

August 30, 2005

TO: John Szerlag, City Manager

FROM: John M. Lamerato, Assistant City Manager/Finance and Administration
James A. Nash, Financial Services Director
Stephen Cooperrider, Risk Manager *sa*

SUBJECT: Agenda Item – Standard Purchasing Resolution 3 and Bid Waiver –
Option to Renew (1 Year) and Bid Waiver (1 Year) to Extend –
Casualty and Property Insurance with the MMRMA for November 2005-06
and November 2006-07

RECOMMENDATION:

On Monday, August 9, 2004 Troy City Council approved a one-year policy for Casualty and Property Insurance with an option to renew for one additional year to the Michigan Municipal Risk Management Authority (Resolution#2004-08-415). City Management recommends exercising the option to renew, and extending the policy for one additional year.

The Michigan Municipal Risk Management Authority (MMRMA) has agreed to renew the policy for 2005-06 at a premium of \$299,563. This is a 2% rate increase over last year with terms and conditions remaining the same. The MMRMA has also offered the City a second year with a guarantee the premium for 2006-07 will not be increased by more than 5% with no change in terms and conditions.

SUMMARY:

| | |
|--|-----------|
| Current (2004-05) premium: | \$293,685 |
| Proposed 1 st year (2005-06) premium: | \$299,563 |
| Proposed 2 nd year (2006-07) not to exceed premium: | \$314,541 |

MARKET SURVEY:

The MMRMA reinsurance carriers proposed an 8% increase to the MMRMA for July 1, 2005. The MMRMA negotiated with their carriers that they would take on an additional \$500,000 within the MMRMA layer of insurance. They were then able to keep their reinsurance cost flat.

Risk Management conducted a review of the market through discussion with other Risk Managers, representatives of insurance agencies, and a review of insurance periodicals and Internet research. We have determined that the MMRMA proposal is very good based on current market conditions.

The MMRMA is also offering the City a second year guarantee of premium that will not be more than a 5% increase. With the most catastrophic loss in history going on right now in hurricane Katrina estimated at \$26 billion in losses and counting, property and

casualty rates across the country will be greatly affected. This is only the beginning of this year's hurricane season.

BACKGROUND:

The City last bid the casualty and property insurance in 1996. At that time the insurance marketplace was experiencing a soft market. A soft market provides insurance sellers with low prices and broad coverage. Underwriting of insurance is more relaxed and allows for greater leniency in determining insurance premiums and coverage availability. The MMRMA provided the lowest bid price in 1996 of \$294,391. Since that time, the MMRMA has been able to keep annual premiums below the 1996 pricing and provide even broader coverage while increasing coverage limits from \$10 million to \$15 million.

Cost History: The cost for insurance of this renewal continues to be below the second lowest base bid price of 1996. The following are the cost of insurance for years 1996 through 2004: \$294,391, \$292,874, \$291,761, \$262,585, \$269,829, \$277,297, \$282,096, \$282,096, and \$293,685.

Loss Fund History: In 1996, the City agreed to maintain a positive loss fund balance of up to \$150,000 that is designated to pay claims. The City currently has a positive loss fund balance of \$9,256.31. The MMRMA will be requesting a contribution to the loss fund this year. The contribution based on the City's July 31, 2005 balance would be \$140,743.69.

The premium after the 2% increase is greater than the 1996 premium charged by the MMRMA, it is less than the second lowest bid in 1996. In addition, the quotes from the other bidders in 1996 are ten years old. The insurance market has had some upheaval during the past ten years. The MMRMA has worked very hard and has been very diligent in keeping our premiums stable given inflation over ten years, the World Trade Center tragedy, the Enron debacle, the hardening of the insurance market place over the past four years, the threat of terrorism, the natural disasters of the four hurricanes of 2004, and the Tsunami that hit Southeast Asia in 2005. All these contribute to a volatile insurance marketplace.

We submit that a review of the following attachments in addition to those items previously mentioned supports the recommendation that the City should accept the MMRMA proposal.

- Attachment #1 is a history of insurance premiums paid for casualty and property insurance since 1988/89.
- Attachment #2 is a cost comparison and coverage comparison from the most recent competitive bidding process in 1996, as presented by Mr. Angelo Zervos, Insurance Counselor for the City of Troy.
- Attachment #3 is a listing of MMRMA member cities throughout the State of Michigan.

- Attachment #4 is a listing of the top ten Oakland County communities ranked by population that are MMRMA members.

Other services provided by the MMRMA as part of the insurance premium include: Notary Bonds, Oakland County Sheriff's Bonds, claims handling services (other than allocated legal expenses), loss control services (which include numerous educational programs), no annual aggregate limits of liability, risk transfer counseling, risk management counseling, financial strength (MMRMA total assets of \$253,594,873 and a retention fund balance of \$16,482,091), and others.

BUDGET:

Funds for this insurance are budgeted in departmental line items.

RISK

Michigan Municipal
**MANAGEMENT
AUTHORITY**

BOARD OF DIRECTORS

August 12, 2005

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Executive Director

Stephen Cooperrider
City of Troy
500 West Big Beaver Road
Troy, MI 48084

RE: MMRMA Renewal - 2005/2006 & 2006/2007

Dear Steve:

Enclosed you will find your 2005/2006 Coverage Overview and I am happy to say we are offering a modest increase of 2%. Along with the increase, we are also offering a second year renewal (2006/2007) with a maximum increase of 5%. The terms and conditions of your existing policy have not changed.

This is the best renewal offer to cross my desk so far. I am sorry I was not able to deliver this to you personally, but duty calls. I will contact you the week of August 22nd to answer any questions you may have.

Sincerely,



Boyd M. Smith, CIC
Risk Manager

cc: MMRMA Underwriting



500 West Big Beaver
Troy, Michigan 48084
Fax: (248) 524-0851
www.ci.troy.mi.us

CITY OF TROY
OAKLAND COUNTY, MICHIGAN

RESOLUTION

Area code (248)

Assessing
524-3311

Bldg. Inspections
524-3344

Bldg. Operations
524-3368

City Clerk
524-3316

City Manager
524-3330

Community Affairs
524-1147

Engineering
524-3383

Finance
524-3411

Fire-Administration
524-3419

Human Resources
524-3339

Information Technology
619-7279

Law
524-3320

Library
524-3545

Parks & Recreation
524-3484

Planning
524-3364

Police-Administration
524-3443

Public Works
524-3370

Purchasing
524-3338

Real Estate & Development
524-3498

Treasurer
524-3334

General Information
524-3300

Approval of Negotiated Agreement with the Michigan Municipal Risk Management Authority (MMRMA) for Casualty and Property Insurance Coverage

At a Regular meeting of the Troy City Council held on Monday, August 9, 2004, the following Resolution was passed:

Resolution #2004-08-415
Moved by Broomfield
Seconded by Beltramini

WHEREAS, On November 4, 1996, a three-year contract for Casualty and Property Insurance was awarded to the low bidder, Michigan Municipal Risk Management Authority (MMRMA) (Resolution #96-1032).

WHEREAS, The contract was extended on August 16, 1999 for three years with an option to renew for three additional years (Resolution #99-376-E-4).

WHEREAS, The contract was again approved for extension on August 2, 2002 for a two-year option under the same terms and conditions with changes in self-insured retention, stop loss, sewer back up coverage, and terrorism coverage due to the hardening insurance market (Resolution #2002-08-453).

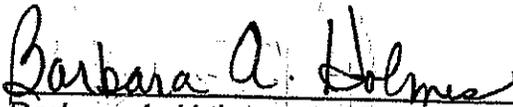
WHEREAS, On March 1, 2004 authorization was given to the City Manager to negotiate a new agreement with the MMRMA for Casualty and Property Insurance (Resolution #2004-03-108-E-11).

NOW, THEREFORE, BE IT RESOLVED, That an agreement to renew the contract for Casualty and Property Insurance with the MMRMA be **EXERCISED** at a premium cost of \$293,689.00 with no change in terms and conditions. This cost represents a 4% increase over last year's premium; and

BE IT FINALLY RESOLVED, That this contract **INCORPORATES** an option to renew for the 2005/2006 coverage year depending on exposures, claims, underwriting, and market conditions. This agreement also **INCLUDES** the maintenance of a positive loss fund balance of up to \$150,000.00 expiring November 7, 2006.

Yes: All-7

I, Barbara A. Holmes, duly appointed Deputy Clerk of the City of Troy, do hereby certify that the foregoing constitutes a true and complete copy of a resolution adopted by the Troy City Council at a Regular Meeting duly called and held on Monday, the Ninth day of August, 2004.

A handwritten signature in cursive script that reads "Barbara A. Holmes". The signature is written in black ink and is positioned above a horizontal line.

Barbara A. Holmes, CMC
Deputy City Clerk

INSURANCE PREMIUM HISTORY

| POLICY YEAR | INSURER | PREMIUM CASUALTY AND PROPERTY | SELF-INSURED RETENTION | LIMITS | LOSS FUND CONTRIBUTION |
|-------------|---|-------------------------------|------------------------|----------------------|------------------------|
| 1988/89 | Corroon and Black | \$866,048 | Varied by coverage | Varied by coverage | Not Applicable |
| 1989/90 | Note: C&B put on notice that we were comparing a quote from the MML. Corroon and Black | \$729,286 | Varied by coverage | Varied by coverage | Not Applicable |
| 1990/91 | Note: RFP from C&B, MML, and MMRMA. MMRMA | \$495,599 | \$100,000 | \$10 mil | \$50,000 |
| 1991/92 | Note: RFP from C&B, MML, and MMRMA. MMRMA | \$519,586 | \$100,000 | \$10 mil | \$50,000 |
| 1992/93 | NOTE: RFP from MML and MMRMA. (C&B declined to bid) MMRMA | \$467,300 | \$150,000 | \$10 mil | \$50,000 |
| 1993/94 | NOTE: RFP for 3 year contract from MML, MMRMA, Johnson & Higgins, and Sedgwick James MMRMA | \$296,804 | \$250,000 | \$10 mil | \$55,615 |
| 1994/95 | MMRMA | \$314,767 | \$250,000 | \$10 mil | \$60,921 |
| 1995/96 | MMRMA | \$329,818 | \$250,000 | \$10 mil | \$89,132 |
| 1996/97 | NOTE: RFP for 3 year contract from Lademan & Youd, MMRMA, MI Community Underwriters, Ralph Wilson Agency, and Gallagher Abow. (MML, Willis Corroon, and Sedgwick James declined to bid.) MMRMA | \$294,391 | \$250,000 | \$10 mil | \$73,000 |
| 1997/98 | MMRMA NOTE: Limits automatically increased during year at no cost. | \$292,874 | \$250,000 | \$10 mil \$15 mil | \$73,000 |
| 1998/99 | MMRMA | \$291,761 | \$250,000 | \$15 mil | \$0 |
| 1999/00 | NOTE: Negotiated new three year agreement with the MMRMA. MMRMA | \$262,585 | \$250,000 | \$15 mil | Not requested by MMRMA |
| 2000/01 | MMRMA | \$269,829 | \$250,000 | \$15 mil | Not requested by MMRMA |
| 2001/02 | MMRMA | \$277,297 | \$250,000 | \$15 mil | Not requested by MMRMA |
| 2002/03 | NOTE: Negotiated a new two year agreement with MMRMA. MMRMA | \$282,096 | \$500,000 | \$15 mil | \$118,640 |
| 2003/04 | MMRMA | \$282,096 | \$500,000 | \$15 mil | \$30,800 |
| 2004/05 | NOTE: Negotiated a new one year agreement with option to renew with the MMRMA. MMRMA | \$293,685 | \$500,000 | \$15 mil | \$150,000 |

Cost Comparisons

| <u>Coverage</u> | <u>MMRMA</u> | <u>GALLAGHER</u> | <u>WILSON</u> | <u>LADEMAN</u> | <u>MCU</u> |
|----------------------------------|----------------|------------------|----------------|----------------|----------------|
| Liability | 294,491 | 224,000 | 284,589 | 336,416 | 345,837 |
| Property | Included | 25,159 | Included | Included | Included |
| Crime | Included | 1,502 (1) | 1,502 (1) | 1,502 (1) | Included |
| Vehicle | Included | Included | Included | Included | Included |
| Boiler | Included | 2,536 (1) | 2,536 (1) | 2,536 (1) | Included |
| Base Bid Quote | 294,491 | 253,197 | 288,627 | 340,454 | 345,837 |
| Prior Acts | Included | Included | Included | Included | 26,120 |
| Safety Fees | Included | 4,600 (2) | 1,000 (2) | 1,000 (2) | Included |
| Claims Adm. | Included | 36,822 (2) | 40,000 (2) | 40,000 (2) | 20,000 (2) |
| Risk Mgmt Fees | 4,000 (2) | Included | Included | Included | Included |
| Finance Charge | Included | 5,513 | Included | Included | Included |
| Total Adjusted Quotes | 298,491 | 300,132 | 329,627 | 381,454 | 391,957 |
| Fiduciary, UST (3) | 22,600 | 22,600 | 22,600 | 22,600 | 22,600 |
| Total: | 321,091 | 322,732 | 352,227 | 404,054 | 414,557 |

(1) Costs are "Shared" insurance markets. (See pre-qualification process)

(2) Fee estimates are consultants opinion based on available facts.

(3) All bidders "shared" the Fiduciary Liability, Underground Storage Tank Liability.

Coverage

While the rates were competitive, there were significant deviations from the current insurance program. The proposals have been briefly listed for comparison purposes.

Abbreviations for list:

| | | | |
|-----|--------------------------------|-----|---|
| (A) | C.M. Althoff | (Y) | Yes |
| (G) | Gallagher ABOW | (N) | No |
| (W) | Ralph Wilson | (R) | Limits and /or coverage is less than current insurance. |
| (L) | Lademan & Youd | (E) | Limits and/or coverage are more than current. |
| (M) | Michigan Community Underwrites | | |
| (U) | Available but not quoted. | | |

| Bid Coverage or Terms Itemized | <u>A</u> | <u>G</u> | <u>W</u> | <u>L</u> | <u>M</u> |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Annual Aggregate Stop Loss Retention | Y | R | N | Y | Y |
| Employee Benefits Insurance Occurrence Basis | Y | N | Y | Y | Y |
| Municipal Engineers E & O Liability | Y | R | Y | R | N |
| Failure to Supply Water, Gas or Electric | Y | Y | N | R | N |
| Class Action Liability | Y | R | R | R | Y |
| Wrongful Entry, Eviction, or Invasion of Privacy | Y | R | Y | Y | Y |
| Property Limits or Terms | Y | Y | R | R | Y |
| Prior Act Claim- Made policies | Y | Y | Y | R | Y |
| Employers Liability | Y | Y | Y | Y | R |
| Zoning, Condemnation, Inverse Condemnation | Y | R | N | R | Y |
| Coverage From Criminal Acts of Employees | Y | R | Y | N | Y |
| Uninsured Motorist | Y | E | Y | Y | Y |
| Broadcast Liability | Y | Y | Y | Y | U |
| Fireworks | Y | R | Y | Y | R |

The broadest insurance protection continues to be the MMRMA.

ATTACHMENT #3:

Listing of MMRMA member cities throughout the State of Michigan.

| | |
|------------------|----------------------|
| Algonac | Northville |
| Alma | Orchard Lake Village |
| Bay City | Owosso |
| Belleville | Parchment |
| Bloomfield Hills | Pinconning |
| Carson | Pleasant Ridge |
| Cheboygan | Pontiac |
| Clawson | Port Huron |
| Davison | Portage |
| Dearborn Heights | River Rouge |
| Dowagiac | Riverview |
| Eastpointe | Rochester Hills |
| Escanaba | Royal Oak |
| Essexville | Sandusky |
| Farmington Hills | Scottville |
| Farmington | South Haven |
| Ferndale | Southfield |
| Garden City | Southgate |
| Gladstone | Springfield |
| Grand Ledge | St. Clair Shores |
| Grand Rapids | St. Ignace |
| Hazel Park | St. Joseph |
| Howell | Sylvan Lake |
| Huntington Woods | Troy |
| Iron Mountain | Wayne |
| Ironwood | Westland |
| Ishpeming | Whitehall |
| Kalamazoo | Wixom |
| Keego Harbor | Wyoming |
| Lake Angelus | |
| Livonia | |
| Ludington | |
| Madison Heights | |
| Manton | |
| Mason | |
| Mt. Clemens | |
| Mt. Pleasant | |
| Muskegon | |
| Negaunee | |
| New Buffalo | |

ATTACHMENT #4:

Listing of the Top Ten Oakland County communities ranked by population that are MMRMA members.

| <u>COMMUNITY</u> | <u>DATE JOINED</u> <u>MMRMA</u> |
|--------------------------|------------------------------------|
| City of Southfield | September 1, 1985 |
| City of Farmington Hills | June 10, 1985 |
| City of Troy | November 8, 1990 |
| City of Pontiac | July 1, 1985 |
| Waterford Township | December 15, 1983 |
| City of Royal Oak | May 31, 1985 |
| City of Rochester Hills | July 27, 1985 |
| Bloomfield Township | August 20, 1997 |
| West Bloomfield Township | July 27, 1985 |
| City of Madison Heights | July 1, 1986 |