CARMA

A California Public Agency

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CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES
(CARMA)

19th ANNUAL WORKSHOP
A G E N D A

Bodega Bay Lodge
103 Coast Highway #1
Bodega Bay, CA 94923
(707) 875-3525

Thursday, January 12, 2012
11:00 a.m. – 5:00 p.m.

F. Service Provider Evaluations – Board of Directors **36**

1. Actuary: Bay Actuarial Consultants
2. Administrator: Bickmore Risk Services
3. Board Counsel: Farmer, Smith, & Lane
4. Broker of Record: Alliant Insurance Services
5. Claims Auditor: Farley Consulting Services
6. Financial Auditor: Sampson, Sampson & Patterson, LLP

G. Closing

CURRENT STATUS OF CARMA

SUBJECT: Review of the CARMA Mission Statement

BACKGROUND AND STATUS:

Each year, and at its annual workshop, the CARMA Board of Directors reviews the current Mission Statement to determine if it remains relevant and functional as a statement. During its annual review, the Board determines if any of the statement would need to be updated to reflect a change in its philosophy from a coverage, operational, and financial standpoint.

This year, and in light of impending legal trends, how CARMA is performing now, how CARMA will be performing in the future, and possible new approaches to a continued financial protection for CARMA and its members, the Mission Statement has been included in the agenda for the Board's review.

Ms. Karen Thesing, Executive Director, will lead the Board on the review of the CARMA Mission Statement.

REFERENCE MATERIALS ATTACHED:

- Mission Statement for CARMA

Agenda Item B.1.

Mission Statement

CARMA is dedicated to innovative approaches in providing financial protection for its public entity members against catastrophic loss.

CURRENT STATUS OF CARMA

SUBJECT: Review of 2009 SWOT Analysis – Are the Comments Still Valid for 2012?

BACKGROUND AND STATUS:

In March 2009, the CARMA Board of Directors participated in a situational analysis to identify the strengths, weaknesses, opportunities, and threats (SWOT) as perceived by CARMA, its Board, and Member JPAs.

By participating in such a process, this type of strategic planning assists an organization in dealing with the changes it will experience in the immediate future and in the years ahead. During its 2009 session, the Board discussed a variety of primary concerns such as funding issues, CARMA's ability to accommodate the needs of itself and members, confidence and self-insured retention (SIR) levels, competition, etc.

This item has been included on the agenda to provide the CARMA Board of Directors the opportunity to review the 2009 SWOT analysis and to make a determination if the statements that arose out of the session are still valid, or if a need exists to re-generate or revise these statements in light of the possible challenges and concerns that may impact CARMA during 2012 and forward.

Ms. Karen Thesing, Executive Director, will lead the Board on the review of the 2009 SWOT comments.

REFERENCE MATERIALS ATTACHED:

- 2009 CARMA SWOT Comments

Agenda Item B.2.

Strengths

- Ability to accommodate the needs of all the underlying pools.

Weaknesses

- Price Sensitivity

Opportunities

- Evaluate the “needs” versus the “wants” of CARMA
- What risk level is CARMA as a whole comfortable with?
- Confidence levels
- SIR Levels
- Where should CARMA be to be competitive?
- Additional coverage—EPL?

Threats

- Underselling by other organizations
- Not able to bring other JPAs into CARMA (large JPAs)
- Equity level
- Competition

CURRENT STATUS OF CARMA

SUBJECT: Past Initiatives

BACKGROUND AND STATUS:

Annually, the Board of Directors sets strategies and initiatives for the upcoming fiscal year, and takes action to approve these at the following Board of Directors' meeting, usually held the next day. Under Item E. – *Strategies and Initiatives for 2012* of the workshop agenda, and based upon the issues discussed today, the Board will have an opportunity to discuss and determine those strategies and initiatives that will be for the 2012/2013 fiscal year.

Included with this report and for comparison purposes, is a matrix of the strategies and initiatives for the past three fiscal years. Notably, the Board's goals have fallen into three basic categories, namely: (1) Coverage; (2) Communications/Marketing; and (3) Operations. For the 2009/2010 fiscal year, the Board's focus was also on Governance.

Ms. Karen Thesing, Executive Director, will discuss the three-year comparison of the past initiatives with the Board.

REFERENCE MATERIALS ATTACHED:

- Three-Year Matrix Comparison – Strategies and Initiatives

Agenda Item B.3.

2009/2010	2010/2011	2011/2012
Coverage: • Experience Modification Modeling • Alliant to market CARMA excess placement • Expansion/Contraction of Coverage, EPL, Subsidence • Analyze utilization of flexible SIRs	**Coverage:** • Determine if airport vehicles operating off airport property are covered • Research uninsured/underinsured motorist law coverage • Alliant seek quotes for $3 M ex $1 M and $2 M ex $1M coverage. Examine possibility of quota sharing • Revisit MOC and inverse coverage • Investigate sub-limits for inverse coverage	**Coverage:** • Marketing of Excess/Reinsurance – More Aggressive Marketing and Quota Sharing Above the $3 Million pooling level.
Communication/Marketing: • Internal Marketing to Members • Branding CARMA in JPA industry	**Communications/Marketing:** • Establish a schedule for staff to attend member JPA Board meetings to present information about CARMA	**Communications/Marketing:** • Continued Outreach to Members • Emphasis on Claims Reporting and Litigation Management

Operations:
• Transition Executive Director
• Vendor Expectations/Evaluation Process
	Operations:
	• Create/evaluate scenarios for special inverse funding. Evaluate methods to allocate cost of the fund amongst the members
	  o Expand number of years used for ex-mod calcs
	  o Evaluate a baseline to determine funding
	• Evaluate how long claims are taking to resolve and close
		Operations:
		• The application of the Ex-Mod to the Reinsurance Layer above the $3 M x $1 M pooled layer
		• Evaluate Method of Calculation and Member Allocation and clarify definition of “member equity.”

Governance: • Evaluate participation in other JPA – CSAC-EIA		

MEASUREMENTS OF HOW WE ARE DOING

SUBJECT: First Tier – Claims Severity and Frequency Reports

BACKGROUND AND STATUS:

At the annual workshop, the CARMA staff normally provides general claims data for:

- Open/Closed by Program Year as of 12/31/11
- Total Paid / Total Incurred by Program Year as of 12/31/11
- Overall Frequency (All Program Years) as of 12/31/11
- Overall Severity (All Program Years) as of 12/31/11

This year, this information has been supplemented with additional charts illustrating: (1) Overall Frequency and Overall Severity by Major Claim Type by JPA; and (2) Claim Type Frequency Trends. The results of these supplemental charts will be discussed in detail, including the following:

- All Claim Types, with the exception of Dangerous Condition, reveal an upward frequency trend, with Police Claims showing the sharpest increase in frequency; and
- Within the Police Claims, Police Civil Rights and Excessive Force Claims were singled out; this type of claim shows a sharp increase in frequency, as well.

Ms. Rebecca Lane, Assistant Litigation Manager, will provide an overview on the loss analysis and answer questions from the Board of Directors.

REFERENCE MATERIALS ATTACHED:

None

Agenda Item C.1.

MEASUREMENT OF HOW WE ARE DOING

SUBJECT: Second Tier – Financial Benchmarks
Target Equity Ratio Results

BACKGROUND AND STATUS:

CARMA developed Target Equity Benchmarking Ratios beginning with the 2006/2007 program year in order to provide guidance to the Board of Directors in making annual funding, dividend, and assessment decisions. The intent of the ratios was not to mandate a course of action should ratios fall within or without the target parameters. The ratios are a tool to use in determining the overall health of the program and to provide a comparison of various benchmarks from year to year.

The Benchmarking Ratio results have historically been presented at the annual workshop using numbers from the prior year-end financial statements. However, last year target equity ratios using both year-end and projected numbers were analyzed. Staff deemed this additional analysis necessary due to favorable swings subsequent to year end. This year, however, the swings subsequent to year-end indicate adverse development, illustrating the unpredictable nature of excess liability coverage.

The Benchmarking Ratio Results as of June 30, 2011, and Projected as of December 31, 2011, reflect the following fluctuations in equity:

- June 30, 2009 $ 9,339,990
- June 30, 2010 $ 8,128,643
- June 30, 2011 $ 10,172,475
- Dec. 31, 2011 (Projected) $ 7,826,828

The following program years experienced significant adverse development between June 30 and December 31, 2011 as shown in the attached exhibit "CARMA Future Equity Analysis":

- **2002/03 –** One open claim's case reserves increased from $300k to $500k, requiring a $200k increase in IBNR reserves.
- **2005/06 –** The 3/31/2011 financial statements reflected the updated reserves as of the recent actuarial study. At the time there were $4.2M in case reserves. Recent activity reflects $4.5M in payments and $1.5M in new case reserves, requiring a $1.5M increase in IBNR reserves.
- **2006/07 –** There were $900k in case reserves at 3/31/2011. Recent activity reflects $1.1M in payments and $670k in new reserves, requiring a $900k adjustment to IBNR reserves.

Agenda Item C.2.

- **2007/08 –** Case reserves have been $0, but recent activity reflects $1M in payments. A $700k increase in IBNR reflects the unreserved activity.

Changes in the benchmarking results from 6/30/2011 to 12/31/2011 are explained as follows:

Ratio	Status Change	Reason for Status Change
Equity to SIR	Pass to Fail	Equity is projected to be $7.8M as of 12/31/2011. The Equity to SIR benchmark requires equity of $9M.
Operating	Pass to Fail	The loss ratio portion is a factor of claims expense to contributions. This ratio is projected to increase from 54% to 134% due to significant adverse development.
Change in Equity	Pass to Fail	Equity is projected to decrease by 23% as of 12/31/2011.

This is a preliminary assessment of CARMA's financial position. Staff will provide a review at the Workshop referencing the attached backup materials.

<u>REFERENCE MATERIALS ATTACHED:</u>

- Target Equity Policy
- Internal Benchmarking Ratios as of June 30, 2011
- Internal Benchmarking Ratios Projected as of December 31, 2011
- CARMA Future Equity Analysis

California Affiliated Risk Management Authorities (CARMA)
Target Equity/Return of Equity Policy Statement

I. **PURPOSE**

The purpose of this policy statement is to give guidance to the Board of Directors in making annual funding, dividend and assessment decisions for the CARMA program. By adoption of this policy statement, the Board of Directors acknowledges the long-term financial strength of the CARMA program is of utmost importance.

The Board of Directors acknowledges there is a high degree of uncertainty in the annual actuarial estimates due to the possibility of occasional catastrophic claims and inconsistent or inaccurate case reserving; therefore, the Board of Directors desires to fund the CARMA program in a cautious and prudent manner and return equity to its members in an equally cautious and prudent manner. It is the policy of CARMA to conservatively fund its programs to maintain sufficient assets to pay all losses and avoid substantial fluctuations to contributions.

In order to fund program years in a fiscally prudent manner, the CARMA Board of Directors collects contributions at an actuarially determined confidence level as determined by the Board annually. The CARMA Board of Directors strives to annually collect at the 70% confidence level or higher as determined by the actuary.

In addition, as provided in the CARMA governing documents, dividends may be declared and paid solely at the discretion of the *Board* after a program year is at least 5 years old and is funded at least at a 70% confidence level and provided that the combined assets of the *program years* after the dividend shall equal or exceed a 70% confidence level.

II. **DEFINITIONS**

- "Claims Paid to Date" is the amount actually paid on reported claims at the date of valuation. "Claims Paid to Date", includes those amounts paid for both defense and indemnity of claims.

- "Confidence Level" is a statistical term used to express the degree to which an actuarial projection (usually "Ultimate Net Loss" or "IBNR") will be an accurate prediction of the dollar losses ultimately paid for a given program year or combination of years. The higher a "Confidence Level" the greater certainty the actuary has that losses will not exceed the dollar value used to attain that "Confidence Level".

- "Equity" is the amount of funds remaining, after deducting all administrative and excess insurance costs, available to pay claims in excess of actuarial expected losses discounted for investment income at the actuarially determined "Expected" "Confidence Level".

- “Expected Liabilities” is the total of all “Outstanding Reserves” and “IBNR”, discounted, at the “expected” confidence level, which by industry standard translates roughly to the 50% to 56% “Confidence Level” as determined by the independent actuary.

- “Incurred But Not Reported (IBNR)” is the estimate of the funds needed to pay for covered losses that have occurred but have not yet been reported to the member and/or CARMA. “IBNR” includes (a) known and unknown loss events that are expected to be claims; and (b) expected future development on claims already reported.

- “Net Contribution” includes the total contributions from members less the excess insurance cost.

- “Net Present Value” is the discounting of future cash flows to current values by taking into account the time-value of money.

- “Self Insured Retention” is the maximum amount of exposure to a single loss retained by CARMA.

- “Outstanding Reserves” are the sum total of unpaid case reserves in the “Self Insured Retention” as determined by the CARMA Litigation Manager.

- “Ultimate Net Loss” is the sum of “Claims Paid to Date”, “Outstanding Reserves” and “IBNR”, all within CARMA’s “Self Insured Retention”. It is the estimate of the total value of all claims that will ultimately be made against members for which CARMA is responsible.

III. IMPORTANT EQUITY RATIOS

The CARMA Board of Directors will only return “Equity” to the members after evaluating and concluding the following ratios remain appropriate for the group prior to and following any potential return of “Equity”:

“Net Contribution” to “Equity” ratio: Target ≤ 2:1
This ratio is a measure of how “Equity” is leveraged against possible pricing inaccuracies. A low ratio is desirable.

“Outstanding Reserves” to “Equity” ratio: Target ≤ 3:1
This ratio is a measure of how “Equity” is leveraged against possible reserve inaccuracies. A low ratio is desirable.

“Equity” to “Self Insured Retention” ratio: Target ≥ 3:1
This ratio is a measure of the maximum amount that “Equity” could decline due to a single loss. A high ratio is desirable.

Operating ratio: **Target ≤ 100%**
This ratio is a measure of the inflows versus the outflows in each program year. An operating ratio of less than 100% is desirable.

Reserve Development: **Target ≤ 20%**
This is a measure of the change in aggregate ultimate losses from one valuation period to the prior valuation(s). Generally, the one-year and two-year reserve development to "Equity" threshold should be less than 20%. NOTE: This factor will not be evaluated until the group has at least six years of actual loss experience.

Change in Equity: **Target ≥ -10%**
This ratio measures if a decline in equity in excess of 10% warrants an increase in annual contribution or an assessment.

IV. **ANNUAL ACTUARIAL STUDY.** CARMA will conduct an annual actuarial analysis to assist the Board of Directors in making funding decisions on a prospective and retrospective basis.

V. **RETROSPECTIVE RETURN OF EQUITY CRITERIA.** After annual review of the "Equity" position of the program as a whole, the program years to be adjusted and the important ratios, the Board of Directors will determine whether it is desirable to increase, decrease, or stabilize "Equity". If the Board desires to decrease "Equity", by returning "Equity" to the members, it will not return funds from any given program year that will cause the given program year to fall below a 70% "Confidence Level", or the funding of the program as a whole to fall below the 70% "Confidence Level".

Return of "Equity" may be available from the "closing" of a year in accordance with the Bylaws.

VI. **AMENDMENT.** This policy statement, approved by the Board of Directors January 13, 2006, and amended April 17, 2008, may be reviewed periodically and reaffirmed or modified accordingly.

Appendix A
Rate Stabilization Fund

The Rate Stabilization Fund is established so that dividends returned to the members pursuant to Section F of the CARMA Master Program Document may be kept on deposit with CARMA.

The potential uses for the Rate Stabilization Fund include:

A. Use as an offset against subsequent years' increase in contribution;
B. Use to pay for any assessment levied by the Board resulting from adverse loss development or increased costs attendant to a specific program year;
C. Use to assist with the expansion of current, or institution of new, programs; and/or
D. Use to provide greater risk margin for the CARMA member.

Contributions to the Rate Stabilization Fund will be at the election of the CARMA member, may be returned to the CARMA member at any time at the CARMA members' election with thirty (30) days advance written notice, will not be dedicated to any one specific program year, and will not be considered when determining the target equity of the program.

The Rate Stabilization Funds contribution amounts will be maintained in a separate equity account, and earn interest at the prevailing rates, and such interest earnings will be allocated proportionally based on each member's balance on deposit in the Rate Stabilization Fund at the end of each quarter.

The accumulated Rate Stabilization Fund amounts will be returned in the same relative proportion as collected from each member and at the discretion of the CARMA member.

Appendix B
Distributions to and Assessments of Withdrawing or Terminated Members

It is the policy of the CARMA Board of Directors that once a program year in which the terminated member participated is seven full years old, an assessment may be levied or a dividend declared for that program year in an amount sufficient to bring the member's account balance to the expected confidence level for that program year. This process is to take place regardless of whether the target equity criteria for the CARMA program as a whole are satisfied so as not to further delay either the return of equity or the collection of any deficit of the terminated member.

Notwithstanding the above provision, the CARMA Board of Directors may elect to levy assessments or declare dividends at an earlier time pursuant to the target equity policy and the CARMA governing documents.

Appendix C
Applicable CARMA Governing Documents Sections

The CARMA Master Program document, Section F states as follows:

1. <u>Dividends</u>

Dividends may be declared and paid solely at the discretion of the *Board* after a program year is at least 5 years old and reaches a 70% confidence level and provided that the combined assets of the *program years* after the dividend shall equal or exceed a 70% confidence level. Each share of the dividend declared shall be allocated based on *deposit premiums*.

2. <u>*Assessments*</u>

Assessments in the amount of and against a *program year* as determined by the *Board* shall be levied on the *Members* at such time that an actuary finds that the assets of the Liability Program, as a whole, do not meet the expected losses of the Program, inclusive of claims Incurred But Not Reported (IBNR) and Unallocated Loss Adjustment Expenses (ULAE). Each *Member's* share of the *assessment* shall be based upon the *deposit premiums* collected for the *program year* being assessed provided that the amount of any assessment levied may not exceed 25% of the *deposit premium* paid during the assessed *program year*. If such *assessment* is not sufficient to relieve the pool of its actuarial deficit in the year of the *assessment*, such *assessment* shall be levied each subsequent year until the actuarial deficit is relieved.

3. <u>Frequency of Dividends or *Assessments*</u>

More than one dividend or *assessment* may be declared for each *program year*, however, such dividend or *assessment* shall not occur more often than once every fiscal year.

The CARMA Master Program Document, Section I, Paragraph 3, states as follows:

3. <u>Termination of Participation</u>

a. Voluntary Termination

(1) A *Member* which has completed its mandatory three-year commitment to CARMA may terminate participation in the next *Program Year* by providing to CARMA, at least six months before the initiation of the next *Program Year*, a written request to terminate participation. Such termination from CARMA shall terminate the *Member's* membership in CARMA pursuant to the Joint Powers Agreement and Bylaws effective at the end of the current program year.

(2) CARMA reserves the right to withhold from the sums due to the withdrawing member, in addition to any other remedies available to CARMA Bylaws, an amount sufficient to cover administrative costs associated with such untimely withdrawal but not less than 10% of the renewal premium contribution.

(3) A participating *Member* that has not completed its mandatory three-year commitment to CARMA shall not be permitted, at its request, to withdraw from CARMA prior to the end of its commitment period.

b. Involuntary Termination

(1) The *Board* may, by 2/3rds vote of the representatives of the *Members* participating in this program, terminate future participation by a *Member* for, but not limited to, the following reasons:

i. Declination to cover the *Member* by the entity providing excess coverage;

ii. Nonpayment of past premiums, assessments, retrospective adjustments, or other charges;

iii. Habitual late payment of premiums, assessments, retrospective adjustments, and/or other charges;

iv. Failure to provide requested underwriting information;

v. Development of an extraordinarily poor loss history;

vi. Substantial change in exposures which are not acceptable in CARMA; and/or

vii. Financial impairment which is likely to jeopardize CARMA's ability to collect amounts due in the future.

(2) The *Board* may terminate future participation by a *Member* with or without cause with 2/3rds vote of the representatives of the *Members* participating in this Program.

(3) Termination of an underlying member of a *Membe*r of CARMA will automatically terminate that underlying member's participation in the program.

(4) The President shall send a notice of termination to the *Member* at least thirty (30) days prior to termination.

c. Termination of participation, whether voluntary or involuntary, does not relieve the terminated *Member* of any benefits or obligations of those *Program Years* in which the terminated *Member* participated. These obligations include payment of administrative overhead, assessments, retrospective adjustments, continuing administration costs, or any other amounts due and payable. When termination of participation, whether voluntary or involuntary occurs, all positive account balances for that *Member*, will be withheld from redistribution and applied to future years with negative balances until such time as the *Member*'s account balances for all *Program Years* in which the *Member* participated are positive.

Once a *Program Year* in which the terminated *Member* participated is seven full years old, an assessment will be levied or a dividend declared for that *Program Year* in an amount sufficient to bring the *Member's* account balance to the expected confidence level for that *Program Year*.

Approved by the CARMA Board of Directors January 13, 2006
Revised by the CARMA Board of Directors August 24, 2009

California Affiliated Risk Management Authorities (CARMA)

BENCHMARKING RATIO RESULTS
as of June 30, 2011

	DATA:	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011
[1]	Net assets (b)	$4,799,222	$4,558,551	$6,321,998	$8,014,694	$8,218,318	$7,284,309	$9,339,990	$8,128,643	$10,172,475
	* - Net of Rate Stabilization Fund	*	*	*	*	*	*	*	*	*
	Gross contributions	3,731,901	4,747,603	5,887,580	6,354,632	6,505,800	7,459,934	8,209,998	6,455,754	6,470,732
	Reinsurance premiums expense	(1,371,418)	(1,655,431)	(1,892,542)	(2,391,237)	(2,431,716)	(1,851,634)	(2,340,563)	(1,977,415)	(1,968,850)
[2]	Net contributions (a)	2,360,483	3,092,172	3,995,038	3,963,395	4,074,084	5,608,300	5,869,435	4,478,339	4,501,882
[3a]	Net reserves and LAE (b)	1,450,533	2,002,732	1,237,260	1,539,764	2,927,553	2,874,209	5,539,450	9,549,182	7,289,894
[3b]	Net IBNR and LAE (b)	4,011,143	5,131,886	6,616,896	7,455,917	8,702,996	11,932,366	10,083,134	10,151,506	11,212,715
[3]	Total loss reserves and LAE	5,461,676	7,134,618	7,854,156	8,995,681	11,630,549	14,806,575	15,622,584	19,700,688	18,502,609
[4a]	Losses and LAE, net of reinsurance (a)	2,885,785	3,123,495	2,201,222	1,409,090	2,853,810	8,487,006	4,504,821	5,913,318	2,440,572
[4b]	Investment income (a)	284,311	59,235	285,801	482,795	1,054,489	1,377,023	1,134,663	662,364	406,491
[4c]	Expenses (a)	259,386	265,085	303,627	290,728	331,143	358,877	370,985	438,732	424,178
[4d]	Return of Equity/Assessment (b)	-	-	-	1,018,657	1,675,437	(949,644)	72,615	-	-
[5a]	One-Year Reserve Development (c)	1,936,981	525,381	(27,339)	(2,033,869)	181,564	5,049,777	1,268,364	3,374,818	(163,995)
[5b]	Two-Year Reserve Development (c)	(69,871)	1,799,699	746,571	(1,746,487)	(1,528,530)	4,888,449	6,235,520	2,095,992	3,182,686
[6]	SIR (c),(d)	1,500,000	3,000,000	3,000,000	4,000,000	4,000,000	4,000,000	3,000,000	3,000,000	3,000,000

(a) From Combining Statement of Revenues, Expenses, and Changes in Net Assets
(b) From Combining Balance Sheet
(c) From Financial Statements: Supplementary Information, Claims Development.
(d) $7 mil ex $3 mil and 25% QS - 1998/99-2002/03, $6 mil ex $4 mil - 2003/04-2004/05, $5 mil ex $5 mil - 2005/06-2006/07, $10 mil ex $5 mil - 2007/08, $10 mil ex $4 mil - 2008/09-2010/11

	BENCHMARK RATIOS:	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	**2010-2011**	**Benchmark**	**6/30/11 Result**	Comparison 6/30/10 Result
[6]	Net Contributions to Equity	0.49	0.68	0.63	0.49	0.50	0.77	0.63	0.55	**0.44**	**≤ 2.0**	**Pass**	Pass
[7]	Loss Reserves to Equity	1.14	1.57	1.24	1.12	1.42	2.03	1.67	2.42	**1.82**	**≤ 3.0**	**Pass**	Pass
	Net Leverage (Net Contributions + Loss Reserves)	1.63	2.24	1.87	1.62	1.91	2.80	2.30	2.97	**2.26**			
[8]	Equity to SIR	3.2	1.5	2.1	2.0	2.1	1.8	3.1	2.7	**3.4**	**≥ 3**	**Pass**	Fail
	Operating Ratio:												
	+ Loss Ratio	122%	101%	55%	36%	70%	151%	77%	132%	**54%**			
	+ Expense ratio	11%	9%	8%	7%	8%	6%	6%	10%	**9%**			
	+ Dividends	0%	0%	0%	26%	41%	-17%	1%	0%	**0%**			
	- Investment income	12%	2%	7%	12%	26%	25%	19%	15%	**9%**			
[9]	= Operating Ratio	121%	108%	56%	56%	93%	116%	65%	127%	**55%**	**< 100%**	**Pass**	Fail
[10a]	One-Year Reserve Development to Equity	42%	11%	-1%	-32%	2%	61%	17%	36%	**-2%**	**< 20%**	**Pass**	Fail
[10b]	Two-Year Reserve Development to Equity	-2%	39%	16%	-38%	-24%	61%	76%	29%	**34%**	**< 20%**	**Fail**	Fail
[11]	Change in Equity	5%	-5%	39%	27%	3%	-11%	28%	-13%	**25%**	**≥ -10%**	**Pass**	Fail

California Affiliated Risk Management Authorities (CARMA)

BENCHMARKING RATIO RESULTS

Projected as of December 31, 2011

	DATA:	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	Projected As of 12/31 2011-2012
[1]	Net assets or "Equity" (b)	$4,558,551	$6,321,998	$8,014,694	$8,218,318	$7,284,309	$9,339,990	$8,128,643	$10,172,475	$7,826,828
	* - Net of Rate Stabilization Fund	*	*	*	*	*	*	*	*	*
	Gross contributions	4,747,603	5,887,580	6,354,632	6,505,800	7,459,934	8,209,998	6,455,754	6,470,732	5,931,983
	Reinsurance premiums expense	(1,655,431)	(1,892,542)	(2,391,237)	(2,431,716)	(1,851,634)	(2,340,563)	(1,977,415)	(1,968,850)	(1,656,773)
[2]	Net contributions (a)	3,092,172	3,995,038	3,963,395	4,074,084	5,608,300	5,869,435	4,478,339	4,501,882	4,275,210
[3a]	Net reserves and LAE (b)	2,002,732	1,237,260	1,539,764	2,927,553	2,874,209	5,539,450	9,549,182	7,289,894	2,702,422
[3b]	Net IBNR and LAE (b)	5,131,886	6,616,896	7,455,917	8,702,996	11,932,366	10,083,134	10,151,506	11,212,715	12,552,082
[3]	Total loss reserves and LAE	7,134,618	7,854,156	8,995,681	11,630,549	14,806,575	15,622,584	19,700,688	18,502,609	15,254,504
[4a]	Losses and LAE, net of reinsurance (a)	3,123,495	2,201,222	1,409,090	2,853,810	8,487,006	4,504,821	5,913,318	2,440,572	5,721,947
[4b]	Investment income (a)	59,235	285,801	482,795	1,054,489	1,377,023	1,134,663	662,364	406,491	384,132
[4c]	Expenses (a)	265,085	303,627	290,728	331,143	358,877	370,985	438,732	424,178	445,740
[4d]	Return of Equity/Assessment (b)	-	-	1,018,657	1,675,437	(949,644)	72,615	-	-	
[5a]	One-Year Reserve Development (c)	525,381	(27,339)	(2,033,869)	181,564	5,049,777	1,268,364	3,374,818	(163,995)	
[5b]	Two-Year Reserve Development (c)	1,799,699	746,571	(1,746,487)	(1,528,530)	4,888,449	6,235,520	2,095,992	3,182,686	
[6]	SIR (c),(d)	3,000,000	3,000,000	4,000,000	4,000,000	4,000,000	3,000,000	3,000,000	3,000,000	3,000,000

(a) From Combining Statement of Revenues, Expenses, and Changes in Net Assets — Annualized
(b) From Combining Balance Sheet
(c) From Financial Statements: Supplementary Information, Claims Development.
(d) $7 mil ex $3 mil and 25% QS - 1998/99-2002/03, $6 mil ex $4 mil - 2003/04-2004/05, $5 mil ex $5 mil - 2005/06-2006/07, $10 mil ex $5 mil - 2007/08, $10 mil ex $4 mil - 2008/09-2010/11

	BENCHMARK RATIOS:	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	**12/31/2011**	**Benchmark**	**Projected 12/31/2011 Result**
[6]	Net Contributions to Equity	0.68	0.63	0.49	0.50	0.77	0.63	0.55	0.44	**0.55**	**≤ 2.0**	**Pass**
[7]	Loss Reserves to Equity	1.57	1.24	1.12	1.42	2.03	1.67	2.42	1.82	**1.95**	**≤ 3.0**	**Pass**
	Net Leverage (Net Contributions + Loss Reserves)	2.24	1.87	1.62	1.91	2.80	2.30	2.97	2.26	**2.50**		
[8]	Equity to SIR	1.5	2.1	2.0	2.1	1.8	3.1	2.7	3.4	**2.6**	**≥ 3**	**Fail**
	Operating Ratio:											
	+ Loss Ratio	101%	55%	36%	70%	151%	77%	132%	54%	134%		
	+ Expense ratio	9%	8%	7%	8%	6%	6%	10%	9%	10%		
	+ Dividends	0%	0%	26%	41%	-17%	1%	0%	0%	0%		
	- Investment income	2%	7%	12%	26%	25%	19%	15%	9%	9%		
[9]	= Operating Ratio	108%	56%	56%	93%	116%	65%	127%	55%	135%	**< 100%**	**Fail**
[10a]	One-Year Reserve Development to Equity	11%	-1%	-32%	2%	61%	17%	36%	-2%		**< 20%**	
[10b]	Two-Year Reserve Development to Equity	39%	16%	-38%	-24%	61%	76%	29%	34%		**< 20%**	
[11]	Change in Equity	-5%	39%	27%	3%	-11%	28%	-13%	25%	**-23%**	**≥ -10%**	**Fail**

Only calculable at year end

CARMA Future Equity Analysis

Program Year	Program Year Equity as of 9/30/11	Estimated Program Year Equity as of 12/31/11	Difference*	Percentage Difference
2001/2002	$ 283,821	$ 283,821	$ -	0.0%
2002/2003	894,995	$894,995	-	0.0%
2003/2004	2,254,219	2,254,219	-	0.0%
2004/2005	378,391	378,391	-	0.0%
2005/2006	(3,140,223)	(4,127,806)	(987,583)	-31.4%
2006/2007	1,721,844	765,834	(956,010)	-55.5%
2007/2008	3,310,330	2,527,798	(782,532)	-23.6%
2008/2009	1,390,813	1,390,813	-	0.0%
2009/2010	1,618,025	1,618,025	-	0.0%
2010/2011	1,546,613	1,546,613	-	0.0%
2011/2012	294,123	294,123	-	0.0%
Total	$ 10,552,953	$ 7,826,828	($2,726,125)	-25.8%

* *Total Reserves decreased by $3.1 million (16.8%),*
Total payments increased by $5.8 million (21.9%).

Note: To calculate the estimated program equity as of 12/31, the reserves for both claims and IBNR at 12/31 were evaluated. It was necessary to make $3.3 million in IBNR adjustments to account for unexpected adverse development in four program years:

2002/03 - One open claim's case reserves increased from $300k to $500k. ($200k adj.)

2005/06 - $4.2 M in case reserves at time of recent actuarial study (3/31/11 FS). Recent activity reflects $4.5 M in payments and $1.5 M in new case reserves. ($1.5 M adj.)

2006/07 - $900k in case reserves at 3/31/11. Recent activity reflects $1.1 M in payments and $670k in new case reserves. ($900k adj.)

2007/08 - $0 case reserves, but recent activity reflects $1M in payments. ($700k adj.)

Membership KEY:
BCJPIA, CSJVRMA, MPA, PARSAC, & VCJPA
BCJPIA, CSJVRMA, MBASIA, MPA, PARSAC, & VCJPA
BCJPIA, CSJVRMA, MBASIA, MPA, & VCJPA

CHALLENGES AND CONCERNS FOR 2012

SUBJECT: Legal Trends and Its Impact on CARMA – Police Civil Liability Cases and Other Related Observations

BACKGROUND:

Although many factors are involved, we are seeing some troubling legal/social "trends" that are increasing the costs to defend certain types of cases in the state and federal courts. Some of these trends are supported by statistics; others are simply observations based on experience. Many of the claims involve questionable or no actual liability on the part of the public entity defendant.

This staff report will outline some observations from the Litigation Manager, Michael Groff, and Assistant Litigation Manager, Rebecca Lane, and possible factors that influence these observations, including:

- an increase in the aggressive pursuit of police civil liability claims by specialized plaintiff law firms;
- a rise in the number of claims for dangerous conditions of public property due to the reduction in staff and resources to address safety and maintenance issues;
- more public entities filing cross-complaints against each other rather than "joining forces" against the plaintiffs – which tends to increase litigation costs; and
- emerging coverage issues involving Cyber Liability and Inverse Condemnation.

This report will also address what CARMA is doing to combat these emerging situations.

We are seeing a change of focus by well-funded plaintiffs' law firms toward alleging in the Complaint that an officer intentionally used excessive force or violated the constitutional rights of their clients which allows them to pursue punitive damages. To prove these allegations, the plaintiff must show that the officer exhibited a conscious disregard for the civil rights of the claimant. Depending on the credibility of the claimants (as compared to the officers), there are times when we are forced to decide whether the officer needs separate counsel. These allegations, along with ready access to the media hungry for news (Occupy Wall Street, UD Davis pepper spray protests), sometimes gets the attention of the District Attorneys' office to consider criminal actions against the officer(s) or the US Department of Justice for civil investigations of the entire police department (City of Spokane and the Los Angeles County Sheriff's Office are recent examples). These allegations and the increased cost of discovery affect our decision to settle the case before trial depending on the credibility and personnel file of the affected officer(s) and the tactics used by the plaintiff's attorneys.

Agenda Item D.1.

The Litigation Manager will outline the various social factors that contribute to this phenomenon including support from the federal judiciary, the threat of statutory attorneys' fees, juror sympathy, the refusal of mediators to accept a "no liability" position, and the media attention on excessive force cases filed by the mentally and/or physically disabled.

REDUCTION IN CITY MAINTENANCE AND REPAIR STAFF

Many public entities are reducing staff that would normally inspect, maintain, and repair public works or improvements, such as city parks, intersections, multiuse trails, aquatic centers, streets and roadways and skate parks. As an example, we are seeing more situations where the stop signs are being obstructed by overgrown foliage or tree branches thereby contributing to the adverse driver not stopping at a controlled intersection. Cities are simply not able to inspect or repair displacements in sidewalks that are causing people to trip and fall. Although we have some defenses to these circumstances (including risk sharing ordinances), juries tend to ignore the details and find that the City or entity had notice of a dangerous condition and should have repaired the defect. With Proposition 51 ("the Deep Pockets initiative") still looming out there, a public entity pays 100% of the economic damages even if it is only 1% at fault.

COVERAGE ISSUES

CARMA is taking a more active role in reviewing the actual contracts or supporting documents when a Member pool requests a Certificate of Coverage to include a request that another party be named as an Additional Covered Party. This proactive strategy has the effect of minimizing the exposure to CARMA's layer and promoting the transfer of risk when appropriate. We are not "policing" the activities of the underlying Member or their Covered Party, but just more closely monitoring the process so that, hopefully, CARMA does not have to pay any money in case of a loss.

CARMA has also taken proactive steps to limit its exposure to large property damage claims for Inverse Condemnation and Cyber Liability by revising the Liability Memorandum of Coverage adopting sub-limits per occurrence with an aggregate per Member. The recommendation by the ad hoc committee on Cyber Liability is a recent example of this strategy.

The Litigation Manager has been requested to issue preliminary *Coverage Alerts* to its Members when obvious issues involving the number of occurrences, late notice to CARMA, or possible exclusions of coverage or sub-limit situations arise after being initially reported to CARMA. There have been two (2) recent examples of these *Coverage Alerts* that will be discussed with the Board.

FUTURE CONSIDERATIONS

Even with the increase in defense costs to defend the police civil liability cases, we feel that continuing with an aggressive defense on questionable liability situations is the prudent course of action over the long run. Many plaintiff attorney law firms, mediators, and judges understand that CARMA is not simply an excess pool that is there to pay money. This is the message that we want to continue to voice.

When a claim is initially reported to CARMA, we have decided to take a more active role in monitoring the underlying litigation as it progresses with the goal of acting as an early resource to the Member and their litigation team.

Lastly, we feel that keeping a pulse on any potential Memorandum of Coverage issues will promote our mission of contributing to the financial viability of CARMA.

REFERENCE MATERIALS ATTACHED:

None

CHALLENGES AND CONCERNS FOR 2012

SUBJECT: Communicating Effectively to Our Members and Their Underlying Entities – Team Exercise

BACKGROUND AND STATUS:

At several past meetings, the Board of Directors has discussed the importance of communicating with CARMA Member JPAs, and their underlying entities. More recently, the emphasis has been on claims reporting and litigation management. Communication in this arena crosses several dimensions, including claimants, attorneys, risk managers, city managers, governing boards, litigation managers, juries, mediators, etc.

This item has been placed on the agenda to provide an opportunity for the Board of Directors to experience, at one sitting, the various levels of communications that occur when a claim arises. Included with this report is a scenario of a claim. Board Members will have an opportunity to participate in a role to mutually determine the ultimate outcome of this claim.

Ms. Karen Thesing, Executive Director, will facilitate this case study with the Board of Directors.

REFERENCE MATERIALS ATTACHED:

- Case Study

Agenda Item D.2.

Case Study

The City has received a claim which arose out of the collision between a high school student's bicycle and a city maintenance vehicle on a city trail that was closed to through traffic, used mainly for recreational purposes, and also occasionally for maintenance vehicles. The collision left the boy a quadriplegic.

The young boy was a star athlete, received a scholarship to Stanford for fall semester admittance. He comes from a prominent, affluent family who generously supports the city's library and other civic programs.

The employee driving the maintenance vehicle is a long term employee, excellent safety record, and recently promoted to Lead.

The Risk Manager recently had a conversation with the Public Works Director regarding city maintenance vehicles on the trail during high peak hours.

CHALLENGES AND CONCERNS FOR 2012

SUBJECT: Developing New Approaches to Continued Financial Protection – Discount Rates and Confidence Levels

BACKGROUND AND STATUS:

Overview of April Board Meeting Discussions

During the presentation of the actuarial study and the proposed 2011/2012 budget scenarios at the CARMA Board of Directors meeting in April, discussions ensued regarding the appropriate discount rate (DR) to be used in the upcoming budget. Following is a brief review of the points and issues discussed:

Jack Joyce of Bay Actuarial Consultants, CARMA's independent actuary, discussed his recommended interest rates to be used for the discounting of both pooling rates and outstanding liabilities. Based on a portfolio of treasuries, and the projected timing of the 2011/12 program year payments as well as the projected timing of the payments for outstanding liabilities, Mr. Joyce suggested optimum discount factors of 2.16% for pooling rates, and 1.38% for the reporting of outstanding liabilities (both claim and IBNR reserves).

During Mr. Joyce's presentation, a discussion amongst the members, vendors, and staff ensued regarding various ramifications and considerations of the use and determination of appropriate discount rates.

During the presentation of the proposed budget scenarios, staff presented three scenarios:

- 80% CL ~ 4.0% DR (same as prior year) ~~ 4.12% increase over prior year budget
- 80% CL ~ 3.5% DR ~~ 5.91% increase over prior year budget
- 75% CL ~ 3.5% DR ~~ 3/08% decrease over prior year budget

Ms. Thesing, Executive Director, and Ms. Broadhurst, Finance Manager, were in agreement that the Board should consider dropping the current discount rate from 4.0% to 3.5% to bring it closer to the economic reality of current earnings, but not as low as the actuary had recommended in order to maintain stable premiums. It was noted that funding at a higher confidence level without using an appropriate discount rate would result in an inaccurate picture of the actual confidence level funding. After consideration of all scenarios, the Board chose the scenario represented by both a lower discount rate and confidence level to reduce, rather than increase, overall premiums.

Agenda Item D.3.

Considerations Going Forward

The economic climate remains challenging, and future projections do not indicate a quick turn-around. Because of this, the administrators and finance managers at Bickmore Risk Services have formed an ad hoc committee in conjunction with the advice of actuaries and investment managers to evaluate the implications of the appropriate use of discount rates going forward for all of our clients. We are in the early stages of these discussions, but are in agreement that the subject is not an easy one.

Some of the implications of lowering discount rates are as follows:

- On one hand, it seems appropriate to lower discount rates to a level that coincides with the projected future economic climate – 2% or lower.
- However, if discount rates are lowered, but current confidence level funding is maintained, premiums would increase dramatically.
- The answer might be to lower confidence levels accordingly, but in order to keep premiums stable, a confidence level considerably less than desired as well as one that has been maintained historically might have to be adopted.
- Also inherent in this economic climate is the reality that stable premiums are desirable. Each representative on a JPA Board is challenged by the decision to preserve the appropriate funding necessary to maintain operations while funding at a level that does not place the pool in financial jeopardy.

The "Confidence Levels and Discount Rates" Summary and substantiating exhibits included with this staff report illustrate various budget and financial statement scenarios using the actuary's recommended discount rates for both pooling rates and the reporting of outstanding liabilities. These scenarios have been provided in order for the Board to have an opportunity to review and discuss the various implications of the effects of lower discount rates on current financial report scenarios.

Staff is hopeful that the discussions will provide guidance to staff for the direction the Board would like to take in adopting funding decisions for the future.

<u>REFERENCE MATERIALS ATTACHED:</u>

- "Confidence Levels and Discount Rates" Summary
- 2011/12 Approved Budget ~ 75% CL ~ 3.5% DR
- 2011/12 Budget Scenario ~ 75% CL ~ 2.16% DR
- 2011/12 Budget Scenario ~ 70% CL ~ 2.16% DR
- Balance Sheet as of 9/30/2011, using approved 3.5% DR
- Balance Sheet as of 9/30/2011 Scenario, using 1.38% DR

CARMA COMPARISONS

~ Confidence Levels and Discount Rates ~

2011/12 Budget Scenarios

Member	2011/12 Approved Budget Premium 75% CL ~ 3.5% DR	2011/12 Budget Scenario Premium 75% CL ~ 2.16% DR	2011/12 Budget Scenario Premium 70% CL ~ 2.16% DR
BCJPIA	$ 2,268,556	$ 2,377,731	$ 2,173,592
CSJVRMA	1,554,561	1,623,752	1,494,377
MBASIA	244,058	252,569	236,655
MPA	1,611,818	1,688,048	1,545,511
PARSAC	14,523	14,523	14,523
VCJPA	238,467	247,252	230,825
TOTAL	$ 5,931,983	$ 6,203,875	$ 5,695,482

Comparisons to 2011/12 Approved Budget:

Amount Change		$ 271,892	$ (236,501)
Percentage Change		4.58%	-3.99%

Note: Funding at the approximate 72% confidence level at the actuary's recommended discount funding rate of 2.16% would yield the approximate 2011/12 Approved Budget premium

9/30/11 Reserve and Equity Scenarios

	9/30/11 Balance Sheet Liabilities Discounted @ 3.5%	9/30/11 Balance Sheet Liabilities Discounted @ 1.38%	Amount Difference	Percentage Difference
Total Reserves	$ 18,341,955	$ 19,326,262	$ 984,307	5.37%
Equity	$ 10,552,952	$ 9,568,645	$ (984,307)	-9.33%

Note: 1.38% is the actuary's recommended discount rate for the discounting of liabilities.

CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES

~ Final Approved 2011/2012 Operating Budget ~

Funding For Pooled Losses at the 75% Confidence Level

~ Excess Purchase $15 million ex of $14 million - Colony ~

~ Reinsurance Purchase $10 million ex of $4 million - Am Trust Financial ~

	2010 PAYROLL	FUNDING FOR POOLED LOSSES	EXPERIENCE MOD FACTOR	LOSSED ADJUSTED FOR EX MOD	OFF-BALANCE FACTOR	ADJUSTED POOLED LOSSES
MEMBER AGENCY	NOTE 1	NOTE 2	NOTE 3	NOTE 4	NOTE 5	NOTE 6
BCJPIA	$399,854,746	$1,351,041	1.152	$1,556,444	0.9879	$1,537,679
CSJVRMA	388,380,637	1,312,272	0.752	986,413	0.9879	974,520
MBASIA	41,784,220	141,182	0.859	121,332	0.9879	119,869
MPA	257,593,483	870,365	1.249	1,086,769	0.9879	1,073,667
PARSAC						
VCJPA	45,758,398	154,610	0.810	125,246	0.9879	123,736
TOTALS	**$1,133,371,484**	**$3,829,470**	**0.964**	**$3,876,203**		**$3,829,470**
			(average)			

LAYER "B" RATE	**$3 X $1 Rate for Discounted Losses and ALAE (75% Confidence Level)**	**0.338**
LAYER "C" RATE	**Reinsurance Rate + Broker's Fee**	**$0.10054**
($5-14 MIL)	Broker's Fee (included in reinsurance rate)	$68,290
LAYER "D" RATE	**Excess ($15-$29 Mil) Insurance Rate**	**$0.04564**

LAYER "A" $0 - $1 MIL - NOT ACTIVATED
LAYER "B" $3 MIL EX $1 MIL
LAYER "C" $10 MIL EX $4 MIL
LAYER "D" $15 MIL EX $14 MIL

NOTES:
1 2010 Payroll
2 Payroll/100 * Rate Discounted at 3.50%
3 Minimum of .75 AND Maximum of 1.25 (Page 2).
4 (2)*(3)
5 Total (2) / Total (4)
6 (4) * (5).
7 (Payroll/100) * Reinsurance Rate (2/3 applied to ex mod)
8 (Payroll/100) * Excess Insurance Rate
9 From Page 4
10 Sum of (6) Through (9)

		REINSURANCE: $10 Mil X $4 Mil						
	ADJUSTED POOLED LOSSES	2/3 Premium Applied to ExMod	1/3 Premium Not Applied to ExMod	Reinsurance Premium	EXCESS $15Mil x $14Mil	ADMIN PREMIUM	2011-2012 CARMA PREMIUM	RATE PER $100
MEMBER AGENCY	NOTE 6	NOTE 7			NOTE 8	NOTE 9	NOTE 10	PAYROLL
BCJPIA	$1,537,679	$305,033	$134,004	**$439,037**	$182,498	$109,342	**$2,268,556**	$0.567
CSJVRMA	974,520	193,318	130,159	**323,477**	177,261	79,303	**1,554,561**	$0.400
MBASIA	119,869	23,779	14,003	**37,782**	19,071	67,336	**244,058**	$0.584
MPA	1,073,667	212,986	86,328	**299,314**	117,568	121,270	**1,611,818**	$0.626
PARSAC						14,523	**14,523**	
VCJPA	123,736	24,546	15,335	**39,881**	20,885	53,966	**238,467**	$0.521
TOTALS	**$3,829,470**	**$759,660**	**$379,830**	**$1,139,490**	**$517,283**	**$445,740**	**$5,931,983**	**$0.523**

COMPARISON TO PRIOR YEAR		
2010-2011 CARMA		Percentage INCREASE
PREMIUM	INCREASE (DECREASE)	(DECREASE)
$2,414,657	($146,101)	-6.05%
1,801,732	($247,171)	-13.72%
260,461	($16,403)	-6.30%
1,734,781	($122,963)	-7.09%
21,785	($7,262)	-33.33%
237,316	$1,151	0.48%
$6,470,732	**($538,749)**	-8.33%

Revisions from prior year:
~ Revised reinsurance allocation: Two thirds of the reinsurance premium continues to be applied to the JPA ex mod, while one third of the premium is not.
~ A detail combined loss and payroll page for each JPA, rather than the two detail pages as provided in the past.

CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES

~ 2011/2012 Operating Budget Scenario ~

Funding For Pooled Losses at the 75% Confidence Level - 2.16% Discount Rate

~ Excess Purchase $15 million ex of $14 million - Colony ~

~ Reinsurance Purchase $10 million ex of $4 million - Am Trust Financial ~

	2010 PAYROLL	FUNDING FOR POOLED LOSSES	EXPERIENCE MOD FACTOR	LOSSED ADJUSTED FOR EX MOD	OFF-BALANCE FACTOR	ADJUSTED POOLED LOSSES
MEMBER AGENCY	NOTE 1	NOTE 2	NOTE 3	NOTE 4	NOTE 5	NOTE 6
BCJPIA	$399,854,746	$1,446,965	1.152	$1,666,951	0.9879	$1,646,854
CSJVRMA	388,380,637	1,405,443	0.752	1,056,448	0.9879	1,043,711
MBASIA	41,784,220	151,206	0.859	129,946	0.9879	128,379
MPA	257,593,483	932,160	1.249	1,163,930	0.9879	1,149,897
PARSAC						
VCJPA	45,758,398	165,587	0.810	134,138	0.9879	132,521
TOTALS	**$1,133,371,484**	**$4,101,362**	**0.964**	**$4,151,413**		**$4,101,362**
			(average)			

LAYER "B" RATE	**$3 X $1 Rate for Discounted Losses and ALAE (75% Confidence Level)**	**0.362**
LAYER "C" RATE	**Reinsurance Rate + Broker's Fee**	**$0.10054**
($5-14 MIL)	Broker's Fee (included in reinsurance rate)	$68,290
LAYER "D" RATE	**Excess ($15-$29 Mil) Insurance Rate**	**$0.04564**

LAYER "A" $0 - $1 MIL - NOT ACTIVATED
LAYER "B" $3 MIL EX $1 MIL
LAYER "C" $10 MIL EX $4 MIL
LAYER "D" $15 MIL EX $14 MIL

NOTES:
1 2010 Payroll
2 Payroll/100 * Rate Discounted at 3.50%
3 Minimum of .75 AND Maximum of 1.25 (Page 2).
4 (2)*(3)
5 Total (2) / Total (4)
6 (4) * (5).
7 (Payroll/100) * Reinsurance Rate (2/3 applied to ex mod)
8 (Payroll/100) * Excess Insurance Rate
9 From Page 4
10 Sum of (6) Through (9)

	ADJUSTED POOLED LOSSES	REINSURANCE: $10 Mil X $4 Mil — 2/3 Premium Applied to ExMod	1/3 Premium Not Applied to ExMod	Reinsurance Premium	EXCESS $15Mil x $14Mil	ADMIN PREMIUM	2011-2012 CARMA PREMIUM	RATE PER $100	COMPARISON TO Approved Budget — 2011-2012 CARMA PREMIUM	INCREASE (DECREASE)	Percentage INCREASE (DECREASE)
MEMBER AGENCY	NOTE 6		NOTE 7		NOTE 8	NOTE 9	NOTE 10	PAYROLL			
BCJPIA	$1,646,854	$305,033	$134,004	**$439,037**	$182,498	$109,342	**$2,377,731**	$0.595	$2,268,556	$109,175	4.81%
CSJVRMA	1,043,711	193,318	130,159	**323,477**	177,261	79,303	**1,623,752**	$0.418	1,554,561	$69,191	4.45%
MBASIA	128,379	23,779	14,003	**37,782**	19,071	67,336	**252,569**	$0.604	244,058	$8,511	3.49%
MPA	1,149,897	212,986	86,328	**299,314**	117,568	121,270	**1,688,048**	$0.655	1,611,818	$76,230	4.73%
PARSAC						14,523	**14,523**		14,523	$0	0.00%
VCJPA	132,521	24,546	15,335	**39,881**	20,885	53,966	**247,252**	$0.540	238,467	$8,785	3.68%
TOTALS	**$4,101,362**	**$759,660**	**$379,830**	**$1,139,490**	**$517,283**	**$445,740**	**$6,203,875**	**$0.547**	**$5,931,983**	**$271,892**	4.58%

Revisions from prior year:
~ Revised reinsurance allocation: Two thirds of the reinsurance premium continues to be applied to the JPA ex mod, while one third of the premium is not.
~ A detail combined loss and payroll page for each JPA, rather than the two detail pages as provided in the past.

2011/12 Final Approved Budget

CALIFORNIA AFFILIATED RISK MANAGEMENT AUTHORITIES

~ 2011/2012 Operating Budget Scenario ~

Funding For Pooled Losses at the 70% Confidence Level - 2.16% Discount Rate

~ Excess Purchase $15 million ex of $14 million - Colony ~

~ Reinsurance Purchase $10 million ex of $4 million - Am Trust Financial ~

	2010 PAYROLL	FUNDING FOR POOLED LOSSES	EXPERIENCE MOD FACTOR	LOSSED ADJUSTED FOR EX MOD	OFF-BALANCE FACTOR	ADJUSTED POOLED LOSSES
MEMBER AGENCY	NOTE 1	NOTE 2	NOTE 3	NOTE 4	NOTE 5	NOTE 6
BCJPIA	$399,854,746	$1,267,604	1.152	$1,460,321	0.9879	$1,442,715
CSJVRMA	388,380,637	1,231,229	0.752	925,494	0.9879	914,336
MBASIA	41,784,220	132,463	0.859	113,838	0.9879	112,466
MPA	257,593,483	816,613	1.249	1,019,652	0.9879	1,007,359
PARSAC						
VCJPA	45,758,398	145,061	0.810	117,511	0.9879	116,094
TOTALS	**$1,133,371,484**	**$3,592,969**	**0.964**	**$3,636,816**		**$3,592,969**
			(average)			

LAYER "B" RATE	**$3 X $1 Rate for Discounted Losses and ALAE (75% Confidence Level)**	**0.317**

LAYER "C" RATE	**Reinsurance Rate + Broker's Fee**	**$0.10054**
($5-14 MIL)	Broker's Fee (included in reinsurance rate)	$68,290

LAYER "D" RATE	**Excess ($15-$29 Mil) Insurance Rate**	**$0.04564**

LAYER "A" $0 - $1 MIL - NOT ACTIVATED
LAYER "B" $3 MIL EX $1 MIL
LAYER "C" $10 MIL EX $4 MIL
LAYER "D" $15 MIL EX $14 MIL

NOTES:
1 2010 Payroll
2 Payroll/100 * Rate Discounted at 3.50%
3 Minimum of .75 AND Maximum of 1.25 (Page 2).
4 (2)*(3)
5 Total (2) / Total (4)
6 (4) * (5).
7 (Payroll/100) * Reinsurance Rate (2/3 applied to ex mod)
8 (Payroll/100) * Excess Insurance Rate
9 From Page 4
10 Sum of (6) Through (9)

	ADJUSTED POOLED LOSSES	REINSURANCE: $10 Mil X $4 Mil 2/3 Premium Applied to ExMod	1/3 Premium Not Applied to ExMod	Reinsurance Premium	EXCESS $15Mil x $14Mil	ADMIN PREMIUM	2011-2012 CARMA PREMIUM	RATE PER $100	COMPARISON TO Approved Budget 2011-2012 CARMA PREMIUM	INCREASE (DECREASE)	Percentage INCREASE (DECREASE)
MEMBER AGENCY	NOTE 6		NOTE 7		NOTE 8	NOTE 9	NOTE 10	PAYROLL			
BCJPIA	$1,442,715	$305,033	$134,004	**$439,037**	$182,498	$109,342	**$2,173,592**	$0.544	$2,268,556	($94,964)	-4.19%
CSJVRMA	914,336	193,318	130,159	**323,477**	177,261	79,303	**1,494,377**	$0.385	1,554,561	($60,184)	-3.87%
MBASIA	112,466	23,779	14,003	**37,782**	19,071	67,336	**236,655**	$0.566	244,058	($7,403)	-3.03%
MPA	1,007,359	212,986	86,328	**299,314**	117,568	121,270	**1,545,511**	$0.600	1,611,818	($66,307)	-4.11%
PARSAC						14,523	**14,523**		14,523	$0	0.00%
VCJPA	116,094	24,546	15,335	**39,881**	20,885	53,966	**230,825**	$0.504	238,467	($7,642)	-3.20%
TOTALS	**$3,592,969**	**$759,660**	**$379,830**	**$1,139,490**	**$517,283**	**$445,740**	**$5,695,482**	**$0.503**	**$5,931,983**	**($236,501)**	-3.99%

Revisions from prior year:
~ Revised reinsurance allocation: Two thirds of the reinsurance premium continues to be applied to the JPA ex mod, while one third of the premium is not.
~ A detail combined loss and payroll page for each JPA, rather than the two detail pages as provided in the past.

California Affiliated Risk Management Authorities

~ BALANCE SHEET ~

As of September 30, 2011

(Unaudited)

ASSETS		
CURRENT ASSETS		
Cash in Bank	$ 2,696	
Local Agency Investment Fund	8,071,731	
Market Valuation - LAIF	14,913	
Investments - Managed Portfolio	1,634,138	
Market Valuation - Investment	(1,849)	
Accounts Receivable	29,168	
Interest Receivable	105,190	
Prepaid Expenses	5,740	
Prepaid Insurance	1,243,354	
TOTAL CURRENT ASSETS		11,105,082
NONCURRENT ASSETS		
Investments - Managed Portfolio (Net of Rate Stabilization Fund)	22,140,276	
Market Valuation - Investment	120,931	
TOTAL OTHER ASSETS		22,261,207
TOTAL ASSETS		**$ 33,366,289**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 15,134	
Deferred Revenue	4,448,987	
Equity Payable to Withdrawing Member	7,261	
Reserve for Claims	4,200,000	
TOTAL CURRENT LIABILITIES		8,671,382
NONCURRENT LIABILITIES		
Reserve for Claims	3,191,662	
Reserve for IBNR	10,950,293	
TOTAL NONCURRENT LIABILITIES		14,141,955
TOTAL LIABILITIES		**22,813,337**
NET ASSETS		
Unrestricted Net Assets - Prior Years	10,172,475	
Net Assets - Current Year	380,477	
TOTAL NET ASSETS		**10,552,952**
TOTAL LIABILITIES AND NET ASSETS		**$ 33,366,289**

California Affiliated Risk Management Authorities
~ BALANCE SHEET ~
As of September 30, 2011
(Unaudited)

Discount Rate at 1.38%

ASSETS

CURRENT ASSETS		
Cash in Bank	$ 2,696	
Local Agency Investment Fund	8,071,731	
Market Valuation - LAIF	14,913	
Investments - Managed Portfolio	1,634,138	
Market Valuation - Investment	(1,849)	
Accounts Receivable	29,168	
Interest Receivable	105,190	
Prepaid Expenses	5,740	
Prepaid Insurance	1,243,354	
TOTAL CURRENT ASSETS		11,105,082
NONCURRENT ASSETS		
Investments - Managed Portfolio (Net of Rate Stabilization Fund)	22,140,276	
Market Valuation - Investment	120,931	
TOTAL OTHER ASSETS		22,261,207
TOTAL ASSETS		**$ 33,366,289**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts Payable	$ 15,134	
Deferred Revenue	4,448,987	
Equity Payable to Withdrawing Member	7,261	
Reserve for Claims	4,200,000	
TOTAL CURRENT LIABILITIES		8,671,382
NONCURRENT LIABILITIES		
Reserve for Claims	3,615,614	
Reserve for IBNR	11,510,648	
TOTAL NONCURRENT LIABILITIES		15,126,262
TOTAL LIABILITIES		**23,797,644**
NET ASSETS		
Unrestricted Net Assets - Prior Years	10,172,475	
Net Assets - Current Year	(603,830)	
TOTAL NET ASSETS		**9,568,645**
TOTAL LIABILITIES AND NET ASSETS		**$ 33,366,289**

STRATEGIES AND INITIATIVES FOR 2012

SUBJECT: Strategies and Initiatives for 2012

BACKGROUND AND STATUS:

In preparation for the 2012/2013 fiscal year, the Board may wish to establish, from discussions throughout the annual workshop, the strategies and initiatives and place priorities on these goals as well as any other issues which may have arisen.

REFERENCE MATERIALS ATTACHED:

- Blank Strategic Goals & Action Item List *(for listing comments and notes)*

Agenda Item E.

California Affiliated Risk Management Authorities
2012/2013 Strategic Goals & Action Item List

Target Date	Person Responsible	Action Item	Status			Comments
			Done	Revise	On Target	
Goal						
Goal						
Goal						
Goal						
Goal						
Goal						

SERVICE PROVIDER EVALUATIONS – BOARD OF DIRECTORS

SUBJECT: **Actuary: Bay Actuarial Consultants**
Administrator: Bickmore Risk Services
Board Counsel: Farmer, Smith, & Lane LLP
Broker of Record: Alliant Insurance Services
Claims Auditor: Farley Consulting Services
Financial Auditor: Sampson, Sampson, & Patterson LLP

BACKGROUND AND STATUS:

An electronic survey regarding satisfaction levels of the CARMA service providers was recently distributed to the Board members. Mr. Geoff Grote, CARMA President, will lead the Board in the discussion on the results of the evaluations for the various service providers.

The contract status of the various service providers is as follows:

- Actuarial Services: Jack Joyce, Bay Actuarial Consultant - June 30 annually with notice
- Administration Services: Bickmore Risk Services - expires June 30, 2012
- Board Counsel Service: Craig Farmer, Farmer Smith & Lane - no expiration date, 30 days' notice
- Brokerage Services: Alliant Insurance Services - expires June 30, 2012
- Claims Auditing Services: Tim Farley, Farley Consulting Services – through 2013
- Financial Auditing Services: Bill Patterson, Sampson, Sampson, & Patterson, LLP - with notice

REFERENCE MATERIALS ATTACHED:

- Results will be delivered to the Board of Directors by Mr. Geoff Grote, CARMA President

Agenda Item F.1-6.