

## COMMITTEE OF THE WHOLE (WORKING SESSION) – APRIL 10, 2012

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### COMMUNICATIONS

<u>Distributed at the April 10, 2012 Committee of the Whole (Working Session) meeting</u>		<u>Item No.</u>
C1.	Presentation material	1
C2.	Ms. Carrie Liddy, dated April 9, 2012.	1
C3.	Mr. Richard Lorello, dated April 9, 2012.	1
C4.	Confidential material.	1
C5.	Presentation material	2

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Please note there may be further Communications.



CI  
WS - April 10/2012  
Item #1

4/5/2012

# Insurance & Risk Management

## Committee of the Whole Working Session

### April 10, 2012

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# Insurance Services

## RFP 12-063

- Thorough process supported by independent insurance consultant
  - Good news
  - savings of >\$1M per year, annualized
- Fundamental change in the way insurance program will be administered
- Presentation will inform Council's April 17th decision
- Time is of the essence

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# Vaughan's Premium Increases

Year	Premium
2006	\$1,320,194
2007	\$1,276,169
2008	\$1,263,065
2009	\$1,516,178
2010	\$2,303,904
2011	\$3,464,262

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# Improved Competitive Bid Process

Year	Qualified Proposals
2006	1
2008	3
2010	0 (2008 contract extended)
2011	1
2012	3

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## RFP 2012

- Municipal insurance field is specialized
- Limited number of providers
- Broaden terms of RFP to create environment for competitive proposals
- Evaluation criteria and process to allow fair comparison between traditional and reciprocal insurance provider



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## Pre-RFP

- Request for Expressions of Interest
  - raise awareness and identify barriers to bidding
  - approached insurance industry
- Potential proponents asked to comment on City's standard RFP for General Insurance & Risk Management Services
  - identified potential limitations and issues
  - sought suggested improvements



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## Expressions of Interest

5 submissions received:

- BFL Canada
- Ontario Municipal Insurance Exchange (OMEX)
- Frank Cowan Company (current provider)
- CG & B
- Jardine Lloyd Thompson



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## Changes to RFP to Identify Best Insurance Solution Possible

- Scope of request expanded to allow reciprocals to bid
- Encourage alternative options
- Flexibility to consider changes to coverage
- Consider increased limits, deductibles
- Invite options for extended pricing periods




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## RFP-12-063


- 3 qualified proposals
- Frank Cowan Company
- BFL Canada
- OMEX (Reciprocal)



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## RFP Evaluation Process


- 5-member evaluation committee comprised of staff from Purchasing, City Clerk's Office, Finance and the City's insurance consultant
- Evaluation criteria established in RFP included:
  - Completeness of response
  - Services to be provided and diversity, experience, knowledge and ability of team to deliver services
  - Value of services
  - Any enhancements or alteration to insurance coverage which achieves measurable benefit to City
  - Financial stability of proponents' reinsurers or underwriters
- Each proponent made presentation, was interviewed on proposal before evaluation committee



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## RFP Evaluation Results


- Coverages offered by proponents similar
- Qualifications of proponents' staff and management similar
- Distinguishing difference in proposals is cost and policy period offered
- OMEX offers the lowest premium and highest limits with comparable cover age
- OMEX proposal awarded highest score



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## OMEX Offers Significant Savings

- Current premium at Cowan \$3,464,282
- OMEX annualized premium \$2,363,320
- Current premium 47% higher than OMEX
- On premium cost alone OMEX lowest, BFL second lowest, Cowan highest



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## OMEX Offers Higher Limits

Insurance Premium Cost Comparison			
Company	Limit	Deductible	Annual Premium
Incumbent FCC	\$10 Million	\$50,000	\$3,464,282
OMEX*	\$50 Million	\$50,000	\$2,363,320
* Annualized Premium Comparison based on present rate			



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## Policy Periods

- OMEX policy terms are guided by underwriting period (statutory)
- Commences January 1 of a policy term year to January 1 of following year
- OMEX provided quote for 2012 (8 months) of current policy period and guaranteed rate for further year (2013)
- OMEX effectively quoted for 20 months



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## Traditional Insurance vs. Reciprocal

- Traditional insurance companies like Frank Cowan operate for profit. Insureds pay a premium to transfer risk. The transfer of risk includes paying for; losses, claims management and insurance services.
- Reciprocal exchange arrangements are membership-owned and each member takes a share of the risk. OMEX is a not-for-profit insurance reciprocal owned by member municipalities, licenced and governed by the Insurance Act and monitored by the Financial Services Commission of Ontario.



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## Traditional Insurance Claims Process

- Under traditional insurance City immediately must report most claims to Insurance company (very minor claims excepted)
  - Insurer sets aside (reserves) for each claim based on analysis of claim.
  - Insurer has sole authority to settle with limited input from City in settlement of claims
  - All such claims impact City's Claims History
  - 64% of City's liability claims have been closed or settled under the \$50,000 deductible
- Current reporting arrangement provides City with little input on claims handling



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## OMEX Claims Process

- City's best interest to ensure claims investigated and resolved promptly
- City's best interest to have input into claims handling
- All claims will be handled with staff direction to reduce the impact to the City's overall claims experience
- Claims that resolve under the deductible will not be referred to OMEX



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## OMEX Claims Process – Additional Benefits

- Prompt resolution where possible supports improved customer service to residents who assert claims, allowing early identification of opportunities to settle
- Prompt investigation supports City's Risk Management Strategy by informing operational decisions to reduce re-occurrence of similar incidents
- City's operational departments can address areas of repeat exposure more promptly



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## Reciprocal Membership

- OMEX is a reciprocal insurance exchange
- Requires municipalities to join as Members
- Premiums are collected and used for benefit of Members
- Insurance renewal is automatic unless Member provides notice and withdraws from the reciprocal before the next policy period
- Annual premium is based on rates negotiated by OMEX with its reinsurers, operating costs and overall loss experience
- OMEX is audited annually and Members receive a Financial Report



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## Reciprocal Membership (cont'd)

- Reciprocal Agreement between OMEX and Members contains conditions for membership, including financial liability to Members
- Objective of reciprocal is to receive sufficient premium from Members to satisfy all losses incurred during the policy period, even if losses are not known until following expiry of policy period
- Premiums collected may result in surplus or shortfall which is shared proportionately among Members
- Unexpected losses or losses incurred but not reported can give rise to shortfall in premiums collected



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## Retro-assessments

- Where shortfall occurs during period of Members membership, OMEX may assess a retroactive levy to distribute the shortfall proportionately among Members
- Obligations with respect to shortfall related to a specific period of time continue even if the Member withdraws from the reciprocal
- Over the 12 years from 1998 to 2009 York Region paid retro-assessments which added 35% to their total insurance premiums for the period
- OMEX currently has 20 Members including Brampton, London, and Windsor
- In recent years, some Members left due to retro-assessments



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## Improvements at OMEX

- OMEX recognizes that its history of retro-assessments can be attributed to poor decisions made during earlier years
- Having lost membership over the years, OMEX indicates it has corrected conditions that caused this in the past
- OMEX has introduced greater oversight into its underwriting and claims practices to prevent or minimize circumstances where retro-assessments might arise
- OMEX retains an independent actuary to review its reserves and has retained proactive Director of Claims & Litigation and Director of Insurance Services to introduce greater underwriting discipline



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## OMEX Limits Exposure

- OMEX assumes the first \$1.5 Million of every liability claim and every errors & omissions claim; anything in excess of that is reinsured
- Reinsurance limits exposure to OMEX and its Members
- Stop-Loss Insurance to cap any exposure to \$12.5 Million, which provides protection against catastrophic loss, further limiting exposure to retro-assessment
- OMEX Members benefit if all Members have good risk management practices and work hard to maintain low loss experience



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## City's Risk Management Program

- OMEX allows City's risk management group greater control over claims up to the deductible limit
- Claims can be handled more efficiently which reduces cost of keeping a claim open or referring file to legal counsel
- City needs to acquire a Claims Management System;
  - \$50,000 approved in 2012 Capital Budget
- City needs a Claims Analyst to manage the claims process, working with the insurance adjuster, legal staff and OMEX
  - one FTE Claims Analyst deferred to the 2013 budget should be implemented immediately (savings in insurance premium provide funding)



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## Managing Claims

- OMEX Membership increases the City's responsibility to manage claims within the deductible
- Good claims management is a sound business practice
- Savings in premiums budgeted can provide funds for Claims Analyst FTE in operating budget
- City's existing practice of retaining services of an independent insurance adjuster and using in-house counsel to manage litigation within the limits of the deductible will be maintained



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## Increasing Property Coverage

- Current property inventory valued at approximately \$418 Million
- OMEX's current program coverage limit \$100 Million for any single loss
- Cost to increase property coverage to \$300 Million for any single loss is \$9,738.
- \$300 Million for any single loss likely quite sufficient. Although a quote can be obtained for cost to go to \$418 Million



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## Recreational Affiliates

- City presently carries liability insurance for recreational groups, associations that cooperate with the City to offer services to the community using City-owned or operated facilities
- Current coverage offers \$1 Million liability with \$1,000 deductible and no coverage for Directors' liability
- Requesting quote from OMEX for \$5 Million liability coverage for Affiliates Directors and Officers liability if available



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## Conflict of Interest Coverage

Conflicts of Interest (unfounded):

- Current coverage \$250,000 limit per claim, no aggregate, no deductible
- OMEX offers \$50 million coverage, with a \$50,000 deductible



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## Existing Liability Claims Follow Cowan

- Responsibility for liability claims arising out of facts occurring prior to date of change April 30 2012, remain with current provider
- Responsibility for errors & omissions/legal expenses are covered under the policy in effect on the date on which the claim is made



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## Premium Savings Fund Software and 1 FTE

- Responsibility for administrative functions, including claims analysis, currently handled by insurance provider, are transferred to City
- Requires technology (software program) and 1 FTE
- Claims Management System (\$50,000) was already approved in 2012 Capital Budget
- 1 FTE Claims Analyst deferred to the 2013 budget should be implemented immediately (savings in insurance premium provide funding)



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## Premium Savings Funds Insurance Reserve

- To protect against the potential of a retro assessment in the future, it is prudent to build the Insurance Reserve by placing into it the balance of premium budgeted in 2012
- Building the Insurance Reserve ensures a contingency to mitigate the impact of any possible retro assessment
- OMEX annualized premium: \$2,363,320
- Current premium at Cowan: \$3,464,282
- Annualized savings approx: \$1.1 Million
- Premium savings 2012 approx: \$ 733,000



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## Recommendations

- Enter into an Ontario Municipal Insurance Exchange (OMEX) Subscriber Agreement for insurance and risk management services commencing May 1, 2012;
- Savings in premiums for 2012 (\$733,000) fund 1 FTE (Claims Analyst) and any balance be transferred into Insurance Reserve to build a contingency balance for potential retro assessments
- Staff report annually through budget process on upcoming annual premiums and projected insurance reserve levels.



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**From:** Carrie <carrie.liddy@sympatico.ca>  
**Sent:** Monday, April 09, 2012 9:44 PM  
**To:** Richard Lorello  
**Cc:** Carella, Tony; Racco, Sandra; Rosati, Gino; Shefman, Alan; Iafrate, Marilyn; Schulte, Deb; DeFrancesca, Rosanna; Di Biase, Michael; Bevilacqua, Maurizio; Abrams, Jeffrey; Caroline Grech; Megan (National Post) O'Toole; Michael McClymont; Noor Javed; Antony Niro  
**Subject:** Re: RFP 12-063 - GENERAL INSURANCE AND RISK MANAGEMENT SERVICES

Dear council,

I also add my serious concerns. The current insurance is indeed a huge problem given the lack of Accountability.

To date NO ONE has been held accountable for the \$2 million in legal fees paid for previous compliance audits and NO ONE has been held accountable for the city bringing a lawsuit against two residents , losing the lawsuit and having to pay (and still NOT properly reported) \$150,000 in damages and \$200,000 in legal fees.

Why is the city planning on hiring another risk management person? We already have one. Based on the millions that taxpayers have already paid for BAD decisions of staff and council, I highly object to giving staff more control over legal fees.

This nonsense has got to stop.

Our premiums will go down when people are held accountable for the millions of legal fees paid using tax dollars, that are STILL not accounted for.

This is another disaster waiting to happen.

On 2012-04-09, at 18:49, Richard Lorello <[rlorello@rogers.com](mailto:rlorello@rogers.com)> wrote:

Mayor and Members of Council

I wish to submit my comments with respect to Item 1 of tomorrow's working session which I will not be able to attend in person.

Not long ago I submitted comments, concerns and analysis with respect to the outrageous insurance premiums that the taxpayers of Vaughan have been force to pay. The City's insurance premium rose to an all time high of \$3.5 million in 2012.

Staff is now requesting council approval to enter into an new insurance agreement with OMEX (Ontario Municipal Insurance Exchange). While on the surface there appears to be a savings of \$1.1 million annually versus the previous insurance agreement with Frank Cowan, the savings are not firm nor locked in.



The new agreement allows for "retro-assessments". In another manner of speaking, the new agreement allows for the new insurer to come back years into the future and reassess the City's premium based on the City's and OMEX members loss claim history. This provision has not been spelled out clearly by staff in their report and to the taxpayers of this City. I ask Council to instruct staff to clearly report the implications of this provision so that all taxpayers and Council may understand and not be left with the false understanding that the City has saved \$2.2 million over the course of the next 2 years.

As an example I would like to illustrate the implications of such an agreement. Attached you will find Report No. 4 of the Finance and Administration Committee from a Regional Council Meeting of April 22, 2010.

In that York Region meeting staff is requesting that;

**"Council authorize a payment up to \$4,936,016, plus any applicable taxes, to the Ontario Municipal Insurance Exchange ("OMEX"), to satisfy the obligation of the Region of York for its unfunded insurance liabilities associated with the period January 1, 2000 to December 31, 2008 to be funded from the 2009 General Surplus"**

It would appear that York Region was being retro-assessed going back "9 YEARS and requesting supplemental insurance costs of \$5 million in 2010". One has to wonder if there are any savings under such an agreement. I recommend that Council request that the appropriate analysis be undertaken and submitted to council before adopting staff's recommendation.

**What are the real savings if any??? Are we not potentially gambling with taxpayers dollars and mortgaging our future by entering into such a volatile agreement???**

There are several examples found online where OMEX has issued retro-assessment invoices going back several years. Among them;

Town of Dundas  
Grey Highlands  
Township of Horton

However I would like Council to review the Town of Whitechurch-Stouffville and why they opted to go with BFL instead of OMEX.

Attached you will also find an analysis by the Town of Whitechurch-Stouffville who apparently opted to choose BFL over OMEX. Their analysis of OMEX should be considered by council. Even after cancelling their insurance with OMEX they still have an exposure from OMEX retro-assessments.

Their report is extensive and is one that should have been presented to Council. There are several comments that are cause for concern.

See section 4. Analysis and Options where it states;

**"In the recent years OMEX has gone through some unprecedented turbulence, which has caused some concerns for all members."**

In order for such an agreement to be in the interest of Vaughan taxpayers, Council should request staff to negotiate a provision to request OMEX for a commitment by OMEX to exempt the City from any retro-assessment for the past period of January 1, 2000 to the date of signing the



agreement. Anything short of an exemption would be considered gambling with taxpayers dollars in my opinion.

It is also my opinion that staff is once again using a superficial solution to the City's insurance premium explosion. The real root cause of our insurance premium woes is and has been poor governance and mismanagement. I do not have to remind council of our insurance loss history and questionable court challenges which have a direct impact on our insurance cost not to mention the implication to property tax increases.

Implementing sound management practices and reigning in staff's insatiable need to spend precious tax dollars was the challenge that Council was elected to undertake.

I am submitting this information in good faith and out of concern for a potential poor decision and for the lack of information that staff has provided to Council yet again.

Sincerely  
Richard T. Lorello

<RFP12-063 General Insurance and Risk Management Services.pdf>

<York Region OMEX Assessment Insurance Costs.pdf>

<OMEX Town of Whitechurch-Stouffville.pdf>



C3

cw(ws)  
April 10/2012  
Item #1

**From:** Richard Lorello <rlorello@rogers.com>  
**Sent:** Monday, April 09, 2012 6:50 PM  
**To:** Carella, Tony; Racco, Sandra; Rosati, Gino; Shefman, Alan; Iafrate, Marilyn; Schulte, Deb; DeFrancesca, Rosanna; Di Biase, Michael; Bevilacqua, Maurizio; Abrams, Jeffrey  
**Cc:** Caroline Grech; Megan (National Post) O'Toole; Michael McClymont; Noor Javed; Carrie Liddy; Antony Niro  
**Subject:** RFP 12-063 - GENERAL INSURANCE AND RISK MANAGEMENT SERVICES  
**Attachments:** RFP12-063 General Insurance and Risk Management Services.pdf; York Region OMEX Assessment Insurance Costs.pdf; OMEX Town of Whitechurch-Stouffville.pdf

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Sincerely  
Richard T. Lorello



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### OMEX SUPPLEMENTAL ASSESSMENT INSURANCE COSTS

The Finance and Administration Committee recommends the adoption of the recommendations contained in the following report dated March 3, 2010, from the Commissioner of Finance.

#### 1. RECOMMENDATIONS

It is recommended that:

1. Council authorize a payment up to \$4,936,016, plus any applicable taxes, to the Ontario Municipal Insurance Exchange ("OMEX"), to satisfy the obligation of the Region of York for its unfunded insurance liabilities associated with the period January 1, 2000 to December 31, 2008 to be funded from the 2009 General Surplus.
2. The payment be withheld until such time as the supporting documentation in calculation of the amount owed meets the satisfaction of the Regional Treasurer.

#### 2. PURPOSE

This report discloses the supplementary insurance costs being assessed by OMEX for the period January 1, 2000 to December 31, 2008.

#### 3. BACKGROUND

##### **Reciprocal Insurance Exchanges ("Reciprocals") are Licensed and Governed by FSCO**

Like traditional insurance companies, Reciprocals are licensed and governed through the *Insurance Act* and monitored by the Financial Services Commission of Ontario (FSCO). They operate similar to other insurance companies with a few notable exceptions:

- they are not incorporated, but rather are a collection of "members";
- members retain responsibility for funding all liabilities that occur during their membership period until all applicable claims are closed; and
- they operate through a principal attorney with an advisory board.

Provincial regulations dictate that all insurance companies, including Reciprocals, must maintain fully funded reserves in order to cover the cost of all known and potential claims for which it may be responsible. The adequacy of these reserves is determined from time to time by an independent actuarial review. Reciprocals will not usually maintain a large buffer of reserves to cover unexpected claims because of their ability to



call upon its members to make up any funding shortfall through supplementary assessments. This has now changed with the enforcement of Minimum Capital Test (MCT); an initiative to ensure adequate capital exists to provide a cushion for financial institutions during difficult economic times. In the past, Reciprocals have had less stringent capital tests to meet, however FSCO is now exercising their option to enforce these same stringent tests on reciprocal carriers.

### **OMEX Operates as a Reciprocal**

OMEX was licenced as a Reciprocal in 1989. It has grown from eight in 1998 to thirty member municipalities in 2006, principally from its ability to control escalating insurance costs. Four of the nine municipalities in York Region are now members of OMEX. The Region was a member from September, 1996 to December 31, 2009. Through OMEX, the Region purchased insurance coverage for property, transit, auto, crime, boiler and machinery, municipal liability and errors & omissions. The relationship between OMEX and each member municipality is governed by a Subscriber Agreement that was approved by Council and signed in September 1996.

Should a municipality decide to leave OMEX, it still remains responsible for any unfunded liabilities that arose during its membership period including supplemental assessments and any such assessments must be paid immediately upon withdrawal. Any payments made for liabilities that are not eventually realized will be paid back proportionately to each member of the underwriting group regardless of membership status. The Region left OMEX as a member effective January 1, 2010. Insurance coverage is now provided through our broker BFL Canada and our primary insurance company is Travelers/St. Paul's Fire and Marine Insurance Company.

### **OMEX Supplemental Assessments to the Region**

In October 2006, Council reviewed a report that the Region had received a supplemental assessment of \$ 3,365,766 from OMEX for the period 1998 to 2005. Council approved the staff recommendation that this assessment be paid in full immediately from 2006 surplus funds.

In 2008, Council approved payment of supplemental assessments to OMEX in the total amounts of \$1,502,599. These payments were made to meet developed reserve requirements and to satisfy a FSCO requirement for OMEX to post higher reserve amounts than in the past.

FSCO has continued to diligently monitor insurance companies' stability with strict enforcement of reserve requirements. The strict adherence to provincial guidelines has been enforced for Reciprocals. Reciprocals reserve requirements were less strictly monitored in past due to ready source of cash on demand by the nature of their clientele.



In order to meet the reserve level obligations dictated by FSCO, and in accordance with OMEX's 2009/10 capital management plan authored by Ernst and Young, OMEX issued another Supplemental Assessment to its members in late December 2009. OMEX has advised that subscriber and ex-subscriber municipalities will be given the option to pay the supplemental assessments over three years starting in 2010. This current supplemental assessment from all current and past subscribers totals approximately \$23M.

In order to provide a more wholesome view of the impact of the insurance premium costs in conjunction with the supplement assessments issued by OMEX to date, see table 1 below. The table illustrates the premiums paid plus the allocation to each year of the subsequent assessments based on actual experience.

**Table 1**  
**Details of OMEX Premiums and Supplemental Assessments**

<b>Year</b>	<b>Total Insurance Policy Premiums</b>	<b>Supplemental Assessments</b>	<b>Total Premiums &amp; Assessments</b>
2009	4,625,341	To date not assessed	\$4,625,341
2008	4,441,003	683,714	\$5,124,717
2007	3,830,363	1,246,971	\$5,077,334
2006	4,920,795	1,137,146	\$6,057,941
2005	3,092,006	2,848,699	\$5,940,705
2004	2,642,599	2,133,306	\$4,775,905
2003	1,459,129	856,137	\$2,315,266
2002	829,957	70,080	\$900,037
2001	638,269	402,855	\$1,041,124
2000	506,494	73,506	\$580,000
1999	554,657	21,463	\$576,120
1998	479,088	91,996	\$571,084
Reallocated Arbitration Amount		238,505	
<b>Total Costs to date OMEX</b>	<b>\$28,019,701</b>	<b>\$9,804,378</b>	<b>\$37,824,079</b>

In 2010 we moved to traditional insurance premium coverage at a cost of \$4,794,686.

#### **4. ANALYSIS AND OPTIONS**

Due to the late notice received by municipalities regarding this assessment many subscribers had concerns and issues. On January 18, 2010 the Region and Richmond Hill co-hosted an unofficial OMEX subscriber and ex-subscriber meeting to allow for open discussion of concerns regarding this third supplemental assessment. A professional facilitator was hired to ensure the meeting followed a positive and solution focussed agenda, with a full and well documented report produced at its conclusion. The



meeting yielded a list of solutions, commitments and due diligence requirements from both the subscriber and OMEX perspectives.

This report was presented to the OMEX Board in February. Staff awaits the review and commitment. Of particular importance is the request for a full third party audit of claims reserves and the claim process on which the supplemental assessment is based. It is hoped that OMEX will agree to move this plan forward to provide due diligence in support of this most recent assessment.

It is recommended that York Region's payments of the supplemental assessments be withheld until such time as the supporting documentation in calculation of the amount owed meets the satisfaction of the Regional Treasurer.

## **5. FINANCIAL IMPLICATIONS**

No budgetary provision was made for this supplemental insurance assessment as it was unknown. The full supplementary assessment amount of \$4,936,016 has been expensed in 2009 reducing the surplus that had been previously estimated.

## **6. LOCAL MUNICIPAL IMPACT**

There is no direct local municipality impact with respect to the Region's portion of the supplement. However as four of the nine municipalities are also members, they will also share in their individual portion of any supplemental assessment for their underwriting group.

## **7. CONCLUSION**

This report recommends that the latest Supplemental Assessment charged to the Region by OMEX be paid in 2010 from 2009 General Surplus Funds, once the Regional Treasurer is satisfied with the due diligence conducted by OMEX as requested.

For more information on this report, please contact Tina Gardiner, Manager, Insurance and Risk at ext. 1656.

The Senior Management Group has reviewed this report.





Council in Committee Report  
October 18, 2011

**AWARD OF CONTRACT FOR TOWN INSURANCE PROVIDER – JOINT  
NORTHERN SIX MUNICIPALITIES (N6) OF YORK REGION RFP**

Report prepared by: Director of Finance/Treasurer

**RECOMMENDATION:**

The Director of Finance/Treasurer recommends:

- 1) **THAT Council approve the contract for the Town Insurance and Risk Management Services arising from the joint Request for Proposal (RFP) No. LCSS 2011-03, be awarded to BFL Canada Risk and Insurance Services Inc. for an estimated annual premium of \$248,755.00 (excluding tax and yearly adjustments) for an initial term of eighteen (18) months, with an option to extend for a additional four (4) years subject to satisfactory performance and budget approval for each and every successive year;**
- 2) **AND THAT staff be authorized to include in the budget a portion of the annual savings to cover any potential retro-assessment arising from previous reciprocal coverage to be protected from any future liability;**
- 3) **AND THAT staff be authorized to seek legal advice and pursue on that basis for an immediate exit from the reciprocal insurance agreement, in order to minimize Town's risk exposure about any future liability arising from the current members;**
- 4) **AND THAT the Mayor and the Clerk be authorized to execute any necessary documents, as necessary.**

**1. PURPOSE:**

This report is seeking Council approval to enter into a contract with BFL Canada for Town's Insurance & Risk Management, including the Adjusting Services to BFL Canada for a minimum of eighteen months, including an option to extend the contract for an additional four year term, upon satisfactory performance.

This recommendation is made to Council based on another Joint RFP initiative of the Northern Six York Region ("N6") municipalities.



## **2. EXECUTIVE SUMMARY:**

The Town, among its N6 partners embarked on a joint RFP led by the Town of East Gwillimbury Corporate Services, to test the market for an insurance provider. This process has identified BFL as the preferred insurance broker. It should be noted that BFL also insures the Region of York.

The proposal submitted by BFL meets all Town requirements. While it saves an annual premium of approximately \$150K, the Town may still be exposed to additional retro-assessment from its previous reciprocal insurance provider (OMEX). It is recommended that a portion of the savings be held in reserve, to be used in the event of a retro-assessment.

## **3. BACKGROUND:**

As staff have previously reported to Council, the Northern Six municipalities (N6) of York Region have been continually collaborating on a number of operational and administrative projects seeking innovative ways to create efficiencies, as well as investigating various potential cost avoidance issues.

Town Council received an update on the status of various N6 projects in May 2011, including the plan to investigate potential savings for insurance services.

Under the direction of the N6 CAOs group, the N6 group, led by staff of the Town of East Gwillimbury, recently issued a Request for Proposal for Insurance Services for an intended five year term, beginning January 1, 2012. The purpose of the N6 RFP was to source the municipal insurance markets and obtain the best coverage for the best value/price.

## **4. ANALYSIS & OPTIONS:**

### Ontario Municipal Insurance Exchange (OMEX)

OMEX is Ontario's only licensed, not-for-profit municipal reciprocal insurer. Municipalities created OMEX 20 years ago when private sector insurers left a vacuum in the municipal market because they were unable to achieve sufficient profit. Reciprocals are not-for-profit organizations that are owned and operated by their members. OMEX members pool their coverage, sharing in the risks and rewards of working together to manage insurance costs.

A reciprocal insurance company operates similar to other insurance companies in issuing policies, charging premiums, transferring risk to re-insurers and paying for claims. They are, however, a member-governed alternative to the conventional insurance market.



Generally, reciprocal insurance fees or premiums reflect the true cost of claims. Members agree to share these costs according to the formula set out in the Reciprocal Agreement. The main difference is if a member pulls out of the agreement, they will still be responsible for the costs incurred through the period when the municipality was a member of the reciprocal coverage through OMEX.

The Town's current insurance portfolio (along with five other municipalities of the N6 group) has been placed with the Ontario Municipal Insurance Exchange (OMEX). The Town of Whitchurch-Stouffville joined and became a member of OMEX in 2001 and has enjoyed a great partnership with OMEX, through many years of hard market. OMEX exists to serve its members, not to make a profit. In the recent years OMEX has gone through some unprecedented turbulence, which has caused some concerns for all members.

Being an independent and "reciprocal" insurance provider, OMEX is accountable to Financial Services Commission of Ontario (FSCO). In late December of 2009, OMEX was also requested by FSCO to issue retro-assessment fees to cover the past claims cost (not necessary Town's), and to increase 2010 premiums to ensure proper cost coverage for the future. As result, the Town's 2010 and 2011 insurance premiums increased considerably to reflect both the necessary increases in the insured values of its assets and today's market trend toward significantly increased insurance costs. In order to address these issues, in 2010 OMEX was requested by its members to engage Ernst & Young to prepare a Capital Management Plan that would proactively address all of the reciprocal's past liabilities, and future needs in the face of regulatory change and growing insurance costs. The Plan's recommendations, which involved significant financial restructuring, have been approved by OMEX's Board.

FSCO, in December of 2009 required much higher Minimum Capital Test (MCT) for all reciprocal insurers. In effect, this forces OMEX to transition away from simple cost recovery and to build its surplus reserves. OMEX will return unused surplus to municipalities when an underwriting period no longer has outstanding liabilities. This necessary change in OMEX's financial strategy did reduce the likelihood of future supplementary retro-active assessment and enhance the municipalities' investments in the insurance reciprocal that is however, dependent upon the member's claims history and the final settlements.

#### Today's Insurance Market

Ontario municipalities, similar to the private sector, are facing significantly higher insurance costs. The provincial insurance regulator, Financial Services Commission of Ontario (FSCO), which oversees the reciprocal insurance industry, requires that all insurers take steps to ensure that they have enough reserves to protect against claims and investment volatility.



The cost of municipal insurance claims has been growing at an alarming rate, directly affecting the cost of municipal insurance. The Association of Municipalities of Ontario (AMO) and others are working to achieve *Insurance Act* reforms related to "Joint and Several Liability" that will help address the rising insurance costs for all municipalities.

#### Issuance of Request for Proposal (RFP)

Consistent with the Town's Strategic Plan, N6 CAOs and other Town staff consulted with other municipalities and researched options in order to identify a solution that would allow the Town to continue with its current level of insurance coverage, while ensuring the sustainability and affordability of such policies. As such, a decision was made to issue a RFP in order to test the market. The group also agreed to retain an insurance consultant to manage the process for the N6 group, and to provide valuable expertise in the technical areas of policy wording and coverage evaluation.

The RFP was issued in January of 2011. Proponents had the option of providing a proposal for the N6 as a whole and/or providing a separate/individual proposal for their selected municipalities. While no proposals were received related to the entire group, the Town received four proposals, or all of those who participated in the competitive process. While Town's current deductible is set at \$5,000, proponents were asked to quote on various deductible levels (e.g. \$5,000, \$10,000, etc). The premium quoted in the recommendation above reflects a \$5,000 deductible, which will maintain the current Town deductibles.

A Committee comprised of staff from the N6 group had been formed not only to develop the RFP, but also to evaluate the proposals based on criteria set out in the RFP. The Director of Finance/Treasurer represented the Town in this process.

The agreed upon evaluation criteria included experience of team, coverage, services, pricing and ease of transition with a maximum point total of 1000 points. The proposals were reviewed by the individual municipalities independently, then by the collective municipalities and finally by the consultant. The RFP identified an opportunity for an interview process and the N6 recently interviewed one proponent - BFL Canada Risk and Insurance Inc. (BFL).

BFL scored the highest overall collective average rating of (881.3) and staff are recommending that the Town's insurance coverage and risk management services be placed with BFL for the specified term with an option to extend for an additional four years, subject to satisfactory performance and budget approval.



BFL also provides the other common services usual to a municipality, such as insurance adjusters through Granite Claims Solution, risk profile analysis, historical analysis of losses, contract review services, planning and development of manuals, including risk prevention and training.

The coverage proposed by BFL is identical of those previously provided by OMEX.

## **5. FINANCIAL IMPLICATIONS:**

Brokers, such as BFL, act on behalf of their clients to find the best markets to insure their risks. For this service, brokers receive a percentage of the premium as commission (included in the recommended amount), paid to them by the insurance companies selected. In their proposal, BFL discloses their commission income as a factor of the total premium quoted.

BFL has offered the N6 a 5% premium discount for the 2012 term and subsequent years. In addition, they are offering an 18 month policy to be paid at the beginning of the term. The premium would be based on the quoted amount for the 2012 term plus 50% and is payable upon commencement of the program.

If Council approves the award of the contract to BFL Canada, staff are recommending to include an allowance in the annual budget to cover any potential retro-assessment that may be issued by OMEX to cover the Town's share of liability for the period of time of its membership. Staff also believe that there will be higher adjusting fees to have any potential risk under control.

Staff will include these items in the 2012 operating budget for Council's consideration.

## **6. ALIGNMENT WITH STRATEGIC PLAN:**

This report is aligned with the Town's Strategic Plan in the following manner:

### ***2. Fiscal Stewardship & Asset Management***

- 2.1 Increase revenues and reduce costs
- 2.3 Explore partnerships to deliver new infrastructure/services
- 2.4 Long term asset management and infrastructure planning, including adequacy of reserves



3. *Municipal Services and Innovation*

- 3.1 Enhance teamwork and promote collaboration
- 3.3 Enhance corporate support including human resources, staff training, information technology, purchasing and communications.

4. *Customer Service and Communications*

- 4.1 Attention to customer/client service excellence
- 4.2 Enhance two-way communication with all stakeholders

**For further information on this report, please contact Marc Pourvahidi  
Director of Finance/Treasurer at 905-640-1910 or 1-800-642-8697 ext. 2245  
[marc.pourvahidi@townofws.ca](mailto:marc.pourvahidi@townofws.ca)**

**7. ATTACHMENTS:**

None



C5 cw(ws)  
April 10/2012  
Item #2



# Working Session Report on Streetscaping

April 10, 2012



# Outline.



- History of Streetscaping in Vaughan
- Why we do Streetscaping & What are the Benefits
- Streetscaping Planning Strategy
- Implementation Opportunities & Challenges
- Information is Critical
- Financial Risk
- Elements of Fiscal Impact Analysis
- Focus Questions on Streetscaping
- Suggested Elements of Review
- Proposed Next Steps



# History of Streetscaping in Vaughan

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- 1st streetscaping project: Maple Streetscape Plan
- Council Approved in 2003
- 1st elements built in 2004
- Sections built as conditions of site plan approval
- Some sections built by City
- Primarily funded through Keele Valley fund
- Outstanding key streetscape elements:
  - Planters with seasonal planting at intersections
  - Pedestrian lighting with hanging baskets
  - Signage at 4 gateways into village
- Programmed and funded in partnership with Region under the Municipal Streetscape Partnership Program (MSPP)

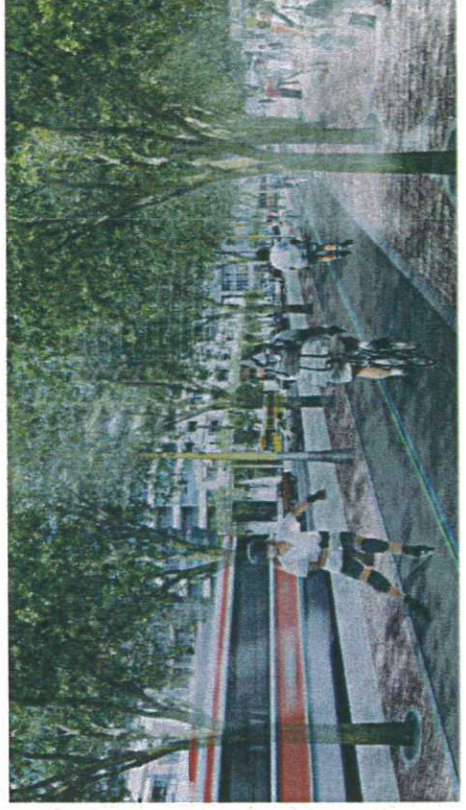




# Why we do Streetscaping & What are the Benefits



- Streetscapes are a vital component of “City Building”
- The design and quality of public realm affects its use, investment and overall livability of their communities

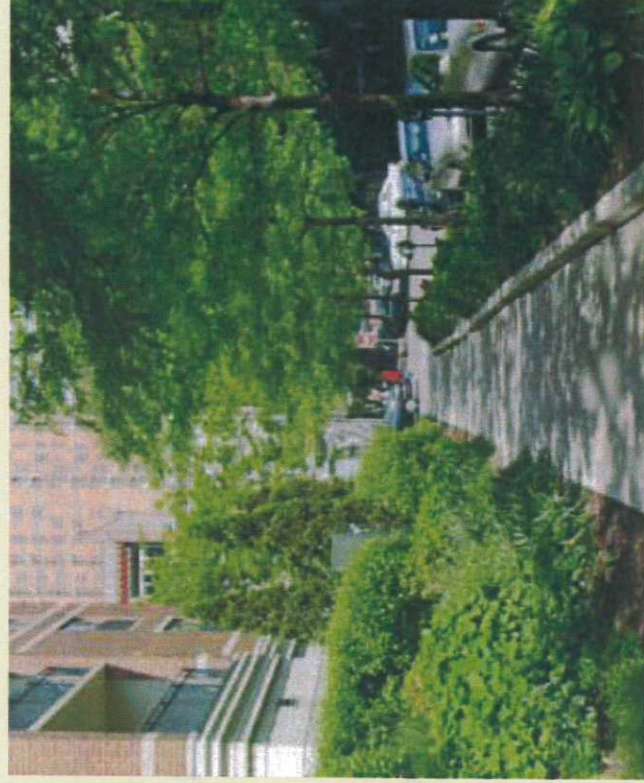




# Why we do Streetscaping & What are the Benefits



- Community participation is an important part of the streetscape design decision-making process





# Streetscape

## Planning Strategy

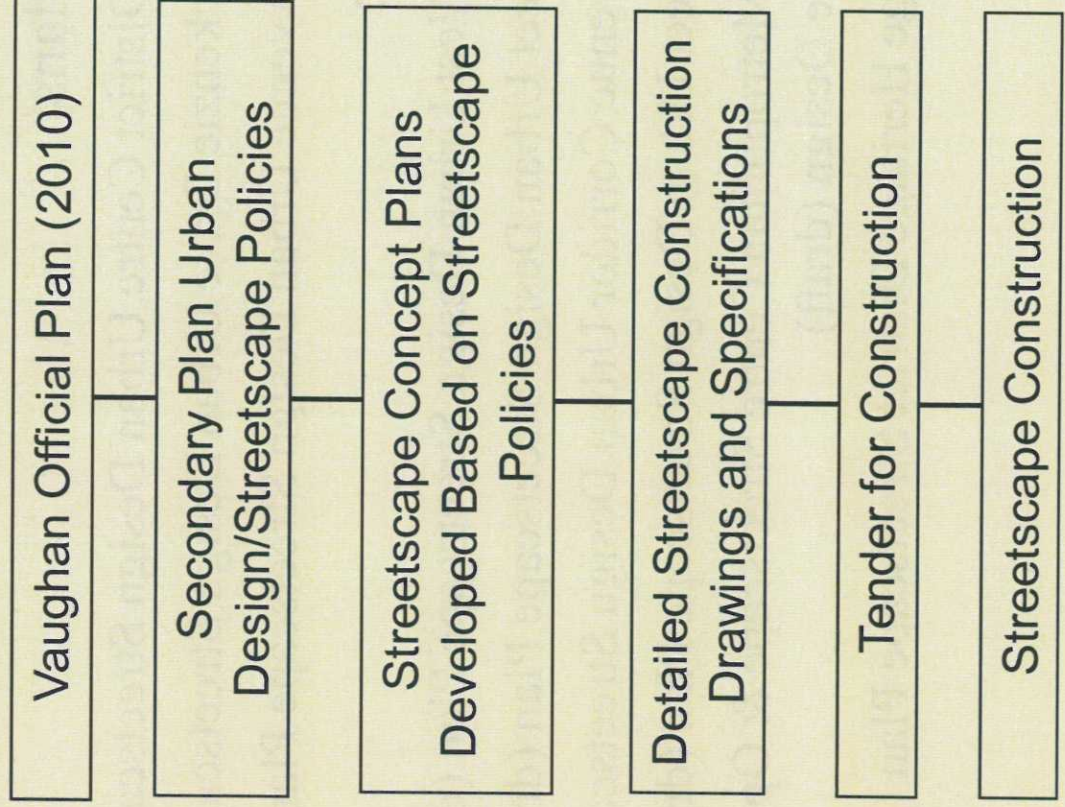
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- The City currently initiates streetscape plan studies developed for our planned urban intensification areas, established heritage districts, historically significant areas, and the Vaughan Metropolitan Centre (VMC)
- The Streetscape Plan provides the vision, layout and detailed design of private and public streetscape spaces, as well as a streetscape framework to guide development
- Streetscape Plans are a vital component in the successful implementation of Mobility Hubs (VMC & Steeles West OPA 620)



# Streetscape Planning Strategy





# Streetscape

## Planning Strategy

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### ■ Approved Plans:

- Carrville District Centre Urban Design Streetscape Plan approved in 2009
- Major Mackenzie Drive Urban Design Streetscape Plan approved in 2010
- Islington Avenue Urban Design Streetscape Plan approved in 2011

### ■ Other Plans:

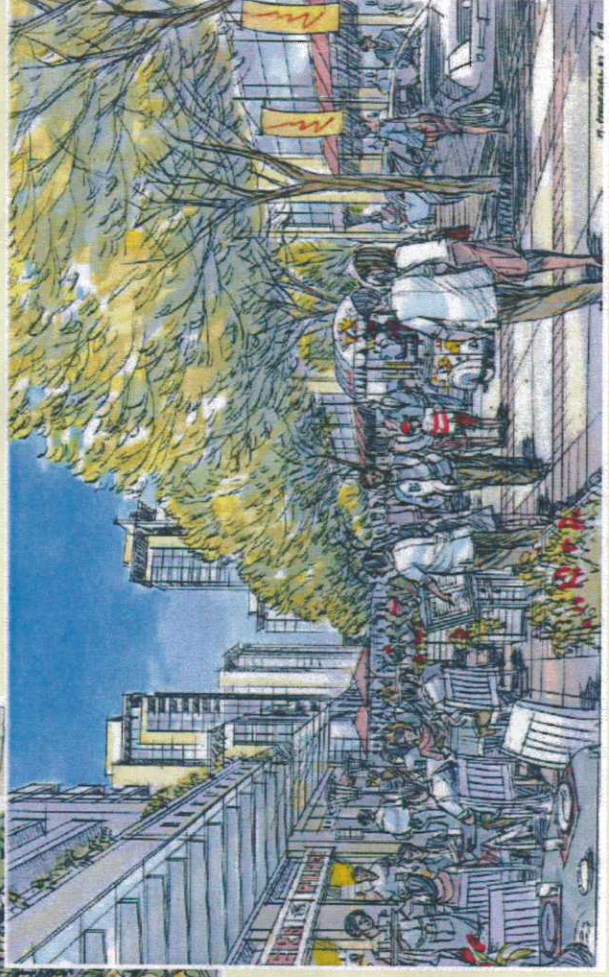
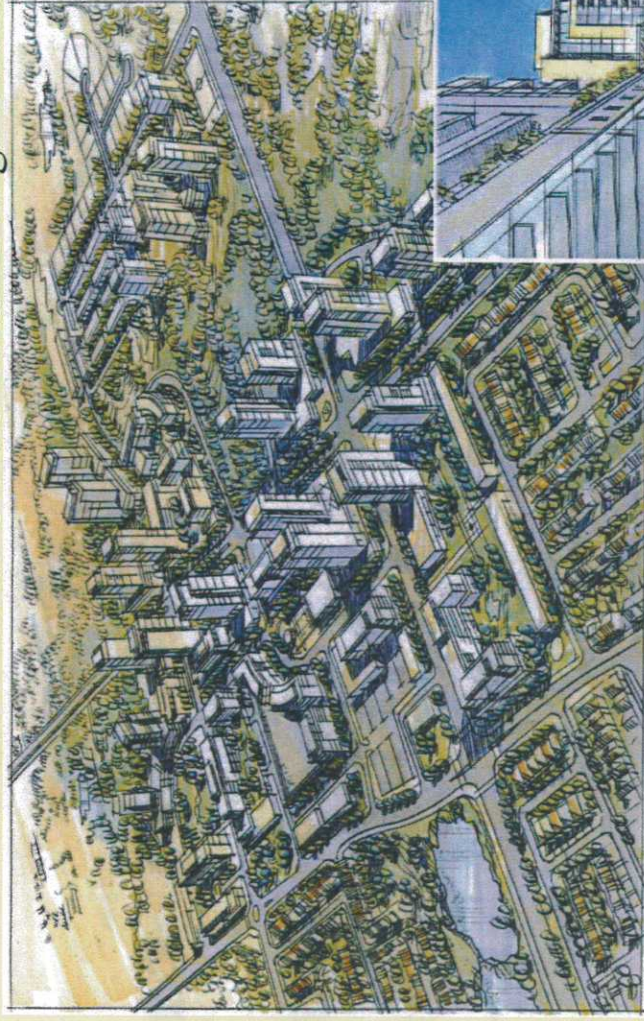
- Concord West Urban Design Streetscape Plan (draft)
- Centre Street Urban Design Streetscape Plan (draft)
- Steeles Avenue Corridor Urban Design Streetscape Plan (draft)
- Yonge Street Urban Design Streetscape Plan (draft)
- Vaughan Metropolitan Centre Streetscape & Open Space Plan Highway 7 Streetscape Design (draft)
- Woodbridge Heritage District Streetscape Plan (budget approved 2012)



# Streetscape Planning Strategy



## ■ Carrville District Centre Urban Design Streetscape Plan

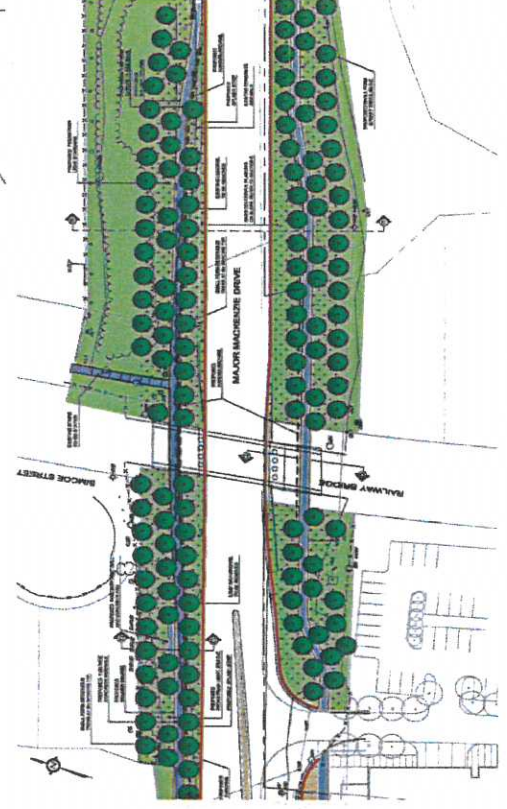
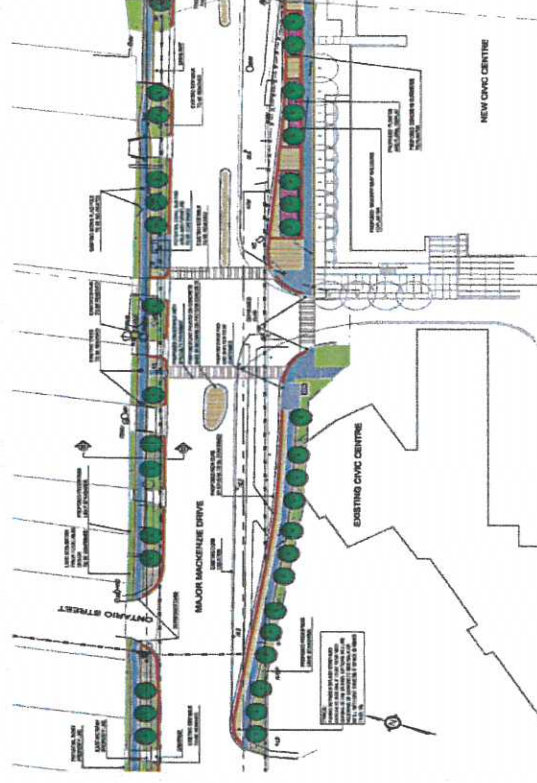
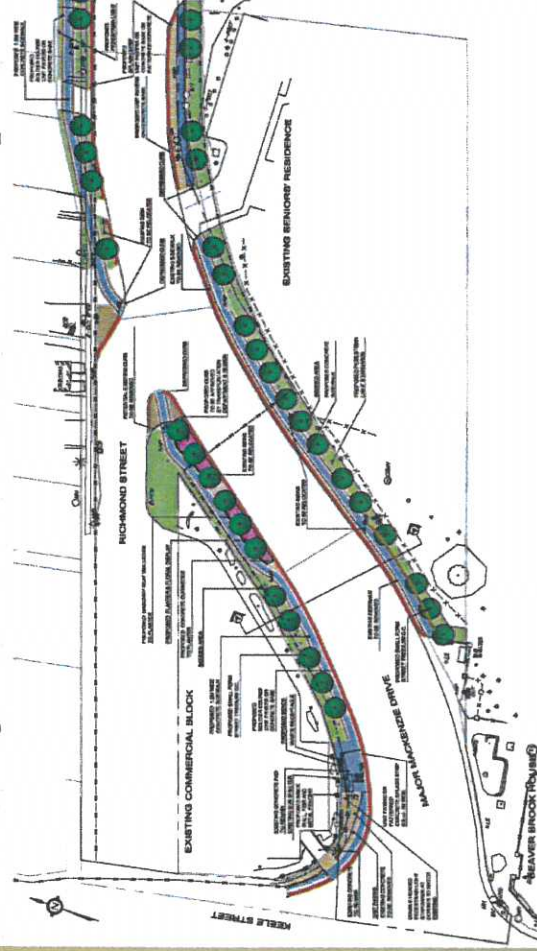




# Streetscape Planning Strategy



## Major Mackenzie Drive Streetscape Plan

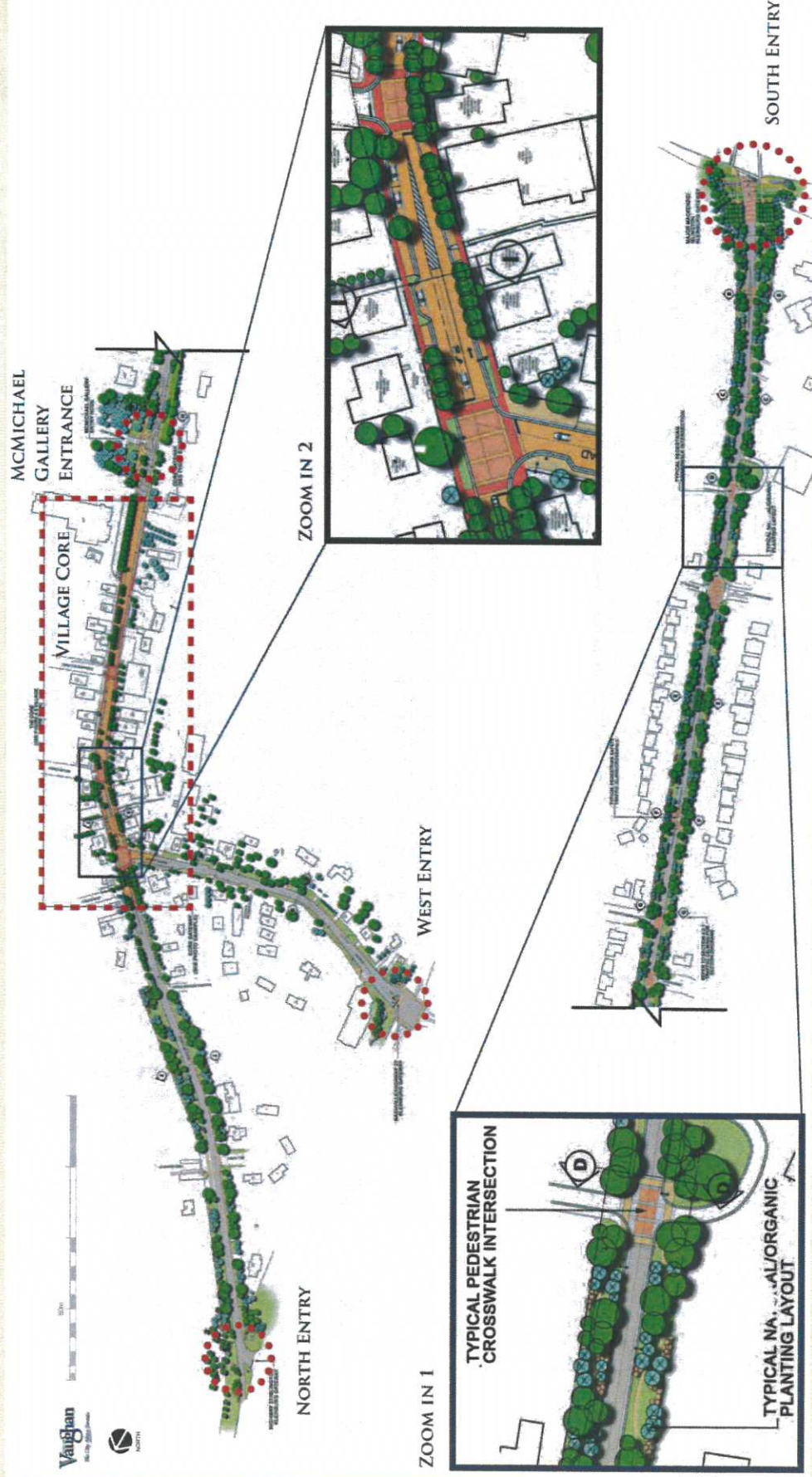




# Streetscape Planning Strategy



## ■ Islington Avenue Urban Design Streetscape Plan

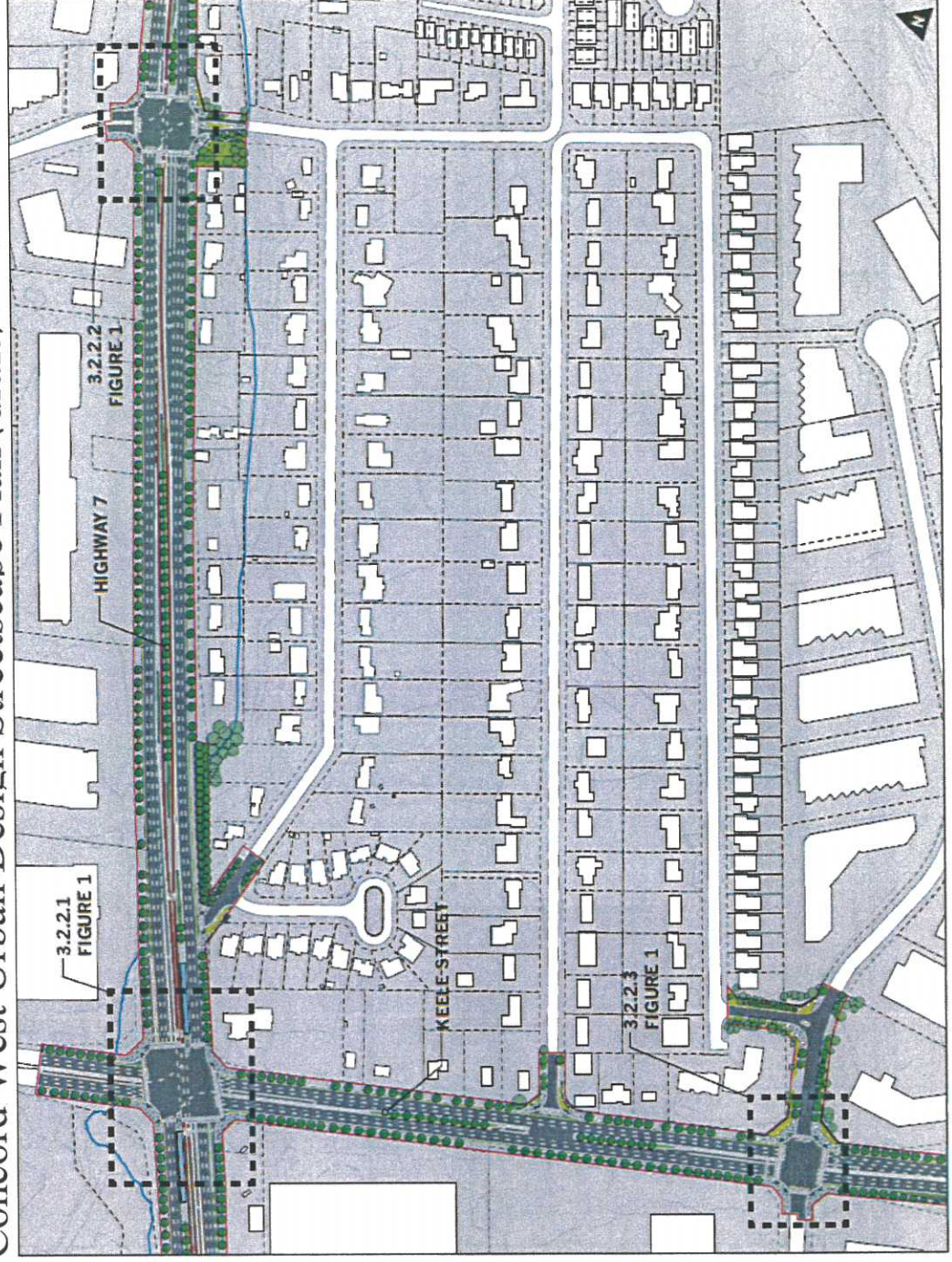




# Streetscape

## Planning Strategy

### ■ Concord West Urban Design Streetscape Plan (draft)

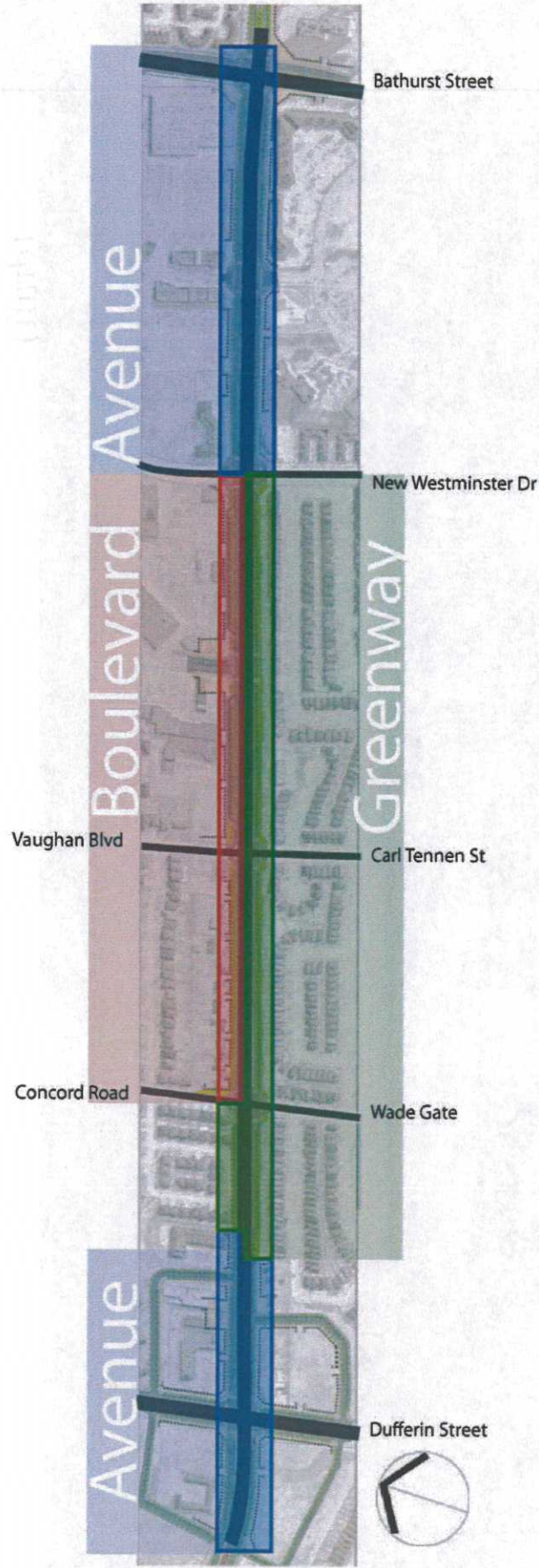




# Streetscape Planning Strategy



## ■ Centre Street Urban Design Streetscape Plan (draft)



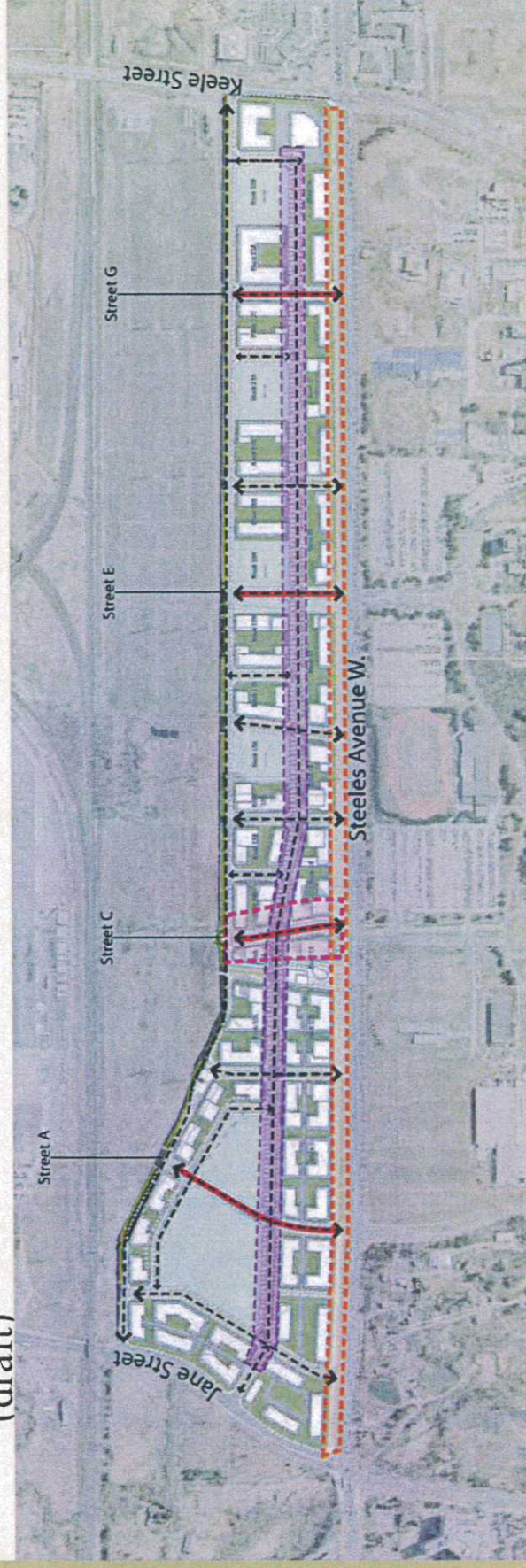


# Streetscape Planning Strategy



## ■ Steeles Avenue West Corridor Urban Design Streetscape Plan

(draft)



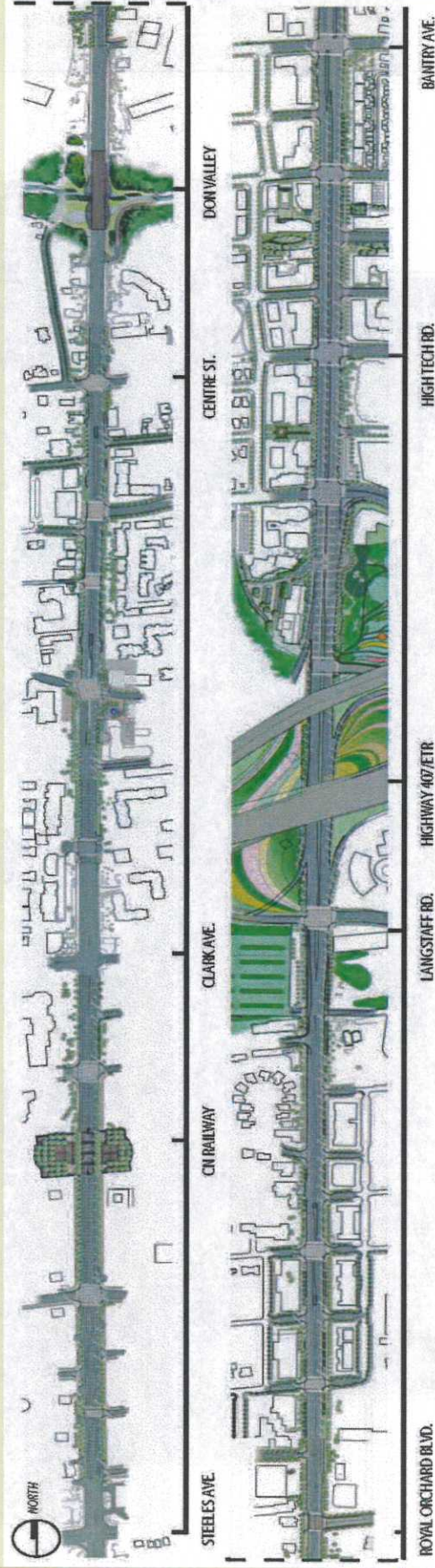


# Streetscape

## Planning Strategy



- South Yonge Street Corridor Urban Design Streetscape Plan  
(draft)

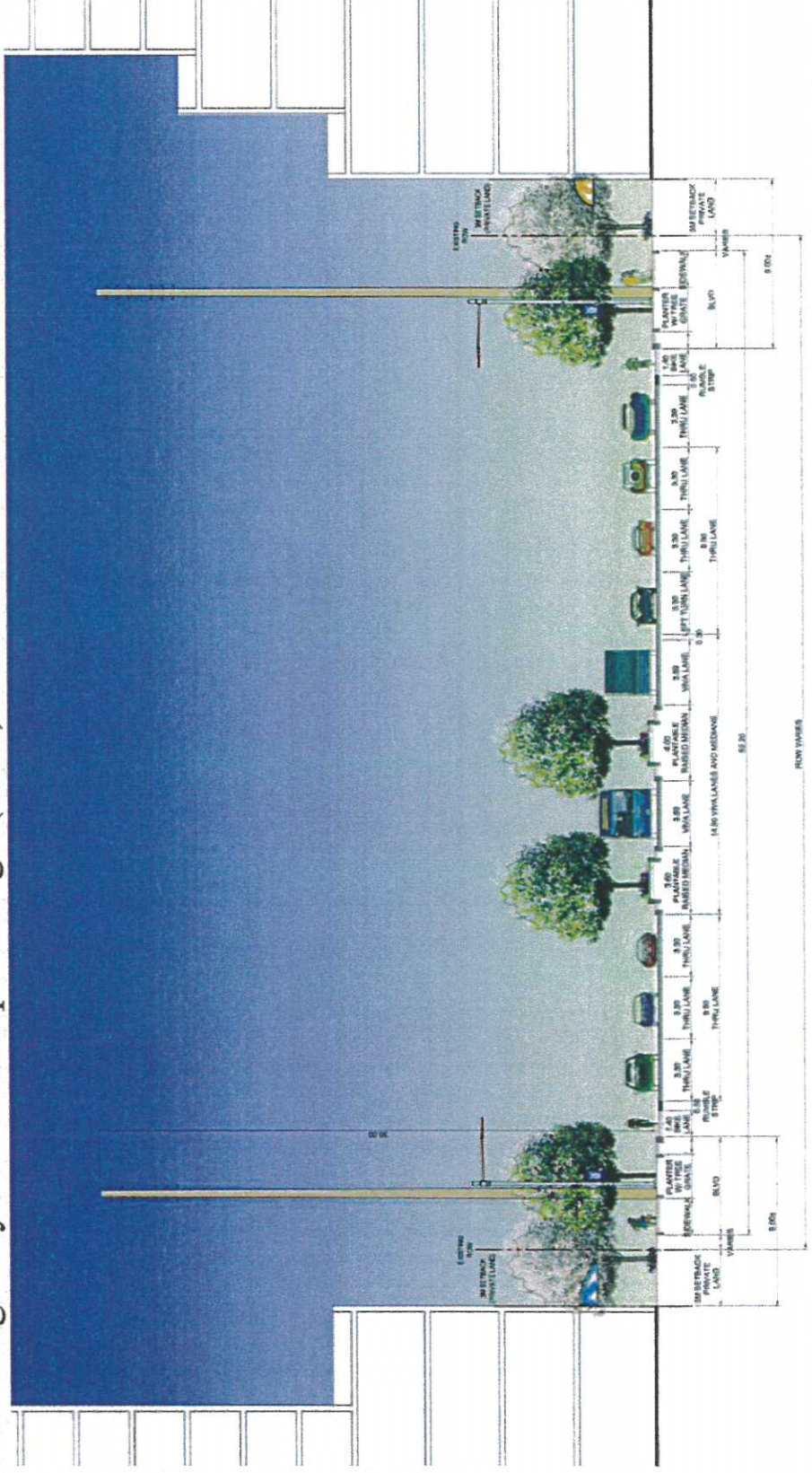




# Streetscape Planning Strategy



- Vaughan Metropolitan Centre Streetscape & Open Space Plan
- Highway 7 Streetscape Design (draft)





# Implementation Opportunities & Challenges

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- Opportunities:
  - Integration with new community development as condition of approval (leverage capital investment from private sector)
  - Partnership funding (shovel-ready position)
  - Engaged, willing host communities (BIAs, CIPs)
- Challenges:
  - Lack of Capital Funding
  - Lack of Lifecycle costing Information
  - Sustainable operational and replacement funding
  - Pre-set high community expectations



# Information is Critical

- Service level changes may have immediate and longer term funding implications
- A number of streetscape enhancements are recommended; i.e.
  - New decorative paving materials (concrete vs. asphalt),
  - Enhanced landscape displays, benches, and street furniture,
  - Different planting typologies,
  - Pedestrian lighting and banners,
  - etc.
- Service adjustments can impact on acquisition, maintenance and replacement costs
- Financial and service level information will help the decision making process

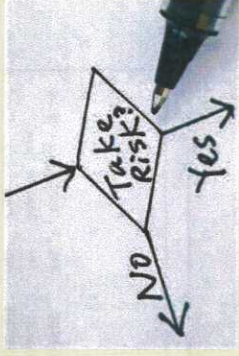




# Financial Risk



- Additional or enhanced streetscapes can:
  - Exceed available developer funding?
  - Increase related operating costs?
  - Increase replacement funding and affect annual lifecycle contributions?
- The potential magnitude is significant ( millions )
- Shortfall funding defaults to tax, unless other sources are secured
- A sustainable approach to streetscapes is needed





# Elements of a

## Fiscal Impact Analysis



- Review current service levels and associated costs
- Define any service level changes and associated costs
- Identify funding gaps and challenges
- Validate service levels and enhancement options
- Develop an option matrix
- Propose service level and funding scenarios to Council



Sample illustration:

Financial Impact Analysis – Service Level Comparison

Current Service level	\$ Source	Amount	New Service level	\$ Source	Amount	Difference
Service level A						
Acquisition	DC	100,000	Acquisition	DC	200,000	100,000
Maintenance	Tax	12,000	Maintenance	Tax	19,000	7,000
Replacement cont.	Tax	10,000	Replacement	Tax	20,000	10,000
Service level B New						
Acquisition	Tax	75,000	Acquisition	Tax	75,000	
Maintenance	Tax	5,000	Maintenance	Tax	5,000	
Replacement cont.	Tax	5,000	Replacement cont.	Tax	5,000	
Funding Shortfall						202,000



# Focus Questions on Streetscaping

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- Should there be a standardized approach to streetscaping throughout the City that uses a classification system to group streets with similar typologies and character, and assign appropriate design treatments/elements to them?
- Should a standard streetscape palette of materials be developed for all streetscape classifications in consultation with City Departments?
- Should streetscapes include pedestrian lighting as a standard element?
- Does a long term financial impact analysis and funding strategy need to be developed as part of a City-Wide Streetscape Manual for all planned streetscaping areas in Vaughan?



# Suggested

## Elements of Review

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- Full life-time costing of a full palette of potential streetscape elements.
- Exploration of funding opportunities for all palette elements.
- Development of hierarchy of fully-costed implementation opportunities for resident, stakeholder and Council consideration.
- Development of potential Vaughan street typologies with integrated cost data and proposed funding strategies.



# Proposed Next Steps

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- Develop a sustainable, standardized approach to City-Wide streetscapes including a Fiscal Impact Analysis and Funding Strategy
- Develop an RFP and review funding options to retain a multi-disciplinary firm with expertise required in Planning, Urban Design, Financial Management, Operations and Engineering, to prepare a City-Wide Streetscape Implementation Manual and Financial Strategy, and report back to a future Committee of the Whole



# Questions

