



Legislation Text

File #: 21-0559, **Version:** 1

Recommendation to authorize City Manager, or designee, to purchase property insurance for City buildings, contents, and vehicles through the Alliant Insurance Services, Inc., Property Insurance Program (APIP), for a total premium not to exceed \$3,112,389, and purchase of Earthquake (Difference in Conditions Coverage), at a premium of \$164,151 with the Insurance Company of The West, for the period of July 1, 2021 to July 1, 2022. (Citywide)

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 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 2021 such as wildfires, hurricanes, hailstorms, and floods, continue to include higher than expected loss development. The Coronavirus pandemic and civil unrest activities have also added to the challenging market. In addition to an already difficult market, the 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 55 percent loss rate increase in addition to an increase in the deductible. 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. This includes marketing all the package coverages that are currently part of APIP (flood, auto, pollution, and cyber) as well as the primary layer of coverage for the Queen Mary.

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 \$800 million, 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 aggregate/\$25 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 our vehicles at a replacement cost basis with deductibles starting at \$25,000 up to \$250,000 depending on the value of the vehicle.

The City property insurance premium will not exceed \$3,112,389 and includes \$370,553 for the Queen Mary primary layer of coverage. The remaining amount of \$2,741,836 for the City's portion of the new premium represents an increase of approximately 56 percent from the prior premium, due to an increase in the value of City property, inflation, and several large property losses from 2017 to present. In 2020, the City saw three property loss claims totaling \$3,557,214 in damage. These losses are what contributed to the increase in the deductible amount from \$50,000 to \$1.5 million. The insurance carriers feel that at this higher deductible, it puts them above the "burn layer" and essentially makes the City self-insure for property damage up to \$1.5 million.

The property insurance premium includes coverage for the Queen Mary, which should be paid by the Queen Mary lessee, in accordance with the requirements of the Queen Mary Lease. The primary layer of coverage on the Queen Mary, as required by the master lease is approximately \$370,553. In addition, the premium for several excess layers of coverage is estimated at \$1,012,854. The total property insurance premium for Queen Mary with the primary and excess layers of coverage is approximately \$1,383,407. In the event where the lessee fails to make this payment as required by the Queen Mary Lease, the City will need to make this payment from funds that will need to be identified.

The Risk Management Bureau is strategizing potential initiatives to reduce property damage exposure in the future. Such initiatives could include the creation of an achievable preventative maintenance schedule for major infrastructure. Most of the City's historical storm damage was due to deteriorated roof systems, poor waterproofing, insufficient water drainage systems, and window system maintenance. Additionally, the City could provide an educational opportunity to inform departments of the risks of water intrusion, how to identify, and what to do. Maintaining annual facility inspections conducted by Risk Management could help identify critical structures/ hazards that may need immediate attention to reduce the risk of property damage or in some cases liability. Continuing to investigate incidents and provide recommendations to prevent the same or similar incident from occurring again will help bring more awareness to problems. Implementing these potential initiatives could prevent or minimize the damage of a future similar incident. All of these recommendations could reduce the City's property loss exposures resulting in the most favorable insurance premiums and coverages in the future.

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 \$164,151, an increase of approximately 10 percent from the prior premium.

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

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

The total premiums for both the property and earthquake insurance policies will not exceed \$3,276,540 for the period of July 1, 2021, through July 1, 2022. Sufficient appropriation is budgeted in 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 43 percent to the General Fund. Total premium costs associated with the Queen Mary in the amount of \$1,383,407, with the \$370,553 included in this recommendation, should be paid directly and in full by the Queen Mary lessee. In the event the lessee fails to make this payment as required by the Queen Mary Lease, the City will need to make this payment from funds that have not yet been identified. 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.

Approve recommendation.

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APPROVED:

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