A CHAMPION SPIRIT

2016
ANNUAL REPORT

MICHIGAN MUNICIPAL RISK MANAGEMENT AUTHORITY
Thomas Edison’s name is synonymous with the spirit of ingenuity. His inventions – including components of the electric lamp, telephone, and phonograph – were among many that paved the way for the technological marvels that are so commonplace in our modern era.
The Spark

To Our Members

In this 2016 Annual Report, we celebrate MMRMA: A Champion Spirit.

When we hear the term “champion,” the first images that come to mind may be great athletes. In 2016, an Olympic year, athletic achievements were even more prominent in the media and in our public discourse. Winning athletes – both individuals and teams – certainly exemplify the best in their fields. But champions are not confined to the track, stadium, field, or court. The spirit to succeed can be found in every discipline and industry, in people and organizations whose passion, commitment, and discipline takes them to the top of their game.

That champion spirit has been a key component in the success and longevity of MMRMA. Our reputation for excellence is not a fluke; it is a direct result of the daily commitment of everyone involved.

Like most great champions, MMRMA’s success began with a spark. Throughout history, leaders almost always start this way, with talent, passion, an innovative idea, or a winning product.

In MMRMA’s case, it was a great idea: in 1980, our founders were among a few groups across the country that decided to form risk pools in response to conditions in the municipal insurance marketplace. Without that spark, MMRMA would not have grown into the leader it is today. Without that spark, the entire governmental risk pooling industry might not exist at all.

But a spark is only the beginning, and MMRMA’s story reflects this, too. Talent and ideas are not enough to ensure short-term success, much less an enduring legacy. Every legendary explorer, inventor, athlete, or pioneer pushes beyond their initial concept, their innate talent, their passion, and takes consistent daily action. They stay focused on their pursuit of excellence – no matter what has been done before or what others might deem impossible.

In the following pages, we will explore how MMRMA demonstrates the characteristics that embody a champion spirit:

Character. Our success in every area is based on our mission statement, core values, and integrity.

Commitment. MMRMA conducts its daily business in a consistent manner that reflects our responsibility to the membership.

Collaboration. Like most great achievers, MMRMA depends on the support of many contributors.

Innovation. One of the only constants is change, and we always aim to meet this reality with creative solutions that address an ever-evolving world.

Advocacy. The people who serve on the Board of Directors are our ultimate champions, ensuring that MMRMA continues to thrive, grow, and lead.

In each of these ways, MMRMA has distinguished itself for over thirty-six years. This ethos is evident in its history, its innovative programs and services, and its steadfast determination to carry on this tradition of excellence.

Thank you to the member entities and individuals who have helped shape and uphold these characteristics in MMRMA. Our crowning achievements are a credit to everyone involved. Together, we will continue to keep MMRMA’s champion spirit alive for decades to come.

Genius is one percent INSPIRATION and ninety-nine percent perspiration.”  - Thomas Edison
Character

For decades, the people and organizations involved with MMRMA have exemplified a spirit of integrity. Our success in every area is rooted in our mission statement, core values, long-term goals, and member loyalty.

When MMRMA’s founders chose to fan a spark – the notion of public entity pooling – into the organization we know and love today, they demonstrated the boldness of vision in Susan B. Anthony’s concise message about the impossibility of failure. MMRMA carries this confidence forward each day, often while negotiating challenges that are global and local, large and small. Faced with constantly evolving circumstances, it is our dauntless belief in the value of our mission that determines the measure of our character.

Today, this philosophy is embedded into every aspect of MMRMA, including our governing documents.

Our Mission Statement

*Michigan Municipal Risk Management Authority, a leader among public entity pools, is dedicated to providing superior risk management services and products that protect its Member participants and the public they serve.*

These are not just words; they form the basis for the good works done by the Board of Directors, staff, service providers, and member contributors every day on behalf of the entire membership. This mission is a driving force behind MMRMA’s excellence.

Core Values

MMRMA is so invested in its core values that they are outlined in the Organization and Planning section of our Governing Documents. They echo many of the themes presented in this Annual Report to Members and truly reflect the champion spirit of MMRMA. Here are our core values:

- Member Focus – Fulfilling Commitments and Delivering Results
- Professionalism
- Integrity, Honesty, and Transparency
- Fairness
- Learning Environment and Competence
- Teamwork and Collaboration
- Innovation
- Technology
- Being the Best at What We Do

Long Term Goals

Another key element of the Governing Documents, MMRMA’s long-term goals expand on our mission statement and core values, providing a road map for the Board of Directors and staff as they design and implement MMRMA’s strategic planning initiatives. Highlights include:

*Financial security.* It is no exaggeration to say that this priority is crucial to MMRMA’s survival. With the Board of Directors’ guidance and input from the Finance Committee, service providers, and
staff, every facet of MMRMA’s financial health – from investments to budgets to pricing and reinsurance placements – is managed professionally and effectively.

**Member growth and retention.** MMRMA’s stable membership is also essential to the organization’s longevity, and it is fostered by our commitment to retaining – and judiciously adding – members. MMRMA has 118 Individual and 258 State Pool members, for a total of 376 member entities. In Fiscal Year 2016, we achieved 100 percent retention and, thanks to the efforts of our excellent team of in-house and contracted Regional Risk Managers, MMRMA added seven new members.

This long-term stability is another testament to MMRMA’s dependability. It also creates a self-sustaining well of talent from within the membership to further bolster MMRMA’s value and achievements. These people work closely with our staff, act as Member Representatives, and fill many important roles on MMRMA’s Board of Directors, standing committees, and risk control advisory committees.

Members can rest assured that their interests are well represented through all of these measures and more. Every day, our members, staff, and partners bring a communal spirit of integrity to the MMRMA table for the benefit of the entire membership.

Born into a family that championed social equality, Susan B. Anthony collected anti-slavery petitions as a teenager and later played a pivotal role in the women’s suffrage movement in America. Sadly, she died before women were granted the vote nationally. Still, her name and legacy are forever linked with that landmark achievement, and rightly so.

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**Member Contributions History**

**General Fund and Retention Fund** - Fiscal Year Ended June 30th

- Includes contributions from MCCRMA, but excludes Energy Choice Program revenue.
- Retention fund began under its current structure as a separate fund on June 30, 1986.
- **General Fund**
- **Retention Fund**
Commitment

Like all champions, organizations need more than outstanding character to succeed. Fortunately, MMRMA conducts its daily business in a consistent manner that reflects our priorities and responsibilities. Everyone involved with MMRMA embodies da Vinci’s resolve and stays “fixed” on our ongoing mission of outstanding member service and excellence.

MMRMA’s commitment has never wavered, but that steadfastness has never equated to complacency or stagnation. Throughout our thirty-six-year history, MMRMA has continuously evolved, optimizing resources and talents at every turn. Through an elegant balance of stability and evolution, MMRMA has ensured that the best people and systems are always in place to achieve our objectives.

Claims Services

MMRMA’s claims staff continues its professional, efficient management of members’ claims and lawsuits. In Fiscal Year 2016, the team strengthened its focus on subrogation and recovered $441,637. As Claims Operations Manager Charlie Stevens points out, “we also improved internal processes for tracking and reporting of recoveries.”

Special Legal Services (SLS) assignments are conducted in anticipation of a potential lawsuit in order to investigate, document, and secure evidence. “MMRMA reviews written SLS requests from Member Representatives,” says Legal Services Manager Starr M. Kincaid, Esq. “If appropriate, we assign defense counsel to work on a request in conjunction with claims staff.” In FY 2016, $581,981 was paid through Members’ Funds on Deposit.

(Please see inside back cover for additional charts relating to FY 2016 claim and legal expense data.)

Accounting Standards

Our finance team maintains the highest standards in managing and reporting on MMRMA’s accounting and fiscal resources.

The Department of Insurance and Financial Services (DIFS) Office of Insurance Evaluation conducted its statutorily required financial examination of MMRMA last year, and made the results of its report public on October 1, 2015. The report, which covered the period of July 1, 2011, through June 30, 2014, states: “There are no findings or recommendations resulting from this examination.”

MMRMA also saw stellar results on the FY 2016 financial audit. In October 2016, the Board of Directors received the FY 2016 Audited Financial Statements prepared by MMRMA’s independent audit firm, Plante & Moran. As in past years, MMRMA received an unmodified opinion, which is the best possible result. In addition, there were no audit findings, adjustments, or recommendations.

Every obstacle yields to stern **RESOLVE.** He who is fixed to a star does not change his mind.” - Leonardo da Vinci
as a result of the audit. At the same meeting, the Board also received the FY 2016 Actuarial Valuation Report of its claim and claim adjustment expense loss reserves prepared by Willis Towers Watson.

**Risk Avoidance Program (RAP)**

In 1997, MMRMA led the charge among public entity pools yet again with the launch of RAP grants. For nearly two decades, members have applied for funds to assist them in paying for equipment, projects, and training that helped them reduce risk and improve their operations.

“RAP has been a huge success,” says Director of Risk Management Paul Mongiello, “thanks in part to MMRMA’s willingness to review and modify the program.” Indeed, over the years, the Board of Directors and staff have acted to increase the annual RAP budget, add a Certification and Accreditation (CAP) component, and adjust standard grant limits, qualifications, and other nuts and bolts aspects of the program.

As with many successful initiatives, the RAP take-up rate (members’ actual use of funds granted) has increased in recent years, and the program will continue to evolve to successfully fulfill its purpose while helping members reap the benefits of their risk management efforts.

Through these and many other day-to-day operational commitments, MMRMA continues to serve the membership with a resolute, productive spirit that would surely impress even the prolific Leonardo da Vinci.

A polymath and prolific journal keeper, Leonardo da Vinci exemplified the spirit of creativity. Renowned as a great painter, he was also an extraordinary thinker and visionary in a host of other fields, including architecture, engineering, mathematics, music, anatomy, botany, and geology. The list could go on.

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**Risk Avoidance Program (RAP) Applications**

*Through May 4, 2016*
Collaboration

Talent wins games, but teamwork wins championships.” - Michael Jordan

They may be short and sweet, but Michael Jordan’s words perfectly encapsulate the value of teamwork. Most great achievers depend on other individuals and organizations for their support and participation, and MMRMA is no exception. Like a champion basketball team, MMRMA is truly greater than the sum of its parts.

**Member-Driven Committees**

From day one, MMRMA thrived and defied expectations. While some observers predicted a swift demise for public entity pooling, our three founding members – Charter Township of Redford, Livingston County, and the City of Ishpeming – surely had an inkling that this somewhat unorthodox idea would work. Indeed, all three of these municipalities have been continuous members of MMRMA and generous contributors of their time and insights.

Fortunately, they did not have to go it alone. Drawing on the talent within the membership, they established standing committees to facilitate governance and introduced risk control advisory committees to help develop training and resources to benefit members. Today we have four standing committees – Finance, Membership, State Pool, and Events Planning – and nine risk control advisory committees focused on several important areas of municipal operations.

**Key Players**

MMRMA’s founders also partnered with firms that provided essential services to the membership and Board of Directors. In 1987, the Board determined that hiring an Executive Director was the best way to provide daily management and oversight. Current Executive Director Michael Rhyner has been in that role since 2001 and his wealth of knowledge and experience has been of extraordinary benefit to MMRMA, helping guide us to ever greater heights.

Over the decades, many departmental functions – including claims, risk control, and finance/accounting – have been incorporated into MMRMA’s own staff. In addition, MMRMA created an in-house Risk Manager position in 2002 and added two others in recent years. Meanwhile, we continue many longstanding relationships with our partners in several crucial areas.

**Law Firms**

MMRMA depends on the expertise and resources of two principal defense firms, Cummings, McClure, Davis & Acho and Johnson, Rosati, Schultz & Joppich. In addition to litigation services, lawyers from both firms help provide member training and consult with staff regarding hot topics and evolving trends relating to municipal risk.

**Underwriting and Actuaries**

Our experienced, growing underwriting department, under the direction of Underwriting Manager Ray Williams, works closely with our actuarial partners and other key staff members to maintain high standards of member service. We continually evaluate and refine our pricing plan to provide members with the most fair and accurate rates to accompany our outstanding coverage and risk control resources.
Michael Jordan is not only a phenomenal athlete – acclaimed on the NBA website as “the greatest basketball player of all time” – but one who truly harnessed the spirit of teamwork. Jordan was a key force on the court during the Chicago Bulls’ two “three-peat” championship streaks in the 1990s and also played on two gold-medal winning American Olympic teams.

We Continue to Beat Internal Casualty Reinsurance Pricing Benchmarks
Benchmark and Actual Rate Comparison

MMRMA’s Strong Financial Position and Results Reduced the Reinsurance Rate at April 1, 2016
Rate History FY 2008 - FY 2017

Reinsurance Placement

With MMRMA’s enormous growth and an evolving global climate, it has been necessary to expand coverage limits and adjust retention layers over time. While our financial strength allows MMRMA to retain risk, we also secure reinsurance in excess of retained risk in order to provide members with the best possible coverage.

Working closely with our longtime reinsurance intermediary, JLT Re, we rigorously evaluate our property and casualty reinsurers so that we can be confident in their ability to respond to future claims. In FY 2016, MMRMA was able to secure a 1.35 percent decrease in casualty reinsurance rates and no change in property reinsurance rates, despite much higher frequency and severity of property claims due to severe winter weather.

All of these partners contribute to MMRMA’s professional, experienced lineup and collective spirit of excellence as we forge ahead into an ever-evolving future.
No bird **SOARS** in a calm.” - Wilbur Wright

The twentieth century was filled with the discoveries and inventions of innumerable pioneers of industry. But even in such esteemed company, The Wright Brothers stand out. Their contributions to the arena of aviation – indeed, to the speed of global advancement ever since – are monumental, and Wilbur Wright’s simple but profound observation about birds sums up so much about the spirit of innovation. Champions in any arena rarely achieve that status without facing headwinds, whether literal or figurative. Resistance – be it gravity, wind, or economic upheaval – is so often essential for growth and improvement.

With that in mind, perhaps it is fortunate that one of the only constants is change. MMRMA always rises to meet the winds of progress with proactive, creative solutions that keep us poised to remain aloft in our ever-evolving world.

**Technology**

When it comes to technology, that evolution is growing constantly, exponentially faster. Technological resources and applications are featured in the Board of Directors’ strategic planning outline each year, and constant improvements are the name of the game.

With better tools come more responsive and useful retrieval and analysis of data. MMRMA staff is working closely with our technology service providers to provide additional enhancements for members in the coming year.

**Coverage Enhancements**

Technological developments have also driven the need for new and emerging forms of coverage. In FY 2016, MMRMA introduced its coverage for unmanned aircraft (aka drones) and expanded the limits for data breach coverage, which is still provided at no additional cost to members.

**Risk Control Initiatives**

With these new areas of coverage and other emerging trends in types of claims, MMRMA’s risk control team is developing and implementing plans to help control risk for data breach and property. These initiatives will be further enhanced in the upcoming second phase of Best Practices Reviews. A cornerstone of our risk assessment of members, this program allows MMRMA to look at collective data while giving member departments the information they need to better evaluate and mitigate risk.

These initiatives also dovetail nicely with the introduction of service plans, which facilitate further collaboration between MMRMA and its members. Service plans delineate action items, timelines, and resources that can help our staff, member departments, and personnel work together to address losses.
Succession Planning

One of MMRMA’s long-term goals is “to develop and retain an unparalleled staff by providing adequate resources and facilities and through the recruitment of qualified individuals.” In order to fulfill this goal during a time when the retirements of many seasoned employees are either complete or imminent, succession planning has become an ongoing and essential factor in our success.

Executive Director Michael Rhyner notes that it can be a challenge to lose decades of institutional memory. On the other hand, he adds, “succession can also be an opportunity for organizational evolution and an orderly transition to the next generation of excellence.”

In FY 2016, longtime Director of Claims Michael Ellis retired, and MMRMA undertook a strategic realignment to maximize the skills of existing staff members and bring new employees into key positions. Finance Director Bryan Anderson was promoted to Managing Director and now oversees the Finance, Claims, and Information Technology departments.

MMRMA has never been content to rest on its past achievements, and this year was no exception. We are confident that this evolutionary spirit will remain strong and we will continue to soar like Wilbur Wright’s bird in the face of unpredictable, ever more global conditions.
Advocacy

The people who serve on the Board of Directors are your ultimate champions. Their unyielding goal is to ensure that MMRMA continues to thrive, grow, and lead. Year in and year out, they uphold and reflect every component of champion spirit detailed throughout this Annual Report to Members.

The Board of Directors is elected by the membership and of the membership. In this synergistic role, these fine individuals serve both as leaders and advocates, guides and listeners. They embody that dual nature of courage as expressed by Churchill, recognizing their unique role and representing the membership with professionalism and compassion.

Active Governance

The Board charts MMRMA’s course and delineates the ongoing strategic initiatives of the organization. As part of this process, they review MMRMA’s Governing Documents each year and make necessary updates as needed. In Fiscal Year 2016, this process included an update of core values and long-term goals, as highlighted on page 2. Together, these documents and the entire Governance Manual define MMRMA’s character and shape both its overarching principles and its day-to-day operations.

Captive Formation

This year, the Board formally authorized formation of an MMRMA captive insurance company, which will allow MMRMA to enhance our reinsurance structure and provide new coverages to members. This is an important priority for the Board and will help take MMRMA to the next level of excellence in the public pooling industry.

Financial Oversight

The Board takes its stewardship of MMRMA’s formidable financial strength very seriously. It oversees the investment portfolio, budget, and the deployment of excess net assets. MMRMA’s financial position allows the ongoing use of excess net assets for the benefit of the membership to pay for Michigan vehicle assessments, RAP grants, and data breach, no-fault automobile insurance, and volunteer liability coverage.

In 2016, the Board declared a distribution of nearly $32 million in excess net assets to renewing current Individual and State Pool members. This was the tenth such distribution since 2006, bringing total distributions to over $226 million. The Board also declared a $1.5 million distribution of excess net assets from the State Pool Retention Fund to renewing current State Pool members.

Courage is what it takes to stand up and speak; courage is also what it takes to sit down and LISTEN.” - Sir Winston Churchill
After making these distributions, the organization’s net position remains strong. This sensible approach allows MMRMA to weather volatile financial markets without jeopardizing our long-term solvency and many ongoing member benefits.

Churchill himself would surely be impressed that our Board members have the courage to serve both as leaders and advocates. Through the commitment, innovative ideas, and collaborative ethos of the Board of Directors, membership, staff, and partners, the champion spirit of MMRMA has never been stronger.

British statesman and two-time Prime Minister Sir Winston Churchill embodies the spirit of leadership. He won a Nobel Prize in Literature for his lifetime body of work and, in 1963, was the first of only eight people to be made an honorary citizen of the United States. The proclamation stated that Churchill was “a firm and steadfast friend of the American people and the American nation.”
## Financials

### CLAIMS FILED BY LINES OF COVERAGE

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<td>354</td>
<td>280</td>
<td>391</td>
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<td>2,926</td>
<td>1,848</td>
<td>2,962</td>
<td>12,923</td>
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*Also includes law enforcement, public officials, and data breach claims.

### LITIGATION

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### FINANCIAL HIGHLIGHTS

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<td>Member Contributions - General Fund and Retention Fund - Gross</td>
<td>$73,947,538</td>
<td>$73,044,682</td>
<td>$81,320,080</td>
<td>$75,055,639</td>
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<td>Claims and Claim Adjustment Expenses Paid - General Fund and Retention Fund - Gross</td>
<td>36,210,285</td>
<td>33,027,733</td>
<td>34,464,713</td>
<td>31,424,634</td>
<td>33,137,880</td>
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<td>Net Asset Distributions to Members</td>
<td>19,660,124</td>
<td>38,644,191</td>
<td>19,145,625</td>
<td>34,535,390</td>
<td>45,152,750</td>
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<td>Cash and Investments at Fair Market Value - net of pending trades</td>
<td>384,382,823</td>
<td>392,414,791</td>
<td>417,777,698</td>
<td>472,640,102</td>
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<td>Investment Income - includes realized and unrealized gains/losses, interest, dividends, and other income</td>
<td>54,450,653</td>
<td>15,768,280</td>
<td>42,681,969</td>
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<td>Reserves for Claims and Claim Adjustment Expenses - reported and IBNR</td>
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<td>72,917,118</td>
<td>63,233,142</td>
<td>52,489,419</td>
<td>59,653,755</td>
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### Net Position

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<td>Net Investment in Capital Assets</td>
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