

**COUNCIL ACTION FORM**

**SUBJECT: RENEWAL OF ICAP CASUALTY AND LIABILITY INSURANCE**

**BACKGROUND:**

The City's casualty and liability coverage insurance expires on June 30, 2014. This coverage has been placed with the Iowa Communities Assurance Pool (ICAP) since 2004. ICAP was established in 1986 under Iowa Code section 670.7 as a member owned and funded group insurance pool for Iowa public entities. **ICAP provides property and casualty coverage to 700 Iowa public entities, including 318 cities, 71 counties, 59 fair boards and over 250 other public entities.**

The following City coverages are provided by ICAP: General (Third Party) Liability, Vehicle and Transit Bus Liability, Bookmobile Physical Damage, Public Officials Wrongful Acts, Police Professional Liability, and Employee Theft.

Staff did not seek alternatives to this program this year. Membership in the ICAP pool is a long term commitment based on the fundamentals of rate stability, availability of coverage designed for the City's needs, and responsive, quality service in underwriting, loss control and claims.

<b>Comparison by Line of Coverage</b>	<b>FY 2013-14 Prior Year</b>	<b>FY 2014-15 Proposal Options</b>	<b>FY 2014-15 Adopted Budget</b>
Type of Coverage	\$12.0 million limits	\$12.0 million limits	\$12.0 million limits
General Liability	\$225,894	\$240,536	\$241,000
Auto	64,566	65,381	70,500
Transit	156,479	168,144	172,000
Public Officials	30,890	29,498	32,500
Law Enforcement	32,132	30,694	33,750
Bookmobile PD	534	563	1,000
Bond, incl. fee	6,450	6,449	6,450
<b>Premium Totals</b>	<b>\$516,945</b>	<b>\$541,265</b>	<b>\$557,200</b>
Member Distribution (profit sharing)	(45,568)	(69,371)	(40,000)
<b>Total Net Cost</b>	<b>\$471,377</b>	<b>\$471,894</b>	<b>\$517,200</b>
\$13.0 million option	Add to 2014/15 Total	<b>+\$957</b>	<b>\$472,851</b>
\$14.0 million option	Add to \$13.0 layer	<b>+\$908</b>	<b>\$473,759</b>
<b>\$15.0 million option</b>	<b>Add to \$14.0 layer</b>	<b>+\$880</b>	<b>\$474,639</b>
\$25.0 million option	Add to \$15.0 layer	+\$35,059	\$509,698

The overall premium total before the premium credit is applied for the same \$12.0 million limits program for FY 2014/15 increased **4.7%**, from \$516,945 to \$541,265. **The impact of an increased membership credit (pool profit sharing) of \$69,371 actually decreased the net renewal premium to only \$517 more than the expiring premium, which amounts to a 0.1% increase – from \$471,377 to \$471,894.**

ICAP is now offering its members options of increased liability limits. The previous maximum was \$12.0 million, which the City selected three years ago. Options of adding \$1.0 million increments to achieve \$13.0 million, \$14.0 million or \$15.0 million are shown in the table above.

At the February risk management budget presentation, Council indicated interest in higher liability limits. In addition to ICAP's recent decision to offer an additional \$3.0 million, staff asked the ICAP underwriter if a total of \$25.0 million could be structured by utilizing an excess layer from another insurance company above ICAP's maximum. The premium for this excess layer is shown in last row of the above table.

The optional excess layer of \$10.0 million would cost an additional \$35,059, since insurers charge a significantly higher rate for this level of coverage. While it is not inconceivable that claims could reach that level, the City has no claim history to support it. When evaluating the cost of upper excess limits, however, "comfort level" and "a good night's sleep" are common and customary factors which risk managers discuss with top management along with actual claim history. Staff is not recommending this option at this time; but it is available, should Council want to consider it to achieve the desired comfort level involving Third Party, Public Officials or Police related liability. The dialogue of "how much liability insurance is enough" is one that should periodically be revisited by the Council.

#### **ALTERNATIVES:**

1. Accept the 2014/15 proposal from the Iowa Communities Assurance Pool in the net amount of **\$471,894** for the same \$12.0 million total limits as expiring.
2. Accept the 2014/15 proposal from the Iowa Communities Assurance Pool in the net amount of **\$472,851** for \$13.0 million total limits.
3. Accept the 2014/15 proposal from the Iowa Communities Assurance Pool in the net amount of **\$473,759** for \$14.0 million total limits.
4. Accept the 2014/15 proposal from the Iowa Communities Assurance Pool in the net amount of **\$474,639** for \$15.0 million total limits.
5. Accept the 2014/15 proposal from the Iowa Communities Assurance Pool in the net amount of **\$509,698** for \$25.0 million total limits. This option includes a \$10.0 million layer above ICAP's \$15.0 million maximum, placed with another insurer.

6. Reject the proposal from ICAP and have staff seek other quotations for coverage.

**MANAGER'S RECOMMENDED ACTION:**

ICAP continues to provide acceptable casualty and liability coverage for the City of Ames. The City's membership in the pool has resulted in stable pricing, profit sharing credits, coverage improvements and good claims handling. In 2011, when ICAP began offering \$12.0 million in liability limits above the previous \$6.0 million maximum, the City took advantage of this added protection provided to pool members for reasonable rates per million. **The increased membership and financial strength of the pool has enabled the offering of \$15.0 million in maximum limits to members. This amount of protection against litigation claims potentially faced by the City is not unreasonable. The cost for the additional \$3.0 million is \$2,745.**

Therefore, it is the recommendation of the City Manager that the City Council accept Alternative No. 4, thereby accepting the 2014/15 proposal from the Iowa Communities Assurance Pool in the net amount of **\$474,639 for \$15.0 million total limits.**