

Agenda Report

June 21, 2010

TO: Honorable Mayor and City Council
THROUGH: Finance Committee
FROM: Office of the City Attorney
**SUBJECT: PURCHASE OF CITY PROPERTY INSURANCE FOR THE PERIOD
JULY 1, 2010 – JUNE 30, 2011**

RECOMMENDATION:

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, Alliant Insurance Services, at an annual premium of \$559,602. for the term July 1, 2010 to June 30, 2011.

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 \$559,602 a decrease of \$10, 943. compared to last year's adjusted premium of \$570,545. The decrease is partially due to a book-value decrease in insurable values of about -3.56%. The City was given a slight rate increase of .24% for this year, but expects a larger rate increase next year due to a recent loss, which will cause loss experience to be unfavorably factored.

The City purchases "All Risk" replacement cost property insurance on all City properties. This program includes boiler and machinery insurance. The 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 remain unreasonably priced. Therefore, City did not market the coverage. 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 \$500,000 for certain electrical apparatus. The deductible on Steam and Gas Turbines increased from \$100,000 last year to \$500,000 this year which is still less than power plants that have not been in the program as long as Pasadena's. Various exclusions apply.

All Risk Property Policy limits remain at \$1,000,000,000 on Insurable Values that decreased from \$1,208,258,493 to \$1,182,227.52. There are various sublimits for certain risks. The Boiler & Machinery Policy limits are \$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 was sued in a class action for not having disclosed receipt of additional compensation from insurers for providing underwriting services, without advising its clients of the conflict, and the case settled last year with a nominal payment received by City. The Broker now advises that it receives additional compensation including a percentage of premium from the insurance companies it uses to place City business, which commission is not backed out of its fees.

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 19 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. Claims are to be processed through an independent claims adjusting company, McLarens Young International.

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. This year a Cyber Coverage Claims Made enhancement was added, and there were no coverage reductions.

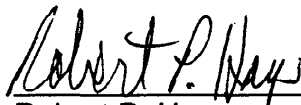
FISCAL IMPACT:

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,


MICHELE BAGNERIS
City Attorney
Office of the City Attorney/City Prosecutor

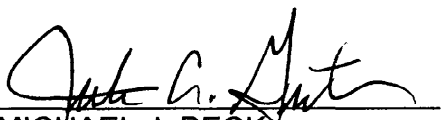
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