



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: OCTOBER 4, 2016**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: REPORT ON VARIOUS CITY INSURANCE RENEWALS AND GENERAL LIABILITY SELF INSURANCE RETENTION CHANGES

ISSUE:

Approve the City's General Liability Self-Insurance Retention (SIR) changes from \$3 million to \$3.5 million.

RECOMMENDATIONS:

That the City Council:

1. Receive and provide input on the insurance renewals report;
2. Approve the changes to the City's General Liability SIR; and
3. Authorize the City Manager, or his designee, to execute and approve the insurance renewal changes.

FINANCE COMMITTEE RECOMMENDATION:

The Finance Committee met on August 10, 2016, with Chair Soubrious, Vice-Chair Burnard and Member Perry present, to consider the insurance renewals and general liability SIR changes. After discussion, a motion was made by Member Perry and seconded by Vice-Chair Burnard to: 1) receive and order the insurance renewals and SIR reports to be filed; and 2) directed staff to return to the City Council for approval of the change in SIR levels. The motion carried unanimously.

BACKGROUND:

Each July 1st, the City renews a number of its annual insurance policies (property, general liability, etc.) that include updated deductibles, SIR levels and premiums. The City Council approved a preliminary not-to-exceed amount for insurance renewals at its June 21, 2016 meeting of \$2,243,492 and at the same time approved the City's SIR level of \$3 million for General Liability. After the June 21st Council meeting, staff was informed of the official new rates for FY 2016-17 from the City's Insurance provider Alliant National Municipal Liability (ANML), which included a decrease in the overall not-to-exceed amount of \$209,788 and an increase in our SIR level from \$3 million to \$3.5 million for General Liability.

DISCUSSION:

The state of the liability insurance markets in the United States is hardening for large, full service public entities, particularly those with urban law enforcement and fire exposures. The complexity, recent nationwide incidents involving public safety agencies, increase of accidents, liability issues, and the costs of avoidable incidents, has caused a financial and perception shift throughout the country's insurance companies.

The ramifications of the previously mentioned public safety issues have shaped an insurance underwriting environment that is centered on careful consideration, actuarial analysis, emotional appeals and second guessing on behalf of insurance executives and their investors. These issues have also caused a significant restriction in available carriers for larger cities as a number of insurers have decided to leave the city liability arena due to the challenging environment. Unfortunately, this climate signals continued hardening of the market with likely rising of future premiums and lower liability coverage for municipal customers.

It should be noted that due to the aforementioned challenges in the liability insurance market in California, Riverside is not the only City experiencing challenging renewal terms. Municipalities have always experienced these types of claims, but the current trend is an increasing number of claims each year and the ultimate value of these claims is increasing nationally over the past few years. As the frequency of these claims continues to climb, insurance carriers will employ various tactics to mitigate losses and hence their overall exposure including increased deductible/SIR's, increased premiums and decreased liability coverage. Below are renewal results for the 2016/2017 term for cities of similar size, with similar exposure to Riverside:

- A large city in Northern California with police services was non-renewed by the Alliant National Municipal Liability (ANML) program this year. As a result, this city has procured alternative insurance placements that have three times the current premium amounts and a significantly increased SIR level. The alternative terms include policy aggregates and policy forms that offer far less coverage than the current ANML program.
- A pool of six cities in Southern California have received a 70% increase in premiums and will also be seeing higher SIR's in order to offset the large increase. This group's consolidated losses have increased by more than \$4 million year over year.
- Another city in the Inland Empire is seeing an increase in premiums in addition to an increased SIR by the ANML carrier. This city also has not experienced significant losses and has a similar track record like Riverside's.
- A large city in the LA area saw an increase in their SIR from \$1 million to \$3 million with an increase in premium of 40%. An alternative carrier was willing to offer them their previous \$1 million SIR, policy aggregate and far less coverage than offered by ANML. This alternative obtained resulted in an increase of premium of over 100%.

In the case of the City of Riverside's renewal effective July 1, 2016, the insurer would only offer a SIR of \$3.5 million due to the market conditions and change in loss history. While this is a change for the City of Riverside, the level of the increase in SIR along with the 4% increase in premiums is not unlike what other municipalities are experiencing in the current marketplace.

We informed the insurance company that this change in SIR level has "surprised" us and we had a series of meetings with them to understand how the company came up with the changes in our

SIR levels in light of our liability history and excellent practices and what measures we need to prevent SIR increases in the future. As a result of those meetings, staff will explore other options for liability insurance, with a goal of reverting to the \$3 million SIR during the course of this fiscal year or the subsequent fiscal years. If this is accomplished, staff will return to City Council to report on the change in SIR level.

The attached Premium Summary and Acceptance Page illustrates the major insurance coverage afforded for FY 16-17.

FISCAL IMPACT:

While there is no specific fiscal impact associated with this report, there was a reduction in our overall estimated insurance premiums of approximately \$500,000, compared to the FY 2016-2018 Two-Year Adopted Budget. The estimated savings to the General Fund is approximately \$220,000, a budget transfer will be completed to move the savings from the various accounts to the City's General Fund Contingency Account.

It should be noted that the increase in the SIR from \$3 million to \$3.5 million adds a potential \$500,000 per instance liability to the City; however, over the last 10 years, there has only been one instance where the City is expected to exceed its previous SIR level of \$3 million. As noted at the September 14, 2016 Finance Committee Meeting, the increase in the SIR will have a negative liability impact on City's Liability Insurance Trust Fund. In order to address this increasing liability, staff is instituting changes to its Risk Management Division. These changes, include, but are not limited to monthly departmental review of claims, quarterly review of claims by City Manager's Office and City Attorney's Office, and annual updates to the Finance Committee and City Council.

Prepared by: Arturo Torres C.P.M., Purchasing Services/ Risk Manager
Certified as to
availability of funds: Scott G. Miller, PhD, Chief Financial Officer/Treasurer
Approved by: Marianna Marysheva-Martinez, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Concurs with:



Mike Soubirous, Chair
Finance Committee

Attachments:

1. Premium Summary and Acceptance Page
2. Presentation