

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



To: City Council

From: Scott Neal, City Manager

Date: June 21, 2013

Subject: 2013-2014 CITY INSURANCE CONTRACTS

Agenda Item #: V.

The Recommended Bid is

- Within Budget
 Not Within Budget

Date Bid Opened or Quote Received:
May 2013

Bid or Expiration Date:

Company:
Travelers Insurance Company
LMCIT

Amount of Quote or Bid:
\$977,102
\$1,020,857

Recommended Quote or Bid:
Travelers Insurance Company

General Information:

The City solicited a bid from the LMCIT for property/casualty and workers compensation insurance after receiving a significant increase in proposed premiums from Travelers.

Since LMCIT is an insurance trust that offers dividends to its members when premiums exceed costs, it is challenging to make an "apples to apples" comparison between the two entities. In addition, LMCIT offers some potential benefits that are difficult to quantify:

- LMCIT includes items in their coverage that Travelers does not. Examples of additional coverage areas include land use-related claims, losses or suits related to cyber-attacks, losses related to post-traumatic stress disorders, diagnostic testing when employees are exposed to infectious disease, legal assistance with EEOC and Department of Human Rights complaints and legal assistance with other situations that could result in future litigation. We would expect to have lower legal costs due to the depth of the LMCIT coverage.
- LMCIT works exclusively with public sector groups, including almost all Minnesota cities with the exception of Minneapolis, St. Paul and Duluth. As a result they have several proactive programs and training opportunities that are geared specifically for Minnesota cities.
- 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. The LMCIT will be preparing a joint response for all of the parties named in the suit.

- 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.
- LMCIT provides \$1.5 million dollars of liability coverage per incident. Travelers provides \$1.5 million dollars of cumulative coverage in each of the liability categories.

Travelers has an estimated \$67,000 cost advantage when premium costs, deductible amounts and known future year increases are included in the calculation. A summary of the estimated costs under both proposals is attached.

Due to the budget levy limit, staff recommends that that the City remain with Travelers for the upcoming year. In the future, however, the City may find it advantageous to join the LMCIT for reasons outlined above.

Insurance Comparisons

Property/ Casualty				
Category	LCMIT		Travelers	
	Deductible	Premium	Deductible	Premium
Property	\$50,000/\$100,000/\$1000	\$143,029	\$10,000	\$76,246
Mobile equipment	\$50,000/\$100,000/\$1000	\$19,382	\$1,000	\$16,044
Auto Liability & UM	\$50,000/\$100,000/\$1000	\$23,603	None	\$74,077
Auto Physical Damage	\$50,000/\$100,000/\$1000	\$14,586	1000	\$15,591
General Liability	\$50,000/\$100,000/\$1000	\$143,356	None	\$68,458
Employment Practices	\$50,000/\$100,000/\$1000	Included	\$25,000	\$29,934
Law Enforcement	\$50,000/\$100,000/\$1000	Included	\$10,000	\$77,059
Public Management	\$50,000/\$100,000/\$1000	Included	\$10,000	\$10,587
Liquor Liability	\$50,000/\$100,000/\$1000	\$26,521	None	\$28,513
Premium Totals		\$370,477		\$397,409
Estimated Deductible Expenses	\$16,000-\$100,000 ¹ Average ² \$55,112		\$2,000-\$44,000 Average \$12,695	
Estimated Dividend	\$6,000 ³		None	
Estimated Total Cost	\$419,589		\$410,104	

Workers Compensation	
LCMIT	Travelers
\$601,268 ⁴	\$579,693 ⁵

Total Cost Comparison		
	LCMIT	Travelers
Premium	\$984,267	\$977,102
Estimated Costs (with deductible and dividend estimates)	\$1,020,857 ⁶	\$989,797

¹ Estimated range of deductibles for eight year period since 2005/06.

² Average for eight year period since 2005/06.

³ The City would not be eligible for a potential premium until December 2014. Members of the LMCIT gain equity and receive larger dividends the longer they are members of the LMCIT. It would not be unreasonable to estimate a potential dividend of \$36,000 after five years of membership. Eden Prairie, a long time LMCIT member, has received dividends between \$40,000 and \$165,000 over the last eight years.

⁴ LCMIT also offers dividends on the workers compensation coverage; historically these dividends are smaller and more sporadic than the property/casualty dividends.

⁵ Travelers lowered their proposal in mid-June. The original premium proposal was \$599,447.

⁶ LCMIT has forewarned us to expect a rate increase of 25% or \$35,839 in the second year on the general liability premium due to the switch in carriers. The first year is discounted because prior acts are still covered by the Travelers.

