

Agenda Report

June 12, 2023

TO: Honorable Mayor and City Council

FROM: City Attorney/City Prosecutor's Department

SUBJECT: AUTHORIZATION AND APPROVAL TO RENEW PROPERTY AND CASUALTY INSURANCE FOR THE CITY OF PASADENA FOR FISCAL YEAR 2024

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15378(b)(4) and (5);
2. Authorize City staff to place and bind the City's property and casualty insurance coverages outlined in this report effective July 1, 2023, unless otherwise noted, with the total amount not to exceed \$9,415,574 for all premiums, surcharges, taxes, and fees; and
3. Grant an exemption from the competitive selection process of the Competitive Bidding and Purchasing Ordinance, Pasadena Municipal code Chapter 4.08, pursuant to Section 4.08.049(B) contracts which the City's best interests are served. The proposed insurance coverages are exempt from the competitive bidding process pursuant to the City Charter Section 1002 (F), contracts for professional or unique services.

EXECUTIVE SUMMARY:

The City of Pasadena purchases property and casualty insurance to protect the City and its operating companies against catastrophic loss and to comply with various bond covenants and agreements. Alliant Insurance Services, Inc. (Alliant) serves as the City's insurance brokerage firm. Alliant has worked closely with the City and has focused on marketing all insurance placements to secure the best available renewal options for the City. Overall, the premium for the citywide insurance program has a not-to-exceed

increase of approximately 53% over the prior year (from \$6,159,964 to a not-to-exceed amount of \$9,415,574). This increase is due to various factors, such as: hardened insurance markets, social inflation, large public entity verdicts and settlements, natural disasters, cyberattacks, and public entity losses throughout the country. These factors have caused similar increases in recent years and continue to do so in the current public entity insurance market. While significant increases are expected, it should be noted that it is likely that the actual premiums will be lower than the not-to-exceed amounts indicated in this report. Underwriters for the carriers are reluctant to provide quotes too far in advance from renewal and are just starting to release the City's FY 2024 quotes.

BACKGROUND:

Alliant worked with City staff in various departments to determine the City's exposure and total insurable values for appropriate levels of coverage. Alliant went out to market, on behalf of the City, obtaining multiple options from highly rated carriers with a broad range of coverage. All recommendations for insurance coverage and premium indications are included in the City's Recommended FY 2024 Budget. As the City's insurance broker, premiums for all renewal policies, with the exception of excess general liability, will be paid to Alliant and Alliant will distribute to the various insurance carriers. Should the City renew with risk sharing pool, Public Risk Innovation, Solutions, and Management (PRISM), the premium for excess general liability will be paid directly to PRISM.

INSURANCE RENEWAL

The chart below summarizes the recommended insurance renewals and new, enhanced coverages. An explanation of the various coverage groups is included in the following section.

City of Pasadena Citywide Insurance Program At-A-Glance

Coverage	Proposed Premium	Current Premiums	Difference	Policy Limit	Deductible / Self-Insured Retention (SIR)
Property: City	\$1,710,159	\$1,134,371	50%	\$250,000,000	\$25,000 per occurrence, \$100,000 for flood (includes premium for Cyber and Pollution)
Property: Power Plant	\$1,106,275	\$921,896	20%	\$250,000,000	\$750,000 all other property; \$1,500,000 machinery breakdown
Cyber (City)	\$150,000	N/A	N/A	TBD	Cyber coverage was included in the City's coverage through Alliant Property Insurance Program (APIP). Will market for higher limits.
Cyber (PWP)	\$100,000	N/A	N/A	TBD	PWP's Cyber coverage was included in the City's coverage through APIP.
Pollution Liability Underground Storage Tanks	\$66,299	\$50,999	30%	\$2,000,000 per pollution condition \$3,000,000 aggregate.	\$50,000
Crime	\$32,000	\$28,000	15%	\$5,000,000	\$100,000 per occurrence; includes faithful performance coverage
Excess General Liability	\$5,015,000	\$3,045,801	64%	\$25,000,000	\$5,000,000 SIR per occurrence, offense, or wrongful act. \$1,000,000 Individual member corridor deductible per occurrence, offense, or wrongful act.
Healthcare Professional Liability: Medical Malpractice	\$40,706	\$32,565	25%	\$10,000,000	\$1,000,000
Terrorism – Chemical, Biological, Radiological & Nuclear	\$102,838	\$85,697	20%	\$10,000,00	\$50,000 Power Plant at 85 E. State Street; \$25,000 all other properties
Automobile Physical Damage	\$352,913	\$271,472	30%	\$10,000,000 per schedule	\$25,000
Excess Workers' Compensation/ Employer's Liability	\$440,103	\$348,070	27%	Statutory \$1,000,000 Employer's Liability Maximum Limit of Indemnity Per Occurrence	\$3,000,000 SIR for all employees
Aircraft Hull & Liability	\$145,542	\$116,434	25%	\$50,000,000	None
Airport Owners and Operators Liability	\$8,870	\$7,392	20%	\$50,000,000	NIL
Foothill Air Support Team, Liability and D&O	\$16,806	\$12,929	30%	\$1,000,000 D&O	\$20,000 D&O
Pasadena Center Operating Company (PCOC) General, Excess Liability, and Management Liability	\$103,280	\$83,685	23%	TBD	Note, these are three separate policies.
Foothill Workforce Development Board (FWDB) General Liability	\$12,137	\$10,114	20%	\$3,000,000	\$50,000 per occurrence. September 29 th renewal date. Will market for higher limits. Additional premium may apply.
Old Pasadena Management District (OPMD) General Liability	\$12,646	\$10,539	20%	\$3,000,000	\$50,000 per occurrence. September 29 th renewal date. Will market for higher limits. Additional premium may apply.
TOTAL PREMIUM (including surcharges/taxes/fees)	\$9,415,574	\$6,159,964	53%		

DISCUSSION OF COVERAGE (BY GROUPS)

❖ Group 1

Crime: The proposed renewal policy has a 15% premium increase. Coverage provides protection to the City against theft of City monies and securities by employees of the City and for the faithful performance of duties, also known as Fidelity and Crime Policy. Policy deductible remains at \$100,000 with limits of \$5,000,000. Only for Faithful Performance of Duty, the policy limit is \$1,000,000 with a deductible of \$25,000.

❖ Group 2

General/Excess Liability: The increase in the number and size of large liability claims continues to create very difficult market conditions. The proposed renewal policy has an estimated 64% increase in premium over the expiring premium. The factors that continue to fuel the increased claims costs are varied and many, but they all result in more and larger claims, further increasing frequency and severity. This is a widespread issue that particularly impacts public entities. The California municipal market has been hit particularly hard with "nuclear" jury verdicts due to many factors, including social inflation. The City's liability program was established to fund third party liability exposures including General Liability, Automobile Liability, Law Enforcement Liability, Public Officials Liability, and Employment Practices Liability. These policies afford coverage to the City, its various Operating Companies, Successor Agencies, Commissions, etc., against third party liability claims for property damage and/or bodily injury. The City purchases a total of \$25,000,000 in limits on a per occurrence basis and is triggered after the City's \$5,000,000 self-insured retention and \$1,000,000 corridor deductible are exhausted. The City is pursuing higher retention options of \$7,500,000 and \$10,000,000 within PRISM. In addition, the City's broker is out in the open market looking for alternative liability insurance options.

❖ Group 3

Pollution Liability/Underground Storage Tank Liability: The proposed renewal policy has an estimated 30% increase in premium. Coverage under this policy provides environmental protection to the City for the discovery of pollution related claims, arising from covered operations at covered locations, resulting from City operations for which limited, or no coverage, is provided under the liability policies. The policy also covers City's Underground Storage Tanks (USTs). The City maintains multiple USTs, located throughout the city, to fuel City vehicles including police and fire vehicles, aircraft, City sanitation trucks and street sweepers.

The policy has a \$2,000,000 per pollution condition limit, a \$3,000,000 aggregate limit, and a \$50,000 deductible. The policy has a retroactive date of July 1, 2013,

which means that the policy will cover a pollution related claim discovered anytime from July 1, 2013, to the current policy period. Pollution Liability includes coverage for site decontamination and remediation. Coverage extends to bodily injury claims related to asbestos. In addition, the insurance carrier provides "value-added services" to include access to their proprietary system for reporting an incident which allows for quick dispatching, 24/7, of clean-up crews, mitigating potential liabilities.

❖ Group 4

Healthcare Professional Liability Medical Malpractice: The proposed renewal policy has an approximate 25% increase in premium with no changes in coverage. The Policy limit remains \$10,000,000 and deductible remains \$1,000,000.

The City operates the Pasadena Public Health Department (PPHD). PPHD conducts various outpatient clinical operations including substance use treatment, tuberculosis diagnosis and treatment, and immunization. PPHD clinicians (doctors, nurses, social workers, and counselors) evaluate patients, order laboratory tests, prescribe medication, recommend treatment plans, and provide medical treatment. Medical Malpractice insurance affords coverage for errors and omissions of the medical providers and covers the facility.

❖ Group 5

Heliport and Aircraft, including LA IMPACT Aircraft: The proposed premium variance is an estimated 25% increase. This coverage provides protection to the City for liability arising out of its public safety/police helicopter operations and for the City's leadership role on the LA IMPACT Team. The policy carries a per occurrence limit of \$50,000,000 for Aircraft Hull and Liability, with an aggregate of \$50,000,000. Coverages include hull physical damage for the scheduled aircraft, damage done by the City's aircraft to someone else's hangar, and emergency landing. This policy also covers liability resulting from an error by pilot. In addition, the policy provides coverage for Airport Liability with a \$50,000,000 per occurrence limit. This coverage complies with the City's contract with Burbank airport. The annual premium is apportioned between the City and LA IMPACT since the policy carries hull coverage for LA IMPACT aircraft.

❖ Group 6

Property: Power Plant: The proposed renewal policy has an estimated 20% increase in premium. The program provides property and equipment breakdown coverage for City's power plant facilities and machinery. The policy affords coverage for risks of loss or damage, including boiler explosion, machinery breakdown for City's power plant property. Policy limits remain at \$250,000,000,

with deductibles of \$750,000 per occurrence for all other property damage, and \$1,500,000 per occurrence for machinery breakdown of GT1, GT3, and GT5.

Property: Citywide: The proposed renewal premium has an estimated 50% increase which is market driven and not a result of any large losses associated with the City. Previous updates on the property insurance market have focused on the frequent and severe natural catastrophes around the world, the restricted terms and conditions offered by carriers due to lack of profitability, and inflation. More recently, there have been two new factors contributing to the market remaining in this challenging cycle. First, treaty reinsurance pricing has significantly increased. Treaty reinsurance is purchased by nearly all carriers and protects them from claims at their company's level. The rising cost of treaty reinsurance will be passed along to insureds and is expected to impact excess pricing at this renewal. Secondly, severe winter storms across the country, including California, have led carriers to pause on providing renewal pricing until the severity of losses can be determined. Current estimates of the losses to the industry from California alone is over one billion dollars. This property policy is purchased by the City for the balance of City owned and leased property, as scheduled. This policy includes coverage for fine arts, valuable papers, business personal property, business income and extended business income or rental value. Policy limits remain at \$250,000,000 and deductible remains at \$25,000, except for Flood, which is \$100,000. Alliant completed a soft marketing of the property and other carriers were not able to compete with the current rates.

Terrorism - Chemical, Biological or Biochemical, Radiological or Nuclear (CBRN): The proposed renewal policy has an estimated 20% premium increase. Under the City's renewal property program, in addition to the City's coverage for damage to property, the proposed terrorism coverage will provide protection covering terrorism acts for citywide property to include the Rose Bowl and Power Plant. This policy affords coverage to include the actual release, discharge, or dispersal of Chemical, Biological or Biochemical, Radiological or Nuclear Material (CBRN). This broader coverage assists after a CBRN event with removal, disposal, treatment, demolition or destruction of scheduled property and removal of debris, decontamination, in the alternative, the policy will indemnify the City for rebuilding costs. Policy limits remain at \$10,000,000 with a \$25,000 deductible for all other properties and a \$50,000 deductible for the Power Plant at 85 East State Street.

Automobile Physical Damage: The proposed renewal policy has an estimated 30% increase in premium, which is reflective of higher replacement cost values over last year. Policy will afford coverage for scheduled automobiles and mobile equipment owned by the City, at replacement cost, for covered perils including earth movement and flood. The policy limit is \$10,000,000 per occurrence, with a

sub-limit of \$5,000,000 for earth movement, flood, and windstorm, and a \$25,000 per loss deductible.

❖ Group 7

Cyber Policy: Cyber Liability coverage is included in the property premium through APIP. The policy includes \$2,000,000 annual aggregate per member subject to a \$45,000,000 program aggregate. Since this a shared member program policy the City is pursuing excess cyber limits that would drop down to be primary should the \$2,000,000 limits be exhausted. This coverage includes breach of information contained within City databases, i.e., employee data, resident data, credit card information, etc., by City employees or a third-party. In addition, the City maintains a fiber optic network loop throughout the City with contractual connections with NASA/JPL, Caltech, and Raytheon. The City's database is further vulnerable by employee use of laptops, tablets, and smartphones. The policy covers data breach response, crisis management, extortion threats and data recovery. Alliant continues to market for higher/excess limits and the estimated premium for such limits are subject to change.

❖ Group 8

Special Liability Insurance Policies: Policies provide liability coverage to the Pasadena Center Operating Company (PCOC), Foothill Workforce Development Board (FWDB), and Old Pasadena Management District (OPMD). Alliant is still negotiating the renewal for PCOC, FWDB, and OPMD and has provided conservative estimates as noted on page 3. Alliant is also pursuing excess policy limits for consideration.

❖ Group 9

Excess Worker's Compensation: The proposed renewal policy has an estimated 27% increase in premium. The City currently self-funds all Workers' Compensation losses. Excess Workers' Compensation policy provides statutory limits coverage above the SIR to protect against a major catastrophe, including terrorist attack(s), causing injuries to multiple employees (such as the December 2, 2015 terrorist attacks at the San Bernardino Government Center). The City has several locations housing large concentrations of employees outside of City Hall. The City currently has a \$4M SIR for all employee exposure types. This year, incumbent carrier Safety National provided a quote that offers a \$3,000,000 SIR for all City employees. Alliant also received quotes from Arch and PRISM, but their premiums were substantially higher.

ENVIRONMENTAL:

State CEQA Guidelines Section 15378 provides guidance on the types of projects to which CEQA does and does not apply. Project does not include, among others, actions such as government fiscal activities which do not involve any commitment to any specific project, or organizational and administrative activities of governments that will not result in direct or indirect physical changes in the environment, as set forth in subsections (4) and (5) thereto. Renewal of insurance falls under both these categories, therefore no environmental review is required.

COUNCIL POLICY CONSIDERATION:

This action supports the City Council's strategic planning goal to maintain fiscal responsibility and stability and to protect the City's infrastructure and collateral for bond purposes.

FISCAL IMPACT:

In accordance with the table provided in the Insurance Renewal section of this report, the cost of adopting all proposed actions is approximately \$9,415,574, including additional surcharges, taxes, and fees, for insurance renewal. Funding for the recommended action is included in the City's FY 2024 Adopted Operating Budget within various departmental and affiliated agency budgets. Depending on the type of insurance coverage, departments and affiliated agencies are allocated their share of \$9,415,574 premium costs, on the basis of either Full-Time Equivalents, property square footage, and/or vehicles. While significant increases are expected, it is noted that the actual premiums are likely to be lower than the not-to-exceed amounts indicated in this report.

For context, in FY 2023, \$1.97 million has been budgeted to departments in the General Fund as it relates to insurance premiums. For FY 2024, the amount budgeted to the General Fund will increase to approximately \$2.99 million, which reflects escalating premiums.

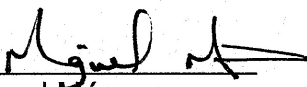
Respectfully submitted,


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