

Meeting Date: 6/25/2013

Report Type: Consent

Report ID: 2013-00518

Title: Renewal of Insurance Policies

Location: Citywide

Issue: The City has a need to utilize professional insurance brokerage services to place a variety of commercial insurance policies to protect the City from losses.

Recommendation: Pass a Motion authorizing the City Manager to authorize Alliant Insurance Services, Inc., the City's insurance broker, to secure insurance policies for Excess Liability, Excess Workers' Compensation, Property, Fine Arts, Aircraft and other insurance including Crime Pollution, Bounce House, and Airport Liability, to protect the City from covered losses for an amount not to exceed \$3,016,730.

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

Presenter: None

Department: Human Resources

Division: Risk Mgmt/Insurance Prgms

Dept ID: 08001331

Attachments:

1-Description/Analysis

2-Attachment A

3-Attachment B

City Attorney Review

Approved as to Form
Sandra Talbott
6/18/2013 3:36:56 PM

City Treasurer Review

Reviewed for Impact on Cash and Debt
Russell Fehr
6/13/2013 4:21:30 PM

Approvals/Acknowledgements

Department Director or Designee: Geri Hamby - 6/14/2013 4:21:07 PM

Description/Analysis

Issue Detail: 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. Purchasing insurance helps protect the City from catastrophic automobile accidents, employment liability, dangerous condition of public property claims, and workers' compensation injuries. Additionally, purchasing insurance protects the City from loss due to damage or destruction of City assets, pollution, crime, fine arts, and airport/aircraft exposures. The City's insurance broker and the Department of Human Resources, 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 A. Attachment B provides a comparison of insurance policies for FY 2013 and 2014.

In FY 2013, Alliant placed insurance policies for the City with a total cost of \$2,792,959 and in FY 2014; the total cost of insurance is \$3,016,730. This 8% increase is primarily driven by increases in property and excess liability premiums. This estimate for insurance policy premiums may change as some are not available in some instances or the City may receive additional insurance quotes that would lower the costs outlined in this report.

Policy Considerations: The recommended insurance policies are as follows:

Excess Liability: Excess liability insurance premiums are slowly rising in the market due to recent high jury verdicts and low interest rates, which reduce insurer's income. The City is self-insured for the first \$3,000,000 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. The City's self-insured retention is \$3,000,000, which is also appropriate for a city of our size. 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 City participates in the Alliant National Municipal Liability Program (ANML) for the purchase of excess liability insurance. ANML provides comprehensive liability coverage to public agencies across the nation, including over 35 California cities. Participants in ANML do not share risk and each participating member selects its own limits of liability insurance and self-insured retention. As a group purchase, the program provides greater stability as the insurance market fluctuates and the combined size of the program ensures competitive pricing in hard and soft markets. All ANML members received a minimum of a 6% increase in premiums this year. Our FY 2013 premium was \$1,176,460 and our FY 2014 premium is 6% higher, or \$1,254,580.

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 the 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 93% of the counties and 60% of the cities in California. Excess workers' compensation insurance premiums were \$432,858 in FY 2013 and decreased 2% to \$424,035 in FY 2014. The decrease is primarily driven by the reduction in City payroll, which is a major factor in the calculation of the City's insurance premium.

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. FY 2013 premiums were \$1,054,090 and premiums increased in FY 2014 to \$1,204,796, a 14% increase. This increase was driven primarily by rising flood insurance premiums in the market generated from the large payouts by property insurers for Hurricane Sandy. Hurricane Sandy, which struck the east coast in 2012, was the second-costliest hurricane in United States history. A 2% increase trend in property value contributed to the higher premiums.

Fine Arts: Fine arts insurance with limits of \$100,000,000 is purchased to provide coverage for the Crocker Art Museum, Discovery Museum and the Sacramento Archives and Museum Collection. Fine arts insurance has been purchased from Ace American the last five years. The FY 2013 premium was \$61,619 and the FY 2014 premium is \$64,677. This is a 5% increase in costs. However, the new policy contains a no claims bonus of 10%, which could result in a rebate of \$6,467 if no claims are filed during the policy period.

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 2013 was \$35,936 and the premium in FY 2014 is \$35,937.

Other Insurance: Other insurance includes policies for crime, pollution, bounce house, and airport liability with a total cost of \$32,705, up slightly from last year's premium of \$31,996.

Total Insurance Costs: Attachment A provides a summary of the FY 2014 insurance policies and premiums. Attachment B provides a comparison of insurance policies and premiums from FY 2013 and FY 2014.

Economic Impacts: None

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

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

Commission/Committee Action: None

Rationale for Recommendation: Authorizing the City Manager to authorize Alliant Insurance Services, Inc., the City's insurance broker, to secure insurance policies to protect the City from covered losses for an amount not to exceed \$3,016,730 as outlined in Attachment B, 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 2014 is \$3,016,730, 8% higher than in FY2013, primarily due to the increase in property and excess liability insurance premiums. The increase in property premiums is driven largely by the rising insurance market costs of flood insurance generated from payouts by property insurers resulting from Hurricane Sandy. In addition, a 6% increase in excess liability premiums was the standard increase for all members of ANML. Other cities participating in ANML received higher premium increases if they experienced high claim payouts.

Emerging Small Business Development (ESBD): Alliant Insurance Services is not an emerging or small business (ESBD).

Attachment A 2014 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					
FY14	3,000,000	30,000,000	1,254,580	Security National, Star Indemnity, Ironshore Specialty	
Workers' Compensation					
FY14	2,000,000	Statutory	424,035	CSAC EIA	
Property					
FY14	100,000	1,000,000,000 0	1,204,796	PEPIP	
Fine Arts					
FY14	10,000	100,000,000	64,677	Ace American	
Aircraft					
FY14	Varies	20,000,000	35,937	Old Republic	
Other Insurance <i>Includes pollution, crime, airport and bounce house insurance</i>					
FY14			32,705		
Total Insurance					
FY14			3,016,730		

Attachment B Schedule of Insurance

SCHEDULE OF INSURANCE					
Fiscal Year	Self Insured Retention	Policy Limits	Premium		Carrier
Excess Liability					
FY14	3,000,000	30,000,000	1,254,580		Security National, Star Indemnity, Ironshore Specialty
FY13	3,000,000	30,000,000	1,176,460		Security National, Star Indemnity
Difference			78,120	6%	
Workers' Compensation					
FY14	2,000,000	Statutory	424,035		CSAC EIA
FY13	2,000,000	Statutory	432,858		CSAC EIA
Difference			(8,823)	(2%)	
Property					
FY14	100,000	1,000,000,000	1,204,796		PEPIP
FY13	100,000	1,000,000,000	1,054,090		PEPIP
Difference			150,706	14%	
Fine Arts					
FY14	10,000	100,000,000	64,677		Ace American
FY13	10,000	100,000,000	61,619		Ace American
Difference			3,058	5%	
Aircraft					
FY14	Varies	20,000,000	35,937		Old Republic
FY13	Varies	20,000,000	35,936		Old Republic
Difference			1	0%	
Other Insurance <i>Includes pollution, crime, airport and bounce house insurance</i>					
FY14			32,705		
FY13			31,996		
Difference			709	2%	
Total Insurance					
FY14			3,016,730		
FY13			2,792,959		
Difference			223,771	8%	