

**CITY COUNCIL  
COMMUNICATION:**

**ITEM \_\_\_\_\_**

**OFFICE OF THE CITY MANAGER  
CITY OF DES MOINES, IOWA**

**99-259**

**SYNOPSIS -**

**AGENDA:**

JUNE 7, 1999

**SUBJECT:**

**PROPOSED  
RESTRUCTURING  
OF SELF-  
INSURANCE  
PROGRAM FOR  
JULY 1, 1999  
ANNUAL RENEWAL**

On June 22, 1998, the City Council directed staff to issue a request for proposals (RFP) to competitively select an insurance agent/broker of record. On January 25, 1999, by Roll Call No. 99-261, the City Council approved the negotiation and execution of a contract with Jester Insurance Services, Inc. As part of the selection process, Jester Insurance Services, Inc. proposed restructuring the City's self-insurance program utilizing the market opportunities available through a new joint venture between Jester Insurance Services, Inc. and AON Risk Resources, the second largest insurance broker in the world. On July 1, 1999, the City renews its insurance coverages. The policies purchased and their associated limits affect the limits and coverage included under the self-insurance portion of the City's program.

**TYPE:**

**RESOLUTION  
ORDINANCE  
RECEIVE/FILE**

The purpose of this agenda item is to present to Council the proposed structure of the City's program to be effective July 1, 1999. The structure presented is the program currently being marketed for July 1. Any changes requested by Council can be inserted at this time and will be reflected in the final recommendation to Council on June 21, 1999. In addition to a detailed description of the City's current structure and that being proposed, the two are graphically illustrated on the attached charts.

**SUBMITTED BY:**

**KEVIN RIPER  
FINANCE  
DIRECTOR**

**FISCAL IMPACT -**

**AND**

**MARK SCHULTZ  
RISK  
MANAGEMENT  
COORDINATOR**

For the current fiscal year, the City's total insurance premium (excluding three small miscellaneous coverages) is \$589,523. The proposed restructuring would reduce this premium almost 15 percent, while simultaneously expanding the total coverage.

When Council approved the selection of Jester Insurance Services on January 25, 1999, it was with the understanding that Jester Insurance Services would guarantee a savings of not

less than \$103,000 at the renewal of July 1, 1999. This savings has been revised to approximately \$85,000 by staff. This revision has been made due to an oversight in coverage changes communicated to Jester Insurance Services, Inc. by staff at the time that the amount of the guaranteed savings was calculated by Jester Insurance Services, Inc. After recalculating the point allocation formula of the agent/broker of record RFP evaluation process, staff determined that this oversight would not have changed the results of the RFP evaluation for selecting an agent/broker of record. Therefore, Council approval is requested for the proposed amendment to the Insurance Agent/Broker Services Contract reducing guaranteed savings to \$85,000.

#### **RECOMMENDATION -**

##### **Approval.**

#### **BACKGROUND -**

The following is a description and comparison of the City's current self-insurance program and that proposed by Jester Insurance Services, Inc. to be effective July 1, 1999. Price quotations are currently being sought by Jester Insurance Services, Inc. for the proposed program described below.

#### **CURRENT SELF-INSURANCE PROGRAM STRUCTURE**

For the most part, the City is self-insured for the "first dollar" coverage of liability exposures presented by City operations. The exception to this is several of the City's enterprise fund operations for which the City purchases first dollar insurance. Beyond first dollar coverage, both non-enterprise and enterprise operations are covered by an excess liability insurance policy for claims that exceed the first dollar coverage limits. The City's insurance program can be broken into three categories: property, liability, and workers' compensation.

##### **Property Insurance**

The majority of City property is insured through a blanket insurance policy that allows the City to add and delete properties throughout the policy period as properties are built, purchased, sold, or demolished. Therefore, the total limit of the

policy fluctuates. However, it is evaluated each year at renewal time to ensure that all changes have been reflected. The City's current blanket property insurance policy includes a total replacement value of \$420,000,000 with a \$100,000 per occurrence deductible. The per occurrence deductible could be equal to one building catching fire, or to a series of buildings being damaged or destroyed by a flood or tornado. In either event, the City's total exposure is \$100,000. The one exception to this is that six facilities located next to the Des Moines River have \$500,000 per occurrence deductibles. This deductible, in turn, is covered 100 percent for each facility by individual policies purchased through the National Flood Insurance Program (NFIP).

The City currently purchases a separate property insurance policy for the Wastewater Reclamation Facility's (WRF) Co-Generation Plant and a separate policy covering all skywalk bridges. The Co-Generation Plant is valued for replacement at \$10,400,000, and the total replacement value of the skywalks is \$21,000,000. The Co-Generation Plant policy has a per occurrence deductible of \$100,000; the skywalks' deductible is \$1,000. A crime insurance policy is purchased to cover public employee dishonesty for \$1,000,000 per occurrence limit with no aggregate limit and a \$25,000 per occurrence deductible.

### **Liability Insurance**

The City's primary liability exposures include general, automobile, law enforcement, public officials, employment practices, and public employee dishonesty. Except for employment practices and public employee dishonesty, the City currently self-insures these exposures for up to \$3,000,000 per occurrence through a self-insured retention (SIR). An SIR is much like a deductible except that claims applying to the City's SIR are processed and settled by the City's Legal Department. Insurance policies with deductibles are normally processed and settled by the insurance company, which requests reimbursement for the amount of the deductible. Employment practices liability is totally self-insured, or a 100 percent SIR.

Except for employment practices liability, for which the City purchases no insurance coverage, and public employee dishonesty liability, which is insured as described above, the City purchases an excess liability insurance policy with a \$15,000,000 aggregate limit to cover losses that exceed the City's current SIR. No insurance has been purchased to cover any of the City's employment practices liability because of the

excellent track record the City has in self-insuring for this exposure.

Exceptions to the Above Liability Coverage  
Description

*Enterprise Fund Operations.* One exception to the above description of liability coverage is that of the City's enterprise funds, including Solid Waste Collection, Curbside Recycling, Sanitary/Storm Sewers, WRF, and the Airport. Because a claim even approaching the limit of the City's current SIR of \$3,000,000 per occurrence would have a severe impact on these funds and the fees that would have to be charged to cover such a loss, even on a structured settlement basis, the City has purchased "first dollar" insurance coverage to protect the financial viability of these operations.

The Solid Waste Collection, Curbside Recycling, and Sanitary/Storm Sewer operations are covered for the first \$3,000,000 of exposure per occurrence less a \$5,000 deductible for automobile liability through a combination of individual primary and umbrella insurance policies. Any automobile liability claim exceeding \$3,000,000 is covered by the City's excess liability policy mentioned above. For all other liability exposures, these enterprise operations are covered as described above.

The WRF is covered for the first \$3,000,000 of exposure per occurrence less a \$5,000 deductible for automobile and general liability through a primary policy and an umbrella policy. Again, any automobile or general liability claim exceeding \$3,000,000 is covered by the City's excess liability policy. In addition, through a separate combination of a primary and an umbrella policy, the WRF Co-Generation Plant is covered for the first \$3,000,000 of general liability exposure less a \$1,000 deductible. This separate general liability coverage was originally placed to cover what is now a MidAmerican Energy insurance requirement. MidAmerican Energy will not

allow the Wastewater Reclamation Authority (WRA) to channel its excess electric capacity into the MidAmerican power grid without this coverage. Because it was significantly less expensive to purchase this liability coverage through a package property/general liability policy than to simply purchase a separate general liability policy, the Co-Generation Plant is also covered by separate property insurance as described above.

The Airport is covered for all of the liability exposures described above through a primary policy covering up to \$20,000,000 per occurrence less a \$10,000 deductible and an excess liability policy of \$150,000,000 per occurrence.

*Skywalk System and Right-of-Way Purchases.* Another exception to the liability coverage description provided above is a commercial general liability insurance policy purchased to cover the City's Skywalk System and the properties purchased for City right-of-way and which continue to have tenants. This policy was originally obtained because of the unique exposure presented by placing large, enclosed pedestrian bridges over City streets and sidewalks. It was later used as a vehicle for insuring buildings purchased for City right-of-way purposes and those which were to be leased to tenants until such time as the building needed to be demolished. The policy has a per occurrence limit of \$3,000,000 and an aggregate limit of \$6,000,000.

### **Workers' Compensation Insurance**

The City's workers' compensation insurance program can be divided into two components: lost time costs and medical costs. The City's self-insured workers' compensation insurance program covers the medical cost component. The City is self-insured for the first \$450,000 SIR of each claim and purchases an excess workers' compensation insurance policy to cover any costs above the SIR equal to the maximum payment required by State law. However, when the Haz-Mat Team or firefighters respond to requests for mutual aid, the City purchases

occupational medical insurance to cover any job-related medical costs resulting from an injury, the premium of which is reimbursed to the City.

Because the Haz-Mat Team services a nine-county area, the City alone should not bear the \$450,000 SIR cost for work-related injuries when the Haz-Mat Team responds to an emergency within the jurisdictional boundaries of any of the nine counties. Therefore, two policies have been purchased, the cost of which is reimbursed by the nine county members. The primary insurance policy covers Haz-Mat Team members from the time they leave their City facility to the time they return for the first \$50,000 of each claim. The excess insurance policy covers the next \$400,000 per claim. Any cost above \$450,000 is covered by the City's excess liability coverage. This coverage was recently extended at no additional cost to cover firefighters when responding to mutual aid requests from neighboring cities.

#### **Miscellaneous Coverages Not Part of Fiscal Year Annual Renewal**

In addition to the above, the Haz-Mat contract with the nine county members requires that the City maintain general liability and automobile liability insurance coverage for \$2,000,000 per occurrence. This is insured through the Iowa Communities Assurance Pool (ICAP). This coverage does not renew on a fiscal year basis and will be brought to Council at its renewal date.

The City has six agreements with various railroads to allow for bike paths to travel under and for driveway entrances to pass over railroad tracks and railroad right-of-way. The City is required by these agreements to maintain railroad liability insurance purchased in the name of each respective railroad to cover third-party liability claims that may occur.

Also, as required by the City's Urban Standard Specifications for Public Improvements, the City purchases builders risk insurance to cover the construction of City buildings. This is approved in the roll call of each project requiring such coverage and is in effect until the construction is completed. At the time of completion, the building is transferred to the City's blanket property insurance policy described above.

#### **Premium Cost of Annual Renewal for Current Program**

For Fiscal Year (FY) 1999, the City's total premium, excluding

the miscellaneous coverages mentioned above, was \$589,523.

## **PROPOSED SELF-INSURANCE PROGRAM STRUCTURE**

The following highlights the changes in the restructuring proposed by Jester Insurance Services, Inc., and recommended by staff.

### **Property Insurance**

Jester Insurance is seeking a change that would reduce the City's \$500,000 deductible for those six properties located next to the Des Moines River to the general policy deductible of \$100,000. At a minimum, it is proposed that the coverage purchased through the NFIP be reduced from \$500,000 to \$400,000 so as to provide the same coverage as at all other sites and reduce the premium associated with this coverage.

If MidAmerican Energy will allow the City to cover MidAmerican's liability insurance requirement as described below under "Liability Insurance," the City will add the WRF Co-Generation Plant to the City's blanket property insurance policy, thus eliminating the separate coverage. The replacement value of the Skywalk System will also be added to the City's blanket property insurance policy, thus eliminating the separate property insurance policy. No change will be made to the City's current crime insurance coverage.

### **Liability Insurance**

The City's SIR will be reduced from \$3,000,000 per occurrence to \$1,000,000, and the limit of the excess liability insurance policy increased from \$15,000,000 to \$20,000,000. The \$2,000,000 umbrella policy currently purchased for the enterprise fund operations will be eliminated, and the \$1,000,000 primary insurance policy with a \$25,000 deductible will be retained. This will be adequate to cover the new self-insured retention limit of \$1,000,000, and the excess liability policy will continue to cover losses exceeding the \$1,000,000.

If MidAmerican Energy will allow the City to use its self-insured retention and excess liability insurance policy, in lieu of purchasing a first-dollar insurance policy, to meet MidAmerican's requirement that the City carry comprehensive general liability coverage on the WRF Co-Generation Plant, the coverage of the current policy will be absorbed into the new \$1,000,000 SIR program of the City, and the current

liability/property insurance policy will be eliminated.

The Airport coverage will not be changed under the proposed restructuring since it was aggressively marketed last year allowing the City to increase the total coverage offered the Airport from \$100,000,000 to \$150,000,000, with less than a ten percent increase in premium.

The liability insurance policy currently covering the skywalk bridges and ROW properties will be absorbed into the new \$1,000,000 SIR program, thus eliminating the separate insurance policy.

#### **Workers' Compensation Insurance**

No change to these coverages is being proposed at this time.

#### **Miscellaneous Coverages**

No change to these coverages is being proposed at this time.

#### **Impact on Current Premiums**

The City's contract with Jester Insurance Services, Inc. guarantees a savings of \$103,000 at the July 1, 1999 renewal. This guarantee was based on Jester Insurance Services, Inc.'s proposed restructuring at the time that the City evaluated agent/broker RFP evaluation responses. As was mentioned earlier, staff, in its attempt to create an apples-to-apples comparison between RFP proposals, overlooked the fact that Jester's proposed savings did not include maintaining a separate insurance policy for the City's Curbside Recycling Program for automobile liability coverage. Since this policy must be maintained, Jester Insurance Services has stated that had it been told the savings guaranteed would have been \$85,000, instead of \$103,000.

### **SUMMARY OF IMPACT OF PROPOSED RESTRUCTURING**

The following is a summary of the result of changing from the current self-insurance program to the proposed program. While the City's coverage is reduced in some areas, it is substantially increased in others, with an overall result in greater coverage for less premium.

#### **Property Insurance**

1. The current "no deductible" coverage on Flood Zone A



facilities next to the Des Moines River will be replaced with the equivalent of a \$100,000 deductible per facility, which is the same as the deductible that currently applies to all other facilities.

2. Adding the WRF Co-Generation Plant to the City's blanket insurance policy will eliminate the current policy, but not reduce the coverage provided.

3. Adding the Skywalk System to the blanket policy will eliminate the current skywalk policy, but will increase the deductible from \$1,000 to \$100,000 per occurrence.

### **Liability Insurance**

1. The City's self-insured retention will be reduced from its current level of \$3,000,000 to \$1,000,000 per occurrence, and the excess liability policy limits increased to a \$20,000,000 aggregate. This significantly reduces the potential financial impact on the City's tax levy in the event of a catastrophic loss and substantially increases the insurance resources to pay for such a loss.

2. The need for the \$2,000,000 umbrella coverages for the City's enterprise funds, other than the Airport, will be eliminated, thus reducing the cost of covering the equivalent of the City's \$1,000,000 SIR and increasing the deductible from \$5,000 to \$25,000.

3. If contractually allowable, the current general liability insurance policy for the WRF Co-Generation Plant will be eliminated and the insurance requirement covered by the new \$1,000,000 SIR and excess liability insurance policy. This is a reduction in coverage by using the SIR.

4. The elimination of the general liability insurance policy for the Skywalk System also reduces coverage by including it in the new \$1,000,000 SIR.

### **Workers' Compensation & Miscellaneous**

No changes will occur in the current coverage provided.

### **AMENDMENT OF INSURANCE AGENT/BROKER SERVICES CONTRACT**

Staff has reviewed the point allocation formula of the RFP

evaluation process and has determined that reducing Jester Insurance Services, Inc.'s savings to \$85,000 would still have resulted in the recommendation that Jester Insurance Services, Inc. be approved as the City's agent/broker of record (see the following chart).

<b>ORIGINAL POINT ALLOCATION</b>			
	<u>Arthur J. Gallagher</u>	<u>Jester</u>	<u>Kirke-Van Orsdel</u>
Proposed Savings:	\$119,446	\$103,000	\$43,200
Qualifications/ Experience:	236	250	195
Financial Impact:			
1st Year	125	123	102
Yrs. 2 - 5	120	125	53
Total Points	481	498	350

  

<b>REVISED POINT ALLOCATION</b>			
	<u>Arthur J. Gallagher</u>	<u>Jester</u>	<u>Kirke-Van Orsdel</u>
Proposed Savings:	\$119,446	\$85,000	\$43,200
Qualifications/ Experience:	236	250	195
Financial Impact:			
1st Year	125	119	102
Yrs. 2 - 5	120	125	53
Total Points	481	494	350

**ACTION REQUESTED OF CITY COUNCIL**

1. Approve the proposed restructuring of the City's self-insurance program.
2. Based on the fact that staff did not discover, until after a contract had been executed with Jester Insurance Services, Inc. (per Roll Call No. 99-261), the oversight of not informing Jester Insurance Services, Inc. of the need to maintain a separate primary automobile liability insurance policy for Curbside Recycling, rather than blending it in with the proposed \$1,000,000 SIR, and considering that the notification to Jester Insurance Services, Inc. would have resulted in a guaranteed savings of \$85,000, and further considering that

changing the guaranteed savings of \$85,000 would not have changed the outcome of the Agent/Broker RFP evaluation recommendation, staff requests that the City Council approve an amendment to the Insurance Agent/Broker Services Contract between the City and Jester Insurance Services, Inc. to reflect a guaranteed savings of not less than \$85,000 rather than the original \$103,000.

Attachments