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|--------------------------------|----------|--------|
|                                | Approved | Denied |
| Action taken                   | 7/22/02  |        |
| Other:                         |          |        |
| Date of Council Action:        |          |        |
| Verified by: <i>R. Sanchez</i> |          |        |

**WASILLA CITY COUNCIL MEMORANDUM**

**CM No. 02-39**

**TITLE: Council Approval of the Award of City of Wasilla's Insurance (Property, Liability, Automobile, and Worker's Compensation) to the Alaska Public Entity Insurance.**

**COUNCIL MEETING DATE: July 22, 2002**

ADMINISTRATION INITIAL: *AS*

REQUESTED BY: Administration

PREPARED BY: Finance

Date Prepared: July 01, 2002

**FISCAL IMPACT:**

If yes, amount requested: \$340,674.00 Account No.: Various

**SUMMARY STATEMENT:** The Mayor awarded the renewal of the City of Wasilla's insurance coverage to Alaska Public Entity Insurance (APEI) under WMC 5.08.150 (Emergency Procurement) on June 28th. The City of Wasilla did not receive the final quotes from the Insurance Pools until June 28<sup>th</sup> at 2:00 p.m.. Based on an analysis of the quotes that the City of Wasilla received (see Insurance Broker's memorandum), Administration and the Finance Department determined that the rates and the insurance program offered by the APEI was the best insurance program for the City of Wasilla. Although the City of Wasilla has been with Alaska Municipal League/Joint Insurance Association (AML/JIA) for several years, the difference in the rates between the AML/JIA and the APEI was too great (over \$114,000) to justify renewing the City of Wasilla's insurance program with AML/JIA.

**STAFF RECOMMENDED ACTION:** Council approve award of insurance contract for Property, Liability, Automobile and Worker's Compensation insurance to Alaska Public Entity Insurance.

Attachments: Memorandum from City of Wasilla's Insurance Broker Brandon Allen.

7/11/02

To: Ted Leonard  
Finance Director  
City of Wasilla  
From: Brandon Allen  
Re: Property Casualty Insurance Renewal

Now that your coverages have been renewed, a brief review of the process and an overview of the insurance industry may help your City Council understand the difficulties we faced and decisions the City administration made.

This year's renewal cycle for municipal entities was the most difficult in the past ten years. Cities, boroughs and school districts across the state received rate increases between 200% and 400%.

The Alaskan municipal entity insurance market is dominated by two insurance pools, the Alaska Municipal League/Joint Insurance Association (AML/JIA) and Alaska Public Entity Insurance (APEI). Alaska National Insurance Company (ANIC), a standard insurance company, insures the most of what the pools don't.

The pools collect premiums from their members. A portion of the premium is used to pay a self insured retention (SIR) or deductible and the remainder is spent on reinsurance that provides the coverage up to the policy limits. This structure allows each pool to provide coverage to their members at a cost substantially less than all but the largest municipal entities could secure on their own. The key ingredient in their pricing is the cost of reinsurance.

For the past decade, the insurance industry has charged rates that were lower than expected losses. Profits were produced through investment income which was generated by investing premium dollars in the stock market. As long as the investment income was enough to make up for the difference between premium collected and claims paid, the industry was able to maintain those reduced rates.

This pricing model collapsed when the stock market crashed a couple years ago. Investment income could no longer make up for intentionally inadequate rates. The industry was further damaged by the losses resulting from the September 11<sup>th</sup> terrorist attacks and the more recent mega-billion dollar bankruptcies of Enron and others. In short, income was way down and expenses were way up.

When the stock market crashed two years ago, we began advising our clients that insurance rates would be increasing. However, the pressure on insurance companies to maintain market share encouraged them to make only modest rate increases if any at all. Your renewal rates last year should not have increased.

However, during last year's renewal process you discovered that you rates were higher than other similar sized cities and the City decided to contract with an insurance broker to represent you in the FY 2002-2002 renewal process.

Brady & Company presented your account to both pools and the standard insurance carriers. We were concerned that rates would be increased dramatically and that you needed to have every available option. The AML/JIA, your expiring carrier, warned its members of a 100% rate increase.

As the two pools got closer to the 7/1 renewal date, they discovered that the reinsurance companies were quoting renewal rates far higher than expected. Negotiations continued and the pools anticipated that those rates would be reduced. Much to their dismay, the reinsurance rates remained firm. They finally released renewal terms two days prior to renewal. In spite of their huge increases, the pools were still substantially lower priced than standard carriers. Alaska National declined to quote your account as they did not want to compete with the pool pricing.

The attached illustration shows this year's dramatic increase in premiums and the huge difference between the two pools. Selecting a pool was complicated by the differences in coverage and terms.

Participants in the AML/JIA program are subject to an assessment if collected premiums are not sufficient to cover the SIR. There are some important deficiencies in the liability policy wording. The APEI program has neither of those two items but does have some modest deductibles that the AML/JIA does not. Most importantly, the APEI workers compensation policy provides \$25 million limits instead of AML/JIA statutory limits. After considering the coverage issues and the substantial premium difference, APEI was selected as your primary property/casualty carrier.

Beyond the difficulty of absorbing a rate increase far beyond your budget, the last minute nature of this year's renewal process forced City administration to make a decision with no time for consultation. I appreciate the way you and John analyzed the options and selected the most appropriate. I will attend the City Council meeting on Monday 7/22 to respond to questions from the Council.

**CITY OF WASILLA  
PREMIUM COMPARISON**

|                       | 2001-2002<br>AML/JIA | 2002-2003<br>AML/JIA | 2002-2003<br>APEI |
|-----------------------|----------------------|----------------------|-------------------|
| Property              | 39,041               | 98,381               | 45,694            |
| Earthquake/Flood      | included             | 25,700               | included          |
| Mobile Equip          | 1,171                | 2,781                | included          |
| Gen'l Liability       | 104,515              | 139,069              | 149,750           |
| Incl Public Officials |                      |                      |                   |
| Police Professional   | 18,508               | 23,154               | Included          |
| Excess Liability      | Included             | Included             | 22,249            |
| Auto Liability        | 11,600               | 23,098               | 40,740            |
| Auto Comp & Coll      | 2,460                | 12,301               | Included          |
| Workers Comp          | 54,860               | 130,394              | 82,241            |
| Totals                | 232,155              | 454,878              | 340,674           |