



VAUGHAN

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memorandum

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COMMUNICATION	
FAA -	JAN 29/14
ITEM -	1

DATE: JANUARY 29, 2014

TO: MAYOR AND MEMBERS OF COUNCIL

FROM: JEFFREY A. ABRAMS, CITY CLERK

RE: FINANCE, ADMINISTRATION AND AUDIT COMMITTEE JANUARY 29, 2014
Item 1
DRAFT 2014 BUDGET AND 2015-17 PLAN UPDATE
2014 INSURANCE PREMIUM FUNDING STRATEGY

Recommendation:

1. That the 2014 OMEX insurance premium increase of \$375,442 be funded initially through reallocating funds within the business unit; and
2. THAT future requirements to sustain the premium increase be incorporated in the 2015 -2017 plan as illustrated in the communication.

Background:

The City obtains its insurance coverage pursuant to a Subscriber Agreement with the Ontario Municipal Insurance Exchange (OMEX). Coverage commenced under OMEX on May 1, 2012, following the evaluation of a competitive bidding process involving OMEX and traditional insurance providers. In authorizing the arrangement [Committee of the Whole (Working Session) 15(1), April 17, 2012] Council directed staff to report annually through the budget process on upcoming annual premiums and projected insurance reserve levels.

The results of the competitive bidding process indicated that as a member of the reciprocal the City would avoid costs compared to more traditional contracts of insurance. For example, for the balance of 2012 (May through December) premium costs were \$1,575,554 plus applicable taxes. Savings versus competitive bid prices was calculated to be \$733,000 (pro-rated), of which a portion was allocated to fund the cost of an Insurance Claims Analyst. The balance of approximately \$633,000 was transferred to the City's insurance reserve to offset any potential future retroactive assessments issued by OMEX. The contribution serves as a buffer to facilitate the insurance process transition and help mitigate future premium adjustments without tax increases. The planned contribution to the reserve in the original Draft 2014 Budget was \$290,586 and was phased out by 2016 to cover premium increases.

The 2012 competitive bid analysis determined that membership in OMEX would generate over one million dollars in annualized savings in addition to the benefits derived from better City control over claims handling. Though the exact amount of future savings cannot be determined without a competitive bid process (staff are contemplating issuing an RFP in 2015 to test the market) OMEX continues to provide cost effective coverage and excellent service.

We are now in possession of OMEX's premium assessment for the 2014 term. The 2014 premium of \$3,150,760 represents an approximately 29% increase over the City's 2013 premium and is

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approximately \$375,000 higher than the \$2,775,318 which is being carried in the draft 2014 operating budget. A sampling of other municipal insurance increases shows that increases of between 17% and 25% are the norm, and in fact some insurers are unilaterally increasing deductible payments which further increases municipal insurance costs. Nevertheless the premium increase is larger than the plan and therefore a funding strategy for the current year and the 2015-2017 plan is required.

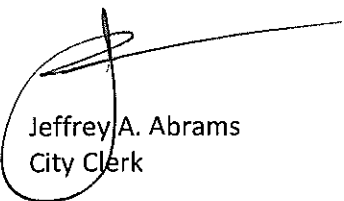
After consulting with the Finance Department, and a review of the business unit financial performance, an opportunity to redistribute funds from other accounts was identified. The initial Draft 2014 Budget and Plan included transfers to the insurance reserve, however, in order to fund the gap in the insurance premium cost in 2014, the planned reserve contribution of \$290,586 plus a reallocation of \$84,856 from the insurance legal fees budget will instead be used to cover the \$375,442 premium increase for 2014. Given that there were initially planned reductions to the reserve contribution for 2015 and 2016, a base budget increase will be required in these years. The change in 2014 and the increases in 2015-2017 as shown below are included in the Budget Update Communication on today's agenda. In addition, there is a premium increase assumption in these years that places further pressure on the budget. The table below illustrates the budget change.

	2014	2015	2016	2017
Original Draft Budget Insurance Premium	2,775,318	3,191,616	3,670,358	4,303,495
Premium gap funded by:				
Planned reserve contribution	290,586	71,592		
Legal Fees	84,856	84,856	84,856	84,856
Impact on Draft 2014 Budget and 2015-17 Plan (included in current Draft Budget/Plan)	0	275,310	411,666	486,144
Revised Insurance Premium	3,150,760	3,623,374	4,166,880	4,874,495

The insurance reserve serves as a buffer against unreported claims and any future retro-assessment that OMEX might issue should it suffer shortfalls amongst its members. The reserve currently sits at \$3,365,000 and is expected to further increase after year-end adjustments are made moving it closer to the reserve target. Potential cost avoidance is expected due to fewer claims processed and lower adjuster fee expenditures. As the City gains experience in the new process the reserve will be monitored and budgets refined.

At this time, utilizing the planned reserve and reallocation of insurance legal fees to fund the unanticipated premium adjustment in 2014 is recommended with the associated base adjustment applied to the 2015-17 plan.

Respectfully Submitted,



Jeffrey A. Abrams
City Clerk

c. MaryLee Farrugia, Commissioner of Legal & Administrative Services/City Solicitor