

Report on the Examination  
As of December 31, 2016  
of  
**VLCT Property and Casualty Intermunicipal Fund, Inc.**  
by the  
Vermont Department of Financial Regulation  
Division of Insurance



State of Vermont  
Department of Financial Regulation  
89 Main Street  
Montpelier, VT 05620-3101  
[www.dfr.vermont.gov](http://www.dfr.vermont.gov)

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[Banking] 888-568-4547

Peter Johnson  
President of the Board  
VLCT Property and Casualty Intermunicipal Fund, Inc.  
89 Main Street, Suite 4  
Montpelier, VT 05602

### ORDER OF ADOPTION

In accordance with 8 V.S.A. § 3574(c), I order that the Report on the Examination of VLCT Property and Casualty Intermunicipal Fund, Inc. for the year ending December 31, 2016 is adopted.

VLCT Property and Casualty Intermunicipal Fund, Inc. may appeal this order within 30 days of its adoption in accordance with the Vermont Administrative Procedure Act and Department of Financial Regulation Rule 82-1.



Michael S. Pieciak, Commissioner

3/27/18

Date



**VLCT PROPERTY AND CASUALTY INTERMUNICIPAL FUND, INC.**  
**EXAMINATION REPORT**  
**AS OF DECEMBER 31, 2016**

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March 12, 2018

Michael S. Pieciak, Commissioner  
Department of Financial Regulation  
89 Main Street  
Montpelier, VT 05620-3101

Dear Commissioner Pieciak:

Pursuant to the November 23, 2016 examination order, the Insurance Division's financial examination team has conducted an examination of:

**VLCT Property and Casualty Intermunicipal Fund, Inc.**  
with their statutory home offices located at  
89 Main Street, Suite 4  
Montpelier, VT 05602

The examination was performed pursuant to 8 V.S.A. § 3563 and Regulation I-90-1, in order to ascertain the Company's financial condition, ability to fulfill its obligations and compliance with the provisions of Vermont law.



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**VLCT PROPERTY AND CASUALTY INTERMUNICIPAL FUND, INC.**  
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**SCOPE OF EXAMINATION**

As of December 31, 2016, the financial examination of the VLCT Property and Casualty Intermunicipal Fund, Inc. (VLCT - PACIF or the Fund) was performed. The Fund's last financial condition examination was as of December 31, 2011 for the previous five year period. The examination was conducted by the Insurance Division of the Vermont Department of Financial Regulation (Department).

The examination was conducted pursuant to 8 V.S.A. § 3563 and Regulation I-90-1, and guidance provided by the National Association of Insurance Commissioners (NAIC). The examination covered the period from January 1, 2012 through December 31, 2016. The Department conducted the examination in accordance with NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Fund and evaluate system controls and procedures used to mitigate those risks. The examination also includes identifying and evaluating significant risks that could cause the Fund's net position to be materially misstated both currently and prospectively.

All accounts and activities of the Fund were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Generally Accepted Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Fund's financial statements.

This examination report includes significant findings of fact as mentioned in 8 V.S.A. § 3574 and general information about the Fund and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions,

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proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Fund.

**SUMMARY OF SIGNIFICANT FINDINGS**

There were no findings in the prior exam report or the current exam report. There were no adjustments made to the financial statements based on this examination.

**HISTORY**

The Vermont League of Cities and Towns (VLCT) is a nonprofit, nonpartisan organization that serves Vermont's municipal officials founded in 1967. VLCT is owned by its member municipal governments and provides educational workshops and consulting advice to municipal officials, information to the public regarding local government; support for legislation that strengthens local government; comprehensive insurance coverage for municipalities; and a Municipal Assistance Center for consultation on a wide range of municipal issues.

The Fund was established in June 1986 by VLCT. Its purpose is to provide its members of the VLCT with various forms of property, workers' compensation, casualty and fidelity insurance, reinsurance, and excess insurance; to develop self-insurance and risk retention pools for the benefit of members of VLCT; to act as an advocate before governmental regulatory agencies with respect to municipal property and casualty insurance coverage and availability; and to develop, promote and implement risk management, risk containment and loss control programs for the benefit of Vermont municipalities and their employees.

Political subdivisions joining the Fund must remain for a minimum of one year but may withdraw after that time by giving notice sixty (60) days prior to the end of the fund year. The Fund's underwriting and rate setting policies are established after consultation with an actuary. If the assets of the Fund were to be exhausted, members would be responsible for the Fund's liabilities. At December 31, 2016, the Fund provided property and casualty and workers' compensation coverage to 340 political subdivisions including, cities, towns, villages and special purpose districts providing water, solid waste management and fire protection.

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The Fund receives its contributions from municipalities based upon the loss experience of the Fund, operating expenses, excess insurance and reinsurance costs and exposures for each member. Such contributions are used to pay all administrative expenses, reinsurance costs, claims and claim-related costs. The Fund maintains separate funds for each plan year to reserve monies for claims related to those years.

The Fund's members may be subject to an assessment for an amount determined by the Fund's Board of Directors (Board) to cover a loss fund deficiency. In the event that an assessment is required, such assessment shall be made against individual members in the proportionate share of each member's contribution in the total contribution for that fund year. No assessment has been determined since the Fund's inception in 1986.

**MANAGEMENT AND CONTROL**

**Corporate Records**

The Fund's statutory home office is located in Montpelier, Vermont, and the Fund maintains its corporate records at this location. Examiners reviewed the minutes of the Board of Directors and key committees thereof and determined that the minutes adequately approve and support the Fund's transactions and events and that the meetings and minutes are in compliance with the Fund's articles and By-Laws.

**Members**

The By-Laws state that membership is limited to municipalities who are also members of VLCT. Members meet at least annually; the date and time is determined by the Board of Directors and the meeting is open to the public. The annual meeting of Members is held for the purpose of electing Directors and for the transaction of business that may come before the meeting.

**Board of Directors**

The By-laws indicate that the Board of Directors consists of twelve individuals one of which is an alternate; no more than four Directors can serve on the Board of VLCT or any of its affiliated insurance funds. Each Director must be a qualified official of a Member, such as select board

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member, clerk, treasurer or elected/appointed official with the responsibility to administer insurance coverage for the Member. Terms for the Directors are for a three-year period and staggered so that no more than four Directors are appointed in one year. A majority of the Directors present constitutes a quorum for the transaction of business.

The following individuals were elected to the Board of Directors of the Fund in accordance with the By-Laws and serving as of December 31, 2016:

| <u>Name and Principal Association:</u>         | <u>Member Municipality:</u> |
|------------------------------------------------|-----------------------------|
| Melvin Adams<br>Town Manager                   | Randolph                    |
| Neal Fox<br>Town Health Officer                | Bethel                      |
| Aaron Frank<br>Assistant Town Manager and CFO  | Colchester                  |
| Jacqueline Higgins (Alternate)<br>Town Manager | Williamstown                |
| Stuart Hurd<br>Town Manager                    | Bennington                  |
| Walker James<br>Selectperson                   | Orwell                      |
| Peter Johnson<br>Town Clerk and Treasurer      | North Hero                  |
| John Lawe<br>Health Officer                    | Norwich                     |
| Joshua Powers, Jr.<br>Trustee of Public Funds  | Royalton                    |
| Carl Rogers<br>Town Manager                    | Barre                       |



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Name and Principal Association:

Member Municipality:

Pat Scheidel  
Town Manager

Essex

Brendan Whittaker  
Selectperson

Brunswick

Officers

The Fund's By-Laws state that the Board of Directors elects a President, Vice President and Treasurer. The President presides over meetings of the Board and serves no more than six consecutive terms. The Directors may also elect a Secretary who does not need to be a member of the Board.

The Officers of the Fund as of December 31, 2016 were as follows:

Name

Title

Pat Scheidel

President

Pete Johnson

Vice President

Joshua Powers, Jr.

Secretary and Treasurer

Affiliated Companies

The Fund has an Administrative Support Service Agreement with VLCT. The agreement provides certain administrative, financial, investment, and management services to the Fund. The amount payable under the agreement is based on the total direct expenses actually paid by VLCT during the fiscal year and the appropriate percentage of expenses actually paid for services provided through the administrative agreement. VLCT provides staff, office space and equipment usage to the Fund.

In 2015 the Trust entered into an agreement with two affiliated entities, Vermont Employment Resource and Benefits Trust, Inc. (VERB) and VLCT Municipal Assistance Center (VLCT MAC), for the implementation of a Human Resource Consulting Services program. VERB

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manages the program and provides the Fund with human resource consulting for Members related to risk managements and legal liability issues. VLCT MAC provides the staffing for the program.

Certain Board Members of the Fund are also Board Members and or Officers of VLCT and VERB.

The Fund is a member of the NLC Mutual Insurance Company, which is a Vermont licensed association captive insurance company that provides reinsurance to various state league sponsored risk sharing pools. Members make capital contributions and pay premiums in exchange for reinsurance.

**TERRITORY AND PLAN OF OPERATIONS**

The Fund is the leading provider of property/casualty and workers' compensation coverage to Vermont municipalities. It started with 27 founding members and has grown to 340 current members. The Fund provides coverage for losses to member municipalities for general liability, law enforcement, crime and fidelity, property damage, auto accidents, injured employees, public official liability, and employment practices liability. The Fund serves a range of Vermont political subdivisions that include cities, towns, villages and special purpose districts providing water, solid waste management and fire protection.

**REINSURANCE**

The Fund has various occurrence basis quota-share and excess-of-loss reinsurance agreements to limit its exposure to large claims. Such reinsurance reduces the magnitude of sudden and unpredictable changes in net position; however, the Fund remains contingently liable should the reinsurer fail for any reason to perform their obligations under the agreements.

At year-end the Fund maintained the following reinsurance levels by line of business:

- Property: \$500,000 retention with a policy limit of \$501 million per occurrence.

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- Casualty: \$500,000 retention with a policy limit of \$10 million per member per occurrence, subject to an annual aggregate deductible of \$250,000.
- Workers' Compensation/Employers Liability: \$500,000 retention with a policy limit of \$5 million aggregate per member.
- Boiler and Machinery: \$100,000 retention with a policy limit of \$50 million per occurrence.

**FINANCIAL STATEMENTS**

The following financial statements filed by the Fund with the Department presents the financial condition of the Company as of December 31, 2016, in accordance with Generally Accepted Accounting Principles (GAAP).

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Statement of Net Position

Assets:

Investments

|                                            |               |
|--------------------------------------------|---------------|
| Fixed-maturity securities, at fair value   | \$ 43,376,568 |
| Mutual funds, at fair value                | 9,345,147     |
| Investment in NLC Mutual Insurance Company | 2,647,975     |
| Total investments                          | 55,369,690    |

|                                           |            |
|-------------------------------------------|------------|
| Cash and cash equivalents                 | 13,645,923 |
| Accrued investment income                 | 306,188    |
| Contributions receivable                  | 9,659      |
| Net subrogation and deductible receivable | 462,751    |
| Prepaid expenses                          | 1,065,814  |
| Reinsurance recoverable - paid losses     | 343,178    |
| Other assets                              | 338,611    |
|                                           |            |

|              |               |
|--------------|---------------|
| Total Assets | \$ 71,541,814 |
|              | 71,541,814    |

Liabilities:

|                                                                   |               |
|-------------------------------------------------------------------|---------------|
| Losses and loss adjustment expenses, net of reinsurance           | \$ 38,489,244 |
| Accounts payable                                                  | 426,103       |
| Contributions collected in advance                                | 6,861,072     |
| Claims expense and workers' compensation state assessment reserve | 5,012,733     |
| Contributions credits payable                                     | 500,000       |
|                                                                   |               |

|                   |            |
|-------------------|------------|
| Total liabilities | 51,289,152 |
|                   | 51,289,152 |

Net Position:

|                           |            |
|---------------------------|------------|
| Equipment grant program   | 200,000    |
| Unrestricted net position | 20,052,662 |
|                           |            |

|                    |            |
|--------------------|------------|
| Total net position | 20,252,662 |
|                    | 20,252,662 |

|                                    |               |
|------------------------------------|---------------|
| Total Liabilities and Net Position | \$ 71,541,814 |
|                                    | 71,541,814    |

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Statement of Contributions, Expenses and Changes in Net Position

Operating revenues:

|                    |    |            |
|--------------------|----|------------|
| Fund contributions | \$ | 25,491,349 |
| Other income       |    | 41,866     |
|                    |    | 25,533,215 |

Operating expenses:

|                                                         |  |            |
|---------------------------------------------------------|--|------------|
| Losses and loss adjustment expenses, net of reinsurance |  | 15,474,634 |
| General and administrative expenses                     |  | 5,252,856  |
| Reinsurance expenses                                    |  | 3,569,961  |
| Broker fees for reinsurance                             |  | 115,000    |
|                                                         |  | 24,412,451 |

|                      |  |           |
|----------------------|--|-----------|
| Net operating income |  | 1,120,764 |
|----------------------|--|-----------|

Non-operating revenues (expenses):

|                                                  |  |           |
|--------------------------------------------------|--|-----------|
| Investment income - interest and dividends       |  | 1,512,152 |
| Investment income - net change in fair value     |  | 561,768   |
| Investment income - NLC Mutual Insurance Company |  | 193,045   |
| Interest management fees                         |  | (97,026)  |
|                                                  |  | 2,169,939 |

|                                             |  |         |
|---------------------------------------------|--|---------|
| Member distributions - contribution credits |  | 500,000 |
|---------------------------------------------|--|---------|

|                          |  |           |
|--------------------------|--|-----------|
| Net non-operating income |  | 1,669,939 |
|--------------------------|--|-----------|

|                        |  |           |
|------------------------|--|-----------|
| Change in net position |  | 2,790,703 |
|------------------------|--|-----------|

|                                  |  |            |
|----------------------------------|--|------------|
| Net position - beginning of year |  | 17,461,959 |
|----------------------------------|--|------------|

|                            |    |            |
|----------------------------|----|------------|
| Net position - end of year | \$ | 20,252,662 |
|----------------------------|----|------------|

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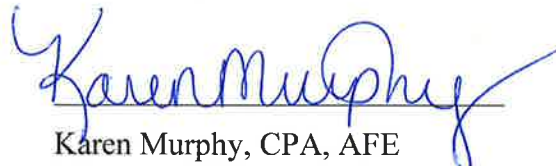
**COMMENTS AND RECOMMENDATIONS**

There are no significant findings or financial adjustments as a result of this examination. A Comment Letter will be issued to the Board as a result of this exam addressing opportunities for improvement and other items that did not reach a level of significance to warrant inclusion in this report. In such cases, these matters were thoroughly discussed with responsible personnel during the examination.

**CONCLUSION**

In addition to the undersigned, Jesse Lussier, Administrative Insurance Examiner; Miranda Cloutier, Examiner in Charge; and KC Ng, Examiner, participated in this examination. We wish to express our appreciation to the Directors and Management for the courteous cooperation extended during the course of the examination.

Respectfully submitted,



Karen Murphy, CPA, AFE  
Director of Company Licensing and Examinations  
Division of Insurance  
Vermont Department of Financial Regulation

STATE OF VERMONT  
COUNTY OF WASHINGTON

Karen Murphy, being duly sworn, deposes and says that the foregoing report submitted by her is true to the best of her knowledge and belief.

Subscribed and sworn to before me

This 21 day of March, 2018

  
Notary Public

2/10/19