

R-31

June 15, 2021

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager, or designee, to purchase, through Alliant Insurance Services, Inc., the following insurance policies: Excess Municipal Liability insurance, at a total premium not to exceed \$3,449,334 with multiple carriers including, but not limited to Gemini Insurance Berkley, Hallmark, London- Llyods, Allied World, and Navigators, for a 12-month period, from July 1, 2021, to July 1, 2022; a buy-down deductible of the Self-Insured Retention down to \$7.5 million from Safety National at a premium not-to-exceed \$1 million; Airport Liability insurance at a premium not to exceed \$106,000 from National Union Insurance Company; Aircraft Liability and Hull insurance for police helicopters at a premium not to exceed \$55,000 from National Union Insurance Company; Storage Tank Insurance at a premium not to exceed \$24,102 from Liberty Surplus Lines; Drone Coverage at a premium not to exceed \$7,185 from the National Aviation Liability Program, Marine Insurance from International Marine Underwriters (IMU) at a premium not to exceed \$331,597; and, Cyber Excess Coverage at a premium not to exceed \$142,196 from Beazley, for the period of July 1, 2021, to July 1, 2022, for all liability policies; and,

Increase appropriations in the Insurance Fund Group in the Human Resources Department by \$3,391,433, offset by funds available. (Citywide)

DISCUSSION

The City annually purchases excess municipal liability, airport liability, aircraft liability, and hull insurance, storage tank liability, drone insurance, marine insurance, and cyber excess insurance to cover exposures arising from City operations. This year's coverage is through the City's casualty broker of record, Alliant Insurance Services, Inc. (Alliant).

The insurance market operates as either a soft market or a hard market. In a soft market, there tends to be easier underwriting, increased capacity, lower premiums, and broader coverage. In contrast, a hard market sees tougher underwriting, reduced capacity, higher premiums, and restricted coverage. Currently, the status of the insurance market is hard, with the inverse of carriers, especially in the public entity, shrinking. The remaining public entity markets are helping to cover the losses, but with less supply and increased demand, the market, in general, is seeing higher rates. In addition to being in a hard market, several carriers have pulled out of public entity coverage in California and are non-renewing coverage within the state. The liability industry continues to see significant increases in plaintiff demands, jury verdicts, and high dollar

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claims. These three factors are depleting the liability market's surplus. This is causing increased retentions for exposures such as police professional and employment practices, which is resulting in double digit increases across the market. The City's casualty broker-of-record, Alliant, conducted full marketing for the excess layers. Alliant has gone to market for the best terms and pricing, including marketing to the Public Risk Innovation, Solutions, and Management (PRISM) pool and Alliant Municipal Liability (ANML) pool.

This year's policy for excess municipal liability insurance will provide coverage limits of \$30 million, in excess of a \$10 million self-insured retention for all City departments including the Police Department. Due to historical claims frequency and severity, the 2021 Excess Liability renewals have been challenging due to a continued hardening of the market, lack of carrier capacity, and increases. The City purchases \$32.5 million in limits, having secured a "deductible buy-down last year to help reduce our non-law enforcement retention from \$10 million to \$7.5 million. Coverage for eminent domain, medical malpractice, and pollution contamination will continue to be excluded from this policy. However, the policy does include \$32.5 million in coverage for unfair employment practices, employee benefits liability, and public officials' errors and omissions. The excess municipal liability premium price indication will not exceed \$3,449,334, an increase of approximately 25 percent from the expiring policy.

The City also purchases airport liability coverage. The City received a price indication from the current insurance carrier, National Union Fire Insurance, offering limits of \$300 million at a premium not to exceed \$106,000, an increase of approximately 14 percent from the expiring policy. This policy does not have a deductible and the City does not self-insure any of the airport risks covered under this policy. The policy includes extended coverage for international/domestic terrorist acts under the Terrorism Risk Insurance Act (TRIA). The policy also covers personal injury, malpractice, auto, and employer's liability.

The City maintains limits of \$50 million in aircraft liability and hull insurance also through National Union Fire Insurance, subject to a \$54,386 deductible when the helicopter is in motion on the Police Department's two Euro-Copter AS-350 helicopters. The renewal premium price indication will not exceed \$55,000, a 13 percent increase from the expiring policy.

The City is also recommending drone coverage through the National Aviation Liability Program, at a cost not to exceed \$7,185 to protect the City from liability related to drone operations.

The City operates vessels that service the coast, including the City's Port. The recommended purchase will provide liability coverage on the boats and includes Jones Act coverage, which is a U.S. federal statute that provides a means for crew members, who are injured as a result of negligence, to recover for damages caused by injury, with limits of \$10,000,000 subject to a \$2,500 deductible. In addition, actual physical damage coverage to the boats is also provided, subject to varying deductibles depending upon the value of each boat. The renewal premium price indication will not exceed \$331,597.

The City also purchases storage tank insurance at a premium not to exceed \$24,102 from Liberty Surplus Lines. This coverage includes corrective action due to underground storage tank releases as well as cleanup of pollutants due to aboveground storage tank releases.

The City is also recommending cyber excess coverage at a premium not to exceed \$142,196 from Beazley. This policy adds an extra \$3 million in coverage and includes a breach buy-up option. Nationally, cybercrime is projected to hit \$6 trillion annually in 2021, so it is expected to see upward pressure on rates and possible coverage restrictions. Public entities are among the largest target class for criminals. As a result of the frequent and severe losses the market has experienced in recent years, Long Beach will see an increase anywhere from 150 to 300 percent even though we have not had cybercrime claims.

This matter was reviewed by Principal Deputy City Attorney Gary J. Anderson and Revenue Management Officer Geraldine Alejo on May 26, 2021.

TIMING CONSIDERATIONS

City Council action is requested on June 15, 2021, to allow the City to bind insurance coverage by the policy renewal date of July 1, 2021.

FISCAL IMPACT

The total aggregate renewal cost will not exceed \$5,115,414 for the period of July 1, 2021 to July 1, 2022, compared to \$4,360,320 last year. Payments for renewal premiums are due upfront at the start of the term. Of the total contract amount, \$1,723,981 is currently appropriated in the Insurance Fund Group in the Human Resources Department. An appropriation increase is requested for the balance of \$3,391,433 in the Insurance Fund Group in the Human Resources Department, offset by funds available. Funding to support the cost of the excess municipal liability policy will be collected as revenues recouped through charges to departments and funds based upon departmental risk and claims experience. Specialized coverage will also be collected as revenue recouped from charges to each applicable department and fund. Specialized coverage includes Airport liability insurance funded by the Airport Fund Group in the Airport Department, aircraft liability insurance funded by the General Fund Group in the Police Department, and marine insurance funded by the General Fund Group is charged back to the user departments. 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,



JOE AMBROSINI
HUMAN RESOURCES DIRECTOR

APPROVED:



THOMAS B. MODICA
CITY MANAGER