

June 21, 2022

R-38

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 \$5,807,948, and purchase of earthquake insurance (difference in conditions coverage), at a premium of \$144,000 with the Insurance Company of The West, for the period of July 1, 2022 to July 1, 2023. (Citywide)

DISCUSSION

The Human Resources Department requests City Council authorization to renew “all risk” property insurance and earthquake insurance coverage. As the property market continues to harden with the market capacity being cut, there are fewer carriers willing to write the coverage and premiums have increased. Carriers are being more conservative in deploying limits on any risk. The commercial property market is continuing to go through a market “correction” because losses are significantly eroding their profits. Many of the catastrophic losses that were seen in 2017 through 2022 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. In addition to an already difficult market, the City of Long Beach (City) has a higher-than-average property five-year loss ratio. As a result of the loss ratio, the City is expected to receive up to a 25 percent loss rate increase. The City’s 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.

Property Insurance

Through its property insurance broker Alliant, the City annually purchases “all risk” property insurance to cover perils such as fire, vandalism, and wind 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 floods. 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 aggregate and \$40 million aggregate for all members, \$100 million limit for boiler and machinery, and currently \$2 million aggregate per member and \$25 million aggregate for all members for pollution coverage. In addition, coverage is included for our 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 property insurance premium will not exceed \$5,807,948 and includes coverage for the Queen Mary. The APIP program saw a roughly 30 percent increase due to an increase in the value of City property, inflation, and several large property losses from 2017 to 2021. In 2020, the City saw three property loss claims totaling \$3,557,214 in damage. The excess coverage for the Queen Mary saw roughly a 55 percent increase primarily due to the increase in recent property appraisal which brought the total insured value (TIV) up to \$353,845,075. Currently, the Queen Mary is insured for a total of \$200,000,000. There is a large difference between the replacement cost value and the current limit purchased. As a result, we are asking for authority to continue to build limits and bind what becomes available even if it is after the July 1, 2022 renewal date.

The total property insurance premium for Queen Mary with the primary and excess layers of coverage is approximately \$2,566,362. This portion of the premium will be paid from Tidelands Area Fund Group, supported to the extent possible by 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, in excess of a \$5 million self-insured retention per location, at a premium of \$144,000, a decrease of approximately 6 percent from the prior premium.

This matter was reviewed by Assistant City Attorney Gary J. Anderson on June 2, 2022, Business Services Bureau Manager Tara Mortensen on May 27, 2022, and Budget Management Officer Nader Kaamoush on June 6, 2022.

TIMING CONSIDERATIONS

City Council action is requested on June 21, 2022, to allow the City to officially bind insurance coverage by the renewal date of July 1, 2022.

FISCAL IMPACT

The total premiums for both the property and earthquake insurance policies will not exceed \$5,951,948 for the period of July 1, 2022, through July 1, 2023, and is charged to the Insurance Fund Group in the Human Resources Department. The cost for property and earthquake insurance is recouped from all funds based upon the total insured value of property, with an estimated 13 percent to the General Fund Group. Total premium costs associated with the Queen Mary in the amount of \$2,566,362 is collected from the Tidelands Area Fund Group supported to the extent possible by revenue generated from the Queen Mary, Special Events Park, and revenue generated from leases in the vicinity of the Queen Mary. Any cost that may not be covered by the Tidelands Area Fund Group may require additional support by a transfer from the Tidelands Operating Fund Group at the fiscal year end. 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.

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SUGGESTED ACTION

Approve recommendation.

Respectfully submitted,



JOE AMBROSINI

HUMAN RESOURCES DIRECTOR

APPROVED:



THOMAS B. MODICA
CITY MANAGER