



City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL DATE: JUNE 16, 2020

FROM: FINANCE DEPARTMENT WARDS: ALL

SUBJECT: ANNUAL INSURANCE RENEWALS INCLUDING, BUT NOT LIMITED TO, LIABILITY, PROPERTY AND EXCESS WORKERS' COMPENSATION – TOTAL AMOUNT, NOT TO EXCEED, \$3,445,414.42 FOR FISCAL YEAR 2020-2021

ISSUE:

Approve the annual renewal of the City's various insurance policies negotiated through the City's Insurance Broker, HUB International, as outlined herein, for a one-year term beginning July 1, 2020 and ending June 30, 2021, for a total amount not to exceed, \$3,445,414.42 (amount pending final negotiations with insurance carriers).

RECOMMENDATIONS:

That the City Council:

1. Approve the annual renewal of the City's various insurance policies negotiated through the City's Insurance Broker, HUB International, as outlined herein, for a one-year term beginning July 1, 2020 and ending June 30, 2021, for a total amount not to exceed, \$3,445,414.42; and
2. Authorize the City Manager, or his designee, to execute all necessary documents submitted by HUB International to renew the City's various insurance policies, as outlined herein, for the total amount not to exceed, \$3,445,414.42, including making minor and non-substantive changes to the insurance documents.

BACKGROUND:

The City purchases insurance policies through HUB International who has served as the City's Property and Casualty broker for nearly ten years. HUB International is responsible for marketing and negotiating quotes with numerous insurance carriers in an effort to secure the best coverage at the best price. The City has benefited from partnering with HUB International as HUB's compensation schedule is fee-based instead of a traditional broker commission structure which can add thousands of dollars to the City's annual insurance costs. The City invests in several insurance policies to help manage risks. These policies include:

Policy Type	Coverage Included
Property	Provides coverage for the City's buildings and vehicles.
Boiler & Machinery	Provides property coverage to Power Co-Generation units for mechanical breakdown.
Difference in Conditions (DIC)	Broadens property coverage to cover earthquake coverage.
General Liability	Covers general, auto, public officials, and law enforcement liability.
General Liability 2nd Layer	Additional limits for General Liability claims.
Excess Workers Compensation	Provides extra limits for claims that exceed \$3,000,000.
Aviation Hull & Liability	Provides liability to passengers and property damage to the City's aircrafts.
Airport Premises Liability	Provides 'bodily injury' or 'property damage' that result from aviation operations.
Fine Arts – Museum	Provides coverage for fine arts and collectible objects.

The City also has a Tenant User Liability Insurance Program (TULIP) which provides liability protection for the City when third parties hold special events on City owned or managed property. The TULIP program is a self-serve portal where third parties can purchase the required insurance in order to hold the event without having to go through a broker and incurring additional fees. There is a \$1,000 minimum premium for the TULIP program which is self-funded by special event hosts who purchase a policy from the City's TULIP program. The City is responsible for paying the difference if the policies purchased by individual special event hosts is less than \$1,000 each policy term.

DISCUSSION:

The various insurance types, deductibles, limits and estimated premiums are illustrated in the table below. For comparison purpose, the premiums for the prior fiscal year are also provided.

Policy Type	Deductible/ SIR	Limits	FY 2020 Actual	FY 2021 Proposed	Difference	% Change
Property	\$100,000	\$1B	\$1,092,104.12	\$1,329,523.53	\$237,419.41	22%
Property for Co-Generation	TBD	\$210M	\$202,440.52	\$462,350.00	\$259,909.48	128%
Pollution Liability for Co-Generation	\$100,000	\$25M	\$-	\$25,999.38	\$25,999.38	-%
Boiler & Machinery	\$250,000	\$100M	\$151,991.00	\$166,271.00	\$14,280.00	9%
Difference in Conditions (DIC)	5% / \$100,000 Minimum	\$10M	\$63,369.86	\$73,000.00	\$9,630.14	15%

Policy Type	Deductible/ SIR	Limits	FY 2020 Actual	FY 2021 Proposed	Difference	% Change
General Liability	\$3,000,000	\$10M	\$381,169.00	\$457,733.82	\$76,564.82	20%
General Liability 2nd Layer	Excess	\$10M	\$184,212.00	\$257,892.69	\$73,680.69	40%
Excess Workers Compensation	\$3,000,000	\$25M	\$399,159.00	\$505,168.00	\$106,009.00	27%
Aviation Hull & Liability	\$500/Aircraft (not in motion)	\$50M	\$51,758.00	\$66,281.00	\$14,523.00	28%
Airport Premises Liability	Not Applicable	\$25M	\$7,250.00	\$8,589.00	\$1,339.00	18%
Fine Arts- Museum	\$1,000 each claim \$10,000 earthquake	\$20M	\$34,600.00	\$36,330.00	\$1,730.00	5%
TULIP	Not Applicable	\$1M	No Charge	No Charge	N/A	0%
HUB Fee	Not Applicable	Flat fee	\$53,045.00	\$56,276.00	\$3,231.00	6%
Total:			\$2,621,098.50	\$3,445,414.42	\$824,315.92	31%

Optional Quotes						
Coverage Type:	Deductible/SIR	Limits	FY 2020 Actual	FY 2021 Proposed	Difference	% Change
Terrorism	\$0	\$25M	-	\$10,839.35	-	-
Active Shooter	\$5K	\$1M	-	\$4,612.60	-	-
Cyber	TBD	TBD	-	TBD	-	-

The City met with HUB on February 4, 2020 to discuss the renewal strategy for the 2020-2021 annual insurance renewal cycle. Upon discussion of the City's current program structure and market conditions, it was decided that HUB was going to extensively market the City's policies to ensure that the City's current policy placements were the most competitive options as the City has bound coverage with the same insurance carriers for three consecutive policy terms.

Property

The insurance market fluctuates between soft and hard markets. Soft markets are when insurance premiums are steady, and sometimes even decrease, and a hard market is when rates increase and there are less insurance carriers writing policies for a certain type of exposure. The property insurance market is experiencing 'hard' conditions.

The City received a 'Notice of Non-Renewal' from Alliant, managing broker for the City's Alliant Property Insurance Program (APIP), advising that Alliant will cease all property coverage currently afforded to the City's three Co-Generation exposures, including cyber liability and pollution

liability, effective July 01, 2020 at 12:01 A.M. As a result, the City had to attain loss control reports on the impacted facilities so HUB had the necessary exposure material needed to secure property coverage for the City's Co-Generation facilities. HUB provided the City with numerous pricing indications for Risk Control Services. The City selected StarrTech Risk Control Services which conducted virtual loss control visits and issued a custom report for each of the power plants.

HUB International approached several markets who confirmed that the property premium the City paid for the power plants was severely below market cost. HUB also approached various potential markets and none of the markets approached were willing to provide 100% of the coverage. In addition, HUB International approached Travelers, the current insurance carrier for the City's Boiler & Machinery policy, and their book of business does not entertain Co-Generation exposures.

HUB International is currently working on a property quota-share program for the city's Co-Generation facilities; however, the estimated insurance costs are included in the report.

Excess General Liability & Excess Workers Compensation

The City's Excess General Liability and Excess Workers Compensation policies experienced significant increases. Increases are attributed to updated payroll exposures. The City paid an additional \$61,006 in premium during the 2020-2021 renewal cycle for underreporting payroll on the City's 2018-2019 Excess Workers Compensation. The payroll data provided for the 2020-2021 renewal cycle will avoid large additional premiums after the policy term ends and the exposure information is audited. Workers Compensation policies are audited annually. The results of the audit will indicate that the City will owe the insurance carrier an additional premium if payroll data was underreported or that the City will receive a return premium for overreporting payroll data.

Boiler & Machinery

Unlike the Property market which is in a 'hard' state, the Boiler & Machinery market is soft. HUB International presented the City with a renewal quote with the City's incumbent carrier, Travelers Property Casualty of America, which offered a flat rate.

Aviation Hull and Airport Premises

Market trends indicate that aviation and airport markets are hardening due to large losses submitted to the specialty carriers. As a result, insurance carriers are adding deductibles and sub-limits to their policy forms in order to account for those losses. The City is renewing the Airport Premises and Aviation Hull policies with the incumbent carriers.

Museum Fine Arts

The City's is renewing the Museum Fine Arts policy with the incumbent carrier as price and coverages are stable. The City also negotiated a sublimit increase from \$200K to \$1M broadening the City's overall coverage. The City will continue working with underwriters to remove limiting endorsements and sub-limits.

The insurance carriers recommended by the Broker have A.M. Best ratings of AX or better. ("A") is the financial rating of "Excellent" and "X" is the financial size rating of the carrier equal to \$500,000,000 to \$750,000,000 in policy holder surplus. The AIP does not 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 while providing 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 SIRs (\$1 million or \$2 million for example) results in significantly higher insurance premium costs for the City or are not offered by some insurance carriers. The City's other lines of insurance coverage have deductibles which vary between no deductible to a \$250,000 deductible.

The City regularly reviews its policies to ensure that the City has the necessary coverage to protect its assets. The Risk Management Division will continue to work with HUB to negotiate the best possible coverages and premiums for the City.

FISCAL IMPACT:

The City's insurance brokers continue to negotiate with various insurance carriers and will not receive the final premium amounts until July 1, 2020. The amount of \$ 3,445,414.42 is thought to be the maximum cost to the City. Citywide, this amount is approximately \$384,000 higher than the estimates HUB provided for the FY 2020/21 proposed budget, with the greatest impact related to the Co-Generation premiums. Costs are allocated among departments and funds based on applicability of the policies. Following the finalization of rates, staff will request a supplemental appropriation where City funds or departments are unable to absorb the cost increase within their approved FY 2020/21 appropriation limits.

Prepared by: Edward Enriquez, Chief Financial Officer/Treasurer
Certified as to
availability of funds: Edward Enriquez, Chief Financial Officer/Treasurer
Approved by: Moises Lopez, Deputy City Manager
Approved as to form: Gary G. Geuss, City Attorney