



**FINANCE & BUDGET COMMITTEE
NOVEMBER 18, 2004**

SUBJECT: CONTRACT NO. PS-0505-3135, ACTUARIAL ANALYSIS AND VALUATION SERVICES

ACTION: APPROVE THE AWARD OF ACTUARIAL ANALYSIS AND VALUATION SERVICES CONTRACT

RECOMMENDATION

Authorize the Chief Executive Officer to award a seven-year contract to Milliman, Incorporated, the technically acceptable lowest bidder, for actuarial analysis and valuation services in the amount not to exceed \$412,000, inclusive of two two-year options, effective January 3, 2005.

RATIONALE

The Los Angeles County Metropolitan Transportation Authority operates self-insured Workers' Compensation (WC) and Public Liability and Property Damage (PL/PD) programs. In order to determine adequate funding levels for these programs, as well as providing accurate financial reporting of the liabilities associated with these programs, there is the need for periodic actuarial assessments of these programs.

For the past several years, PriceWaterHouseCoopers Inc. (PWC) has been providing both actuarial valuation and auditing services. However, following major accounting scandals including Enron, recent legislative changes have outlined requirements for auditing independence and financial disclosures. As a consequence, PWC can no longer continue with the dual role of providing both actuarial valuation and auditing services.

The proposed actuarial services contract calls for frequent and comprehensive analysis of the WC and PL/PD liabilities on a quarterly basis. Each quarterly actuarial study will provide projected loss amounts and loss adjustment expenses, along with recommendations for the appropriate funding levels for the two self-insured programs. In addition, the studies will also present detailed analyses of the factors that contributed towards quarterly changes in reserve liabilities. The actuary will also estimate the financial impact of health cost trends and legislative changes on future claims' costs. The consultant will also follow the general WC insurance marketplace and benchmark performance. The actuarial consultant will also represent The Los Angeles County Metropolitan Transportation Authority at all annual audit

meetings with outside auditors to justify the WC and PL/PD liabilities that are reported on financial statements.

The anticipated first year expense of this procurement is approximately \$20,000, and this amount is included in the approved FY05 budget.

FINANCIAL IMPACT

The funding of \$20,000 for this service is included in the FY05 budget in cost center number 0531, Risk Management, Non-Departmental Operations, under Project 100004, PRMA, and line item 50316, Professional and Technical Services. Since this is a multi-year contract, the cost center manager, and the Executive Officer will be accountable for budgeting the future years' costs, which will include any option that will be exercised on the contract.

ALTERNATIVES CONSIDERED

The alternative consideration of not procuring these actuarial services will result in Risk Management department's inability to provide an accurate actuarial assessment of liabilities for financial reporting purpose, as well as difficulty and uncertainty in establishing the correct funding levels for the Workers' Compensation and Public Liability and Property Damage self-insured programs.

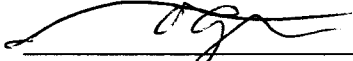
ATTACHMENT

Procurement History

Prepared by: Greg Kildare
Executive Officer of Risk Management



Richard D. Brumbaugh
Chief Financial Officer



Roger Snoble
Chief Executive Officer

ATTACHMENT A

PROCUREMENT SUMMARY
ACTUARIAL ANALYSIS AND VALUATION SERVICES

1.	Contract Number: PS-0505-3135		
2.	Recommended Vendor: Milliman, Incorporated		
3.	Cost/Price Analysis Information:		
	A. Bid/Proposed Price: \$412,000	Recommended Price: \$412,000	
	B. Details of Significant Variances are in Attachment A-1.D		
4.	Contract Type: Firm, Fixed Price		
5.	Procurement Dates:		
	A. Issued: September 10, 2004		
	B. Advertised: September 10, 2004		
	C. Pre-proposal Conference: September 22, 2004		
	D. Proposals Due: October 7, 2004		
	E. Pre-Qualification Completed: 09/29/04		
	F. Conflict of Interest Form Submitted to Ethics: October 13, 2004		
6.	Small Business Participation: N/A		
	A. Bid/Proposal Goal: N/A	Date Small Business Evaluation Completed: N/A	
	B. Small Business Commitment: N/A		
7.	Invitation for Bid/Request for Proposal Data:		
	Notifications Sent: 8	Bids/Proposals Picked up: 12	Bids/Proposals Received: 4
8.	Evaluation Information:		
	A. Bidders/Proposers Names: 1. Milliman Inc. 2. Mercer Oliver Wyman Inc. 3. ARMTECH (Aon) Corporation. 4. EMB America LLC	<u>Bid/Proposal Amount:</u> \$412,000 \$715,000 \$117,500 \$865,000	<u>Best and Final Offer Amount:</u> \$412,000
	B. Evaluation Methodology: Technically Acceptable/Lowest Price Details are in Attachment A-1.C		
9.	Protest Information:		
	A. Protest Period End Date: 11/23/04		
	B. Protest Receipt Date: TBD		
	C. Disposition of Protest Date: TBD		
10.	Contract Administrator: Rick Owens	Telephone Number: 922-1063	
11.	Project Manager: Kwabena Koranteng	Telephone Number: 922-2126	

**ATTACHMENT A-1
PROCUREMENT HISTORY
ACTUARIAL ANALYSIS AND VALUATION SERVICES**

A. Background on Contractor

Milliman, Incorporated is headquartered in Seattle Washington has been in business over 50 years with over 750 professional personnel in over 30 offices around the world. For this engagement 22 employees of the Pasadena, California office will perform Actuarial Analysis and Valuation Services. One of the largest and independent actuarial consulting firms in the United States. Milliman currently has projects with State Compensation Insurance Fund, SCF of Arizona, University of California, Safeway Inc., Arizona Department of Administration, Southern California Edison, Tenet Health System and Honda of North America.

B. Procurement Background

Request for Proposal (RFP) No. PS05053135 was issued and advertised on September 10, 2004. A Pre-proposal conference was held on September 22, 2004. Twelve firms received the request for proposal and proposals were received on October 7, 2004. The contract was awarded as a result of a Technically Acceptable/Lowest Price evaluation.

C. Evaluation of Proposals

Procurement and Project Manager evaluated the proposals for responsiveness and responsibility. Advances Risk Management Techniques, Inc. (ARM Tech) was deemed technically unacceptable as they did not meet the minimum requirements for certified actuaries assigned to the project as required in the Request for Proposal. References were checked for the technically acceptable firms and were found to be satisfactory. The procurement was processed in compliance with applicable procurement policies and procedures.

The Diversity and Economic Opportunity Department did not recommend a DBE goal for this procurement.

D. Cost/Price Analysis Explanation of Variances

The recommended price has been determined to be fair and reasonable based upon adequate competition and the selection of the responsive and responsible technically acceptable lowest priced proposal. This recommended price resulted in a net decrease from historical costs. The request for proposal requested three-year pricing with two two-year options for a seven-year total.

