



City Council Staff Report

DATE: JUNE 5, 2013 Consent Agenda

SUBJECT: APPROVE ANNUAL INSURANCE POLICY RENEWALS FOR THE CITY'S INSURANCE PORTFOLIO FOR FISCAL YEAR 2013-14

FROM: David H. Ready, City Manager

BY: Douglas Holland, City Attorney

SUMMARY

The City is self-insured and annually purchases various lines of insurance coverage to minimize the adverse effects of accidental losses and claims against the City. This action would authorize the purchase of various lines of insurance for Fiscal Year 2013-14.

RECOMMENDATION:

Adopt Resolution No. ____ "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA, AUTHORIZING KEENAN & ASSOCIATES AS THE CITY'S BROKER OF RECORD, TO PURCHASE PROPERTY LIABILITY, EXCESS EARTHQUAKE/FLOOD LIABILITY (DIFFERENCE IN CONDITION), EXCESS LIABILITY, EXCESS WORKERS COMPENSATION, AIRPORT OWNERS AND OPERATORS LIABILITY, VILLAGE FEST LIABILITY, MULTI MEDIA LIABILITY, AIRCRAFT HULL LIABILITY, AND CRIME/FIDELITY LIABILITY INSURANCE POLICIES FROM VARIOUS CARRIERS FOR POLICY YEAR 2013-2014, EFFECTIVE JULY 1, 2013."

STAFF ANALYSIS:

The City is self insured for major risk programs such as property liability, excess earthquake/flood liability, general liability, auto liability and workers' compensation. In order to protect the assets of the City from potential loss, the City purchases various lines of insurance coverage for these risks. To assist in the purchase of various lines of insurance, the City entered into an agreement with Keenan and Associates for professional insurance brokerage services.

Keenan and Associates has marketed the City's insurance portfolio to thirty (30) carriers and has solicited pricing that, if approved, is \$23,951 (+2.2%) more than the current year while providing the same level of coverage and deductibles, with the exception of

the Excess General Liability (which will have a higher retention) and Crime with coverage for electronic fraud. The following is a summary of last year's premiums and staff's recommendation for the July 1 renewal for Fiscal Year 2013-14:

| COVERAGE: | Premium FY 12-13 | Premium FY 13-14 |
|---|--|--|
| PROPERTY Premium Deductibles Limits | \$366,000 \$250,000 for Earthquake \$100,000 Flood \$10,000 all other Losses 1 st \$5M EQ/Flood not included Terrorism coverage included Airport Runways \$80M | \$367,262 \$250,000 for Earthquake \$100,000 Flood \$10,000 all other Losses 1 st \$5M EQ/Flood not included Terrorism coverage included Airport Runways \$80M |
| DIC (Earthquake/Flood) Premiums Limits | \$154,772 (City+Airport) \$5,000,000 (excess of \$5.0M) \$281,562 (dedicated WWTP) \$25,000,000 | \$154,697 (City+Airport) \$5,000,000 (excess of \$5.0M) \$281,777 (dedicated WWTP) \$25,000,000 |
| COMPREHENSIVE EXCESS GENERAL & AUTO LIABILITY Premium Self-Insured Retention Limits | \$135,800 \$400,000 \$500,000 for Employment \$10,000,000 | \$138,411 \$650,000 \$10,000,000 |
| EXCESS WORKERS' COMP Premium SIR- Police & Fire SIR- Misc employees Limits | \$86,431 \$1,000,000 \$1,000,000 \$50,000,000 per occurrence | \$106,172 \$1,000,000 \$1,000,000 \$50,000,000 per occurrence |
| AIRPORT LIABILITY Premium Deductible Limits | \$26,432 \$1,000 \$50,000,000 Terrorism coverage included | \$26,432 \$1,000 \$50,000,000 Terrorism coverage included |
| VILLAGE FEST Premium Deductibles Limits | \$12,213 \$1,000 \$1,000,000/\$2,000,000 AGG/\$2,000,000 PROD/\$100,000 FIRE | \$12,211 \$1,000 \$1,000,000/\$2,000,000 AGG/\$2,000,000 PROD/\$100,000 FIRE |
| MULTI MEDIA Premium Deductibles Limits | \$7,899 \$5,000 \$1,000,000 | \$7,895 \$5,000 \$1,000,000 |
| AIRCRAFT HULL Premium Deductible Limits | \$3,138 \$75K hull, \$100 In Motion/\$500 Static \$5,000,000 Terrorism coverage included | \$3,138 \$75K hull, \$100 In Motion/\$500 Static \$5,000,000 Terrorism coverage included |
| CRIME / FIDELITY Premium Deductibles Limits | \$2,599 \$10,000/\$1,000 \$1,000,000/\$100,000/\$300,000 | \$2,802 \$10,000/\$1,000 \$1,000,000/\$100,000/\$300,000 |
| Total Premiums | \$1,076,846 | \$1,100,797 |

PROPERTY PROGRAM:

Under the All Risk Property insurance program, the quote of \$367,262 from Affiliated FM Insurance Co., is for the same coverage as last year, including the Airport runway coverage, wind and tree coverage, and attractive supplemental coverage for terrorism and builder's risk. The premium is \$1,262 more than last year. Given that we changed carriers last year to Affiliated FM and four months into the policy the City sustained a \$625,000 loss in the fire at City Hall, the quote is an attractive "flat" renewal and shows Affiliated's long term commitment to our program. Affiliated FM has proven to be a very professional and responsive carrier in the processing of claims, and has worked well with city staff and Keenan.

DIFFERENCE IN CONDITION (DIC) PROGRAM:

The City is self-insured and purchases various lines of insurance each year for additional protection to the Property Program above. Difference in Condition (additional flood and earthquake coverage) is almost always excluded from commercial property policies and may be purchased separately to enhance coverage. The DIC market has hardened over the last two years due to the billions of insured losses sustained in the catastrophic events such as the earthquake in Japan, floods in the Midwest and tornadoes in the southern United States in 2010/11 followed by Hurricane Sandy in 2012 with an estimated insurable loss exceeding \$50 billion for just that storm alone.

The City's total insurable value (TIV) is approximately \$468 million for FY 13-14. While it is highly unlikely that the City would have to replace every single facility in the event of an earthquake, facilities such as the Airport and Wastewater Treatment Plant are considered critical to the continued operations of the City. These two facilities alone have an estimated replacement cost of over \$120 million. Four years ago Council authorized the purchase of Differences in Condition (DIC) insurance to augment its primary property earthquake/flood insurance policy to cover the Wastewater Treatment Plant and all other City Buildings (including the Airport buildings). Staff is again recommending a separate dedicated stand-alone policy to cover the Wastewater Treatment Plant from the first dollar to \$25 million for a total premium cost of \$281,778, only \$216 more than last year, or essentially a "flat" renewal, that would be paid in full by the wastewater enterprise account. Also, staff recommends \$5 million excess of \$5 million per occurrence/annual aggregate in coverage for all other City Buildings (including the Airport buildings) for a total cost of \$154,697 (\$75 less than last year, also a "flat" renewal) and the cost would be shared by the City's General Fund and Airport enterprise account. Given the hardening market, staff is pleased to commend Keenan's efforts to provide the City with a "flat" renewal for FY 13-14.

COMPREHENSIVE EXCESS GENERAL & AUTO LIABILITY PROGRAM:

Litigation against public agencies due to the Joint & Several Liability law created by Prop 51 (aka "the deep pockets rule") makes this coverage critical for the city. The

incumbent, Starr Indemnity, has changed its business model due to market conditions and is being selective in writing public entity business going forward. As such, Starr offered an unattractive renewal that dropped our coverage in half (\$10M to \$5M) and doubled our retention (\$500K to \$1M). Keenan aggressively marketed this coverage and secured a quote from Argonot for \$138,411, which is \$2,611 (+1.9%) more than last year, with the same \$10M limit of coverage. However, the City's retention would increase to \$650K for all employees (both SIR and EPLI), up from the \$400K (SIR) and \$500K (EPLI) deductibles last year. Keenan also received a quote from a third company that would have retained current coverages; however, the premium would have increased to \$215,000 (an increase of \$79,200 or 58%). Given the difficulty in the excess liability market this year, and the city's low claims history under this coverage, staff recommends accepting the increase in retention to keep the premium cost in line with last year.

EXCESS WORKERS' COMPENSATION PROGRAM:

Maintenance of Excess Workers' Compensation insurance is important to protect the City from the negative financial consequences of potential catastrophes involving multiple employee injuries or deaths from occurrences, such as major fires, police activities, terrorist attacks, and earthquakes during working hours. The Workers' Compensation market is also hardening as medical inflation and adverse claims experience has resulted in an industry wide loss ratio and premiums that are now comparable to the all time highs of the early 2000's. The renewal for the same \$50 million in coverage is \$106,172 from the incumbent, Safety National, which is \$19,741 (+22.8%) more than last year. Other carriers were either unwilling or unable to provide competitive quotes on this coverage under the current market conditions.

AIRPORT PROGRAM:

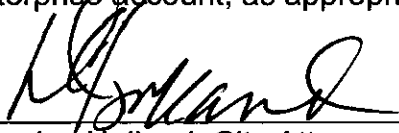
Airport Liability covers incidents such as injury to a person (ie: passenger slip and fall in terminal) or damage to a plane (ie: airport equipment hits a plane) that occur on the premises. Aircraft Hull Liability is specifically for the 1974 Cessna Aero Squadron plane, covering the property itself and our liability in the event of an accident. The combined cost of these two policies from ACE and Westchester is \$29,570 which includes terrorism and war coverage, and is the same as last year, with no increase.

MISCELLANEOUS

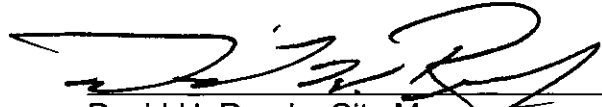
Finally, for the Village Fest, Multi Media, and Crime/Fidelity policies, Keenan's marketing efforts resulted in a combined premium of \$22,908, and is only \$197 more than last year, but includes additional coverage under the Crime policy for Computer and Funds Transfer Fraud, which staff recommends given the continued expansion of electronic means of communication and processing of electronic transactions and the concomitant increase in incidents of computer fraud.

FISCAL IMPACT:

Total cost of recommended insurance to all funds for the fiscal year is \$1,100,797 including all fees and taxes, an amount that is 2.2% more than last fiscal year's total cost of 1,076,846. Funds will be allocated in the respective FY13-14 Risk Management Fund accounts accordingly, as well as the airport enterprise account and wastewater enterprise account, as appropriate.



Douglas Holland, City Attorney



David H. Ready, City Manager

Attachments:
Proposed Resolution

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM SPRINGS, CALIFORNIA AUTHORIZING KEENAN AND ASSOCIATES, AS THE CITY'S BROKER OF RECORD, TO PURCHASE PROPERTY LIABILITY, EXCESS EARTHQUAKE/FLOOD LIABILITY (DIFFERENCE IN CONDITION), EXCESS LIABILITY, EXCESS WORKERS COMPENSATION, AIRPORT OWNERS AND OPERATORS LIABILITY, VILLAGE FEST LIABILITY, MULTI MEDIA LIABILITY, AIRCRAFT HULL LIABILITY, AND CRIME/FIDELITY LIABILITY INSURANCE POLICIES FROM VARIOUS CARRIERS FOR POLICY YEAR 2013-2014, EFFECTIVE JULY 1, 2013.

The City Council of the City of Palm Springs, California, finds:

- A. The City is self insured for major risk programs, such as property, general liability, auto liability and workers' compensation.
- B. The City annually purchases various lines of insurance coverage to minimize the adverse effects of accidental losses and claims against the City.
- C. The City is located in the vicinity of several known active and potentially active earthquake faults, including the San Andreas, the San Jacinto and the Elsinore faults.
- D. The topography of the City makes it prone to flooding, especially during times of heavy rainfall.
- E. The City purchases a primary earthquake and flood insurance policy.
- F. The City supplements its primary insurance policy with excess coverage to properly protect its public facilities from catastrophic loss from earthquake or flood.
- G. The City Council appoints a broker of record to purchase insurance policies for the City and the City's insurance broker has solicited proposals from various insurance companies for insurance coverage.

NOW, THEREFORE, the City Council resolves:

SECTION 1: The City Council of the City of Palm Springs, California authorizes Keenan & Associates, as the City's Broker of Record, to purchase the following insurance policies for Fiscal Year 2013-14:

| COVERAGE: | Premium FY 13-14 |
|---|--|
| PROPERTY Premium Deductibles Limits | \$367,262 \$250,000 for Earthquake \$100,000 Flood \$10,000 all other Losses 1 st \$5M EQ/Flood not included Terrorism coverage included Airport Runways \$80M |
| DIC (Earthquake/Flood) Premiums Limits | \$154,697 (City+Airport) \$5,000,000 (excess of \$5.0M) \$281,777 (dedicated WWTP) \$25,000,000 |
| COMPREHENSIVE EXCESS GENERAL & AUTO LIABILITY Premium Self-Insured Retention Limits | \$138,411 \$650,000 Employment Practices, \$650,000, all other: \$10,000,000 |
| EXCESS WORKERS' COMP Premium SIR- Police & Fire SIR-all other employees Limits | \$106,172 \$1,000,000 \$1,000,000 \$50,000,000 per occurrence |
| AIRPORT LIABILITY Premium Deductible Limits | \$26,432 \$1,000 \$50,000,000 Terrorism coverage included |
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| MULTI MEDIA Premium Deductibles Limits | \$7,895 \$5,000 \$1,000,000 |
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| CRIME / FIDELITY Premium Deductibles Limits | \$2,802 \$10,000/\$1,000 \$1,000,000/\$100,000/\$300,000 |
| Total Premiums | \$1,100,797 |

SECTION 2. The City Manager is hereby authorized to accordingly adjust the budget and allocate the insurance expense to the appropriate enterprise and other funds.

SECTION 3. The City Manager is hereby authorized to execute any documents to effectuate such actions.

ADOPTED THIS 5th DAY OF JUNE, 2013.

David H. Ready, City Manager

ATTEST:

James Thompson, City Clerk

CERTIFICATION

STATE OF CALIFORNIA)
COUNTY OF RIVERSIDE) ss.
CITY OF PALM SPRINGS)

I, JAMES THOMPSON, City Clerk of the City of Palm Springs, hereby certify that Resolution No. _____ is a full, true and correct copy as was duly adopted at a regular meeting of the City Council of the City of Palm Springs on June 5, 2013 by the following vote:

- AYES:
- NOES:
- ABSENT:
- ABSTAIN:

James Thompson, City Clerk
City of Palm Springs, California