

City of Sacramento

Legislation Details (With Text)

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Title: Renewal of Insurance Policies FY2019/20 (Published for 10-Day Review 06/13/2019)
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Date	Ver.	Action By	Action	Result
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Title:
Renewal of Insurance Policies FY2019/20 (Published for 10-Day Review 06/13/2019)

File ID: 2019-00833

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 \$7,189,519, including \$150,000 for unexpected increases in costs.

Contact: Patrick Flaherty, Risk Manager, (916) 808-8587; Renita Nelson, Administrative Analyst, (916) 808-3543, Department of Human Resources

Presenter: None

Attachments:

- 1-Description/Analysis
- 2-Attachment A (FY 2020 Insurance Policies and 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. Alliant marketed all lines of insurance coverage to ensure all viable options were considered. Alliant 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 FY2018/19 and FY2019/20. For FY 2018/19, Alliant placed insurance policies for the City with a total cost of \$5,671,809. For FY2019/20, the total cost of insurance is expected to be \$7,189,519, 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 are not 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 \$1,000,000 shall be made available to the public at least ten (10) days prior to council action. This contract was published for 10-day review on June 13, 2019 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 two

primary reasons:

1) The state of the liability insurance market for public entities continues to harden due to challenges related to increases in plaintiff settlement demands, jury verdicts, and high dollar liability claims. For example, claims over \$1,000,000 have more than doubled over the last five years.

2) Recent claim payouts by the City's excess liability carriers. The City participates in the California State Association of Counties Excess Insurance Authority (CSAC) General Liability 2 program for excess liability coverage which is designed for larger public entities. 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 a deductible for claims over the City's \$2 million self-insured retention. The City, and other General Liability 2 program members received a large premium increase in FY2019/20. Our FY2018/19 premium was \$3,443,359 and our FY2019/20 premium is 32% higher, estimated at \$4,537,500.

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 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 \$737,564 in FY2018/19 and increased 10% to \$808,000 in FY2019/20. The premium increase is primarily driven by rising 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. FY 2019 premiums were \$1,258,914 and premiums increased 27% in FY2019/20 to \$1,600,777. This premium increase was primarily driven by a hardening property insurance market driven by property losses from hurricanes Harvey, Irma, and Maria in 2017 and California fire losses in 2017 and 2018.

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 Iron Shore Indemnity last year and they remain the insurer this year. The FY2018/19 premium was \$80,726 and the estimated FY2019/20 premium is the same.

Aircraft: Aircraft insurance is purchased to cover the City's small plane and four helicopters. The City

recently purchased a new helicopter which resulted in a large increase in insurance premiums. The premium in FY2018/19 was \$ 60,515 and the premium increased 6% in FY2019/20 to \$64,016.

Other Insurance: Other insurance includes policies for pollution, underground storage tanks, crime, airport, special events, and bounce house liability with a total cost of \$98,500; a 9% increase from the prior year.

Total Insurance Costs: Attachment A provides a summary of the FY2019/20 insurance policies and premiums. Attachment B provides a comparison of insurance policies and premiums from FY2018/19 and FY2019/20.

Financial Considerations: The estimated cost of insurance in FY2019/20 is \$7,189,519, which is 27% higher than in FY2018/19, 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 recent hurricane and fire related losses. Sufficient funds will be available in the Department of Human Resources FY2019/20 operating budget for the Risk Management fund (6502), for coverages through June 30, 2020.

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