

LMCIT  
*is* not  
*an* insurance  
company

League of Minnesota Cities  
Insurance Trust

2004  
Annual  
Report  
'04

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MINNESOTA CITIES'  
ANNUAL REPORT IN  
THE AUGUST 2004  
ISSUE OF *MINNESOTA  
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# LMCIT *is not* *an* insurance company

Insurance companies  
have customers.

We *are* our members.

Back in the early 1980s, the private insurance industry backed away from the municipal market. They viewed the risks as too high to make coverage worth their while. Responding to this crisis, Minnesota cities banded together to form their own insurance option—a municipal insurance pool called the League of Minnesota Cities Insurance Trust (LMCIT). Today, LMCIT is made up of 95 percent of the cities in Minnesota, as well as nearly 300 other municipal entities.

LMCIT was created as a membership organization for a reason: There is a meaningful difference between customers and members. Whereas customers simply choose whether or not to purchase something, members are integrally involved in developing the product and governing how it is provided.

Essentially, LMCIT is its members—and this distinction really does make a difference.

# LMCIT *is not* *an* insurance company

Insurance companies are  
driven by profit.

We're driven by *service*.

LMCIT's bottom line isn't about profit, so we get to focus on more important things—like member service.

What does service mean to you? An underwriter who remembers you when you call? A responsive, experienced defense lawyer? Effective loss control guidance? Comprehensive coverage that allows you to sleep at night?

At LMCIT, we view service broadly. We believe you should experience the highest level of service in every area—the people we employ, the coverages we design, the way we manage city funds. And to gauge how we're doing, we regularly ask you what you think and respond to your suggestions.

An important part of the service we provide is effective management of your premium dollars. While our premiums may not always be the lowest available, over time LMCIT offers the lowest cost option when dividends and coverage differences are taken into account. Our approach is to take the edge off the volatility of market forces to provide stability for all members. The dividends we return are significant, but never so large as to jeopardize our ability to be here for you over the long haul.

# LMCIT *is not* *an* insurance company

Insurance companies listen  
to what the market favors.

We listen to *cities*.

Because we listen to our member cities, we know what you want and need in coverages, claims management, defense counsel, and loss control guidance—and we do our best to make sure you get it.

LMCIT coverages are unique in the market because they actually meet city needs. We provide options that private insurers don't or won't. From the beginning, we design each coverage to serve municipalities rather than trying to force the broad array of city activities into more narrow coverages that were developed with private business in mind. In addition to basic property/casualty and workers' compensation coverages, LMCIT offers some pretty innovative, city-specific coverages—including extraordinary expense coverage, land use coverage, and loan programs for cities to make safety improvements.

In all areas of LMCIT service, we ensure our staff's expertise is complemented by dedication to excellence and to understanding the unique challenges you face. We are here to listen, to learn, and to serve—and if we ever fail to do so, let us know and we'll make it right.

# Report to the Membership '04

## WHAT WE'VE DONE

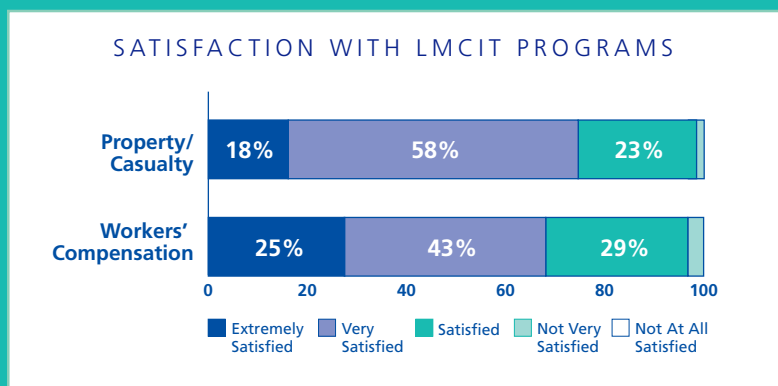
### *Overview*

Since the last report to the membership in June 2003, LMCIT experienced a good year in the property/casualty program, a pretty good year in workers' compensation, and another strong year of member satisfaction. The past year also focused on serving new members from the municipal hospital and nursing home community, providing assistance with HIPAA compliance, and other significant loss control efforts.

Member service is the most important goal LMCIT strives toward each year. Our strong track record of member satisfaction continued through 2003-04 with 97 percent reporting satisfaction with the work comp program, and 99 percent reporting satisfaction with the property/casualty program. In those very rare cases where members indicated dissatisfaction, we followed up personally and took actions to return to good standing with those members.

The stability of the LMCIT membership demonstrates our commitment to service. This year, in addition to maintaining stable membership in our property/casualty, life, disability, and long-term care programs, LMCIT had a significant upturn in work comp sign-ups from municipal hospitals and nursing homes.

“Our strong track record of member satisfaction continued through 2003-04”



***Property/Casualty & Workers' Compensation***

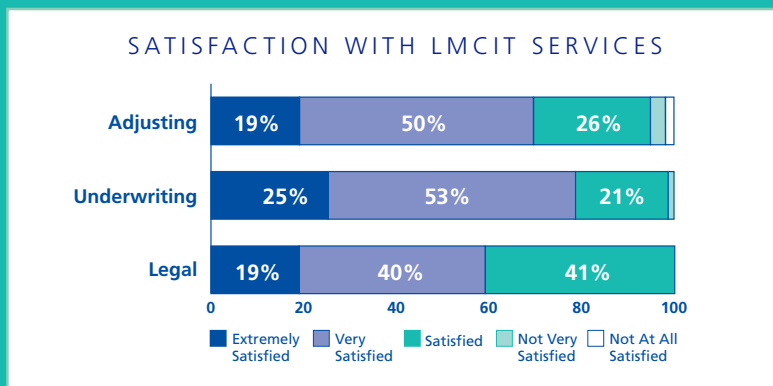
The 2003-04 year was a good one for property/casualty—liability, in particular. Both in the number of claims filed and the cost of those claims, LMCIT members' experience was better than the previous year, though land use litigation continues to be a big cost. Overall, the good property/casualty experience allowed the LMCIT Board of Trustees to return a \$9 million dividend and to keep rates stable.

The work comp program underwent the biggest challenges and changes this past year. While it was a better year than 2002-03 when four deaths significantly impacted experience ratings, there were still a number of notable, expensive claims in 2003-04. This said, the driving force behind a 12 percent increase in work comp rates was not frequency but a continuing and apparently accelerating increase in medical costs. This rate increase could have been even higher if LMCIT was in the private reinsurance market rather than the Workers Compensation Reinsurance Association (WCRA).

Another significant factor that goes into determining work comp rates is investment income. Since it makes up 30 percent of this program's revenue, reaching investment return goals is very important to the work comp fund's financial bottom line.

With this in mind, the Board of Trustees decided it was time to make some changes to its investment management. Based on Galliard's strong performance in managing the property/casualty investment portfolio, the Trustees determined that half of the work comp portfolio should shift to Galliard as well.

As mentioned earlier, the work comp program also experienced a rise in membership—specifically, among city-related nursing homes and hospitals. These new members have generated more than \$1 million in new premiums, or 5 percent of LMCIT's total premiums. Some also bring difficult experience histories and all bring risks that need attention.



ANOTHER  
STRONG YEAR  
OF MEMBER  
SATISFACTION

## 2004 Report to the Membership

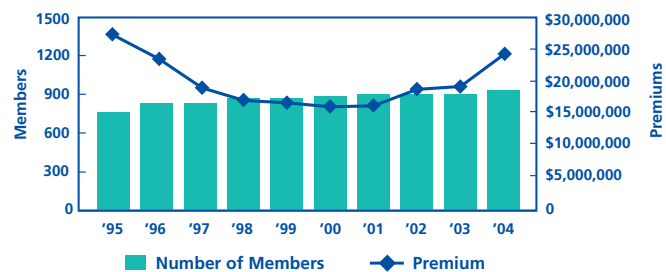
While the private insurance industry's solution would likely be to turn down these entities' business, LMCIT sees things differently. These hospitals and nursing homes are owned by our member cities; therefore, it fits our mission to serve their needs. We also believe that with the right attention to the unique situations of these entities, their risks are manageable and their experience can be significantly improved. Our commitment to assisting these new members is evidenced by the targeted loss control measures we have already undertaken, including a special employee safety workshop held in April that focused on ways to reduce the number of back injuries caused by lifting patients.

In another move that exemplifies the difference between private insurers and LMCIT, this year the Trust reached out to assist the cities impacted by Home Insurance Company being declared insolvent and placed in liquidation. Home insured many Minnesota cities in the 1970s and early 1980s before LMCIT was created. The insolvency of this company directly impacted about 30 cities with old work comp claims that are still open, leaving those cities directly responsible for paying any benefits owed to the claimants. LMCIT contacted the affected cities and offered to administer these old claims. Most of the impacted cities accepted our offer.

Finally, in an effort to ensure equity and fairness in work comp cost allocation, the program implemented a revised schedule of class rates this year. The changes in relative rate levels for the various work comp payroll classes are based primarily on LMCIT's actual loss experience by class over the past five years. Rates for some classes, such as streets, fire, and EMTs, increased by as much as 30 percent because losses have been increasing for these groups. Other classes, including water, sewer, utilities, and parks and recreation, experienced much smaller increases or even decreases, reflecting the good loss history of these groups.

“The stability of LMCIT membership demonstrates our commitment to service”

WORKERS' COMPENSATION PROGRAM  
MEMBERSHIP AT FEBRUARY 1, 2004

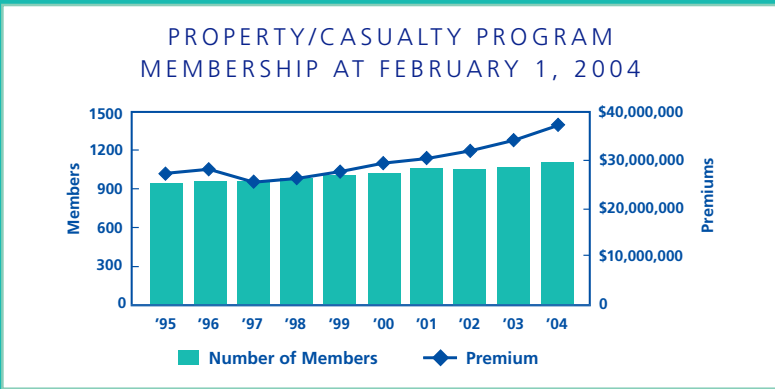


**Other Coverages**

There have been some significant developments in some of our other coverage programs as well. The volunteer accident coverage program, which provides a type of “no-fault” protection to city volunteers who are injured while working for the city (similar to work comp coverage for employees), has experienced significant growth. This growth in membership may reflect the fact that many cities are considering using volunteers more extensively as a way to deal with recent budget cuts.

Participation in the liquor liability program has also grown significantly, largely driven by premium increases by private insurers. LMCIT added more than 20 new cities, bringing the total to 150 cities and close to \$1 million in generated premiums.

Each year LMCIT reviews all of its coverage programs to determine if changes are necessary to ensure we are not only keeping pace with member needs, but also anticipating such needs. This year there were no big coverage-related initiatives. Instead, a number of small improvements were instituted to make existing coverages more responsive or to operate more effectively. These changes included an extension of liability coverage for both cities and watershed districts that now allows them to include dams. Another important change relates to volunteer coverage. We eliminated an exclusion for volunteer organizations that makes the coverage more useful for more cities. Finally, a higher deductible option was adopted for LMCIT’s National Flood Insurance Program (NFIP) offering to encourage cities to use extraordinary expense coverage to finance deductible obligations. This is an important step toward the ongoing goal of making flood insurance more affordable for LMCIT members.



MAINTAINING  
STABLE  
MEMBERSHIP IN  
OUR PROGRAMS

### *Risk Management*

Risk management was a high priority this past year, and, as a result, we continued to see that loss control measures taken by members have a big impact on the number and magnitude of claims.

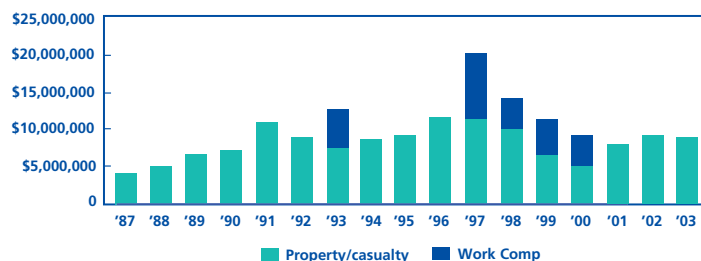
As mentioned earlier, the special risk management needs of municipal hospital and nursing home members prompted LMCIT to hold a special training session on reducing employee injuries. The safety loan program was also expanded to allow for the purchase of equipment needed for employee safety, which will be helpful to all members, not just hospitals and nursing homes. The Board of Trustees authorized up to \$1 million of LMCIT's work comp funds to be made available for this purpose.

The most well-known and relied upon loss control efforts LMCIT engages in are our Safety & Loss Control Workshops held throughout the state each spring. This year's workshops covered topics ranging from the new Fair Labor Standards Act (FLSA) regulations to how police officers can deal with work-related stress. The workshops enjoyed record attendance—more than 1,200 members participated with just under half of LMCIT's member cities sending at least one person to the workshops. The Trust made a special effort this year to encourage mayors and councilmembers to attend, which resulted in 84 elected officials attending the workshops—well above what we've seen in the past.

LMCIT's loss control efforts are increasingly integrated with League activities. The best example of this approach is in the areas of human resources and benefits. This past year, member city officials placed well over 2,500 calls to HR and Benefits staff for one-on-one human resource consulting. More than 2,300 city officials also received HR training at sites throughout Minnesota. This year's HR training priorities of effective

“ LMCIT Board of Trustees returned a \$9 million dividend ”

LMCIT DIVIDENDS  
\$166 MILLION SINCE 1987



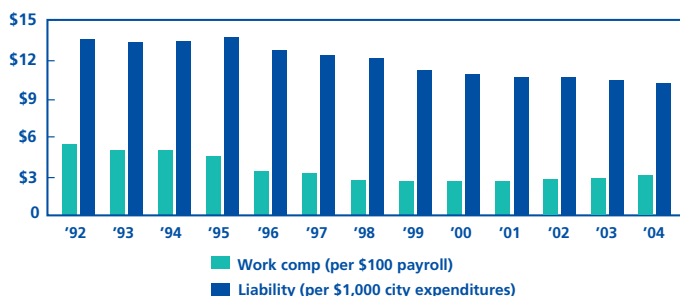
supervision, FLSA, and health risk management/consumer-driven healthcare were chosen on the basis of employment claims, interest from member cities, and experiences with member city inquiries.

The *HR Reference Manual*—an online resource posted on the LMC web site ([www.lmnc.org](http://www.lmnc.org))—was expanded this year to include a chapter on separation from employment issues. The new chapter includes information, models, templates, and samples related to discipline and termination, layoffs, retirement, resignation, benefits continuation, exit interviews, and much more.

And in the area of benefits consultation, we developed tools to help members ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA). HIPAA requires cities that have flexible benefits or similar arrangements under which the city directly reimburses health care expenditures to comply with new regulations relating to the protection of employees' private health data. This year LMCIT began providing assistance to members that have flexible spending plans, health reimbursement accounts, and similar arrangements to help them comply with the HIPAA privacy requirements. As part of this effort, we contracted with a consulting attorney on benefits issues to develop model policies and templates, which are now posted on the LMC web site. A series of three training sessions on the issue have also begun.

Finally, in 2003-04 we continued our electric utilities risk management project. Begun in 2001 to help member municipal electric utilities improve their fire and machinery breakdown risks, this year's work focused on individualized assistance in developing, documenting, and implementing standard operation and maintenance procedures; developing and implementing risk improvement plans; and identifying and developing appropriate training resources.

WORK COMP AND LIABILITY RATE HISTORY



KEEPING RATES  
STABLE IS A  
PRIORITY

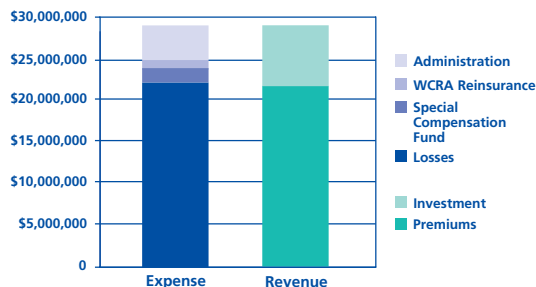
### *Defense Counsel & Legislative Affairs*

One of the most important ways LMCIT serves member needs is through exemplary defense counsel. Our staff and contracted attorneys are consistently successful in defending member cities' interests in and out of the courtroom. And in 2003-04, as in almost every year, some of our courtroom wins led to important, positive clarifications and precedents—such as a case related to reasonable standards of proof regarding mold claims, and another involving the relationship between liability coverage limits and statutory liability limits.

Another arena where LMCIT's legal expertise makes a difference is with the Minnesota Legislature. While the 2004 legislative session was most notable for what was not achieved, LMCIT and the League's Intergovernmental Relations Staff were able to achieve significant success in heading off potentially troublesome changes to the municipal planning and zoning statutes. The changes being proposed by various property rights interest groups would have made municipal land use decisions much more susceptible to challenge, and likely would have precipitated additional litigation in what is already an expansive claims area.

“We've eliminated the contingency margin in the work comp rates in order to keep rate increases as low as possible”

2004 WORK COMP RATES



## WHAT'S NEXT

### *Rates & Coverages*

In the coming year, our goal—as always—is to keep rates stable. To make this happen, we'll be working to control land use costs and we're optimistic that the reinsurance market will take a positive turn. On the work comp side, the key factor affecting rates will undoubtedly be the continued increases in medical costs. In the past few years, we've eliminated the contingency margin in the work comp rates in order to keep rate increases as low as possible. Unless there's a dramatic reduction in loss costs, we're not likely to see any work comp dividends until we're able to again re-establish a safety margin in the work comp rates.

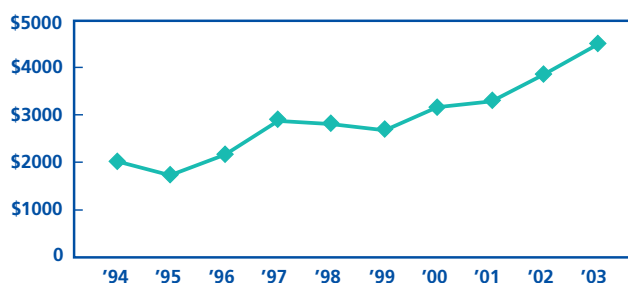
A combination of these continued increases in health care costs and the complexity of new plans and options being offered by carriers is also likely to result in continued reliance on LMCIT benefits consultation services. With this in mind, we'll be closely monitoring health care reform discussions at both the state and federal levels.

### *Strategic Loss Control*

A major focus of 2004-05 will be an examination and retooling of our risk management efforts to adopt a more strategic approach.

The Board of Trustees has determined the need to be more methodical about how LMCIT's loss control resources are allocated. A new risk data analyst position will be added to support loss control planning and management. The analyst will provide statistically sound information about loss patterns among member cities and the factors influencing those patterns, with the intent of enhancing the Trust's ability to implement efficient,

AVERAGE MEDICAL COST PER CLAIM



THE KEY FACTOR  
AFFECTING WORK  
COMP RATES WILL  
BE INCREASES IN  
MEDICAL COSTS

## 2004 Report to the Membership

effective loss control efforts. We want to make sure we're focusing on the right things and in a way that will really make a difference.

With this strategic view in mind, land use risk management is one area that will receive significant attention this upcoming year. Land use is a big issue for LMCIT. Claims related to land use regulation and development account for 24 percent of liability claims costs and \$2 million in losses annually. Staff have identified a number of problems that contribute to cities' land use related loss experience and developed an integrated loss control effort involving the following components: a second opinion service; a land use hotline; code review; on-demand, on-site training; video-based training; and distribution and easy access to land use information, tools, and templates.

Implementation of this focused land use effort is expected to begin in late 2004 or early 2005. We'll keep members informed through the League's *Cities Bulletin/E-Bulletin* newsletter, *Minnesota Cities* magazine, and the *Loss Control Quarterly*, as well as through special announcements.

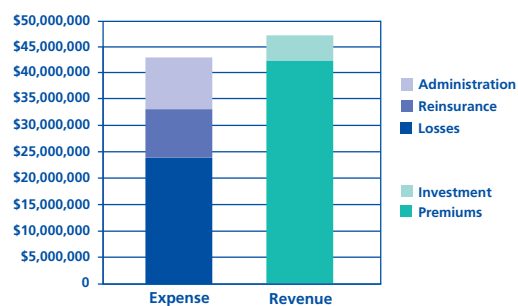
Another important loss control effort set to launch in early fall 2004 is a comprehensive LMCIT OSHA and Safety Assistance program.

Both state and federal OSHA laws mandate that employers establish safety policies and receive specific types of training on safety-related topics. Starting about five years ago, LMCIT began providing OSHA training on specific topics in half-day workshops. This new program will expand upon our past efforts and enable members to work with the Trust to develop and implement sound safety programs that meet their safety training needs.

The expanded program is intended to ensure that OSHA training for member cities is both accessible and affordable. We expect to implement a wide variety of training options this next year, including regional safety

“The 2003-04 year was a good one for property/casualty—liability, in particular”

2004 PROPERTY/CASUALTY RATES



management workshops, on-site training, hands-on regional training for specific skills, and online training.

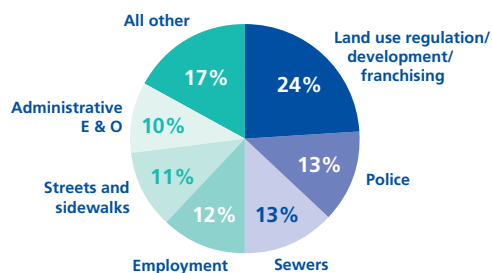
Two additional areas of loss control emphasis will be sewer backup prevention and providing targeted assistance to municipal hospitals and nursing homes. The sewer backup prevention effort is still in the research and development phase, but is expected to target cities with a history of sewer-related problems by providing specialized assistance to help these communities move forward. We also will continue to help our member hospitals and nursing homes to reduce the number of employee work-related injuries.

Human resources and benefits risk management remains high on the list of LMCIT priorities for 2004-05, since the Trustees believe that the current, significant level of effort being put toward these areas are serving members well. LMCIT will stay the course, continuing to monitor the impact of rising health care costs and developing information, tools, and trainings that keep cities ahead of the trends. In a related area, we'll continue to analyze risks and develop solutions for member hospitals and nursing homes.

Further integration of training throughout the League and LMCIT will also be important in the year ahead. The LMCIT Board of Trustees has for several years advocated more integration of League and LMCIT services, because of the wide variety of loss control efforts cities need to be aware of. With the success of our integrated HR and Benefits services as a model, we hope to find more ways to ensure that each League/LMCIT training, document, and inquiry response is holistic and incorporates practical, legal, and loss control perspectives as appropriate.

Most importantly, the next year will be about continued commitment to our members. Remember that LMCIT is your organization and we always welcome your ideas on how we can best meet your city's needs.

DISTRIBUTION OF LIABILITY LOSS COSTS



LAND USE RISK  
MANAGEMENT WILL  
RECEIVE SIGNIFICANT  
ATTENTION THIS  
UPCOMING YEAR

# '04 Highlights

- Strong member satisfaction continued—97 percent of members are satisfied with the work comp program and 99 percent with the property/casualty program.
- Good property/casualty experience led to return of a \$9 million dividend.
- Work comp membership grew with the addition of more than 20 city-related nursing homes and hospitals.
- Participation in volunteer accident coverage and the liquor liability program grew significantly.
- A record number of city officials (more than 1,200) participated in the Safety & Loss Control Workshops, including 84 elected officials.
- More than 2,500 city officials called for one-on-one human resources assistance, and more than 2,300 received on-site HR training in sites throughout Minnesota.
- The *HR Reference Manual* was expanded and new tools and trainings launched to help members with HIPAA compliance.
- Litigation wins led to important, positive clarifications and precedents, including cases related to mold claims and liability coverage limits.

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Insurance Trust

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