INFORMATION MEMO

LMCIT Auto Coverage Guide

Understand auto liability, auto physical damage, no-fault, and uninsured/underinsured coverage offered by the League of Minnesota Cities Insurance Trust (LMCIT or Trust), including coverage options, provisions, proof of insurance requirements, and how coverage works in specific situations such as the use of personal vehicles on city business and coverage for impounded or seized autos. Includes information on filing an auto claim.

RELEVANT LINKS:
See also LMC information memos, LMCIT Property, Crime, Bond, and Petrofund Coverage Guide; LMCIT Liability Coverage Guide; LMCIT Workers’ Compensation Coverage Guide. See also LMC website, LMCIT Eligibility Requirements.

For more information contact the LMCIT underwriting department.
651.281.1200
800.925.1122.

I. About the League of Minnesota Cities Insurance Trust

The Trust’s fundamental purpose is to cover the workers’ compensation, property, liability, and auto risks of Minnesota’s cities and to mitigate hazards—not to show a profit for stakeholders. The organization was created by cities, for cities, and makes serving cities a priority. Trust funds not needed for claims, expenses, or reserves are returned to members as a dividend.

This coverage guide provides a summary of auto coverage available through the Trust. Members are urged to examine the coverage document for actual wording. In all cases, the coverage documents determine coverage, exclusions, and limitations.

II. Auto coverage

The Trust’s auto coverage combines liability and physical damage coverage. Auto coverage is designed to meet members’ auto coverage needs as simply as possible. The Trust has developed some unique coverage approaches and coverage options to better meet members’ needs.

III. Auto liability coverage

The Trust’s auto liability coverage provides coverage for sums members are legally obligated to pay as damages because of bodily injury or property damage arising out of the ownership, maintenance, or use of any automobile. Generally, an automobile is defined as a land motor vehicle, trailer, or semi-trailer designed for travel on public roads.
Mobile equipment such as bulldozers, snowmobiles, farm machinery, forklifts, and other vehicles designed for use principally off public roads are not defined as automobiles for the purpose of the Trust’s auto liability coverage. Coverage for liability arising out of the use of mobile machinery is provided under the Trust’s property coverage.

A. Covered parties

In addition to the member and any other entity named in the coverage documents, the following are also generally considered covered parties under the Trust’s auto liability coverage:

- Any present or former elected or appointed official, employee or volunteer who is using an auto while in the course of member business.
- Other permissive users of autos owned or hired by the member.

B. Auto liability limits

The standard limit of liability for the Trust’s auto liability coverage is $2 million. This is the maximum limit of liability under the Trust’s municipal liability coverage and auto liability coverage parts combined, whether the claim falls under the Trust’s municipal liability coverage, auto liability coverage, or both. Optional increased limits are available in $1 million increments, up to a maximum of $5 million.

Although the Trust’s auto liability coverage per-occurrence limit is $2 million, the statutory municipal tort cap is limited to a maximum of $500,000 per claimant and $1.5 million per occurrence. These caps apply whether the claim is against the member, against the individual officer or employee, or both. Members must decide whether to waive the statutory limits during their annual coverage renewals. Whether to waive is a discretionary decision each member must make.

C. Auto liability exclusions

There are a few general exclusions that apply, which include:

- Benefits typically handled under workers’ compensation, unemployment compensation, or disability coverage.
- Liability the member may have for bodily injury to an employee arising out of and in the course of employment, or damages to the immediate family members of that employee.
- Property damage to property owned by the member.
- War, insurrection, rebellion, or revolution.
- Most pollution-related claims.
IV. Auto physical damage coverage

The Trust’s auto physical damage coverage applies automatically on a blanket basis to all vehicles the member owns, leases, rents, or borrows, unless the member specifically elects not to cover a vehicle or vehicles.

However, when an employee or volunteer uses his or her personal vehicle on member business, that vehicle is not considered to be a “borrowed” vehicle and is not covered for physical damage.

A. Actual cash value auto physical damage coverage

The “default” for the Trust’s auto physical damage coverage is the member will automatically have actual cash value (ACV) physical damage coverage on nearly every vehicle the member owns, leases, rents, or borrows, unless the member says otherwise.

The only exception are antique vehicles. Auto physical damage coverage is provided on an “agreed amount” basis, wherein the member and the Trust will agree on the value of the antique vehicle. That amount will then be used as the coverage limit in the event of a loss and for the purposes of premium calculations.

B. Replacement cost value auto physical damage coverage

Replacement cost value auto physical damage coverage is available as an option, but members must specifically request the coverage because the Trust must list the vehicle on an endorsement. Generally, replacement cost coverage is available for vehicles that are less than 10 years old. The Trust may also consider older vehicles that have been well-maintained, overhauled, or updated as needed.

When replacement cost coverage is chosen, the total loss threshold is 80 percent of the ACV of the auto. In a total loss situation (i.e., repairs are equal to or greater than 80 percent of the ACV), the coverage will provide for the smaller of:

- 200 percent of the actual cash value of the auto;
- The cost of an equivalent new auto without deduction for depreciation;
- Or
- The limit stated in the endorsement.
The limit or value listed on the endorsement should be carefully considered and reviewed to ensure members are not paying more premium than needed. The limit stated on the endorsement should reflect the following:

- If the ACV of the auto is more than 50 percent of the cost of an equivalent new auto, the endorsement should reflect the cost of an equivalent new auto; or
- If the ACV of the auto is less than 50 percent of the cost of an equivalent new auto, the limit on the endorsement should reflect 200 percent of the ACV of the auto.

C. Non-member-owned vehicles that are not borrowed, rented, or leased for city use

Any non-member-owned vehicle that is not borrowed, rented, or leased for member use (e.g., an auto a city has seized as evidence or impounded for a traffic or parking violation) for which the member wants physical damage coverage, must be reported to the Trust and specifically scheduled or endorsed.

V. No-fault personal injury protection coverage

The Trust automatically provides no-fault personal injury protection (PIP) coverage on all member vehicles, including police, fire, and ambulance vehicles (the coverage part in the Trust coverage agreement is titled “Basic Economic Loss Benefits Coverage”). The primary purpose of PIP coverage is to cover injuries to the operator or occupants resulting from an accident in that vehicle.

Generally, PIP coverage would not come into play if an employee operating a member vehicle on member business was injured in an accident. Most medical costs, treatment, and other necessary services would be covered by workers’ compensation in this type of circumstance. However, if workers’ compensation benefits do not fully compensate the employee who was injured while working, PIP benefits can make up the difference.

There are a few situations in which PIP coverage on a member vehicle applies:

- If the injured occupant of a member-furnished auto is an employee or relative of an employee, the PIP coverage for the member’s auto would apply first. If the injured occupant of a member-furnished auto is not an employee and not a relative of the employee, the injured occupant would turn first to their own personal auto policy.
• The member’s policies may allow the employee to use the vehicle for personal, non-member business (e.g., a take-home squad car for police officers). Since the vehicle is “furnished by the employer,” the PIP coverage of the member vehicle would apply under this circumstance. If there is no coverage on the member vehicle, the employee would look to their own personal policy.

• Another situation in which the no-fault coverage can cover a non-employee is if a member vehicle were to hit a pedestrian. The pedestrian would first look to the coverage of the member vehicle for PIP coverage. If that accident were the member driver’s fault, the Trust’s auto liability coverage would cover the member’s or the driver’s liability for the injuries to the pedestrian.

VI. Uninsured/underinsured coverage

The Trust automatically provides uninsured/underinsured (UM/UIM) coverage on all member vehicles, including those public safety vehicles that are not required by statute to have UM/UIM coverage. Members are automatically provided with a standard $200,000 coverage limit for UM/UIM coverage. The Trust doesn’t offer an option to purchase higher limits. It’s important to understand that UM/UIM coverage doesn’t provide any benefit or risk protection to the member; the benefit is entirely to the individuals who might occupy a member vehicle.

The UM/UIM coverage is designed to help assure that an injured driver will be compensated if they’re injured in an accident caused by an uninsured or underinsured driver. The UM/UIM coverage steps in to place of the liability insurance the other driver should have had. In most cases, an injury to an employee driving a member vehicle will be covered by workers’ compensation, and the amounts the individual would recover from UM/UIM would be in addition to the medical, indemnity, and other benefits paid under workers’ compensation.

VII. Specific coverage situations

A. Operation of employees’ or volunteers’ vehicles for member business

This section provides an overview of how coverage would apply when employees or volunteers use their own vehicles in the course of member business, the various coverages, and guidelines to use when establishing an auto policy.
Auto coverage is generally designed around the basic idea that the coverage follows the vehicle. Anyone the vehicle owner authorizes to drive the vehicle is automatically insured under the liability insurance policy on the vehicle, and that policy is primary for any liability to third parties arising out of the operation of that vehicle by an authorized person. Similarly, it’s up to the vehicle owner to decide what coverage they want to carry for the risk of physical damage to the vehicle.

1. **Course and scope of duties**

There can be confusion about whether an employee or volunteer is within the course and scope of their duties when driving to or from work. In very general terms, if an individual is driving to or from work at the regularly scheduled time and place, they are not within the course and scope of duties. However, if the individual is responding to an unscheduled emergency call, that would be considered within the scope of duty.

Examples of situations that would normally be considered within the scope of duty:

- A volunteer firefighter or Emergency Medical Technician (EMT) driving from home to the fire hall or emergency scene in response to an emergency call.
- An off-duty police officer who is called back to work outside their shift to respond to an emergency.
- A public works employee called from home to respond to a sewer backup.
- A city official or employee driving to the Capitol to meet with a legislator about a city issue.

Examples of situations that are not normally be considered within the scope of duty:

- A volunteer firefighter driving from home to a scheduled drill.
- A police officer on way to station to begin a scheduled shift.
- The city manager driving from home to city hall for the regular Wednesday night council meeting.
- An employee driving somewhere else on city business, but on the way, stops for a personal errand.

2. **Default: auto liability coverage is excess**

The Trust’s auto liability coverage is by default excess over the vehicle owner’s own coverage. That is, the Trust coverage would come into play if the liability exceeds the vehicle owner’s own coverage limits.
In most cases, employees are reimbursed for mileage for use of their vehicle on member business. The typical mileage reimbursement rate is based on the average cost of operating a vehicle. One of the costs considered is the cost of insurance. Thus, in reimbursing mileage for use of a vehicle, the member is in effect paying a proportionate share of the insurance cost for that vehicle. Since the member has paid a proportionate share of the premium, it seems reasonable for the member to benefit from the coverage it has paid for.

3. Option to make LMCIT auto liability coverage primary

Members have the option to make the Trust’s auto liability coverage primary for privately owned vehicles used on member business by specified individuals or groups in specified circumstances (e.g., firefighters responding to calls). Members need to notify the Trust so it can add a special endorsement to the member’s coverage.

4. Injury to the employee or volunteer

If an employee is injured while driving their own vehicle in the course of member business, workers’ compensation will apply to that injury, just as it would to any other injury that occurs in the course of employment. This includes emergency volunteers the statute defines to be employees for purposes of workers’ compensation:

- Volunteer firefighters
- Volunteer ambulance attendants
- Volunteer first responders
- Law enforcement assistance volunteers
- Emergency management volunteers
- Disaster assistance volunteers
- Civil defense volunteers

Elected and appointed officials are also covered parties under the Trust’s workers’ compensation coverage, but members do have the option to decline the coverage. Other types of volunteers such as coaches and volunteers helping with a city-sponsored festival are covered under the Trust’s volunteer accident coverage. This coverage provides certain benefits if a volunteer who is working under the member’s direction and control is injured or causes an injury.
5. **Damage to the individual’s vehicle**

The Trust does not provide coverage for damage to an employee’s or volunteer’s own vehicle, regardless of whether the vehicle was being operated in the course and scope of duty. The vehicle owner may be able to recover the damages from another party involved if the damage was caused by the other person’s negligence. However, if the individual’s own negligence was the cause of the damage to the vehicle, or if damage was caused by a pure accident where no one was at fault, the individual would have to look to their own auto physical damage insurance to cover that damage.

There are some circumstances in which the member’s own Trust liability coverage would come into play for damage to an employee’s or volunteer’s vehicle. One example would be if the damage was caused by the negligence of an employee operating a city vehicle (e.g., a snowplow operator negligently runs into an employee’s car). The member’s automobile liability coverage would respond to the claim for damages to that vehicle. Another example would be if the damage was caused by the negligence of an employee while that employee was using their own car for member business. The member’s coverage could apply, though in this circumstance, it would normally be excess over the employee’s own auto liability coverage on the vehicle. Similarly, the member’s municipal liability coverage could come into play if an employee negligently damaged another employee’s car in some other way (e.g., a park crew cutting trees drops a tree onto a car that’s properly parked).

B. **Personal use of city vehicles**

Members sometimes allow employees to use member vehicles for personal non-member business (e.g., take-home squad cars or public works employees allowed to take a city vehicle home to respond to emergencies).

The member’s liability coverage on the vehicle will cover the employee or any other authorized operator of a member vehicle for personal use of the vehicle, provided the use is within the scope of what the member has authorized. The Trust will also cover the member for any liability they incur resulting from personal use of the vehicle, even if that use was outside the scope of what the member authorized.

See Section VII.A.1, Course and scope of duties.
If a vehicle is used outside the scope of what the member has authorized, the employee and their family members will not be covered by the member’s auto coverage. If the member allows personal use of member vehicles by employees or volunteers, it’s important to make clear exactly what use is permitted. One way to do this is for the member to develop and adopt a formal policy on personal use. If it’s a unique situation involving only one employee, an alternative is to develop a written memo spelling out the arrangements for personal use of the member vehicle. Regardless of the form it takes, the Trust recommends:

- Only the employee is permitted to operate the vehicle, except in case of an emergency.
- Anyone operating a member vehicle is expected to obey all traffic laws.
- The employee may not operate the vehicle after any consumption of alcohol.
- There may be restrictions on where the vehicle may be taken on personal use (specify whether the vehicle can be taken outside city limits or some other specified geographical region).
- The member reserves the right to revoke the permission for personal use of the auto at any time.
- If the member allows any exceptions to the personal use policy, it should be clear in the policy who has authority to authorize an exception, and a written record should be made of any exception that is authorized.

It may be helpful to always keep a copy of the policy or memo in member-owned vehicles and require affected employees to sign an acknowledgment form stating they have read, understood, and agreed to the policy.

C. Damage to impounded or seized automobiles

Police departments and other city agencies may have private motor vehicles in their possession for a variety of reasons, including the following:

- A vehicle is impounded for a parking violation.
- An abandoned vehicle is towed and impounded.
- A stolen vehicle is recovered.
- A vehicle is seized in connection with a drug or other criminal violation.

The Trust’s liability coverages are designed to automatically cover the member’s risks with respect to seized, impounded, or recovered autos. In most cases, members don’t have to do anything to have the coverage it needs.
When a vehicle is seized or impounded, or when a stolen vehicle is recovered, it creates a situation where a vehicle owned by someone else is in the member’s “care, custody, and control.” Unlike many private insurance policies, the Trust’s liability coverage does not have a “care, custody, and control” exclusion.

That doesn’t mean, though, the Trust would automatically pay for damage to such vehicles. To recover, the owner would have to show the damage was the result of the member’s negligence. For example, the member might be legally liable for a dented door if the member backed another car into the impounded vehicle while moving it, or if the member negligently failed to take reasonable steps to protect the vehicle from vandalism. However, the member probably isn’t legally liable if the vehicle is dented by a hailstorm while the vehicle is in the impound lot.

A seized, impounded, or recovered vehicle is not automatically covered by the member’s auto physical damage coverage. Members can schedule these vehicles for auto physical damage coverage for an additional premium charge. That would cover vehicles for most types of damage that might occur in the same way the member’s own vehicles are covered, irrespective of whether the member was at fault or legally liable.

**D. Damage to forfeited automobiles**

In some cases, vehicles can be forfeited and become the member’s property. Statutes authorize law enforcement agencies to seize vehicles that were used in connection with a variety of crimes, and they also set out the administrative and judicial procedures for forfeiture of vehicles. When a vehicle is forfeited, the vehicle becomes the member’s property and the title is transferred to the member.

When a forfeited vehicle legally becomes the member’s property, it automatically becomes covered under the member’s auto physical damage coverage as well. The vehicle does not need to be reported to the Trust or scheduled, and no additional premium is charged to add physical damage coverage for that vehicle. However, at the member’s next coverage renewal (assuming the member still owns the vehicle), the vehicle needs to be scheduled, which is used to calculate the member’s premium for the succeeding year.

**E. Rented or leased automobiles**

The Trust’s auto coverage applies for situations where a member rents or leases a vehicle for city business, regardless of whether it is rented in Minnesota or in another state. Depending on the situation, however, the Trust coverage may be excess over any other valid and collectible coverage.
1. **Auto liability**

Trust coverage applies for claims arising out of the use of a rented or leased auto used for member business, and employees are covered parties while such an auto is used in the course of member business or with the member’s permission. Generally, the member’s auto liability coverage will apply on an excess basis (excess over any other valid and collectible coverage) for autos not owned by the member. However, if the rental or lease agreement specifies the member’s auto liability coverage is primary, the member’s auto liability coverage will be primary.

2. **Auto physical damage**

The Trust coverage applies on a primary basis for any of the following situations:

- Autos the member rents or leases for a period of more than 30 days.
- Autos the member rents or leases from a person or organization that is not in the business of renting or leasing autos, regardless of the period.
- Autos the member or employee rents for less than 30 days, that will be used for member business, from a person or organization in the business of renting autos if the rental agreement requires the member or the individual renting the auto to pay for loss or damage to the auto.

VIII. **Annual reporting information**

Premiums for auto liability and auto physical damage coverage are based on the schedule of vehicles reported in the renewal application at the beginning of the coverage period. Because of this, member and/or agents need to maintain an inventory of vehicles, so premiums are accurately calculated at renewal. In addition to the listing of vehicles provided, members also need to specify their preference in the following situations:

- Any vehicles for which the member doesn’t want coverage for auto physical damage.
- Any vehicles for which the member wants coverage for replacement cost rather than ACV.
- Any antique vehicle for which the member wants coverage for physical damage, so it can be covered on an “agreed amount” basis.

New vehicles members acquire during the coverage year are automatically covered. There is no need to report or schedule new vehicles mid-term. Newly acquired vehicles, however, do need to be reported at the member’s next renewal, assuming the member still has the vehicle. Similarly, if the member gets rid of a vehicle during the year, there is no return premium due for deleting that vehicle.
IX. Proof of insurance

With a few limited exceptions, Minnesota statute requires all member-owned vehicles be registered with the Department of Vehicle Services and carry in the vehicle proof of insurance and a copy of the vehicle’s registration card. Emergency vehicles, such as marked police squads, fire trucks, and ambulances are exempt from the insurance requirements and are also not required to display a license plate or be registered.

The Trust recommends that proof of insurance and a copy of the registration card, if required for that vehicle, be kept in the same location for each vehicle. At this time, the Trust is unable to provide proof of insurance electronically, but it can provide an auto identification card template, in which members can insert their auto agreement (policy) number and effective dates. Member can also enter the make, model, year, and vehicle identification number for each vehicle on the template, but this is unnecessary since the Trust covers all member-owned vehicles on a blanket basis.

X. Filing an auto claim

Claims can be submitted to the Trust using any of the following formats:

- Online
- Email
- Fax
- Mail
- Phone