



City of Sacramento City Council

915 I Street, Sacramento, CA, 95814
www.CityofSacramento.org

Meeting Date: 6/26/2012

Report Type: Consent

Title: Renewal of Insurance Policies for Fiscal Year 2013

Report ID: 2012-00570

Location: Citywide

Recommendation: Pass a Resolution 1) authorizing the City Manager to purchase the insurance policies for FY 2013 outlined in attachment 2 in the proposed resolution through Alliant Insurance Services, Inc., in an amount not to exceed \$2,900,000; and 2) authorizing the Human Resources Department Division of Risk Management to pay the premiums outlined in attachment 2 from the Risk Management Fund.

Contact: Geri Hamby, Director of Human Resources, (916) 808-7173, Patrick Flaherty, Risk Manager, (916) 808-8587, Human Resources Department

Presenter: None

Department: Human Resources

Division: Risk Management Admin

Dept ID: 08001311

Attachments:

- 1-Description/Analysis
- 2-Attachment 2-Insurance Premium
- 3-Attachment 3-Schedule of Insurance
- 4-Resolution

City Attorney Review

Approved as to Form
Paul Gale
6/19/2012 4:16:50 PM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
6/14/2012 9:52:30 AM

Approvals/Acknowledgements

Department Director or Designee: Geri Hamby - 6/19/2012 10:52:32 AM

Description/Analysis

Issue: The City faces a complex array of risks that can result in severe or catastrophic loss. The City utilizes professional insurance brokerage services to place a variety of commercial insurance policies to protect the City from these losses. The City currently contracts with Alliant Insurance Services Inc. (Alliant) to perform this function. Alliant was selected as the most qualified insurance broker through a competitive request for proposal process. Purchasing insurance helps protect the City against losses from catastrophic automobile accidents, dangerous condition of public property claims and workers' compensation injuries. Purchasing insurance also protects the City from loss due to damage or destruction of City assets as well as pollution, crime, fine arts, and airport/aircraft exposures. The City's insurance broker and the risk management division have evaluated each of the insurance programs in terms of potential loss, coverage, self-insured retentions, deductibles, and policy limits and recommend the purchase of insurance as outlined in Attachment 2. Attachment 3 provides a comparison of insurance policies for FYs 2010 to 2013.

In FY 2010 Alliant placed insurance policies for the City with a total cost of \$2,217,968 and in FY 2011 the total cost of insurance was \$2,199,521. The total cost of insurance for FY 2012 was \$2,299,908. The total cost of insurance in FY 2013 is approximately \$2,792,916. This number is estimated as final insurance policy premiums are not available in some instances or we may get additional insurance quotes that would lower the costs outlined in this report.

Policy Considerations: The recommended insurance policies are as follows:

Excess Liability: The City is self-insured for the first \$2,000,000 of any liability loss. Excess liability insurance includes coverage for the following risks: general liability, automobile liability, public official's errors and omissions liability, and unfair employment practices liability. Excess liability policy limits are \$30,000,000, which is appropriate for a city the size of Sacramento. In FY 2010, excess liability premiums were \$837,001 and in FY 2011, excess liability premiums were \$831,448. The FY 2012 excess liability premiums were \$863,286. The FY 2013 excess liability premium is \$1,177,154. The \$1,177,154 quote is the only excess liability quote the City has received at this time and includes \$3,000,000 retention instead of the City's current \$2,000,000 retention. Many cities in California similar to Sacramento have retentions of \$3,000,000 or more. For example, Fresno, Oakland, Long Beach, Riverside, and San Diego have retentions of \$3,000,000 while Santa Clara, Torrance, and Pasadena have retentions of \$5,000,000. The increase in FY 2013 excess liability premiums are driven by a variety of factors. The first is the payout of over \$14,000,000 in

recent years by the City's excess liability carriers for two large jury verdicts against the City. The first claim involved a serious injury to a ride-along passenger in a police vehicle and the second case involved a dangerous condition of public property claim where a jogger was struck in a cross walk by a citizen's vehicle. The second factor for the increase in insurance premiums is the hardening insurance market resulting from underwriting losses in the property insurance market. Natural disasters such as the earthquakes in New Zealand and Japan, tsunami in Japan, floods in Australia and Thailand, and wind and hailstorms in the United States have resulted in large payouts by insurers. These losses reduce the insurance industry's capital and surplus, which leads to increases in premiums. The final reason for the increase in insurance premiums is the current low interest rates, which are reducing insurer's incomes. The City may receive additional excess liability quotes but at the time, this report was written we had only received one quote, which is outlined above.

Excess Workers' Compensation: The City is self-insured for the first \$2,000,000 of any workers' compensation loss and has purchased excess workers' compensation insurance from California State Association of Counties Excess Insurance Authority (CSAC) since 2007. CSAC uses pool purchasing power to achieve broad coverage for the lowest rates available. The CSAC pool is one of the largest pools in the nation and provides services to 95% of the counties and 60% of the cities in California. Excess workers' compensation insurance premiums were \$407,521 in FY 2010 and \$421,472 in FY 2011. The FY 2012 premiums were \$424,048. The FY 2013 excess workers' compensation premiums are estimated at \$427,758.

Property: Property insurance is currently purchased from the Public Entity Property Insurance Program (PEPIP) with a \$100,000 deductible. PEPIP was formed in 1993 to meet the property insurance needs faced by public entities and is currently the largest property insurance placement in the world. PEPIP is a joint purchase program and there is no risk of assessments. Because of PEPIP's large size, members receive low premiums with the best possible coverage terms. In FY 2010, property insurance premiums were \$835,300 and in FY 2011, the premiums were \$847,601. The FY 2012 property insurance premium was \$909,590. The FY 2013 premium is \$1,054,090. The property insurance rate increases in FY 2012 and FY 2013 are primarily driven by recent catastrophic natural disasters throughout the world that have resulted in large payouts by property insurers, which has depleted their surplus. These disasters include tornadoes and floods in the south and Midwest, earthquake and tsunami in Japan, earthquake in New Zealand, floods in Australia and Thailand, and wind and hail losses in the United States.

Fine Arts: Fine arts insurance with limits of \$100,000,000 is purchased to provide coverage for the Crocker Art Museum, Discovery Museum and Sacramento Archives and Museum Collection. Fine arts insurance has been purchased from Ace American the last two years. The FY 2010 fine arts insurance premium was \$48,101 and in FY 2011, the premium was \$66,843. The policy limits in FY 2011 were increased from \$50,000,000 to \$100,000,000 due to the Crocker Art Museum expansion and the influx of new art. The premiums for 2012 were \$62,670 and the FY 2013 premium is \$61,619.

Aircraft: Aircraft insurance is purchased to cover the City's small plane and three helicopters. Aircraft insurance has been purchased from Old Republic in recent years. The premium in FY 2010 was \$30,151 and the premium in FY 2011 was \$27,137. The premium in FY 2012 was \$24,437. The FY 2013 premium is \$35,937. The City recently acquired another helicopter and this resulted in the premium increase in FY 2013.

Other Insurance: Other insurance includes policies for crime, pollution, bounce house, and airport liability with a total cost of \$36,358.

Total Insurance Costs: Attachment 2 provides a summary of the FY 2013 insurance policies and premiums. Attachment 3 provides a comparison of insurance policies and premiums from FY 2010 to FY 2013.

Environmental Considerations:

California Environmental Quality Act (CEQA): Under the California Environmental Quality Act (CEQA) guidelines, continuing administrative activities do not constitute a project and are therefore exempt from review.

Sustainability Considerations: There are no sustainability considerations applicable to this action.

Other: None

Commission/Committee Action: None

Rationale for Recommendation: The purchase of insurance protects the City from catastrophic losses and helps to provide financial stability to the City. Failure to purchase insurance policies to protect the City in case of catastrophic losses would place the City at risk for financial hardship should one or more of these losses occur.

Financial Considerations: The estimated cost of insurance in FY 2013 is \$2,792,916, 21% higher than in FY2012, primarily due to the increase in liability and property insurance premiums. The increase in liability premiums is driven by

the payout of over \$14,000,000 by excess insurers in recent years for two large jury verdicts against the City. The increase in property insurance is driven by a hardening insurance market related to recent catastrophic natural disasters throughout the world that have resulted in large payouts by insurers. These disasters include tornadoes and floods in the south and Midwest, earthquake and tsunami in Japan, earthquake in New Zealand, floods in Australia and Thailand, and wind and hailstorm claims in the United States. These market conditions also contribute to the increase in liability premiums.

Attachment 2: 2013 Insurance Premiums

SCHEDULE OF INSURANCE					
<i>Fiscal Year</i>	<i>Self Insured Retention</i>	<i>Policy Limits</i>	<i>Premium</i>	<i>Carrier</i>	
Excess Liability					
FY13	3,000,000	30,000,000	1,177,154	Chartis-Lexington, Endurance	
Workers' Compensation					
FY13	2,000,000	Statutory	427,758	CSAC EIA	
Property					
FY13	100,000	1,000,000,000	1,054,090	PEPIP	
Fine Arts					
FY13	10,000	100,000,000	61,619	Ace American	
Aircraft					
FY13	Varies	20,000,000	35,937	Old Republic	
Other Insurance <i>Includes pollution, crime, airport and bounce house insurance</i>					
FY13			36,358		
Total Insurance					
FY13			2,792,916		

Attachment 3: Schedule of Insurance

SCHEDULE OF INSURANCE					
<i>Fiscal Year</i>	<i>Self Insured Retention</i>	<i>Policy Limits</i>	<i>Premium</i>	<i>Carrier</i>	
Excess Liability					
FY13	3,000,000	30,000,000	1,177,154	Chartis-Lexington, Endurance	
FY12	2,000,000	30,000,000	863,286	Security National, American Merchants	
FY11	2,000,000	30,000,000	831,448	Everest, American Merchants	
FY10	2,000,000	30,000,000	837,001	Everest, American Merchants	
Total			3,708,889		
Workers' Compensation					
FY13	2,000,000	Statutory	427,758	CSAC EIA	
FY12	2,000,000	Statutory	424,048	CSAC EIA	
FY11	2,000,000	Statutory	421,472	CSAC EIA	
FY10	2,000,000	Statutory	407,521	CSAC EIA	
Total			1,680,799		
Property					
FY13	100,000	1,000,000,000	1,054,090	PEPIP	
FY12	100,000	1,000,000,000	909,590	PEPIP	
FY11	100,000	1,000,000,000	847,601	PEPIP	
FY10	100,000	1,000,000,000	835,300	PEPIP	
Total			3,646,581		
Fine Arts					
FY13	10,000	100,000,000	61,619	Ace American	
FY12	10,000	100,000,000	62,670	Ace American	
				Ace American	
FY11	10,000	100,000,000*	66,843	* Limits increased due to Crocker expansion.	
FY10	1,000	50,000,000	48,101		
Total			239,233		
Aircraft					
FY13	Varies	20,000,000	35,937	Old Republic	
FY12	Varies	20,000,000	24,437	Old Republic	
FY11	Varies	20,000,000	27,137	Old Republic	
FY10	Varies	20,000,000	30,151	Old Republic	
Total			117,662		
Other Insurance <i>Includes pollution, crime, airport and bounce house insurance</i>					
FY13			36,358		
FY12			15,877*	* Lower premiums due to prepaid insurance policies in prior years.	
FY11			5,020*		
FY10			59,894		
Total			117,149		
Total Insurance					
FY13			2,792,916		
FY12			2,299,908		
FY11			2,199,521		
FY10			2,217,968		
Total			9,510,313		



RESOLUTION NO.

Adopted by the Sacramento City Council

RENEWAL OF INSURANCE POLICIES FOR FISCAL YEAR 2013

BACKGROUND

- A.** The City faces a complex array of risks that can result in severe or catastrophic loss. The City contracts with Alliant Insurance Services, Inc. to place commercial insurance policies to protect the City from these losses. Purchasing insurance helps protect the City from a variety of losses including costly automobile accidents, dangerous condition of public property claims, and workers' compensation injuries. Insurance policies also help protect the City from loss due to damage or destruction of City assets as well as pollution, crime, fine arts, and airport/aircraft exposures.
- B.** Attachment 2 summarizes the insurance policies, self-insured retentions/deductibles, policy limits, premiums and insurance providers for FY 2013.
- C.** Attachment 3 summarizes the insurance policies, self-insured retentions/deductibles, policy limits, premiums and insurance providers for FYs 2010 through 2013

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1: The City Manager is authorized to purchase the insurance policies for FY 2013 in attachment 2 through Alliant Insurance Services, Inc. in an amount not to exceed \$2,900,000.
- Section 2: The Human Resources Department Division of Risk Management is authorized to pay the premiums outlined in Attachment 2 from the Risk Management Fund.