



# CITY OF CARSON

## Legislation Text

File #: 2022-315, Version: 1

### Report to Mayor and City Council

Tuesday, June 07, 2022

Consent

#### SUBJECT:

**CONSIDER RENEWAL OF EXCESS LIABILITY, EXCESS WORKERS COMPENSATION, ALL-RISK PROPERTY, AUTO PHYSICAL DAMAGE, INLAND MARINE EQUIPMENT INSURANCE, EARTHQUAKE, CYBER LIABILITY, VOLUNTEER ACCIDENT, DRONE INSURANCE, CRIME INSURANCE, STORAGE TANK LIABILITY AND FIDUCIARY LIABILITY INSURANCE FOR FY 2022/23 (CITY COUNCIL)**

#### I. SUMMARY

Presented for City Council's consideration is the annual renewal of the following insurance policies: 1) Excess Liability; 2) Excess Workers' Compensation; 3) Property Insurance; 4) Equipment Insurance; 5) Auto Physical Damage; 6) Earthquake, 7) Cyber Liability; 8) Volunteer Accident Insurance; 9) Drone Insurance; 10) Crime Insurance; 11) Storage Tank Liability and 12) Fiduciary Liability; for FY 2022/23. The estimated FY 2022/23 premium cost for these policies is NOT-TO-EXCEED \$1,191,459.

- The year-over-year increase of \$298,768 is largely due to the hardening insurance markets across nearly every coverage line. The factors that fuel the hardening market conditions have resulted in more and larger claims - frequency of severity. Public entities across the board have experienced dramatic increases in adverse loss development and this trend has had an adverse impact on the Prism Insurance Pool and the Alliant Property Insurance Program which the City is a member of. Another factor impacting the liability premium is the City's loss ratio, the ratio of paid losses to premiums, which is now 116%; meaning Prism is paying 1.16 times more in claims than it collects in premiums from the City. The City's broker marketed the renewal to ensure that the quoted rates are competitive. The recommended program is the best price and coverage option.
- Property insurance markets are less volatile than the casualty markets but recent large catastrophic losses are resulting in rate hardening of 15-20% for the non-challenged

exposures such as the City. Though there are still ample markets writing property insurance, there were none that could compete with the City's current program, Alliant Property Insurance Program, APIP. It is estimated that the City's property insurance premium rate will increase by 15-20%, consistent with market trend. Additionally, the insured values are adjusted annually to account for increased cost of construction.

- The Cyber insurance premium is expected to increase due to hard market conditions. Prism advised insured accounts with no claims activity to prepare for a 35-75% premium increase and accounts with claims activity to prepare for a 50-75% increase. The current estimate of \$21,200 is a 75% increase over the expiring premium. The City's broker marketed the Cyber coverage to obtain lower premium quotes but no markets could compete with the incumbent program in terms of coverage and price.
- The excess workers compensation premium is expected to increase due to pressure on the market as a result of claims frequency and severity as well as the impact of COVID-19. The City participates in the PRISM pool for Excess Workers' Compensation coverage. The renewal is expected to increase by up to \$26,067. This premium is a not-to-exceed estimate only.

## **II. RECOMMENDATION**

TAKE the following actions:

1. APPROVE PRISM's GL1 Program to provide coverage for the City's Excess Liability Insurance for FY 2022/23, at an overall not-to-exceed cost of \$804,000.
2. APPROVE PRISM to provide coverage for the City's Excess Workers' Compensation Insurance for FY 2022/23, at an overall not-to-exceed cost of \$138,000.
3. APPROVE the City's insurance broker, Alliant Insurance Services, to place Alliant Property Insurance Program ("APIP"), for the city's property, including terrorism, and pollution, for FY 2022/23, at an overall not-to-exceed cost of \$187,605.
4. APPROVE the City's insurance broker, Alliant Insurance Services, to place physical damage Insurance for City's automobiles with Alliant Mobile Vehicle Program (AMVP) for FY 2022/23, at an overall not-to-exceed cost of \$12,000.
5. APPROVE the City's insurance broker, Alliant Insurance Services, to place Parametric Earthquake coverage with Fair American Select Insurance Company for FY 2022/23, at an annual premium of \$5,915.
6. APPROVE PRISM or an alternative program marketed and identified by the

City's broker Alliant with better premium/coverage, to provide Cyber Liability Insurance for FY 2022/23, at an overall not-to-exceed cost of \$21,200.

7. APPROVE the City's insurance broker, Alliant Insurance Services, to place Volunteer Accident Insurance with The Hartford Insurance Company for FY 2022/23, at an annual premium of \$340.
8. APPROVE the City's insurance broker, Alliant Insurance Services, to place the City's Drone Insurance with Global Aerospace Insurance Company for FY 2022/23, at an annual premium of \$579.
9. APPROVE the City's insurance broker, Alliant Insurance Services, to place Alliant Crime Insurance Program (ACIP) to provide the city's crime coverage for FY 2022/23, at an annual premium of \$2,986.40.
10. APPROVE the City's insurance broker, Alliant Insurance Services, to place Storage Tank Liability Insurance with ACE American Insurance Company for FY 2022/23, at an annual premium of \$1,901.
11. APPROVE the City's insurance broker, Alliant Insurance Services, to place Fiduciary Liability coverage with Hudson Insurance Company for FY 2022/23, at an annual premium of \$6,731.
12. APPROVE the City's insurance broker, Alliant Insurance Services, to place Inland Marine (Contractors Equipment) coverage with Travelers Insurance Company, or other insurance company if cost-effective, for FY 2022/23, at an annual not-to-exceed premium of \$12,000.

### **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 fulfill its contractual requirements.
2. TAKE any other action the City Council deems appropriate.

### **IV. BACKGROUND**

The City's broker of record, Alliant Insurance Services, solicits renewal quotations for our insurance coverages. FY 2022/23 renewal recommendations are the best coverage and price combination available in the marketplace.

Policies that are placed with PRISM (formerly CSAC-EIA) are invoiced directly by PRISM.

Other insurance policies are invoiced and paid through the broker, Alliant Insurance Services. However, premium payments flow through Alliant to the insurance carrier. Premiums that flow through the broker have no impact on Alliant's contract fees.

### **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 PRISM excess insurance pool. The proposed (and expiring) GL-1 program provides a total limit of \$24,750,000 over the SIR.

The FY 2022/23 premium estimate reflects an increase of up to \$214,003 over the expiring premium. The liability insurance marketplace is seeing significant increases in high dollar liability claims, plaintiff demands, and jury verdicts. 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 that the City renew the Excess Liability coverage effective 7/1/2022 - 7/1/2023 with the incumbent PRISM at an annual premium of not-to-exceed \$804,000.

### **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 illnesses. 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.

The proposed renewal premium estimate reflects an increase of up to \$26,067 due to market conditions.

Staff recommends to renew the Excess Workers Compensation insurance effective 7/1/2022 - 7/1/2023 with the incumbent PRISM at an annual premium of not-to-exceed \$138,000.

### **Property Insurance**

The City purchases property insurance that 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.

Overall, the City's property insurance estimate reflects an increase of up to \$41,505.73 due to a slight increase in replacement values and a possible 20% rate increase due to hard market conditions.

Though there are still ample markets writing property insurance, there were none that could compete with the City's current program.

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 (APIP) 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 \$150,000.

Staff recommends renewing the APIP property insurance program (including pollution) effective 7/1/2022 - 7/1/2023 through Alliant Insurance Services at an overall not-to-exceed cost of \$187,605

### **Auto Physical Damage**

Historically, physical damage to City's passenger vehicles and light trucks has been included under the Property Insurance Program with a deductible of up to \$100,000 per occurrence. This means that in most loss scenarios there is no meaningful coverage.

Staff recommends the proposed Alliant Mobile Vehicle Program (AMVP) with a lower \$5,000 deductible at an annual premium of \$10,202.

### **Inland Marine (Contractor Equipment)**

In FY 2021-22 staff identified the City's inventory of contractor equipment, such as tractors, forklifts, etc. as a previously uninsured exposure. The City's insurance broker marketed and placed coverage with Travelers insurance company for an annual premium of \$8,345. The FY 2022-2023 renewal premium will be higher than the expiring policy, mainly due to new equipment that were added to the inventory for the renewal insurance.

Staff recommends to renew the Inland Marine (Contractor Equipment) insurance policy through Travelers at an overall not-to-exceed cost of \$12,000.

### **Earthquake Insurance**

The City is currently uninsured for earthquake. Typical earthquake insurance is expensive and carries a large (5%, 10% or higher) deductible per location. The proposed Parametric Earthquake insurance provides up to \$100,000 to reimburse for losses, with \$0 deductible.

Staff recommends the proposed Parametric Earthquake insurance effective 7/1/2022 - 7/1/2023 at an annual premium of \$5,915.

### **Cyber Liability Insurance**

Cyber and Data Breach is one of the fastest growing and greatest risks facing public entities and private companies. The City's incumbent carrier has indicated that the premium will increase up to but not-to-exceed \$21,200.

Staff recommends that the City renew the Cyber Liability insurance effective 7/1/2022 - 7/1/2023 with the incumbent carrier PRISM at an annual premium of not-to-exceed \$21,200.

### **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 through Alliant Insurance Services, with the incumbent carrier, Hartford, effective 7/1/2022 - 7/1/2023 at an annual premium of \$340.

### **Drone Insurance**

Drone Insurance covers the City's liability arising out of the operation of the City's drone. This coverage was first placed in April of 2019.

Staff recommends renewing this coverage through Alliant Insurance Services, effective 7/1/2022 - 7/1/2023 with Global Aerospace Insurance Company at a premium of \$579.

### **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 the Alliant Crime Insurance Program (ACIP) program effective 7/1/2022 - 7/1/2023 through Alliant Insurance Services at an annual premium of \$2,986.40.

### **Storage Tank Liability**

The Storage Tank Liability insurance provides coverage for scheduled tanks only. The city currently schedules one tank that stores fuel. The limits are \$2,000,000 per tank and \$4,000,000 aggregate.

Staff recommends renewing this coverage through Alliant Insurance Services, effective 7/1/2022 - 7/1/2023 with ACE American Insurance Company at an annual cost of \$1,901 reflecting an increase of \$150 due to age of the tank.

### **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.

Staff is recommending that the City renew the coverage through Alliant Insurance Services, effective 7/1/2022 - 7/1/2023 with Hudson Insurance Company, at a premium of \$6,731.

## **V. FISCAL IMPACT**

Funds for the insurance coverage renewals are included in FY 2022/23 general fund budget.

## **VI. EXHIBITS**

1. City of Carson -  
Schedule of Insurance

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