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January 20, 2004

Ms. Katherine Maguire  
Black Hills Agency, Inc.  
820 St. Joe  
Rapid City, SD 57709

LF012804-15

*Re: Actuarial Analysis*

Ms. Maguire:

Thank you for the opportunity to provide an actuarial analysis to the City of Rapid City (Rapid City). Our report will include a workers compensation loss projection and cash-flow analysis. The loss projection will be completed at multiple retention levels, if needed.

**Loss Projection**

SIGMA will calculate projected losses for the 1/1/04-05 period. In addition, a loss probability study will provide a range of confidence intervals around the projected losses.

**Cash-Flow Analysis**

The cash-flow analysis will consist of two parts. A payout analysis will indicate probable amount of payments by period. A present value analysis will indicate the current value of expected future payments at one or more discount rates.

The fee to complete this actuarial analysis will be \$6,000. The final bound study will include an executive summary, an explanation of the methodology used in the analysis and all exhibits.

Regards,

Al J. Rhodes, ACAS, MAAA