



Council Communication

Office of the City Manager

Date

June 23, 2008

Agenda Item No. 27
Roll Call No. 08-
Communication No. 08-373
Submitted by: Allen McKinley, Finance
Director

AGENDA HEADING:

Annual Insurance Renewal for July 1, 2008 - Property and Casualty Insurance

SYNOPSIS:

Recommend approval of the attached Schedule of Insurance. The total premium for the July 1, 2008 renewal of property and casualty insurance coverages is \$1,048,951. This represents an increase of \$23,456, or 2.3 percent, over last year's renewal of \$1,025,495.

To provide an incentive to insurance carriers to competitively quote City insurance coverages, the City annually markets about one-third of its property/casualty insurance coverages through Jester Insurance Services, Inc. and maintains coverage with those carriers for about three years. This year, the City marketed Excess Workers Compensation and Enterprise Fund Automobile Liability Insurance coverages. In addition, the City is renewing its Property Insurance, Excess Liability Insurance, Crime Insurance, Flood Insurance, HazMat/Mutual Aid Occupational Injury Insurance and Airport Liability Insurance coverages (descriptions of each are included below). These coverages will remain with the current carriers.

FISCAL IMPACT:

Amount: \$ 1,048,456

Funding Source: 2008-2009 Operating Budget:

- Tort Fund – Tort Liability GE005 FIN940500, Page 149.
- Parking Operations Fund – T&T Parking Administration EN051 ENG100701, Page 124.
- Solid Waste Operations Fund – Solid Waste Collection EN151 PWK100101, Page 296.
- Solid Waste Operations Fund – Curbside Recycling EN151 PWK100119, Page 298.
- Solid Waste Operations Fund – Compost EN151 PWK100104, Page 297.
- Sanitary Sewer Operations Fund – Des Moines – Sanitary Sewer Maintenance EN101 PWK071000, Page 290.
- Storm Water Utility Operations Fund – Des Moines- Storm Sewer Maintenance EN301 PWK071600, Page 300.
- Golf Operations Fund – Golf – Grandview EN201 PKS010704, Page 250.
- Golf Operations Fund – Golf – Waveland EN201 PKS010707, Page 251.
- Golf Operations Fund – Golf – A.H. Blank EN201 PKS010701, Page 249.
- Des Moines Public Housing Agency Fund – Housing Services – Administration SP350 HSG029000, Page 176.
- Airport Operations – Building Maintenance EN002 AIR040400, Page 64.
- Special Revenue Funds – Other Employee Benefits SP451 HRS961000, Page 187.

The proposed renewal premium of \$1,048,951 is \$59,308 less than the \$1,108,259 budgeted to fund this renewal. Of the \$1,048,951 in total renewal premium, \$1,007,281 is allocated between General Fund and Enterprise Fund operations. The remaining \$41,670 represents policies specific to the General Fund. Of the \$1,007,281 that is allocated, \$561,872, or 55.8 percent, is allocated to Enterprise Funds and \$445,409, or 44.2 percent, to the General Fund. The insurance coverage provided to the WRA by 28E Agreement is allocated on the same basis as if the WRA were an Enterprise Fund of the City. The WRA’s portion of the \$561,872 is estimated to be \$140,405, or 25.0 percent. A “Premium Comparison” chart on page 7 shows the FY08 and FY09 allocation by Enterprise Fund and the General Fund.

ADDITIONAL INFORMATION:

On December 22, 2003, by Roll Call No. 03-2906, the City Council approved a professional services agreement with Jester Insurance Services, Inc. Under the provisions of this agreement, Jester Insurance Services, Inc. competitively markets about one-third of the City’s insurance coverages annually. Jester Insurance Services, Inc. has contacted various insurance markets for the July 1, 2008 renewal.

Based on Jester Insurance Services, Inc.’s recommendations, a Schedule of Insurance is provided below indicating each line of coverage being renewed, the insurance carrier being recommended by staff, a comparison of last year’s premium to this year’s premium and the plus or minus difference between the two. The following is a brief description of this year’s renewal highlighting coverages and changes that have most significantly impacted the coverage being provided and the premium being charged:

1. Excess Workers Compensation Insurance:

The City purchases Excess Workers Compensation Insurance to cover losses that exceed the City’s \$450,000 per claim self-insured retention. This policy covers the indemnity (lost time wages and non-medical expenses) and medical expenses related to occupational injuries incurred by City employees, with the exception that only medical expenses are covered for sworn Police and Fire Department employees. Only medical expenses are included for Police and Fire because their indemnity expenses are covered under Chapter 411 of the Code of Iowa. Indemnity losses are funded through the Municipal Fire & Police Retirement System of Iowa to which the City is required to make financial contributions equal to a State-mandated percentage of salaries paid sworn Police and Fire personnel.

This year, Jester Insurance Services, Inc., the City’s Insurance agency, solicited premium quotes from six insurance carriers: Safety National Insurance Company (SNI) (the City’s current carrier), Liberty Mutual Insurance Company, Ace Insurance (ACE), Employers Mutual Casualty Company (EMC), Travelers Insurance Company and American Insurance Group (AIG). EMC and Travelers declined to quote this coverage indicating that their pricing would not be competitive with Safety National Insurance Company. However, Safety National, Liberty Mutual, AIG and ACE did submit quotes for this coverage:

	<u>SNI</u>	<u>LMI</u>	<u>AIG</u>	<u>ACE</u>
Self-insured Retention:				
Police/Fire Employees:	\$450,000	\$250,000	\$500,000	\$1,000,000
All Other Employees:	\$450,000	\$250,000	\$500,000	\$ 500,000
Excess Limits:	Statutory	\$100 million	Statutory	Statutory
Premium:	\$147,256	\$503,347	\$950,000	\$314,036

As can be seen from the above comparison, the quote received from the Safety National Insurance Company is the most competitive. For claims filed since July 1, 2002, the City has 53 open claims for which the total outstanding reserves (the total estimated cost over the anticipated life of the claim) exceed \$50,000. Of those 53 claims, none have a reserve level that exceeds \$250,000. Therefore, the Safety National quote is the most competitive since no current claim would trigger the insurance coverage proposed by Liberty Mutual but the City would pay an additional \$356,118 annually in premium. Safety National is also more competitive than AIG and ACE based on a comparison of premium and self-insured retentions. In addition, Safety National has offered to reduce the City's annual premium by \$2,678 to \$144,578, if the City enters into a two-year commitment.

In addition, the City asked Jester Insurance Services, Inc. to test the market as to what the City's total cost for Workers Compensation Insurance would be if the City were to insure the first \$450,000 per occurrence, including claims administration, rather than self-insure. Of the same four insurance carriers contacted, only Liberty Mutual offered a response. The total cost quoted was \$3,942,838. This compares to the City's current self-insurance/excess insurance program, including claim administration, of \$2,065,210.

This year's renewal has confirmed that the City's current Excess Workers Compensation Insurance carrier is the most competitive available and that the City's current self-insurance/excess insurance is the most cost effective approach to financing the City's Workers Compensation exposure.

2. Airport Liability Insurance:

The City carries Airport Liability Insurance to cover all Airport operations, except off-premise vehicle use which is covered under the City's Excess Liability policy, as described below. The policy currently has a per occurrence and aggregate limit of \$250,000,000 with a \$10,000 deductible. This limit was increased from \$200,000,000 at last year's renewal. On June 3, 2008, the Airport Board received and voted to recommend approval of the July 1, 2008 renewal of this policy.

3. Enterprise Fund Automobile Liability Insurance:

As indicated above, Solid Waste Collection and Recycling, Sanitary Sewers, Storm Water Utility, Airport vehicles when driven off Airport premises, WRA and Housing Services are covered by a \$2,000,000 Automobile Liability Insurance policy with a per occurrence deductible of \$3,000. This year, Jester Insurance Services, Inc. solicited premium quotes from four insurance carriers: St. Paul Travelers Insurance Company (the City's current carrier), Cincinnati Insurance Company, Chubb Insurance Group and Employers Mutual Casualty Company (EMC). EMC and Chubb declined to quote this coverage indicating that their pricing would not be competitive because of the limits involved. However, St. Paul Travelers and Cincinnati did submit quotes for this coverage. However, Cincinnati was only able to quote a \$1,000,000 limit per occurrence and the City required a limit of \$2,000,000 so as to cover the City's Excess Liability self-insured retention. Therefore, only St. Paul Travelers was able to quote the City request and its premium for the required \$2,000,000 limit was more than \$20,000 less than Cincinnati's quote for a \$1,000,000 limit. In addition, the City asked the carriers to quote both a \$3,000 and a \$5,000 deductible per occurrence. St. Paul Travelers quoted \$87,363 for a \$3,000 deductible and \$75,855 for a \$5,000 deductible. Staff recommends that the City purchase the \$5,000 deductible with a limit of \$2,000,000 per occurrence.

4. Excess Liability Insurance:

Currently, the City's Excess Liability Insurance coverage provides for a per occurrence limit of \$10,000,000 and an aggregate (policy maximum) limit of \$10,000,000. The City's per occurrence self-insured retention is \$2,000,000 for all operations other than the following Enterprise Fund operations: Solid Waste Collection and Recycling, Sanitary Sewers, Storm Water Utility and for Airport vehicles when driven off Airport premises. The WRA and Housing Services are also covered by this policy and premiums are allocated to each accordingly. Each of these Enterprise Funds carries a \$2,000,000 Automobile Liability Insurance policy with a per occurrence deductible of \$3,000. The General Liability exposure of these funds is subject to the City's \$2,000,000 self-insured retention. However, because the Wastewater Reclamation Facility and Solid Waste facilities have restricted access to the public, the sanitary and storm sewers are primarily underground infrastructure and the Airport coverage is strictly for automobiles while being driven off of Airport premises, the General Liability exposure is sufficiently low that self-insuring has been deemed an appropriate and cost effective risk financing technique.

The City also tested the market to determine what the additional cost would be to increase the City's Excess Liability policy aggregate limit from \$10,000,000 to \$20,000,000. The premium quoted for this additional \$10,000,000 in coverage was \$68,150. Staff considered the cost of adding this coverage and chose not to recommend this change at this time.

5. HazMat/Mutual Aid Workers Compensation Insurance:

The distinction between the HazMat/Mutual Aid Occupational Injury Insurance and the Excess Workers Compensation Insurance policies is that the HazMat/Mutual Aid Insurance covers Fire Department personnel when they respond to mutual aid requests. This coverage extends from the time Fire Department personnel leave their station to the time they return. For HazMat services, the cost of this coverage is apportioned to those counties having 28E Agreements with the City for these services. Therefore, this coverage is cost-neutral to the City. The City's Excess Workers Compensation Insurance covers Fire Department personnel when responding to City HazMat and Fire service needs within the City's limits.

6. Property Insurance:

An 8.4 percent increase in the Property Insurance premium is due to an estimated \$1.3 million claim related to the fire at the Solid Waste Vehicle Storage Facility earlier this year, the addition of a three percent across-the-board increase in the replacement value of all property to account for inflationary pressure on construction costs and improvements or additions made to the following facilities: Crivaro, Bates, Sargent, Sayers and Riley Parks, Principal Park, all Aquatic Centers, the Airport TSA Offices, Fire Station No. 8, Glendale Cemetery, Blank Park Zoo, a Skywalk addition and WRA facilities. The total replacement value of City property increased from \$742,617,128 last fiscal year to \$784,032,080 this fiscal year, or \$41,414,952. The City has a per occurrence deductible of \$100,000, with the exception of locations affected by the "Flood of '93" and that are located on the City's levy system. The per occurrence deductible is \$500,000 for these facilities.

7. Flood Insurance:

To cover the additional per occurrence Property Insurance deductible of \$500,000 for the facilities described above, the City purchases flood insurance through the National Flood Insurance Program. The premium increased this year primarily because the replacement values at these facilities were updated to reflect the City's current estimate of replacement value.

8. Crime Insurance:

To cover potential losses due to employee theft, computer fraud, robbery, etc., the City purchases Crime Insurance with a limit of \$1,000,000 per occurrence and a \$25,000 per occurrence deductible. The City also asked what the additional premium would be to increase the per occurrence limit to \$2,000,000. The additional premium quoted the City was \$1,641, but the carrier also required increasing the per occurrence deductible to \$50,000. Based on the City's crime loss history and the fact that the City would expose itself to twice the deductible, staff does not recommend any change to this coverage.

Staff's Recommendation:

Staff recommends Council approval of the following Schedule of Insurance:

Schedule of Insurance:

	<u>FY 07-08</u>	<u>FY 08-09</u>	<u>+(-)</u>
1. Special Excess Liability Insurance *(Everest National Insurance Co.)	\$ 190,780	\$191,280	\$ 500
2. Auto Liability Insurance (Enterprise Funds listed above) *(St. Paul/Travelers Insurance Co.)	\$ 83,738	\$ 75,855	(\$ 7,883)
3. Airport Liability Insurance *(AIG Aviation)	\$ 134,096	\$ 121,179	(\$ 12,917)
4. Property Insurance *(Chubb Group – Federal Insurance Co.)	\$ 432,825	\$ 469,144	\$ 36,319
5. Crime Insurance *(Travelers Insurance Co.)	\$ 5,245	\$ 5,245	\$ -0-
6. Flood Insurance *(National Flood Insurance Program)	\$ 20,815	\$ 26,759	\$ 5,944
7. HazMat/Mutual Aid *(American International Group – AIG)	\$ 14,854	\$ 14,911	\$ 57
8. Excess Workers Compensation Insurance *(Safety National Casualty Corp)	<u>\$ 143,142</u>	<u>\$ 144,578</u>	<u>\$ 1,436</u>
Total	\$1,025,495	\$1,048,951	\$ 23,456
* Recommended insurance carrier			

PREVIOUS COUNCIL ACTION(S):

Date: June 18, 2007

Roll Call Number: 07-1177

Action: Annual Insurance Renewal for July 1, 2007 Property and Casualty Insurance with Jester Insurance Services, Inc.(Council Communication No. 07-380) Moved by Coleman to adopt. Motion Carried 6-1.

BOARD/COMMISSION ACTION(S): AIRPORT BOARD

Date: June 3, 2008

Roll Call Number: Yet to be determined – copy to be provided to Council prior to Council Meeting.

Action: A copy of Airport Board Resolution to be provided to Council prior to Council Meeting.

ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:

Annual Property and Casualty Insurance Renewal for July 1, 2009.

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ATTACHMENT

PREMIUM COMPARISON

Description	Actual Premium 07-08 Total	Quoted Premium 08-09 Total	Diff + (-)
<u>Allocated Premiums:</u>			
Parking			
Garages	\$ 76,456	\$ 72,714	\$ (3,742)
Solid Waste Collection	\$ 37,592	\$ 36,573	\$ (1,019)
Solid Waste Recycling	\$ 14,995	\$ 15,091	\$ 96
Solid Waste Compost	\$ 471	\$ 453	\$ (18)
WRA	\$ 143,544	\$ 140,405	\$ (3,139)
Sanitary Sewer	\$ 21,989	\$ 21,092	\$ (897)
Storm Sewer	\$ 32,369	\$ 31,245	\$ (1,124)
Grandview Golf	\$ 1,244	\$ 1,203	\$ (41)
Waveland Golf	\$ 2,042	\$ 1,975	\$ (67)
Blank Golf Housing Services	\$ 11,880	\$ 10,381	\$ (1,499)
Airport	\$ 241,956	\$ 230,740	\$ (11,216)
Total			
EF	\$ 584,538	\$ 561,872	\$ (22,666)
Total			
GF	\$ 405,288	\$ 445,409	\$ 40,121
TOTAL	\$ 989,826	\$ 1,007,281	\$ 17,455
<u>Separate GF Policies:</u>			
Flood (6 bldgs)	\$ 20,815	\$ 26,759	\$ 5,944
Haz Mat (mutual aid)	\$ 14,854	\$ 14,911	\$ 57
Total	\$ 35,669	\$ 41,670	\$ 6,001
GRAND TOTAL	\$ 1,025,495	\$ 1,048,951	\$ 23,456