



BOARD OF SUPERVISORS  
AGENDA LETTER

Agenda Number:

Clerk of the Board of Supervisors  
105 E. Anapamu Street, Suite 407  
Santa Barbara, CA 93101  
(805) 568-2240

**Department Name:** County Executive  
Office  
**Department No.:** 012  
**For Agenda Of:** October 8, 2019  
**Placement:** Administrative  
**Estimated Time:** N/A  
**Continued Item:** No  
**If Yes, date from:**  
**Vote Required:** 4/5

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**TO:** Board of Supervisors

**FROM:** Department Director(s) Contact Info: Mona Miyasato, County Executive Officer  
Ray Aromatorio, Risk Manager (805) 884-6865

**SUBJECT:** Loss Portfolio Transfer Agreement with California State Association of Counties  
Excess Insurance Authority (CSAC EIA)

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**County Counsel Concurrence**

As to form: Yes

Other Concurrence: Risk Management

As to form: Yes

**Auditor-Controller Concurrence**

As to form: Yes

**Recommended Actions:** That the Board of Supervisors (Board):

- (a) Approve and authorize the Chair to execute a Loss Portfolio Transfer (LPT) Agreement for \$14,989,800, which transfers the County of Santa Barbara's outstanding self-insured workers' compensation liability to the California State Association of Counties – Excess Insurance Authority (EIA);
- (b) Approve Budget Revision Request No. 0006638 to establish appropriations of \$2,274,200 in County Executive Office Workers' Comp Self Insurance Fund to increase Services and Supplies funded by a decrease to Retained Earnings; and
- (c) Determine that the above action is not a project under the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Sections 15378(b)(4) and 15378(b)(5) because it consists of government administrative or fiscal activities that will not result in direct or indirect physical changes in the environment.

**Summary Text:** For some time, Risk Management has been researching the possibility of transferring outstanding self-insured workers' compensation liabilities to either a commercial insurer and/or the California State Association of Counties Excess Insurance Authority (CSAC EIA). This action will allow the County to execute a Loss Portfolio Transfer (LPT) Agreement with the EIA. The agreement

transfers the County of Santa Barbara's outstanding self-insured workers' compensation liability to the EIA. The LPT also transfers all decision-making authority regarding the claims in the LPT to the EIA, including rights to control litigation and to make settlement decisions or transfer the LPT claims to another party. The LPT will provide greater certainty and help limit the County's exposure to costs of 226 workers' compensation open tail claims.

**Background:**

In 1979, the County of Santa Barbara became a founding member of the EIA, a member-directed risk sharing pool of counties, cities, and other public entities committed to providing risk coverage programs and risk management services. Currently, either Assistant CEO Jeff Frapwell or Risk Manager Ray Aromatorio represents Santa Barbara County as Board members on the EIA Board of Directors.

On July 1, 2010, your Board approved moving the County's Workers' Compensation coverage from the County's self-insurance program to the EIA's primary insurance program. All claims occurring after July 1, 2010, are now paid through the EIA's primary insurance program, including the claims administration services, in return for an annual premium. The claims that occurred between November 1, 1979 and June 30, 2010, referred to as "tail claims," remain under the County's self-insurance program, managed by Risk Management staff. This means the County of Santa Barbara is responsible for all workers' compensation costs incurred within its self-insured retention which has ranged from \$250,000 to \$500,000 per claim during the tail period. The total number of open tail claims as of April 31, 2019 is 226.

For some time, Risk Management has been researching the possibility of transferring these outstanding "tail claims" to either a commercial insurer and/or the EIA. The move to the EIA primary program in 2010 helped bring more certainty and predictability to the costs of the Workers' Compensation program for the County. Transferring these outstanding/older claims to a third party will further enhance that stability by removing these older claims and their associated costs away from the County.

At the EIA's Primary Workers' Compensation Committee in May, the Committee unanimously agreed to offer a Loss Portfolio Transfer (LPT) to the County, wherein all the known open "tail claims" (11/1/79 to 6/30/10), and any new claims (should they arise), are transferred to the EIA. The cost of this LPT is \$14,989,800 and is the most competitive option available based on the other options obtained in the commercial market. The final LPT Premium will be adjusted downward after the Effective Date by \$1,250,000, which represents the amount of covered claim payments made by the County over the period April 1, 2019 through September 19, 2019. Under the proposed Agreement, the County would relinquish all decision-making authority regarding the claims in the LPT, including the rights to control litigation and to make settlement decisions. EIA would have the right to assign or transfer the LPT claims to another party or insurance carrier. Compensation claims staff at the EIA will oversee these "tail claims" until they are all paid/concluded.

**Fiscal and Facilities Impacts:**

Budgeted: No

**Fiscal Analysis:**

<u>Funding Sources</u>	<u>Current FY Cost:</u>	<u>Future Fiscal Year</u> <u>Costs</u>	<u>Total One-Time</u> <u>Project Cost</u>
General Fund			
State			
Federal			
Fees			
Other: Fund 1911	\$ 11,675,800.00	\$ 2,064,000.00	\$ 13,739,800.00
<b>Total</b>	<b>\$ 11,675,800.00</b>	<b>\$ 2,064,000.00</b>	<b>\$ 13,739,800.00</b>

Narrative: Payments toward the LPT will be spread over three fiscal years. In FY 2019-20, the County will pay the EIA \$11,675,800\*, followed by payments of \$1,000,000 in FY 2020-21 and \$1,064,000 in FY 2021-22. The source of funds for the LPT payment in the current fiscal year have been set aside for this purpose. The source of funds for payments in future fiscal years will be operating revenues.

While the total cost of the LPT over the three years is \$13,739,800, Risk Management currently has booked liabilities of \$11,465,600, a difference of \$2,274,200. BJE No. 0006638 appropriates funds necessary to align the County’s booked liability with the cost of the LPT.

\*This amount represents the LPT Premium less the covered claims payments made from April 1, 2019 through September 19, 2019.

**Key Contract Risks:**

The contract is considered low risk because the EIA has agreed to handle all transferred claims to conclusion for a one-time payment with no aggregate policy limit or further liability to the County.

**Special Instructions:**

Please execute two (2) original Agreements and retain one (1) original Agreement and one (1) Minute Order for pick up by the County Executive Office. Please email [raromatorio@countyofsb.org](mailto:raromatorio@countyofsb.org). when available for pick up.

**Attachments:**

Attachment A: Loss Portfolio Transfer Agreement with California State Association of Counties – Excess Insurance Authority

Attachment B: Budget Revision Request No. 0006638

**Authored by:**

Ray Aromatorio, Risk Manager