

City of Sacramento

Legislation Details (With Text)

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Title: Renewal of City Insurance Policies [Published for 10-Day Review 06/19/2020]
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Title:
Renewal of City Insurance Policies [Published for 10-Day Review 06/19/2020]

File ID: 2020-00603

Location: Citywide

Recommendation:

Pass a Motion authorizing the City Manager or City Manager's designee 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, for an amount not to exceed \$9,127,235, including \$300,000 for unexpected increases in costs.

Contact: Patrick Flaherty, Risk Manager, (916) 808-8587, Human Resources Department

Presenter: None

Attachments:

- 1-Description/Analysis
- 2-Attachment A (Fiscal Year 2020/21 Insurance Premiums)
- 3-Attachment B (Comparison of Insurance Policies and Premiums)

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 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 marketed all lines of insurance coverage to ensure all viable options were considered.

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, premiums, and policy limits and recommend the purchase of insurance as outlined in Attachment A. Attachment B provides a comparison of insurance policies for fiscal years (FY) 2019/20 and FY2020/21.

In FY2019/20, Alliant placed insurance policies for the City with a total cost of \$7,189,519 and in FY2020/21 the total cost of insurance is \$9,127,235, a 27% increase. The increase is primarily driven by higher excess liability and property insurance costs, which are discussed below. These estimates for insurance policy premiums may change as some quotes have not been finalized and in some instances the City may receive additional insurance quotes that would change the costs outlined in this report.

Policy Considerations: 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.

The Sacramento City Code Section 4.04.020 and Council Rules of Procedure (Chapter 7, Section E.2.d) mandate that unless waived by a 2/3 vote of the City Council, all labor agreements and all agreements greater than \$1 million shall be made available to the public at least ten (10) days prior to council action. This item was published for 10-day review on June 19, 2020 as required.

Economic Impacts: None.

Environmental Considerations: This report concerns administrative activities that will not have a significant effect on the environment and does not constitute a "project" as defined by CEQA [CEQA guidelines Sections 15061(b)(3); 15378(b)(2)].

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

Commission/Committee Action: None.

Rationale for Recommendation: The recommended insurance policies are as follows:

Excess Liability: The excess liability insurance renewal was extremely challenging this year for the City and public entities throughout California and the country. Costs continue to rise for three primary reasons: 1) The liability insurance market for public entities continues to harden as plaintiff settlement demands, jury verdicts, and high dollar liability claims continue to rise dramatically. As an example, the median average of the top 50 United States jury verdicts almost doubled from 2014 to 2018; 2) Recent claim payouts by the City's excess liability carriers; and 3) Expected COVID-19 losses and the related financial market disruption.

The City participates in the Public Risk Innovation, Solutions and Management (PRISM) General Liability 2 program for excess liability coverage which is designed for larger public entities. PRISM is a member-directed risk-sharing pool designed to proactively control losses and prepare for property and casualty exposures. Policy limits remain at \$35 million. This amount of excess liability coverage is appropriate for a city the size of Sacramento and will provide additional protection from catastrophic losses. The City's self-insured retention will remain at \$2 million with a \$2 million loss corridor deductible. The loss corridor deductible is an aggregate deductible for claims over the City's \$2 million self-insured retention. The City, and other General Liability 2 program members, were subject to a large premium increase in FY2020/21. Our FY2019/20 premium was \$4,537,500 and our FY2020/21 premium is 36% higher, estimated at \$6,182,300.

Excess Workers' Compensation: The City is self-insured for the first \$2 million of any workers' compensation loss and has purchased excess workers' compensation insurance from PRISM (formerly CSAC) since 2007. PRISM uses pool purchasing power to achieve broad coverage for the lowest rates available. The PRISM pool is one of the largest pools in the nation and provides services to 93% of the counties and 70% of the cities in California. Excess workers' compensation insurance premiums were \$808,000 in FY2019/20 and decreased -11% to \$717,400 in FY2020/21. The premium decrease is primarily driven by estimated lower payroll and reinsurance premiums.

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. FY2019/20 premiums were \$1,600,777 and premiums increased 24% in FY2020/21 to \$1,990,884. This premium increase was primarily driven by a hardening property insurance market resulting from catastrophic property losses in calendar years 2017 (the worst in history) and 2018 (the 4th largest in history) and uncertainty from potential COVID-19 claims.

Fine Arts: Fine arts insurance with a limit of \$150 million is purchased to provide coverage throughout the City including the Crocker Art Museum, Discovery Museum, Golden 1 Center and the Sacramento Archives and Museum Collection. Fine arts insurance was purchased from

IronShore Indemnity last year and they remain the insurer this year. The FY2019/20 premium was \$80,726 and the estimated FY2020/21 premium is slightly lower at \$80,424.

Aircraft: Aircraft insurance is purchased to cover the City's small plane and four helicopters. The premium in FY2019/20 was \$ 64,016 and the premium decreased 9% in FY2020/21 to \$58,037.

Other Insurance: Other insurance includes policies for pollution, underground storage tanks, crime, airport, special events, and bounce house liability with a total cost of \$98,190; a similar cost to the prior year.

Financial Considerations: The estimated cost of insurance in FY2020/21 is \$9.1 million, which is 27% higher than in FY2019/20, primarily due to the increase in excess liability and property insurance premiums. The increase in excess liability premiums is driven largely by the hardening liability insurance market and recent payouts by the City's excess liability carriers. The increase in property insurance premiums is driven by significant catastrophic losses in recent years in the property market related to hurricane and wildfire losses. Sufficient funds will be available in the Department of Human Resources FY2020/21 operating budget for the Risk Management Fund (6502) and Workers' Compensation Fund (6504) for coverages through June 30, 2021.

Local Business Enterprise (LBE): Alliant is a qualified LBE.