



CALIFORNIA JOINT POWERS RISK MANAGEMENT AUTHORITY

ad hoc COMMITTEE ON RATE REDUCTION AND REFORMULATION

March 11, 2008– 9:00 A.M.

**Bishop Ranch Conference Center
2623 Camino Ramon, Suite 175
San Ramon, CA 94583**

(925)543-0100

AGENDA

I. CALL TO ORDER: 9:00 a.m.

II. ROLL CALL

III. APPROVAL OF MINUTES

- Minutes of ad hoc Committee Meeting held on 2/12/2008

IV. PRESENTATIONS

- None

V. CONSENT CALENDAR

- None

VI. THIS TIME IS RESERVED FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS OF COMMITTEE BUSINESS

VII. ACTION CALENDAR

1. Development of a Premium Stabilization Program

VIII. CLOSED SESSION

- None

IX. ACTION ON CLOSED SESSION ITEMS

- None

X. ADJOURNMENT



CALIFORNIA JOINT POWERS RISK MANAGEMENT AUTHORITY

ad hoc COMMITTEE ON RATE REDUCTION AND REFORMULATION

February 12, 2008– 8:00 A.M.

Sequoia Room A – Grand Californian
1600 S. Disneyland Drive
Anaheim, CA 92803

(714) 635-2300

MINUTES

I. CALL TO ORDER:

President Ellerbrock called the meeting to order at 8:00 a.m.

II. ROLL CALL

PRESENT

- | | |
|--|--|
| 1) Mujtaba Dattoo, <i>ARM Tech</i> | 13) Ron Blanquie, <i>Petaluma</i> |
| 2) Jessica Henry, <i>Chico</i> | 14) Scott Ellerbrock, <i>PERMA</i> |
| 3) David Clovis, <i>CJPRMA</i> | 15) Chris Carmona, <i>Redding</i> |
| 4) Lola Deem, <i>CJPRMA</i> | 16) Gail Crowley, <i>Redding</i> |
| 5) Bob German, <i>CJPRMA</i> | 17) Jeff Davis, <i>REMIF</i> |
| 6) Marylin Kelley, <i>Driver Alliant</i> | 18) Charlie Wilson, <i>Roseville</i> |
| 7) Steve Schwarz, <i>Fremont</i> | 19) Johanne Dictor, <i>San Leandro</i> |
| 8) Byrne Conley, <i>Gibbons & Conley</i> | 20) Lynne Margolies, <i>Santa Rosa</i> |
| 9) Bill Henderson, <i>Livermore</i> | 21) Roger Carroll, <i>SCORE</i> |
| 10) Janet Hamilton, <i>Lodi</i> | 22) Paul Wildermuth, <i>Vacaville</i> |
| 11) Brian Cooney, <i>Marsh</i> | 23) Harry Mauer, <i>Vallejo</i> |
| 12) Jim Pinckney, <i>Marsh</i> | 24) Jeff Tonks, <i>YCPARMIA</i> |

III. APPROVAL OF MINUTES

- None

IV. PRESENTATIONS

- None

V. CONSENT CALENDAR

- None

VI. THIS TIME IS RESERVED FOR MEMBERS OF THE PUBLIC TO ADDRESS THE COMMITTEE ON MATTERS OF COMMITTEE BUSINESS

VII. ACTION CALENDAR

1. Proposed Adjustments to Organizational Business Plan

The attendees listened to a presentation from Mujtaba Dato, the Actuary from ARM Tech.

After an extensively detailed discussion, the committee asked Staff to prepare options to the current program, taking into consideration the items discussed at the meeting.

Detailed minutes, taken by Board Counsel, are attached.

VIII. CLOSED SESSION

- None

IX. ACTION ON CLOSED SESSION ITEMS

- None

X. ADJOURNMENT

The meeting adjourned at 9:55 a.m.

Summary of discussion at CJPRMA ad hoc committee meeting of February 12, 2008

Actuary Report

Mujtaba Datoos provided 12 pages of handouts, numbered 1 through 11 but with two 'page 8's'. I will summarize those first, then my notes from the discussion, even though the two were staggered throughout the meeting.

The first page showed claims expenses for the past 10 program years, with the 2001-2002 figure reduced by \$2 million since it included the Gallardo v. Dinuba claim that exceeded \$5 million, and about \$2 million of that claim would have fallen in the layer now reinsured. The 10 year loss history totaled \$34.3 million. Using 1/10 of that as the baseline estimate for annual losses, adding \$1.5 million for a contingency margin, plus \$3.6 million for reinsurance and \$1.4 million for overhead, the pool should collect \$9.96 million. The first page showed how this would be allocated, and the allocation of a \$4.194 million declared redistribution.

Page 2 showed the allocation under the traditional CJPRMA method of building a rate from incurred losses at the primary level, for the 55% and 70% confidence levels. At 55% the pool collects about \$8.5 million in pooled loss funding, at the 70% level it collects about \$10.7 million. This compares to \$4.9 million under the method shown on page 1. Note that Mujtaba applies a 4.75% annual discount rate in reaching these figures, under the assumption that losses will be paid in the future and interest earned in the meantime. He indicated the 4.75% discount rate brings down the loss fund number by a net of about 10% overall (since the discount rate assumes losses will be spread over several years, some paid early and some later.)

Page 3 is the same as page 1 except it shows losses on an incurred basis (claims paid and actual reserves on claims) tied to the program year of the occurrence instead of the fiscal year in which the claim was paid. He also moved back the 10 year window period by a few years, to 1994-2003, to capture more mature years. Note there is no IBNR included in these calculations, it is just losses. This page shows the 10 year loss history as \$3.1 million per year.

Page 4 is the same as page 3 but shows the losses with "development" which is a factor (10%) added to anticipate loss development on reserved claims. This moves the 10 year loss history to \$3.4 million. Note that the figure generated by this calculation is almost identical to the 10 year loss history generated on page 1, simply measuring dollars out in the past 10 fiscal years.

Page 5 is the same as page 4, but with no 10% added for claims development, but instead "trending" or translating the past payments to present value. In other words he assumed 5% inflation and since we are going back 12 years for the beginning of the period measured, this has a major effect on the total. It moves the annual average loss up to \$4.5 million.

Page 6 shows the formula Mujtaba thinks is most appropriate. It is based on a 10 year loss history, 1993/94 through 2003/2004, trended (increased to present value based on a 5% inflation rate) and developed (increased reserves of about 10% for loss development). The net result is a 10 year loss history that produces a \$4.9 million annual average. In following years, the oldest loss year is dropped off and a newer year added at the other end.

We also discussed supplementing this with a catastrophic loss fund so that any program year would have a backup source of funds to tap in the event claims exceeded the loss funds for that program year. Under the current approach, if losses incurred for a program year exceed the loss funding, the program year essentially has to “borrow” the funds from other program years and pays it back in the form of an assessment (which can actually be funded by redirecting a dividend from another program year or from several program years). A catastrophic loss fund would instead be a dedicated fund that can be drawn upon to keep the individual program year solvent, but the program year would not be required to “pay back” those funds. Instead members would contribute to the catastrophic loss fund each year, and interest earned by the fund would go back into the fund. The catastrophic loss fund would be set aside as a “non equity fund” which would not pay dividends or surplus to members, even if they withdrew from the pool. In exchange for giving up the right to dividends from the fund, members would face a greatly diminished threat of assessments, even if premiums are lowered, because the catastrophic loss fund would stand behind (or reinsure) each program year.

Mujtaba indicated that a catastrophic loss fund might be a multiple of the amount pooled by CJPRMA, for example \$20 million (“just picking a number”) to be built up going forward. Members might fund \$5 million for losses in a program year, and if the losses are less, the balance can be contributed to the catastrophic loss fund or paid as dividends. The point would be to set a target and build to it. He indicated that CSAC funds on a similar basis. They fund for losses each year based on a 10 year loss average. If a member comes in, it pays premium based on the same pool average. If they leave, the former member gets no equity, but is still liable for assessments. Apparently this is a pure “big bucket” approach in which there is no program year accounting, losses are shared among program years. If we went to a “big bucket” approach there would have to be a provision for what happens when a member leaves.

Mujtaba said to keep in mind the nature of an excess pool, losses will vary, and we may have been lucky.

Page 7 showed calculations if we bought reinsurance down to a \$2.5 million attachment point. It is based on modeling from primary level losses at the 55% and 70% confidence levels, but does not include the additional reinsurance premium since that was not know.

The first “page 8” shows CJPRMA historical losses. At the prior meeting, I had questioned Mujtaba’s information regarding the number of claims incurred (about 480

total), since it appeared to overstate the number of claims that we have actually paid. He looked into it further and determined that he was looking at a list including a number of “incurred” claims that had incurred only attorney fees in monitoring losses, that ultimately resolved below the pooled layer. He resorted the losses, looking only for claims with more than \$10,000 incurred by CJPRMA. The result showed 68 claims from 1986/87 through 2006/07. The average incurred per year for all years from these claims was \$2.9 million, with an average of \$3.37 million for 1995/96 to 2004/05 (in other words, the average per year is trending up slightly). There were 417 claims with less than \$10,000 incurred per claim, an average of 21 per year over CJPRMA’s history, with an average incurred of only \$674 per claim.

The second “page 8” showed distribution of claims by coverage year. Page 9 showed the number of claims capped at \$10,000 per claim. Page 10 showed claims over \$10,000 only.

Page 11 shows the overall ratios of the pool currently. We have \$43 million in reserves including IBNR at the “expected” confidence level. We have \$35 million in surplus. The 1.2 to 1 ratio is well below the 3 to 1 ratio that liability pools should stay within. Net premiums have been about 1 to 3 in relation to surplus, meaning that we are well funded, since we are well below the industry standard of 1 to 1. Our surplus to pooled limit ratio (“how many hits can we take through the pooled limit”) is 8, which is pretty good. The standard in the insurance industry is 10, but pools generally are lower. I asked Mujtaba if the \$43 million in reserves at “expected” wasn’t itself pretty conservative, since it is supposed to represent a figure that would cover all claims if the Authority stopped doing business and just paid claims incurred before closing, and the total of all claims paid in 21 years of operations is only \$58 million. He agreed that the reserve figure is conservative (keep in mind it is made up of an estimate based on lower level losses, not actual claims payment history by the Authority.)

CSAC quote

Marilyn Kelley was asked to report on what CSAC would quote to CJPRMA if we joined CSAC simply to attach at \$5 million and access CSAC’s excess coverage from \$5 million up to \$40 million. She indicated that the 2007/08 premium would have been \$1.599 million. For 2008/09, assuming a 5% increase in payroll and no rate increase from CSAC’s excess carrier, the quote would be \$1.723 million and with a 25% rate increase from the excess carrier, the quote would be \$2.038 million. This represents substantially less than CJPRMA is paying in reinsurance premium now (about \$3.6 million). Scott Ellerbrock indicated that perhaps Marsh could use this information to determine whether CJPRMA could get a similar quote on its own, or the Board could consider whether to have the Authority apply to CSAC simply to access its excess coverage.

Board member comments

Scott Ellerbrock wondered if using a loss based formula would affect accreditation of CJPRMA. Mujtaba thought it would not, since it is still actuarially sound.

Jeff Tonks said the real issue is that premiums went up 50% in the last four years and he does not think the exposure went up 50%. If the trend kept up, YCPARMIA could not stay in CJPRMA, nor would there be a CJPRMA to stay in. He still thinks the “big bucket” approach is best because under the current system, we keep rebuilding a catastrophic loss fund each year. I indicated that we might consider a separate dedicated fund but still retain program year accounting along side the dedicated fund.

Ron Blanquie noted that page 6 of Mujtaba’s spreadsheets did not give the members credit for a 4.75 discount factor. He agreed that this could be added. Lynne Margolies indicated she thought it was safer not to discount, particularly where the formula was producing much lower numbers than we have been previously been collecting. Of course if we overcharge a little, it will not be money lost, but only build surplus.

Jeff Davis questioned the effect of losing 21% of premium if PERMA and YCPARMIA leave. Mujtaba noted that reinsurance and loss funding should go down proportionally, and perhaps some administrative expenses, and otherwise they would be spread on the remaining members.

Mujtaba noted that the net of all his scenarios is that the Board could responsibly choose a number between \$5 million and \$10 million to fund losses next year. Part of the reason for this large range is that equity is available if unexpectedly heavy losses are incurred.

Scott noted that we could fund a catastrophic loss fund relatively quickly, perhaps in 5 to 6 years. Mujtaba noted that dividends can be applied but they are not coming back equally, since some members are newer to the pool. Scott noted we could draft two models, one with a catastrophic loss fund and one without, for the Board to review.

Jeff Tonks said he saw the advantage of not having to fund the amount each year necessary to go from a 50% confidence level to a 70% confidence level. It’s cheaper to do it once. Ultimately we are going to give back all the equity from past years, the question is whether to build up a non equity fund. Bill Henderson noted that going to a “ten year rolling average” is separate and does not accomplish this by itself. Jeff Davis agreed that this is going to a different model, putting \$35 million in a bucket, which he considers to be similar to having a catastrophic fund. Jeff Tonks indicated that a bucket approach differs in that all funds are put into it, and it therefore can pay rebates too.

Mujtaba noted CJPRMA has \$100 million in assets, \$43 in liability \$35 million in equity, vested equity of members. There is \$5.6 million in actual case reserves. We have some flexibility available because of the overall financial situation.

Jeff Tonks noted that we could start a catastrophic loan fund immediately, by having the pool “loan” money to the fund from equity. Newer members would have to contribute actual new funds. Scott thought it would cause resistance from some Board members to do anything retrospectively. Jeff Tonks indicated that we cannot use a 10 year rolling average unless we have some cushion based on equity from past years.

Ron Blanquie and Scott Ellerbrock asked if Mujtaba had enough feedback to come up with some models and he said yes, he had enough to do the loss part. Jeff Tonks asked if he would show what we are doing now, a 10 year average approach (perhaps with a contribution annually to a catastrophic loss fund), and a bucket approach.

Bill Henderson asked Jim Pinckney if any of this would affect the reinsurance and Jim said it would not.

I noted that the \$4.9 million loss contribution suggested by Mujtaba at page 6 of his examples seems pretty conservative when compared with the average of \$3.3 million in actual average annual payments made by CJPRMA. Ten years from now, if we collect \$4.5 million per year, I think we would have the same equity we do today. Under the rolling ten year average formula, if losses go up or down, the formula will automatically adjust the annual premium.

Jeff Davis raised the issue whether CSAC’s coverage documents would take away control of claims from us, whereas our current reinsurance agreement gives us some measure of control. Lynne noted that even if there was some deterioration of our right to control claims, that would have to be weighed against a \$2 million per year in premium savings, and fiscal responsibility would require we look into saving that much money. Marilyn Kelley indicated that CSAC’s excess carrier did not reserve the right to control claims, but only to associate in the control.

Bob German noted that our property and liability programs are wrapped together, in that we get a lower premium because we have both with the same reinsurer. Jim noted that it was a one way agreement only, there is no requirement that we keep both coverages with the reinsurer.

I noted that using some dividends to fund a catastrophic loss fund does not prevent some from being returned to members or used for rate credits, either.

Scott thought we needed to consider the 10 year average formula, how to treat past equity, how to fund the big bucket, and scenarios with and without YCPARMIA and PERMA. Stability of premiums is important too.

**CALIFORNIA JOINT POWERS
RISK MANAGEMENT AUTHORITY**

AGENDA BILL

Item #: 1	<u>Title:</u> DEVELOPMENT OF A PREMIUM STABILIZATION PROGRAM
Meeting: 3/11/08	
Agenda Bill #: 975	
General Manager: 	

Recommended Action:

Approval of the recommendation to adopt and implement Option V for the 2008/2009 program year.

Item Explanation:

Due to member concerns regarding escalating premium levels, staff was asked to explore options for a premium stabilization program.

Currently, an actuarial study is performed each year. Rates are developed and recommended for various confidence levels. The rates are then applied to the amount of payroll reported by each member in order to determine the amount of their required contribution. The rates will vary depending upon the retained limit selected by each member.

From 1986 to 1990, the program was funded at a 90% confidence level. From 1990 to 1992, the confidence level was reduced to 80%. From 1992 to 1994, it was reduced to 75%. Finally, from 1994 to the present, the confidence level utilized for funding has been 70%.

The current plan was utilized to build a pool of funds large enough to generate a level of investment income sufficient to pay all losses. That plan worked very effectively when CJPRMA was providing \$10 million in coverage and self funding the entire amount.

However, approximately eight years ago, several large verdicts were returned which convinced the Board that it was necessary to increase the program's coverage limits. The purpose in doing so was twofold. First, it was felt that the members needed to be protected from the potentially disastrous effects of a loss which exceeded the existing coverage limits. Second, a review of the coverage limits provided by other JPAs revealed that they were all at higher levels. In order to be more competitive, it was felt that an increase in the limit of coverage would make the program more attractive.

As a result, CJPRMA decided to enter the reinsurance market.

Coverage was increased to \$15 million, then \$25 million, and finally to \$40 million. Although the rates have been steady, and often reduced, the premiums have increased because of corresponding increases in payroll levels.

Since 1999, CJPRMA has expended \$20.4 million for reinsurance coverage. In addition, it has lost \$5 million in investment income that would have been earned on those premiums had they remained

in the CJPRMA program. That's \$25.4 million that was lost.

Beginning in 2005, CJPRMA no longer paid all of its losses out of investment income. In 2005, the figure was reduced to 97%. In 2006, it was 92.4%, and in 2007, it was 90%.

The result is that, in addition to using investment income, \$17.8 million of the principal has been utilized to pay losses. Had the reinsurance premiums and the investment income generated from them remained in the program, CJPRMA would still have an additional \$12.6 million in principal, with all losses having been paid out of investment income.

Under the current business plan, the erosion of principal is going to continue for at least two reasons. First, reinsurance will continue to be needed in order to provide the desired coverage limits. Large jury verdicts and settlements have made it clear that high limits are a necessity. Second, redistributions will continue because members have become dependent on them.

Two additional issues have arisen regarding the current business plan. First, premium quotes from competitors have been substantially lower than CJPRMA's. As a direct result, two members of CJPRMA (YCPARMIA and PERMA) have provided notice of their withdrawal, effective July 1, 2008. Second, the eroding financial situation in California has created a fiscal crisis for all public entities.

With those issues in mind, it is recommended that the following options for changing premium calculations be considered.

Exhibit I provides the data that was utilized to develop the premium calculation options that are set forth in Exhibit II.

All options are for the 2008/2009 program year.

Based on estimated payroll levels, the rates approved by the Board, pursuant to the 2007 Actuarial Study, will generate an estimated \$16 million in premium for the 2008/2009 program year. (Exhibit I, Page 1)

- 1) **Option I (Exhibit 2, Page 1)** – This option generates approximately \$17.5 million in premium. That amount is not discounted because of the utilization of investment income as a credit under this plan. It is based on the approved actuarial study and has a 70% confidence level.

That amount can be reduced by the amount of the previously approved redistribution of approximately \$4.2 million. The result is a 17% reduction from the estimated premium of \$16 million for 2008/2009.

Alternatively, the estimated premium can be reduced by the amount of investment income earned during 2006/2007 (\$2.9 million). That would result in a 9% reduction from the estimated premium of \$16 million.

Further, if both reductions were taken, the reduction from the estimated premium would be 35% (\$5.67 million) to a total of \$10.3 million.

- 2) **Option II (Exhibit 2, Page 2)** – This option utilizes the same formula, except that it is based on a 55% (expected) confidence level.

Utilizing the approved redistribution as a credit would result in a 33% reduction (\$5.26

million) from the estimated premium of \$16 million.

Alternatively, reducing the estimated premium by the amount of the 2006/2007 investment income will result in a 25% reduction.

Further, if both reductions were taken, the estimated premium would be reduced by 51% (\$8.2 million) to a total of \$7.77 million.

- 3) **Option III (Exhibit 2, Page 3)** – This option changes the basic methodology for premium calculation.

It is based upon ten years of consecutive claims that are both trended and developed. The most recent year to be utilized would be three years prior to the commencement of the program year to which this formula applies. It changes the way that the amount needed for losses is calculated by averaging ten consecutive years.

Based on a 70% confidence level (undiscounted), the result would be a reduction of 29% (\$4.6 million) from the estimated premium of \$16 million.

That amount can be reduced by the amount of the approved redistribution to \$7.2 million. That is a 55% reduction from the estimated premium of \$16 million.

Alternatively, the projected premium under this option can be reduced by the amount of the investment income to \$8.4 million. That represents a 47% reduction from the estimated premium of \$16 million.

Further, if both reductions were taken, the premium would be reduced by 74% to \$4.2 million.

- 4) **Option IV (Exhibit 2, Page 4)** – This option utilizes the same formula except that it is based on a 55% confidence level (expected) and is not discounted.

The resulting change is a reduction of 37% (\$5.9 million) from the estimated premium of \$16 million to \$10.1 million.

Utilizing the approved redistribution as a credit would result in a 63% reduction from the estimated premium.

Alternatively, reducing the estimated premium by the amount of the investment income would result in a 55% reduction.

Further, if both reductions were taken, the estimated premium would be reduced by 82% to a total of \$2.9 million.

- 5) **Option V (Exhibit 2, Page 5)** – This option entails the creation of an excess loss reserve fund to support the premium calculation alternative set forth in Option III.

The goal would be to fund an amount (\$22.5 million) equivalent to five times the SIR (\$4.5 million) under the reinsurance program. The projected funding level would be generated over a nine year period (\$2.5 million per year). Once reached, the fund would not be supplemented again until such time as losses required its utilization.

It could be funded out of redistributions or investment income, as previously specified.

Two caveats would be recommended for this fund. First, any member withdrawing from the CJPRMA program would forfeit its contributions to this fund only. Second, new members joining CJPRMA would be required to contribute a specified amount (as yet undetermined) to this fund in each of their first three years in the program. These funds would only be available for distribution upon the dissolution of CJPRMA and only to its current members at that time.

- 6) **Option VI** – Utilizing any of the outlined premium calculation programs, this option would combine all years on a going forward basis.

If losses occurred, they would be shared by all members of Pools B and C. Premium rate reductions would be based on a member's SIR and include consideration for this loss sharing approach.

This option provides protection against the need for assessments in case multiple losses occur in any one year.

The disadvantage is that once this type of program is initiated, it would be virtually impossible to return to individual program year accounting.

Based on these options, the General Manager is recommending the adoption and implementation of Option V, utilizing investment income to fund the excess loss reserve fund, with the remainder to be applied as a credit against premium.

Fiscal Impact:

As indicated herein.

Exhibits:

- 1) Data Utilized for Exhibits
- 2) Options for Premium Calculation Program

Committee Action:

Data for Exhibits/Options

Member	Est 08/09 Payroll	Est 08/09 Premium as approved	FY 07/08 Declared Redist	FY 06/07 Investment Income
Alameda	61,587,722	641,128	171,667	127,174
Chico	33,932,762	353,240	78,769	60,912
Fairfield	50,344,505	524,086	138,411	96,282
Fremont	90,652,500	943,693	312,135	203,014
Livermore	41,027,790	427,099	119,282	83,489
Lodi	30,580,241	318,340	114,742	73,162
NCCSIF	159,654,422	1,251,691	357,666	280,858
PERMA	166,849,950	1,308,104	-	112,011
Petaluma	28,643,735	298,181	88,435	58,012
Pomona	54,437,657	566,696	-	51,526
Redding	58,166,470	605,513	177,885	123,694
REMIF	97,726,728	1,017,335	333,470	209,633
Roseville	87,947,963	915,538	188,997	145,209
San Leandro	31,849,208	249,698	111,963	53,837
San Rafael	35,653,443	371,152	128,025	81,169
Santa Rosa	92,190,822	959,706	306,331	200,943
SCORE	24,884,069	259,043	70,291	50,692
Stockton	120,654,317	945,930	402,178	190,192
Sunnyvale	87,143,119	907,160	311,442	199,550
Vacaville	53,181,112	553,615	124,939	98,162
Vallejo	63,006,040	655,893	143,707	104,166
YCPARMIA	184,496,555	1,920,609	514,173	358,462
	1,654,611,129	15,993,452	4,194,508	2,962,149

Members w/ \$1M SIR

Approved funding and rates for PY 08/09

Confidence Level	70%	
Discount Rate	4.75%	
Pool B	3,021,300	0.257
Pool C	8,719,801	0.527
Pool D	4,252,351	0.257
	15,993,452	1.041

Investment Income			
	Total Equity at 06/30/07		FY 06/07 Realized Invest Inc
Alameda	3,161,822	4.0%	127,174
Chico	1,514,412	1.9%	60,912
CCCMRMIA	2,299,832	2.9%	92,503
CSJVRMA	2,969,588	3.8%	119,442
Fairfield	2,393,780	3.0%	96,282
Livermore	2,075,725	2.6%	83,489
Fremont	5,047,364	6.4%	203,014
Lodi	1,818,958	2.3%	73,162
Manteca	143,240	0.2%	5,761
NCCSIF	6,982,712	8.8%	280,858
PERMA	2,784,837	3.5%	112,011
Petaluma	1,442,300	1.8%	58,012
Pomona	1,281,041	1.6%	51,526
Redding	3,075,302	3.9%	123,694
REMIF	5,211,914	6.6%	209,633
Roseville	3,610,199	4.6%	145,209
San Leandro	1,338,514	1.7%	53,837
San Rafael	2,018,042	2.6%	81,169
Santa Rosa	4,995,880	6.3%	200,943
SCORE	1,260,308	1.6%	50,692
SBAJPIA	(14,665)	0.0%	(590)
Stockton	4,728,580	6.0%	190,192
Sunnyvale	4,961,230	6.3%	199,550
Vallejo	2,589,784	3.3%	104,166
Vacaville	2,440,525	3.1%	98,162
YCPARMIA	8,912,125	11.3%	358,462
	<u>79,043,349</u>	<u>100.0%</u>	<u>3,179,269</u>
Less: withdrawn members			<u>2,962,152</u>

FY 06/07 Realized		Realized Investment	
Investment Income		Income - 5 years	
Jul 06	175,277	02/03	4,275,819
Aug 06	277,181	03/04	4,727,054
Sep 06	247,950	04/05	3,670,585
Oct 06	290,005	05/06	3,542,054
Nov 06	289,400	06/07	3,179,269
Dec 06	295,473		
Jan 07	254,914		
Feb 07	291,714		
Mar 07	268,237		
Apr 07	238,493		
May 07	246,323		
Jun 07	304,302		
	<u>3,179,269</u>		
Int & Div - Liab	3,622,580		
Realized loss	(363,211)		
less: Chandler	<u>(80,100)</u>		
	3,179,269		

**Estimated Outstanding Losses at Various Confidence Levels
June 30, 2007**

	Exp-Undisc	70%	80%	90%
Total Equity	<u>79,043,351</u>	<u>79,043,351</u>	<u>79,043,351</u>	<u>79,043,351</u>
Outstanding Losses	<u>43,113,576</u>	<u>53,475,699</u>	<u>60,017,736</u>	<u>69,813,588</u>
Net Equity	35,929,775	25,567,652	19,025,615	9,229,763

Exhibit 2

OPTION I

**Funding per Actuarial Rpt @ 70% Confidence Levels
with Option of Redistribution & Invest Income Reductions**

Confidence Level	70%	
Discount Rate	0.00%	
Pool B	3,385,737	0.288
Pool C	9,844,936	0.595
Pool D	4,252,351	0.257
	<u>17,483,024</u>	<u>1.140</u>

Member	PY 08/09 Prem @ 70% - Undisc	70% - Undisc less Declared Redist	70% - Undisc less Invest Income	70% - Undisc less Redist & Invest Income	Est 08/09 Premium as approved
Alameda	702,100	530,433	574,926	403,259	641,128
Chico	386,833	308,064	325,921	247,152	353,240
Fairfield	573,927	435,516	477,645	339,234	524,086
Fremont	1,033,439	721,304	830,425	518,290	943,693
Livermore	467,717	348,435	384,228	264,946	427,099
Lodi	348,615	233,873	275,453	160,711	318,340
NCCSIF	1,360,256	1,002,590	1,079,398	721,732	1,251,691
PERMA	1,421,562	1,421,562	1,309,551	1,309,551	1,308,104
Petaluma	326,539	238,104	268,527	180,092	298,181
Pomona	620,589	620,589	569,063	569,063	566,696
Redding	663,098	485,213	539,404	361,519	605,513
REMIF	1,114,085	780,615	904,452	570,982	1,017,335
Roseville	1,002,607	813,610	857,398	668,401	915,538
San Leandro	271,355	159,392	217,518	105,555	249,698
San Rafael	406,449	278,424	325,280	197,255	371,152
Santa Rosa	1,050,975	744,644	850,032	543,701	959,706
SCORE	283,678	213,387	232,986	162,695	259,043
Stockton	1,027,975	625,797	837,783	435,605	945,930
Sunnyvale	993,432	681,990	793,882	482,440	907,160
Vacaville	606,265	481,326	508,103	383,164	553,615
Vallejo	718,269	574,562	614,103	470,396	655,893
YCPARMIA	2,103,261	1,589,088	1,744,799	1,230,626	1,920,609
	<u>17,483,024</u>	<u>13,288,516</u>	<u>14,520,875</u>	<u>10,326,367</u>	<u>15,993,452</u>

Premium Reduction	-17%	-9%	-35%
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****Premium reduction calculations are based on the PY 08/09 approved funding @ 70% confidence 4.75% discount**

Exhibit 2

OPTION II

**Funding per Actuarial Rpt @ Expected
with Option of Redistribution & Invest Income Reductions**

Confidence Level	50 - 55%	
Discount Rate	0.00%	
Pool B	2,868,472	0.244
Pool C	7,809,765	0.472
Pool D	4,252,351	0.257
	<u>14,930,587</u>	<u>0.973</u>

Member	PY 08/09 Prem @ Exp - Undisc	Expected - Undisc less Declared Redist	Expected - Undisc less Invest Income	Expected - Undisc less Redist & Invest Income	Est 08/09 Premium as approved
Alameda	599,249	427,582	472,075	300,408	641,128
Chico	330,166	251,397	269,254	190,485	353,240
Fairfield	489,852	351,441	393,570	255,159	524,086
Fremont	882,049	569,914	679,035	366,900	943,693
Livermore	399,200	279,918	315,711	196,429	427,099
Lodi	297,546	182,804	224,384	109,642	318,340
NCCSIF	1,163,881	806,215	883,023	525,357	1,251,691
PERMA	1,216,336	1,216,336	1,104,325	1,104,325	1,308,104
Petaluma	278,704	190,269	220,692	132,257	298,181
Pomona	529,678	529,678	478,152	478,152	566,696
Redding	565,960	388,075	442,266	264,381	605,513
REMIF	950,881	617,411	741,248	407,778	1,017,335
Roseville	855,734	666,737	710,525	521,528	915,538
San Leandro	232,181	120,218	178,344	66,381	249,698
San Rafael	346,908	218,883	265,739	137,714	371,152
Santa Rosa	897,017	590,686	696,074	389,743	959,706
SCORE	242,122	171,831	191,430	121,139	259,043
Stockton	879,570	477,392	689,378	287,200	945,930
Sunnyvale	847,903	536,461	648,353	336,911	907,160
Vacaville	517,452	392,513	419,290	294,351	553,615
Vallejo	613,049	469,342	508,883	365,176	655,893
YCPARMIA	1,795,151	1,280,978	1,436,689	922,516	1,920,609
	<u>14,930,587</u>	<u>10,736,079</u>	<u>11,968,438</u>	<u>7,773,930</u>	<u>15,993,452</u>

Premium Reduction	-7%	-33%	-25%	-51%
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**Based on 10 Years Claims
(94/95 - 04/05)
Trended - Developed Basis**

**Exhibit 2
OPTION III**

70% - Undiscounted

Losses	6,201,562	Pool B	1,793,175	0.153
Reinsurance	3,750,000	Pool C	5,325,726	0.322
Overhead	1,425,000	Pool D	4,257,661	0.257
	<u>11,376,562</u>		<u>11,376,562</u>	0.732

Member	Est 08/09 Payroll	PY 08/09 Premium @ 70%	Prem Less Declared Redist	Prem Less Invest Income	Prem less Redist & Invest Income	Est 08/09 Premium as approved
Alameda	61,587,722	450,653	278,986	323,479	151,812	641,128
Chico	33,932,762	248,295	169,526	187,383	108,614	353,240
Fairfield	50,344,505	368,383	229,972	272,101	133,690	524,086
Fremont	90,652,500	663,327	351,192	460,313	148,178	943,693
Livermore	41,027,790	300,211	180,929	216,722	97,440	427,099
Lodi	30,580,241	223,763	109,021	150,601	35,859	318,340
NCCSIF	159,654,422	924,707	567,041	643,849	286,183	1,251,691
PERMA	166,849,950	966,383	966,383	854,372	854,372	1,308,104
Petaluma	28,643,735	209,593	121,158	151,581	63,146	298,181
Pomona	54,437,657	398,334	398,334	346,808	346,808	566,696
Redding	58,166,470	425,619	247,734	301,925	124,040	605,513
REMIF	97,726,728	715,091	381,621	505,458	171,988	1,017,335
Roseville	87,947,963	643,537	454,540	498,328	309,331	915,538
San Leandro	31,849,208	184,468	72,505	130,631	18,668	249,698
San Rafael	35,653,443	260,885	132,860	179,716	51,691	371,152
Santa Rosa	92,190,822	674,583	368,252	473,640	167,309	959,706
SCORE	24,884,069	182,083	111,792	131,391	61,100	259,043
Stockton	120,654,317	698,821	296,643	508,629	106,451	945,930
Sunnyvale	87,143,119	637,648	326,206	438,098	126,656	907,160
Vacaville	53,181,112	389,140	264,201	290,978	166,039	553,615
Vallejo	63,006,040	461,031	317,324	356,865	213,158	655,893
YCPARMIA	184,496,555	1,350,007	835,834	991,545	477,372	1,920,609
	<u>1,654,611,129</u>	<u>11,376,562</u>	<u>7,182,054</u>	<u>8,414,413</u>	<u>4,219,905</u>	<u>15,993,452</u>

Premium Reduction	-29%	-55%	-47%	-74%
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**Based on 10 Years Claims
(94/95 - 04/05)
Trended - Developed Basis**

**Exhibit 2
OPTION IV**

Expected - Undiscounted

Losses	4,907,499	Pool B	1,553,064	0.132
Reinsurance	3,750,000	Pool C	4,271,774	0.258
Overhead	1,425,000	Pool D	4,257,661	0.257
	<u>10,082,499</u>		<u>10,082,499</u>	0.648

Member	Est 08/09 Payroll	PY 08/09 Premium @ Expected	Prem Less Declared Redist	Prem Less Invest Income	Prem less Redist & Invest Income	Est 08/09 Premium as approved
Alameda	61,587,722	398,844	227,177	271,670	100,003	641,128
Chico	33,932,762	219,749	140,980	158,837	80,068	353,240
Fairfield	50,344,505	326,032	187,621	229,750	91,339	524,086
Fremont	90,652,500	587,068	274,933	384,054	71,919	943,693
Livermore	41,027,790	265,697	146,415	182,208	62,926	427,099
Lodi	30,580,241	198,038	83,296	124,876	10,134	318,340
NCCSIF	159,654,422	823,010	465,344	542,152	184,486	1,251,691
PERMA	166,849,950	860,103	860,103	748,092	748,092	1,308,104
Petaluma	28,643,735	185,498	97,063	127,486	39,051	298,181
Pomona	54,437,657	352,540	352,540	301,014	301,014	566,696
Redding	58,166,470	376,688	198,803	252,994	75,109	605,513
REMIF	97,726,728	632,881	299,411	423,248	89,778	1,017,335
Roseville	87,947,963	569,553	380,556	424,344	235,347	915,538
San Leandro	31,849,208	164,181	52,218	110,344	(1,619)	249,698
San Rafael	35,653,443	230,893	102,868	149,724	21,699	371,152
Santa Rosa	92,190,822	597,030	290,699	396,087	89,756	959,706
SCORE	24,884,069	161,150	90,859	110,458	40,167	259,043
Stockton	120,654,317	621,967	219,789	431,775	29,597	945,930
Sunnyvale	87,143,119	564,341	252,899	364,791	53,349	907,160
Vacaville	53,181,112	344,402	219,463	246,240	121,301	553,615
Vallejo	63,006,040	408,029	264,322	303,863	160,156	655,893
YCPARMIA	184,496,555	1,194,805	680,632	836,343	322,170	1,920,609
	<u>1,654,611,129</u>	<u>10,082,499</u>	<u>5,887,991</u>	<u>7,120,350</u>	<u>2,925,842</u>	<u>15,993,452</u>

Premium Reduction	-37%	-63%	-55%	-82%
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**Excess Loss Reserve Fund
Based on 10 Years Claims
Trended - Developed Basis**

**Exhibit 2
OPTION V**

70% - Undiscounted

Losses	6,201,562	Pool B	1,793,175	0.153
Reinsurance	3,750,000	Pool C	5,325,726	0.322
Overhead	1,425,000	Pool D	4,257,661	0.257
	<u>11,376,562</u>		<u>11,376,562</u>	<u>0.732</u>

Member	Est 08/09 Payroll	PY 08/09 Premium @ 70%	06/07 Investment Income	Resv Funding	Excess Invest Income	Total PY 08/09 Premium	Est 08/09 Premium as approved
Alameda	61,587,722	450,653	127,174	93,055	34,119	416,533	641,128
Chico	33,932,762	248,295	60,912	51,270	9,642	238,653	353,240
Fairfield	50,344,505	368,383	96,282	76,067	20,215	348,168	524,086
Fremont	90,652,500	663,327	203,014	136,969	66,045	597,283	943,693
Livermore	41,027,790	300,211	83,489	61,990	21,499	278,712	427,099
Lodi	30,580,241	223,763	73,162	46,205	26,957	196,806	318,340
NCCSIF	159,654,422	924,707	280,858	241,227	39,631	885,075	1,251,691
PERMA	166,849,950	966,383	112,011	252,098	(140,087)	1,106,470	1,308,104
Petaluma	28,643,735	209,593	58,012	43,279	14,733	194,860	298,181
Pomona	54,437,657	398,334	51,526	82,251	(30,725)	429,059	566,696
Redding	58,166,470	425,619	123,694	87,885	35,809	389,810	605,513
REMIF	97,726,728	715,091	209,633	147,658	61,975	653,116	1,017,335
Roseville	87,947,963	643,537	145,209	132,883	12,326	631,211	915,538
San Leandro	31,849,208	184,468	53,837	48,122	5,715	178,753	249,698
San Rafael	35,653,443	260,885	81,169	53,870	27,299	233,586	371,152
Santa Rosa	92,190,822	674,583	200,943	139,294	61,649	612,934	959,706
SCORE	24,884,069	182,083	50,692	37,598	13,094	168,989	259,043
Stockton	120,654,317	698,821	190,192	182,300	7,892	690,929	945,930
Sunnyvale	87,143,119	637,648	199,550	131,667	67,883	569,765	907,160
Vacaville	53,181,112	389,140	98,162	80,353	17,809	371,330	553,615
Vallejo	63,006,040	461,031	104,166	95,198	8,968	452,063	655,893
YCPARMIA	184,496,555	1,350,007	358,462	278,761	79,701	1,270,307	1,920,609
	<u>1,654,611,129</u>	<u>11,376,562</u>	<u>2,962,149</u>	<u>2,500,000</u>	<u>462,149</u>	<u>10,914,413</u>	<u>15,993,452</u>

Premium Reduction	-29%	-32%
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