

# Agenda Report

**TO:** CITY COUNCIL

**THROUGH:** FINANCE COMMITTEE

**DATE:** AUGUST 10, 2009

**FROM:** CITY MANAGER

**SUBJECT:** PURCHASE OF CITY PROPERTY INSURANCE FOR THE PERIOD  
JULY 1, 2009 - JUNE 30, 2010

## **RECOMMENDATION:**

It is recommended that the City Council authorize the City Manager to confirm purchase of property insurance under a joint purchase program established by the City's Broker of Record, Alliant Insurance Services, at an annual premium of \$626,278 for the term July 1, 2009 to June 30, 2010.

Competitive bidding is not required pursuant to City Charter Section 1002(F) Contracts for Professional or Unique Services. Per City Council Resolution #4373, the purchase of insurance is exempt from the Affirmative Action in contracting ordinance.

## **BACKGROUND:**

The annual renewal premium for the City's Property Insurance Program will be \$626,278.00, an increase of \$160,506 compared to last year's premium of \$465,772. The increase is partially due to an increase in insurable values, and partially due to a rate increase caused by a hardening insurance market.

The City purchases "All Risk" replacement cost property insurance on all City properties. This program includes Boiler and Machinery insurance. City does not purchase "Difference in Conditions" insurance (earthquake and flood) protection. 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. California Earthquake Insurance rates increased this year by as much as 26% above prior years, remaining

unreasonably priced; therefore, the City did not market the coverage. Also, the City did not purchase terrorism insurance.

The basic All Risk Property deductible is \$25,000. The Boiler and Machinery basic deductible is \$2,500. The deductibles vary. Examples include: \$100,000 for vehicle collision and up to \$350,000 for certain electrical apparatus. The deductibles remain the same as last year. Various exclusions apply.

Policy limits are \$1,000,000,000 on Insurable Values that increased from \$1,135,073,419 to \$1,325,870,333. There are various sub-limits for certain risks. The Boiler & Machinery limit is \$100,000,000.

The City purchases insurance under the City's Broker of Record contract with Alliant Insurance Services, Inc. The broker is compensated with a flat rate payment of \$44,000 per year for all insurance coverage marketed for the City. The broker advises that it receives additional compensation of 4.71% of premium from insurance companies it uses to place City business.

The Broker markets to insurance underwriters world-wide as part of a joint purchase group program established by the City's broker, called the Public Entity Property Insurance Program ("PEPIP"). PEPIP 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 has expanded to include 2,800 public entities in 7 states with over \$70 billion in insured values. The size and geographical diversity attracts underwriters with capacity to take risk without dependence on massive amounts of reinsurance. Participating insurers must be rated at least A-:VII by Best's Key Rating Guide.

There are 15 insurance companies or insurance facilities participating in this year's program. The lead company for the primary \$25,000,000 limits is Lexington London, an AIG company. A special cancellation endorsement has been agreed to in case of a rate downgrade or insolvency. Claims are to be processed through an independent claims adjusting company, Maxon & Young, with an adjuster working from the broker's office in Newport Beach.

There is little or no sharing of risk under this program. Each PEPIP member is protected to the same extent as if separate policies had been underwritten. The policy form is manuscript, designed especially for public entities with frequent enhancements.

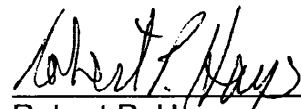
**FISCAL IMPACT:**

Funds for this insurance premium are budgeted in the General Liability Fund and will be charged back to departments' budget accounts as part of their General Liability rates.

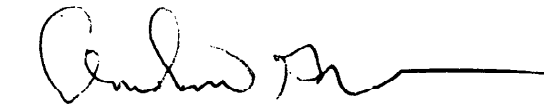
Respectfully submitted,

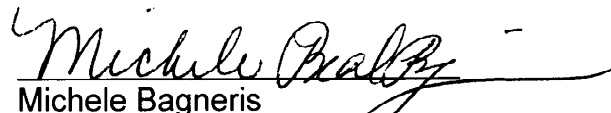
  
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City Manager

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