



*City of Arts & Innovation*

# City Council Memorandum

**TO: HONORABLE MAYOR AND CITY COUNCIL** **DATE: JUNE 7, 2022**

**FROM: FINANCE DEPARTMENT** **WARDS: ALL**

**SUBJECT: ANNUAL INSURANCE RENEWALS INCLUDING, BUT NOT LIMITED TO, LIABILITY, PROPERTY AND EXCESS WORKERS' COMPENSATION – AMOUNT NOT TO EXCEED \$5,688,023.78 PLUS A 10% CONTINGENCY OF \$568,802.38 FOR A TOTAL AMOUNT NOT TO EXCEED \$6,256,826.16 FOR FISCAL YEAR 2022-2023.**

## **ISSUES:**

Approve the annual renewal of the City's various insurance policies negotiated through the City's Insurance Broker, Keenan & Associates, as outlined herein, beginning July 1, 2022, and ending June 30, 2023, for a total amount not to exceed \$6,256,826.16 (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, Keenan & Associates, as outlined herein, for a one-year term beginning July 1, 2022, and ending June 30, 2023, for an amount not to exceed \$5,688,023.78; and
2. Authorize a 10% contingency of \$568,802.38 for potential changes and coverage enhancements for a total amount not to exceed \$6,256,826.16 and
3. Authorize the City Manager, or designee, to execute all necessary documents submitted by Keenan & Associates to renew the City's various insurance policies, as outlined herein, for the total amount not to exceed \$6,256,826.16 including making minor and non-substantive changes to the insurance documents.

## **BACKGROUND:**

The City purchases insurance policies through Keenan & Associates ("Broker"). Keenan & Associates is responsible for marketing and negotiating quotes with numerous insurance carriers to secure the best coverage at the best price. The City benefits from partnering with Keenan & Associates as Keenan'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.

Insurance policies are a risk management method used to transfer risk. Insurance policies also help protect highly valued City assets such as buildings and the contents inside from fire, theft, and other perils. Excess insurance policies also provide the City with an additional funding source to settle and pay third party claims against the City if they exceed the City's self-insurance retentions.

### **Renewal Timeline**

Procuring commercial insurance for the City is a lengthy and data driven process that begins in January and ends on or before July 1<sup>st</sup>. Every type of commercial insurance policy requires specific and targeted underwriting information. Underwriting information is a broad term that refers to the data insurance companies use to adequately rate and quote commercial insurance policies. Underwriting information includes, but is not limited to, copies of the City's loss run reports, statements of values, information on internal risk management practices, and policies and procedures for a broad range of City operations such as law enforcement, public works maintenance, and employee safety policies etc.

During the underwriting phase, insurance underwriters will decide whether or not they will either accept or decline to provide the City with quotes. The City's broker, Keenan & Associates, is responsible for ensuring that the City's overall insurance program is the most comprehensive in terms of price and terms & conditions. To do so, Keenan & Associates approaches different markets that have the capacity to quote and bind the coverage limits required by the City.

The City's Risk Management staff works collectively with staff members Citywide to ensure that the information and completed applications we provide Keenan & Associates are correct and accurately detail City operations. Often, underwriters will ask the City to complete supplemental applications for more sensitive operations like law enforcement, aviation, cyber and pollution. The City also works on answering follow-up inquiries and provides updates on open subjectivities that may have been assigned to the City during the prior renewal term or during an insurance inspection.

Overview of the Renewal Timeline:

January- February	March- April	May- June
<ul style="list-style-type: none"> <li>• Gather exposure data, loss information, financial statements for analysis</li> <li>• Marketing Placement Specialists meet with insurers and reinsurers for current market conditions report.</li> </ul>	<ul style="list-style-type: none"> <li>• Distribute the submission to the marketplace and conduct a marketing trip to meet with carriers to discuss insurance submission.</li> <li>• Prepare analysis of all formal quotes received for review and discussion.</li> </ul>	<ul style="list-style-type: none"> <li>• Finalize renewal negotiations &amp; prepare coverage comparison of all formal quotes received.</li> <li>• Broker meets with City of Riverside to present renewal program options to City staff</li> <li>• Bind renewal program and finalize subjectivities, issue binders, invoices, and renewal certificates of insurance effective July 1.</li> </ul>

The City will continue to engage with the brokers and underwriters up until the City receives the final proposals and reviews all terms & conditions, premiums and subjectivities.

The City invests in several insurance policies to help manage risks. These policies include:

Policy Type	Coverage Provided
Property	Provides coverage for the City's buildings and vehicles.
Boiler & Machinery	Provides property and mechanical breakdown coverage to the City's three Power Plant facilities.
Difference in Conditions (DIC)	Broadens property coverage to cover earthquake coverage on select City properties.
General Liability	Covers general, auto, public officials, and law enforcement liability.
Excess General Liability	Additional limits for General Liability claims shall the primary limits exhausted.
Excess Workers Compensation	Additional limits for workers compensation 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.
Government Crime	Provides coverage for employee theft and fraud.

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 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. All of the City's insurance policies coincide with the start and end of the City's fiscal year which begins July 1<sup>st</sup> and ends June 30<sup>th</sup>.

## **DISCUSSION:**

### ***2022 Insurance Industry Outlook***

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. Today, we are well into a hard market and expect that the market trend will continue well into 2022 and possibly into 2023.

Global catastrophic losses continue to impact commercial insurance market trends. Natural catastrophe losses are 36% above the 10-year average and wildfires have become a predictable severity event. Liability costs also continue to outpace industry expectations and are reshaping

how reinsurers deploy capital as jurors' have been consistently awarding higher payouts, which has become evident in billion-dollar court awards.

### ***Inflation is also impacting the insurance industry.***

- 2021 has been dominated by economic inflation discussions that are challenging for insurance; we are dealing with loss cost inflation for both short- and long-tail business. Short and long-tailed businesses refer to the time frame in which claims are notified to their respective carriers and then settled. Short-tail businesses are those where incidents are reported and settled within 2 to 5 years and long-tail businesses are those that have longer settlement periods.
- For long-tail lines like liability, we are dealing with the impacts of social inflation. For short-tail lines, like property, we're dealing with constricted supply chains and labor supply shortages.

Post-pandemic inflation is driving reconstruction costs and increasing claims due to high consumer goods demand and supply chain disruption. Materials and labor costs have increased upwards of 400%. Property values have always trended up around 3% annually and this new "demand surge" is increasing value trends to nearly 20%. Value trends refers to the insured value amounts carriers are insuring in their commercial property programs. The higher the insured values are the more money carriers need to reserve in order to have funds the available to issue payments for claims.

### ***2022-2023 Marketing Overview***

On February 25, 2022, the City's Risk Management team met with Keenan & Associates, the City's Broker, to discuss the City's 2022-2023 Property & Casualty Insurance Renewal Strategy.

#### ***Property***

The City conducts appraisals every 5-7 years on its highest valued properties. Agencies have different thresholds and the City has historically performed these appraisals on properties/buildings that are estimated to have a \$5 million valuation or higher. This year, appraisals were completed on 67 individual real property structures. The property appraiser provided the City with two Value Comparison Reports; the first report was for the City's Wastewater Quality Control Plant (WQCP) and the second was for all other real property structures appraised. The results of the Value Comparison Report for the WQCP suggest that the City needs to increase the total insured values for the WQCP by 198.65% and all other real property structures by 2.63%. The increase in WQCP is primarily attributable to significant capital improvements in recent years. The increase in reported insured values will directly impact the City's property premium as the premium is calculated by insured values multiplied by the final rate from the property carriers.

The City is currently a member of Alliant's Property Insurance Program (APIP). The APIP program provides property coverage for the City's fleet, coverage for the City's real property structures, pollution liability, boiler & machinery (excluding power generation facilities) and cyber liability. The City has explored alternative stand-alone policy options, but APIP has remained the most comprehensive and cost-effective option for the City.

The City will continue to explore alternative options including different retention and deductible options, stand-alone policy options, and changes to the type of real property the City currently insures.

### ***Property and Boiler & Machinery for Springs, Clearwater, and Riverside Energy Resource Center (RERC)***

As of July 1, 2020, the City was compelled to bind a separate property program for its Springs, Clearwater, and RERC plants. These three facilities are power generation exposures which the APIP program no longer accepts in their program. The City's power generation facilities were among the last, if not the last, set of power generation facilities that were allowed to remain in the APIP program up until APIP's gradual exit away from power generation exposures in FY 20-21. Since then, the City has maintained a quota share program with various insurance carriers to maintain the appropriate levels of insurance for the City's three power generation facilities.

Throughout February 2022, the City's lead carrier came and inspected Springs, Clearwater, and RERC. The inspections were conducted by the lead carrier's Principal Risk Engineering Specialist- AVP for Global Energy and Power Generation. The City received a report for each facility with a list of Risk Improvement Actions (RIA) for the City to address. City Staff has worked diligently in addressing as many RIA's possible in order for the City to receive renewal quotes from the current insurance companies who provide the existing coverage.

The City's current program is known to be insured by the leading carrier for power generation exposures in terms of premium cost and terms & conditions, but the City has instructed its broker, Keenan & Associates, to secure alternative options with different insurance carriers to ensure that the City is purchasing the best coverage option for the City's three power facilities.

### ***Excess Liability***

Similarly, liability and excess liability coverage continue to be a challenge as underwriting guidelines have grown increasingly strict and carrier capacity continues to decrease. For 2022-2023 the City anticipates being presented as a potential new member of Municipal Insurance Cooperative (MIC). MIC is a government insurance pool that would be an alternative option to the standard excess liability policies the City currently purchases.

The City has also asked its broker to secure excess liability options with different retention levels ranging from \$3 million, which is the City's current Self-Insured Retention, to \$5 million as higher retention options will provide the City with premium cost savings options.

The City's Risk Management staff will evaluate all policy coverage options in terms of premium, retention limits, and terms & conditions and determine which option is the most competitive and comprehensive for the City's coverage needs.

## **NOT-TO-EXCEED (NTE) BUDGETED PREMIUM PROJECTIONS**

The not-to-exceed numbers illustrated in the following table were provided to the City by Keenan & Associates and Alliant. Keenan & Associates, along with Alliant, will present the City with a final proposal in June 2022.

Coverage	21-22 Expiring Cost	22-23 NTE	Change in Cost	%Change
Property- All Risk (Stand-Alone)	\$1,599,769.12	\$2,161,624.00	\$561,854.88	35%
Difference in Conditions (DIC)	\$99,260.02	\$124,075.00	\$24,814.98	25%
Property and Boiler & Machinery for RPU Plants (RERC, SPRINGS, CLEARWATER)	\$926,315.19	\$1,157,893.75	\$231,578.56	25%
Pollution Liability for 3 RPU Plants (RERC, SPRINGS, CLEARWATER)	\$25,999.38	\$32,420.00	\$6,420.62	25%
Museum Fine Arts	\$32,515.00	\$40,643.75	\$8,128.75	25%
Excess Workers Compensation	\$528,805.00	\$644,831.75	\$116,026.75	22%
Airport Liability	\$9,572.00	\$11,965.00	\$2,393.00	25%
Aviation Hull	\$71,212.00	\$89,015.00	\$17,803.00	25%
Crime	\$25,051.00	\$31,313.75	\$6,262.75	25%
Excess General Liability (Includes Law Enforcement Liability, Auto Liability, Public Officials Liability)	\$334,258.42	\$417,823.03	\$83,564.61	25%
Excess General Liability 2 <sup>nd</sup> Layer	\$741,534.64	\$926,918.75	\$185,384.11	25%
Broker Fee	\$49,500.00	\$49,500.00	\$0.00	0%

Given the current state of the insurance market, and as of the publication date of this report, we do not yet know which of these options the City will select. It is anticipated that updated premium amounts will be finalized by July 1, 2022. City staff continues to work with the City's insurance broker to negotiate the best terms possible based on the policy specimen forms and a review of coverage, conditions, and price. Notwithstanding, City staff is seeking authority for an amount not to exceed \$6,256,826.16 to finalize the insurance policy renewals for FY 2022/23.

### **2022 Carrier Ratings & Self-Insured Retentions**

AM Best is a credit rating agency that specializes in assessing the creditworthiness of insurance companies. The insurance carriers recommended by the Broker have AM 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 APIP 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 Keenan to negotiate the best possible coverages and premiums for the City.

### **STRATEGIC PLAN ALIGNMENT:**

The topics included in this report align with **Strategic Priority 5: High Performing Government and Goal 5.5:** Foster a culture of safety, well-being, resilience, sustainability, diversity, and inclusion across the city organization.

The report item aligns with each of the Cross-Cutting Threads as follows:

1. **Community Trust** – The City's insurance policies serve the public's interest and result in greater public good by protecting City owned assets and provide additional liability funding for third party claims.
2. **Equity** – The City's insurance portfolio serves all of Riverside's residents equally as the supplemental funds afforded by the commercial policies lessen the probability of City Management having to redirect funds away from community resources and services to pay for large third-party claims and losses.
3. **Fiscal Responsibility** – The City purchases insurance to transfer risk and liability to third party insurance carriers once certain deductible and self-insured retentions are met. Commercial insurance also allows the City to safeguard assets and reserve for catastrophic events.
4. **Innovation** – The City explores alternative coverage options each year and engages in quota-share programs with various carriers to reach the necessary coverage levels.
5. **Sustainability & Resiliency** – The types of insurance policies the City purchases are designed to provide the City with additional resources in cases where reportable incidents hinder the City's ability to continue smooth and consistent operations.

### **FISCAL IMPACT:**

The total fiscal impact is estimated to be a maximum of \$6,256,826.16. The City's insurance broker continues to negotiate with various insurance carriers and will not receive the final premium amounts until July 1, 2022. The amount of \$6,256,826.16 is expected to be the maximum cost to the City. As such, City staff is seeking authority for an amount does not exceed \$6,256,826.16 to finalize the insurance policy renewals. Following the finalization of rates, staff will request Council approval for a supplemental appropriation in the event that City funds or departments are unable to absorb the cost increase within their approved FY 2022/23 appropriation limits.

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