



Agenda Item:

48

COUNCIL COMMUNICATION City Manager's Office

GENERAL INFORMATION—

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Roll Call No:

Submitted by: Merrill R. Stanley, Finance Director and
Mark J. Schultz, Risk Manager

SUBJECT—

Annual Insurance Renewal for July 1, 2004 – Property and Casualty Insurance

SYNOPSIS—

The City aggressively markets about one-third of its property/casualty insurance coverages annually. This year, the City marketed Airport Liability Insurance coverage. All other coverages will remain with current carriers. The total renewal premium for the property and casualty insurance coverages being renewed as of July 1, 2004 is \$1,179,504. This represents a 2.7 percent increase over last year's renewal of \$1,148,554 for the same coverages. This compares to a last year's increase of 16.0 percent and a budgeted increase for this year of 17.7 percent.

FISCAL IMPACT—

The premium costs associated with City-wide property/casualty insurance coverages are budgeted in the City's 2004/2005 Operating Budget. The following is a Tort Fund Levy breakdown of the amount budgeted for and the actual premiums quoted. The actual premiums for Enterprise Fund activities (\$698,261) will be \$120,848 less than the amount budgeted (\$819,109). Of that savings, \$54,550 is related to Airport Liability Insurance. The actual premiums for General Fund activities (\$481,243) will be \$51,546 less than the amount budgeted (\$532,789). The actual premium for both Funds (\$1,179,504) will be \$172,394 less than the amount budgeted (\$1,351,898).

RECOMMENDATION—

Approval

BACKGROUND—

The following is a summary of the insurance coverages being presented to Council as part of this renewal package.

AIRPORT LIABILITY INSURANCE

Three years ago, the City marketed its Airport Liability Insurance that included, at no additional cost, an endorsement extending coverage for War and Terrorism. Shortly following the terrorist attack of September 11, 2001, all carriers cancelled this endorsement and reissued a new version in December 2001, but at an additional cost. The City purchased this endorsement and continued to do so at its July 1, 2002 renewal. In March of 2003, the carrier issued a TRIA (Terrorism Risk Insurance Act) endorsement financially backed by the federal government. Because of the fear that a war with Iraq could trigger the cancellation of the carrier's December 2001 endorsement, the City also purchased this endorsement. Now that airports around the country have had some experience with this coverage and have taken significant steps to improve security, a large number of airports have chosen not to carry any terrorism coverage. They have made this decision, in part, because the scope of the terrorism endorsement coverage is very narrow when compared to the premium charged. In light of this trend and the opinion that the City no longer needed to carry terrorism coverage to be in compliance with the insurance covenants of its Airport Revenue Bonds, the City renewed its Airport Liability Insurance without the terrorism endorsements.

The same level of coverage was marketed for this year's renewal. The City received two premium quotes. Phoenix Aviation Managers (PAM), the City's current carrier quoted \$151,000 and American International Group (AIG) Aviation Division quoted \$138,890. Staff recommends that the City accept AIG's quote. An additional advantage to AIG quote, besides its quote being 12.9 percent below the City's current premium of \$159,400 and 8.1 percent lower than PAM's quote, AIG has offered the City a primary policy with a \$200,000,000 limit. PAM's program consists of a primary policy of \$30,000,000 with Old Republic Insurance and an umbrella policy of \$170,000,000 with Lloyds, London. The advantage of AIG's offer is that no claim has to be coordinated or negotiated between two carriers but will be handled by one carrier.

PROPERTY INSURANCE

The City currently insures its property with the Chubb Group, which is one of the largest and most financially secure markets in this line of coverage. The total replacement value of City property to be covered as of July 1, 2004 is \$603,708,699. The premium for this coverage will be \$379,887. This is a 4.3 percent increase over last year's premium of \$364,119. This increase in premium is due to three factors: (1) a thorough comparison and review of properties conducted by the City's Property Management Division and Risk Management Office that

revealed a number of existing facilities that were not included in the past and were added, (2) new construction and (3) an increase in the replacement value of properties based on a review by operating departments. About 6.5 percent of the increase in property values is due to new construction, the new softball field complex, and the balance attributable to adding, deleting and updating replacement values.

FLOOD INSURANCE

The deductible included in the City's Blanket Property Insurance policy is \$100,000 per occurrence. However, because of the loss experience in the "Flood of '93," the property insurance carrier has placed a \$500,000 deductible on each of six buildings located in Flood Zone A that were damaged during that flood. To reduce the City's exposure to loss due to the higher deductible, flood insurance is purchased to cover that deductible amount and to align it with the deductible for other properties. The City's current premium for this coverage is \$17,586. The premium quote for July 1, 2004 is unchanged. The properties included under this coverage are City Hall, Armory, Birdland Aquatic Center, Birdland Pool Filter Building, Animal Shelter, and the Main Library.

HAZMAT/MUTUAL AID

Separate insurance is purchased to cover the City's HazMat Team when it responds to requests for mutual aid. At the time mutual aid agreements were entered into with surrounding counties, it was the desire that the City not incur the cost of work-related injuries when responding to calls outside of the City. This insurance covers the HazMat Team from the time it leaves its base to the time it returns, and the premium cost is reimbursed to the City by the counties with which the City has mutual aid agreements. This coverage was expanded a few years ago to also cover Firefighters when providing mutual aid to surrounding communities. The City's current premium for this coverage is \$15,190. The premium quote for July 1, 2004 is \$14,802. This represents a decrease of \$388 or 2.6 percent.

CRIME

The City purchases insurance to cover against employee theft, computer fraud, and on- and off-premise robbery. The current premium paid for this coverage is \$4,453. The renewal premium for July 1, 2004 is \$5,107. This represents an increase of \$654 or 14.7 percent.

SPECIAL EXCESS LIABILITY

The City covers its catastrophic liability exposures by purchasing Special Excess Liability insurance. Under the City's program, the City is self-insured for the first \$2,000,000 of each claim and purchases insurance to cover the next \$10,000,000. The policy has a \$20,000,000 aggregate limit. The City's current premium for this coverage is \$469,850. The premium quote for July 1, 2004 without terrorism coverage is \$498,300. This represents an increase of \$28,450, or 6.1 percent.

EXCESS WORKERS COMPENSATION

The City purchases Excess Workers Compensation insurance to cover losses that exceed the City's \$450,000 per claim self-insured retention up to Iowa Statutory limits. The City's current premium is \$117,909. The renewal premium for July 1, 2004 is \$124,932. This represents an increase of \$7,023, or 6.0 percent.

CONCLUSION

The total premium for the property and casualty insurance coverages for the July 1, 2004 renewal is \$1,179,504. This represents an increase of \$30,997, or 2.7 percent over last year's total premium of \$1,148,507. However, the City budgeted \$1,351,841 for this year's July 1 renewal. The premiums quoted are \$172,337 under the budgeted amount.

SUMMARY OF RECOMMENDATION

| | <u>FY 03-04</u> | <u>FY 04-05</u> | <u>+ (-)</u> |
|---|------------------------|------------------------|---------------------|
| 1. Airport Liability Insurance *(Phoenix Aviation Managers) | \$ 159,400 | \$ 138,890 | (\$20,510) |
| 2. Property Insurance *(Chubb Group - Federal Insurance Co.) | \$ 364,119 | \$ 379,887 | \$15,768 |
| 3. Crime Insurance *(Travelers Insurance Co.) | \$ 4,453 | \$ 5,107 | \$ 654 |
| 4. Flood Insurance *(National Flood Insurance Program) | \$ 17,586 | \$ 17,586 | \$ --0-- |
| 5. HazMat/Mutual Aid *(American International Group – AIG) | \$ 15,190 | \$ 14,802 | (\$ 388) |
| 6. Workers Compensation Insurance *(Genesis Insurance Co.) | \$ 117,909 | \$ 124,932 | \$ 7,023 |
| 7. Special Excess Liability Insurance *(Safety National Casualty Corp) | <u>\$ 469,850</u> | <u>\$ 498,300</u> | <u>\$ 28,450</u> |
| TOTAL | \$1,148, 507 | \$1,179,504 | \$ 30,997 |

* Recommended carrier noted below coverage title