



Agenda Report

June 17, 2019

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 2020

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, 2019, with the total amount not to exceed \$2,110,497, 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 increased by 14% over the prior year. However, our FY18/19 premium had decreased by over 30% from FY17/18.

There are a total of fourteen (14) renewal policies recommended for FY 2020, separated into nine (9) different coverage groups, and discussed below.

The City's broker will continue to market these coverages until July 1, 2019 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 2020 Budget. As the City's insurance broker, premiums for all 14 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 \$25,000 for Faithful Performance of Duty
General Liability	\$344,236	\$229,492	50%	\$10,000,000	\$3,000,000
Excess Liability	\$186,750	\$124,500	50%	\$15,000,000	\$13,000,000
Pollution Liability/Underground Storage Tanks	\$39,353	\$37,729	4.13%	\$2,000,000	\$50,000 (\$25,000 Per Storage Tank incident)
Healthcare Professional Liability: Medical Malpractice	\$26,872	\$27,824	-3.54%	\$10,000,000	\$1,000,000
Heliport and Aircraft (including LA Impact Aircraft)	\$88,945	\$72,806	22.17%	\$50,000,000	\$0 Not In Motion / 1.5% In Motion
Property: Power Plant	\$429,500	\$409,000	4.77%	\$250,000,000	\$750,000 all other property;\$1,500,000 machinery breakdown
Property: City Wide	\$468,859	\$460,000	1.89%	\$250,000,000	\$25,000 any other covered loss; \$100,000 Flood
Terrorism – Property and Business Interruption	\$12,900	\$12,900	0.00%	\$10,000,000	\$25,000
Terrorism – Chemical, Biological, Radiological & Nuclear	\$48,088	\$48,088	0.00%	\$10,000,000	\$50,000 Power Plant at 85 E. State Street; \$25,000 all other properties
Automobile Physical Damage	\$68,967	\$60,771	11.88%	\$10,000,000	\$25,000
Cyber	\$25,330	\$24,004	6%	\$3,000,000	\$50,000
Excess Worker's Compensation/Employer's Liability	\$270,000	\$252,562	7%	Statutory/\$1,000,000	\$4,000,000
Foothill Air Support Team, Liability and D&O	\$11,800	\$10,500	12.38%	\$1,000,000 D&O	\$20,000 D&O
				\$1,000,000 Employment Practices	\$25,000 Employment Practices
Special Liability Policies					
Pasadena Center Operating Company (PCOC)	\$32,869	\$31,523	4.27%	\$3,000,000	NIL
Foothill Workforce Development Board (FWIB)	\$6,383	\$5,687	12.24%	\$3,000,000	NIL
Old Pasadena Management District (OPMD)	\$9,638	\$8,350	15.43%	\$3,000,000	NIL
TOTAL PREMIUM (including surcharges/taxes/fees)	\$ 2,110,497	\$ 1,855,742	14%		

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.

❖ Group 2

Liability and Excess Liability: Premium estimated for the proposed renewal policies have increased over the last year due to a combination of loss history and the overall hardening of the insurance marketplace. 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. Premiums for our program are currently estimated and the terms may be subject to change.

❖ Group 3

Pollution Liability/Underground Storage Tank Liability: The premium increased by 4% for this coverage. 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 also covers City's Underground Storage Tanks (UST). The City maintains 13 USTs located throughout the City to fuel City vehicles including police and fire vehicles, aircraft, City sanitation trucks and street sweepers.

The policy has a \$2,000,000 per pollution condition limit and a \$3,000,000 aggregate limit, with a \$50,000 self-insured retention. Storage Tank Incident Limit of Liability provides coverage limits of \$1,000,000 each claim, with an aggregate of \$2,000,000. The deductible is \$25,000. 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.

❖ Group 4

Healthcare Professional Liability Medical Malpractice: The proposed renewal policy has a decrease in premium, by 3.5% with no changes in coverage. The Policy limit remains \$10,000,000 and deductible remains \$1,000,000.

The City operates the Pasadena Public Health Department (PPHD). PPHD conducts various outpatient clinical operations including substance use treatment, tuberculosis diagnosis and treatment, and immunization. PPHD clinicians (doctors, nurses, social workers, and counselors) evaluate patients, order laboratory tests, prescribe medication, recommend treatment plans, and provide medical treatment. 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 an increase of 18% for this coverage, in part, due to the market experiencing a loss ratio of approximately 200% in general aviation. The City also added a newer aircraft and removed an older one from the policy. 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: The proposed renewal for the Power Plant policy has increased by almost 5%. 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 \$250,000,000, 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 almost 2% compared to last year. 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 at \$250,000,000 and deductible remains at \$25,000, except for Flood, which is \$100,000.

Terrorism - Chemical, Biological or Biochemical, Radiological or Nuclear (CBRN): The premium for this policy remains the same. 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.

Terrorism (Property and Business Interruption): The premium for this policy remains the same and covers City's properties and reimbursement for Business Interruption. Policy limits remain at \$10,000,000 with a \$25,000 deductible

Automobile Physical Damage: The proposed renewal increased by about 12% in premium over the previous year. This is mainly due to the addition of newly purchased vehicles. 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.

❖ Group 7

Cyber Policy: The proposed renewal premium increased slightly by 6% compared to the previous year, this is due to increasing our coverage limit. The policy limit is now \$3,000,000 per occurrence with a \$50,000 per loss deductible. The policy provides protection related to claims arising out of technology and miscellaneous, professional services, technology product, network security, privacy and media communications. An added benefit includes the ability for the City to use our own choice of providers and vendors in the event of a breach subject to \$2,000,000 limit and this is first-dollar coverage. 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: Policies provide liability coverage to the Pasadena Center Operating Company (PCOC), the Foothill Workforce Development Board (FWDB), and the Old Pasadena Management District (OPMD). These policies have a slight increase in the premium from expiring. PCOC: 4.27% increase (from \$31,523 to \$32,869), FWDB: 12.24% increase (from \$5,687 to \$6,383), OPMD: 15.43% increase (from \$8,350 to \$9,638). Policy limits remain at \$3,000,000, with no deductible, in line with previous year.

❖ Group 9

Excess Worker's Compensation: Premium for this policy has increased by 7%. This is due to a reduction in our self-insured retention from \$5,000,000 to \$4,000,000. The City currently self-funds all Workers' Compensation losses. Excess Workers' Compensation policy provides coverage above of the self-insured retention to protect 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 \$4,000,000 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 \$2,110,497 including additional surcharges, taxes and fees, for insurance renewal. Funding for the recommended action is included in the City's Recommended FY 2020 Budget in the various departmental budgets.

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 \$2,110,497 including additional surcharges, taxes and fees, for insurance renewal. Funding for the recommended action is included in the City's Recommended FY 2020 Budget in the various departmental budgets.

Respectfully submitted,


Michele Beal Bagneris
City Attorney/City Prosecutor

Prepared by:


Arlene Gallardo
Risk & Insurance Administrator

Concurrence:


STEVE MERMELL
City Manager