

Meeting Date: 6/17/2014

Report Type: Review

Report ID: 2014-00473

Title: (Review and Information) Renewal of City Insurance Policies

Location: Citywide

Recommendation: 1) Review a report 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 \$3,179,125; and 2) continue to June 24, 2014 for approval.

Contact: Geri Hamby, Director of Human Resources, (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

6/10/2014 2:00:27 PM

Approvals/Acknowledgements

Department Director or Designee: Geri Hamby - 6/5/2014 4:56:59 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 financial loss as a result of catastrophic general liability claims, automobile accidents, 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 2014 and FY 2015.

In FY 2014, Alliant placed insurance policies for the City with a total cost of \$3,016,709 and in FY 2015 the total cost of insurance is \$3,179,125. This 5% increase is primarily driven by increases in workers' compensation and property insurance premiums. This estimate for insurance policy premiums may change as some quotes are not finalized and, in some instances, 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:

ExcessLiability: 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. 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. Our FY 2014 premium was \$1,254,580 and our FY 2015 premium is 2% higher, at \$1,283,474.

ExcessWorkers'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 \$424,035 in FY 2014 and increased 14% to \$484,946 in FY 2015. The premium increase is primarily driven by the increase in City payroll, which is a major factor in the calculation of the City's insurance premium. Additionally, there is an approximate 10% premium rate increase from our excess worker's compensation provider based on their latest actuarial study. Increases in statutory temporary and permanent disability rates in 2013 and 2014 also led to increasing costs.

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 2014 premiums were \$1,204,796 and premiums increased 6% in FY 2015 to \$1,276,999. This increase was driven primarily by the increase in the City's total insurable property values which were \$1,734,800,834 in FY 2014 and are now \$1,865,316,235. Total insurable property values are up because of a 4% increase in the real property trend factor and additional increases in values at a few large City buildings based on a recent property appraisal.

FineArts: 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 six years. The FY 2014 premium was \$64,677 and the FY 2015 premium is the same.

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 2014 was \$35,916 and the premium in FY 2015 is \$35,936.

OtherInsurance: Other insurance includes policies for crime, pollution, bounce house, and airport liability and has a total cost of \$33,093, up slightly from last year's premium of \$32,705.

TotalInsuranceCosts: Attachment A provides a summary of the FY 2015 insurance policies and premiums. Attachment B provides a comparison of insurance policies and premiums from FY 2014 and FY 2015.

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 secure insurance policies to protect the City from catastrophic losses and helps 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 2015 is \$3,179,125, 5% higher than in FY 2014, primarily due to the increase in workers' compensation and property insurance premiums. The increase in workers' compensation premiums is driven largely by increasing City payroll and the increase in property premiums is driven largely by the increase in City's total insurable property value.

Local Business Enterprise (LBE): Not applicable

Attachment A FY2014/2015 Insurance Premiums

| SCHEDULE OF INSURANCE | | | | | |
|--|-------------------------------|----------------------|----------------|---|--|
| <i>Fiscal Year</i> | <i>Self Insured Retention</i> | <i>Policy Limits</i> | <i>Premium</i> | <i>Carrier</i> | |
| <i>Excess Liability</i> | | | | | |
| FY15 | 3,000,000 | 30,000,000 | 1,283,474 | Security National, Star Indemnity, Ironshore Specialty | |
| <i>Workers' Compensation</i> | | | | | |
| FY15 | 2,000,000 | Statutory | 484,946 | CSAC EIA | |
| <i>Property</i> | | | | | |
| FY15 | 100,000 | 1,000,000,000 | 1,276,999 | PEPIP | |
| <i>Fine Arts</i> | | | | | |
| FY15 | 10,000 | 100,000,000 | 64,677 | Ace American | |
| <i>Aircraft</i> | | | | | |
| FY15 | Varies | 20,000,000 | 35,936 | Old Republic | |
| <i>Other Insurance Includes pollution, crime, airport and bounce house insurance</i> | | | | | |
| FY15 | | | 33,093 | | |
| <i>Total Insurance</i> | | | | | |
| FY15 | | | 3,179,125 | | |

Attachment B Schedule of Insurance

| | | | | | |
|---|-----------|---------------|----------------|------------|--|
| Excess Liability | | | | | |
| FY15 | 3,000,000 | 30,000,000 | 1,283,474 | | Security National, Star Indemnity, Ironshore Specialty |
| FY14 | 3,000,000 | 30,000,000 | 1,254,580 | | Security National, Star Indemnity, Ironshore Specialty |
| Difference | | | 28,894 | 2% | |
| Workers' Compensation | | | | | |
| FY15 | 2,000,000 | Statutory | 484,946 | | CSAC EIA |
| FY14 | 2,000,000 | Statutory | 424,035 | | CSAC EIA |
| Difference | | | 60,911 | 14% | |
| Property | | | | | |
| FY15 | 100,000 | 1,000,000,000 | 1,276,999 | | PEPIP |
| FY14 | 100,000 | 1,000,000,000 | 1,204,796 | | PEPIP |
| Difference | | | 72,203 | 6% | |
| Fine Arts | | | | | |
| FY15 | 10,000 | 100,000,000 | 64,677 | | Ace American |
| FY14 | 10,000 | 100,000,000 | 64,677 | | Ace American |
| Difference | | | 0 | 0% | |
| Aircraft | | | | | |
| FY15 | Varies | 20,000,000 | 35,936 | | Old Republic |
| FY14 | Varies | 20,000,000 | 35,916 | | Old Republic |
| Difference | | | 20 | 0% | |
| Other Insurance <i>Includes pollution, crime, airport and bounce house insurance</i> | | | | | |
| FY15 | | | 33,093 | | |
| FY14 | | | 32,705 | | |
| Difference | | | 388 | 1% | |
| Total Insurance | | | | | |
| FY15 | | | 3,179,125 | | |
| FY14 | | | 3,016,709 | | |
| Difference | | | 162,416 | 5% | |