

Agenda Report

DATE: June 7, 1999
TO: CITY COUNCIL
FROM: CITY MANAGER
SUBJECT: Purchase of Property Insurance

RECOMMENDATIONS:

It is recommended that the City Council authorize the City Manager to purchase Property Insurance under a joint purchase program established by the City's Broker of Record, Robert F. Driver Company, Inc., at an annual premium not to exceed \$281,116 for the term, May 15, 1999 to May 15, 2000.

BACKGROUND:

The City purchases insurance under the City's Broker of Record contract with Robert F. Driver Company, Inc. The City purchases "All Risk" property insurance on all City properties and Difference in Conditions insurance (earthquake and flood) protection at specific locations. Historically, City Council policy has limited the purchase of earthquake insurance to those properties where bond indentures require it. (Bond indentures require earthquake coverage, but only if available at reasonable rates.) The current standard deductible is \$25,000 for most perils, but the recommended renewal reduces the standard deductible to \$5,000. The deductible varies to: 5% for earthquake; \$100,000 for vehicle collision; and up to \$100,000 for certain electrical apparatus. Policy limits remain at \$1,000,000,000. Various sub-limits apply (including earthquake insurance at \$7,500,000).

Current coverage was marketed to insurance underwriters under a joint purchase group program established by the City's broker, which combined the purchasing power of more than one hundred and fifty California public agencies to provide rates below those available to individual members. The group is called the Public

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Entity Property Insurance Program (PEPIP). The group is expanded under the new marketing strategy to include municipalities from Alaska, Montana, Illinois, Texas and Washington, and anticipates addition of property of municipalities from other states during the policy year. The expansion provides size and geographical diversity which attracts underwriters with capacity to take risk without dependence on massive amounts of reinsurance. Carriers are rated at least A-:VII by Best's Key Rating Guide; there are 21 different underwriters from Europe, Bermuda, and the United States participating in coverage of \$60 billion of municipal property value. Claims will be processed through an independent claims adjusting company, Maxon & Young, with an adjuster working from our Broker's office in Newport Beach.

The policy form is being changed from past years. It will include all coverage we had last year, and will be improved by enhancements which are not yet in final form. Y2K exposure is included on a "named peril" basis, but may be broadened during final negotiations if underwriters are convinced that municipalities have made conscientious efforts to prevent Y2K disruptions.

There is no sharing of risk under this program, and each PEPIP Member is protected to the same extent as if separate policies had been written.

Earthquake capacity is available at higher limits under the new marketing structure, with companies that will be able to pay claims in case of a large disaster. Initial information indicates that earthquake insurance coverage will be available to comply with proposed FEMA-imposed requirements: the language is still to be negotiated. If there is a coordination of benefits, there is a likelihood that claims processing will be slow. The price and terms of the extra capacity does not justify reversal of prior historical City Council policy to forego purchase of earthquake coverage except where bonds demand such purchase. The bonds that require purchase of earthquake coverage are on: 1) The Convention Center; 2) Jackie Robinson Park and Center; 3) Villa Parke Community Center; 4) Fire Stations 31 and 33; 5) Holly Street Parking Structure; 6) Delacey Parking Structure; 7) Plaza Las Fuentes; and, 8) Central Library. The properties have a Real Property insured value of \$115,188,139, a personal property insured value of \$3,448,748, and a Business Interruption/Rents insured value of \$8,124,119, for a total insured value of \$126,761,006. [In years prior to the soft insurance market, we purchased a limit of \$250,000,000 per location per occurrence on about \$700,000,000 in insured property values. It is not unusual to buy insurance to cover expected loss rather than to pay premium to cover a loss that could only occur in theory.]

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Based on current property values of \$729,583,347, annual premiums for the renewal program will be \$281,116, a decrease of \$98,376.25 compared to 1998-1999 policies in spite of a small "book value" increase in property values, a decreased deductible, and enhanced coverage. Premiums have dropped a total of \$181,487 over the past two policy years, reflecting our Brokers' ability to obtain a better product with stronger companies at a lower price by taking advantage of the continued soft insurance market.

AFFIRMATIVE ACTION:

Insurance contracts are exempt per Resolution No. 4373 from Affirmative Action.

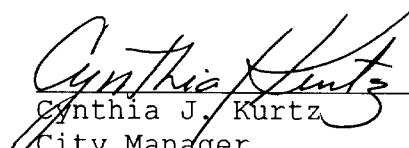
COMPETITIVE BIDDING:

This contract is exempt from competitive bidding per Charter Section No. 1002F, Professional Services.

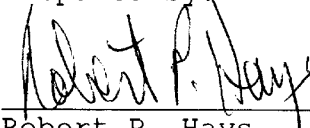
FISCAL IMPACT:

Funds for this insurance premium are budgeted in individual department's budget accounts as appropriate.

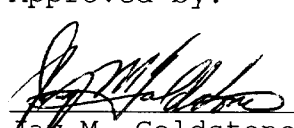
Respectfully submitted,


Cynthia J. Kurtz
City Manager

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