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Title: CONSIDER RENEWAL OF EXCESS LIABILITY, EXCESS WORKERS COMPENSATION, PROPERTY, CYBER LIABILITY, VOLUNTEER ACCIDENT, CRIME INSURANCE AND PURCHASE OF FIDUCIARY LIABILITY INSURANCE FOR FY 2019/20 (CITY COUNCIL)
Sponsors:
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Attachments: 1. Schedule of Coverages 2019-20 - Staff Report Attachment.pdf

Date	Ver.	Action By	Action	Result
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Report to Mayor and City Council

Tuesday, July 02, 2019

Consent

SUBJECT:

CONSIDER RENEWAL OF EXCESS LIABILITY, EXCESS WORKERS COMPENSATION, PROPERTY, CYBER LIABILITY, VOLUNTEER ACCIDENT, CRIME INSURANCE AND PURCHASE OF FIDUCIARY LIABILITY INSURANCE FOR FY 2019/20 (CITY COUNCIL)

I. SUMMARY

Presented for City Council's consideration is the annual renewal of the following insurance policies: 1) Excess Liability Insurance; 2) Excess Workers' Compensation; 3) Property Insurance; 4) Cyber Liability; 5) Volunteer Insurance; 6) Crime Insurance; 7) Storage Tank Liability and a quote proposal for Fiduciary Liability for FY 2019/20. The annual FY 2019/20 insurance cost is \$735,757 for these policies.

	2018/19 Premium	2019/20 Premium	Comments and Recommendations
Excess Liability Insurance	\$388,274	\$514,000	\$125,726 increase is due to market conditions and CSAC-EIA's loss experience.
Excess Workers Compensation	\$130,767	\$119,985	Incumbent, Arch quoted \$126,000. Staff recommends to move the coverage to CSAC-EIA.
Property Insurance	\$70,166	\$84,906	Increase is due to 4% trend increase in replacement values and a 14% rate increase due to market conditions.
Cyber Liability	\$539 premium; \$50,000 deductible; \$2,000,000 limit.	Option 1 (as expiring): \$558 premium; \$50,000 deductible; \$2,000,000 limit. Option 2 (recommended): \$4,310 premium; \$5,000 deductible; \$7,000,000 limit.	Current cyber coverage is included in the property insurance program with \$50,000 deductible. The proposed option provides higher limits and lower deductibles.
Volunteer Accident Insurance	\$340	\$340	Flat renewal.
Crime Insurance	\$2,580	\$2,580	Flat renewal.
Storage Tank Liability Insurance	\$2,938	\$3,774	\$836 increase due to age of the tanks.
Fiduciary Liability Insurance	NA	\$5,862	New coverage for the City. The exposure is currently uninsured.
Total:	\$595,065	\$735,757	

- The year-over-year increase of \$140,692 is largely due to higher excess liability premium rate. Public entities across the board have experienced dramatic increases in adverse loss development and this trend recently has had an adverse effect on the CSAC-EIA insurance pool which the City is a member of. City's broker marketed the renewal to ensure that the quoted rates are competitive. The recommended program was the best price and coverage option.
- Excess workers compensation premium is lower by \$10,782 due to soft market conditions and CSAC-EIA's approval to include the City into the pool.
- Property insurance premium is higher by \$14,740 due to a 4% automatic trend increase in replacement values and a 14% rate increase.
- Storage Tank Liability insurance is higher by \$836 due to age of the tanks.
- Additionally, staff is recommending to purchase stand-alone Cyber Liability insurance at a premium of \$4,310, replacing the limited coverage afforded under the property program; and a new Fiduciary Liability insurance at a premium of \$5,862.

II. RECOMMENDATION

TAKE the following actions:

1. APPROVE the CSAC-EIA GL1 Program to provide coverage for the city's Excess Liability Insurance for FY 2019/20, at an overall not-to-exceed cost of \$514,000.
2. APPROVE CSAC-EIA to provide coverage for the city's Excess Workers' Compensation Insurance for FY 2019/20, at an overall cost of \$119,985.
3. APPROVE Alliant Property Insurance Program ("APIP") to provide coverage for the city's Property Insurance, including terrorism, cyber and pollution for FY 2019/20, at an overall cost of \$84,906.
4. APPROVE CSAC-EIA to provide coverage for the city's Cyber Liability Insurance for FY 2019/20, at an overall cost of \$4,310.
5. APPROVE The Hartford Insurance Company to provide accident insurance coverage for the City's volunteers for FY 2019/20, at an overall cost of \$340.
6. APPROVE AIG National Union Fire Insurance Company to provide the city's crime coverage for FY 2019/20, at an overall cost of \$2,580.
7. APPROVE ACE American Insurance Company to provide Storage Tank Liability coverage for (3) tanks for FY 2019/20, at an overall cost of \$3,774.
8. APPROVE Hudson Insurance Company to provide Fiduciary Liability coverage for FY 2019/20, at an overall cost of \$5,862.

III. ALTERNATIVES

1. DO NOT APPROVE the policies. If Council chooses not to approve, critical insurance coverages including general liability, auto liability, workers compensation, employment practices liability, cyber liability and property coverages for the city will be uninsured and the city will have 100% exposure for all claims including prior unreported employment claims and catastrophic events. This will also impact the City's ability to fulfil its contractual requirements.
2. TAKE any other action the City Council deems appropriate.

IV. BACKGROUND

The City works with an insurance broker to solicit renewal quotations for our insurance coverages. FY 2019/20 renewal recommendations are the best coverage and price combination available.

Excess Liability Insurance

The City self-insures its third party liability exposure up to \$250,000 per occurrence. Losses exceeding the \$250,000 self-insured retention (SIR) are covered under the excess liability insurance policy. Since 2017 the City has been a member of CSAC-EIA excess insurance pool. The proposed (and expiring) GL-1 program provides a total limit of \$24,750,000 over the SIR.

The FY 2019/20 premium cost reflects an increase of \$125,726 over the expiring. The liability insurance marketplace is seeing significant increases in high dollar liability claims, plaintiff demands, and jury verdicts (Business Insurance, June 12, 2019). These three factors are depleting the market's surplus, capacity and available reinsurers; pushing the industry into a "hard market". Indeed, municipalities with law enforcement exposures and those with a history of high claim frequency are experiencing even higher rate increases.

City's insurance broker, Alliant, marketed the renewal but was unable to obtain a better option.

Staff recommends to renew the Excess Liability coverage with the incumbent, CSAC-EIA at an annual premium of not-to-exceed \$514,000.

Excess Workers' Compensation Insurance

The City self-insures its workers compensation exposure up to \$750,000 per occurrence. Losses exceeding \$750,000 are covered under an excess workers compensation policy. The excess insurance policy is required because it protects the city from catastrophic employee injuries or illness. By statute, workers compensation liability is not capped. In other words, a catastrophic event may expose the City to unlimited liability over many years following the event. The proposed excess policy will protect the City from such catastrophic liability.

Both CSAC-EIA insurance pool and the incumbent carrier, Arch Insurance Company, offered renewal terms for FY 2019/20.

After evaluating both options, staff is recommending to move the coverage to the CSAC-EIA program at an annual premium of \$119,985. The recommended program is \$6,000 lower than the incumbent's quote and offers access to valuable loss control and other risk management resources.

Property Insurance

The City has historically purchased property insurance which provides coverage on a replacement cost basis. This insurance covers all city buildings and contents (including parks), City Hall office equipment, electronic data processing hardware and software, valuable papers, inventory and exhibitions (fine arts), boiler and machinery. Licensed vehicles and city-owned heavy equipment (e.g., forklifts, generators, etc.) are currently covered at Actual Cash Value.

The increase in premium is due to increased replacement cost values, 4%, and higher rates, 14%. In the last year, the property insurance market experienced catastrophic losses from hurricanes and wild-fires. The single biggest natural catastrophe event of 2018 was the Camp Fire in California with \$12 billion in insured losses. The increased frequency of catastrophic events and higher payouts are contributing to hardening market conditions, i.e. rate increases.

Alliant marketed the renewal but was did not obtain better rate quotes.

The property program includes Pollution coverage.

Pollution Legal Liability Insurance

Pollution insurance covers third party bodily injury and property damage claims related to a pollution condition resulting from or emanating from a city operation. This may include remediation (clean-up) due to a spill or underground migration. Additionally coverage is provided for first party loss including but not limited to mold and business interruption. The City's property insurance with Alliant includes coverage for Pollution liability with a \$2,000,000 policy limit and aggregate subject to the program-wide aggregate of \$25,000,000 and a deductible of \$100,000.

Staff recommends renewing the property insurance (including pollution) at an annual cost of \$84,906.

Cyber Liability Insurance

Cyber and Data Breach is one of the fastest growing and greatest risks facing public entities as well as private companies. The expiring Cyber coverage is part of the property insurance program and includes Cyber Liability and Data Breach coverage with a \$2,000,000 policy limit and \$50,000 deductible. To renew as expiring the premium would be \$558.31.

Staff recommends an alternative option which provides a higher \$7,000,000 limit and a lower \$5,000 deductible at a premium of \$4,310.

Accident Insurance for Volunteers

Volunteers provide a valuable service to the city. Volunteers are not covered under the City's worker compensation program. Consequently, a Blanket Accident Insurance is provided for this group. This insurance covers medical expenses for injuries that occur while the volunteer is at City premises and under City supervision.

Staff recommends renewing the program with the incumbent carrier, Hartford, at an annual cost of \$340.

Crime Insurance

Crime Insurance covers employee theft, robbery, computer and identity fraud as well as other types of fraud, inside and outside the premises.

Staff recommends renewing this coverage in the Alliant Crime Insurance Program (ACIP) with AIG for an annual premium of \$2,580.

Storage Tank Liability

The Storage Tank Liability insurance provides coverage for scheduled tanks only. The city currently schedules three tanks which store diesel and gasoline. The limits are \$2,000,000 per tank and \$4,000,000 Aggregate.

Staff recommends to renew this coverage with ACE American Insurance Company for an annual cost of \$3,774, reflecting an increase of \$836 due to age of the tanks.

Fiduciary Liability Insurance

Fiduciary Liability insurance provides coverage for claims alleging wrongful acts in administering the City's pension and 457 plans as well as claims alleging errors and omissions in administering the City's benefit plans. The City has not insured this exposure until now.

Staff considered the potentially high loss exposure and relatively low premium cost, and is recommending to purchase the coverage at an annual premium of \$5,862.

V. FISCAL IMPACT

Funds for this item were included in FY 2019/20 general fund budget.

VI. EXHIBITS

1. 2018-2019 Schedule of Coverages - Exhibit 1 (pages 8-11)

1.

Prepared by: Faye Moseley, Director of Human Resources and Risk Management