

**MINUTES  
ST. CLAIR SHORES CITY COUNCIL SPECIAL MEETING  
June 28, 2010**

Special Meeting of the City Council, held in the Council Chambers, located at 27600 Jefferson Circle Dr., St. Clair Shores, Michigan.

Present: Mayor Hison, Council Members Frederick, McFadyen, Rubello, Rubino, Rusie

Absent & Excused: Council Member Walby

Also Present: City Manager Mr. Hughes, City Clerk Kotowski, Directors D'Herde and Haney and City Attorney Ihrie

**1. CALL TO ORDER, ROLL CALL AND PLEDGE OF ALLEGIANCE**

Mayor Hison called the meeting to order at 7:00 p.m. Ms. Kotowski, City Clerk, called the roll with a quorum present and noted that Mr. Walby had asked to be excused from tonight's meeting.

**Motion by Frederick, seconded by Rubino to excuse Council Member Walby from tonight's meeting.**

Ayes: All – 6

Absent: Walby

Mayor Hison clarified that Mr. Walby is an employee of Arthur J. Gallagher and could not have participated in the discussion or decision of the insurance bid.

The Pledge of Allegiance was recited by those in attendance.

**2. AUDIENCE PARTICIPATION ON AGENDA ITEMS (2 MINUTE TIME LIMIT)**

Jim Goodfellow, 22476 Lakeland, stated the consulting firm reviewed the information they were given by the bidders and a \$46,000 savings is substantial to help in making the final decision.

**3. REQUEST TO AWARD THE BID FOR PROPERTY AND LIABILITY INSURANCE (BIDS OPENED 5/4/10, POSTPONED FROM 6/21/10 MEETING)**

Mr. Hughes noted the insurance bid was discussed at the last regular meeting. Staff and the consulting team were asked to provide additional information.

Mr. John Konechne, Pointe Counseling Services, stated his consulting firm was asked to review bids submitted according to specifications prepared by the City. Mr. Konechne explained the self-insured retention specified in the bid documents. A SIR of \$200,000 means that the first \$200,000 in costs due to a claim is the City's responsibility. This liability can be handled two different ways. The City can adjust its own claims within the house or have the insurance company administer and pay the claims on the City's behalf. Either way, the SIR limit is the insured's responsibility.

A loss fund is a fund utilized to pay the first \$200,000 of a claim, regardless of who pays on the claims. Typically, the bidder administers the claims and requests deposits from the insured to cover payments. The loss fund is the City's money in a different checking account set up specifically to pay claims. The law is to always keep a positive balance in the loss fund. Checks can not be paid unless money is available in the fund to cover the payment.

Questions have been raised in regards to recovering unused money and interest paid. Mr. Konechne clarified that unused funds can be recovered by the City. If left in the loss fund account, interest can be earned.

A stop loss, or cap, is a maximum paid by the self-insured on retention annually. Gallagher proposed a \$500,000 cap and MMRMA a \$600,000 limit. For Gallagher, once the \$500,000 limit is reached the insurance pays up to \$2,000,000. Once the new limit of \$2 million is reached, the insured is back to normal paying the first \$200,000 retention. MMRMA proposed an unlimited cap of protection beyond the retention paid by the insured.

In addition, the contractual language in the MMRMA's bid proposal noted that MMRMA will pay all self-insured payments. On the other hand, Gallagher indemnifies the City to be responsible for payments on claims and then be reimbursed by the insurance company.

**3. REQUEST TO AWARD THE BID FOR PROPERTY AND LIABILITY INSURANCE cont'd.**

Mr. Rubino questioned the interest rate on loss funds and the type of investment. Mr. Konechne noted that self insured groups are regulated by the law on investments, allowing them to only invest in equities. Last quarter, the City earned 4.6% interest.

Mr. Mike Rhiner, Executive Director of MMRMA, explained that the City's loss fund is conservatively invested in an equity portfolio with fixed income, and therefore the dollars are not at risk. Mr. Rhiner advised that in the past thirty years he has not seen a negative return.

Mr. Rubino addressed his concerns with investing in bond portfolios and keeping high balances in the loss fund.

Mr. Konechne explained that reserves for claims are estimates of each claim's outcome. If the estimate is higher than the final cost, the loss fund will have extra dollars. It is then the City's decision whether to keep the money in the fund and carry it forward, or request a refund check.

Mr. Konechne added that Gallagher's proposal uses a third party administrator to oversee the loss fund, Mackinaw Administrators.

Mayor Hison noted that the proposed bid total for MMRMA reflects a net asset distribution of \$108,000, with the condition to renew our policy.

Mr. Rhiner explained that an actuary looks at each insurance program to estimate the amount of insurance needed and the risk associated with each company. They error towards the safety side, and as a result of excess assets, an asset distribution was scheduled. Mr. Konechne advised that return of assets was not part of the bid specifications, but as long as the distribution is in writing, it is contractual. If the SIR is underfunded, the insurance company might recommend applying the distribution to the loss fund to pay claims.

Mr. Rubino was concerned with the City being overcharged for premiums and the drastic decrease in premiums presented by MMRMA.

Mr. Rhiner advised that the firm periodically conducts a rate study, which was recently completed and as a result, rates have been adjusted. The rate decrease is also affected by number of claims, employees, loss experience and exposure to risk.

Mr. Smith stated that in 2009 the City received insurance proposals from these two companies. Gallagher was the low bidder; however, they proposed claims made coverage, as opposed to MMRMA's full occurrence coverage.

Mr. Konechne explained that the insurance market is very soft and the pricing is down, but every policy is different because there are so many other factors considered in the equation.

Mr. Rubino commented on being overcharged for the premium and not having a guarantee of the asset distribution.

Mr. Konechne stated that the uncertainties of Gallagher's proposal have been discussed and clarified. A third party administrator will take care of the loss fund which requires an initial balance of \$15,000. The SIR liability is \$200,000 and the insured stop limit is \$2,000,000 indentifying the City liable for upfront payment and then reimbursement. In addition, the bid specifications presented by the City required the insurance companies to be licensed in Michigan. Gallagher, an insurance broker, is Michigan licensed, but two of the companies they are proposing coverage through are not insured or admitted in Michigan.

Mr. Rhiner noted the \$108,000 distribution was a preliminary figure during the bid process, but the board of directors declared the allocations and the City should expect payment within thirty days of renewal.

Mr. Michael Miller, Arthur J. Gallagher, explained that the specifications provided to the bidders were not very specific and therefore Gallagher was unable to propose a mirror image of MMRMA's policy. Regardless, the City would be sufficiently covered with their policy as well.

Mr. Miller stated that Mackinaw asks for a start up balance of \$15,000 in the loss fund and a \$2,000 administrative fee (included in the proposed premium).

Mr. Ihrie noted that if required by Council, MMRMA can verbally, on the record, guarantee the asset distribution. Mr. Rhiner confirmed that the distribution will be paid.

**3. REQUEST TO AWARD THE BID FOR PROPERTY AND LIABILITY INSURANCE cont'd.**

**Motion by Frederick, seconded by Rubino to award the bid for Property and Liability Insurance to IbeX Insurance Agency and Michigan Municipal Risk Management Authority as recommended by Pointe Counseling Services and City Administration for one year.**

Ayes: All – 6

Absent: Walby

**4. AUDIENCE PARTICIPATION (5 MINUTE TIME LIMIT)**

Jim Goodfellow, 22476 Lakeland, thanked the forestry crew for taking care of the tree next to his property.

**5. ADJOURNMENT**

**Motion by Frederick, seconded by Rubino to adjourn the meeting at 8:09 p.m.**

Ayes: All – 6

Absent: Walby

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ROBERT A HISON, MAYOR

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MARY A. KOTOWSKI, CITY CLERK