



City Council Staff Report

DATE: JUNE 15, 2016 Consent Agenda

SUBJECT: APPROVE ANNUAL INSURANCE POLICY RENEWALS FOR THE CITY'S INSURANCE PORTFOLIO FOR FISCAL YEAR 2016-17

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 2016-17.

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, CRIME/FIDELITY LIABILITY, AND CYBER LIABILITY INSURANCE POLICIES FROM VARIOUS CARRIERS FOR POLICY YEAR 2016-2017, EFFECTIVE JULY 1, 2016."

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 widely marketed the City's insurance portfolio to multiple carriers for the various policies required and has solicited pricing that, if approved, could result in a reduction in total premium expense from the current year for the same level of coverage and deductibles, with the exception of excess general liability as discussed

below. The following is a summary of last year's premiums and staff's recommendation for the July 1 renewal for Fiscal Year 2016-17:

| COVERAGE: | Premium FY 15-16 | Premium FY 16-17 |
|---|--|--|
| PROPERTY Premium Deductibles Limits | \$380,670 \$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 | \$240,000 \$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 |
| DIC (Earthquake/Flood) Premiums Limits | \$163,056 (City+Airport) \$5,000,000 (excess of \$5.0M) \$241,746 (dedicated WWTP) \$25,000,000 | \$120,976 (City+Airport) \$5,000,000 (excess of \$5.0M) \$153,046 (dedicated WWTP) \$25,000,000 |
| COMPREHENSIVE EXCESS GENERAL & AUTO LIABILITY Premium Self-Insured Retention Limits | \$150,788 \$650,000 \$10,000,000 | \$219,800 \$650,000/\$1,000,000 \$10,000,000 |
| EXCESS WORKERS' COMP Premium SIR- Police & Fire SIR- Misc employees Limits | \$142,297 \$1,000,000 \$1,000,000 \$50,000,000 per occurrence | \$146,961 \$1,000,000 \$50,000,000 per occurrence |
| AIRPORT LIABILITY Premium Deductible Limits | \$28,791 \$1,000 \$50,000,000 Terrorism coverage included | \$28,126 \$1,000 \$50,000,000 Terrorism coverage included |
| VILLAGE FEST Premium Deductibles Limits | \$13,109 \$1,000 \$1,000,000/\$2,000,000 AGG/\$2,000,000 PROD/\$100,000 FIRE | \$13,109 \$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 | \$7,080 \$5,000 \$1,000,000 |
| AIRCRAFT HULL Premium Deductible Limits | \$2,824 \$75K hull, \$100 In Motion/\$500 Static \$5,000,000 Terrorism coverage included | \$2,824 \$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 | \$2,808 \$10,000/\$1,000 \$1,000,000/\$100,000/\$300,000 |
| CYBER & DATA BREACH Premium SIR Limits | \$16,463 \$15,000 \$1,000,000 | \$16,271 \$15,000 \$1,000,000 |
| Total Premiums | \$1,150,441 | \$ 951,001 |

PROPERTY PROGRAM:

The City's total insurable value (TIV) under property insurance is approximately \$529 million for FY 16-17. Under the All Risk Property insurance program, the coverage also includes wind and tree coverage, supplemental coverage for terrorism, builder's risk, all traffic signals, traffic poles, light poles, meters and other transmission systems, and coverage for the airport runways. A softer property insurance market this year due to less catastrophic insured losses worldwide for the insurance industry and no new property claims this cycle resulted in very favorable pricing for the City.

Two carriers submitted quotations, Affiliated FM (incumbent) and AIG and both carriers revised their quotations. AIG revised their quote from \$297,928 to \$250,175. This quote is 34.28% less than the City's expiring premium and 16% less than AIG's initial quote. Affiliated FM has also revised its quote of \$309,199 to \$240,000 which is 36.95% less than the expiring premium and 22.38% less than their original quote. Affiliated has also increased the Extra Expense sublimit from \$5M to \$10M and decreased the Earthquake Sprinkler Leakage (EQSL) deductible from \$50,000 to \$10,000. Affiliated has not provided a rate guarantee, but is working on it through their Home Office. Affiliated's overall coverage terms and the City's proven experience with it, continues to make Affiliated the recommended option. The only difference is the premium will be \$69,199 less than what was provided in the initial City Council Staff Report.

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 was harder two years ago due to the billions of insured losses sustained in catastrophic earthquakes, floods, tornadoes and hurricanes. The City has benefited from the softer DIC market recently with fewer catastrophic insurable losses impacting the worldwide insurance market.

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 \$150 million. Seven 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 recommends keeping the same separate dedicated stand-alone policy to cover the Wastewater Treatment Plant from the first dollar to \$25 million for a total premium cost of \$153,046, which is an \$88,700 (-36.7%) savings from last year that would be paid in full by the wastewater enterprise account. Also, staff recommends keeping the \$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 \$120,976, which is a \$42,081 (-25.8%)

savings from last year and the cost would be shared by the City's General Fund and Airport enterprise account. As a result of Keenan's efforts the City was able to secure from our current carriers a total combined DIC premium reduction of \$130,781 (a -32% savings) 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. Unfortunately, fewer carriers are offering this coverage in California due to public entity law enforcement exposure. Those that do offer it are restricting coverage and significantly increasing per claim retentions/deductibles. Eight carriers were approached to quote this coverage of which six declined.

In the past few years the City has sustained 3 Liability claims totaling over \$4M in total incurred value. As such, this adverse claims history has negatively impacted the City's renewal of this coverage. The incumbent, Alteris, has quoted a \$219,800 premium, which is \$69,012 (+45.77%) more than last year, with the same \$10M limit of per occurrence coverage. However, Alteris quote would increase our current \$650K retention for Law Enforcement and Automobile to \$1M per claim. An alternative carrier, Brit, has reviewed the City's coverage application and submitted a bid of \$283,749. This quote would maintain the current \$650K retention for automobile and increase the retention for law enforcement to \$750K; however, Brit lowered its overall coverage to \$5M per occurrence. Keenan located an insurer, AWAC, who would provide a second tier of \$5M of coverage per occurrence at a cost of \$97,400. Thus, with a layered approach with Brit covering the first \$5M and AWAC covering the second tier of \$5M, the City could essentially maintain its current program at a total cost of \$381,149. The total cost for this coverage is 152% more than the amount the City paid for this coverage for the 2015-16 fiscal year and 73.40% more than the Alteris quote for the upcoming fiscal year. It should be noted that the two proposals treat the costs of defense differently. Under the Alteris proposal, defense costs are "outside policy limits;" that is, the attorneys' fees and litigation costs are not included in the maximum coverage amounts; these are essentially additional costs the insurer would be responsible for in the event the claim exceeds the retention. Under the Brit/AWAC proposal, defense costs are "inside policy limits;" that is, attorneys' fees and the cost of defense are included as a cost within the maximum coverage amounts. Staff recommends the acceptance of the Alteris quote of \$219,800 with higher retentions for automobile and law enforcement.

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 has significantly hardened due to the failure of SB863 (reform) to realize anticipated savings, inflation in medical costs, longer life expectancy, low investment returns and adverse claims experience for full service cities with police and fire

departments which has resulted in fewer carriers willing to underwrite the coverage in the State of California. Few carriers would quote this coverage without significantly increased premiums for higher limits and reduced SIR. Based upon the City's claims history and values, Keenan and staff recommend renewing our \$1 million per claim / \$50 million employer liability limit for \$146,961 with the incumbent, Safety National, that equates to a \$4,664 premium increase (+3.2%) over last year. The premium rate of .3824 per \$100 of payroll actually went down 2% from last year, but due to the estimated total payroll increase of approximately 5% for the coming year, the premium will be slightly more than expiring.

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. Only two primary carriers write this coverage and this year only the incumbent, ACE, provided a quote. The combined cost of these two policies from ACE is \$31,615 which includes terrorism and war coverage, and is \$665 less (-2.3%) decrease from last year, even with the increased traffic/enplanements at the Palm Springs International Airport. Staff is recommending renewal with ACE for this coverage.

MISCELLANEOUS:

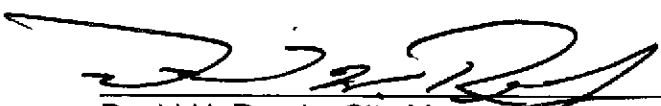
For the Village Fest, Multi Media, Crime/Fidelity and Cyber/Data Breach policies, Keenan's marketing efforts resulted in a combined premium of \$42,092, which is a \$1,001 (-2.3%) savings from last year with coverage enhancements under the Crime and Cyber policies that Keenan negotiated on the City's behalf. There are limited carriers writing these specialty policies and the incumbents offered the most competitive quotations and therefore staff recommends renewal of each.

FISCAL IMPACT:

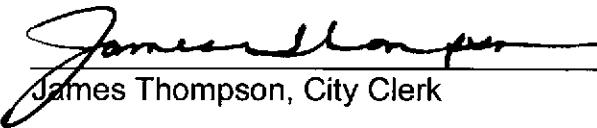
The total cost of recommended insurance coverage to replace expiring coverage to all funds for the fiscal year will be an estimated \$951,001. All premium costs will be allocated in the respective FY 16-17 Risk Management and enterprise fund accounts as appropriate.



Douglas Holland, City Attorney



David H. Ready, City Manager



James Thompson, City Clerk

Attachments: Proposed Resolution
Casualty Quote Comparison

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, CRIME/FIDELITY LIABILITY, AND CYBER LIABILITY INSURANCE POLICIES FROM VARIOUS CARRIERS FOR POLICY YEAR 2016-2017, EFFECTIVE JULY 1, 2016.

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 2016-17:

| COVERAGE: | Premium FY 16-17 |
|---|--|
| PROPERTY Premium Deductibles Limits | \$240,000 \$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 |
| DIC (Earthquake/Flood) Premiums Limits | \$120,976 (City+Airport) \$5,000,000 (excess of \$5.0M) \$153,046 (dedicated WWTP) \$25,000,000 |
| COMPREHENSIVE EXCESS GENERAL & AUTO LIABILITY Premium Self-Insured Retention Limits | \$219,800 \$650,000 Employment Practices, \$1,000,000/Auto & Law Enf. \$10,000,000 |
| EXCESS WORKERS' COMP Premium SIR- Police & Fire SIR-all other employees Limits | \$146,961 \$1,000,000 \$1,000,000 \$50,000,000 per occurrence |
| AIRPORT LIABILITY Premium Deductible Limits | \$28,126 \$1,000 \$50,000,000 Terrorism coverage included |
| VILLAGE FEST Premium Deductibles Limits | \$13,109 \$1,000 \$1,000,000/\$2,000,000 AGG/\$2,000,000 PROD/\$100,000 FIRE |
| MULTI MEDIA Premium Deductibles Limits | \$7,080 \$5,000 \$1,000,000 |
| AIRCRAFT HULL Premium Deductible Limits | \$2,824 \$75K hull, \$100 In Motion/\$500 Static \$5,000,000 Terrorism coverage included |
| CRIME/FIDELITY Premium Deductibles Limits | \$2,808 \$10,000/\$1,000 \$1,000,000/\$100,000/\$300,000 |

| | |
|------------------------------|------------------|
| CYBER/DATA BREACH | |
| Premium | \$16,271 |
| SIR | \$15,000 |
| Limits | \$1,000,000 |
| Total Premiums | \$951,001 |

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, 2016.

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

ADOPTED THIS 15th DAY OF JUNE, 2016.

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 15, 2016 by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

James Thompson, City Clerk
City of Palm Springs, California

City of Palm Springs
Casualty Quote Comparison
July 1, 2016 to July 1, 2017

| Carrier | (Alteris) Argonaut Ins. July 1, 2015 - 2016 | (Alteris) Argonaut Ins. July 1, 2016 - 2017 | Brit Global / AWAC July 1, 2016 - 2017 Option 1 | Brit Global / AWAC July 1, 2016 - 2017 Option 2 |
|--|---|---|--|--|
| Description | \$650K SIR All Cov | \$650K SIR All Cov. Except \$1M for AL, Law Enf | \$650K SIR All Cov. Except \$750K Law Enf | \$750K SIR All Cov. |
| Limits | | | | |
| General | \$1,000,000/\$3,000,000 | \$1,000,000/\$3,000,000 | \$5,000,000/\$10,000,000 | \$5,000,000/\$10,000,000 |
| Auto | \$1,000,000 | \$1,000,000 | \$5,000,000 | \$5,000,000 |
| Public Officials Liab. | \$1,000,000/\$3,000,000 | \$1,000,000/\$3,000,000 | \$5,000,000/\$10,000,000 | \$5,000,000/\$10,000,000 |
| Employment Practices Liability | \$1,000,000/\$3,000,000 | \$1,000,000/\$3,000,000 | Included in POI | Included in POI |
| Employee Benefits | Included in GL Limit | Included in GL Limit | \$5,000,000/\$10,000,000 | \$5,000,000/\$10,000,000 |
| Law Enforcement | \$1,000,000/\$3,000,000 | \$1,000,000/\$3,000,000 | \$5,000,000/\$10,000,000 | \$5,000,000/\$10,000,000 |
| Excess Liability Separate Towers | \$9,000,000/\$9,000,000 Separate Agg Protection for Limits of Liab. | \$9,000,000/\$9,000,000 Separate Agg Protection for Limits of Liab. | \$5,000,000/\$10,000,000 (AWAC) | \$5,000,000/\$10,000,000 (AWAC) |
| Schedule of Clash Limits Separate Towers Largest Retention | N/A | N/A | GL - \$5,000,000 AL - \$5,000,000 POL/EPL - \$5,000,000 EBL - \$5,000,000 LE - \$5,000,000 Agg. All - \$25,250,000 Max. Total \$28,700,000 | GL - \$5,000,000 AL - \$5,000,000 POL/EPL - \$5,000,000 EBL - \$5,000,000 LE - \$5,000,000 Agg. All - \$25,250,000 Max. Total \$28,700,000 |
| Retroactive Date | N/A - Occurrence Made | N/A - Occurrence Made | N/A - Occurrence Made | N/A - Occurrence Made |
| Defense | Outside Limit | Outside Limit | Inside Limit | Inside Limit |
| Retention | | | | |
| General | \$650,000 | \$650,000 | \$650,000 | \$750,000 |
| Auto | \$650,000 | \$1,000,000 | \$650,000 | \$750,000 |
| Public Officials Liability | \$650,000 | \$650,000 | \$650,000 | \$750,000 |
| Employment Practices | \$650,000 | \$650,000 | Included in POI | Included in POI |
| Employee Benefits | \$650,000 | \$650,000 | \$650,000 | \$750,000 |
| Law Enforcement | \$650,000 | \$1,000,000 | \$750,000 | \$750,000 |
| Defense | Inside Retention | Inside Retention | Inside Retention | Inside Retention |
| Premium | | | | |
| Premium | \$150,217 | \$218,650 | \$268,350 | \$247,790 |
| \$5M xs \$5M (AWAC) | | | \$97,400 | \$97,400 |
| Optional TRIA | \$571 | \$1,150 | \$3,500 | \$3,500 |
| Surplus Lines Taxes & Fees | N/A | N/A | \$11,816 | \$11,158 |
| Total | \$150,788 | \$219,800 | \$381,066 | \$359,848 |
| Options | | | | |
| Option - Reduce SIR to \$750K for AL | | \$54,666 | | |
| Option - Reduce SIR to \$500K for GL, AL, POL/EPL | | | \$45,000 | |
| Option - Add \$250K Loss Corridor for GL, AL, POL/EPL, LE | | | (\$45,000) | (\$40,000) |
| Total with option Incl. TRIA Excl SL Tax & Fees | \$150,788 | \$274,468 | \$369,250 | \$308,690 |
| Surplus Lines Taxes & Fees | N/A | N/A | \$11,816 | \$9,878 |
| Total with option Incl. TRIA & SL Tax & Fees | \$150,788 | \$274,468 | \$381,066 | \$318,568 |
| Option - XS WC and EL Excl. SL Tax (Buffer) \$250M xs \$750M | Not Offered | Not Offered | \$65,000 | \$65,000 |