INFORMATION MEMO

Extraordinary Expense Coverage

Learn about the League of Minnesota Cities Insurance Trust’s (LMCIT or Trust) coverage for extraordinary expenses, a coverage specifically designed to assist a member that’s been unavoidably hit by unexpected expenses.

RELEVANT LINKS:

I. Extraordinary expense coverage

Members can utilize the Trust’s extraordinary expense coverage for necessary costs and expenditures they weren’t able to budget for or anticipate.

II. Understanding the coverage

The extraordinary expense coverage is designed to operate as a risk financing mechanism, rather than as a risk transfer mechanism. Unlike other Trust coverages, it doesn’t spread an individual member’s risk among all other Trust members; instead, it’s a way for the member to spread an expense over time.

A. Eligible extraordinary expenses

To be eligible, the member’s expenditure must meet four basic criteria:

- The expenditure must be “extraordinary.” It must be greater than what the member’s normal expected expenditures would be.
- The expenditure must be “unanticipated.” It must be something the member couldn’t reasonably anticipate.
- The expenditure must be something that’s necessary either to protect public health and safety, or to meet the member’s legal obligations.
- The expense must be something that’s not covered under any other coverage.

These criteria are intentionally broad to make the coverage as flexible and useful to members as possible. Here are some examples of how it addresses a wide variety of unanticipated and extraordinary expenses which members might incur.
• Additional police costs for a significant criminal incident.
• Share of clean-up costs for a landfill that refuse once went in to.
• Uninsured flood damage to a member-owned building.
• Storm clean-up costs where there’s no damage to member buildings.
• A liability settlement that exceeds the member’s available coverage.
• Extra snowplowing costs in a year with high snowfall.

B. Cost
Members that incur an extraordinary and unexpected expense can submit up to $250,000 of that expense for payment under this coverage. Members repay that amount to the Trust over a period of up to five years. The repayment would be made in the form of a surcharge – a “retroactive premium” – added to members’ future premiums.

If the repayment is made within a year, there is no interest. If members choose to make the repayment over a longer period, an additional charge – the equivalent of a 3 percent interest rate – is added beginning in the second year. If a member were to leave the Trust, the entire amount would be immediately due and payable.

C. Coverage limits
The coverage has a limit of $250,000 per year, which applies regardless of the number of claims, occurrences or incidents a member has.

The Trust Board has also authorized an appropriation of up to $3 million in total for claims from all members under this coverage. If the total of claims that members submit were to approach or exceed the amount appropriated, the Board would review whether it’s feasible to continue the coverage. The Board has the authority to terminate the coverage at any time, if the Board determines it’s necessary to protect the interests of Trust members.

D. Claim submission and handling
Requests for extraordinary expense coverage can be directed to the Trust’s Claims Manager.