



City of Arts & Innovation

City Council Memorandum

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: JUNE 22, 2021**

FROM: FINANCE DEPARTMENT **WARDS: ALL**

SUBJECT: ANNUAL INSURANCE RENEWALS INCLUDING, BUT NOT LIMITED TO, LIABILITY, PROPERTY AND EXCESS WORKERS' COMPENSATION – AMOUNT NOT TO EXCEED \$5,449,892.18 PLUS A 10% CONTINGENCY OF \$544,989.22 FOR A TOTAL AMOUNT NOT TO EXCEED \$5,994,881.40 FOR FISCAL YEAR 2021-2022

ISSUE:

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, 2021 and ending June 30, 2022, for a total amount not to exceed \$5,994,881.40 (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, 2021 and ending June 30, 2022, for an amount not to exceed \$5,449,892.18; and
2. Authorize a 10% contingency of \$ \$544,989.22 for potential changes and coverage enhancements for a total amount not to exceed \$5,994,881.40; and
3. Authorize the City Manager, or his 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 \$5,994,881.40 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.

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

Policy Type	Coverage Included
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 the City's highly valued 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.

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. The City did not meet the \$1,000 premium threshold due to COVID-19 but the underwriting carrier waived fees for managing agencies such as the City of Riverside.

The City, in partnership with Keenan & Associates, proactively researches existing policy language and new policy products underwritten by carriers in effort to secure the broadest coverage possible.

DISCUSSION:

2021 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 expected to continue with the market trend well into 2022.

There are several factors behind today's hard market. The frequency and severity of natural disasters such as fires, hurricanes, and tornadoes, are among these factors, costing the industry billions of dollars related to property insurance. Social Inflation is a significant contributor to rising premiums and reduction in capacity within the casualty side. Social inflation is a term used to describe the results of increasing litigation, more plaintiff friendly legal decisions and larger compensatory jury awards. The landscape of Cyber Liability risk is another area that is experiencing rate increases due to the increased cyber related incidents, ransomware, and sophisticated data security breaches. Lastly, the impact of COVID-19 has extended the hard market conditions with significant losses in Employment Practices Liability (EPL), event cancellations and other lines of coverage followed by the global economic downturn that caused interest rates to be at all-time lows nearing zero percent, which means carriers are not getting a return on investment (which has been a traditional source of profit). With interest rates being so low, carriers will look at increasing rates to compensate for the loss.

MARKETING OVERVIEW

PROPERTY

The City completed various property inspections alongside prospective insurance carriers interested in providing the City with a renewal option. Inspections were completed on the following City-owned assets: Ben Lewis Hall-Convention Center, Neighborhood Police Center, City Hall Complex, Main Library, Corporation & Fleet Maintenance Yard, Water Treatment Plant, Sewage Disposal Plant, Water Quality Control Plant, Municipal Auditorium, Fox Theater, Utilities Operations Center (UOC), and Riverside Public Utilities' Springs, Riverside Energy Resource Center (RERC), and Clearwater plants. Valuation data contained in the City's Statement of Values alongside information from the inspections was shared to the markets to assist with underwriting and premium calculation. The City also shared copies of multiple plans and documentation to support the City's maintenance and management of its facilities. The City also requested a renewal quote from Alliant Property Insurance Program (APIP) who has been the City's 'All-Risk' property carrier for the last several years.

The City insures Riverside Public Utilities' three power plant facilities separately from all other City owned assets due to their heightened exposures and need for more specialized coverage. Upon market exploration, Keenan & Associates determined that the current placement was the most competitive option for the City.

LIABILITY

In addition to exploring renewal terms with incumbent carriers and other excess liability markets, the City is also exploring a reinsurance option. A commercial insurance policy is a standard policy issued by the insurance carrier that includes terms and conditions that must be met by the insured (the City) as part of the policy conditions. Reinsurance is based upon a Memorandum of Coverage (MOC) written by the members and intended to be broader than a standard commercial insurance policy while allowing the City to maintain control over the claim handling decision process. It's written by the members, for the members that excess carriers are required to adhere to.

The reinsurance option the City is exploring is through the Municipal Insurance Cooperative (MIC). MIC approved the City as a new member during a board meeting on Thursday, June 3, 2021. The Municipal Insurance Cooperative (MIC) is in the process of securing new reinsurers and rates will be shared with members and potential new members once secured and reinforced by the reinsurers. The City would need MIC to remove certain exclusions on their Memorandum of Coverage in order for the City to consider MIC.

EXCESS WORKERS COMPENSATION

The City is yet to receive a formal workers compensation option, but a premium projection was provided based upon a 10% rate increase from expiring and updated payroll.

AVIATION HULL & AIRPORT PREMISES

Market trends indicate that aviation and airport markets are hardening due to large losses submitted to the specialty carriers. As a result, insurance carriers are adding deductibles and sub-limits to their policy forms to account for those losses. The City intends to renew the Airport Premises and Aviation Hull policies with the incumbent carriers.

CYBER LIABILITY

Keenan & Associates was able to secure a cyber-liability option for the City. All other markets that Keenan approached declined to provide the City with a quote. Declinations range from the City's revenues being too large to municipalities/public agencies not being within their underwriting appetite.

OVERVIEW OF POSSIBLE CHANGES

Coverage	2020-2021 Expiring Cost	2021-22 NTE	Change in Cost	% Change
Option 1- Renew all lines of coverage with incumbent carriers + New Crime and Cyber (No changes to existing Property + Liability Structure)	\$3,542,694.47	\$5,344,016.60	\$1,801,322.13	51%
Option 2- Renew with Stand-Alone Property + Municipal Insurance Cooperative (MIC) Reinsurance + New Crime and Cyber (Change both Property + Liability Structure)	\$3,542,694.47	\$4,404,892.18	\$862,197.71	24%
Option 3- Renew per expiring with Non-APIP Membership Property + New Crime and Cyber (Change only Property)	\$3,542,694.47	\$4,299,016.60	\$756,322.13	21%
Option 4- Renew per expiring + Municipal Insurance Cooperative (MIC) Reinsurance + New Crime and Cyber (Only Change Liability)	\$3,542,694.47	\$5,449,892.18	\$1,907,197.71	54%

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, 2021. 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 \$5,994,881.40 to finalize the insurance policy renewals for FY2021/22.

NOT-TO-EXCEED (NTE) PREMIUM PROJECTIONS

Coverage	2020-2021 Expiring Cost	2021-22 NTE	Change in Cost	% Change
Property - All Risk (Stand-Alone)	\$1,392,523.00	\$975,000.00	\$(417,523.00)	-30%
APIP NTE	\$1,392,523.00	\$2,020,000.00	\$627,477.00	45%
Property - DIC Primary: Add Primary		\$387,703.75	\$387,703.75	
Property - DIC Excess	\$72,611.47	\$79,678.91	\$7,067.44	10%
Property - DIC Excess Add Flood		\$29,313.00	\$29,313.00	
Co-Gens	\$765,238.00	\$1,147,857.00	\$382,619.00	50%
Fine Arts	\$36,330.00	\$32,515.00	\$(3,815.00)	-10.5%
General Liability - Primary	\$80,247.00	\$87,820.00	\$7,573.00	9.4%
Law Enforcement Liability	\$59,706.00	\$71,076.27	\$11,370.27	19%
Auto Liability	\$91,559.00	\$104,716.00	\$13,157.00	14.4%
Public Officials and EPL	\$60,122.00	\$67,133.15	\$7,011.15	11.7%
General Liability XS (1st)	\$162,418.00	\$66,511.00	\$(95,907.00)	-59%
General Liability XS (2nd)	\$244,780.00	\$440,000.00	\$195,220.00	79.8%
Municipal Cooperative Insurance (MIC)	\$698,832.00	\$943,132.00	\$(244,300.00)	35%
WC	\$476,291.00	\$534,656.52	\$58,365.52	12%
Airport Liability	\$8,589.00	\$11,961.00	\$3,372.00	39%
Aviation	\$66,281.00	\$75,400.00	\$9,119.00	14%
Pollution Liability	\$25,999.00	\$25,999.00	\$-	0%
Crime *New*	-	\$25,051.00	\$25,051.00	
Cyber Liability *New*	-	\$136,625.00	\$136,625.00	

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.

FISCAL IMPACT:

The City's insurance broker continues to negotiate with various insurance carriers and will not receive the final premium amounts until July 1, 2021. The amount of \$5,994,881.40 is expected to be the maximum cost to the City. As such, City staff is seeking authority for an amount not exceed \$5,994,881.40 to finalize the insurance policy renewals. Citywide, this amount can be approximately \$544,989.22 to \$1,695,864.80 higher than the estimates Keenan provided for the FY 2021/22 proposed budget, with the greatest impact related to the Co-Generation premiums. Costs are allocated among departments and funds based on applicability of the policies. Following the finalization of rates, staff will request a supplemental appropriation where City funds or departments are unable to absorb the cost increase within their approved FY 2021/22 appropriation limits.

Prepared by: Kristie Thomas, Assistant Chief Financial Officer
Certified as to
Availability of funds: Edward Enriquez, Chief Financial Officer /Treasurer
Approved by: Moises Lopez, Deputy City Manager
Approved as to form: Kristi J. Smith, Chief Assistant City Attorney

Attachment: Presentation