

Keeping a Step *Ahead*

*Anticipating city
trends and needs*

**Annual
Report
2006**

**League of
Minnesota
Cities
Insurance
Trust**

LMCIT Annual Report 2006

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Keeping a Step *Ahead*

Anticipating city trends and needs, looking for the risk management component, and finding ways to meaningfully address risks prevents costly claims for members of the League of Minnesota Cities Insurance Trust (LMCIT). These actions also minimize headaches for city staff and elected officials, and others who manage municipal personnel and budgets.

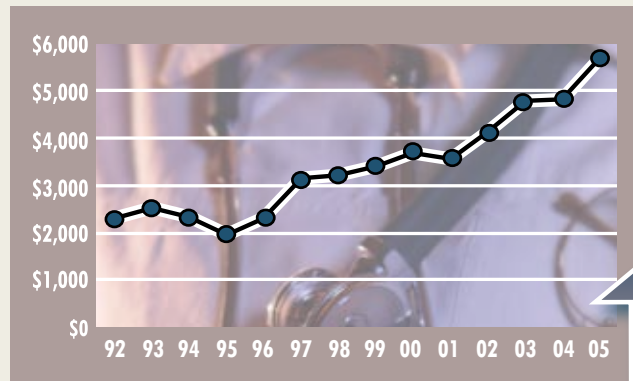
In the past year—through a renewed emphasis on analysis, strategic planning, and innovation—LMCIT has continued to proactively work with members to keep workers' compensation rates and property/casualty rates as low as possible while promoting effective risk management strategies. This collaboration keeps LMCIT members a step ahead of emerging risks.

Loss Control Efforts Focus on Injury Reduction

Medical care costs affect work comp rates

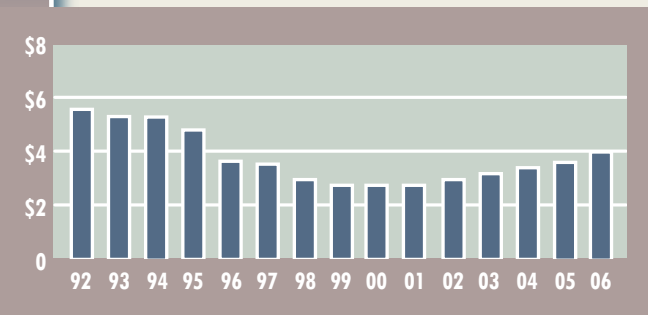
Medical costs are now the biggest portion of work comp costs, and those medical costs are rising rapidly. For 2006, LMCIT projects medical costs will represent approximately 56 percent of workers' compensation loss costs. Medical costs were 47 percent of work comp loss costs in 2002. With medical inflation increases in the double-digits, medical costs have been driving up work comp rates for the past five years. The only way to bring these costs under control is to prevent injuries from occurring. This is why LMCIT has increased its focus on employee safety, and why cities should too.

Average Medical Cost per Claim

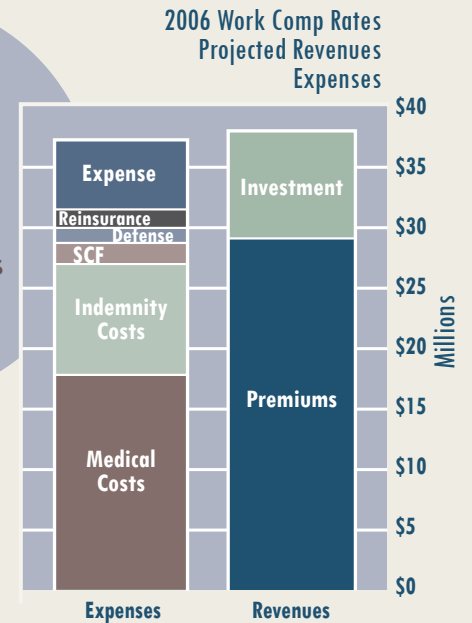


Rapidly escalating medical costs have driven-up work comp rates—particularly over the past five years.

Work Comp Rate History (per \$100 of payroll)

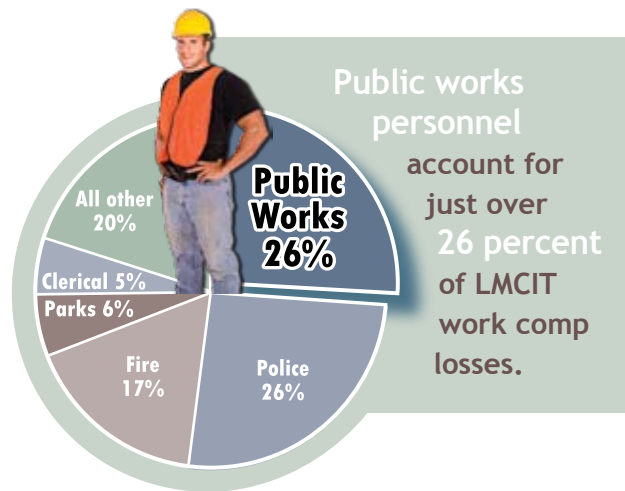


Medical costs are estimated at 56 percent of workers' compensation loss costs for 2006.



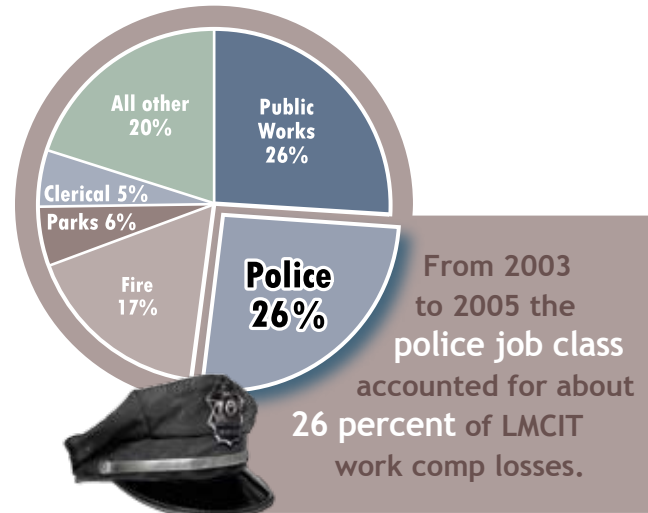
Innovative OSHA/Safety Training program to continue with new emphasis

Two years ago, LMCIT started the OSHA/Safety Assistance program to help cities keep employees safe and maintain OSHA compliance. The program—which provides access to expert resources and involves periodic meetings among safety coordinators to share technical information, safety management principles, program implementation, and maintenance information—has been particularly useful for public works personnel, a job class that accounted for just over 26 percent of LMCIT’s work comp losses in 2002 to 2005. Through participation in the program, cities can choose from an array of services—on-site/on-demand training, online safety courses, safety audits and inspections, and one-on-one consulting. Last year, 111 LMCIT member entities participated. The program will be continued and improved in 2007. From our ongoing analysis of public works personnel, we know the vast majority of losses have to do with sprains, strains, slips, falls, and musculoskeletal injuries. Now that OSHA/Safety Assistance program participants have learned the basics about safety programs and OSHA requirements, the next step is to address specific injury prevention needs.



Minimizing police injuries through analysis and action

From 2003 to 2005 the police job class accounted for about 26 percent of LMCIT workers’ compensation losses, with annual average work comp claims of approximately \$3.4 million. By comparison, LMCIT’s average annual cost for liability claims arising from police activities was one-third that amount.



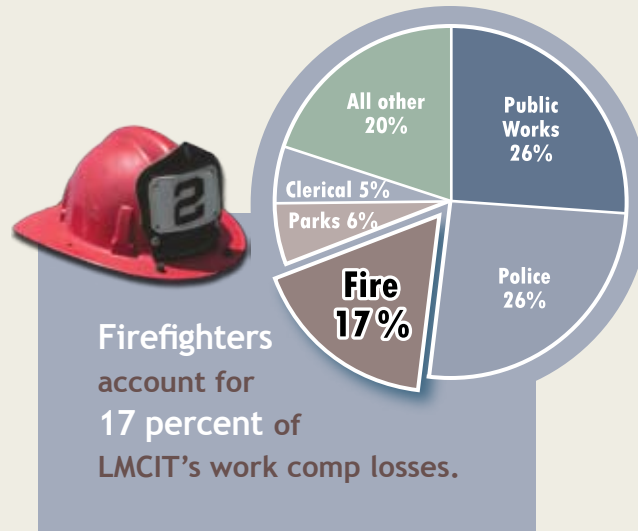
During the past year, LMCIT has engaged in significant research to learn the root causes of police work comp losses and identify activities preventive measures should focus on. The top five injury-producing law enforcement tasks include foot pursuit of suspects (17 percent), use of force confrontations (16 percent), training activities (12 percent), non-emergency driving (12 percent), and providing medical assistance to others (9 percent). Over the past few months, we have shared the results and conclusions of our research with stakeholders, including the Minnesota Chiefs of Police Association, the Association of Training Officers of Minnesota, and Law Enforcement Labor Services, Inc. LMCIT has successfully raised awareness among these stakeholders and is working with them to develop solutions.

Loss Control Efforts Focus on Injury Reduction (cont'd)

Finding risk management solutions for fire departments

Firefighters as a job class account for 17 percent of LMCIT's work comp losses. On average, firefighter work comp claims were about \$2.1 million a year, over five times fire department liability incurred loss costs.

Primary findings from our research indicate motor vehicle accidents while responding to emergency calls; injuries from working close to traffic; training activities; slips and falls; and sprains and strains from dragging, carrying, or lifting are all drivers of work comp-related injuries for firefighters. Of particular concern is that two of three firefighter deaths in the last several years occurred during roadside emergency responses. Surprisingly, higher visibility injuries to firefighters, like burns and smoke inhalation, are not a significant portion of incurred loss costs for firefighters. LMCIT is working with firefighter associations to better understand what kinds of activities firefighters were involved in when they were injured, and to figure out how best to prevent those injuries.



New equipment introduced to reduce nursing home employee injuries

Because a number of LMCIT members have municipally-owned nursing homes, we are also concerned with high injury rates of personnel working in those facilities. In 2005-06, LMCIT entered a partnership with the Field Crest Care Center in Hayfield to conduct a demonstration project installing no-lift, safe patient handling equipment. Through this partnership, LMCIT provided Field Crest with a \$130,000 loan through the Safety Loan Program with the stipulation that a portion of the loan would be forgivable if the Center provides open access to its facility as a demonstration and learning center for other healthcare facility members.

Experience from other healthcare facilities has shown the use of alternative lifting devices can reduce staff injuries acquired through lifting and transporting residents and reduce associated work comp claims. The chief goal of this innovative LMCIT project is to provide a similar demonstration by which to quantify the impacts in terms of reduced work comp costs, and to show that use of no-lift equipment is consistent with a warm and compassionate care environment.

Managing Risks Related to Contracts and Administration

Joint powers ruling and a legislative remedy

When a recent Eighth District Circuit Court of Appeals decision (*Reimer v. City of Crookston*) allowed the possibility of stacking tort liability limits when two or more governmental entities act jointly or cooperatively,



LMCIT and the League partnered with the Minnesota School Boards Association, the Association of Minnesota Counties, the Minnesota Association of Townships, and police and fire organizations to propose intervening legislation. *Reimer v.*

City of Crookston involved the liability of a joint powers entity created by the Crookston School District and the City of Crookston. The joint powers agreement made it the school's responsibility to maintain the facility. A contractor on the premises was injured as the result of a defect in the facility. Although a federal court jury found no fault on the part of the city, the appellate court ruled that the school and the city were each liable up to the state tort caps of \$300,000 per individual and \$1 million per event. The legislative solution championed by the League and its public sector partners was designed to clarify the application of state tort liability limits to joint powers entities by specifying that a single limit applies regardless of the number of governmental units participating in the joint powers arrangement. That legislation was successfully passed and signed into law in May 2006, along with an amendment increasing tort liability limits to \$500,000 and \$1.5 million in two phases. LMCIT has recently assembled, and made available to members, technical guidance documents and model agreements to assist city attorneys and city officials write and administer joint powers agreements.

TULIP program to provide event insurance

Another contract-related service being developed by LMCIT is the Tenant and Users Liability Insurance Program (TULIP), designed to protect both cities and individuals who sponsor events on city property against claims by third parties. Many cities allow private individuals to use at no cost or to rent municipally-owned facilities for various kinds of meetings and events. There is a risk that goes along with this practice because of the possibility that a guest may be injured, potentially resulting in a claim. The claim could be against an event sponsor, the owner of the premises, or both. To address this possibility, TULIP programs are set up by facility owners to offer event sponsors convenient and low-cost access to event insurance. LMCIT expects to launch a TULIP program in the fall of 2006.

Defense coverage for HIPAA

As of April 2006, most cities with employer-sponsored health plans should have been in compliance with certain aspects of the privacy and security rules under the federal Health Insurance Portability and Accountability Act (HIPAA), as well as any business associates that work with the city on its group health plans—such as third party administrators or the city's agent, broker, and/or benefits consultant. To address concerns related to HIPAA data claims, LMCIT has added defense coverage for administrative complaints that occur when there is no claim for damages, in a fashion similar to how we handle administrative claims with the Minnesota Department of Human Rights and the U.S Equal Employment Opportunity Commission.



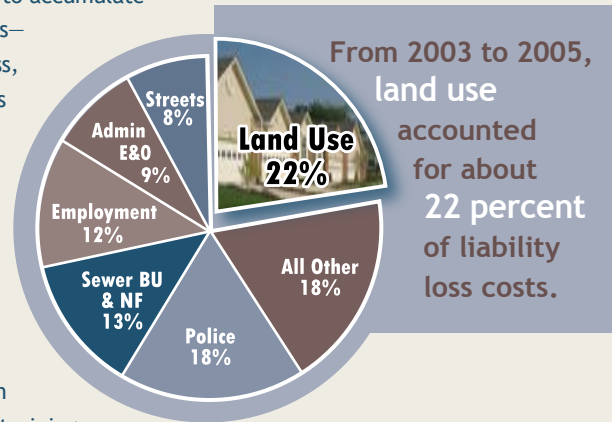
Additionally our human resources staff, in collaboration with contracted outside counsel, has developed a number of tools to help member cities with HIPAA compliance activities—especially as they relate to privacy and security rules. Included are an assessment tool to help determine a city's status as a covered entity, a program for individualized city assistance with HIPAA compliance activities, and a template of HIPAA policies and procedures reflecting the privacy and security rules that cities are able to customize on their own.

Avoiding Liability and Property Loss

Staying ahead of land use claims

Moving forward, one of LMCIT's primary goals is to reduce the impact of land use claims made against LMCIT members. On average, incurred loss costs as a result of land use liability claims are about \$2.5 million a year—roughly 22 percent of all LMCIT liability costs. About 80 percent of costs for land use claims can be attributed to legal expenses. Though LMCIT typically has only 75 to 80 land use claims each year, these claims have a much greater potential than other types of liability claims to accumulate extremely large incurred losses—approximately \$30,000 per loss, on average. Frequent subjects of litigation include development fees and the 60-day rule (Minn. Stat. 15.99).

Recently, LMCIT added two land use attorneys to the Loss Control Department to address inquiries from members, review and comment on specific ordinances, conduct training, and assist Minnesota cities in avoiding land use litigation. We will continue to identify potential problem areas and to effectively help members by tracking important issues and developing information resources.

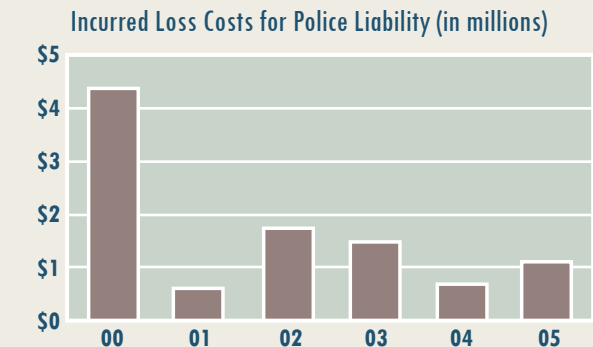


HR Reference Manual provides helpful guidance

Over the past few years, LMCIT members have experienced fewer employment liability claims and flat employment liability costs, even though we've seen inflationary increases, growing city budgets and payrolls, and increased LMCIT membership. This successful trend is the result of improved personnel management practices among LMCIT members, fueled in part by LMCIT training and consulting efforts. A valuable tool for city staff whose work relates to human resources—the *LMC HR Reference Manual*—was expanded over the past year. Chapters on Hiring, Separation from Employment, and Personnel Policies are now complete and may be found on the League's web site (www.lmnc.org). The Compensation and Benefits chapter will be made available soon and the remaining chapters—including Labor Relations, Employee Communication, Employee Records, Behavior & Performance Management, Professional Development, and Safety—are targeted for completion in 2007.

PATROL program designed to reduce police liability

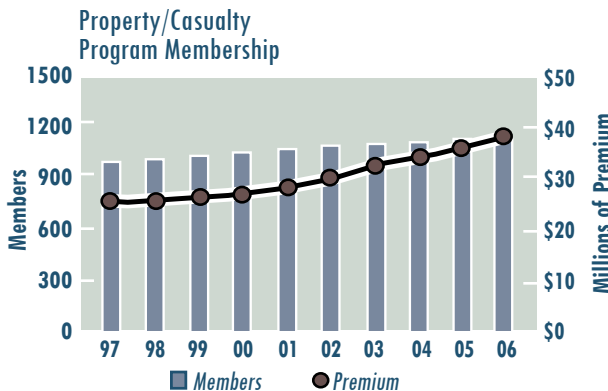
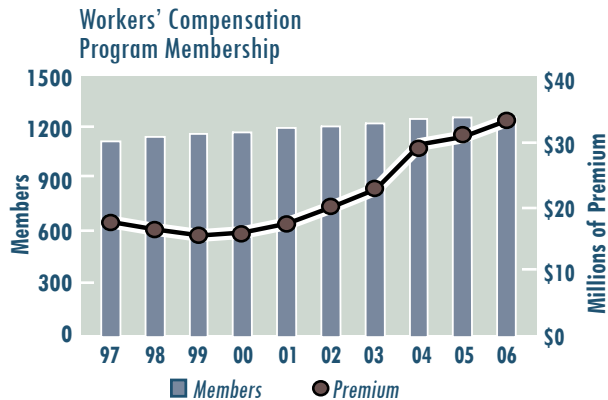
Over the past six years, police liability losses have averaged about \$1 million per year, or almost 18 percent of average annual LMCIT liability loss costs. A new, online police training program dubbed PATROL (Police Accredited TRaining OnLine) was created to address key legal areas in order to reduce liability claims against police officers, and was made available to LMCIT members in September 2006. PATROL is uniquely designed to meet the needs of police officers, is POST accredited, and features once-a-month training in an easy-to-use, online format. The program will fill a void by providing frequent updates on legal issues that are critical for law enforcement personnel, including implications from recent legislation and court decisions, and risk-prone legal areas. Additionally, it will be a very cost-effective way for cities to provide a good part of their POST-required training to police officers.



Evaluation and Process Improvements Keep Us Moving Forward

Claims audits verify good compliance

In 2004, LMCIT developed and adopted formal claims handling standards and last year we began a process of monthly spot audits of property/casualty and work comp claims handling. The audits help LMCIT ensure that claim needs continue to be met efficiently, and that supervisors and adjusters do a good job of communicating with members. The audit process is designed to help us identify any potential problems with our processes, so that we can immediately address them. While these audits show that we have been doing pretty well, they have also helped us to identify areas for potential improvement.

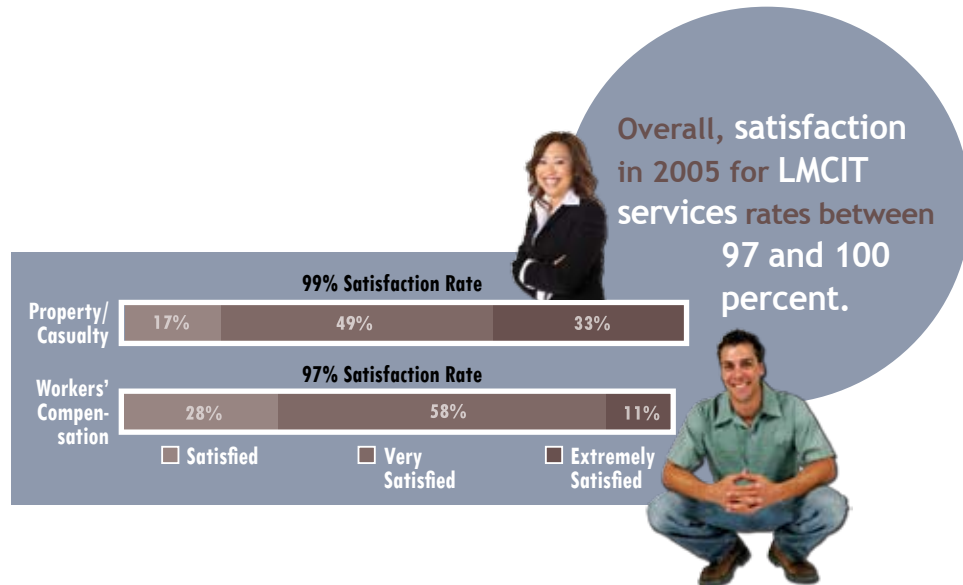


Workers' compensation retro adjustment

In late 2005, LMCIT discovered an error in how the annual adjustments were calculated for 34 cities that use a work comp retro-rating option. Due to a systems programming error, cities either received larger refunds than they should have or were billed for less than they should have been. The system has been modified so that the problem cannot recur. LMCIT has also modified procedures to include an additional review by an underwriting manager before future retro adjustments are sent to cities.

High member satisfaction

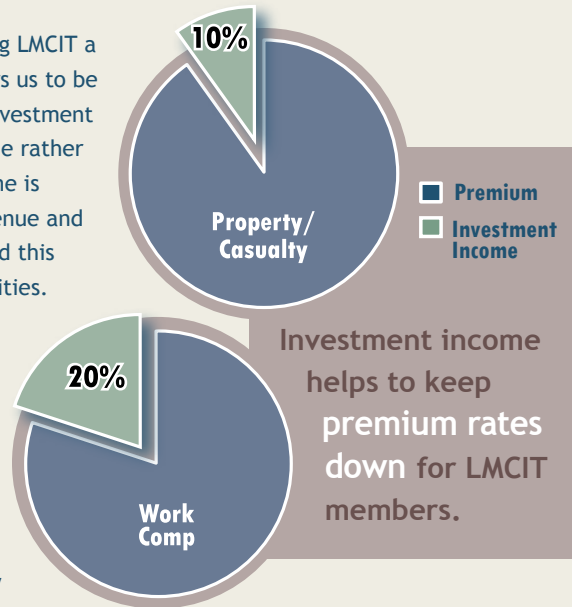
Seven years ago, the LMCIT Board of Trustees directed staff to periodically conduct member satisfaction surveys, and report to the Board on a semi-annual basis. The survey allows LMCIT to effectively monitor how well we are delivering member services, and to identify any areas of potential concern. Results from the 2005 property/casualty and work comp member surveys indicate that members remain overwhelmingly satisfied with the programs. For each program, questions related to overall satisfaction, quality of service, adjuster responsiveness, and satisfaction with legal counsel received satisfaction rates between 97 and 100 percent.



Other Work Behind the Scenes That Keeps LMCIT a Step Ahead

Investments promote financial stability

Why do investment policies matter in keeping LMCIT a step ahead? Investment policy stability allows us to be proactive. LMCIT maintains a conservative investment policy, aimed at steady and consistent income rather than maximum return. Our investment income is approximately 20 percent of work comp revenue and 10 percent of property/casualty revenue, and this income helps keep rates down for member cities.



Member dividends returned

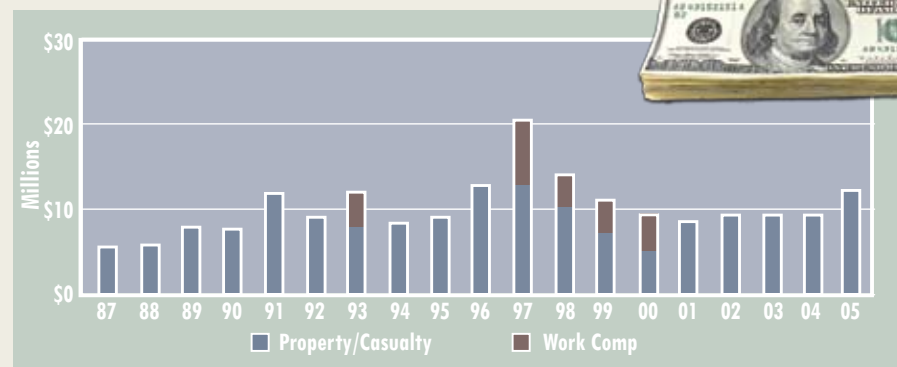
At the end of calendar year 2005, LMCIT returned a \$12 million dividend to members of the property/casualty program—it was the 19th consecutive year LMCIT has been able to return a dividend to member cities. Once again, member cities kept losses below the level premiums were designed to fund, making those dividends possible. LMCIT’s premium

rates are designed with a safety margin to cover losses and expenses even if the losses turn out to be greater than projected. If losses turn out to be at or below projections, that safety margin isn’t needed and can be returned to members. On the work comp side—in light of recent medical cost trends, LMCIT has built little or no safety margin into premiums in order to keep rates as low as possible for members. Work comp losses have been equal to or even a bit greater than projections, meaning no funds have been available to be returned as a dividend.

New staff position will address emerging needs

In February, the LMCIT Board approved an additional senior management position. LMCIT’S new loss control manager has responsibility for managing, coordinating, and developing most loss control and training activities. The position is needed because strategic management of loss control activities has significantly increased the workload on management staff, both in developing and implementing LMCIT’S strategic vision for loss control, and in managing the various specific initiatives that have resulted from that approach. We anticipate even more work in this area in the future, and believe that a loss control manager will be well positioned to address emerging needs.

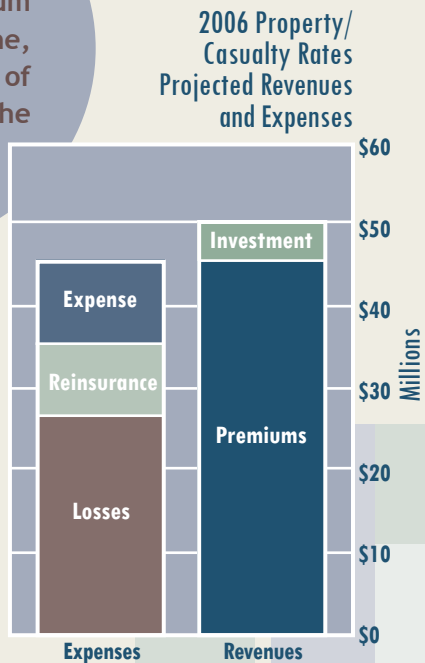
LMCIT Dividends - \$175 Million since 1987



Property reinsurance

LMCIT insures over \$10 billion worth of member property. We maintain a comprehensive reinsurance structure to protect members from catastrophic losses in a single city, or as could be experienced among several cities. Reinsurance costs represent about 35 percent of premium costs for property alone, or about 20 percent of premium costs in the property/casualty program. Because of major losses in the Gulf Coast region in 2005, reinsurers are increasing rates and the current reinsurance market is unsettled. As reinsurance costs rise, LMCIT's strong financial standing allows us to evaluate our own level of risk retention on behalf of members, which can help minimize the premium rate impacts reinsurance might otherwise have.

Reinsurance costs represent about 35 percent of premium costs for property alone, or about 20 percent of premium costs in the property/casualty program.



Conclusion

Keeping a step ahead of risk management trends and member needs requires communicating with members, thinking strategically, and being good stewards of member premium dollars. It also involves offering creative and substantive solutions to current, and future, risk management challenges. But in the end, it's all about the good work members do to implement sound policies, avoid losses, and make cities safe places to work and live.



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