

REQUEST FOR PURCHASE IN EXCESS OF \$20,000/CHANGE ORDER



To: City Council

From: Lisa Schaefer, HR Director

Date: June 17, 2014

Subject: 2014-2015 CITY INSURANCE CONTRACTS

Agenda Item #: VIII. A.

The Recommended Bid is

Within Budget

Not Within Budget

Date Bid Opened or Quote Received:
May 2014

Bid or Expiration Date:

Company:
LMCIT
Travelers Insurance Company

Amount of Quote or Bid:
\$942,581
\$1,026,370

Recommended Quote or Bid:

Staff recommends awarding the property casualty and worker's compensation insurance to LMCIT, including the optional Volunteer Coverage for \$1,233 and Bond Coverage for \$2,176.

General Information:

The City requested bids from both Travelers Insurance Company and LMCIT for property/casualty and workers compensation insurance for policy year July 1, 2014 – June 30, 2015. As a City-owned joint powers agency, the coverage that LMCIT provides is much broader than under a commercial carrier, so it is difficult to provide a direct comparison of costs and benefits. Members of the Trust also receive dividends based on premiums paid during the city's lifetime membership. As a result, dividends are expected to grow over time with more years of membership.

Total Costs. LMCIT has a premium cost advantage of \$83,789 over Travelers. However, the deductible structure of LMCIT coverage is different than that of Travelers. With LMCIT, the City would pay a \$50,000 deductible per claim, up to an annual maximum of \$100,000. After the maximum is reached, additional claims would be \$1,000 per occurrence. This blanket deductible covers claims in all categories except Worker's Compensation and Liquor Liability (which have no deductibles). Travelers has a traditional per claim deductible with no maximum deductible amount.

When premium costs and estimated deductible amounts are included in the calculation, LMCIT has a \$45,352 cost advantage. LMCIT has warned us that the liability portion of the premium will increase approximately \$30,000 - \$50,000 the second year due to prior acts being covered by Travelers in the first year. Even with these additional costs, staff believes the long-term advantages of broader coverage and dividend potential warrant the switch to LMCIT.

Significant Differences in Coverage.

- **Liability Coverage Limits.** LMCIT has NO annual aggregate limits for general, police, management, or employment. The limit is \$1.5 million **for each and every occurrence**. Travelers has the following annual aggregate limits for total claims **in each category**: \$1.5 million for general liability; \$1.5 million for police liability, \$1 million for management liability, \$1 million for employment liability.
- **Non-Monetary claims/Injunctive Relief (EEOC, Land Use, and Special Risk Litigation)** Current coverage requires a claim for damages or an agency charge before coverage will begin. Under LMCIT, litigation relating to these types of special risks is covered regardless of whether the litigation includes a claim for damages. LMCIT provides coverage for 5 broad categories of litigation: land use regulation; development; franchising; enterprise operations; city debt obligations. In addition, LMCIT offers incentive programs to further decrease costs.

Optional Coverage Recommended.

- **Volunteer Accident.** LMCIT provides some protection for City Volunteers (including board and commission members) on a no-fault basis. The annual premium is \$1,233 and there is no deductible for this coverage. The City does not currently have this coverage.
- **Bond Coverage.** LMCIT provides blanket coverage up to \$1 million for all employees. The annual premium is \$2,176 and deductibles are included in the Property/Casualty blanket deductible. The City is currently insured through Travelers for up to \$250,000 per City employee, for approximately \$2,500.

Other Advantages. LMCIT has several other advantages.

- **Coordinated Coverage.** With LMCIT, there is the opportunity to coordinate with other cities in areas of mutual concern. For example, a number of cities were recently named in a lawsuit related to accessing private data in criminal justice databases, and LMCIT has been able to provide joint defense.
- **Customer Service.** Often for-profit insurers are looking to manage costs with less consideration of the citizen or employee relations aspect of the claim. As a result, they are prone to take a more defensive position and deny claims more quickly. Citizens or employees feel that they have to “fight” for coverage. This leads more involvement with attorneys and the legal system, and often more “bad will” between the parties. With employees, this can be particularly damaging since they have often invested a significant amount of their working career with the City and hope to be treated as a valued asset.
- **Training and Workshops.** LMCIT works exclusively with public sector groups, including almost all Minnesota cities. As a result they have several proactive programs and training opportunities that are geared specifically for Minnesota Cities.
- **Additional Coverage Options.** The City may eventually be interested in purchasing optional coverage that is not available through a commercial carrier, such as No-Fault Sewer coverage. This type of optional coverage can be started at any time.

Attachment

- 2014-2015 City Insurance Contracts Comparison Chart

2014-2015 City Insurance Contracts

LMCIT

Travelers

	Premium	Deductible ¹	Premium	Deductible
Property & Equipment	\$ 148,119	\$50,000/\$100,000/\$1000	\$ 104,273	\$25,000 \$50,000 Golf Dome
Mobile Equipment	\$ 23,037	\$50,000/\$100,000/\$1000	\$ 20,506	\$1000
Auto Liability & UM	\$ 31,224	\$50,000/\$100,000/\$1000	\$ 80,681	None
Auto Physical Damage	\$ 14,607	\$50,000/\$100,000/\$1000	\$ 20,816	\$1000
General Liability	\$ 179,148	\$50,000/\$100,000/\$1000	\$ 84,631	None
Employment Practices	Included	\$50,000/\$100,000/\$1000	\$ 26,040	\$25,000
Law Enforcement	Included	\$50,000/\$100,000/\$1000	\$ 73,385	\$10,000
Public Management	Included	\$50,000/\$100,000/\$1000	\$ 15,559	\$10,000
Cyber Liability	Included	\$50,000/\$100,000/\$1000	\$ 17,536	\$10,000
Liquor Liability	\$ 26,327	None	\$ 9,172	None
Total Premiums P/C Premiums²	\$ 422,462		\$ 452,599	Add'l cost for Travelers = + \$ 30,137
Worker's Compensation	\$ 516,919	None	\$ 563,771	None
Administration fees ³	\$ 3,200	None	\$ 10,000	None
Total W/C Premium	\$ 520,119		\$ 573,771	Add'l cost for Travelers = + \$ 53,652
Total Package Premium	\$ 942,581		\$ 1,026,370	Add'l cost for Travelers = \$ 83,789
Estimated Dividends ⁴	(\$4,500)			
Estimated Deductibles ⁵	\$ 81,375		\$ 38,438	
TOTAL ESTIMATED COSTS	\$ 1,019,456		\$ 1,064,808	Add'l cost for Travelers = + \$ 45,352

¹ LMCIT Deductibles are \$50,000 per claim with an aggregate limit of \$100,000. Once the aggregate limit is reached deductibles are \$1000.

² LMCIT has indicated an estimated premium increase of 30-50k for the 2015 renewal; the first year is discounted because prior acts are covered first through Travelers.

³ The City is responsible for paying the direct costs on several claims because the City was covered by Home Insurance which went bankrupt. The administration and billing is currently handled by Travelers.

⁴ LMCIT is a member-owned organization and members are eligible to receive dividends. If approved by the LMCIT trustees, individual member dividends are based on total premiums and adjusted losses throughout the time as a member. As a result, dividends are expected to grow over time. As an example, Eden Prairie's 2013 dividend was \$104,217.

⁵ Based on the average annual deductible the City would have paid under each proposal using the last five years of loss history. The deductibles under Travelers proposals would have ranged from \$10,000 - \$72,720. Deductibles under LMCIT would have been \$37,116 - \$127,029. Detail on following page.

2014-2015 City Insurance Contracts

Significant Differences in Coverage

Liability Limits

LMCIT

LMCIT has NO annual aggregate limits for general, police, management, or employment. The limit is \$1.5 million for each and every occurrence.

TRAVELERS

Travelers has the following annual aggregate limits for total claims in each category: \$1.5 million for general liability; \$1.5 million for police liability, \$1 million for management liability, \$1 million for employment liability.

Coverage for Non-monetary Claims

LMCIT will provide coverage for non-monetary or injunctive claims such as land use, eminent domain, and EEOC claims .

Traveler's excludes most injunctive or non-monetary claims from coverage.

Additional Coverage through LMCIT recommended by Staff at this time.

	Premium	Deductible
Volunteer Coverage	\$ 1,233	NONE
<i>This option provides limited coverage for city volunteers, including advisory boards and commission members, who are injured while working for the City.</i>		
Bond Coverage	\$ 2,176	Applied to P/C deductibles
<i>This option provides \$1 million in bond coverage for all City staff.</i>		

Past Deductible Amounts Under Current Proposals

COVERAGE YEAR	LMCIT	Travelers
2012 - 2013	\$76,197	\$43,237
2011 - 2012	\$112,726	\$53,878
2010 - 2011	\$127,029	\$72,720
2009 - 2010	\$37,116	\$10,000
2008 - 2009	\$53,809	\$12,580
5 - Year average	\$81,375	\$38,483