



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 21, 2016**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: ANNUAL LIABILITY, PROPERTY AND EXCESS WORKERS' COMPENSATION INSURANCE RENEWALS – IN THE TOTAL NOT TO EXCEED AMOUNT OF \$2,243,491.50

ISSUE:

The issue before the City Council is to provide approval to renew the City's various insurance policies as outlined below with an effective date of July 1, 2016, to July 1, 2017.

RECOMMENDATIONS:

That the City Council:

1. Approve the purchase of Excess Workers' Compensation Insurance from Safety National Casualty Corporation;
2. Approve the purchase of Aircraft Hull & Liability Insurance coverage from Chartis Specialty Insurance Company;
3. Approve the purchase of Airport Liability insurance coverage from Chartis Specialty Insurance Company;
4. Approve the purchase of Alliant National Municipal Liability Insurance (ANML) coverage and the California Municipal Excess Liability (CAMEL) coverage from Security National Insurance Company and Star Indemnity for general liability insurance through the Joint Purchase Program;
5. Approve the purchase of "all risk" property insurance through the Public Entity Property Insurance Program (PEPIP);
6. Approve the purchase of Boiler and Machinery insurance coverage for the Riverside Public Utilities power generation facilities from Travelers; and
7. Approve the purchase of Excess Earthquake insurance coverage in three layers from Golden Bear, Endurance American Specialty and Liberty Surplus Insurance Companies.

BACKGROUND:

The City's insurance policies, including the CAMEL and PEPiP programs, are purchased through HUB's Riverside-based office. HUB serves as the City's insurance broker as well as consultant on various insurance matters that arise during the year. This arrangement has the benefit of allowing the City to work with a single broker to resolve any issues relative to managing the City's insured risks.

Policies for Commercial Property, General Liability, Excess Workers' Compensation and Airport Premises are being renewed with reasonable increases in premiums from the prior year. Policies for Earthquake and Boiler Machinery reflect a decrease in premiums from the prior year. The premium for Aviation Hull & Liability coverage remains unchanged from the prior year.

The various policies are being provided by carriers with an AM Best Rating 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 PEPiP Program does not have a similar rating, but is underwritten by 29 different insurers, the majority of which are rated "A" or higher by AM Best.

The City's strategy for adjudicating claims includes a significant Self Insured Retention (SIR). The City's General Liability (GL) and Auto Liability (AL) insurance program contains a \$3M SIR. The City is responsible for the first \$3M of each claim against the City. The defense and settlement of each GL or AL claim under the SIR is paid out of the City's liability trust fund. Similarly, the City's Workers' Compensation (WC) insurance program also contains a \$3M Self Insured Retention. The City is responsible for the first \$3M of each WC claim against the City. The settlement of each WC claim under the SIR is paid out of the City's workers' compensation fund. Any single GL/AL or WC occurrence that might exceed the \$3M SIR, would then be 100% covered by the various policies and limits identified herein.

All other lines of insurance coverage have smaller deductibles or no deductible, where coverage applies on a first dollar basis. By carrying higher SIRs and deductibles the City is accepting some of the risk, in exchange for premium savings. Carrying lower SIR's (\$1M or \$2M for GL/AL and/or WC) results in higher insurance premium costs for the City. We review these lower and higher options annually, and the City can choose to increase or decrease these at any renewal. Historically, the City has chosen the \$3M options, as this is where meaningful premium savings are had, with minimal loss exposure. Historically, most claims are closed under \$1M. The industry does not market fully insured options, per se. Through HUB International, the City's insurance broker, we have asked for lower retentions, under \$1M for both GL/AL and WC. Insurance carriers and programs are not willing to go below SIR's of \$1M based on the City population, size, and some higher hazard services such as Power Generation, Water Utility, Fire Department and Police Department.

Excess Workers' Compensation Insurance will be purchased from Safety National Casualty Corporation, and this coverage is sourced by the City's Insurance Broker, HUB International (HUB) on a regular basis (last done in 2014). There is no risk sharing with this type of coverage. This policy includes a \$25,000,000 limit and a self-insured retention (SIR) of \$3,000,000 for an annual premium of \$432,253 effective July 1, 2016.

Aircraft Hull & Liability Insurance coverage will be purchased from Chartis Specialty Insurance Company and this coverage is sourced by HUB on an annual or bi-annual basis. This policy

includes a \$50,000,000 liability limit with various deductibles based on the value of each Hull and no liability deductible for an annual premium of \$49,296.00 effective July 1, 2016.

Airport Liability insurance coverage will be purchased from Chartis Specialty Insurance Company and this coverage is sourced by HUB on an annual or bi-annual basis. This policy includes a \$25,000,000 limit and no deductible for an annual premium of \$10,841.00 effective July 1, 2016.

Alliant National Municipal Liability Insurance (ANML) coverage and the California Municipal Excess Liability (CAMEL) coverage will be purchased from Security National Insurance Company and Star Indemnity for general liability insurance through the Joint Purchase Program. There is no risk sharing with this type of coverage. The Joint Purchase Program is a buying group of over 30 public entities. Alliant is able to use the volume to leverage one of the best, if not the best coverage form, and pricing structures in the industry. Coverage and pricing are negotiated with a multitude of carriers. Carriers that are not competitive are removed for others who are. Coverages apply to Bodily Injury, Personal Injury, Property Damage, Public Officials Errors & Omissions and Employment Practices Liability. This policy includes a limit of \$20,000,000 of excess municipal liability insurance over a \$3,000,000 SIR for an annual premium of \$555,382.50 effective July 1, 2016.

"All risk" property insurance through the Public Entity Property Insurance Program (PEPIP), and is underwritten by 29 separate insurance carriers with a \$1,000,000,000 All Risk limit and a \$100,000 deductible for an annual premium of \$978,491.00 effective July 1, 2016. There is no risk sharing with this type of coverage. With over 9000 members this is the broadest coverage form available. Alliant is able to use the volume to leverage premiums/rates and coverages annually during carrier negotiations. 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.

Boiler and Machinery insurance coverage for the Riverside Public Utilities power generation facilities will be purchased from Travelers. This coverage is sourced by HUB on an annual or bi-annual basis. This policy includes a limit of \$100,000,000 and \$250,000 deductible for an annual premium of \$147,378.00 effective July 1, 2016.

Excess Earthquake insurance coverage will be purchased in three layers from Golden Bear, Endurance American Specialty, and Liberty Surplus Insurance Companies. This coverage is sourced by HUB on an annual or bi-annual basis. This policy includes a limit of \$15,000,000 excess of \$10,000,000 primary for an annual premium of \$69,850.00 effective July 1, 2016.

Coverage for all of the above will be bound effective July 1, 2016, with City Council approval. Note that the approval requested from Council is a NTE amount of \$2,243,491.50 vs. the attachment which shows \$2,536,535 which was the projected/budgeted amount for FY 16/17.

FISCAL IMPACT:

Funds to cover the cost of the various recommended policies are included in the fiscal year 2016/17 adopted budget. The costs are allocated to departments based on the specific applicability of the policy and in relation to their historical experience. The attached report, demonstrates how these costs will be allocated per Department.

Prepared by: Arturo Torres, Purchasing Services and Risk Manager
for Scott G. Miller, Interim Finance Director/Treasurer

Certified as to

Availability of fund: Scott G. Miller, Interim Finance Director/Treasurer

Approved by: Marianna Marysheva-Martinez, Assistant City Manager

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

Attachment: FY 2016-2017 Budgeted Insurance Premium Allocation Summary