



Agenda Item:

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COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION

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Submitted by: Merrill R. Stanley, Finance Director and
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SUBJECT—

Annual Insurance Renewal for July 1, 2005 – Property and Casualty Insurance

SYNOPSIS—

The City aggressively markets about one-third of its property/casualty insurance coverage annually. This year, the City marketed Excess Liability insurance coverage. All other coverages will remain with current carriers. The total renewal premium for the property and casualty insurance coverages being renewed as of July 1, 2005 is \$1,151,471. This represents a 1.8 percent decrease under last year's renewal of \$ 1,172,238 for the same coverages. This compares with a 2.7 percent increase experienced the previous year.

FISCAL IMPACT—

The premium costs associated with Citywide property/casualty insurance coverages are budgeted in the City's 2005/2006 Operating Budget. The following is a Tort Fund Levy breakdown of the amount budgeted for and the actual premiums quoted. The amount budgeted to cover these premiums is \$1,347,223. The actual premium cost quoted is \$1,151,471. This is a savings of \$195,752 under the budgeted amount. The insurance carrier is currently calculating the Enterprise Fund – General Fund breakdown of the total premium and so that staff can prepare a budget-to-actual premium comparison for each.

RECOMMENDATION—

Approval

BACKGROUND—

The following is a summary of the insurance coverages being presented to Council as part of this renewal package.

SPECIAL EXCESS LIABILITY

The City covers its catastrophic liability exposures by purchasing Special Excess Liability insurance. Under the City's program, the City's general fund activities are currently self-insured for the first \$2,000,000 of each occurrence and the WRA, Solid Waste Collection and Recycling, Sanitary Sewers and Storm Water Utility are currently self-insured for the first \$50,000 of each claim. The reason for this difference in self-insured retentions is the more limited capability of enterprise funds to adjust fees to meet sudden, unexpected catastrophic losses. The City purchases excess liability insurance to cover the next \$10,000,000 per occurrence up to an aggregate limit of \$20,000,000.

The City aggressively marketed this coverage for this renewal. Two quotes were received because of the limited number of insurance carriers insuring municipalities the size of the City and larger (three years ago only one carrier was interested in quoting the City's renewal). For the coverage limits described above, the City's current carrier, Genesis Insurance Company, quoted \$465,400 and American International Group (AIG) quoted \$274,200. AIG's quote required a \$1,000,000 self-insured retention for the enterprise fund activities rather than the current \$50,000 and Genesis' quote required an increase to \$75,000. AIG's reinsurance market was unwilling to lower its requirement below \$1,000,000 and Genesis decided that it was no longer comfortable with a \$50,000 retention.

Because AIG's quote would leave the enterprise fund activities with an additional \$950,000 per occurrence exposure and Genesis' quote would increase it by only \$25,000 per occurrence, and because the enterprise funds' can, at this time, more easily absorb the Genesis increase along with a lower premium cost, Jester Insurance Services, Inc. and City staff recommend that the City accept the Genesis quote for the July 1, 2005 renewal. However, because AIG's quote was competitive, except for placing a significant self-insured retention burden on the enterprise fund activities, staff has decided to review alternatives that may allow the City to consider the otherwise competitive nature of AIG's quote and create a more competitive environment for all carriers quoting the City's July 1, 2006 renewal.

The City's current premium is \$495,200. The renewal premium for July 1, 2005 is \$465,400. This represents a decrease of \$29,800, or 6.0 percent under last year.

AIRPORT LIABILITY INSURANCE

As mentioned above, the City aggressively marketed this coverage last year. As a result, the City changed carriers saving the City \$54,550. The City is renewing this coverage with American International Group's Aviation Division. The City's current premium for this coverage is \$138,890. The premium quote for July 1, 2005 is \$136,012. This is a savings of \$2,878 or 2.1 percent under last year. The limits of this policy will remain at \$200,000,000.

PROPERTY INSURANCE

The City currently insures its property with the Chubb Group, which is one of the largest and most financially secure markets in this line of coverage. The total replacement value of City property to be covered as of July 1, 2005 is \$637,650,695. The City's per occurrence aggregate is \$250,000,000. The City's current premium for this coverage is \$375,721. The premium quote for July 1, 2005 is \$382,809.

This is an increase of \$7,088 or 1.9 percent over last year. This increase in premium is due to three factors: (1) a review of properties conducted by the City's Property Management Division and the Risk Management Office revealed a number of existing facilities not previously included, (2) new construction and (3) a three percent increase in the replacement value of properties to cover the increased cost of construction (increases in plywood and steel costs over the past 2 or 3 years are examples). However, the insurance carrier reduced the premium rate charged per \$100 of replacement value insured by 5 percent.

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 the six buildings located in Flood Zone A 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 of other properties. The City's current premium for this coverage is \$17,586. The premium quote for July 1, 2005 is \$17,961. This is an increase of \$375 or 2.1 percent over last year. The properties included under this coverage are City Hall, Armory, Birdland Aquatic Center, Birdland Pool Filter Building, Animal Shelter and the Main Library.

HAZMAT/MUTUAL AID

Separate insurance is purchased to cover the City's HazMat Team when it responds to requests for mutual aid. At the time mutual aid agreements were entered into with surrounding counties, it was the desire that the City not incur the cost of work-related injuries when responding to calls outside of 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. This coverage was expanded a few years ago to also cover Firefighters when providing mutual aid to surrounding communities. The City's current premium for this coverage is \$14,802. The premium quote for July 1, 2005 is \$13,565. This is a savings of \$1,237 or 8.4 percent under last year.

CRIME

The City purchases insurance to cover against employee theft, computer fraud, and on- and off-premise robbery. The current premium paid for this coverage is \$5,107. The renewal premium for July 1, 2005 is \$5,245. This represents an increase of \$138 or 2.7 percent.

EXCESS WORKERS COMPENSATION

The City purchases Excess Workers Compensation insurance to cover losses that exceed the City's \$450,000 per claim self-insured retention up to Iowa Statutory limits. The City's current premium is \$124,932. The renewal premium for July 1, 2005 is \$130,479. This represents an increase of \$5,547, or 4.4 percent.

CONCLUSION

The total premium for the property and casualty insurance coverages for the July 1, 2005 renewal is \$1,151,471. This represents a decrease of \$20,767, or 1.8 percent under last year's total premium of \$1,172,238. However, the City budgeted \$1,347,223 for this year's renewal. The premiums quoted are \$195,752 under the budgeted amount.

SUMMARY OF RECOMMENDATION

	<u>FY 04-05</u>	<u>FY 05-06</u>	<u>+(-)</u>
1. Special Excess Liability Insurance *(Genesis Insurance Company)	\$ 495,200	\$ 465,400	(\$29,800)
2. Airport Liability Insurance *(AIG Aviation)	\$ 138,890	\$ 136,012	(\$ 2,878)
3. Property Insurance *(Chubb Group – Federal Insurance Co.)	\$ 375,721	\$ 382,809	\$ 7,088
4. Crime Insurance *(Travelers Insurance Co.)	\$ 5,107	\$ 5,245	\$ 138
5. Flood Insurance *(National Flood Insurance Program)	\$ 17,586	\$ 17,961	\$ 375
6. HazMat/Mutual Aid *(American International Group – AIG)	\$ 14,802	\$ 13,565	(\$ 1,237)
7. Excess Workers Compensation Insurance *(Safety National Casualty Corp)	<u>\$ 124,932</u>	<u>\$ 130,479</u>	<u>\$ 5,547</u>
TOTAL	\$1,172,238	\$1,151,471	(\$ 20,767)
* Recommended insurance carrier			