



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 19, 2018

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: ANNUAL INSURANCE RENEWALS INCLUDING LIABILITY, PROPERTY AND EXCESS WORKERS' COMPENSATION –TOTAL NOT TO EXCEED AMOUNT OF \$2,375,048

ISSUE:

Approve the renewal of the City's various insurance policies as outlined below with an effective date of July 1, 2018 to June 30, 2019 – pending final negotiations with insurance carriers.

RECOMMENDATIONS:

That the City Council authorize the City Manager, or his designee, to execute the proposal submitted by HUB to renew the City's various insurance policies for the total not to exceed amount of \$2,375,048, including making minor and non-substantive changes to the insurance agreements.

BACKGROUND:

The City's insurance policies are purchased through the City's Insurance Broker, HUB International, from their Riverside-based home office. HUB works with hundreds of insurance providers to secure the best prices for the best insurance coverages for their clients. Using HUB as our insurance broker has the benefit of allowing the City to get competitive insurance quotes and work with one broker who is familiar with the City's needs and can help resolve insurance issues quickly and effectively.

The City has several insurance policies to help manage risk – these policies include: 1) Commercial Property, 2) General Liability including Vehicle Liability, 3) Boiler & Machinery, 4) Excess Earthquake, 5) Workers' Compensation, 6) Airport Liability, 7) Aviation Hull & Liability, and 8) Fine Art and Collectibles policies. Embedded in these policies are other coverages such as Cyber Security Liability, Public Officials Liability and Employee Theft Liability Insurance. In addition to these coverages, staff is still working with HUB to secure Special Event Liability Insurance to cover all of the City-sponsored special events held throughout the year.

The insurance carriers recommended by our Broker have A.M. Best ratings of A X or better ("A" is the financial rating of "Excellent" and "X" is the financial size rating of the carrier - \$500,000,000 to \$750,000,000 in policy holder surplus). The Alliant Property Insurance Program (APIP) doesn't

have a rating, but is underwritten by 29 different insurers, the majority of which are rated "A" or higher.

The City's strategy to keep costs low, but provide adequate insurance protections, includes a Self-Insured Retention (SIR) for certain policies. This means the City is responsible for the first \$3 million of each claim as our self-insurance deductible. The City's General Liability and Workers Compensation insurance programs contain this \$3 million SIR requirement. Carrying lower SIR's (\$1 million or \$2 million for example) results in significantly higher insurance premium costs for the City or are not even offered by insurance carriers.

The City's other lines of insurance coverage have much smaller deductibles or no deductible at all, and vary between no deductible to a \$250,000 deductible.

DISCUSSION:

The various insurance types, deductibles, limits and estimated premiums are illustrated in the table below. For comparison purposes, the premiums for FY 2017/18 are also provided:

Insurance Type	Deductible/ SIR	Limit	FY 2018/19 Premium (not to exceed amounts)	FY 2017/18 Actual	Difference from PY
Workers' Compensation	\$3M SIR	\$25M	\$399,630	\$394,464	\$5,166 1.3%
Aviation Hull & Liability	Various based on the value of each Hull	\$50M	\$55,463	\$49,296	\$6,167 12.5%
Airport Liability	None	\$25M	\$6,334	\$10,030	\$3,696 -36.8%
General Liability* 1 st Layer	\$3M SIR	\$10M	\$381,419	\$366,516	\$14,903 4.1%
General Liability 2 nd Layer	Excess of \$3M SIR & 1 st layer	\$10M	\$165,120	\$154,800	\$10,320 6.7%
Commercial Property**	\$100,000	\$1B "All-Risk"	\$1,118,962	\$882,450	\$236,512 26.8%
Boiler & Machinery	\$250,000	\$100M	\$151,943	\$149,029	\$2,914 2.0%
Excess Earthquake***	None	\$15M	\$61,577	\$59,509	\$2,068 3.5%
Museum Fine Arts	\$1000	\$20M	\$34,600	\$34,599	\$1 .003%
Total Premium			\$2,375,048	\$2,100,693	\$274,355 13.1%

**Coverages apply to bodily injury, personal injury, property damage, public official's errors & omissions and employment practices liability. This policy provides a primary layer of coverage and a secondary layer of coverage.*

***Commercial Property Insurance is underwritten by 29 separate insurance carriers with a \$1,000,000,000 "All Risk" limit and a \$100,000 deductible. Included in the policy is \$10,000,000 of primary Earthquake coverage (on 5 scheduled locations) with a 5% / \$100,000 minimum deductible, and \$25,000,000 of Flood coverage in all flood zones excluding A&V (high hazard) with a \$100,000 flood deductible. City Hall and the Convention Center are limited to \$5,000,000 in Flood coverage.*

**** Excess Earthquake insurance coverage will be purchased in three layers. This policy includes a limit of \$15,000,000 excess of the \$10,000,000 primary earthquake coverage provided in the Commercial Property insurance policy.*

The highest increase compared to last year's premiums is associated with the Commercial Property insurance policy, for which we are expecting an increase of \$236,512 (27%) compared to last year's premium. This increased premium is the result of three factors: higher reported property values, an increase in 5 year property loss ratio (*total losses divided by total premium*), and an overall general increase in rates for the property insurance market.

FISCAL IMPACT:

The City is still negotiating with the various insurance carriers and will not receive final numbers until July 1, 2018. Thus, the amount of \$2,375,048 is believed to be the maximum cost for the City's various insurance policies using the same carriers we have now. However, staff is very hopeful that this amount can be reduced through our current negotiations with other carriers. The costs are paid through various department budgets and funds based on the specific applicability of the policy and in relation to each department's historical experience and budgeted in the fiscal year 2018/19 adopted budget.

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Approved as to form: Gary G. Geuss, City Attorney

Attachment: Presentation