

- SUBJECT:** Options for small cities purchasing insurance
- COMMITTEE:** Urban Affairs — committee substitute recommended
- VOTE:** 7 ayes — Carter, Bailey, Burnam, Clark, Ehrhardt, Hodge, Najera
0 nays
2 absent — Edwards, Hill
- WITNESSES:** For — Gary Ernest, city managers and mayors under 25,000 population

Against — Tony Koriath, Texas Municipal League Intergovernmental Risk Pool
- BACKGROUND:** Local government Code, sec. 252.021(b) requires a city with a population of less than 100,000 to use a competitive sealed bidding process if it enters into an insurance contract that requires the city to spend more than \$5,000. In a competitive sealed bidding process, bidders on the contract submit sealed bids, and the contract is awarded to the lowest responsible bidder. Notice must be published at least 14 days before the date set for awarding such a contract.
- DIGEST:** CSHB 1029 would give a city with a population less than 100,000 an additional option in how it could enter into insurance contracts costing more than \$5,000. The city could use competitive sealed bidding, as current law requires, or opt for the procedure provided by the bill.
- The city would negotiate for the contract with at least two insurance agents and one intergovernmental risk pool, selecting the lowest and best contract. As soon as practicable after making the selection, the city would publish the name and contract amount of the selected carrier or risk pool, as well as other entities making a proposal. The selection would be published in a newspaper of general circulation in the city.
- The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. The change in law made by CSHB 1029 would apply only to a purchase for which the notice was first published

on or after the effective date of the bill.

**SUPPORTERS
SAY:**

CSHB 1029 would give smaller cities more options and flexibility in the purchase of certain insurance contracts. Under current law, Texas cities with populations below 100,000 must solicit sealed bids to buy worker's compensation, health, general liability, motor vehicle fleet, or other kinds of insurance if those services are valued at more than \$5,000. CSHB 1029 would allow these cities to continue to use competitive sealed bidding, but it would give them another option, allowing them to negotiate for a contract with several insurance agents and a representative of an intergovernmental risk pool.

Insurance plans, especially for health insurance, have become very complex. Mid-size cities have been stymied in their ability to choose the best plans for employees because the law requires these cities to use competitive sealed bidding.

Because insurance plans vary so widely in the extent of services they offer, it has become important for cities to negotiate the best insurance coverage taking into consideration factors other than the lowest cost. CSHB 1029 would allow a city to do just this by requiring it to select the contract that not only is lowest, but also is most appropriate and best suited to local needs.

The bill would help some smaller cities that do not have the staff or legal counsel available to review the submitted proposals and make sure the elaborate competitive bidding process is carried out fairly. Many small cities would like to give their insurance business to local companies, but it can be hard to find local firms willing to submit to the complicated competitive bidding procedure.

**OPPONENTS
SAY:**

The Legislature should be expanding rather than contracting competitive bidding requirements for city insurance contracts. The smaller a city, the more likely it is that it will be flummoxed by the complexities of health insurance proposals. Requiring the city to outline clearly the services it needs and to put out a proposal for competitive sealed bidding is the safest and fairest way to ensure that taxpayers will pay the lowest possible cost for a plan tailored to the city's needs.

Sealed competitive bidding requirements ensure that bids are handled fairly without favoritism or graft. It would be unwise to expand the number of cities that can escape these requirements.

NOTES:

The original bill would have provided that competitive sealed bid requirements for insurance would not apply to cities with populations below 50,000 and that certain other requirements for competitive sealed bids and competitive sealed proposals also would not apply to cities with populations of 50,000 or less.

A related bill, SB 507 by Duncan, which would allow cities with populations between 75,000 and 100,000 to make insurance purchases of \$5,000 or more without using sealed competitive bidding procedures, has passed the Senate and the House and is now in conference committee.