



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 13, 2017**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: ANNUAL INSURANCE RENEWALS INCLUDING LIABILITY, PROPERTY AND EXCESS WORKERS' COMPENSATION – IN THE TOTAL NOT TO EXCEED AMOUNT OF \$2,598,000

ISSUE:

Approve the renewal of the City's various insurance policies as outlined below with an effective date of July 1, 2017 to July 1, 2018.

RECOMMENDATIONS:

That the City Council authorize the City Manager, or his designee, to execute the proposal submitted by HUB, to renew the City's various insurance policies, including making minor and non-substantive changes to the insurance agreements.

BACKGROUND:

The City's insurance policies are purchased through the City's Insurance Broker, HUB International, from their Riverside-based office. HUB works with hundreds of insurance providers to secure the best prices for the best insurance coverages for their clients. Using HUB as our insurance broker has the benefit of allowing the City to get competitive insurance quotes and work with one broker who is familiar with the City's needs and can help resolve insurance issues quickly and effectively.

The City has several insurance policies to help manage risk – these policies include: 1) Commercial Property, 2) General Liability including Vehicle Liability, 3) Boiler & Machinery, 4) Excess Earthquake, 5) Workers' Compensation, 6) Airport Liability, 7) Aviation Hull & Liability and 8) Fine Art and Collectibles policies. Embedded in these policies are other coverages such as Cyber Security Liability, Public Officials Liability Insurance and Employee Theft Liability Insurance. In addition to these coverages, staff is still working with HUB to secure Special Event Liability Insurance to cover all the City's sponsored special events held throughout the year by the City's departments.

The insurance carriers being recommended by our Broker have AM Best Ratings 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 APIP program does not have a rating, but is underwritten by 29 different insurers, the majority of which are rated “A” or higher by AM Best.

The City’s strategy to keep costs low, but provide adequate insurance protections, includes a Self-Insured Retention (SIR). This means the City is responsible for the first \$3M of each claim as our self-insurance deductible. The City’s General Liability (GL) and Auto Liability (AL) insurance program contains this \$3M SIR requirement. This is \$500,000 lower than what was required of us in FY 2016-17. Carrying lower SIR’s (\$1M or \$2M for example) results in significantly higher insurance premium costs for the City or are not even offered.

The City’s other lines of insurance coverage have much smaller deductibles or no deductible at all, and vary between no deductible to a \$250,000 deductible.

DISCUSSION:

Our various insurance types, deductibles, limits and premiums are illustrated in the table below. For comparison purposes, the premiums for FY 2016/17 are also included:

INSURANCE TYPE	DEDUCTIBLE	LIMIT	FY 2017/18 PREMIUM (all not-to-exceed amounts)	FY 2016/17 PREMIUM
Workers’ Compensation	\$3M SIR	\$25M	\$425,282	\$432,253
Aviation Hull & Liability	Various based on the value of each Hull	\$50M	\$49,296	\$49,296
Airport Liability	None	\$25M	\$10,030	\$10,841
General Liability*	\$3M SIR	\$20M	\$952,024	\$475,992 (\$3.5M SIR)
Commercial Property**	\$100,000	\$1B “All-Risk”	\$952,830	\$848,093
Boiler & Machinery	\$250,000	\$100M	\$149,029	\$147,378
Excess Earthquake***	None	\$15M	\$59,509	\$69,850

*Coverages apply to bodily injury, personal injury, property damage, public official’s errors & omissions and employment practices liability. This policy provides a primary layer of coverage and a secondary layer of coverage.

**Commercial Property Insurance is underwritten by 29 separate insurance carriers with a \$1,000,000,000 “All Risk” limit and a \$100,000 deductible. 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.

*** Excess Earthquake insurance coverage will be purchased in three layers. This policy includes a limit of \$15,000,000 excess of the \$10,000,000 primary earthquake coverage provided in the Commercial Property insurance policy.

FISCAL IMPACT:

The City is still negotiating with the various insurance carriers and will not receive final numbers until July 1, 2017. Thus the amount of \$2,598,000 is believed to be the maximum cost for the City's various insurance policies using the same carriers we have now. However, staff is very hopeful that this amount can be reduced through our current negotiations with other carriers. The costs are allocated to various departments and funds based on the specific applicability of the policy and in relation to each department's historical experience and budgeted in the fiscal year 2017/18 adopted budget.

Prepared by:	Scott G. Miller, PhD., Chief Financial Officer/City Treasurer
Certified as to	
Availability of fund:	Scott G. Miller, PhD., Chief Financial Officer/City Treasurer
Approved by:	Marianna Marysheva, Assistant City Manager
Approved as to form:	Gary G. Geuss, City Attorney

Attachment: Presentation