



CONNECTING & INNOVATING
SINCE 1913

2015 Annual Report

League of Minnesota Cities Insurance Trust

Partnering With Minnesota Cities

Since 1980 the League of Minnesota Cities Insurance Trust (LMCIT) has provided comprehensive coverage, innovative loss control services, and collaborative, thoughtful claims handling, with more than 95% of Minnesota's cities participating in at least one of LMCIT's joint self-insurance programs. LMCIT's fiscally responsible management approach allows us to address the unique and needs of our members while providing the stability they have come to expect.

Every year sees new successes and challenges, and 2015 was no exception. For example, our vigorous defense of roughly 1,300 claims of alleged improper law enforcement use of Minnesota's driver's license database resulted in a number of favorable court rulings at both the district and appellate court levels.

At the same time, we turned our attention to the consequences of a 2014 Minnesota Supreme Court ruling that overturned long-standing precedent and held that Public Employees Retirement Association (PERA) retirement benefits cannot be offset against workers' compensation permanent total disability benefits. LMCIT continues to work on several fronts to resolve the financial and policy uncertainties stemming this decision, confident in the knowledge that our fund balance gives us the strength to make the decisions that are in the best long-term interests of our members.

Of course, LMCIT is about more than just paying claims and defending lawsuits. Our ultimate goal is to help members avoid losses in the first place. This past year saw a continued focus on training, consultation, and other loss control efforts designed to reduce risk and the costs that come with that, letting cities devote more of their resources to the needs of their communities.

Ultimately, our goal is to give members tools they can use to make the decisions that are right for them. As you look through this report, you will see the many ways LMCIT remains committed to this founding principle.

LMCIT Board of Trustees

- Dave Callister, Manager, Plymouth
- Joel Hanson, Administrator, Little Canada
- Mark Karnowski, Administrator, Little Canada
- D. Love, Councilmember, Centerville
- Rhonda Pownell, Councilmember, Northfield
- Todd Prafke, Administrator, St. Peter
- Dave Unmacht, Executive Director, League of Minnesota Cities

Providing Stable Rates Over The Long Term

One of the primary objectives of LMCIT is to provide long-term rate stability to members. This is accomplished through LMCIT's commitment to maintaining a strong fund balance, providing information and advice to help members control losses, making prudent investments, and continuously evaluating members' loss experience to ensure sound reserve practices.

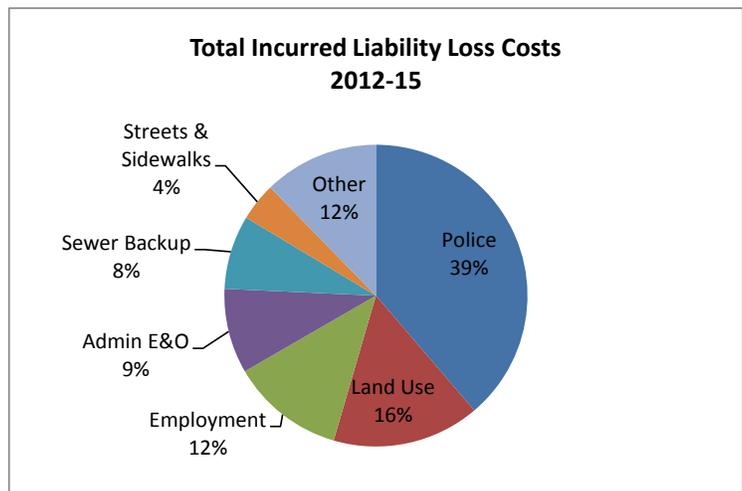
Property/Casualty Program

LMCIT's practice is to incorporate a solid contingency margin into the premium rates. That margin is meant to cover the extra cost if losses are greater than projected. That helps LMCIT keep premium rates much more stable from year to year, with unneeded funds returned to the members as circumstances permit.

Rates decreased or remained flat for all lines of coverage in the property/casualty program during the 2014-15 coverage year. This was possible because of lower reinsurance costs in the areas of property, auto physical damage, and machinery breakdown coverages; improved loss experience on land use and police liability (excluding driver's license claims); and stability in sewer backups, auto liability, and other minor liability loss areas.

In 2015 LMCIT also continued transitioning to a new liability rating

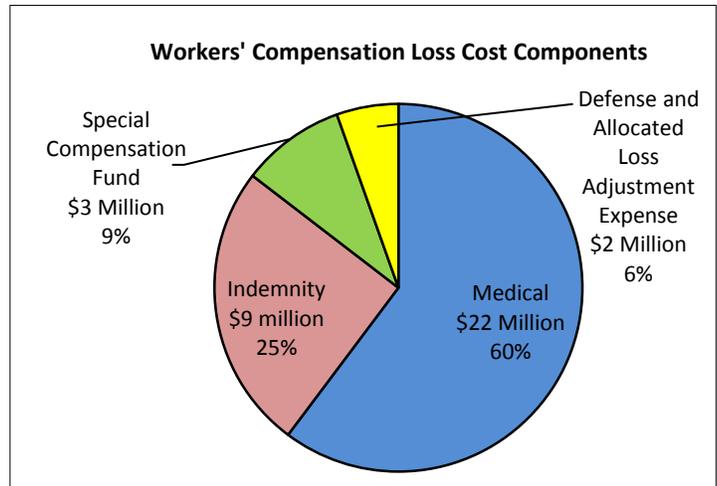
system. It went into effect on November 15, 2012 and uses just five key factors to better align premiums with actual loss patterns. Premiums are based on the number of households, number of sewer connections, number of city employees, number of police officers, and overall city expenditures. Since its implementation, LMCIT has included a transition mechanism to lessen the impact of premium changes due to the new rating tool, and premium adjustments were once again capped in 2015 to temper individual members' liability premium increases and decreases. This was the last year of transition for most members.



Workers' Compensation Program

For the 2015 coverage year, workers' compensation members saw an overall rate increase of 5%. Rates for volunteer firefighters increased an additional 2%, although because these rates are based on population served rather than payroll, the slight increase actually meant volunteer firefighter rates stayed in line with other job classes. And finally, rates for LMCIT's optional volunteer accident coverage decreased 10% because of very low loss experience and growth in member participation.

The overall 5% workers' compensation rate increase was primarily driven by rising medical costs, which now make up 60% of all costs related to LMCIT's workers' compensation claims. The rates set in 2015 assumed medical costs would continue increasing at a rate of about 9% annually, which would significantly outpace the increase in wage levels.

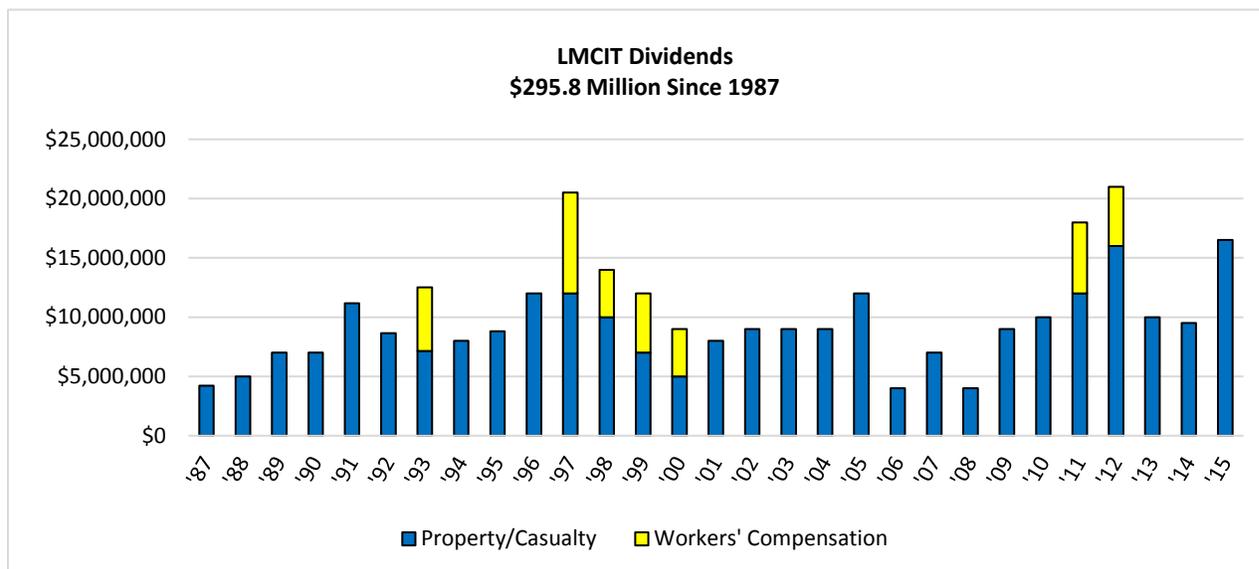


Medical cost inflation remains one of the most unpredictable aspects of the workers' compensation system. Some analysts are predicting a slowing of inflationary pressures in this area, but LMCIT is taking a cautious approach in this regard to avoid the kind of rate swings that could result from overly optimistic projections.

Working With Cities To Return Dividends

Every year the LMCIT Board determines whether a dividend can be returned, and if so, how much. A number of considerations are weighed, with the ultimate decision involving a comparison of the LMCIT year-end fund balance (also known as member equity or surplus) to a targeted amount of fund balance. The fund balance targets are meant to assure LMCIT could withstand a number of different kinds of potentially expensive contingencies and still have enough funds to be able to continue operating.

Typically the most significant factor in whether a dividend can be returned is how rates in recent years compare to members' loss experience. Premium rates are designed to pay for projected losses, expenses, and a safety margin in case losses turn out to be greater than expected. If losses turn out to be at or below LMCIT's projections and the fund balance is at a level adequate to guard against future uncertainties, then the safety margin can be returned to members.



The \$16.5 million dividend returned to members of the property/casualty program in 2015, the largest single dividend return in LMCIT's history, was possible because of continued good experience in some of LMCIT's more significant loss areas (in particular, property losses from storm damage have been unusually low in the past few year), even though LMCIT retained a significant amount of funds as a hedge against the potential cost of law enforcement claims related to the DPPA.

In addition to the dividend return, a revised formula for calculating the dividend was adopted. The key elements of the new formula include:

- Each member's share of the dividend is proportionate to the difference between the member's total premiums and total losses as of May 31 for the past 20 years (previously, the formula looked at premiums and losses for all years a member participated in LMCIT).
- For purposes of calculating the formula, each member's individual losses are capped at the lesser of \$200,000 or 200% of the member's annual premium for the year of the loss (previously, losses were capped at the lesser of \$100,000 or 100% of the member's annual premium for the year of the loss).

Learn More
Learn more about the 2015 property/casualty dividend on the League [website](#).

This formula was changed in order to give a proportionally greater amount to members who have been with LMCIT for a longer period of time and who have been most successful in avoiding and controlling losses.

Delivering New Coverages To Make Things Easier

LMCIT constantly surveys the horizon to ensure services and coverages meet member needs. During 2015, LMCIT worked with members to expand and create unique, broad-based coverages needed to safely and effectively operate cities. Some of the most significant changes include:

Learn More
Learn more about property/casualty and workers' compensation coverage changes that took place during 2015 on the League [website](#).

Liability coverage limits increased

The per-occurrence liability coverage limit was raised from \$1.5 million to \$2 million. The annual aggregate limits were also increased for several of the exposures where annual aggregate limits apply. This was done to provide cities with better protection in those cases where liability claims aren't covered by the state tort cap, such as federal civil rights laws.

Data security breach definition broadened

The definition of data security breaches in the liability and property coverage documents was broadened so that it applies not only to claims involving the *actual* unauthorized acquisition of confidential data, but also the *potential* unauthorized acquisition of confidential data.

Mobile property rental reimbursement limit increased

The annual aggregate limit for rental reimbursement expenses needed to sustain operations in the event of a covered loss to mobile property was increased from \$25,000 to \$250,000.

Loss Control Programs: Working Together To Control Risks

The idea that members can actively minimize losses – and the losses of all members – is a cornerstone of LMCIT’s philosophy. Loss control represents a significant partnership between members and LMCIT and is the best way to keep people safe and keep rates low.

LMCIT offers a range of loss control programs on current and emerging issues and areas of high losses, including safety and training initiatives, safety assistance programs, contract review, customized consultation, incentive programs, and more. Highlights in 2015 include:

- A model [body camera policy](#) was created for law enforcement agencies. It addresses things like where and how body camera data should be stored, how it should be safeguarded, and who can have access to the recordings.
- The [Contract Review Program](#) reviewed more than 850 contracts on mutual aid, joint powers, and other liability questions related to service cooperation and consolidation. The program, which is free for LMCIT members, has been used by member cities for everything from local government service agreements to community center leases and construction contracts.
- Through a partnership with Gallagher Benefits Services, LMCIT provided cities with information and resources on [health care reform](#), including free telephone consultation to 115 cities.
- [Issue-specific training](#) was delivered to nearly 200 individuals on topics related to *Safety Committees* and *Police Report Writing*.
- The [Land Use Program](#) answered over 300 member inquiries on various land use issues. In addition, several members took advantage of LMCIT’s Land Use Incentive Program, which provides savings on litigated land use claims if cities successfully complete web-based training about land use decision-making.
- [Loss Control Consultants](#) provided a wide range of services to cities, ranging from general assistance in evaluating member practices and overall liability to helping cities reduce employee injuries. The consultants continued using safety and liability survey tools and piloted new police liability and data security surveys.
- [PATROL](#), Peace officer Accredited TRaining OnLine, provides Minnesota-specific, POST-accredited training via the Internet to nearly 5,000 peace officers serving more than 200 law

enforcement agencies. While PATROL delivers 12 new continuing education courses per year, officers can earn as many as 37 POST credits when they also take training on POST mandates, OSHA standards, and a five-part series on management and leadership. PATROL has also partnered with two colleges to offer training to students interested in a law enforcement career.

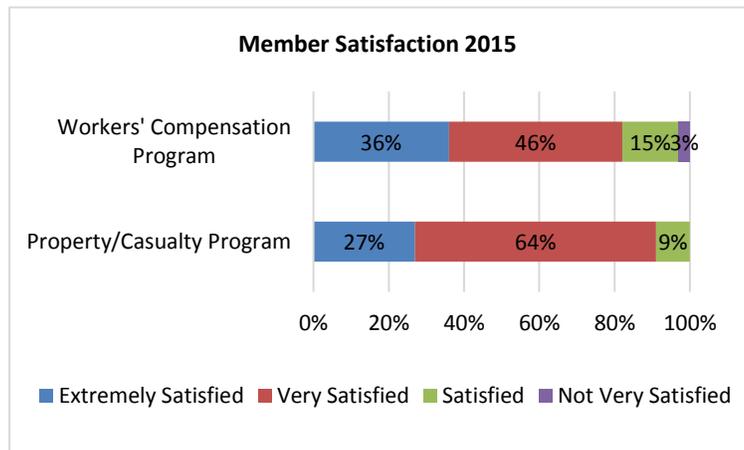
- [Regional Safety Groups](#) deliver low-cost services to help cities meet state and federal OSHA mandates. Cities who create a Regional Safety Group with their neighboring communities determine the topics of training for their group and share the costs with LMCIT and each other. In 2015, 26 groups representing 146 cities were in operation.
- The [Sanitary Sewer Incentive Program](#) provides property/casualty members greater control in the mandatory, out-of-pocket deductibles they pay for claims and lawsuits related to sanitary sewer backups. The program encourages cities to implement good sanitary sewer operations and maintenance practices as a way to reduce the impact of sewer claims on all members. In 2015 over 300 cities qualified for the incentive.
- The [Spring Safety & Loss Control Workshops](#) focused on issues related to administration, police, public works, and insurance agents. They were attended by more than 1,200 people representing over 500 entities.
- Several law enforcement and fire departments continued implementing the nationally recognized [Training Safety Officer program](#) in their respective agencies. This program encourages public safety departments to use safety officers while engaged in active training.
- [Webinars](#) were offered throughout the year, including titles such as *Police Body Cameras*, *Safety Committees*, and *Five Important Steps to Mitigate Employee Fraud*.

Providing Member Satisfaction

LMCIT is a member driven organization. We are owned by our members. Our Board of Trustees are elected and appointed officials from within our membership. Meeting the needs of our members is the single most important thing we do. This shows in the member satisfaction surveys we get.

The surveys conducted during 2015 continued a long-term trend of satisfaction with all programs.

- In the property/casualty program, 100% of respondents indicated they were satisfied with the overall quality, the quality of service, their adjuster's responsiveness, and the legal counsel provided by LMCIT.
- In the workers' compensation program, 100% of respondents indicated they were satisfied with the quality of service, their adjuster's responsiveness, and the legal counsel provided by LMCIT.



We can always be better, though, and one of the ways we are striving to be is in our use of technology. To that end, LMCIT has developed the [LMCIT Member Center](#), which will become available to all members and agents by the end of 2016. At the beginning, this new portal will provide online access to property/casualty claims information. Over time, the goal is add workers' compensation information, individualized loss control recommendations, and a variety of other enhancements.



LMCIT is also developing new internal technology platforms and functionality to provide enhanced data analytics reporting, improved automated workflows, and updated document management. New claim systems are operational in the property/casualty and workers' compensation programs. New systems are also being developing for underwriting and loss control. These systems will allow us to be more efficient and responsive, allow us to more effectively measure risk and manage claims, and permit us to develop more targeted loss control initiatives.

Looking To The Future

The LMCIT Board of Trustees has ambitious goals for the future. These include:

- Providing training for peace officers in dealing with people with mental illness, encouraging employee wellness, and enhancing public safety leadership training.
- Expanding efforts to help members reduce conflict.
- Exploring ways to limit LMCIT's reinsurance costs.
- Offering assistance to members in complying with the reporting, notification, and plan structure requirements of the Affordable Care Act.
- Building on LMCIT's expertise in the area of data security and management.
- Strengthening connections with new generations of city officials, staff, and agents.

LMCIT's strength comes from the thousands of city officials and staff who have supported it since its creation. Because of them, 2015 was another successful year. Because of them, we look forward to many more.

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