



City of Arts & Innovation

# Financial Performance and Budget Committee

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**TO:** FINANCIAL PERFORMANCE AND BUDGET COMMITTEE MEMBERS

**DATE:** NOVEMBER 8, 2023

**FROM:** FINANCE DEPARTMENT

**WARDS:** ALL

**SUBJECT:** ANNUAL UPDATE OF THE CITY'S RISK MANAGEMENT DIVISION AND INSURANCE PROGRAM ADMINISTRATION

**ISSUE:**

Receive, provide input, and forward to the City Council for approval, the annual update of the City's Risk Management Division and Insurance Administration for FY 2022/23.

**RECOMMENDATION:**

That the Financial Performance and Budget Committee receive, provide input, and forward to the City Council for approval the annual update of the City's Risk Management Division and Insurance Administration for FY 2022/23.

**BACKGROUND:**

The Risk Management Division is housed within the City's Finance Department. The division is staffed with one Risk Manager and one Risk Management Specialist. In FY17-18, the City restructured the Risk Management Division and transferred the Tort Claims team to the City Attorney's Office as the City ended its agreement with Carl Warren & Company, the City's former Third-Party Administrator (TPA), and began to self-administer all third party claims.

The City's Risk Management function is shared among the Finance Department, City Attorney's Office, and Human Resources. The City also has designated Safety Officers for Riverside Public Utilities (RPU) and the Public Works Department.

This report will focus exclusively on the duties of the Risk Management Division within the Finance Department per RMC **3.18.030 Powers and Responsibilities of the Risk Manager** which requires the division to "Monitor and report annually to the City's Financial Performance and Budget Committee and City Council the insurance administration, and the compliance of City departments, offices, and agencies with the internal controls."

Risk Management strives to effectively prevent and minimize the financial impacts of damage to property or personal injury. This includes analyzing claims, incidents, and employee injuries to recommend and implement programs to reduce the frequency and severity of these incidents. The Risk Management Division also ensures that everyone doing business with the City provides proof of financial ability via Certificates of Insurance (COI) to pay for potential claims and lawsuits. Risk Management also implements proactive and preventive maintenance programs into the day-to-day operations of the City to mitigate risks and reduce significant financial impacts due to loss.

Additional Administrative Duties Include:

- Procure & maintain the City’s Insurance Portfolio including determining appropriate levels of insurance for permits, events, consultants, and contractors.
- Management of all 1<sup>st</sup> Party claims.
- Administration and taxes for the Hazardous Waste Program.
- Assist with emergency and non-emergency response.
- Oversee the renewal of all Air Pressure Tanks with the Dept. of Industrial Relations.
- Investigate and assess potential risks for current and upcoming projects.
- Issue formal positions and recommend actions or inactions for certain activities that may increase the City’s liability.

The Risk Management Division continuously collaborates with all City divisions to reduce the City’s overall liability.

**DISCUSSION:**

The Risk Management Division has worked extensively to streamline administrative processes, including automating COI reviews and establishing a program for third-party patrons hosting private events at City-owned properties to purchase insurance policies.

**TOOLS & PROGRAMS**

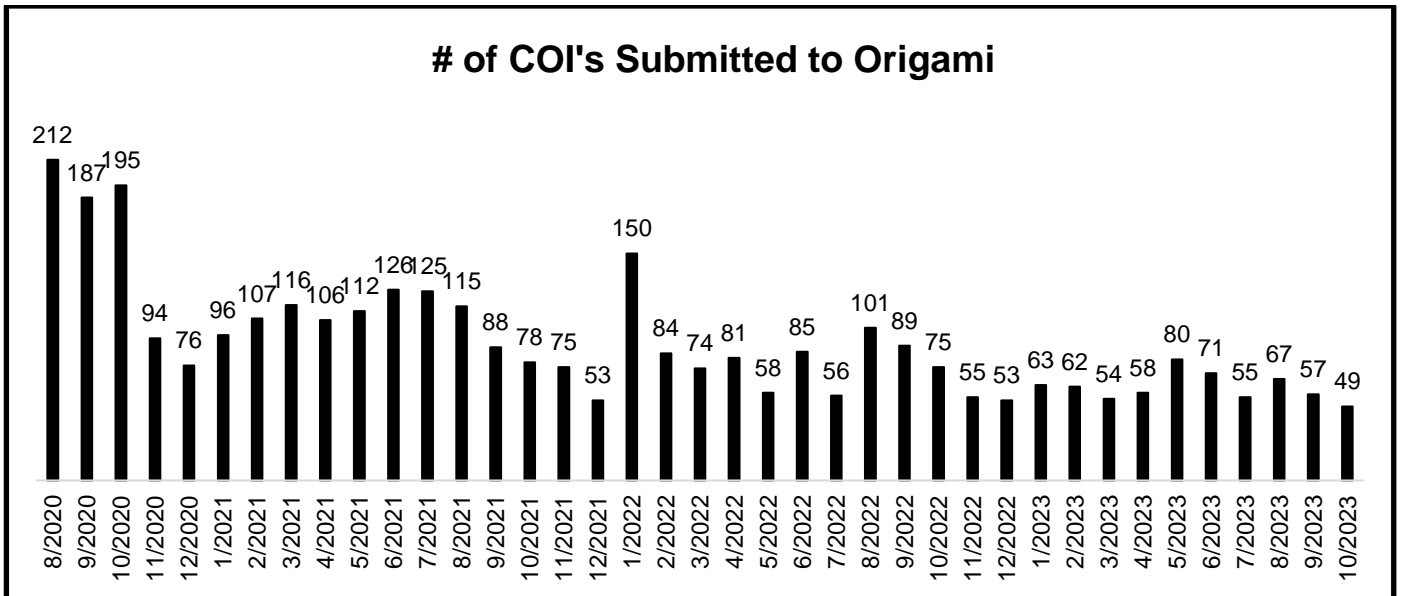
**Origami Risk LLC, Certificate of Insurance (COI) Module**

On August 3, 2020, Risk Management implemented an online portal where vendors (also referred to as “insureds”) can upload their insurance documents for the City to review and approval. Prior to Origami, all insurance submissions were sent to an email inbox and, once approved, saved in a repository. The COI Portal solved three major deficiencies:

Deficiency	Solution
Staff having to keep track of individual expiration dates for all their vendors.	Origami sends 90, 60, and 30-day reminder emails to vendors asking them to upload a renewal COI.
Risk Management approving a COI when the vendor still had to provide an additional type of insurance requirement.	Vendors select the type of relationship question that applies to them. Each selection is tied to a ‘Risk Profile’ that details the same requirements as the City agreement.

Deficiency	Solution
Numerous email exchanges involving Risk Management, staff, and the vendor are typically required before a COI is approved.	All correspondence is standardized. Deficiency emails are sent directly to the vendor and their agent/broker. Staff is notified as soon as a COI has been approved. Staff no longer serves as a third party that translates information from Risk to the vendor.

Staff is also able to access a dashboard to view real-time status updates for their vendors. This feature has streamlined permitting, as staff no longer need to wait for Risk Management updates. Timestamps are recorded when a new upload is saved, system emails are issued, and when the Risk Management team changes the status of a specific vendor. The timestamps recorded in the system have also assisted the City in resolving audit findings.



\*As of October 12, 2023

**Tenant User Liability Insurance Program (GatherGuard)**

The GatherGuard program is a resource available for any third party to purchase the required insurance coverage needed to host a private event on City-owned property. Special event hosts can also use the program to purchase coverage for any of their vendors participating in events on City-owned property. Residents who wish to host a private event, such as a wedding reception or birthday party, at one of twenty-seven eligible City-owned facilities can also utilize the GatherGuard program. The program meets the liability protection requirements set by the City for special events. The coverages are pre-approved, allowing the permit process to be more efficient as the Certificates of Insurance do not need to be submitted to Risk Management for review and approval.

**Benefits of GatherGuard:**

- Self-serve: Takes approximately 5 to 10 minutes to complete.
- Transparent Pricing.
- No additional broker fees for residents and Host Organizations.
- Facilitates the Special Event Permit process by enabling City-wide use, as insurance purchased through the program does not need secondary approval by Risk Management.

## **INSURANCE PREMIUM OVERVIEW**

The City purchases insurance to transfer liability away from the City and to protect the City's assets, such as vehicles, helicopters, buildings, and equipment. The City has a \$3M retention for each workers' compensation and third-party tort claim. This means that the City is responsible for paying the first \$3M of each claim. The City's excess insurance companies will then pay any claims in excess of \$3M in accordance with the terms and conditions of each of the City's policies.

### **Insurance Marketplace Overview**

The ongoing property and casualty market remains one of the most challenging in recent history. The insurance market faces hurdles like significant loss development fueled by catastrophic weather-related property claims, social inflation, extraordinarily high jury awards, and the absence of tort reform in California, offering little relief in the foreseeable future. California has transitioned from a severe drought to one of the wettest winters in history, causing insurers to shift their concerns from wildfires to flooding.

Rising interest rates have reduced reinsurance capacity as venture capitalists divert their investments away from the insurance industry. While rising interest rates typically lead to lower insurance rates due to increased investment yields, they have had minimal impact on rates due to capacity reduction by carriers worldwide. The industry is also struggling with property valuations. Actual property losses are significantly higher than what is stated on the insured's statement of values due to the increased cost of labor and supplies. Carriers are now requiring higher property values in addition to the rate, resulting in additional increases to insurance costs. Cyber insurance rates appear to be stabilizing as more insured implement best practices.

The increases in the total cost of insurance experienced by the City of Riverside over the past five fiscal years is consistent with the rising insurance costs absorbed by comparable public entities such as Long Beach, Anaheim, and Santa Ana which range from 30% for liability policies to nearly 50% increases for commercial property insurance.

### **Underwriting Challenges & Material Exposure Changes**

**FY 2019-2020:** Alliant Property Insurance Program (APIP) non-renews Power Plant & Co-Generation Exposures, impacting RPU.

**FY 2020-2021:** City binds separate Boiler & Machinery, Property, and Pollution Liability coverage for Springs, Riverside Energy Resource Center (RERC), and Clearwater.

**FY 2021-2022:** City purchases a stand-alone Crime policy. APIP removes coverage for 'Communicable Diseases' from policy form.

**FY 2022-2023:** Formal property appraisals are conducted on all City owned properties with a \$5M or higher real property value. City adds \$200M+ in insured value to Waste Water Quality Control Plant (WWQCP).

**FY 2023-2024:** City adds two new helicopters to Aviation Hull policy with a total insured value of \$10M+. City binds a stand-alone Cyber Liability policy.

## 5-Year Summary of Insurance Premiums

<b>Policy Description</b>	<b>19-20</b>	<b>20-21</b>	<b>21-22</b>	<b>22-23</b>	<b>23-24</b>
<b>Broker Fee</b>	\$ 53,045.00	\$ 56,276.00	\$ 49,500.00	\$ 49,500.00	\$ 51,975.00
<b>EXCESS WC</b>	\$ 460,165.00	\$ 476,291.00	\$ 528,805.00	\$ 584,281.00	\$ 668,592.00
<b>AIRPORT INSURANCE</b>	\$ 7,250.00	\$ 8,159.55	\$ 9,572.00	\$ 10,530.00	\$ 12,038.00
<b>GENERAL LIABILITY</b>	\$ 381,169.64	\$ 447,309.00	\$ 334,258.42	\$ 475,753.69	\$ 490,898.00
<b>EXCESS GENERAL LIABILITY</b>	\$ 184,212.00	\$ 252,735.35	\$ 741,534.64	\$ 966,440.00	\$ 1,061,383.75
<b>POLLUTION for RPU PLANTS</b>	\$	\$ 25,999.38	\$ 25,999.38	\$ 23,688.65	\$ 23,672.59
<b>CRIME *NEW 21-22*</b>	\$	\$	\$ 25,051.00	\$ 26,799.00	\$ 27,147.00
<b>STAND-ALONE CYBER LIABILITY * New 23-24*</b>	-	-	-	-	\$ 282,676.00
<b>DIFFERENCE IN CONDITIONS - EXCESS EARTHQUAKE INSURANCE</b>	\$ 63,396.68	\$ 72,611.47	\$ 99,260.02	\$ 101,659.40	\$ 113,959.00
<b>PROPERTY &amp; B&amp;M RPU PLANTS</b>	\$ 151,991.00	\$ 765,238.15	\$ 926,315.19	\$ 1,053,512.73	\$ 1,351,410.08
<b>APIP PROPERTY</b>	\$ 1,327,555.00	\$ 1,329,523.53	\$ 1,599,769.12	\$ 2,205,521.78	\$ 3,074,006.25
<b>MUSEUM FINE ARTS</b>	\$ 34,600.00	\$ 36,330.00	\$ 32,515.00	\$ 32,515.00	\$ 31,645.00
<b>AIRPORT HULL LIABILITY- POLICE AVIATION</b>	\$ 51,758.00	\$ 59,265.35	\$ 71,212.00	\$ 76,383.00	\$ 243,933.00
<b>Total Premium Paid</b>	<b>\$ 2,715,142.32</b>	<b>\$ 3,529,738.78</b>	<b>\$ 4,443,791.77</b>	<b>\$ 5,606,584.25</b>	<b>\$ 7,433,335.67</b>
<b>\$ Change</b>	-	\$ 814,596.46	\$ 914,052.99	\$ 1,162,792.48	\$ 1,826,751.42
<b>YOY Increase</b>	-	<b>30%</b>	<b>26%</b>	<b>26%</b>	<b>33%</b>

The Risk Management Division is also responsible for issuing all Self-Insurance Certificates, preparing the annual Evidence of Fiscal Responsibility (auto) notice for the City's fleet, and assisting other divisions in completing insurance-related audits, inquiries, and mandated reporting.

### **1<sup>st</sup> PARTY CLAIMS & SETTLEMENT ADMINISTRATION**

First party claims are claims that the City submits against the City's own insurance policies. The City has submitted five 1<sup>st</sup> party claims over the last five fiscal years.

#### **2019-2020**

1. COVID-19 Business Income- Communicable Disease Claim (Accepted and paid by Insurance Carrier).
2. Special Events- Airport Show (Accepted and paid by the Insurance Carrier).
3. RERC Boiler & Machinery Claim (Rejected by Insurance Carrier due to the peril of "Depletion, deterioration, corrosion, erosion, decay, wear and tear or rust" being excluded).

#### **2020-2021**

1. Farm House Fire (Accepted and paid by the Insurance Carrier).

#### **2021-2022**

No First Party Claims

#### **2022-2023**

1. RPU T4 University Failure (Under Review by the Insurance Carrier)
2. Orange St Fire Total Loss (Accepted and paid by the Insurance Carrier)

#### **2023-2024**

No First Party Claims

The City works with staff to address and remediate losses that fall below the City's standard deductibles.

### **HAZARDOUS WASTE**

Risk Management is the primary contract administrator for the City's hazardous waste program. Over the last five years, Risk Management assisted in mitigating two major critical incidents.

#### **2020-2021 Sewage Spill at Corona Point Apartments**

On November 13, 2020, at approximately 09:00, a City sewer force main ruptured at the Corona Point apartments, located at 3957 Pierce St. This was an active and major sewer emergency with an immediate threat to public health and environmental concerns. Large quantities of raw sewage spread throughout multiple areas of the apartment complex including sidewalks, parking areas, carports, driveways, etc. Risk Management promptly dispatched the City's contracted Hazmat provider, instructing them to deodorize all impacted areas, dispose of all sewage materials, and clear any leftover debris. Risk Management was onsite, distributing claims postcards to residents and answering questions from impacted parties. The total cost of this hazmat response was \$ 141,665.36.



**2023-2024 Apex Chemical Fire**

Risk Management authorized the Public Works Environmental Compliance team to use the City’s hazmat provider to respond to a spill that resulted from a chemical fire. This was an urgent response due to rain anticipated for the following day and if unattended, there was a high probability of hazardous materials entering the City’s storm drain system. The total cost of this response was \$663,383.07. The owners of Apex have paid \$90,672.90. The City is currently working on recovering costs for this response from the owners of Apex Aseptic Products LLC.



**EMERGENCY AND NON-EMERGENCY RESPONSES**

The Risk Management Division is on call and ready to assist all City teams in responding to both emergency and non-emergency incidents. Purchasing Resolution 257, Section 300 (d) defines an “emergency” to be any incident that may directly affect “the public health, welfare, safety, property, or personal/confidential information” if goods, services, or repairs are not rendered immediately. Over the last four fiscal years, Risk Management has assisted staff in responding to 122 calls ranging from general contracting services, plumbing emergencies, and the repair of City infrastructure and property.

	19-20	20-21	21-22	22-23
Amount Spent	\$523,045.33	\$437,910.30	\$373,373.19	\$811,024.86
# of Calls	2	60	40	20
\$ Change	NA	\$(85,135.03)	\$(64,537.11)	\$437,651.67
% Change	NA	-16%	-15%	117%

## **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.

- 1. Community Trust** – The Risk Management team is available to assist in any response necessary in any City Ward at any time. A comprehensive insurance program strengthens the City's ability to protect the City's assets in addition to providing a recourse to allow Riverside to transfer liability risks to insurance companies.
- 2. Equity** – All Wards within the City of Riverside can be subject to emergency needs at any given time of the day. Risk Management will be present to answer questions and distribute claim postcards to impacted residents and businesses, if necessary.
- 3. Fiscal Responsibility** – Purchasing insurance safeguards the City's assets. Collecting insurance from vendors provides recourse against vendor liability, allowing the City to address claims related to contracted vendor work.
- 4. Innovation** – The City has implemented programs and resources to help staff manage insurance.
- 5. Sustainability & Resiliency** – Risk Management contributes to the City's financial health by purchasing insurance to protect owned assets, transferring liability away from the City to contracted vendors, and creating tools and programs that embody proactive risk management practices.

## **FISCAL IMPACT:**

There is no direct fiscal impact associated with this report.

Prepared by: Jackie Godinez, Risk Manager  
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Approved by: Edward Enriquez, Assistant City Manager/Chief Financial Officer/  
City Treasurer  
Approved as to form: Phaedra A. Norton, City Attorney

Attachment:

1. Risk Management Flowchart
2. GatherGuard Handout
3. Insurance Program Presentation