M
Mississippi (OSPI)²	\$300M Named Windstorm; \$1M deductible	\$200M, \$100M tier 1 and tier 2 costal areas	\$200M
Missouri (MOPERM)³	Details not provided	Details not provided	Details not provided
Oklahoma (OSIG)⁴			
Tennessee (TCIC)⁵			
Texas (SORM)⁶	Limit: \$100M any one occurrence named windstorm tier 1, 2, and/or 3 wind zones	Limit: \$100M any one occurrence aggregate	Limit: \$100M any one occurrence and in aggregate

Notes:

1. Provides coverage for state owned buildings only. The RMI services municipal owned buildings. Parishes separately provide coverage for schools.
2. The MSPI only covers state agency boards and commissions, excluding institutions and property owned by municipalities. The Department of Education manages K-12 schools, without inter-departmental coordination from entities like the Institutions of Higher Learning or the Mississippi Community College Board.
3. MOPERM was formed in the 1980s to cover liability insurance to over 1,000 governments. It was expanded in 2003 to include property coverage. Schools are not included in this program.
4. OSIG protects the physical assets of schools, including buildings, equipment, inventory, and more, against perils such as fire, theft, vandalism, and natural disasters.
5. The TCIC provides self-insurance for property and general liability, covering state-owned buildings and contents.
6. SORM operates under a self-insured structure. Under the Statewide Property Insurance Program, SORM allows state agencies to transfer the financial burden of property damage and asset loss.
7. Different sub-limits apply to the University of Houston school system.

Arkansas - Bureau of Legislative Research
Summary of Select States' Financials

Summary Exhibit 3

Select States' Self-Insured Programs Summary				Financials for the Most Recent Year ('23)		
State	Program Name	Program Function	Program Coverages	Assets	Liabilities	Net Position
Louisiana	Office of Risk Management (ORM)	Coverage for state owned buildings	Workers' compensation, property, casualty exposures, tort claims made against the state or any of its agencies, whether or not they are covered by the self-insurance fund.	\$ (17,751,041)	\$ 20,738,834	\$ (38,489,875)
	Louisiana Citizens Property Insurance Corporation	Commercial property insurance for individuals who are unable to procure insurance through the voluntary market	Residential and Commercial property	\$ 972,874,558	\$ 778,276,360	\$ 194,598,198
Mississippi	Mississippi Department of Finance and Administration (Office of State Property Insurance)	Coverage for state owned buildings	Real and Personal Property, Time Element Coverages (Business Interruption, Extra Expense, Rental Value, Royalties, Soft Costs, Time Element Extensions), Transit, Accounts Receivable, Coverage Extensions (Demolition and Increased Cost of Construction, Debris Removal, LEED Properties, Expediting Expense, Loss Adjustment Expenses, Fire Brigade Charges and Extinguishing Expenses, Defense Costs, Consequential Loss, Control of Damaged Merchandise, Brands or Trademarks), Perils Insured Against	\$33,540,395 ('22)	\$13,476,906 ('22)	\$19,636,463 ('22)
	Mississippi Institutions of Higher Learning	Group of several public universities in Mississippi	Purchase insurance in open marketplace	\$ 8,478,123,111	\$ 5,703,619,011	\$ 2,774,504,100
	The Mississippi Department of Education	K-12 schools	Purchase insurance in open marketplace	Information unavailable through public sources		
	Mississippi Community College Board	Coordinating board of statewide members that aid educational opportunities for the community college system	Purchase insurance in open marketplace	Information unavailable through public sources		
Missouri	Office of Administration Division of General Services	State property preservation fund	Safety Drivers Guide, Automobile Loss Notice, Workers' Compensation, Liability/Auto Claims, Legal Expense Claims Login, Property Insurance, Accident on State Property Loss Notice	Information unavailable through public sources		
	Missouri Public Entity Risk Management Fund (MOPERM)	Shared risk pool that serves local governments who are members	Liability, property, cyber (until 2021)	\$ 163,326,762	\$ 102,864,577	\$ 60,462,185
Oklahoma	Oklahoma Schools Insurance Group (OSIG)	Risk-pooling program covering commercial property and physical assets for schools	Commercial Property Coverage, Earthquake Coverage, Flood Coverage, Boiler & Machinery Coverage, Deadly Weapons Protection, General Liability, Employee Benefits Liability, School Board Legal Liability, Automobile Liability, Automobile Physical Damage, Crime Coverage, Cyber Liability, Pollution Liability, Builders Risk, Excess Liability	\$39,952,991 ('22)	\$32,096,253 ('22)	\$7,856,738 ('22)
	Oklahoma Office of Management & Enterprise Services	Coverage for the assets of the state of Oklahoma	Property, human resource needs, cyber	(Expressed in Thousands) \$20,046,039 ('22) \$5,373,746 ('22) \$14,672,293 ('22)		
Tennessee	Tennessee Captive Insurance Company	Coverage for state-owned buildings and contents	Life and Health, Property and Casualty, Workers Comp	\$ 39,730,943	\$ 25,462,966	\$ 14,267,977
	Local Government Insurance Pool	Exclusively for Tennessee counties and county agencies, funds are member-owned, self-insured entities (general fund, highway departments, schools and other county services)	Workers' Compensation, Property, General liability, Law Enforcement & Jail Liability, Automobile, Public, Officials Liability (Errors & Omissions) & Employment Practices Liability Crime, And other related property and casualty needs.	\$ 49,228,462	\$ 28,824,294	\$ 20,404,168
	Public Entity Partners	Membership program covering building and personal property along with other perils for local governments	Liability, workers comp., property & crime	\$ 264,237,185	\$ 147,316,995	\$ 116,920,190
Texas	State Office of Risk Management (SORM)	Provide state agencies with insurance for underinsured buildings, personal property, as well as boiler and machinery	Auto, builders risk, directors' and officers', fine arts, property, volunteer	\$ 7,828,890	\$ 1,067,906	\$ 6,760,984
	Texas Windstorm Insurance Agency (TWIA)	Coverage for coastal counties (residential and commercial property)	Wind and hail only	\$ 713,004,438	\$ 667,151,378	\$ 45,853,006

Arkansas Public School Systems & Public Buildings
Property Insurance Programs
Plan A - Estimated Savings in Self-Insuring the Primary Excess Layer

	AMAIT	APSIT	ASBA	Combined
			\$25,000,000 excess of	
(1) Primary Excess Coverage:	\$50,000,000 Excess of \$8,500,000 Aggregate	\$100,000,000 Excess of \$2,000,000/\$6,000,000	\$750,000/\$3,000,000 (SIR is xs of \$500k deductible)	
(2) 7/1/24-25 Premium:	16,774,495	13,107,588	14,989,000	44,871,083
(3) Estimated Loss and ALAE ex. EQ/Flood	6,180,639	8,211,710	5,191,508	19,583,858
(4) EQ/Flood AAL	24,623,240	5,418,826	8,922,139	38,964,205
(5) % EQ/Flood Loss in Primary Excess Layer	10.6%	11.7%	16.1%	12.0%
(6) Estimated EQ/Flood in Primary Excess Layer	2,618,872	633,083	1,438,668	4,690,623
(7) Estimated Loss and ALAE incl EQ/Flood	8,799,511	8,844,793	6,630,177	24,274,481
(8) Potential Savings - 100% Participation	7,974,984	4,262,795	8,358,823	20,596,602
(9) Potential Savings - 25% Participation	1,993,746	1,065,699	2,089,706	5,149,150

Notes:

(2) Includes surplus lines tax

(3) is the estimate loss and ALAE excl. Earthquake and Flood perils from the actuarial reported dated 9/4/2024.

(4) are from the CAT modeling reports.

(5) is based on each program's statement of values, industry property size of loss curves (Swiss Re curves 3 and 4) derived from the paper Exposure Modelling in Property Reinsurance by Jan Hrevus and Lubos Marek from the journal Prague Economic Papers, 2019, 28(2), 129-154, <https://doi.org/10.18237/j.pep.683>.

(6) = (4) x (5)

(7) = (3) + (6)

(8) = (2) - (7)

(9) =(8) x 0.25

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Actuarial Central Estimate

Plan B - Captive Retains 10% of \$50M XS Layer for AMAIT; 16.75% of \$100M XS Layer for APSIT; and 7.5% of \$100M XS for ASBA

	Initial	2026	2027	Fiscal Years Ending 2028	2029	2030	All Years
Underwriting Income/Expense:							
(1) Written Premium		3,300,000	3,465,000	3,638,000	3,820,000	4,011,000	18,234,000
(2) Incurred Loss & DCCE		2,800,797	2,940,837	3,087,879	3,242,273	3,404,386	15,476,172
(3) Underwriting Income		499,203	524,163	550,121	577,727	606,614	2,757,828
General and Administrative Income/Expenses:							
(4) Captive Set-Up & Administrative Expenses							
(4)(a) Program Set-Up Fees	250,000						250,000
(4)(b) Captive Management Fees	200,000	100,000	105,000	110,250	115,763	121,551	752,563
(4)(c) Claims Administration Fees		196,056	205,859	216,152	226,959	238,307	1,083,332
(4)(d) Actuarial Fees	50,000	100,000	105,000	110,250	115,763	121,551	602,563
(4)(e) Audit Fees		50,000	52,500	55,125	57,881	60,775	276,282
(4)(f) Attorney Fees	100,000	50,000	52,500	55,125	57,881	60,775	376,282
(4)(g) Arkansas Insurance Department Fees	25,000	25,000	26,250	27,563	28,941	30,388	163,141
(4)(h) Premium Taxes		8,250	8,663	9,095	9,550	10,028	45,585
(4)(i) Asset Management Fee		229,500	246,123	255,339	262,835	269,284	1,263,082
(4)(j) Director Fees	50,000	5,000	5,000	5,250	5,513	5,788	76,551
(4)(k) D&O Insurance		25,000	26,250	27,563	28,941	30,388	138,141
(4)(l) Miscellaneous		10,000	10,500	11,025	11,576	12,155	55,256
(5) Total Pre-Tax Net U/W Profit/(Loss)	(675,000)	(299,603)	(319,481)	(332,615)	(343,875)	(354,375)	(2,324,948)
(6) Net Pre-Tax Investment Income		713,000	752,000	777,000	798,000	817,000	3,857,000
(7) Total Net Income Before Taxes	(675,000)	413,397	432,519	444,385	454,125	462,625	1,532,052

Notes:

(1) Selected as the premium to effectively operate the captive at a break even level

(2) from Exhibit 3

(3) = (1) - (2)

(4) Estimated fees based on industry experience; will need to send RFPs to various vendors to formalize expenses

(5) = (3) - [Sum of (4)(a) through (4)(l)]

(6) from Exhibit 2

(7) = (5) + (6)

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Actuarial Central Estimate

Plan B - Captive Retains 10% of \$50M XS Layer for AMAIT; 16.75% of \$100M XS Layer for APSIT; and 7.5% of \$100M XS for ASBA

	Initial	2026	2027	Fiscal Years Ending 2028	2029	2030	All Years
(1) Written Premium		3,300,000	3,465,000	3,638,000	3,820,000	4,011,000	18,234,000
(2) Incurred Loss & ALAE		2,800,797	2,940,837	3,087,879	3,242,273	3,404,386	15,476,172
(3) CY Paid Loss & ALAE		838,915	2,412,705	2,757,665	3,030,514	3,252,787	12,292,586
(4) Loss & ALAE Reserves (Beginning)		-	1,961,882	2,490,013	2,820,227	3,031,986	
(5) Loss & ALAE Reserves (Ending)		1,961,882	2,490,013	2,820,227	3,031,986	3,183,586	
(6) Net Position (Beginning)	23,625,000	22,950,000	23,363,397	23,795,916	24,240,302	24,694,427	
(7) Total Pre-Tax Net U/W Profit/(Loss)	(675,000)	(299,603)	(319,481)	(332,615)	(343,875)	(354,375)	(2,324,948)
(8) Investable Assets (Beginning)		22,950,000	24,612,279	25,533,930	26,283,529	26,928,413	
(9) Investable Assets (Ending)		24,612,279	25,533,930	26,283,529	26,928,413	27,523,637	
(10) Average Investable Assets		23,781,139	25,073,104	25,908,729	26,605,971	27,226,025	
(11) Pre-Tax Investment Income		713,000	752,000	777,000	798,000	817,000	3,857,000

Notes:

(1), (7) from Exhibit 1

(2) and (3) from Exhibit 3

(4) = (5) prior fiscal year

(5) = (2) - (3) + (4)

(6) = (6) prior fiscal year + (7) + (11)

(7) from Exhibit 1.1

(8) = (9) prior fiscal year

(9) = (5) + (6) + (7)

(10) = [(8) + (9)] \ 2

(11) = (10) x Investment Return Rate of 3.0%

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Actuarial Central Estimate

Plan B - Captive Retains 10% of \$50M XS Layer for AMAIT; 16.75% of \$100M XS Layer for APSIT; and 7.5% of \$100M XS for ASBA

1. AMAIT		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			16.2%	45.8%	18.8%	11.8%	7.4%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	923,949	149,387	422,839	174,051	109,000	68,672	
2027	970,146		156,856	443,981	182,754	114,450	
2028	1,018,653			164,699	466,180	191,891	
2029	1,069,586				172,934	489,489	
2030	1,123,065					181,581	
Total	5,105,400	149,387	579,696	782,731	930,867	1,046,083	

2. APSIT		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			34.2%	59.7%	4.1%	1.9%	0.1%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	1,354,722	462,817	809,359	55,025	25,835	1,685	
2027	1,422,458		485,958	849,827	57,777	27,127	
2028	1,493,581			510,256	892,319	60,665	
2029	1,568,260				535,769	936,935	
2030	1,646,673					562,557	
Total	7,485,694	462,817	1,295,318	1,415,109	1,511,700	1,588,969	

3. ASBA		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			43.4%	57.4%	-0.9%	0.0%	0.1%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	522,126	226,711	299,645	-4,751	130	391	
2027	548,233		238,047	314,627	-4,989	137	
2028	575,644			249,949	330,359	-5,238	
2029	604,427				262,446	346,877	
2030	634,648					275,569	
Total	2,885,078	226,711	537,692	559,825	587,947	617,735	

4. All Programs

FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	2,800,797	838,915	1,531,844	224,325	134,965	70,748	
2027	2,940,837		880,861	1,608,436	235,541	141,714	
2028	3,087,879			924,904	1,688,858	247,318	
2029	3,242,273				971,150	1,773,301	
2030	3,404,386					1,019,707	
Total	15,476,172	838,915	2,412,705	2,757,665	3,030,514	3,252,787	

Notes:

(1) Expected Loss & DCCE from Actuarial Analyses; 5% was added each year for inflation, starting with FY 25/26

(2) through (6) = (1) x (7) for each Fiscal Year Ending

(7) from Exhibit 4 for each of AMAIT, APSIT, and ASBA

Totals for All Programs are the sum of the figures from AMAIT, APSIT, and ASBA

Unlimited Net Paid Loss & ALAE Development

Accident Period	Months of Development																				
	9	21	33	45	57	69	81	93	105	117	129	141	153	165	177	189	201	213	225	237	249
7/1/03-04																	114,788	4,244	114,788	114,788	114,788
7/1/04-05																913,767	132,737	905,112	905,112	905,112	
7/1/05-06																4,151,921	4,123,684	4,151,921	4,151,921	4,151,921	
7/1/06-07														622,555	622,555	622,555	622,555	622,555			
7/1/07-08													5,487,825	5,487,825	5,487,825	5,487,825	5,487,825				
7/1/08-09												2,522,903	2,522,903	2,522,903	2,522,903	2,522,903					
7/1/09-10											3,590,998	3,590,998	3,590,998	3,590,998	3,590,998						
7/1/10-11										3,471,895	3,471,895	3,471,895	3,471,895	3,471,895							
7/1/11-12									1,693,111	1,693,111	1,693,111	1,693,111	1,693,111								
7/1/12-13								1,096,748	1,096,748	1,096,748	1,096,748	1,096,748									
7/1/13-14							2,597,631	2,591,537	2,591,537	2,591,537	2,591,537										
7/1/14-15						5,828,078	5,841,729	5,841,729	5,841,729	5,841,729											
7/1/15-16					1,346,874	1,346,874	1,346,874	1,346,874	1,346,874												
7/1/16-17				2,945,443																	
7/1/17-18			4,051,327	4,616,247	5,051,432	5,051,432	5,051,432														
7/1/18-19		1,663,122	1,811,601	1,811,601	1,811,601	1,811,601															
7/1/19-20	711,402	1,729,098	1,729,098	1,729,098	11,675,387																
7/1/20-21	161,879	1,584,398	2,802,570	2,807,836																	
7/1/21-22	97,383	15,658,766	31,624,201																		
7/1/22-23	534,919	3,572,296																			
7/1/23-24	2,592,408																				
Accident Period	Months of Development																				
	9-21	21-33	33-45	45-57	57-69	69-81	81-93	93-105	105-117	117-129	129-141	141-153	153-165	165-177	177-189	189-201	201-213	213-225	225-237	237-249	249-Ult
7/1/03-04																	0.037	27.047	1.000	1.000	
7/1/04-05																0.145	6.819	1.000	1.000		
7/1/05-06															0.993	1.007	1.000	1.000			
7/1/06-07														1.000	1.000	1.000	1.000				
7/1/07-08													1.000	1.000	1.000	1.000					
7/1/08-09												1.000	1.000	1.000	1.000						
7/1/09-10											1.000	1.000	1.000	1.000							
7/1/10-11										1.000	1.000	1.000	1.000								
7/1/11-12									1.000	1.000	1.000	1.000									
7/1/12-13								1.000	1.000	1.000	1.000										
7/1/13-14							0.998	1.000	1.000	1.000											
7/1/14-15						1.002	1.000	1.000	1.000												
7/1/15-16					1.000	1.000	1.000	1.000													
7/1/16-17				1.000	1.000	1.000	1.000														
7/1/17-18			1.139	1.094	1.000	1.000															
7/1/18-19		1.089	1.000	1.000	1.000																
7/1/19-20	2.431	1.000	1.000	6.752																	
7/1/20-21	9.788	1.769	1.002																		
7/1/21-22	160.795	2.020																			
7/1/22-23	6.678																				
Average	44.923	1.469	1.035	2.462	1.000	1.001	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.998	0.788	2.214	9.682	1.000	1.000	
Wgt. Average	14.974	1.840	1.055	1.935	1.000	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.998	0.932	1.132	1.022	1.000	1.000	
3 Yr. Wtd.	26.210	1.906	1.001	2.273	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.003	1.157	1.022			
Selected	6.340	1.049	1.026	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
Cumulative	6.835	1.078	1.027	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
% Paid	14.6%	92.8%	97.3%	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Marginal Paid	14.6%	78.1%	4.6%	2.5%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Interpolated	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180	192	204	216	228	240	
Cumulative	2.927	1.065	1.021	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
% Paid	34.2%	93.9%	98.0%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Marginal Paid	34.2%	59.7%	4.1%	1.9%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

[illegible]

Accident Period	Months of Development																				
	9-21	21-33	33-45	45-57	57-69	69-81	81-93	93-105	105-117	117-129	129-141	141-153	153-165	165-177	177-189	189-201	201-213	213-225	225-237	237-249	249-Ult
7/1/03-04																					
7/1/04-05																					
7/1/05-06																					
7/1/06-07																					
7/1/07-08																					
7/1/08-09												1.000	1.000	1.000	1.000						
7/1/09-10											1.000	1.000	1.000	1.000							
7/1/10-11										1.000	1.000	1.000	1.000								
7/1/11-12									1.000	1.000	1.000	1.000									
7/1/12-13								1.000	1.000	1.000	1.000										
7/1/13-14							1.000	1.000	1.000	1.000											
7/1/14-15						1.000	1.000	1.000	1.000												
7/1/15-16					1.000	1.000	1.000	1.000													
7/1/16-17				1.000	1.000	1.000	1.000														
7/1/17-18			1.000	1.000	1.000	1.000															
7/1/18-19		1.019	1.000	1.002	1.000																
7/1/19-20	2.698	0.924	1.001	1.000																	
7/1/20-21	6.802	0.960	0.867																		
7/1/21-22	3.828	0.680																			
7/1/22-23	4.167																				
Average	4.374	0.896	0.967	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000						
Wgt. Average	4.184	0.863	0.941	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000						
3 Yr. Wtd.	4.533	0.836	0.933	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000						
Selected	4.180	0.988	1.000	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Cumulative	4.134	0.989	1.001	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
% Paid	24.2%	101.1%	99.9%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Marginal Paid	24.2%	76.9%	-1.2%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interpolated	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180	192	204	216	228	240	252
Cumulative	2.303	0.992	1.001	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
% Paid	43.4%	100.8%	99.9%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Marginal Paid	43.4%	57.4%	-0.9%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Actuarial Central Estimate
Plan C - Pooled Risks with \$2M per Occurrence / \$15M Annual Aggregate Retentions

	Initial	2026	2027	Fiscal Years Ending 2028	2029	2030	All Years
Underwriting Income/Expense:							
(1) Written Premium		32,000,000	33,600,000	35,280,000	37,044,000	38,896,000	176,820,000
(2) Incurred Loss & DCCE		29,067,487	30,520,861	32,046,904	33,539,440	34,466,412	159,641,104
(3) Underwriting Income		2,932,513	3,079,139	3,233,096	3,504,560	4,429,588	17,178,896
General and Administrative Income/Expenses:							
(4) Captive Set-Up & Administrative Expenses							
(4)(a) Program Set-Up Fees	250,000						250,000
(4)(b) Captive Management Fees	200,000	100,000	105,000	110,250	115,763	121,551	752,563
(4)(c) Claims Administration Fees		2,034,724	2,136,460	2,243,283	2,347,761	2,412,649	11,174,877
(4)(d) Actuarial Fees	50,000	100,000	105,000	110,250	115,763	121,551	602,563
(4)(e) Audit Fees		50,000	52,500	55,125	57,881	60,775	276,282
(4)(f) Attorney Fees	100,000	50,000	52,500	55,125	57,881	60,775	376,282
(4)(g) Arkansas Insurance Department Fees	25,000	25,000	26,250	27,563	28,941	30,388	163,141
(4)(h) Premium Taxes		80,000	84,000	88,200	92,610	97,240	442,050
(4)(i) Asset Management Fee		443,250	649,686	723,814	779,187	823,110	3,419,046
(4)(j) Director Fees	50,000	5,000	5,000	5,250	5,513	5,788	76,551
(4)(k) D&O Insurance		25,000	26,250	27,563	28,941	30,388	138,141
(4)(l) Miscellaneous		10,000	10,500	11,025	11,576	12,155	55,256
(5) Total Pre-Tax Net U/W Profit/(Loss)	(675,000)	9,539	(174,007)	(224,351)	(137,255)	653,219	(547,855)
(6) Net Pre-Tax Investment Income		1,639,000	2,060,000	2,255,000	2,403,000	2,532,000	10,889,000
(7) Total Net Income Before Taxes	(675,000)	1,648,539	1,885,993	2,030,649	2,265,745	3,185,219	10,341,145

Notes:

(1) Selected as the premium to effectively operate the captive at a break even level

(2) from Exhibit 3.1

(3) = (1) - (2)

(4) Estimated fees based on industry experience; will need to send RFPs to various vendors to formalize expenses

(5) = (3) - [Sum of (4)(a) through (4)(l)]

(6) from Exhibit 2.1

(7) = (5) + (6)

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Adverse Scenario
Plan C - Pooled Risks with \$2M per Occurrence / \$15M Annual Aggregate Retentions

	Initial	2026	2027	Fiscal Years Ending 2028	2029	2030	All Years
Underwriting Income/Expense:							
(1) Written Premium		32,000,000	33,600,000	35,280,000	37,044,000	38,896,000	176,820,000
(2) Incurred Loss & DCCE		30,192,057	34,041,070	32,046,904	37,184,800	34,466,412	167,931,242
(3) Underwriting Income		1,807,943	(441,070)	3,233,096	(140,800)	4,429,588	8,888,758
General and Administrative Income/Expenses:							
(4) Captive Set-Up & Administrative Expenses							
(4)(a) Program Set-Up Fees	250,000						250,000
(4)(b) Captive Management Fees	200,000	100,000	105,000	110,250	115,763	121,551	752,563
(4)(c) Claims Administration Fees		2,113,444	2,382,875	2,243,283	2,602,936	2,412,649	11,755,187
(4)(d) Actuarial Fees	50,000	100,000	105,000	110,250	115,763	121,551	602,563
(4)(e) Audit Fees		50,000	52,500	55,125	57,881	60,775	276,282
(4)(f) Attorney Fees	100,000	50,000	52,500	55,125	57,881	60,775	376,282
(4)(g) Arkansas Insurance Department Fees	25,000	25,000	26,250	27,563	28,941	30,388	163,141
(4)(h) Premium Taxes		80,000	84,000	88,200	92,610	97,240	442,050
(4)(i) Asset Management Fee		443,250	649,686	723,814	779,187	823,110	3,419,046
(4)(j) Director Fees	50,000	5,000	5,000	5,250	5,513	5,788	76,551
(4)(k) D&O Insurance		25,000	26,250	27,563	28,941	30,388	138,141
(4)(l) Miscellaneous		10,000	10,500	11,025	11,576	12,155	55,256
(5) Total Pre-Tax Net U/W Profit/(Loss)	(675,000)	(1,193,751)	(3,940,630)	(224,351)	(4,037,790)	653,219	(9,418,303)
(6) Net Pre-Tax Investment Income		1,639,000	2,060,000	2,255,000	2,403,000	2,532,000	10,889,000
(7) Total Net Income Before Taxes	(675,000)	445,249	(1,880,630)	2,030,649	(1,634,790)	3,185,219	1,470,697

Notes:

(1) Selected as the premium to effectively operate the captive at a break even level

(2) from Exhibit 3.1

(3) = (1) - (2)

(4) Estimated fees based on industry experience; will need to send RFPs to various vendors to formalize expenses

(5) = (3) - [Sum of (4)(a) through (4)(l)]

(6) from Exhibit 2.1

(7) = (5) + (6)

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Actuarial Central Estimate
Plan C - Pooled Risks with \$2M per Occurrence / \$15M Annual Aggregate Retentions

	Initial	2026	2027	Fiscal Years Ending 2028	2029	2030	All Years
(1) Written Premium		32,000,000	33,600,000	35,280,000	37,044,000	38,896,000	176,820,000
(2) Incurred Loss & ALAE		29,067,487	30,520,861	32,046,904	33,539,440	34,466,412	159,641,104
(3) CY Paid Loss & ALAE		8,433,451	24,573,075	28,345,193	31,264,921	33,338,975	125,955,614
(4) Loss & ALAE Reserves (Beginning)		-	20,634,036	26,581,823	30,283,535	32,558,053	
(5) Loss & ALAE Reserves (Ending)		20,634,036	26,581,823	30,283,535	32,558,053	33,685,490	
(6) Net Position (Beginning)	45,000,000	44,325,000	45,973,539	47,859,532	49,890,180	52,155,925	
(7) Total Pre-Tax Net U/W Profit/(Loss)	(675,000)	9,539	(174,007)	(224,351)	(137,255)	653,219	(547,855)
(8) Investable Assets (Beginning)		44,325,000	64,968,575	72,381,354	77,918,715	82,310,978	
(9) Investable Assets (Ending)		64,968,575	72,381,354	77,918,715	82,310,978	86,494,634	
(10) Average Investable Assets		54,646,788	68,674,965	75,150,035	80,114,847	84,402,806	
(11) Pre-Tax Investment Income		1,639,000	2,060,000	2,255,000	2,403,000	2,532,000	10,889,000

Notes:

- (1), (7) from Exhibit 1.1
- (2) and (3) from Exhibit 3.1
- (4) = (5) prior fiscal year
- (5) = (2) - (3) + (4)
- (6) = (6) prior fiscal year + (7) + (11)
- (7) from Exhibit 1.1
- (8) = (9) prior fiscal year
- (9) = (5) + (6) + (7)
- (10) = [(8) + (9)] \ 2
- (11) = (10) x Investment Return Rate of 3.0%

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Adverse Scenario
Plan C - Pooled Risks with \$2M per Occurrence / \$15M Annual Aggregate Retentions

	Initial	2026	2027	Fiscal Years Ending 2028	2029	2030	All Years
(1) Written Premium		32,000,000	33,600,000	35,280,000	37,044,000	38,896,000	176,820,000
(2) Incurred Loss & ALAE		30,192,057	34,041,070	32,046,904	37,184,800	34,466,412	167,931,242
(3) CY Paid Loss & ALAE		8,921,747	25,787,617	29,945,959	32,872,504	35,574,716	133,102,543
(4) Loss & ALAE Reserves (Beginning)		-	21,270,310	29,523,762	31,624,707	35,937,003	
(5) Loss & ALAE Reserves (Ending)		21,270,310	29,523,762	31,624,707	35,937,003	34,828,699	
(6) Net Position (Beginning)	45,000,000	44,325,000	44,762,249	42,842,619	44,787,268	43,013,477	
(7) Total Pre-Tax Net U/W Profit/(Loss)	(675,000)	(1,193,751)	(3,940,630)	(224,351)	(4,037,790)	653,219	(9,418,303)
(8) Investable Assets (Beginning)		44,325,000	64,401,559	70,345,381	74,242,975	76,686,480	
(9) Investable Assets (Ending)		64,401,559	70,345,381	74,242,975	76,686,480	78,495,396	
(10) Average Investable Assets		54,363,279	67,373,470	72,294,178	75,464,727	77,590,938	
(11) Pre-Tax Investment Income		1,631,000	2,021,000	2,169,000	2,264,000	2,328,000	10,413,000

Notes:

- (1), (7) from Exhibit 1.2
- (2) and (3) from Exhibit 3.2
- (4) = (5) prior fiscal year
- (5) = (2) - (3) + (4)
- (6) = (6) prior fiscal year + (7) + (11)
- (7) from Exhibit 1.1
- (8) = (9) prior fiscal year
- (9) = (5) + (6) + (7)
- (10) = [(8) + (9)] \ 2
- (11) = (10) x Investment Return Rate of 3.0%

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Actuarial Central Estimate
Plan C - Pooled Risks with \$2M per Occurrence / \$15M Annual Aggregate Retentions

1. AMAIT		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			16.2%	45.8%	18.8%	11.8%	7.4%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	10,933,135	1,767,705	5,003,479	2,059,556	1,289,797	812,598	
2027	11,479,792		1,856,091	5,253,653	2,162,533	1,354,287	
2028	12,053,781			1,948,895	5,516,335	2,270,660	
2029	12,656,470				2,046,340	5,792,152	
2030	13,289,294					2,148,657	
Total	60,412,472	1,767,705	6,859,569	9,262,103	11,015,006	12,378,354	

2. APSIT		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			34.2%	59.7%	4.1%	1.9%	0.1%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	13,052,422	4,459,134	7,797,984	530,155	248,917	16,231	
2027	13,705,043		4,682,091	8,187,883	556,663	261,363	
2028	14,390,295			4,916,195	8,597,278	584,496	
2029	15,000,000				5,124,490	8,961,537	
2030	15,000,000					5,124,490	
Total	71,147,760	4,459,134	12,480,075	13,634,234	14,527,348	14,948,118	

3. ASBA		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			43.4%	57.4%	-0.9%	0.0%	0.1%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	5,081,930	2,206,611	2,916,489	-46,247	1,269	3,808	
2027	5,336,027		2,316,942	3,062,313	-48,559	1,333	
2028	5,602,828			2,432,789	3,215,429	-50,987	
2029	5,882,969				2,554,428	3,376,200	
2030	6,177,118					2,682,150	
Total	28,080,871	2,206,611	5,233,430	5,448,855	5,722,567	6,012,503	

4. All Programs

FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	29,067,487	8,433,451	15,717,952	2,543,464	1,539,984	832,637	
2027	30,520,861		8,855,123	16,503,849	2,670,637	1,616,983	
2028	32,046,904			9,297,879	17,329,042	2,804,169	
2029	33,539,440				9,725,259	18,129,889	
2030	34,466,412					9,955,297	
Total	159,641,104	8,433,451	24,573,075	28,345,193	31,264,921	33,338,975	

Notes:

(1) Expected Loss & DCCE from Actuarial Analyses; results have been increased by \$200K to load for cat. losses
 (2) through (6) = (1) x (7) for each Fiscal Year Ending
 (7) from Exhibit 4 for each of AMAIT, APSIT, and ASBA
 Totals for All Programs are the sum of the figures from AMAIT, APSIT, and ASBA

Arkansas - Bureau of Legislative Research
Property Insurance Programs

Pro Forma Income Statement - Adverse Scenario
Plan C - Pooled Risks with \$2M per Occurrence / \$15M Annual Aggregate Retentions

1. AMAIT		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			16.2%	45.8%	18.8%	11.8%	7.4%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	10,933,135	1,767,705	5,003,479	2,059,556	1,289,797	812,598	
2027	15,000,000		2,425,249	6,864,653	2,825,661	1,769,571	
2028	12,053,781			1,948,895	5,516,335	2,270,660	
2029	15,000,000				2,425,249	6,864,653	
2030	13,289,294					2,148,657	
Total	66,276,210	1,767,705	7,428,728	10,873,104	12,057,043	13,866,139	

2. APSIT		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			34.2%	59.7%	4.1%	1.9%	0.1%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	13,052,422	4,459,134	7,797,984	530,155	248,917	16,231	
2027	13,705,043		4,682,091	8,187,883	556,663	261,363	
2028	14,390,295			4,916,195	8,597,278	584,496	
2029	15,000,000				5,124,490	8,961,537	
2030	15,000,000					5,124,490	
Total	71,147,760	4,459,134	12,480,075	13,634,234	14,527,348	14,948,118	

3. ASBA		(1)	(2)	(3)	(4)	(5)	(6)
(7) Loss Payment Pattern:			43.4%	57.4%	-0.9%	0.0%	0.1%
FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	6,206,500	2,694,908	3,561,872	-56,480	1,550	4,650	
2027	5,336,027		2,316,942	3,062,313	-48,559	1,333	
2028	5,602,828			2,432,789	3,215,429	-50,987	
2029	7,184,800				3,119,693	4,123,313	
2030	6,177,118					2,682,150	
Total	30,507,272	2,694,908	5,878,814	5,438,621	6,288,112	6,760,458	

4. All Programs

FYE Incurred	Expected Loss & DCCE	Paid in Fiscal Year Ending					
		2026	2027	2028	2029	2030	
2026	30,192,057	8,921,747	16,363,335	2,533,230	1,540,265	833,480	
2027	34,041,070		9,424,282	18,114,850	3,333,765	2,032,267	
2028	32,046,904			9,297,879	17,329,042	2,804,169	
2029	37,184,800				10,669,432	19,949,503	
2030	34,466,412					9,955,297	
Total	167,931,242	8,921,747	25,787,617	29,945,959	32,872,504	35,574,716	

Notes:

- (1) Expected Loss & DCCE from Actuarial Analyses; results have been increased by \$200K to load for cat. losses
Years in red represent adverse scenarios (i.e. losses at an 85% confidence level)
(2) through (6) = (1) x (7) for each Fiscal Year Ending
(7) from Exhibit 4 for each of AMAIT, APSIT, and ASBA

Unlimited Net Paid Loss & ALAE Development

Accident Period	Months of Development																				
	9	21	33	45	57	69	81	93	105	117	129	141	153	165	177	189	201	213	225	237	249
7/1/03-04																	114,788	4,244	114,788	114,788	114,788
7/1/04-05																913,767	132,737	905,112	905,112	905,112	
7/1/05-06																4,151,921	4,123,684	4,151,921	4,151,921	4,151,921	
7/1/06-07														622,555	622,555	622,555	622,555	622,555			
7/1/07-08													5,487,825	5,487,825	5,487,825	5,487,825	5,487,825	5,487,825			
7/1/08-09												2,522,903	2,522,903	2,522,903	2,522,903	2,522,903	2,522,903				
7/1/09-10											3,590,998	3,590,998	3,590,998	3,590,998	3,590,998						
7/1/10-11										3,471,895	3,471,895	3,471,895	3,471,895	3,471,895							
7/1/11-12									1,693,111	1,693,111	1,693,111	1,693,111	1,693,111								
7/1/12-13								1,096,748	1,096,748	1,096,748	1,096,748	1,096,748									
7/1/13-14							2,597,631	2,591,537	2,591,537	2,591,537	2,591,537										
7/1/14-15						5,828,078	5,841,729	5,841,729	5,841,729	5,841,729											
7/1/15-16					1,346,874	1,346,874	1,346,874	1,346,874	1,346,874												
7/1/16-17				2,945,443																	
7/1/17-18			4,051,327	4,616,247	5,051,432	5,051,432	5,051,432														
7/1/18-19		1,663,122	1,811,601	1,811,601	1,811,601	1,811,601															
7/1/19-20	711,402	1,729,098	1,729,098	1,729,098	11,675,387																
7/1/20-21	161,879	1,584,398	2,802,570	2,807,836																	
7/1/21-22	97,383	15,658,766	31,624,201																		
7/1/22-23	534,919	3,572,296																			
7/1/23-24	2,592,408																				
Accident Period	Months of Development																				
	9-21	21-33	33-45	45-57	57-69	69-81	81-93	93-105	105-117	117-129	129-141	141-153	153-165	165-177	177-189	189-201	201-213	213-225	225-237	237-249	249-Ult
7/1/03-04																	0.037	27.047	1.000	1.000	
7/1/04-05																0.145	6.819	1.000	1.000		
7/1/05-06															0.993	1.007	1.000	1.000			
7/1/06-07														1.000	1.000	1.000	1.000				
7/1/07-08													1.000	1.000	1.000	1.000					
7/1/08-09												1.000	1.000	1.000	1.000						
7/1/09-10											1.000	1.000	1.000	1.000							
7/1/10-11										1.000	1.000	1.000	1.000								
7/1/11-12									1.000	1.000	1.000	1.000									
7/1/12-13								1.000	1.000	1.000	1.000										
7/1/13-14							0.998	1.000	1.000	1.000											
7/1/14-15						1.002	1.000	1.000	1.000												
7/1/15-16					1.000	1.000	1.000	1.000													
7/1/16-17				1.000	1.000	1.000	1.000														
7/1/17-18			1.139	1.094	1.000	1.000															
7/1/18-19		1.089	1.000	1.000	1.000																
7/1/19-20	2.431	1.000	1.000	6.752																	
7/1/20-21	9.788	1.769	1.002																		
7/1/21-22	160.795	2.020																			
7/1/22-23	6.678																				
Average	44.923	1.469	1.035	2.462	1.000	1.001	0.999	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.998	0.788	2.214	9.682	1.000	1.000	
Wgt. Average	14.974	1.840	1.055	1.935	1.000	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	0.998	0.932	1.132	1.022	1.000	1.000	
3 Yr. Wtd.	26.210	1.906	1.001	2.273	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.003	1.157	1.022			
Selected	6.340	1.049	1.026	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
Cumulative	6.835	1.078	1.027	1.002	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
% Paid	14.6%	92.8%	97.3%	99.8%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Marginal Paid	14.6%	78.1%	4.6%	2.5%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Interpolated	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180	192	204	216	228	240	
Cumulative	2.927	1.065	1.021	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	
% Paid	34.2%	93.9%	98.0%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Marginal Paid	34.2%	59.7%	4.1%	1.9%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	

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Accident Period	Months of Development																				
	9-21	21-33	33-45	45-57	57-69	69-81	81-93	93-105	105-117	117-129	129-141	141-153	153-165	165-177	177-189	189-201	201-213	213-225	225-237	237-249	249-Ult
7/1/03-04																					
7/1/04-05																					
7/1/05-06																					
7/1/06-07																					
7/1/07-08																					
7/1/08-09												1.000	1.000	1.000	1.000						
7/1/09-10											1.000	1.000	1.000	1.000							
7/1/10-11										1.000	1.000	1.000	1.000								
7/1/11-12									1.000	1.000	1.000	1.000									
7/1/12-13								1.000	1.000	1.000	1.000										
7/1/13-14							1.000	1.000	1.000	1.000											
7/1/14-15						1.000	1.000	1.000	1.000												
7/1/15-16					1.000	1.000	1.000	1.000													
7/1/16-17				1.000	1.000	1.000	1.000														
7/1/17-18			1.000	1.000	1.000	1.000															
7/1/18-19		1.019	1.000	1.002	1.000																
7/1/19-20	2.698	0.924	1.001	1.000																	
7/1/20-21	6.802	0.960	0.867																		
7/1/21-22	3.828	0.680																			
7/1/22-23	4.167																				
Average	4.374	0.896	0.967	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000						
Wgt. Average	4.184	0.863	0.941	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000						
3 Yr. Wtd.	4.533	0.836	0.933	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000						
Selected	4.180	0.988	1.000	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Cumulative	4.134	0.989	1.001	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
% Paid	24.2%	101.1%	99.9%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Marginal Paid	24.2%	76.9%	-1.2%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Interpolated	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180	192	204	216	228	240	252
Cumulative	2.303	0.992	1.001	1.001	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
% Paid	43.4%	100.8%	99.9%	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Marginal Paid	43.4%	57.4%	-0.9%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%