

# Agenda Report

June 1, 1998

**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 \$379,492.25 for the term, May 15, 1998 to May 15, 1999.

## 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 standard deductible is \$25,000 for most perils. The deductible varies to: 5% for earthquake, \$5,000 for locations occupied by the Tournament of Roses, Building 3 at the Health Center, or R.B.A.C.; \$100,000 for vehicle collision; and up to \$100,000 for certain electrical apparatus. Policy limits have been increased from \$500,000,000 per occurrence subject to a maximum \$250,000,000 per location, to \$1,000,000,000. Various sub-limits apply (including earthquake insurance at \$7,500,000).

Current coverage, and the recommended renewal program, are underwritten under a joint purchase group program established by the City's broker, which combines the purchasing power of more

City Council  
June 1, 1998  
Purchase of Property Insurance  
Page 2

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). Carriers are rated at least A-:VII by Best's Key Rating Guide.

There is no sharing of risk under this program, and each participant is protected to the same extent as if separate policies had been written.

Serious problems continue to be encountered in obtaining quotations from responsible carriers to provide earthquake coverage for this renewal, although the market has "softened". Since the Northridge earthquake, many carriers have ceased to write this coverage in Los Angeles County. The remaining earthquake markets, many of which do not meet minimum City rating requirements, have raised premiums beyond reasonable and beneficial rates. The City will need to continue reliance on financial help under federal disaster relief legislation through FEMA. The recommended renewal program provides a blanket earthquake limit of \$7,500,000 on various bonded properties valued at \$124,933,279. The insurers offer an additional \$10,000,000 earthquake coverage on the same buildings for an additional premium plus taxes/fees of \$46,507.50, the purchase of which is not recommended because the price is still too high to be considered reasonable.

Based on current property values of \$722,944,331, annual premiums for the renewal program will be \$379,492.25, a decrease of \$83,110.75 compared to 1997-1998 policies in spite of a small "book value" increase in property values and increased limits. The continued soft insurance market allowed a reduction in premiums for most members of PEPIP who, like Pasadena, had few or no claims during the policy year.

**AFFIRMATIVE ACTION:**

Insurance contracts are exempt per Resolution No. 4373 from Affirmative Action.

**COMPETITIVE BIDDING:**

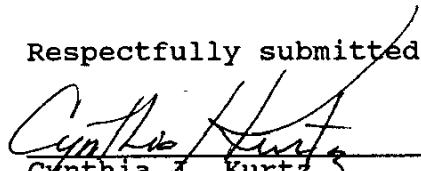
This contract is exempt from competitive bidding per Charter Section No. 1002F, Professional Services.

City Council  
June 1, 1998  
Purchase of Property Insurance  
Page 3

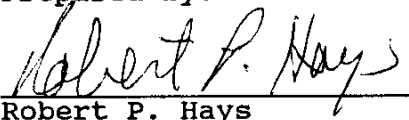
**FISCAL IMPACT:**

Funds for this insurance premium are budgeted in individual department's budget accounts as appropriate.


Respectfully submitted,

  
\_\_\_\_\_  
Cynthia J. Kurtz  
Acting City Manager

Prepared by:

  
\_\_\_\_\_  
Robert P. Hays  
Liability Claims Coordinator

Approved by:

  
\_\_\_\_\_  
Jay M. Goldstone  
Director of Finance