

June 20, 2023

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to purchase property insurance for City of Long Beach buildings, contents, and vehicles through the Alliant Insurance Services, Inc., Property Insurance Program (APIP), for a total premium not to exceed \$8,516,406, and purchase of earthquake (difference in conditions coverage), at a premium of \$198,300 with the Insurance Company of The West, for the period of July 1, 2023 to July 1, 2024. (Citywide)

DISCUSSION

The Human Resources Department requests City Council authorization to renew “all risk” property insurance and earthquake insurance coverage. The property market continues to harden with the market capacity being cut, there are fewer carriers willing to write the coverage and as a result premiums continue to increase. Carriers are being more conservative in deploying limits on any risk due to higher inflation and skyrocketing natural disaster losses. These combined effects are resulting in the hardest market cycle in a generation. Many of the catastrophic losses that were seen in 2017 through 2023 such as wildfires, hurricanes, hailstorms, and floods, continue to include higher than expected loss development. The Coronavirus pandemic has also added to the challenging market. The City of Long Beach’s (City) broker, Alliant Insurance Services, Inc. (Alliant), has approached the market with a comprehensive tactic seeking coverage in the current APIP program as well as outside of the program.

Property Insurance

Through its property insurance broker, Alliant, the City annually purchases “all risk” property insurance to cover perils such as fire, vandalism, and flood damage to City buildings, contents, and vehicles. This insurance provides coverage for all risks, subject to exclusions and limitations. The proposed property insurance policy provides replacement cost coverage with limits of up to \$1 Billion, subject to a \$1.5 million per occurrence deductible, and a limit of \$10 million aggregate in coverage for flood. The deductible will vary depending on the nature of the property insured. The policy also provides some limited cyber liability of \$2 million per member with an aggregate/\$45 million aggregate all members, \$100 million limit for boiler and machinery, and currently \$2 million aggregate per member/\$25 million aggregate all members for pollution coverage. In addition, coverage is included for the City’s vehicles at a replacement cost basis with deductibles starting at \$50,000 up to \$250,000 depending on the value of the vehicle.

The City's property insurance premium will not exceed \$8,516,406. and includes coverage for the Queen Mary. The APIP program saw roughly a 68 percent increase due to an increase in the value of City property, inflation, and several large property losses from 2017 to 2022. In 2020, the City saw three property loss claims totaling \$3,557,214 in damage. In addition, the City carries \$10 Million in High Hazard Flood Zones A & V which is driving some of the additional property costs. The excess coverage for the Queen Mary saw roughly a 100 percent increase due to its unique exposures and it requires support for the surplus lines marketplace which has seen its own challenges in this insurance market. The inflation value for the Queen Mary is \$372,954,488. The underwriters were able to obtain coverage up to the limit of \$2,000,000 from the London market for the Queen Mary. It is undetermined if the City can maintain this limit since there has been a significant loss in viable carrier options over the last few weeks. Based on the loss of over \$95,000,000 in capacity there could be a reduction in the overall limit of up to \$125,000,000. If the market continues to deteriorate the City may end up with less than the \$100,000,000 limit desired. Due to the condition of the market, staff are requesting the authority to continue to build limits and bind when available even if it is after the July 1, 2023 renewal date. Staff will return to City Council if any additional coverage is identified.

The total property insurance premium for Queen Mary with the primary and excess layers of coverage is approximately \$3,466,508. This portion of the premium will be paid from Tidelands Area Fund Group, anticipated to be supported to the extent possible from revenue generated from the Queen Mary, Special Events Park, and revenue generated from leases in the vicinity of the Queen Mary.

Earthquake Insurance

The City purchases earthquake coverage on a limited basis for the Convention Center, as earthquake coverage is not provided under the primary property insurance policy. The proposed earthquake insurance policy will provide \$10 million in aggregate coverage, excess of a \$5 million self-insured retention per location, at a premium of \$198,300 which is an increase of approximately 38 percent from the prior premium.

This matter was reviewed by Deputy City Attorney Atoy H. Wilson on May 26, 2023 and by Budget Management Officer Nader Kaamoush on June 5, 2023.

TIMING CONSIDERATIONS

City Council action is requested on June 20, 2023, to allow the City to officially bind insurance coverage by the renewal date of July 1, 2023.

FISCAL IMPACT

The total premiums for both the property and earthquake insurance policies will not exceed \$8,714,406 for the period of July 1, 2023, through July 1, 2024, compared to \$4,964,995 last year a roughly 43 percent increase. Premium costs are paid by the Insurance Fund Group in the Human Resources Department and will be recouped from all funds based upon the total insured value of property, with an estimated 16 percent to the General Fund. Total premium

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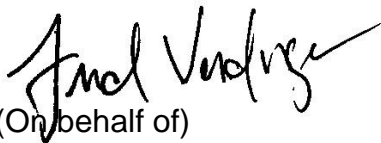
costs associated with the Queen Mary in the amount of \$3,466,509 is collected from the Tidelands Area Fund Group compared to \$2,566,362 last year a roughly 26 percent increase.

This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is no local job impact associated with this recommendation.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



(On behalf of)
JOE AMBROSINI
HUMAN RESOURCES DIRECTOR

APPROVED:



THOMAS B. MODICA
CITY MANAGER