VAUGHAN C5-1

memorandum

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COMMUNICATION
FAA - Feb 9/15
ITEM - 1

DATE: JANUARY 29, 2015

TO: MAYOR AND MEMBERS OF COUNCIL

FROM: JEFFREY A. ABRAMS, CITY CLERK

RE: COMMUNICATION – 2015 INSURANCE PREMIUM
FINANCE, ADMINISTRATION AND AUDIT COMMITTEE
FEBRUARY 9, 2015

Recommendation:

1. That an exemption to Policy No. 05.4.01, the Consolidated Reserve Policy, Part C (Corporate (Discretionary)), section ii (Insurance Reserve) be authorized to allow the insurance reserve to be used for an unexpected premium increase for 2015;

2. That the 2015 Draft Budget and 2016 Draft Financial Plan be amended to increase insurance premiums to $4,169,919 for 2015 and $4,795,407 for 2016; and

3. That $546,545 be transferred from the City's insurance reserve to the City Clerks - Insurance business unit.

Background:

On April 17, 2012, by its adoption of Committee of the Whole Working Session, Report No. 15, Item 1, Council approved the recommendation of the Commissioner of Legal and Administrative Services / City Solicitor and City Clerk to award the City's Insurance and Risk Management Program to the Ontario Municipal Insurance Exchange (OMEX). The OMEX submission resulted in a favourable variance compared to budget of $1.787M in 2012 and $1.145M in 2013, which was transferred to the City's insurance reserve to offset any potential future retroactive assessments issued by OMEX. As of December 31, 2014 the City's insurance reserve had a balance of $4,510,313 and the City had received one retroactive assessment in the amount of $86K.

2015 Premium budget

On January 2, 2015, the City received its 2015-2016 insurance renewal statement. The total premium for the period from January 1, 2015 to January 1, 2016 is $3,874,148 plus 8% provincial sales tax of $295,771 for a total of $4,169,919. This represents an increase of approximately 23% over the 2014 premium and reflects not only rising insurance costs but OMEX's policy to set fair rates which will minimize the potential for future retro-assessments.

The premium increase is a result of various factors. The greatest increase in premium is in the area of general liability and errors and omissions and reflects the continued trend of high insurance costs for municipalities, including reinsurance. A modest increase of 12% in automobile and property rates is reflective of additions to the City's fleet and insurable properties. Attachment 1 compares the 2014 and 2015 rates for each area of coverage.

In preparing the City's 2015 budget submission, staff projected the 2015 insurance premium to be $3,623,734 which included an estimated provision for the 1.76% non-refundable portion of the HST, and represented a total increase of 15% over the 2014 budget. However it was determined that insurance

C5.2

premiums are subject only to provincial sales tax of 8%, which is fully non-refundable to the City. The total amendment therefore required to the 2015 budget is $546,545.

The contributions to the insurance reserve derived from the 2012-2013 premium savings were earmarked to fund potential retro-assessments, with the language of the reserve policy reflecting that requirement. Staff are requesting that Council authorize a one- time transfer of $546,545 from the reserve to cover the budget amendment required for 2015. In order to authorize the transfer for this additional purpose, a waiver of the condition set in the policy that it be used only for the funding of retro-assessments is required for 2015.

The $4.5 million balance in the reserve satisfies 98% of a targeted five year cumulative premium total[1]. Adoption of the recommendations set out in this memorandum will reduce the reserve balance to 86% of the target, which staff believe to be well above any potential retro-assessments.

2016 Premium budget

An amount of $4,166,880 has been identified in the 2016 budget for insurance premiums. In light of the recent increase, staff is recommending that this amount be revised to $4,795,407 which represents a 15% increase over the 2015 premium.

The City will be going to market in 2016 for Insurance and Risk Management services for the ensuing contract period. Staff anticipate greater stability in premium pricing to be reflected in the assessments of the proposals received at that time. The 2015-2018 financial impact is illustrated in the table below.

	2015	2016	2017	2018
Insurance Premium Budgeted	3,623,374	4,166,880	4,874,495	5,703,159
Insurance Premium Forecasted	4,169,919	4,795,407	4,874,495	5,703,159
Budget gap	**546,545**	**628,527**	-	-
Budget gap funded by:				
Insurance Reserve transfer	546,545	-		
Adjustment to base budget	-	628,527		

Respectfully submitted,

Jeffrey A. Abrams
City Clerk

Copy: Joseph A. V. Chiarelli, Manager Licensing, Permits and Insurance Risk Management

[1] Based on actual premiums for 2010-2014

C5.3

Attachment 1

Insurance Premium Comparison/2014-2015

	2014	2015	Difference
General Liability	1,990,517	2,566,183	575,666
Errors & Omissions	497,630	624,789	127,159
Environmental Improvement	75,000	75,000	
Garage	32,500	32,500	
Automobile	78,482	86,813	8,331
Automobile-Heavy Commercial	52,447	57,692	5,245
All Risk Property	382,705	390,526	7,821
Boiler & Machinery	15,414	16,095	681
Crime	24,550	24,550	
	$3,149,245.00	$3,874,148.00	724,903
PST	238,865.28	295,771.44	
	$3,388,110.28	$4,169,919.44	

2015 Budget:	$3,623,734
2015 Invoice:	$4,169,919
Budget amendment required:	$ 546,545