

 <p style="text-align: center;"><b>Council</b> <b>Communication</b> Office of the City Manager</p>	<b>Date:</b> June 25, 2012
	<b>Agenda Item No.</b> 33 <b>Roll Call No.</b> <u>12-992</u> <b>Communication No.</b> <u>12-330</u> <b>Submitted by:</b> Scott E. Sanders, Finance Director

**AGENDA HEADING:**

Annual Insurance Renewal for July 1, 2012 - Property and Casualty Insurance.

**SYNOPSIS:**

To provide an incentive to insurance carriers to competitively quote City insurance coverages, the City normally markets about one-third of its property/casualty insurance coverages annually. This year, the City marketed its Property Insurance and Excess Workers Compensation Insurance. The City is renewing its Excess Liability Insurance, Automobile Liability Insurance for enterprise funds, Crime Insurance, HazMat/ Mutual Aid Occupational Injury Insurance and National Flood Insurance Program coverages with the current carriers. The City no longer places insurance related to the Des Moines International Airport.

The total premium for the July 1, 2012 renewal of property and casualty insurance coverages is \$987,739. This represents an increase of \$86,621, or 9.6%, over last year’s renewal of \$901,118. Last year’s renewal total has been adjusted to reflect the removal of coverage for the Des Moines Airport Authority. Staff recommends approval of the attached Schedule of Insurance.

**FISCAL IMPACT:**

Amount: \$987,739

Funding Source: 2012-2013 Operating Budget:

- Tort Fund – Tort Liability GE005 FIN940500, Page 95.
- Parking Operations Fund – T&T Parking Administration EN051 ENG100701, Page 70.
- Solid Waste Operations Fund – Solid Waste Collection EN151 PWK100101, Page 239.
- Solid Waste Operations Fund – Curbside Recycling EN151 PWK100119, Page 240.
- Sanitary & Storm Sewer Maintenance Fund – EN101 PWK071000 & EN301 PWK071600, Page 232.
- Golf Operations Fund – Golf – Golf Contracted Operations EN201 PKS010700, Page 193.
- Des Moines Public Housing Agency Fund – Housing Services – Administration SP350 HSG029000, Page 120.
- Special Revenue Funds – Other Employee Benefits SP451 HRS961000, Page 129.

The proposed renewal premium of \$987,739 is \$68,357 greater than the \$919,382 budgeted to fund this renewal. Premiums exceeded budget due to an increase in the City’s Excess Workers Compensation Insurance premium (see below) as well as Property Insurance. Respectively, these increases were driven by large City occupational injury claim losses and significant worldwide property losses incurred by carriers generally. Of the \$987,739 in total renewal premium, \$282,087

(28.6%) is allocated to Enterprise Funds, \$705,652 (71.4%) is allocated to the General Fund. A "Budget to Premium Comparison" chart is attached showing the Enterprise Fund and General Fund Breakdown of this year's total renewal premium and budget. The General Fund allocation increased with the Airport no longer being a City Enterprise Fund.

### **ADDITIONAL INFORMATION:**

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 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. Property Insurance:**

The City's current Property Insurance carrier is Travelers Insurance Company. For this renewal, Jester Insurance Services contacted seven (7) insurance carriers: Travelers, Alliant Public Entity, CHUBB, Affiliated FM, CNA, Zurich and Cincinnati. Of those contacted, two (2) carriers offered competitive quotes: Travelers (\$385,957) and Alliant Public Entity (\$393,831). Of the other five (5), one (1) did not respond and remaining four (4) chose not to quote citing reasons that included the City's previous flood loss history. Jester and staff recommend approval of the Travelers renewal quote.

The insurance policy includes a per occurrence limit of \$250,000,000 and a \$100,000 per occurrence deductible. This policy continues to include Flood coverage up to \$5,000,000 with a \$500,000 deductible. The flood deductible is partially off-set by the purchase of National Flood Insurance at six (6) high risk locations. The recommended renewal quote for this year's is \$385,957. This is an increase of \$18,526 or 5.0 percent compared to last year's premium of \$367,431 (adjusted for the removal of Airport property as of November 1, 2011). The increase is due to the increase in replacement values and in the premium rate on the total replacement value.

#### **2. Enterprise Fund Automobile Liability Insurance:**

The City purchases Automobile Liability Insurance covering Solid Waste Collection and Recycling, Sanitary Sewers, Storm Water Utility and Housing Services vehicles. This policy has a \$2,000,000 per occurrence limit with a deductible of \$5,000. The renewal quote for this year's renewal is \$42,472. This is a decrease of \$5,619 or 11.7 percent compared to last year's premium of \$48,091 (adjusted for removal of Airport vehicles as of November 1, 2011).

#### **3. Excess Liability Insurance:**

Currently, the City's Excess Liability Insurance coverage provides for a per occurrence limit of \$10,000,000 with no aggregate limit for all liability except Public officials Liability which includes an aggregate (policy maximum) limit of \$10,000,000. The WRA shares this policy with the City as a named insured. The City's per occurrence self-insured retention is \$2,000,000. Solid Waste Collection and Recycling, Sanitary Sewers, Storm Water Utility and Housing Services are also covered by this policy and premiums are allocated to each accordingly. Each of the Enterprise Funds is covered by a \$2,000,000 Automobile Liability Insurance policy to cover the self-insured retention. The General Liability exposure of these funds is self-insured. The renewal quote for this year's

renewal is \$185,500. This is a \$100 decrease under last year's premium of \$185,600. The WRA will no longer share this policy with the City as of July 1, 2012.

#### 4. HazMat/Mutual Aid Workers Compensation Insurance:

The distinction between the HazMat/Mutual Aid Occupational Injury Insurance policies and the Excess Workers Compensation Insurance policy described below 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. This policy covers the self-insured retention included in the Excess Workers Compensation policy. Because the City's Excess Workers Compensation Insurance carrier increased the City's self-insured retention as of July 1, 2011 from \$550,000 to \$750,000, the City had to increase the level of insurance purchased to cover mutual aid services. The cost of this coverage is apportioned to those counties having HazMat Services 28E Agreements with the City. Therefore, this coverage is cost-neutral to the City.

The renewal quote for this year is \$33,564. This is a \$6,800 increase over last year's premium of \$26,764. The renewal premium represents a 25.4 percent increase over the adjusted premium for last year. The 25.4 percent increase includes that fact that for this renewal the City's Excess Workers Compensation Insurance carrier increased the City's self-insured retention to from \$750,000 to \$1,000,000 causing the city to have to purchase an additional \$250,000 to cover the mutual aid services. However, again, this increase is cost-neutral to the city because it is apportioned the those counties contracting for HazMat services. Further explanation is provided below.

#### 5. Excess Workers Compensation Insurance:

The City purchases Excess Workers Compensation Insurance to cover losses that exceed the City's per occurrence self-insured retention. The FY10-11 self-insured retention for this policy increased from \$450,000 to \$550,000 because of one claim projected to exceed the retention and another that had incurred costs of more than half of the retention. Last year (FY11-12), the insurance carrier increased the self-insured retention from \$550,000 to \$750,000 due to two more reported claims projected to exceed the self-insured retention. However, Jester Insurance Services also negotiated a separate \$400,000 self-insured retention for those City employees working solely at WRA facilities.

For the FY12-13 renewal, Jester Insurance Services contacted eight insurance carriers for quotes. Three declined to quote. Of the five carriers that did quote, two quotes were not competitive. Of the remaining three, one required a single self-insured retention of \$1,250,000 and two allowed a split self-insured retention of \$500,000 per occurrence for City employees working solely at the WRA and \$1,000,000 per occurrence for all other City employees. The latter two quotes include the City's current carrier Safety National (\$293,385) and ACE (\$279,116). The ACE quote is a 21.2 percent increase over last year's quote of \$230,259 and the Safety National quote is a 27.4 percent increase over last year's quote. Safety National's quote is 5.1 percent greater than that of ACE.

Normally, with all things being considered equal, staff would recommend the less expensive option. However, staff believes that the difference between the two carriers experience with Excess Workers Compensation coverage and the recent increase in costly Workers Compensation claims incurred by the City, presents a difficult choice for the City. While conventional wisdom would side with accepting the lower quote, the willingness of Safety National to continue to cover the City having incurred large claims and with large claims pending speaks to its nine-year relationship with the City. The Excess Workers Compensation market has been shrinking over the past few years as larger, multi-line carriers have chosen to sell off this line of insurance. In contrast, Safety National is primarily an

Excess Workers Insurance carrier. Staff's concern is that if the City were to accept the ACE quote and continue to experience large claim losses, would ACE be as willing to continue to cover the City. Recognizing the recent large claim losses being incurred by the City, Safety National has included in its quote enhanced loss control services it considers to be unique to it as a carrier because of its experience and expertise in the area of occupational injury.

Jester Insurance Services recommends that the City accept the Safety National quote for Excess Workers Compensation Insurance. Because of this unique recommendation, Jester Insurance Services has provided a letter, which is attached, explaining its reasoning for this recommendation. Staff also recommends accepting Safety National's quote with the loss control services being offered. While it is important to hold down premium costs, it is also important to reduce the losses that drive the premiums. Staff will continually monitor the City's relationship with Safety National as it relates to the City's ongoing claims experience. If staff determines it to be in the City's best interests, staff will direct Jester Insurance Services to market this coverage again prior to its normal three-year renewal cycle.

This policy covers the indemnity (present and future lost wages) and medical expenses related to occupational injuries incurred by City employees. The policy only covers medical expenses 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 by the Municipal Fire & Police Retirement System of Iowa to which the City makes required annual financial contributions.

#### 6. Flood Insurance:

To cover the additional per occurrence Property Insurance flood deductible of \$500,000 required on the Animal Shelter, Birdland Aquatic Center, the Birdland Aquatic Center Pump House, City Hall, the Armory and Principal Park, the City purchases flood insurance through the National Flood Insurance Program (NFIP). The renewal quote for this year's renewal is \$28,833. This is an increase of \$3,889 or 15.6 percent compared to last year's renewal premium of \$24,944.

#### 7. Crime Insurance:

To cover potential losses due to employee theft, computer fraud, robbery, etc., the City purchases Crime Insurance. This policy provides a per occurrence limit of \$2,000,000 with a \$50,000 per occurrence deductible. The quote for this year's renewal is the same as last year, \$6,650. However, in order to continue to satisfy the Iowa Finance Authority's I-JOB grant funds requirement, the City has to purchase an additional \$8,000,000 in limits. The quote for this year's renewal is the same as last year's, \$11,379. The total renewal for this coverage is \$18,029, the same as last year.

Staff's Recommendation:

Staff recommends Council approval of the following Schedule of Insurance and insurance carriers:

Schedule of Insurance

	<u>FY 11-12</u>	<u>FY 12-13</u>	<u>DIFF+(-)</u>
1. Special Excess Liability Insurance *(STARR Indemnity)	\$ 185,600	\$ 185,500	\$ (100)
2. Auto Liability Insurance (EFs listed above) *(St. Paul/Travelers Insurance Co.)	\$ 48,091	\$ 42,472	\$ (5,619)
3. Property Insurance *(Travelers Insurance Co.)	\$ 367,431	\$ 385,957	\$ 18,526
4. Crime Insurance *(Travelers Insurance Co.)	\$ 18,029	\$ 18,029	\$ -0-
5. Flood Insurance *(National Flood Insurance Program)	\$ 24,944	\$ 28,833	\$ 3,889
6. HazMat/Mutual Aid *(American International Group – AIG)	\$ 26,764	\$ 33,564	\$ 6,800
7. Excess Workers Compensation Insurance *(Safety National Casualty Corp)	<u>\$ 230,259</u>	<u>\$ 293,384</u>	<u>\$ 63,125</u>
Total	\$ 901,118	\$ 987,739	\$ 86,621

**PREVIOUS COUNCIL ACTION(S):**

Date: June 27, 2011

Roll Call Number: [11-1118](#)

Action: [Annual](#) Insurance renewal for property and casualty insurance, July 1, 2011. ([Council Communication No. 11-401](#)). Moved by Hensley to adopt. Motion Carried 7-0.

**BOARD/COMMISSION ACTION(S): NONE**

**ANTICIPATED ACTIONS AND FUTURE COMMITMENTS:**

Annual Property and Casualty Insurance Renewal for July 1, 2013.

ATTACHMENT

**BUDGET TO PREMIUM COMPARISON**

<b>Description</b>	<b>Budgeted Premium FY12-13 Total</b>	<b>Quoted Premium FY12-13 Total</b>	<b>Difference</b>
<b><u>Allocated Premiums:</u></b>			
Parking Garages	\$ 62,768	\$ 77,557	\$ (14,789)
Solid Waste Collection	\$ 34,586	\$ 35,398	\$ (812)
Solid Waste Recycling	\$ 4,296	\$ 4,922	\$ (626)
WRA	\$ 17,357	\$ 30,323	\$ (12,966)
Sanitary Sewer	\$ 42,715	\$ 48,322	\$ (5,607)
Storm Sewer	\$ 43,371	\$ 51,771	\$ (8,400)
Housing Services	\$ 29,578	\$ 33,794	\$ (4,216)
Sub-total EF	\$ 234,671	\$ 282,087	\$ (47,416)
Sub-total GF	\$ 638,785	\$ 643,255	\$ (4,470)
Total	\$ 873,456	\$ 925,342	\$ (51,886)
<b><u>Unallocated GF Premiums</u></b>			
Flood (6 bldgs)	\$ 27,481	\$ 28,833	\$ (1,352)
Haz Mat (mutual aid)	\$ 18,445	\$ 33,564	\$ (15,119)
Total	\$ 45,926	\$ 62,397	\$ (16,471)
Total EF	\$ 234,671	\$ 282,087	\$ (47,416)
Total GF	\$ 684,711	\$ 705,652	\$ (20,941)
<b>GRAND TOTAL</b>	<b>\$ 919,382</b>	<b>\$ 987,739</b>	<b>\$ (68,357)</b>

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PHONE 515. 243. 2707  
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Date: June 15, 2012

To: City of Des Moines – Scott Sanders

From: Bob Jester and Janelle Friedman

RE: 2012/13 Excess Work Comp

Scott,

As you are aware, we marketed the Excess Work Comp coverage this year to eight carriers. Of those eight, two declined because they have recently discontinued writing Excess Work Comp as a line of business. This is a rapidly shrinking market in which there are only a handful of viable carriers.

We ended up with a total of five quotes, two of which were clearly the most viable based on retention levels and premium. Safety National (the incumbent) and Ace both offered a split retention of \$500,000 for the employees operating the WRA, and \$1,000,000 for all other City employees, including Police and Fire personnel.

Although the Ace quote is 5% lower than Safety National's renewal proposal, we recommend staying with Safety National for the following reasons:

1. The City has developed a long-term relationship with Safety National. Prior to placing the coverage with Safety National in 2003, we had a revolving door of carriers including Gen RE, Employers RE, and CNA. Ultimately, we had issues with each of these carriers from a claims handling standpoint.
2. Safety National is committed to the partnership. Since writing the coverage in 2003, we have had four claims that have exceeded the established SIR. While some carriers would have non-renewed the coverage, Safety National has remained flexible, working with us to establish SIR and premium levels that have kept the ongoing relationship viable.
3. Safety National is both familiar and comfortable with the unique exposures created by Chapters 410 and 411 of the IA Code. We continue to have difficulty with other carriers in this area and have had more than one carrier attempt to deny 411 disease claims after the fact.

4. Safety National's primary focus is Excess Work Comp coverage. Although they do write some multi-line (Auto and Liability) coverage for public entities, Excess Work Comp is by far their largest line of business. In contrast, Excess WC makes up a small portion of Ace's overall book of business. The concern would be that Ace could more easily exit the Excess Work Comp market, similar to the recent move by Chartis.
5. Safety National has specialized in Work Comp since 1942 and is the longest continual provider of Excess Work Comp in America. As a result, they are able to offer the most expertise in the areas of coverage, claims handling, and loss control service. Attached are flyers outlining three of the loss control programs that they would like to help the City of Des Moines implement in an attempt to prevent injuries and contain claim costs.

Both carriers are financially strong and stable. Ace has an A.M. Best rating of "A+" and an S&P rating of "AA-", while Safety National has a "A" rating under both A.M. Best and S&P.

Please let either of us know if you have any additional questions or concerns after your review.

Regards,



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