

**MEMORANDUM**



*Dedicated to  
Satisfying our Community's  
Water Needs*

**TO:** Board of Directors  
**FROM:** Marwan Khalifa, CPA, MBA, Chief Financial Officer  
**DATE:** October 5, 2021  
**SUBJECT:** Captive Insurance

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**RECOMMENDATION**

Receive the presentation.

**STRATEGIC PLAN**

- Goal #1: Provide a safe, abundant, and reliable water supply
- Goal #2: Practice perpetual infrastructure renewal and improvement
- Goal #3: Be financially responsible and transparent.
- Goal #6: Provide outstanding customer service.

**PRIOR BOARD ACTION/DISCUSSION**

At its February 23, 2021 Committee meeting, the Board of Directors (Board) directed staff to form a Captive Insurance Company (Captive) to include hiring consultants and to fund the Captive with an amount of \$30MM from reserves and retaining \$10MM in working capital.

At its June 22, 2021 Committee meeting, the Board approved contracts with Strategic Risk Solutions, Kirton McConkie Law Firm, and Bickmore Actuarial to continue preparation of forming the Captive Insurance Company.

At its August 24, 2021 Committee meeting, the Board directed staff to bring back a recommendation regarding the composition of the Board of Directors for the captive insurance company.

At its September 8, 2021 meeting, the Board approved the formation of the Mesa Water Risk Retention Corporation as a subsidiary of Mesa Water District (Mesa Water®) and for the Board of the Corporation to consist of the current Mesa Water Board and Lorin Barker. The Board also approved the current Mesa Water Vice President and President to become the President and Vice President respectively, of the Mesa Water Risk Retention Corporation.

**DISCUSSION**

At the Board's direction, staff began the process of forming a captive insurance company and have hired a management company (Strategic Risk Solutions), an attorney (Lorin Barker), and an Actuarial firm (Bickmore Actuarial).

Strategic Risk Solutions has completed the request for proposals for an Investment Advisor and an Audit Firm. Interviews for an investment advisor were conducted on September 30, 2021. A recommendation will be brought to the Board at a future meeting. Auditor interviews will be held on October 4, 2021 with a recommendation coming to the Board shortly thereafter.

Staff continues to work on forming the captive insurance company; some of the next steps in



forming a captive in Utah include the following:

- Finalizing the Board and Director Biographies
- Establishing the capitalization/funding plan of the captive once formed
- Establishing the line of insurance coverage in the captive (Earthquake)

Upon initial formation staff is recommending that the insurance coverage provided by the captive be earthquake insurance coverage for Mesa Water District.

Staff will present several capitalization/funding options for funding the Mesa Water Risk Retention Corporation including:

- An initial investment of \$30 million that will allow for small annual dividends to assist with operating expenses
- A funding plan that will allow the captive corporation to ultimately fund one third of the Mesa Water Budget into perpetuity.

Each scenario has been built into the Rate Study for the five years starting on January 1, 2023.

#### FINANCIAL IMPACT

None.

#### ATTACHMENTS

None.