



Agenda Report

June 18, 2018

TO: Honorable Mayor and City Council

FROM: City Attorney/City Prosecutor's Department/Liability & Claims Division

SUBJECT: AUTHORIZATION AND APPROVAL TO RENEW PROPERTY AND CASUALTY INSURANCE FOR THE CITY OF PASADENA FOR FISCAL YEAR 2019

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15378; and
2. Authorize City staff to place and bind the City's Property and Casualty Insurance coverages outlined in this report effective July 1, 2018, with the total amount not to exceed \$1,998,395, for all premiums, surcharges, taxes, and fees; and
3. Grant an exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance, Pasadena Municipal code Chapter 4.08, pursuant to Section 4.08.049(B) contracts which the City's best interests are served. The proposed insurance coverages are exempt from the competitive bidding process pursuant to the City Charter Section 1002 (F), contracts for professional or unique services.

EXECUTIVE SUMMARY:

The City of Pasadena purchases property and casualty insurance to protect the City and its operating companies against catastrophic loss and to comply with various bond covenants and agreements. The City's insurance broker, Arthur J. Gallagher & Company ("Gallagher") assists the City and its various operating companies to access insurance markets and manage the cost and coverage of the insurance program.

Overall the premium for the citywide insurance program has decreased by over 30% over the prior year. The biggest drop in premium was on the City's Property Insurance for the Power Plant and the balance for owned property which went down from a combined total of \$1,701,551 to \$869,000 decreasing by nearly 50%.

There are a total of twenty (20) renewal policies recommended for FY 2019, separated into nine (9) different coverage groups, and discussed below. Please note that an allocation of 3.2% (\$59,485) for surcharges, taxes, and fees is included in the total \$1,998,395.

The City's broker will continue to market these coverages until July 1, 2018 to ensure the City of Pasadena obtains the best rates with the broadest coverage.

BACKGROUND:

Gallagher has worked with City staff in various departments to determine the City's exposure and total insurable values to purchase an appropriate level of coverage. Every year, Gallagher goes to market on behalf of the City obtaining multiple options for our consideration of a broad range of coverage from highly rated carriers. All recommendations for insurance coverage and premium indications are included in the City's Recommended FY 2019 Budget. As the City's insurance broker, premiums for all 20 renewal policies will be paid to Gallagher for Gallagher to distribute to the various insurance carriers through which coverage is purchased.

INSURANCE RENEWAL

The chart below summarizes the recommended insurance renewals and new, enhanced coverages. An explanation of the various coverage groups is included in the following section.

City of Pasadena Citywide Insurance Program At-A-Glance

Coverage	Proposed Premium	Existing Premium	Difference	Policy Limit	Deductible / SIR
Crime Protection Policy for Public Entities	\$40,007	\$40,007	0.00%	\$5,000,000/ \$1,000,000 (for Faithful Performance of Duty)	\$100,000
General Liability	\$229,492	\$225,824	1.62%	\$10,000,000	\$3,000,000
Excess Liability	\$122,850	\$117,000	5.00%	\$15,000,000	\$13,000,000
Pollution Liability	\$23,678	\$23,678	0.00%	\$1,000,000	\$50,000
Underground Storage Tanks	\$13,044	\$12,423	5.00%	\$1,000,000	\$5,000
Healthcare Professional Liability: Medical Malpractice	\$27,824	\$29,320	-5.10%	\$10,000,000	\$1,000,000
Heliport and Aircraft (including LA Impact Aircraft)	\$63,876	\$63,876	0.00%	\$50,000,000	\$0 Not In Motion / 1.5% In Motion
Property: Power Plant (Recommended)	\$409,000	\$1,374,070	-70.23%	\$130,000,000	\$750,000 all other property; \$1,500,000 machinery breakdown
Equipment Breakdown	\$17,215	\$21,575	-20.21%	\$250,000,000	\$25,000 property damage
Property: City Wide	\$460,000	\$327,479	40.47%	\$250,000,000	\$25,000 any other covered loss; \$25,000 Earthquake Sprinkler Leakage; \$100,000 Flood
Terrorism – Property and Business Interruption	\$12,500	\$12,500	0.00%	\$10,000,000	\$500,000
Terrorism – Nuclear, Chemical, Biological & Radiological	\$52,500	\$50,000	5.00%	\$10,000,000; \$25,000 excess	\$50,000 Power Plant at 85 E. State Street; \$25,000 all other properties
Automobile Physical Damage	\$58,887	\$63,500	-7.26%	\$10,000,000 / \$5,000,000	\$250,000
Cyber	\$25,665	\$14,885	72.42%	\$2,000,000	\$25,000
Excess Worker's Compensation	\$246,562	\$246,951	-0.16%	Statutory	\$5,000,000
Foothill Air Support Team, Liability and D&O	\$10,250	\$10,250	0.00%	\$1,000,000 D&O / \$1,000,000 Employment Practices	\$20,000 D&O / \$25,000 Employment Practices
Special Liability Policy (SLIP)					
Pasadena Center Operating Company (PCOC)	\$31,523	\$29,829	5.68%	\$1,000,000	\$50,000, except public officials at \$5,000
Foothill Workforce Development Board (FWIB)	\$5,687	\$5,730	-0.75%	\$1,000,000	\$50,000, except public officials at \$5,000
Old Pasadena Management District (OPMD)	\$8,350	\$8,137	2.62%	\$1,000,000	\$50,000, except public officials at \$5,000
SUB-TOTAL	1,858,910	2,677,034	-30.56%		
Broker Fee	\$80,000	\$80,000	0.00%		
TOTAL PREMIUM (not including surcharges/taxes/fees)	\$ 1,938,910	2,757,034	-29.67%		

DISCUSSION OF COVERAGE (BY GROUPS)

❖ Group 1

Crime: The proposed renewal policy has no change in premium or in coverage. Coverage provides protection to the City against theft of City monies and securities by employees of the City and for the faithful performance of duties, also known as Fidelity and Crime Policy. Policy deductible remains at \$100,000 with limits of \$5,000,000. Only for Faithful Performance of Duty, the policy limit is \$1,000,000 with the same deductible of \$100,000. (Please note that in last year's agenda report the listed \$50,000 deductible was in error.) The City collected \$5 Million on the crime policy during fiscal year 2016 as a result of the embezzlement.

❖ Group 2

Liability and Excess Liability: Premiums for the proposed renewal policies have increased very slightly over the last year. The City's liability program was established to fund third party liability exposures including General Liability, Automobile Liability, Law Enforcement Liability, Public Officials Liability, and Employment Practices Liability. These policies afford coverage to the City, its various Operating Companies, Successor Agencies, Commissions, etc., against third party liability claims for property damage and/or bodily injury. First layer of policy coverage, in the amount of \$10,000,000 per occurrence and in the aggregate, is triggered after the City's \$3,000,000 self-insured retention is exhausted. The policy contains sub-limits for various coverages. Excess liability policy provides an additional \$15,000,000 limit on top of the \$13,000,000 underlying coverage. Total liability coverage purchased by the City is \$25,000,000.

Terrorism Risk Insurance Act (TRIA) coverage is added to the liability policies for a separate premium. TRIA is a United States federal law in effect since November 26, 2002 and currently effective through December 31, 2020. TRIA created a federal "backstop" for insurance claims related to acts of terrorism and provided insureds with the right to purchase insurance coverage for losses arising out of an act of terrorism defined as "an act certified by the Secretary of the Treasury (The Secretary) (i) to be an act of terrorism, (ii) to be a violent act or an act that is dangerous to (A) human life, (B) property, or (C) infrastructure; (iii) to have resulted in damage and (iv) to have been committed on behalf of a foreign person or agent as part of an effort to coerce the civilian population of the United States or to influence the policy or conduct of the United States government by The Secretary's decision to certify or not to certify an event as an act of terrorism and thus allow it to be covered by this law is final and not subject to review. There is a \$100 billion annual cap on all losses resulting from acts of terrorism above which no coverage will be provided.

❖ Group 3

Pollution Liability: There has been no increase in premium over last year. Coverage under this policy provides environmental protection to the City for the discovery of pollution related claims, arising from covered operations at covered locations, resulting from City operations for which limited or no coverage is provided under the liability policies. The policy has a \$1,000,000 per pollution condition limit and a \$1,000,000 aggregate limit, with a \$50,000 self-insured retention. The policy has a retroactive date of July 1, 2013 which means that the policy will cover a pollution related claim discovered anytime from July 1, 2013 to the current policy period. Pollution Liability includes coverage for site decontamination and remediation. Coverage extends to bodily injury claims related to asbestos. In addition, the insurance carrier provides "value-added services" to include access to their proprietary system for reporting an incident which allows for quick dispatching, 24/7, of clean-up crews, mitigating potential liabilities.

Underground Storage Tank Liability: This policy may see an almost 5% increase in the premium based on the inflation rate. Final premium is pending as all markets have not offered their quotes and recommendation cannot be made at this time. A separate proposed renewal policy will provide protection to the City for specific perils of loss associated with Underground Storage Tanks (UST). The City maintains ten USTs located throughout the City to fuel City vehicles including police and fire trucks, aircraft, City sanitation trucks and street sweepers. The UST policy provides coverage limits of \$1,000,000 per storage tank, with an aggregate of \$1,000,000, plus \$1,000,000 for legal defense expenses per storage tank incident. The policy deductible is \$5,000.

❖ Group 4

Healthcare Professional Liability Medical Malpractice: The proposed renewal policy has a decrease in premium, by 5% (from \$29,320 to \$27, 824,) with no changes in coverage. The Policy limit remains \$10,000,000 and deductible remains \$1,000,000. The decrease in policy premium is due to credits applied by the insurance carrier based on two factors: 1) The City removed a number of providers from their roster, due to cancellation of certain programs, effective July 1, 2016; 2) There have been no claims made against the providers removed from the policy for which the insurance carrier provides tail coverage. Each year The City gets farther away from the July 1, 2016 termination date, the insurance carrier will apply larger credits to renewal premium to a minimum premium of \$25,000.

The City operates the Pasadena Public Health Department (PPHD). PPHD conducts various clinical operations including Drug & Alcohol

Treatment/Tuberculosis Clinic and a Communicable Disease Clinic, providing immunizations and educational programs on a handful of subjects. Although PPHD doctors do not provide medical services to patients, they do evaluate patients and prescribe medication and recommend treatment plans. Currently PPHD employs one doctor acting as the Health Officer and two independent contractors. Medical Malpractice insurance affords coverage for errors and omissions of the medical providers and covers the facility.

❖ Group 5

Heliport and Aircraft, including LA Impact Aircraft: There has been no change in premium or coverage compared to last year. This coverage provides protection to the City for liability arising out of its public safety/police helicopter operations and for the City's leadership role on the LA Impact Team. The policy carries a per occurrence limit of \$50,000,000 for Aircraft Hull and Liability, with an aggregate of \$50,000,000. Coverages include hull physical damage for the scheduled aircraft, damage done by the City's aircraft to someone else's hangar, and emergency landing. This policy also covers liability resulting from an error by pilot. In addition, the policy provides coverage for Airport Liability with a \$50,000,000 per occurrence limit. This coverage complies with the City's contract with Burbank airport. The annual premium is apportioned between the City and LA Impact since the policy carries hull coverage for LA Impact aircraft.

❖ Group 6

Property: Power Plant:

Being loss free for several years after having two significant fire losses from the turbines that blew at the Power Plant destroying two major units, Gallagher was successful in negotiating a combined program for the Power Plant along with the remainder of the City owned properties.

The Power Plant's property insurance was extracted from the policy for the balance of the City's property insurance about 5 years ago to avoid being penalized on a portion of exposures that were not part of the major fire losses. Exposures associated with the Power Plant are considered high risk/exposures, as losses at such facilities when they occur tend to be total losses, unlike losses to other schedule City owned structures.

Gallagher was able to find a new market partner, Zurich, to provide an extremely aggressive quote offering the same level of broad coverage at a significant reduction for the power plant. As a result the premium for the Power Plant policy decreased significantly but the premium for Property Insurance for the rest of the City owned properties increased. However, when combined, the total decrease in the premium is almost 50% as detailed below:

Property: Power Plant: The proposed renewal for the Power Plant policy has decreased drastically by over 70% (from \$1,374,070 to \$409,000). The program provides property and equipment breakdown coverage for City's power plant facilities and machinery. The policy affords coverage for risks of loss or damage, including boiler explosion, machinery breakdown for City's power plant property. Policy limits remain at \$130,000,000, with deductibles of \$750,000 per occurrence for all other property damage, and \$1,500,000 per occurrence for machinery breakdown of GT1, GT3, and GT5.

Property: Citywide: The proposed renewal policy premium has increased by 40% compared to last year (from \$327,479 to \$460,000). This increase is offset by the \$832,000 reduction negotiated by Gallagher (referenced above) which insures both the Power Plant and all other City owned properties with the same carrier. This Property policy is purchased by the City for the balance of City owned and leased property, as scheduled. This policy includes coverage for fine arts, valuable papers, business personal property, business income and extended business income or rental value. Policy limits remain \$250,000,000 and deductible remains \$25,000 for Earthquake Sprinkler Leakage, \$100,000 for Flood and \$25,000 for any other covered loss.

Equipment Breakdown: The proposed renewal policy contains a premium decrease of over 20% compared to last year (from \$21,575 to \$17,215). A separate Equipment Breakdown policy, also known as Boiler and Machinery policy, is purchased by the City, to provide coverage for all other boiler and machinery property owned by the City and located outside of the power plant. The policy limit remains at \$250,000,000 with a \$25,000 property damage deductible.

Terrorism with Chemical, Biological or Biochemical, Radiological or Nuclear (CBRN): This policy may see an almost 5% increase in the premium based on the inflation rate. Final premium is pending as all markets have not offered their quotes and recommendation cannot be made at this time. Under the City's renewal property program, in addition to the City's coverage for damage to property, the proposed terrorism coverage will provide protection covering terrorism acts for citywide property to include the Rose Bowl and Power Plant. This policy affords coverage to include the actual release, discharge or dispersal of Chemical, Biological or Biochemical, Radiological or Nuclear Material (CBRN). This broader coverage assists after a CBRN event with removal, disposal, treatment, demolition or destruction of scheduled property and removal of debris, decontamination, in the alternative, the policy will indemnify the City for rebuilding costs. Policy limits remain at \$10,000,000 with a \$25,000 deductible for all other properties and a \$50,000 deductible for the Power Plant at 85 East State Street.

Automobile Physical Damage: The proposed renewal premium decreased over 7% in premium over the previous year (from \$63,500 to \$58,887). Policy will

afford coverage for scheduled automobiles and mobile equipment owned by the City, at replacement cost, for covered perils including earth movement and flood. The policy limit is \$10,000,000 per occurrence, with a sub-limit of \$5,000,000 for earth movement, flood and windstorm, and a \$25,000 per loss deductible. Premium for this policy continues to decrease year over year. Last year saw a significant 17% decrease.

❖ Group 7

Cyber Policy: With the rise of cybercrime, we propose to increase the Cyber Insurance limit from \$1,000,000 to \$2,000,000 with a lower deductible of \$25,000. The proposed renewal premium increases by \$10,780 compared to the previous year (from \$14,885 to \$25,665). The policy provides protection related to claims arising out of technology and miscellaneous, professional services, technology product, network security, privacy and media communications. This coverage includes breach of information contained within City databases, i.e., employee data, resident data, credit card information, etc., by City employees or a third-party. In addition, the City maintains a fiber optic network loop throughout the City with contractual connections with NASA/JPL, Caltech and Raytheon. The City's database is further vulnerable by employee use of laptops, tablet and smartphones. The policy covers data breach response, crisis management, extortion threats and data recovery.

❖ Group 8

Special Liability Insurance Policies (SLIP): Policies provide liability coverage to the Pasadena Center Operating Company (PCOC), the Foothill Workforce Development Board (FWDB), and the Old Pasadena Management District (OPMD). On two of these policies there is a slight increase in the premium and for one of them a very minor decrease in the premium. PCOC: 5.68% increase (from \$29,829 to \$31,523), FWDB: 0.75% decrease (from \$5,730 to \$5,687), OPMD: 2.62% increase (from \$8,137 to \$8,350). Policy limits remain at \$1,000,000, with a \$50,000 deductible, in line with previous policies.

❖ Group 9

Excess Worker's Compensation: Premium for this policy decreased insignificantly by 0.16% (from \$246,951 to \$246,562). The City currently self-funds all Workers' Compensation losses. Excess Workers' Compensation policy has \$5,000,000 self-insured retention to provide protection against a major catastrophe, including terrorist attack(s), causing injuries to multiple employees, (such as, the December 2, 2015 terrorist attacks at the San Bernardino Government Center). The City has a number of locations housing large concentrations of employees outside of City Hall. This policy will stop the City's

loss at \$5,000,000 per incident and continue to pay the statutory Workers' Compensation benefits.


COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic planning goal to maintain fiscal responsibility and stability and to protect the City's infrastructure and collateral for bond purposes.

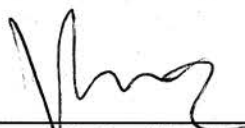
FISCAL IMPACT:

In accordance with the table provided in the Insurance Renewal section of this report, the cost of adopting all of the proposed actions is approximately \$1,998,395, including additional surcharges, taxes and fees, for insurance renewal. Funding for the recommended action is included in the City's Recommended FY 2019 Budget in the various departmental budgets.


Respectfully submitted,


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