

**CITY COUNCIL
COMMUNICATION:**

ITEM _____

02-342

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

AGENDA:

JUNE 17, 2002

SUBJECT:

ANNUAL
INSURANCE
RENEWAL FOR
JULY 1, 2002

TYPE:

**RESOLUTION
ORDINANCE
RECEIVE/FILE**

SUBMITTED BY

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DIRECTOR

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RISK MANAGER

SYNOPSIS -

The City aggressively markets about one-third of its insurance coverages annually. This year, the City marketed Special Excess Liability and Excess Workers Compensation Insurance. Due to the uncertainty that exists in the current insurance market and the additional work associated with underwriting the ongoing changes, the insurance carriers contacted to provide coverage and premium quotes for these coverages have indicated that they will be unable to do so prior to June 17, but will do so before July 1. Therefore, the package of insurance coverages presented to Council on June 17 will include those coverages for which the City has received renewal quotations or estimations. Staff intends to bring to Council quotations for Special Excess Liability and Excess Workers Compensation at the earliest date possible.

Included in this agenda item are the renewal premiums for Property Insurance, Airport Liability Insurance, Crime Insurance, Flood Insurance, Railroad Protective, and a special Workers Compensation Insurance package to cover HazMat and Fire personnel when on mutual aid responses. These coverages have either been previously marketed or are specialty coverages marketed when a competitive opportunity presents itself. The total renewal premium for these coverages is \$592,109. This represents a 40 percent increase over last year's renewal of \$421,942 for the same coverages. Over 50 percent of this increase is related to a special terrorism endorsement associated with Airport Liability Insurance.

FISCAL IMPACT -

The premium costs associated with Citywide property/casualty insurance coverages are budgeted in the City's 2002/2003 Operating Budget: Public Works, pp. 21-19, 21-22, 21-24, 21-25, 21-28, 21-37, 21-47; Engineering, pp. 9-49; Fire, pp. 11-11; Aviation, pp. 4-11; Housing Services, pp. 12-8; Finance, p. 10-24; Parks, pp. 19-11, 19-13.

RECOMMENDATION -

Approval.

BACKGROUND -

The City's insurance marketing strategy is to aggressively market about one-third of the City's insurance coverages every three years. The purpose of this strategy is to attract advantageous pricing by offering up to three years of coverage to the selected carriers. The rotating cycle that began with the July 1, 1998 renewal has been: (1) Airport Liability; (2) Special Excess Liability and Excess Workers Compensation; and (3) Property and Crime Insurance. Last year, the City marketed Airport Liability.

In marketing this year's renewal for Special Excess Liability, Jester Insurance Services, Inc. contacted three major markets: (1) Genesis (division of General Reinsurance), (2) American International Group (AIG), and (3) Royal/Sunalliance (current carrier). These carriers have indicated that they will be able to evaluate the City's application information and provide price quotations prior to July 1, 2002, but will not be able to complete this process prior to the June 17, 2002 Council meeting. A recommendation for this coverage will be brought to Council once quotes and coverage proposals have been received and evaluated.

Genesis and AIG were also contacted for Excess Workers Compensation Insurance along with the City's current carrier Continental Casualty, a CNA insurance company. Because Genesis and AIG no longer offer coverage at "statutory" limits but have "capped" the limits of the policy, Jester Insurance Services, Inc. has pursued a renewal quote from Continental Casualty. However, this week CNA informed Jester Insurance Services, Inc. that Continental Casualty will no longer offer Excess Workers Compensation coverage to airport employees. Therefore, Jester Insurance Services is now seeking additional carriers through CNA and other markets to provide this Excess Workers Compensation coverage. It is these types of changes that are occurring in the insurance markets in response to the uncertainty created by the events of September 11, 2001. These changes are also making this year's renewal process more challenging.

Because quotes for Special Excess Liability and Excess Workers Compensation Insurance will not be available by June 17, the Risk Management Office was going to request Jester Insurance Services,

Inc. to request that our current carriers extend coverage for one month so that the quotes could be brought to Council at its meeting of July 8, 2002. However, because the City's current Excess Workers Compensation carrier will not cover airport employees as of July 1, 2002, the Risk Management Office will request that a special Council meeting be considered prior to July 1 to consider the renewal of these two coverages once quotes are received and a recommendation for Council is available. The following is a summary of the coverages being presented to Council on June 17, 2002.

PROPERTY INSURANCE:

The total replacement value of City property to be covered as of July 1, 2002, is \$573,586,503. The premium for this coverage will be \$310,636. This is a 28 percent increase over last year's premium of \$243,472. A portion of this increase is due to \$8,400,000 in new construction, \$1,000,000 in property acquisition, a \$20,000,000 adjustment in the estimated replacement values of existing buildings, and a 19 percent increase in the cost per \$100 of replacement value that is charged as premium. The new construction includes the Discovery Center at the Zoo, the Gray's Lake Resources Center, the new Airfield Maintenance Facility, an additional remote Police radio site, and improvements to Martin Luther King, Jr. Park.

The coverage offered has changed in two ways: (1) a "cap" will be placed on the total replacement value that will be covered during any one loss event, and (2) a "cap" of \$50,000,000 has been placed on the total replacement value covered when the cause of a loss event is an act of terrorism. The cap on total coverage for any one loss event being recommended by staff is \$250,000,000 per occurrence. A cap as high as \$400,000,000 is available, but the cost per \$100 of replacement value increases by 11 percent for each \$1,000,000 above \$250,000,000 that is added to the cap.

Staff's recommendation of \$250,000,000 is based on: (1) the fact that the City does not have any one location where the total replacement value of the buildings exceeds this amount, and (2) for any single event to destroy more than \$250,000,000 in value, the event would have to be so devastating to such a large geographic area that the likelihood of such an event is extremely remote. Prior to this year, this option had not been offered by the carriers. While the reduction in coverage for terrorism is significantly lower than the previous limit of total replacement value of the policy, it is consistent with the limits being found in other lines of insurance such as Airport Liability.

AIRPORT LIABILITY:

The City marketed its Airport Liability Insurance last year. The premium was \$84,950 for \$200,000,000 in coverage. After the attack on September 11, 2001, the War Risk and Terrorism endorsement that was on the policy, at no additional charge, was cancelled by the carrier which was allowed for in the endorsement. All carriers providing coverage to the aviation industry did the same. Just prior to the end of 2001, carriers began offering new endorsements for War Risk and Terrorism, but capped the coverage at \$50,000,000 and at a substantial premium. The City chose to purchase this coverage for the period January 1, 2002 to July 1, 2002 at a prorated cost of \$51,789. When added to the original premium paid, the total cost of Airport Liability Insurance for July 1, 2001 was \$136,739. It was determined that the unknown surrounding the possible threat of a terrorist event was worth insuring, and that the need to renew this coverage on July 1, 2002 would be reviewed at that time. This review is currently underway weighing issues such as protection available through the governmental immunities afforded the City by state law, the exposure to lawsuits filed in federal court that are not covered by state granted immunity, and the potential risk of a terrorist act at the Airport and if the premium justifies the value of the coverage being offered. The Legal Department, the Aviation Department, and the Risk Management Office are still weighing these issues.

Without the War Risk and Terrorism endorsement, the renewal premium for Airport Liability Insurance will be \$135,680. This is an increase of 60 percent. The cost of the War Risk and Terrorism endorsement is \$96,538. If the War Risk and Terrorism endorsement is included, the total premium for the July 1, 2002 renewal would be \$232,218. It is the Risk Management Office's recommendation that the City purchase the War Risk and Terrorism endorsement as part of this renewal. While the limit is much lower than the \$200,000,000 previously included prior to September 11, 2001, if a terrorist attack were to occur and for some reason the City's existing immunities do not apply, at least the City has \$50,000,000 of coverage before the citizens of Des Moines are placed at financial risk. The Risk Management Office also recommends this endorsement because the agreements that the Airport has with the airlines that use the Airport allows the Airport to pass these charges back to the airlines. This, in effect, minimizes the financial impact that the endorsement has on the Airport as well.

FLOOD INSURANCE:

The deductible included in the City's Blanket Property Insurance policy is \$100,000 per occurrence. However, because of the loss

experience in the "Flood of '93", the property insurance carrier has placed a \$500,000 deductible on each of six buildings located in Flood Zone A and that were damaged during that flood. To reduce the City's exposure to loss due to the higher deductible, flood insurance is purchased to cover that deductible amount and to align it with the deductible for other properties. The renewal premium for this coverage will be \$16,290. This is an increase of 10 percent over last year's premium of \$14,789. The properties included under this coverage are City Hall, Armory, Birdland Aquatic Center, Birdland Pool Filter Building, Animal Shelter, and Main Library.

HAZMAT/MUTUAL AID:

Separate insurance is purchased to cover the City's HazMat Team when it responds to requests for mutual aid. It was the desire of the City at the time that mutual aid agreements were entered into with surrounding counties that the cost of work related injuries not be incurred by the City. This insurance covers the HazMat Team from the time it leaves its base to the time it returns, and the premium cost is reimbursed to the City by the counties with which the City has mutual aid agreements. The renewal premium for this coverage will be \$12,401, unchanged from last year.

RAILROAD PROTECTIVE:

For some crossings made over or under a railroad track, the railroad requires that the City purchase Railroad Protective and General Liability Insurance in the railroad's name to protect the railroad against any claims that may result from someone using the crossing. The City currently has five such crossings: Wastewater Reclamation Facility (WRF) Crossing at SE 30th and Vandalia, three bike paths that proceed under railroad track bridges in Greenwood Park, SW Outfall Relief Sewer at SW 30th and Bell, Jim Cownie Soccer Complex Crossing at SE 26th and Hartford, and WRF Crossing at SE 32nd and Vandalia. The City's current insurance carrier for these coverages, Travelers Property Casualty, has chosen to discontinue issuing this line of coverage. Therefore, the City is seeking another carrier to do so. It is estimated that the July 1, 2002 premium through a new carrier could be as high as \$16,500. This would be a 50 percent increase over last year's premium of \$10,908. Jester Insurance Services, Inc. has contacted over 20 carriers, all of which have turned down quoting this coverage because, in this market environment, the premium paid is not considered significant enough to warrant the time it would divert from larger premium accounts that are pending.

CRIME:

The City purchases insurance to cover against employee theft, computer fraud, and on and off premise robbery. The renewal premium for this coverage is \$4,064. This is a 12 percent increase over last year's premium of \$3,633.

CONCLUSION:

The total premium for the insurance coverages included in this agenda item is \$592,109. This is a 40 percent increase over last year's total premium for these same coverages (\$421,942). Of the \$170,167 increase, \$96,538 is for the War Risk and Terrorism endorsement attached to the Airport Liability Insurance policy. This endorsement represents 57 percent of the total increase over last year and is a clear indication of the impact that the events of September 11, 2001 have had on the insurance industry. Other portions of this increase are also the result of these events, but not as clearly identified. If the City were not to include the War Risk and Terrorism endorsement, the total premium for this renewal would be \$495,571, or an increase in total premium of 17.5 percent.

SUMMARY OF RECOMMENDATIONS:		
	FY 2001-02	FY 2002-03
Property Insurance Chubb Group (Federal Insurance Co.)	\$243,472	\$310,636
Airport Liability Insurance	84,950	135,680
War Risk and Terrorism Endorsement * half year premium (Phoenix Aviation Managers, Inc.)	51,789*	96,538
Flood Insurance (National Flood Insurance Program)	14,789	16,290
HazMat/Mutual Aid (American International Group - AIG)	12,401	12,401
Railroad Protective/General Liability (New carrier not yet identified)	10,908	16,500
Crime Insurance (Travelers Insurance Co.)	3,633	4,064
TOTAL ANNUAL RENEWAL	\$421,942	\$592,109
