



City Council Staff Report

DATE: JUNE 4, 2014 Consent Agenda

SUBJECT: APPROVE ANNUAL INSURANCE POLICY RENEWALS FOR THE CITY'S INSURANCE PORTFOLIO FOR FISCAL YEAR 2014-15

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 FY 2014-15.

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 2014-2015, EFFECTIVE JULY 1, 2014."

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 sixteen (16) carriers and has solicited pricing that, if approved, is \$102,725 (+9.3%) more in total premium than the current year for the same level of coverage and deductibles. The

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following is a summary of last year's premiums and staff's recommendation for the July 1 renewal for Fiscal Year 2014-15:

COVERAGE:	Premium FY 13-14	Premium FY 14-15
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	\$405,439 \$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	\$172,035 (City+Airport) \$5,000,000 (excess of \$5.0M) \$294,688 (dedicated WWTP) \$25,000,000
COMPREHENSIVE EXCESS GENERAL & AUTO LIABILITY Premium Self-Insured Retention Limits	\$138,411 \$650,000 \$10,000,000	\$144,919 \$650,000 \$10,000,000 \$60,600 \$10M layer alternative
EXCESS WORKERS' COMP Premium SIR- Police & Fire SIR- Misc employees Limits	\$106,172 \$1,000,000 \$1,000,000 \$50,000,000 per occurrence	\$131,781 \$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	\$28,089 \$1,000 \$50,000,000 Terrorism coverage included
VILLAGE FEST Premium Deductibles Limits	\$12,211 \$1,000 \$1,000,000/\$2,000,000 AGG/\$2,000,000 PROD/\$100,000 FIRE	\$12,546 \$1,000 \$1,000,000/\$2,000,000 AGG/\$2,000,000 PROD/\$100,000 FIRE
MULTI MEDIA Premium Deductibles Limits	\$7,895 \$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	\$2,802 \$10,000/\$1,000 \$1,000,000/\$100,000/\$300,000	\$2,992 \$10,000/\$1,000 \$1,000,000/\$100,000/\$300,000
Total Premiums	\$1,100,797	\$1,203,522

PROPERTY PROGRAM:

Under the All Risk Property insurance program, the quote of \$405,439 from Affiliated FM Insurance Co. is for the same coverage as last year, including the Airport runway coverage, wind and tree coverage, and supplemental coverage for terrorism and builder's risk. The premium is \$38,177 (+10.4%) more than last year and is driven primarily by the 9.3% increase in the City's TIV (Total Insurable Values) as per the recent Property Appraisal, which is required every 5 years. In addition, the City has incurred nearly \$2 million in property losses in the past 3 years (wind claims and City Hall fire) which adversely impacted the quotes from other carriers. 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 due to the billions of insured losses sustained in the catastrophic earthquakes, floods, tornadoes and hurricanes in recent years.

The City's total insurable value (TIV) is approximately \$512 million for FY 14-15, a 9.3% increase from \$468 million last year. 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 \$148 million. Five 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 \$294,688 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 \$172,035 and the cost would be shared by the City's General Fund and Airport enterprise account. Given the hardening market and the 9.3% increase in insurable values, the \$30,000 increase (+6.8%) in total DIC combined premium is fair and reasonable for this important coverage.

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, Argonot, has quoted a \$144,919 premium, which is \$6,508 (+4.7%) more

than last year, with the same \$10M limit of coverage and \$650K retention (both SIR and EPLI). This was the most attractive quote received for this coverage.

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 hardening due to the failure of SB863 (reform) to realize anticipated savings, inflation in medical costs, adverse claims experience which has resulted in fewer carriers willing to underwrite the coverage, and an industry wide loss ratio with premiums rising as they did in the early 2000's. The renewal for the same \$50 million in coverage is \$131,781 from the incumbent, Safety National, which is \$25,609 (+24.1%) more than last year. While this is an increase in premium from last year, it is still significantly less than the \$271,799 the City paid in FY 06-07. 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 (e.g, passenger slip and fall in terminal) or damage to a plane (e.g: 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 the City's liability in the event of an accident. The combined cost of these two policies from ACE and Westchester is \$31,227 which includes terrorism and war coverage, and is a 5.6% increase over last year, attributed to the Airport Liability policy as a result of the increased traffic/enplanements at the Airport.

MISCELLANEOUS:

Finally, for the Villagefest, Multi Media, and Crime/Fidelity policies, Keenan's marketing efforts resulted in a combined premium of \$23,433, which is \$525 more than last year, and includes additional coverage under the Crime policy for Computer and Funds Transfer Fraud, which is a growing risk issue given the continued expansion of electronic means of communication and processing of electronic transactions and the concomitant increase in incidents of computer fraud.

ALTERNATIVES:

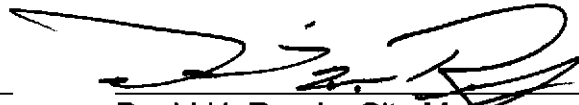
For your consideration, there is an option to purchase a layer policy that would double the City's Comprehensive Excess General Liability coverage from \$10 million to \$20 million from the carrier Allied World for an additional \$60,600 in premium. Given the increase in litigation and large verdicts against public agencies, this additional coverage could significantly reduce the City's exposure and better protect the City's reserves in the event of a large liability claim.

FISCAL IMPACT:

The total cost of recommended insurance to all funds for the fiscal year is \$1,203,522 (not including the alternative excess liability coverage discussed above). Of the \$102,725 increase in premiums, approximately \$39,000 is the impact to the General Fund. The increase in premium is included in the FY 14-15 budget. The remainder of the increase is allocated to all other funds. All premium costs will be allocated in the respective FY 14-15 Risk Management and enterprise fund accounts 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 2014-2015, EFFECTIVE JULY 1, 2014.

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 2014-15:

COVERAGE:	Premium FY 14-15
PROPERTY Premium Deductibles Limits	\$405,439 \$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	\$172,035 (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	\$144,919 \$650,000 Employment Practices, \$650,000, all other: \$10,000,000
EXCESS WORKERS' COMP Premium SIR- Police & Fire SIR-all other employees Limits	\$131,781 \$1,000,000 \$1,000,000 \$50,000,000 per occurrence
AIRPORT LIABILITY Premium Deductible Limits	\$28,089 \$1,000 \$50,000,000 Terrorism coverage included
VILLAGE FEST Premium Deductibles Limits	\$12,546 \$1,000 \$1,000,000/\$2,000,000 AGG/\$2,000,000 PROD/\$100,000 FIRE
MULTI MEDIA Premium Deductibles Limits	\$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
CRIME / FIDELITY Premium Deductibles Limits	\$2,992 \$10,000/\$1,000 \$1,000,000/\$100,000/\$300,000
Total Premiums	\$1,203,522

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 and may authorize any changes that result in lower premium costs for the same or better coverage that the broker may present between now and June 30, 2014.

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

ADOPTED THIS 4th DAY OF JUNE, 2014.

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 4, 2014 by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

James Thompson, City Clerk
City of Palm Springs, California