

# Agenda Report

August 15, 2011

**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, 2011 - JUNE 30, 2012

## **RECOMMENDATION:**

It is recommended that the City Council:

1. Authorize the City Manager to purchase property insurance under a joint public agency purchase program established by the City's Broker of Record, Alliant Insurance Services, at an annual premium of \$398,135, without competitive bidding, pursuant to City Charter Section 1002(H) (contracts with other governmental entities or their contractors);
2. Authorize the City Manager to purchase property insurance for the Power Plant (not as part of the joint purchase program) at a projected annual premium of \$573,625, for the term July 1, 2011 to June 30, 2012. Competitive bidding is not required pursuant to City Charter Section 1002(F) Contracts for Professional or Unique Services; and,
3. Grant the proposed contracts exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance pursuant to Pasadena Municipal Code Section 4.08.049 (B), contracts for which the City's best interests are served.

**BACKGROUND:**

The purpose of the City's Property Insurance Program is to protect the City from financial loss due to unexpected damage to City-owned property assets from "All Risks" which include fire, windstorm, hail, vandalism, et al., as well as boiler and machinery.

The purchase of insurance differs from purchase of other goods and services and is not conducive to standard City procurement methods such as the competitive selection process which utilizes a request for proposals process. Moreover, insurance markets can only be approached through insurance brokers. The City of Pasadena has contracted with Alliant Insurance Services, Inc., through a separate informal selection process to serve as the City's Broker of Record with the exclusive right to access insurance markets worldwide on behalf of the City, to obtain competitive pricing to address the City's insurance needs.

Alliant Insurance Services, through its relations with other public agencies, has created an insurance purchasing group to approach the markets and minimize the cost of insurance. This purchasing group, known as the Public Entity Property Insurance Program ("PEPIP"), combines the purchasing power of more than 2,800 public entities in seven states with over \$70 billion in insured values. This size and geographical diversity attracts underwriters with capacity to take risk without dependence on massive amounts of reinsurance. Participating insurers must have a credit rating of no less than A-:VII, by Best's Key Rating Guide. There is no sharing of risk except on some special sublimit coverage under this program. Each PEPIP Member is protected to the same extent as if separate policies had been underwritten.

For fiscal year 2012 the City is able to purchase all of its insurance coverage through PEPIP, with the exception of coverage for the power plant. Because of a large fire loss on May 4, 2010 on GT1 and the program underwriter's concern about including a power plant risk in the program, the power plant must be insured with a free-standing policy outside the purchasing group. Consequently, Alliant has sought power plant insurance outside of the PEPIP purchasing group, as discussed later in this report.

In regard to all other coverage, the City purchases "All Risk" replacement cost property insurance on all City properties as well as boiler and machinery insurance. Except in cases where bond indentures require it, the City does not purchase earthquake insurance. And, as a general rule, such indentures require earthquake coverage only if available at commercially reasonable rates.

California earthquake insurance rates remain unreasonably priced, in the opinion of the Claims Coordinator; therefore, the City has not purchased such coverage. The City also does not purchase flood or terrorism coverage.

The proposed coverage, which comes at an annual premium of \$398,195, has a basic property deductible of \$25,000. The boiler and machinery basic deductible is \$2,500.

Other deductibles vary and examples include: \$100,000, for vehicle collision and up to \$500,000 for certain electrical apparatus. Various exclusions apply as well. All risk property policy limits remain at \$1 billion on insurable values totaling in excess of \$815 million. There are various sub-limits for certain risks. The boiler and machinery policy limits are \$100 million. The following table illustrates the change in insured values and premium costs from FY11 to FY12.

**Year-over-Year Rate and Premium Comparison**  
**Not Including all Power Plants**

<u>City of Pasadena</u>	<u>10-11</u> (at 01/24/2011)	<u>11-12</u>	<u>10 vs. 11 Variance</u>
Total Insurable Values:	\$753,091,416	\$815,836,619	8.33%
Account Rate (per hundred dollars):	0.0473345	0.0488008	3.10%
*Total Annual Cost:	\$356,473	\$398,135	11.69%

\*Total Annual Cost includes Premiums, Surplus Lines Taxes & Fees, Appraisal and Loss Prevention Inspection Fees.

In regard to insurance coverage for the power plant, the City's Broker of Record approached fourteen separate markets worldwide to obtain quotes. All but one, the Lloyds of London syndicate, declined to offer coverage largely due to the age of power generating units B-3 and GT-2, as well as the recent fire damage to GT-1.

The Lloyds of London quote restricted coverage on unit B-3 to 15 percent of an estimated \$138 million replacement cost value up to a maximum of \$20.7 million, and GT-2 to 15 percent of an estimated replacement cost of \$52.4 million to a maximum of \$7.87 million. Values for the GT-2 power plant property are based on a 2008 Appraisal by American Appraisal at \$52.4 million. The deductible is \$250,000, per occurrence except for machinery breakdown of gas turbines, which is \$750,000. The policy limits are \$167,668,000. The cost of the policy is \$ 573,625. The policy has a number of exclusions and conditions which are commercially reasonable given the marketplace and staff recommends purchasing the coverage.

**FISCAL IMPACT:**

The cost of this action will be \$ 971,760. Funding for this action will be addressed by the utilization of existing budgeted appropriations in account 1301-507-000000, General Liability Fund. It is anticipated that all of the costs will be spent during the current fiscal year and there are no indirect costs. Expenses in the General Liability Fund for property insurance are recovered through charges to other City funds, including the General Fund, on a prorated basis. However, the cost of this coverage will not be allocated until fiscal year 2013; consequently there will be no General Fund impact in fiscal year 2012. The cost of power plant insurance will be charged fully to the Power Fund in fiscal year 2013. Last year, the total cost for property and power plant insurance was \$559,602. The proposed cost for fiscal year 2012, as indicated above is \$ 971,760, representing an overall increase of nearly 78%. This considerable increase is due to several factors, most significantly of which is having to go outside the PEPIP group to purchase power plant insurance. Other factors include: an increase in book value on real property and personal property, an overall rate increase of 3.1%, and the addition of the Urgent Care Center Building and the new Water & Power building at the City yards.

Respectfully Submitted,

  
MICHELE BEAL BAGNERIS  
City Attorney/City Prosecutor

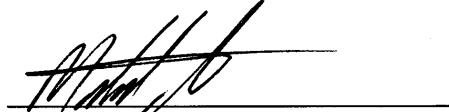
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