County of Los Angeles
**CHIEF EXECUTIVE OFFICE**
Kenneth Hahn Hall of Administration
500 West Temple Street, Room 713, Los Angeles, California 90012
(213) 974-1101
http://ceo.lacounty.gov

WILLIAM T FUJIOKA
Chief Executive Officer

April 20, 2010



ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES
#18 APRIL 20, 2010
Sachi A. Hamai
SACHI A. HAMAI
EXECUTIVE OFFICER

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

Dear Supervisors:

**CONTRACT CITIES LIABILITY TRUST FUND**
**REQUEST FOR MODIFICATION OF LIABILITY SURCHARGE RATES**
**(ALL DISTRICTS AFFECTED) (3 VOTES)**

## SUBJECT

The California Contract Cities Association and the Liability Trust Fund Oversight Committee are requesting the Board of Supervisors' consideration to reduce the current Liability Trust Fund (LTF) liability surcharge rate for Sheriff's Department contracts from 6 percent to 4 percent and to increase the current LTF surcharge amount for all other departments providing contract services (All Other Departments) from 3 percent to 4 percent. An actuarial study of the current liabilities, estimate of existing costs, and projection of future expenditures was performed by an independent consultant to support the request for modifications (Attachment).

## IT IS RECOMMENDED THAT YOUR BOARD:

1. Suspend the invoicing of the LTF liability surcharge on Sheriff's Department services for contract cities for the remainder of the 2009-10 contract year, beginning January 1, 2010 through June 30, 2010.

2. Reduce the LTF liability surcharge rate on Sheriff's Department contract services from 6 percent to 4 percent, effective July 1, 2010.

3. Increase the LTF liability surcharge rate for All Other Departments contract services from 3 percent to 4 percent, effective January 1, 2010.

4. Approve the ongoing administrative surcharge review procedure as outlined to ensure that the LTF maintains its funding at or above the 75-90 percent probability range.

**PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION**

The LTF (comprised of two funds, the Sheriff's Department Fund and the All Other Departments fund) is a trust account funded by contract cities to reimburse the County for costs related to litigation that results from contract city operations. The LTF is self insured for liabilities up to $2 million. The Sheriff's Department has maintained excess insurance policies to cover losses between $2 and $52 million. Currently, contract cities pay respectively 6 percent and 3 percent surcharge into the LTF for their individual contract expense for Sheriff's Department and All Other Departments services.

This past year, the Liability Trust Fund Oversight Committee hired Milliman consultants to conduct an actuarial study of its liabilities, estimate of existing costs, and projection of future expenditures. The actuarial study as of June 30, 2009, indicates that the LTF has assets of $56.2 million and liabilities of $36.4 million—an actuarial status of $19.7 million at the 90 percent probability level (Attachment).

Pursuant to the actuarial study, the current financial position of the LTF will allow for a reduction in member contributions for Sheriff's Department contract services while continuing to maintain the fiscal integrity of the fund. Milliman's analysis illustrates that a surcharge of 4 percent on the Sheriff's Department contract services would result in funding in excess of the 90 percent probability level through at least the 2017-18 contract year. Additionally, an increase in the surcharge on All Other Departments contract services to 4 percent, effective January 1, 2010, would maintain the 90 percent probability level through at least the 2016-17 contract year. The Chief Executive Office and the California Contract Cities Association have been working jointly to notify and update each contract city of the new changes to the surcharge rates. As indicated, in maintaining the LTF actuarial study provided by Milliman, the Sheriff's Department contract services fund is currently overfunded by approximately $19.25 million, which is above the 90 percent probability level. In an attempt to reduce the overage of funds, contract cities have suspended their Sheriff's Department contract services surcharge payments from January 1, 2010 to June 30, 2010. The new 4 percent rate will be effective July 1, 2010.

In the analysis, Milliman indicates that maintenance of the LTF in the 75-90 percent probability range is reasonable and appropriate given the nature of the exposures. To ensure maintenance of the fund within this probability range, an automatic adjustment trigger is proposed that would automatically increase the surcharge rate by 0.5 percent if the fund were to fall below the 75 percent probability level for two consecutive years. Conversely, to ensure the fund does not become overfunded, the automatic adjustment trigger would reduce the surcharge rate by 0.5 percent following two consecutive years in which the fund were to exceed the 90 percent probability level.

The Sheriff's Department concurs with the actuarial study and also believes that the reduction of the Sheriff's Department contract services surcharge from 6 percent to 4 percent will not impact future liabilities. The Sheriff's Department further believes the excess insurance policies protect the fund against catastrophic indemnity losses.

County Counsel has reviewed the known outstanding claims attributed to the LTF and indicates that it does not see any trending or outstanding claims that would raise concern about the proposed changes to the surcharge rates. Additionally, it should be noted that the LTF uses excess insurance to protect the assets in the fund.

**Implementation of Strategic Plan Goals**

The recommended actions supports the County Strategic Plan Goal 5: Public Safety: Ensure that the committed efforts of the public safety partners continue to maintain and improve the safety and security of the people of Los Angeles County.

**FISCAL IMPACT/FINANCING**

Milliman's analysis provides that the LTF is suitably funded for its current liabilities and should maintain reserves consistent with its actuarially determined liabilities. The changes requested in this Board letter will not impact the County's financial situation.

**FACTS AND PROVISIONS/LEGAL REQUIREMENTS**

Pursuant to the Assumption of Liability Agreement and/or Joint Indemnity Agreement between County and each contract city, the LTF liability surcharge rates are established by the County in accordance with the policies and procedures established by your Board.

**IMPACT ON CURRENT SERVICES (OR PROJECTS)**

None

Respectfully submitted,

WILLIAM T FUJIOKA
Chief Executive Officer

WTF: BC:JAW
SW:DC:llm

Attachment

c: Executive Office, Board of Supervisors
County Counsel
Sheriff's Department

**ATTACHMENT**

Milliman

January 7, 2009

Liability Trust Fund Oversight Committee
c/o Jonathan R. Shull, Chief 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 Pro-Forma Projections
- Limitations

## BACKGROUND

Currently, liability trust fund surcharges are 6.0% for Sheriffs and 3.0% 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 under the current scenario using the results of our recent actuarial study and assuming a 1.5% discount rate and annual yield on investments. This rate was chosen by the Committee. Milliman expresses no opinion on the appropriate rate. (We note this rate is more conservative than the 3.0% rate used in our full study.)

[1] *An Actuarial Analysis of County of Los Angeles Contract Cities Self-Insurance Program as of June 30, 2008 and 2009*, dated November 24, 2009.

The target funding of the Program established by the Committee is in the 75% to 90% probability range (interest-discounted). Given the nature of the exposures, this approach is reasonable and appropriate. The recent Milliman report indicated both the Sheriffs' fund and the All Other Departments' fund to be above this level as of June 30, 2009. In addition, our study indicated a rate decrease for Sheriffs and a rate increase for All Other. As a result, the Committee has also requested pro-forma calculations assuming both rates are changed to 4.0% as of January 1, 2010 and a temporary rate waiver is put in place for Sheriffs' contracts from January 1, 2010 to June 30, 2010.

## PRO-FORMA PROJECTIONS

The attached exhibits show the projected annual costs, fund balances and actuarial status for ten years. *Actuarial Status* is defined to be the difference between the fund balances and the targeted funding level (i.e., 90% probability level on an interest discounted basis). Therefore, positive actuarial status amounts indicate amounts above the target funding level and negative amounts are shortfalls.

As shown in Exhibit I, under the current rates (the Status Quo Scenario), the actuarial status of the Sheriffs' fund will continue to grow and the All Other Departments' fund will turn negative. In other words, the overfunding for Sheriffs will increase and All Other will become underfunded.

Exhibit II shows the proposed scenario discussed in the Background section. Our projections indicate both programs would maintain positive actuarial status amounts through June 30, 2017 and therefore, the proposed changes are expected to keep the Program consistent with the stated funding objectives of the Committee through that date. For the following year, the indication is that the All Other fund would have negative actuarial status, but that the Sheriffs would continue to be positive.

## 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 year 2018. 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 November 24, 2009 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 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

# COUNTY OF LOS ANGELES
# CONTRACT CITIES SELF-INSURANCE PROGRAM

## FUND BALANCE PROJECTIONS (in millions)

### STATUS QUO SCENARIO

**Sheriff's Department Fund**

| | Calendar Fiscal Year Beginning July 1 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| (1) Contract Amount | $ 226.7 | $ 248.5 | $ 263.4 | $ 279.2 | $ 296.0 | $ 313.7 | $ 332.5 | $ 352.5 | $ 373.6 | $ 396.1 |
| (2) Fund Balance at Beginning of Year | 50.4 | 52.8 | 57.2 | 64.5 | 72.0 | 80.0 | 88.2 | 96.7 | 105.7 | 115.2 |
| (3) Revenues | | | | | | | | | | |
| (3a) Surcharge Deposits | -- | 14.9 | 15.8 | 16.8 | 17.8 | 18.8 | 20.0 | 21.2 | 22.4 | 23.8 |
| (3b) Interest Earnings | -- | 0.8 | 0.9 | 1.0 | 1.1 | 1.2 | 1.4 | 1.5 | 1.6 | 1.8 |
| (4) Expenses | | | | | | | | | | |
| (4a) Claim Payments | -- | 9.8 | 8.0 | 8.6 | 9.2 | 10.0 | 10.8 | 11.6 | 12.4 | 13.3 |
| (4b) Excess Insurance Premium | -- | 1.1 | 1.2 | 1.3 | 1.4 | 1.4 | 1.6 | 1.7 | 1.8 | 1.9 |
| (4c) TPA and Admin | -- | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |
| (5) Fund Balance at End of Year | $ 52.8 | $ 57.2 | $ 64.5 | $ 72.0 | $ 80.0 | $ 88.2 | $ 96.7 | $ 105.7 | $ 115.2 | $ 125.0 |
| (6) 90% Probability Level Discounted Loss & Expense | $ 34.5 | $ 33.4 | $ 36.1 | $ 38.9 | $ 42.0 | $ 45.1 | $ 48.2 | $ 51.7 | $ 55.4 | $ 59.3 |
| (7) Actuarial Status | **$ 18.3** | **$ 23.8** | **$ 28.4** | **$ 33.1** | **$ 38.0** | **$ 43.1** | **$ 48.5** | **$ 54.1** | **$ 59.8** | **$ 65.7** |

**All Other Departments Fund**

| | Calendar Fiscal Year Beginning July 1 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| (1) Contract Amount | $ 20.4 | $ 20.9 | $ 21.5 | $ 22.0 | $ 22.6 | $ 23.1 | $ 23.7 | $ 24.3 | $ 24.9 | $ 25.5 |
| (2) Fund Balance at Beginning of Year | 2.9 | 3.4 | 3.0 | 2.9 | 2.7 | 2.6 | 2.4 | 2.3 | 2.1 | 1.8 |
| (3) Revenues | | | | | | | | | | |
| (3a) Surcharge Deposits | -- | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 |
| (3b) Interest Earnings | -- | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (4) Expenses | | | | | | | | | | |
| (4a) Claim Payments | -- | 0.9 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.9 |
| (4b) Excess Insurance Premium | -- | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| (4c) TPA and Admin | -- | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (5) Fund Balance at End of Year | $ 3.4 | $ 3.0 | $ 2.9 | $ 2.7 | $ 2.6 | $ 2.4 | $ 2.3 | $ 2.1 | $ 1.8 | $ 1.5 |
| (6) 90% Probability Level Discounted Loss & Expense | $ 3.0 | $ 2.6 | $ 2.7 | $ 2.7 | $ 2.8 | $ 3.0 | $ 3.2 | $ 3.4 | $ 3.5 | $ 3.7 |
| (7) Actuarial Status | **$ 0.4** | **$ 0.4** | **$ 0.2** | **$ (0.0)** | **$ (0.3)** | **$ (0.6)** | **$ (0.9)** | **$ (1.3)** | **$ (1.8)** | **$ (2.3)** |

## COUNTY OF LOS ANGELES
## CONTRACT CITIES SELF-INSURANCE PROGRAM

### FUND BALANCE PROJECTIONS - NOTES

#### STATUS QUO SCENARIO

Line (1): For Sheriffs, contract amounts through 2009-10 were provided. Subsequent amounts are based on a projected increase of 6.0% per year. For All Other, the contract amount for 2008-09 was provided. Subsequent amounts are based on a projected increase of 2.5% per year.

Line (2): The 2008-09 figure is from the Milliman report dated November 24, 2009. Subsequent amounts are from Line (5) of the previous column.

Line (3a): For Sheriffs, the current rate of 6.0% times Line (1).
For All Other, the current rate of 3.0% times Line (1).

Line (3b): [(2) + (3a)x0.5 - (4a)x0.5 - (4b) - (4c)x0.5] x the selected yield of 1.5%

Line (4a): Based on loss and payments patterns in the above-referenced Milliman report along with a selected claim inflation rate and an exposure growth trend. The claim inflation trend of 4.0% is based on the Milliman report as well as external trends. The exposure growth trend is assumed to be half of the annual change in contract amounts. Therefore, for Sheriff it is 3.0% and for All Other it is 1.25%.

Line (4b): The 2009-10 was provided to Milliman by the Fund. Subsequent premiums are assumed to grow at the same rate as claim costs.

Line (4c): Assumed to be 3.8% of claim payments (based on the Milliman report).

Line (5): The 2008-09 figure is from the Milliman report. Subsequent amounts are (2) + (3) - (4).

Line (6): Based on the projections discussed above for (4a) as well as payment patterns and probability level factors from the Milliman report.

Line (7): (5)-(6)

**EXHIBIT II**


# COUNTY OF LOS ANGELES
# CONTRACT CITIES SELF-INSURANCE PROGRAM

## FUND BALANCE PROJECTIONS (in millions)

### PROPOSED SCENARIO

**Sheriff's Department Fund**

| | Calendar Fiscal Year Beginning July 1 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| (1) Contract Amount | $ 226.7 | $ 248.5 | $ 263.4 | $ 279.2 | $ 296.0 | $ 313.7 | $ 332.5 | $ 352.5 | $ 373.6 | $ 396.1 |
| (2) Fund Balance at Beginning of Year | 50.4 | 52.8 | 49.7 | 51.5 | 53.3 | 55.0 | 56.5 | 57.9 | 59.2 | 60.4 |
| (3) Revenues | | | | | | | | | | |
| (3a) Surcharge Deposits | -- | 7.5 | 10.5 | 11.2 | 11.8 | 12.5 | 13.3 | 14.1 | 14.9 | 15.8 |
| (3b) Interest Earnings | -- | 0.8 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 |
| (4) Expenses | | | | | | | | | | |
| (4a) Claim Payments | -- | 9.8 | 8.0 | 8.6 | 9.2 | 10.0 | 10.8 | 11.6 | 12.4 | 13.3 |
| (4b) Excess Insurance Premium | -- | 1.1 | 1.2 | 1.3 | 1.4 | 1.4 | 1.6 | 1.7 | 1.8 | 1.9 |
| (4c) TPA and Admin | -- | 0.4 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 |
| (5) Fund Balance at End of Year | $ 52.8 | $ 49.7 | $ 51.5 | $ 53.3 | $ 55.0 | $ 56.5 | $ 57.9 | $ 59.2 | $ 60.4 | $ 61.4 |
| (6) 90% Probability Level Discounted Loss & Expense | $ 34.5 | $ 33.4 | $ 36.1 | $ 38.9 | $ 42.0 | $ 45.1 | $ 48.2 | $ 51.7 | $ 55.4 | $ 59.3 |
| (7) Actuarial Status | **$ 18.3** | **$ 16.3** | **$ 15.4** | **$ 14.3** | **$ 13.0** | **$ 11.5** | **$ 9.6** | **$ 7.5** | **$ 5.0** | **$ 2.1** |

**All Other Departments Fund**

| | Calendar Fiscal Year Beginning July 1 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
| (1) Contract Amount | $ 20.4 | $ 20.9 | $ 21.5 | $ 22.0 | $ 22.6 | $ 23.1 | $ 23.7 | $ 24.3 | $ 24.9 | $ 25.5 |
| (2) Fund Balance at Beginning of Year | 2.9 | 3.4 | 3.1 | 3.3 | 3.3 | 3.3 | 3.5 | 3.6 | 3.6 | 3.6 |
| (3) Revenues | | | | | | | | | | |
| (3a) Surcharge Deposits | -- | 0.7 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 |
| (3b) Interest Earnings | -- | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| (4) Expenses | | | | | | | | | | |
| (4a) Claim Payments | -- | 0.9 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.9 |
| (4b) Excess Insurance Premium | -- | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| (4c) TPA and Admin | -- | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (5) Fund Balance at End of Year | $ 3.4 | $ 3.1 | $ 3.3 | $ 3.3 | $ 3.3 | $ 3.5 | $ 3.6 | $ 3.6 | $ 3.6 | $ 3.6 |
| (6) 90% Probability Level Discounted Loss & Expense | $ 3.0 | $ 2.6 | $ 2.7 | $ 2.7 | $ 2.8 | $ 3.0 | $ 3.2 | $ 3.4 | $ 3.5 | $ 3.7 |
| (7) Actuarial Status | **$ 0.4** | **$ 0.5** | **$ 0.5** | **$ 0.6** | **$ 0.5** | **$ 0.5** | **$ 0.4** | **$ 0.2** | **$ 0.1** | **$ (0.2)** |

**COUNTY OF LOS ANGELES**
**CONTRACT CITIES SELF-INSURANCE PROGRAM**

## FUND BALANCE PROJECTIONS - NOTES

### PROPOSED SCENARIO

Line (1): For Sheriffs, contract amounts through 2009-10 were provided. Subsequent amounts are based on a projected increase of 6.0% per year. For All Other, the contract amount for 2008-09 was provided. Subsequent amounts are based on a projected increase of 2.5% per year.

Line (2): The 2008-09 figure is from the Milliman report dated November 24, 2009. Subsequent amounts are from Line (5) of the previous column.

Line (3a): For Sheriffs, the proposed rate of 4.0% times Line (1). A temporary rate waiver is assumed for January 1, 2010 through June 30, 2010. For All Other, the current rate of 3.0% through December 31, 2009 and 4.0% thereafter, times Line (1).

Line (3b): [(2) + (3a)x0.5 - (4a)x0.5 - (4b) - (4c)x0.5] x the selected yield of 1.5%

Line (4a): Based on loss and payments patterns in the above-referenced Milliman report along with a selected claim inflation rate and an exposure growth trend. The claim inflation trend of 4.0% is based on the Milliman report as well as external trends. The exposure growth trend is assumed to be half of the annual change in contract amounts. Therefore, for Sheriff it is 3.0% and for All Other it is 1.25%.

Line (4b): The 2009-10 was provided to Milliman by the Fund. Subsequent premiums are assumed to grow at the same rate as claim costs.

Line (4c): Assumed to be 3.8% of claim payments (based on the Milliman report).

Line (5): The 2008-09 figure is from the Milliman report. Subsequent amounts are (2) + (3) - (4).

Line (6): Based on the projections discussed above for (4a) as well as payment patterns and probability level factors from the Milliman report.

Line (7): (5)-(6)