



Agenda Report

DATE: May 8, 2000

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 \$353,796 for the term, May 15, 2000 to May 15, 2001.

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 \$5,000 for most perils. 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. The program originally 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 Entity Property Insurance Program (PEPIP). The group was expanded last renewal period to include municipalities from

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Alaska, Montana, Illinois, Texas and Washington. The expansion provided 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 40 different insurers 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 the City's Broker's office in Newport Beach.

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.]

Based on current property values of \$712,870,131, annual premiums for the renewal program will be \$353,796, an increase of \$72,680 compared to the 1999-2000 policy price of \$281,116.

The increase in premiums is caused by world-wide rate increases for property insurance after 10 years of rate decreases. Unlike past market hardening episodes which were driven by lack of capacity to underwrite risks due to catastrophic losses, this increase is more of a market correction; competing insurance companies reduced rates below the level where they could obtain a

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reasonable profit last year, and this increase returns them to profitability. This increase returns the City to a rate slightly below what we paid in the 1998-1999 policy year.

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 the General Liability Fund and will be charged back to individual department's budget accounts as part of their General Liability rate.

Respectfully submitted,

for Cynthia J. Kurtz
Cynthia J. Kurtz
City Manager

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