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## Finance Department

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DATE: June 11, 2020

TO: Alder Rebecca Kemble

FROM: David Schmiedicke, Finance Director

 Eric Veum, Risk Manager

SUBJECT: **City Liability Insurance Fund Information**

Below is the information you requested related to the City’s Insurance Fund and recent major liability claims. The City carries liability insurance coverage through the Wisconsin Municipal Mutual Insurance Company (WMMIC). The City is a charter member of WMMIC and owns a portion of the assets of the company. The City pays a retention (similar to an insurance deductible) on the first $500,000 of claim costs incurred. WMMIC pays the amount above the retention level up to $12 million. In addition to reserves it holds, WMMIC contracts with reinsurance companies to help carry a portion of the loss risk between $500,000 and $12 million. The City is responsible for liability losses that exceed $12 million.

The graph below shows that the City experienced significant liability losses in calendar years 2012, 2014 and 2015. Included in those years are the three Police Department cases that you referenced in your request, plus four other liability losses of over $300,000 each. Two of the other four losses were the 2012 James Madison Park fatality and the Golf Pros case. The other two cases remain open and the information is confidential. Since 2015, liability losses have been trending back toward historical levels.

The graph below shows the trend in reserves, as developed by WMMIC’s actuary for the City. The reserve is calculated at a level to pay claims below the City’s retention level that have not yet been closed or reported to the City. As you will note, the City’s overall reserve number and the Other Liability reserve number are currently trending downward. The Other Liability number has the most volatility of the three elements of the reserves and includes civil rights and employment claims, among others.

The graph on the next page provides background on the financial performance of the City’s Insurance Fund from 2006 to 2019. The primary source of revenue to the fund is insurance billings to city agencies. Billed amounts are allocated based on an agency’s share of the city’s budget and value of city-owned property, as well as liability losses incurred. The Insurance Fund was supplemented in 2012, 2013, 2015 and 2016 through an appropriation from the General Fund. Fund balance includes the value of the City’s ownership share in WMMIC. The cash balance reflects the actual liquid cash on hand at the end of each fiscal year.

Insurance billings were reduced in 2009 in response to city budget constraints due to the Great Recession and remained at the lower level through 2011. Supplemental General Fund appropriations in 2012 and 2013 helped to restore some of the fund and cash balances. Fund and cash balances dropped dramatically in 2015 in response to significant liability losses and the corresponding impacts on reserve calculations, premium levels and payment of the City’s retention on claims. Supplemental General Fund appropriations and increased billings to departments, combined with a return to more historical levels of claim activity, have helped to stabilize the Insurance Fund.

Below are the three claims for which you requested costinformation. Total claim costs above the settlement amount include the City’s legal and related costs (e.g., expert witnesses):

* Paul Heenan – settlement amount $2,300,000; total claim cost $2,771,476
* Ashley DiPiazza – settlement amount $4,250,000; total claim cost $4,692,085
* Tony Robinson – settlement amount $3,350,000; total claim cost $3,953,767

It is difficult to quantify the impact that these losses had on the City’s premium. The premium did increase in response, but the exact relationship cannot be determined due to the extent of the factors that are included in premium calculations. Some of these factors are reinsurance costs (both as a result of WMMIC’s experience and the reinsurers’ book of business across the United States), exposures changes, retention changes (both the City’s and other WMMIC members), loss experience of other WMMIC members, and WMMIC’s administrative costs.

These losses did directly result in the City’s retention increasing from $300,000 to $500,000 in the last couple of years. This change was an underwriting decision made by WMMIC and its board as a result of the three law enforcement claims described above.

Please let us know if you have additional questions.