

CITY OF MADISON  
**INTER-DEPARTMENTAL**  
CORRESPONDENCE

DATE: August 24, 2006

TO: Alder Austin King, Council President  
Members, CCOC

FROM: Dean Brassler, City Comptroller

SUBJECT: **Insurance Fund Charges**

At its meeting of August 1, 2006, the Common Council Organizational Committee requested additional information regarding the Insurance Fund expense allocations to the Council Office budget for 2007. I am writing in response to that request. I would also be happy to provide an additional explanation at a subsequent CCOC meeting if you are interested.

As with most individual, corporate, and government entities, the City must protect itself against liabilities associated with loss of property and personal injury. As such, the City pays insurance premiums to protect against the financial impact of significant potential losses. For property loss, the City is insured through the State administered Local Government Property Fund. For liability, the City is insured through its participation in the Wisconsin Municipal Mutual Insurance Corporation (WMMIC), which includes several Wisconsin municipal and county governments that have pooled their respective resources to provide group insurance protection. Under the WMMIC structure, the City pays an insurance premium to cover catastrophic losses totaling more than \$1,900,000 per year. For annual losses totaling less than \$1,900,000, the City is "self-insured," using accumulated reserves to pay claims.

The City administers its insurance programs using a segregated Insurance Fund. Annually, as part of the operating budget process, the Common Council adopts a budget for the Insurance Fund, which includes "premiums" allocated to City agencies. In this way, each agency provides for its respective portion of the Citywide insurance program costs. Individual agency premium allocations are based on several factors including agency size, whether an agency maintains a physical plant, and actual loss experience attributable to each agency's respective operations during the previous five years. Since 2000, the total premium allocated to agencies has been approximately \$1,000,000 annually. The vast majority of the allocated premiums are paid by the large field agencies and those agencies with the most significant building values such as Police, Streets, Fire, Parks Monona Terrace and the Water Utility. Insurance Fund charges to Madison Metro Transit are relatively low when compared to the agency's size, because Metro is insured for general and auto liability losses separately through a separate municipal insurance pool, Transit Mutual Insurance Company of Wisconsin (TMICOW).

The 2007 insurance-related premiums for the Council Office are the result of WMMIC-related costs to enlist outside counsel arising from two lawsuits filed against the City as a result of Common Council actions. In 2004, WMMIC incurred a liability of \$29,941 in conjunction with the "Pay-Day Loan" lawsuit; in 2005, a \$45,500 liability was incurred in association with the Tavern League lawsuit regarding the two-for-one drink specials legislation. Together, these charges result in a \$16,077 insurance premium for the 2007 budget. This is an increase of \$10,103 when compared to the \$5,974

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insurance fund charge included in the Council Office operating budget adopted for 2006.

The City Insurance Fund must, in order to remain solvent, recover its costs. City agencies, as part of managing their operations, are held accountable for losses via the insurance premium allocations. To maintain a consistent system of insurance cost allocations, it is appropriate that liabilities incurred for lawsuits that arise from Council action are allocated to the Council Office budget.

I hope this memo provides the information you requested. I would look forward to the opportunity to address this question in greater detail, or to discuss any additional City insurance questions you may have, at your convenience.

cc: Lisa Veldran, Council Office  
Dan Bohrod, Budget Analyst

Attachments