

Meeting Agendas/Info

CITY COUNCIL COMMUNICATION:	ITEM
01-333	OFFICE OF THE CITY MANAGER CITY OF DES MOINES, IOWA
AGENDA:	SYNOPSIS -
JUNE 18, 2001	The City's insurance marketing strategy is to aggressively market about one- third of the City's insurance coverages every three years. The purpose of this strategy is to attract advantageous pricing by guaranteeing at least three years of coverage to the successful carriers. The rotating cycle that began with the July 1, 1998 renewal has been: (1) Airport Liability, (2) Special Excess Liability and Excess Workers Compensation, and (3) Property and Crime Insurance.
SUBJECT: ANNUAL INSURANCE RENEWAL FOR JULY 1, 2001	In marketing the City's Airport Liability Insurance for July 1, 2001, the City's insurance agency, Jester Insurance Services, Inc., contacted four insurance markets: (1) Phoenix Aviation Managers (current carrier), (2) AIG-Aviation, (3) Associated Aviation Underwriters, and (4) Sherwood Insurance Group. Of the four, Phoenix Aviation Managers and AIG-Aviation provided premium quotes. The Risk Management Office and Jester Insurance Services, Inc., after consultation with the Aviation Department, recommend that the City accept the quote provided by Phoenix Aviation Managers.
TYPE:	
<u>RESOLUTION</u> <u>ORDINANCE</u> <u>RECEIVE/FILE</u>	
SUBMITTED BY:	Also included in this agenda item are the renewal premiums for the additional coverages that have either been previously marketed or for which there are only specialty markets that are contacted as a competitive position presents itself. The premium for all of this year's renewal is estimated to be \$647,345. This is an 18 percent increase over last year's premium (see attached magazine articles). However, between July 1, 1996 and June 30, 2000, the City's total premium decreased by nearly \$250,000.
ALLEN MCKINLEY ACTING FINANCE DIRECTOR	
MARK SCHULTZ RISK MANAGER	
FISCAL IMPACT -	Premiums for this year are estimated to be \$647,345. The premium costs associated with Citywide property/casualty insurance coverages are budgeted in the City's 2001/2002 Operating Budget: Public Works, pp. 21-46; Engineering, pp. 9-59; Fire, p. 11-12; Aviation, pp. 4-11; Housing Services, pp. 12-18; Finance, pp. 10-28; Human Resources, pp. 13-15.

RECOMMENDATION -

Approval.

BACKGROUND -

AIRPORT LIABILITY INSURANCE

In marketing the City's Airport Liability Insurance for July 1, 2001, the City's insurance agency, Jester Insurance Services, Inc., contacted four insurance markets: (1) Phoenix Aviation Managers (current carrier), (2) AIG-Aviation, (3) Associated Aviation Underwriters, and (4) Sherwood Insurance Group (broker specializing in aviation and airport liability coverages). Of the four, only Phoenix Aviation Managers and AIG-Aviation provided premium quotes.

The Sherwood Insurance Group and Associated Aviation Underwriters declined to quote because neither thought that it could competitively quote the City's requirements. Associated Aviation Underwriters had been the City's carrier prior to Phoenix Aviation Managers. The Risk Management Office and Jester Insurance Services, Inc., after consultation with the Aviation Department, recommend that the City accept the quote provided by Phoenix Aviation Managers.

The breadth of coverage requested by the City is essentially the same as currently provided; however, the City requested quotes for seven options for limits and deductibles. The City's current policy is written for \$150,000,000 of coverage with a \$10,000 per occurrence deductible.

Options Requested:

1. \$150,000,000 - no deductible
2. \$200,000,000 - no deductible
3. \$250,000,000 - no deductible
4. \$150,000,000 - \$10,000 deductible (current policy)
5. \$200,000,000 - \$10,000 deductible
6. \$250,000,000 - \$10,000 deductible
7. \$300,000,000 - \$10,000 deductible

Phoenix Aviation Managers provided quotes for all options except Option 7. AIG - Aviation provided quotes for options 4, 5, 6 and 7. Upon reviewing these options with the Aviation Department, the Risk Management Office and Jester Insurance Services, Inc. concluded

that Option 5 was the preferred option both from a coverage and budgetary standpoint.

Phoenix Aviation Managers' quote for Option 5 is \$85,175 and AIG - Aviation's is \$85,000. While these quotes represent about a \$19,000 increase in premium (30%), Option 5 also provides \$50,000,000 in additional limits, (33%). It is a contractual condition required by both carriers that the carrier administer all claims covered by the insurance policy. This will result in a reduction in the level of claims administrative services provided by the City and charged back to the Airport through the City's Indirect Cost Allocation Plan. This reduction will off-set the increase in premium.

There is a slight financial advantage of \$175 with AIG-Aviation. However, because: (1) the City has a standing relationship with Phoenix Aviation Managers in which the carrier is familiar and comfortable with the airport's operations, loss experience, and transfer of risk to those who do business for and/or on the airport, and (2) because demonstrated long-term relationships are attractive to carriers and could benefit the City in future renewals, the Risk Management Office and Jester Insurance Services, Inc. recommend that the City renew its current policy with Phoenix Aviation Managers subject to the changes indicated in Option 5 above.

OTHER COVERAGES

In addition to Airport Liability Insurance, the City is renewing the following insurance policies: (1) Property Insurance, (2) Special Excess Liability Insurance, (3) Excess Workers Compensation Insurance, (4) Crime Insurance, (5) HazMat Occupational Medical Insurance (mutual aid responses), and (6) Flood Insurance to cover a portion of the large property insurance deductible associated with six buildings located in Flood Zone A. The premium indicated for the occupational medical costs for the HazMat response is reimbursed to the City by the contracting communities.

The total replacement value of City property to be covered as of July 1, 2001 is \$536,281,409. This represents a premium of \$243,472, a 16 percent increase. This increase is the result of: (1) adding newly constructed buildings and building contents to the policy and (2) an increase in premium charged (3.971 cents/\$100 of replacement value to 4.544 cents/\$100). The new buildings and contents added during the last policy period include the new Airfield Maintenance Facility,

Airport Skywalk Lobby, Union Park Carousel Pavilion, Birdland Park Tennis Courts, and pumping equipment at the WRF Preliminary Treatment Building.

No annual adjustment for inflation was made to overall replacement costs this year. A sample of the total inventory of buildings determined that the values for most appear to be reflective of replacement cost. However, the carrier, at no additional cost, will be visiting the larger, more significant buildings which may result in an adjustment of their values. This could result in a premium adjustment during the year. Obtaining a more accurate replacement cost value on a few buildings is seen as preferable to adjusting the cost of all buildings when most appear to be sufficient.

Also, the premium for Flood Insurance will increase this year due to a change in the way the Property Insurance carrier handles the deductible on six facilities located in Flood Zone A (City Hall, Armory, WRF, Westside Equalization, Birdland Aquatic Center and Main Library). Prior to this year, the carrier had a combined deductible for building and contents of \$500,000 for each of these facilities. This compares to the \$100,000 deductible on all other properties. However, the carrier has now placed a separate deductible of \$500,000 on the building and on the contents. This has caused the City to have to increase the level of insurance purchased from the National Flood Insurance Program to meet this new requirement.

The following summarizes the July 1, 2001 premiums:

AIRPORT LIABILITY:

A.M. Current Premium

Market Responses Best Premium Quoted

Phoenix Aviation Managers A+ \$ 65,750 \$85,175 (rec'd)

AIG - Aviation A++ n/a 85,000

OTHER RENEWALS:

Current Renewal

SPECIAL EXCESS LIABILITY: Premium Premium

AMGRIP (Royal/Sun Alliance Insurance) \$211,038 \$242,700 (est)

EXCESS WORKERS COMPENSATION:

AON Risk Resources (CNA Insurance) 36,247 44,964

PROPERTY INSURANCE: 210,470 243,472
Chubb Group (Federal Insurance Co.)

CRIME INSURANCE: 3,633 3,633
Travelers Insurance Co.

FLOOD PLAIN (6 bldgs in Zone A):
National Flood Insurance Program 9,154 15,000 (est)

HAZMAT/MUTAL AID:
American International Group (AIG) 12,401 12,401

TOTAL ANNUAL RENEWAL: \$ 548,693 \$647,345

The difference between last year's total premium and the current renewal is \$98,652, or 18 percent. Over the past two renewals, total premium increases have totaled \$159,140, or 33 percent. However, between July 1, 1996 and June 30, 2000, the City's total premium had decreased by nearly \$250,000. Much of the premium increases experienced for the July 1, 2000 and 2001 renewals have been due to a "hardening" of the reinsurance market. This trend is expected to continue, but for how long is unknown. As background, attached are copies of three articles from leading insurance industry publications, National Underwriter, Business Insurance, and Bestweek.

It should also be noted that since July 1, 1998, the City has doubled its Airport Liability Coverage from \$100,000,000 to \$200,000,000, increased the limits of its Special Excess Liability by one-third from \$15,000,000 to \$20,000,000, and lowered by two-thirds its Special Excess Liability self-insured retention from \$3,000,000 per occurrence to \$1,000,000 per occurrence. This represents a significant increase in the protection provided to the City while the net savings to the City in total premium over the past five years is about \$90,000.

As provided for in the professional services agreement with Jester Insurance Services, Inc., the City's annual fee for services will be \$29,000. This is \$3,000 less than last year.

Attachments