JAMES MARTA & COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS

LOCAL AGENCY FORMATION COMMISSION FOR THE CITY OF LOS ANGELES

Retiree Health Benefits Liabilities

Alternative Measurement Method

July 1, 2016

CONTACT:

DAVID BECKER, CPA
PARTNER
DBECKER@JPMCPA.COM

701 HOWE AVENUE, E3
SACRAMENTO, CA

(916) 993-9494
(916) 993-9489 FAX

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

September 15, 2017

Adriana Romo
Deputy Executive Officer
Local Agency Formation Commission
For the County of Los Angeles
80 S. Lake Ave., Suite 870
Pasadena, California 91101

Alternative Measurement Method Report

Dear Ms. Romo,

Thank you for using James Marta & Company LLP's services. This report contains the results using the Alternative Measurement Method to calculate your Other Postemployment Benefits liability in Accordance with GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. It also contains a detailed explanation of the calculation. All data and assumptions provided by you are included.

The exhibit below provides the specific results of the calculation, which may be used in the preparation of your financial statements. A description of the results and how they were derived are described in the contents of the report.

Specific Results **Valuation Date: July 1, 2016**

Annual Required Contribution (ARC)	Normal Cost	Amortization Amount	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarially Accrued Liability (UAAL)
$ 62,935	**$ 21,540**	**$ 41,395**	**$ -**	**$ 913,837**	**$ 913,837**

The specific results in the table above were calculated using the Entry Age Cost Method with Level Percentage of Payroll Normal Costs and UAAL Amortized as a Level Percentage of Payroll.

If you should have any questions regarding the methods and assumptions used, please do not hesitate to call.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants

Table of Contents

James Marta & Company LLP
Certified Public Accountants

Accounting, Auditing, Consulting, and Tax

Independent Accountant's Report
on Applying Agreed-Upon Procedures

To the Commissioners
Local Agency Formation Commission
For the County of Los Angeles

We have performed the procedures enumerated below, which were agreed to by the management of the Local Agency Formation Commission for the County of Los Angeles (LALAFCO"), solely to assist you in calculating the liability for Retiree Health Benefits of LALAFCO as of June 30, 2017 in accordance with the Alternative Measurement Method as provided in Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and to provide information necessary to comply with the requirements of said statement. LALAFCO's management is responsible for the underlying assumptions, methods, participant data and benefits information used in determining the Retiree Health Benefits liability and related disclosures. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Procedures Performed

1. We obtained from management of LALAFCO:

    A. A copy of the retiree health benefits plan offered to employees of LALAFCO as of July 1, 2016.
    B. A list of employees and retirees as of July 1, 2016, which included their employment status, gender, number of years employed, current age, marital status and spouses age.
    C. A schedule of the medical and dental premiums, as of July 1, 2016, for single and married employees both under and over the age of 65.
    D. The minimum years of service required for employees to qualify for Retiree Health Benefits.

2. We used the following trend information:

   A. Healthcare cost trend rate for 2017 - 2026 was set at 4%, which is consistent with national healthcare cost trends.
   B. Expected long-term inflation rate from the United States Social Security Administration.
   C. Estimated turnover rates from GASB Statement No. 45, paragraph 35b.
   D. Life expectancy data from the National Center for Health Statistics.

3. We calculated the following:

   A. Projected future benefit payments for all employees and retirees in accordance with GASB Statement No. 45.
   B. Normal cost, actuarial accrued liability and annual required contribution using the Entry Age Level Percentage of Payroll Actuarial Cost Method as provided in GASB Statement No. 45 using the Alternative Measurement Method.

4. We prepared the footnote disclosure information required by GASB Statement No. 45.

Management of LALAFCO provided certain assumptions necessary to calculate the estimated Retiree Health Benefits liability as of July 1, 2016. Those assumptions include:

a) estimated retirement age of employees of 65,
b) estimated long-term discount rate of 4% and
c) the actuarial cost method used which is the Entry Age Cost Method with Level Percentage of Payroll Normal Costs and UAAL Amortized as a Level Percentage of Payroll.

Findings

The total estimated actuarial accrued liability as of July 1, 2016 is $913,837 and the annual required contribution is $62,935. For a complete summary of results, assumptions and disclosure information, see appendix A.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the accompanying Retiree Health Benefits Liability of LALAFCO as of June 30, 2017. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Commissioners and management of LALAFCO, and is not intended to be and should not be used by anyone other than these specified parties.

James Marta & Company LLP

James Marta & Company LLP
Certified Public Accountants
Sacramento, California
September 15, 2017

EXECUTIVE SUMMARY

This purpose of this report is to provide information needed to comply with Governmental Accounting Standards Board Statement Nos. 43 and 45 related to Other Postemployment Benefits (OPEB). The Local Agency Formation Commission for the County of Los Angeles should not use this report for any other purpose without discussing with James Marta & Company.

Key Assumptions

The following key assumptions were provided by management and used in our calculation of the liability for retiree benefits using the Alternative Measurement Method for employers in plans with fewer than 100 plan members:

Actuarial Cost Method – Entry Age
Amortization Method – Level percentage of payroll over a 30 year period
Discount Rate – 4.0%
E. **Healthcare Cost Trend** – The expected rate of increase in healthcare insurance premiums was set at 4%, which is consistent with national healthcare cost trends.
Payroll Growth Rate – 2%
Long-term Inflation Rate – 2.75%
Asset Valuation – There were no assets placed in an irrevocable trust.

OPEB Liabilities

Present Value of Total Projected Benefits - $1,264,206
Unamortized Actuarially Accrued Liability (UAAL) - $913,837
Normal Cost - $21,540
Amortized UAAL - $41,395
Annual Required Contribution -$62,935 (Normal Cost + Amortized UAAL)

DESCRIPTION OF RETIREE BENEFITS PLAN

LALAFCO provides medical and dental benefits to retirees in accordance with the benefits provided by the Los Angeles County Retirement Association. Health care benefits earned by LALAFCO employees are dependent on the number of completed years of retirement service credited to the retiree upon retirement. The benefits earned by LALAFCO employees range from 40% of the benchmark plan cost with ten completed years of service to 100% of the benchmark plan cost with 25 or more completed years of service. In general, each completed year of service after ten years reduces the member's cost by 4%. Service includes all service on which the member's retirement allowance was based.

OTHER POSTEMPLOYMENT BENEFITS AND COSTS

We calculated the present value of projected benefits based on the Alternative Measurement Method for employers in plans with fewer than 100 plan members as allowed by GASB Statement No. 45.

The actuarial assumptions used for this calculation are summarized in Appendix A.

Present Value of Total Projected Benefits

Active:	Pre-65	$ 645,357
	Post-65	-
Subtotal		645,357
Retiree:	Pre-65	357,042
	Post-65	261,807
Subtotal		618,848
Subtotal	Pre-65	1,002,399
Subtotal	Post-65	261,807
Grand Total		$ 1,264,206

The present value of total projected benefits (PVTPB) should be accrued over the working lifetime of employees. The PVTPB is used to develop expense and liability amounts. The PVTPB is divided into two parts 1) amounts attributable to service rendered prior to the valuation date (past service liability) and 2) amounts attributable to service after the valuation date but prior to retirement (future service liability).

Normal Cost

No. of Active Employees		6
Per Capital Normal Cost		
	Pre-65	$ 3,590
	Post-65	-
Normal Cost		
	Pre-65	$ 21,540
	Post-65	-
Total		$ 21,540

The average age of active, eligible employees is 45. The assumed retirement age is 65. To accrue the liability by retirement, they would accrue the retiree liability over a period of about 20 years.

OTHER POSTEMPLOYMENT BENEFITS AND COSTS
(Continued)

Actuarial Accrued Liability (AAL)

Active:	Pre-65	$ 294,989
	Post-65	-
Subtotal		294,989
Retiree:	Pre-65	357,042
	Post-65	261,806
Subtotal		618,848
Subtotal	Pre-65	652,031
Subtotal	Post-65	261,806
Grand Total		913,837
Funded at July 1, 2016		-
Unfunded AAL		$ 913,837
UAAL Amortization		$ 41,395

The actuarial accrued liability is the amount attributed to an employee's past service. LALAFCO can amortize the Unfunded AAL over a period of up to 30 years. The table above shows the amount necessary to amortize the UAAL over a period of 30 years at an interest rate of 4%.

	2017
Annual required Contribution	$ 62,935
Interest on net OPEB obligation	19,242
Adjustment to annual required contribution	(20,952)
Annual OPEB cost (expense)	61,225
Contributions made	22,878
Increase in net OPEB obligation	38,347
Net OPEB obligation - beginning of year	481,046
Net OPEB obligation - end of year	$ 519,393

The Annual Required Contribution (ARC) is the sum of normal cost and the UAAL amortization cost. The normal cost remains as long as there are qualified active employees.

APPENDIX A
REQUIRED FOOTNOTE DISCLOSURE

Plan Description

The Local Agency Formation Commission for the County of Los Angeles (LALAFCO) provides a defined benefit healthcare plan (the “Retiree Health Plan”). The Retiree Health Plan provides lifetime healthcare and dental insurance for eligible retirees through the Los Angeles County Retirement Association, which covers both active and retired members. Spouses are also covered throughout his or her life. LALAFCO pays 4% of the annual premiums for each year of service of the employee. Employees must have worked a minimum of 10 years with LALAFCO to be eligible for these benefits.

Funding Policy

LALAFCO contribution is on a pay-as-you-go basis. During the 2016-2017 fiscal year, LALAFCO made payments of $22,878. The Commissioners will review the funding requirements and policy annually.

Annual OPEB Cost and Net OPEB Obligation

LALAFCO’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). LALAFCO has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 years. The following table shows the components of LALAFCO’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in its net OPEB obligation to the Retiree Health Plan:

Annual required Contribution	$ 62,935
Interest on net OPEB obligation	19,242
Adjustment to annual required contribution	(20,952)
Annual OPEB cost (expense)	61,225
Contributions made	22,878
Increase in net OPEB obligation	38,347
Net OPEB obligation - beginning of year	481,046
Net OPEB obligation - end of year	$ 519,393

APPENDIX A
REQUIRED FOOTNOTE DISCLOSURE
(Continued)

LALAFCO's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the past three fiscal years is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	$ 81,748	13%	$ 412,094
June 30, 2016	$ 81,806	16%	$ 481,046
June 30, 2017	$ 61,225	37%	$ 519,393

Funding Status and Funding Progress
As of July 1, 2016, the actuarial accrued liability (AAL) for benefits was $913,837, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer as subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions
Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees – Based on the historical average retirement age for the covered group, active plan members were assumed to retire at age 65, or at the first subsequent year in which the member would qualify for benefits.

Marital status – Marital status of members at the calculation date was assumed to continue throughout retirement.

APPENDIX A
REQUIRED FOOTNOTE DISCLOSURE
(Continued)

Mortality – Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics website (www.cdc.gov). The calculation of OPEB liability for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables.

Turnover – The probability that an employee will remain employed until the assumed retirement age was determined using non-group-specific age-based turnover data provided in Table 1 in paragraph 35 of GASB Statement No. 45. In addition the expected future working lifetimes of employees were determined using Table 2 in paragraph 35c of GASB Statement No. 45.

Healthcare cost trend rate – The expected rate of increase in healthcare insurance premiums was set at 4%, which is consistent with national healthcare cost trends.

Health insurance premiums – 2016 health insurance premiums for retirees were used as a basis for calculation of the present value of total benefits to be paid.

Payroll increase – Changes in the payroll for current employees are expected to increase at a rate of approximately 2% annually.

Discount rate – The calculation uses an annual discount rate of 4%. This is based on the assumed long-term return on plan assets or employer assets.

Actuarial cost method – The entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The amortization period is thirty years.

Plan for Funding

On an ongoing basis, LALAFCO will be reviewing its assumptions, comparing them against actual experience and recalculating the needed funding with the goal of paying for postemployment benefits out of interest earned on designated funds.

Required Supplementary Information: Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) Entry Age (a)	Actuarial Value of Assets (b)	Unfunded Liability (UAAL) (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	UAAL as a % of payroll ([a-b]/c)
7/1/2009	$ 680,973	$ -	$ 680,973	0%	$ 531,926	128.0%
7/1/2012	$ 748,248	$ -	$ 748,248	0%	$ 423,900	176.5%
7/1/2013	$ 711,231	$ -	$ 711,231	0%	$ 545,832	130.3%
7/1/2016	$ 913,837	$ -	$ 913,837	0%	$ 503,090	181.6%

APPENDIX B
EMPLOYEE DATA

Employee Number	Status	Current Age	Years of Service	Age at Retirement	Gender	Marital Status	Spouses Age
#1**	Retired	59	36	59	F	Single	
#2	Retired	80	10	70	M	Married	78
#3	Retired	74	11	70	M	Married	
#4	Active	44	16	0	M	Single	
#5	Active	33	16	0	F	Married	35
#6	Retired	55	10	55	F	Married	
#7	Active	42	13	0	F	Single	
#8	Active	52	13	0	M	Married	42
#9	Active	63	4	0	F	Married	56
#10	Active	38	4	0	M	Married	38

** This retiree's health benefits are paid by the County of Los Angeles and therefore not included in the liability for this agency.

APPENDIX C
GLOSSARY OF TERMS

Actuarial Accrued Liability, Actuarial Liability, Accrued Liability, or Actuarial Reserve— The portion of the actuarial present value of projected benefits (and expenses, if applicable), as determined under a particular actuarial cost method, which is not provided for by future normal costs. Under certain actuarial cost methods, the actuarial accrued liability is dependent upon the actuarial value of assets.

Actuarial Assumptions—Assumptions as to the occurrence of future events affecting benefits costs, such as mortality, withdrawal, disablement and retirement; changes in compensation, rates of investment earnings and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; characteristics of future entrants for open group actuarial cost methods; and other relevant items.

Actuarial Cost Method or Funding Method—[1] A procedure for allocating the actuarial present value of projected benefits (and expenses, if applicable) to time periods, usually in the form of a normal cost and an actuarial accrued liability (sometimes referred to as a *funding method*). **[2]** A procedure for allocating the actuarial present value of future plan costs over time periods.

Actuarial Present Value of Projected Benefits—The actuarial present value of benefits that are expected to be paid in the future, taking into account the effect of such items as future service, advancement in age, and anticipated future compensation (sometimes referred to as the *present value of future benefits)*.

Actuarial Value of Assets or Valuation Assets—[1] The value of cash, investments, and other property belonging to a benefit plan, as used by the actuary for the purpose of an actuarial valuation. **[2]** The value of benefit plan investments and other property, used by the actuary for the purpose of an actuarial valuation (sometimes referred to as *valuation assets* or *market-related value of assets.)*.

Amortization Method—A method under a contribution or cost allocation procedure for determining the amount, timing, and pattern of recognition of the difference between the actuarial accrued liability and the actuarial value of assets.

Discount Rate—The rate used to discount projected earnings to determine the present value used in an appraisal.

Entry Age Actuarial Cost Method—A method under which the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation, over the sum of the actuarial value of assets plus the unfunded frozen actuarial accrued liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The actuarial accrued liability is determined using the entry age actuarial cost method. The portion of this actuarial present value allocated to a valuation year is called the *normal cost*.

APPENDIX C
GLOSSARY OF TERMS
(Continued)

Normal Cost—The portion of the actuarial present value of projected benefits (and expenses, if applicable) that is allocated to a period, typically twelve months, under the actuarial cost method. Under certain actuarial cost methods, the normal cost is dependent upon the actuarial value of assets.

Open Amortization Period—A period that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable. With this method, the liability would still be reduced over time, but it would take many times longer to amortize it fully because the amortization period would start over after every valuation. In contrast, a closed amortization period is a specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. With this method, the entire liability would be fully amortized at the end of thirty years.

Pay-as-You-Go—A method of financing a benefit plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

Unfunded Actuarial Accrued Liability, Unfunded Actuarial Liability, Unfunded Accrued Liability, or Unfunded Actuarial Reserve—The excess of the actuarial accrued liability over the actuarial value of assets.

Valuation Date—**[1]** The date as of which the liabilities are determined. **[2]** The date as of which the values of the assets and liabilities of the plan are determined. **[3]** The date through which transactions are included in the data used in the unpaid claim estimate analysis.