City of Rochester Hills
AGENDA SUMMARY
NON-FINANCIAL ITEMS

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Legislative File No: 2011-0027

TO: **Mayor and City Council Members**

FROM: **Keith Sawdon, Director of Finance, Ext 2535**

DATE: **March 21, 2011**

SUBJECT: **Results of Additional Requested Information on the Property and Liability Protection Insurance RFP**

REQUEST:

Additional information requested at your January 24, 2011 City Council meeting related to our RFP on Property and Liability Protection Insurance.

BACKGROUND:

At your January 24, 2011 meeting City Council was provided various pieces of information related to the RFP that the City had issued for its Property and Liability Protection coverage. During the review of that information, City Council requested some additional information be examined and brought back for consideration and review.

City Council Members requested that we seek additional information from Nickel and Saph related to past rate increases, percentage of public entities insured by the insurance company and represented through the Nickel and Saph firm, number of non-renewals, number of risk avoidance educational programs offered, availability of excess insurance, their experience in providing insurance related consultation with their current public entities and a comparison, based on actual lost events, covering the last several years. The responses to those questions and the event comparison are attached for your review.

You also requested that we investigate the number of non-renewals MMRMA had over the last five years. Their response is also attached.

As you can see from the responses neither firm has not renewed a current covered public entity. We probably should have approached this question in a different manner by asking them "what percentage of renewed entities renewed at or below the premium they paid the year before". It would have made the answer more useful. From the responses all public entities were offered a renewal but what was missing in the questions was "were premiums significantly increased to receive a renewal offer"?

You can also see the differences between the two programs related to the number of risk avoidance educational programs offered by the two finalists. MMRMA has a rather large set of both on site and group setting presentation based programs supported by a large set of policy, procedure and training publications and CDs. They also offer online training programs. While Nickel's educational programs were based on a group presentation format.

I've also attached the results of the actual event comparison. As it indicates, under the program being proposed by Nickel & Saph, based on the actual events we experienced over the last several years we would have paid an additional $63,628 had we been insured with Nickel and Saph. This approach of event based premium reconciliation again indicates that there are differences (exclusions for example) between the two programs and coverage.

The large variance between the two finalist premium's (48%) continues to concerns us. As you recall, we received 4 proposals (one that was deemed incomplete). Of those four proposals, three proposals were clustered in the middle to high $400 thousand area while the fourth proposal is in the mid $200 thousand area. When the difference between the lowest proposer and the second lowest proposer has such a large spread (over $200,000) intuition would suggest that there is a reason for that difference. In this case you would presume that it means that we are assuming more risk (possibility by accepting policy exclusions). The challenge is in understanding that risk exposure and determining if the premium justifies the risk being assumed.

We have also not discussed, in any detail, the annual distribution that MMRMA members have received, which has occurred in five of the last six years. Since MMRMA is a member organization, excess assets are returned, to members, through annual distributions. I've attached the 2011 announcement of net asset distributions for your review. The factors that go into the distribution formula are longevity, losses over the past 5 years, and premium. The lower our losses, the better the distribution, as well as the longer you are a member, the larger your distribution. In 2010, the distribution to the City ($123,000) represented almost 27% of your premium. If the same relationship between the declared distribution and the amount the City would receive remains consistent, we will be looking at a return to the City of over $210,000, in July of 2011. The distributions given to Rochester Hills for those five years have been:

2010	$123,385	(based on distribution of $10.2 million)
2008	$200,061	(based on distribution of $15.6 million)
2007	$ 90,158	(based on distribution of $7.5 million)
2006	$ 37,966	(based on distribution of $3.6 million)
	$451,570	

Or the equivalent of one full year of premium.

The MMRMA's 2011 asset distribution also included a rate reduction component for the 2011-12 premium year. The original premium was quoted at $481, 281. Based on the 2011 declared rate reduction, the premium has now been reduced to $408,666. I've attached the correspondence for your review.

We wanted to share these results of your request. We feel that this additional information, along with the information shared with you on January 24th, show that there are differences between the two insurance programs being presented. Council should understand that there is a relationship between risk coverage and premium cost. Managing the level of risk Council wishes to assume for the citizens of Rochester Hills and the resulting cost of that exposure (brings with it) is tricky and caution should be exercised.

RECOMMENDATION:

Until we better understand the additional risks we are exposing the public's funds to we should maintain our current risk management program.