County of Los Angeles
Sheriff's Department Headquarters
4700 Ramona Boulevard
Monterey Park, California 91754-2169

LEROY D. BACA, SHERIFF

May 10, 2011

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

Dear Supervisors:

LETTER OF SUPPORT
CONTRACT CITIES LIABILITY TRUST FUND

The Contract Cities Liability Trust Fund (LTF) recently requested your Board consider a 12-month suspension of the 4 percent liability assessment associated with Sheriff's contracts. I write to express my support of this proposal.

The LTF is a trust account funded by contract cities to reimburse the County for costs related to litigation that results from contract city operations. Cities pay a 4 percent surcharge of their individual contract expense for law enforcement services into this fund.

Over the past decade, the LTF has thrived. This outstanding performance allowed your Board in 2010 to reduce the liability assessment from its previous rate of 6 percent to its current rate of 4 percent and provided a 6-month suspension of the liability assessment. A major consideration in that action was an attempt to reduce the fund's very significant surplus.

I am proud to report that since your action, the LTF has continued to perform exceptionally. In fact, the most recent actuarial report indicates that fund's surplus has grown. While your previous action contained a formula to adjust the assessment biannually, the forthcoming adjustment will be insufficient to address the current $21.7 million excess over the 90 percent probability level. The proposed suspension of the assessment is projected to reduce the surplus to $15 million over the 90 percent probability level, and thus, should not negatively affect the viability of the fund.

The LTF is a shining example of the benefits of government partnerships and a testament to the hard and productive efforts of the County, the Contract Cities, and the Sheriff's Department. The suspension of the assessment will result in millions of dollars being returned to local governments at a time in which they need it most. I urge you to join me in supporting this proposal.

Sincerely,

LEROY D. BACA
SHERIFF

CALIFORNIA CONTRACT CITIES ASSOCIATION

LIABILITY TRUST FUND OVERSIGHT COMMITTEE

California Contract Cities Association
11027 Downey Avenue
Downey, CA 90241
(562) 622-5533

Liability Trust Fund Oversight Committee
8081 Moody Street
La Palma, CA 90623
(562) 467-8700

April 21, 2011

William T. Fujioka, Chief Executive Officer
County of Los Angeles
Room 713, Hall of Administration
Los Angeles, CA 90012

RE: Liability Trust Fund: Suspension of the 2011-2012 Surcharge on Sheriff Contracts

Dear Mr. Fujioka:

Last April, the Board of Supervisors approved a reduction in the Liability Trust Fund (LTF) surcharge rate on Sheriff contracts and an increase in the surcharge amount for Public Works and "all others," that resulted in both surcharge rates being set at 4%. In addition, the Board of Supervisors approved a six-month suspension of the Sheriff's surcharge from January 1 – June 30, 2010. The Board of Supervisors approved this action because the actuarial study as of June 30, 2009, indicated the LTF had an actuarial status of $19.7 million (defined as LTF assets minus estimated outstanding liabilities) at the 90% probability level.

We are writing to thank you for your help in facilitating the rate suspension and adjustment and to ask for your assistance again.

As you know, the County of Los Angeles provides services to cities and agencies throughout the region through contracts for service. Cities that contract with the County for services pay a surcharge as part of the contract to address the liability associated with the provision of the services by the County. The surcharge is deposited in the LTF, which is maintained by the County.

During the past ten years, risk management activities of the Sheriff's Department and other departments as well as the work of the Liability Trust Fund Oversight Committee have led to a reduction in the frequency and severity of claims charged to the LTF. As a result, the actuarial status of the Fund has improved dramatically.

Despite the surcharge suspension on Sheriff's contracts as discussed above, the actuarial study as of June 30, 2010, indicated that the LTF's actuarial status at a 90% probability level was $21.7 million. This marks the second year that the LTF's actuarial status is well in excess of the target probability level of 75-90%.

While the Liability Trust Fund Oversight Committee (LTF Oversight Committee) does not feel an adjustment to the surcharge is warranted at this time, the LTF Oversight Committee believes it is appropriate to decrease the surplus funds in the LTF. Thus the LTF Oversight Committee, with support from the California Contract Cities Association and Sheriff Baca, is recommending a complete suspension of the 4% sheriff contract surcharge for a twelve-month period from July 1, 2011 through June 30, 2012. They also recommend that the surcharge suspension be afforded only to those cities that have had primary responsibility for building the LTF's surplus: cities that have contracted with the Sheriff for more than five years. Based on actuarial estimates, suspending the surcharge for a twelve-month period will still result in an actuarial status of over $15 million at a 90% probability level as of June 30, 2012.

As stewards of the LTF, the Board of Supervisors and the LTF Oversight Committee have a fiduciary responsibility to appropriately fund for the liabilities associated with the contract services. It is proper to take a conservative approach, but the maintenance of surplus significantly in excess of the funding needs may be perceived as an inappropriate use of public funds.

The attached letter from actuary Michael DeMattei of Milliman includes pro-forma projections designed to demonstrate the impact of various actions on the Fund's actuarial status. Exhibit I shows the projected actuarial status as of June 30, 2012, under four different scenarios. In all scenarios presented, the Public Works (and other departments) surcharge remained at 4% since the actuarial status is relatively small. In addition, DeMattei used a 3% annual investment rate as that was the rate the County provided for the full study. In every scenario, the projected actuarial status as of June 30, 2012, remains well in excess of the 90% probability level.

In summary, the LTF Oversight Committee and the California Contract Cities Association recommend the Board of Supervisors approve a twelve-month suspension of the Sheriff's contract surcharge, for the period of July 1, 2011 through June 30, 3012, for cities that have had Sheriff's contracts in place for five years or more.

We would be happy to meet with you to discuss this request. Please contact Jonathan Shull, California JPIA, at (562) 467-8717 if you have questions or need more information.

Sincerely,

Curtis Morris
Mayor, City of San Dimas
Chair, Liability Trust Fund Oversight Committee

Sam Olivito, Executive Director
California Contract Cities Association

Enclosure

cc: Jonathan Shull, California JPIA

Milliman

Michael L. DeMattei
FCAS, MAAA
Principal & Consulting Actuary

michael.demattei@milliman.com
milliman.com

70 South Lake Avenue
Suite 1100
Pasadena, CA 91101-4705
USA

Tel +1 626 577 1144
Fax +1 626 793 2808

March 30, 2011

Liability Trust Fund Oversight Committee
c/o Beth Lyons, Assistant Executive Officer
California Joint Powers Insurance Authority
8081 Moody Street
La Palma, California 90623

Re: Pro-Forma Projections

Dear Committee Members:

This letter provides pro-forma projections of the County of Los Angeles (the County) Contract Cities self-insurance program (the Program), based on input from the Liability Trust Fund Oversight Committee (the Committee) and the recent Milliman report[1]. The letter consists of the following sections:

- Background
- Summary of Projections
- Limitations

BACKGROUND

Currently, Liability Trust Fund ("Fund") surcharges are 4.0% for Sheriffs and 4.0% for all other departments. These rates are applied to total contract amounts to provide funding for expected liability claims arising from the contracted services. The Committee has asked Milliman to provide pro-forma projections of the Program's actuarial status (defined as Fund assets minus estimated outstanding liabilities) as of June 30, 2012 under different assumptions relating to the Sheriffs surcharge during the July 1, 2011 to June 30, 2012 period.

Per request of the Committee, we are assuming 3.0% annual net investment yield for the purposes of present valuing the liabilities and growth of Fund assets. Milliman expresses no opinion on the appropriateness of this interest rate assumption.

[1] *An Actuarial Analysis of County of Los Angeles Contract Cities Self-Insurance Program as of June 30, 2010,* dated March 2, 2011.

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SUMMARY OF PROJECTIONS

Exhibit I shows the projected actuarial status as of June 30, 2012 under the following assumptions regarding the Sheriffs surcharge (note that Page 1 represents the scenario where there is no change from the current annual 4% surcharge):

Page 1: July 1 – December 31, 2011 Rate Scenario - Sheriff 4%; All Other 4%
January 1 – June 30, 2012 Rate Scenario - Sheriff 4%; All Other 4%

Page 2: July 1 – December 31, 2011 Rate Scenario - Sheriff 0%; All Other 4%
January 1 – June 30, 2012 Rate Scenario - Sheriff 4%; All Other 4%

Page 3: July 1 – December 31, 2011 Rate Scenario - Sheriff 0%; All Other 4%
January 1 – June 30, 2012 Rate Scenario - Sheriff 0%; All Other 4%

Page 4: July 1 – December 31, 2011 Rate Scenario - Sheriff 2%; All Other 4%
January 1 – June 30, 2012 Rate Scenario - Sheriff 2%; All Other 4%

Due to our assumptions regarding the annual accrual and payment of interest (detailed in the exhibit footnotes), the projected actuarial status for the scenarios on page 2 and page 4 are identical. If more precise assumptions are made, there would be a slight difference between the projected actuarial status under the two scenarios, which we believe is immaterial for the purposes of these projections.

LIMITATIONS

Actuarial projections by their very nature are subject to uncertainty. That uncertainty is greatly compounded in this case by the projections of amounts out to the 2011/2012 fiscal year. Clearly, actual amounts could turn out to be significantly higher or lower than those projected in this letter.

The pro-forma projections were based on the conclusions and assumptions developed in our full actuarial report, without review or update to reflect any subsequent claim experience in the Program. Therefore, the March 2, 2011 report should be read in conjunction with this letter. The caveats and limitations contained in the report should also be understood to apply to this letter.

Milliman's work is prepared solely for the use and benefit of the Committee in accordance with its statutory and regulatory requirements. Milliman recognizes that materials it delivers to the Committee may be public records subject to disclosure to third parties, however, Milliman does not intend to benefit and assumes no duty or liability to any third parties who receive Milliman's

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work and may include disclaimer language on its work product so stating. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, the Committee agrees that it shall not disclose Milliman's work product to third parties without Milliman's prior written consent; provided, however, that the Committee may distribute Milliman's work to (i) its professional service providers who are subject to a duty of confidentiality and who agree to not use Milliman's work product for any purpose other than to provide services to the Committee, or (ii) any applicable regulatory or governmental agency, as required.

In the event Milliman consents to release its work product, it must be provided in its entirety. We recommend that any such party have its own actuary or other qualified professional review the work product to ensure that the party understands the assumptions and uncertainties inherent in our estimates. No third party recipient of Milliman's work product should rely upon Milliman's work product.

Milliman does not permit use of Milliman's name, trademarks, service marks, or references to Milliman directly or indirectly in any media release, public announcement or public disclosure, including any promotional or marketing materials, customer lists, referral lists, web sites or business presentations without Milliman's prior written consent, which shall be given in Milliman's sole discretion.

We will be available to discuss this letter at your request.

Sincerely,

Michael L. DeMattei
FCAS, MAAA

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COUNTY OF LOS ANGELES
CONTRACT CITIES SELF-INSURANCE PROGRAM

ESTIMATED PROGRAM UNPAID AND ACTUARIAL STATUS ($000)
AS OF JUNE 30, 2012

Jul 1 - Dec 31 2011 Rate Scenario - Sheriff 4%; All Other 4%

Jan 1 - Jun 30 2012 Rate Scenario - Sheriff 4%; All Other 4%

		Sheriff's Department	All Other Departments	Total
(1)	Estimated Discounted Unpaid Loss and LAE as of 6/30/12	$30,490	$2,154	$32,644
(2)	Margin for Contingencies			
	(75% Level)	$3,773	$268	$4,041
	(80% Level)	5,000	356	5,355
	(90% Level)	8,569	611	9,180
(3)	Estimated Program Unpaid as of 6/30/12			
	(75% Level)	$34,263	$2,422	**$36,685**
	(80% Level)	35,490	2,509	**37,999**
	(90% Level)	39,059	2,765	**41,824**
(4)	Revenue for 6/30/10 - 11	$248,471	$27,680	$276,151
(5)	Revenue for 6/30/11 - 12	255,925	28,511	284,435
(6)	Deposits for 7/1/10 - 12/31/10	$4,969	$554	$5,523
(7)	Deposits for 1/1/11 - 6/30/11	4,969	554	5,523
(8)	Deposits for 7/1/11 - 12/31/11	5,118	570	5,689
(9)	Deposits for 1/1/12 - 6/30/12	5,118	570	5,689
(10)	Loss and LAE Payments for 6/30/10-11	$9,215	$1,668	$10,883
(11)	Loss and LAE Payments for 6/30/11-12	7,370	829	8,199
(12)	Excess Insurance Prem for 6/30/10-11	$1,125	$125	$1,250
(13)	Excess Insurance Prem for 6/30/11-12	1,239	138	1,377
(14)	Interest Earned During 6/30/10-11	$1,760	$101	$1,861
(15)	Interest Earned During 6/30/11-12	1,829	97	1,926
(16)	Assets as of 6/30/10	$59,414	$3,784	$63,198
(17)	Estimated Assets as of 6/30/11	60,772	3,199	63,971
(18)	Estimated Assets as of 6/30/12	64,228	3,470	67,698
(19)	Estimated Actuarial Status			
	(75% Level)	$29,965	$1,048	**$31,013**
	(80% Level)	28,738	961	**29,699**
	(90% Level)	25,169	705	**25,874**

Notes:
1. Revenue is estimated based on 6/30/09 - 10 revenue assuming 3.0% annual growth.
2. Unpaid loss and LAE discounted assuming a 3.0% net annual yield.
3. Interest earned on invested assets based on 3.0% net annual yield.
4. Excess insurance premium assumed paid on June 30th.
5. Interest is calculated based on the average level of invested assets, and is assumed to be paid on December 31st.
6. Line (17) = (16) + (6) + (7) - (10) - (12) + (14).
7. Line (18) = (17) + (8) + (9) - (11) - (13) + (15).

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COUNTY OF LOS ANGELES
CONTRACT CITIES SELF-INSURANCE PROGRAM

ESTIMATED PROGRAM UNPAID AND ACTUARIAL STATUS ($000)
AS OF JUNE 30, 2012

Jul 1 - Dec 31 2011 Rate Scenario - Sheriff 0%; All Other 4%

Jan 1 - Jun 30 2012 Rate Scenario - Sheriff 4%; All Other 4%

		Sheriff's Department	All Other Departments	Total
(1)	Estimated Discounted Unpaid Loss and LAE as of 6/30/12	$30,490	$2,154	$32,644
(2)	Margin for Contingencies			
	(75% Level)	$3,773	$268	$4,041
	(80% Level)	5,000	356	5,355
	(90% Level)	8,569	611	9,180
(3)	Estimated Program Unpaid as of 6/30/12			
	(75% Level)	$34,263	$2,422	$36,685
	(80% Level)	35,490	2,509	37,999
	(90% Level)	39,059	2,765	41,824
(4)	Revenue for 6/30/10 - 11	$248,471	$27,680	$276,151
(5)	Revenue for 6/30/11 - 12	255,925	28,511	284,435
(6)	Deposits for 7/1/10 - 12/31/10	$4,969	$554	$5,523
(7)	Deposits for 1/1/11 - 6/30/11	4,969	554	5,523
(8)	Deposits for 7/1/11 - 12/31/11	0	570	570
(9)	Deposits for 1/1/12 - 6/30/12	5,118	570	5,689
(10)	Loss and LAE Payments for 6/30/10-11	$9,215	$1,668	$10,883
(11)	Loss and LAE Payments for 6/30/11-12	7,370	829	8,199
(12)	Excess Insurance Prem for 6/30/10-11	$1,125	$125	$1,250
(13)	Excess Insurance Prem for 6/30/11-12	1,239	138	1,377
(14)	Interest Earned During 6/30/10-11	$1,760	$101	$1,861
(15)	Interest Earned During 6/30/11-12	1,752	97	1,849
(16)	Assets as of 6/30/10	$59,414	$3,784	$63,198
(17)	Estimated Assets as of 6/30/11	60,772	3,199	63,971
(18)	Estimated Assets as of 6/30/12	59,033	3,470	62,503
(19)	Estimated Actuarial Status			
	(75% Level)	$24,770	$1,048	$25,818
	(80% Level)	23,543	961	24,503
	(90% Level)	19,974	705	20,679

Notes:
1. Revenue is estimated based on 6/30/09 - 10 revenue assuming 3.0% annual growth.
2. Unpaid loss and LAE discounted assuming a 3.0% net annual yield.
3. Interest earned on invested assets based on 3.0% net annual yield.
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CONTRACT CITIES SELF-INSURANCE PROGRAM

ESTIMATED PROGRAM UNPAID AND ACTUARIAL STATUS ($000)
AS OF JUNE 30, 2012

Jul 1 - Dec 31 2011 Rate Scenario - Sheriff 0%; All Other 4%

Jan 1 - Jun 30 2012 Rate Scenario - Sheriff 0%; All Other 4%

		Sheriff's Department	All Other Departments	Total
(1)	Estimated Discounted Unpaid Loss and LAE as of 6/30/12	$30,490	$2,154	$32,644
(2)	Margin for Contingencies			
	(75% Level)	$3,773	$268	$4,041
	(80% Level)	5,000	356	5,355
	(90% Level)	8,569	611	9,180
(3)	Estimated Program Unpaid as of 6/30/12			
	(75% Level)	$34,263	$2,422	**$36,685**
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(7)	Deposits for 1/1/11 - 6/30/11	4,969	554	5,523
(8)	Deposits for 7/1/11 - 12/31/11	0	570	570
(9)	Deposits for 1/1/12 - 6/30/12	0	570	570
(10)	Loss and LAE Payments for 6/30/10-11	$9,215	$1,668	$10,883
(11)	Loss and LAE Payments for 6/30/11-12	7,370	829	8,199
(12)	Excess Insurance Prem for 6/30/10-11	$1,125	$125	$1,250
(13)	Excess Insurance Prem for 6/30/11-12	1,239	138	1,377
(14)	Interest Earned During 6/30/10-11	$1,760	$101	$1,861
(15)	Interest Earned During 6/30/11-12	1,675	97	1,772
(16)	Assets as of 6/30/10	$59,414	$3,784	$63,198
(17)	Estimated Assets as of 6/30/11	60,772	3,199	63,971
(18)	Estimated Assets as of 6/30/12	53,838	3,470	57,308
(19)	Estimated Actuarial Status			
	(75% Level)	$19,574	$1,048	**$20,622**
	(80% Level)	18,348	961	**19,308**
	(90% Level)	14,778	705	**15,484**

Notes:
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May 5, 2010

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
Los Angeles, California 90012

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Sincerely,

LEROY D. BACA

SHERIFF