



Agenda Report

Fullerton City Council

MEETING DATE: JUNE 18, 2019

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: KENNETH A. DOMER, CITY MANAGER

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SUBJECT: INSURANCE PROGRAM REPORT AND RECOMMENDATIONS

SUMMARY

Recommendations and report on the 2019-20 City of Fullerton property and casualty insurance programs.

RECOMMENDATION

1. Authorize Staff to bind excess workers' compensation insurance with the maximum limit set to statutory benefit maximums and a lower limit of \$750,000 for non-safety employees and \$1 million for safety employees with Safety National Insurance Company at a premium cost of \$188,655.
2. Authorize Staff to bind earth movement and flood insurance with Endurance American Specialty Insurance Company, Landmark American Insurance Company and Lloyd's of London with combined limits of \$20 million for a combined premium of \$480,258.
3. Receive and file the report relative to the City's insurance programs, ancillary insurance coverage purchases and participation in the Independent Cities Risk Management Authority (ICRMA) joint powers authority to procure excess liability insurance above \$8 million per occurrence, All Risk Property coverage, Auto Physical Damage Insurance, Crime Insurance, Cyber Liability Insurance and Terrorism Insurance.

PRIORITY POLICY STATEMENT

This item matches the following Priority Policy Statement/s:

- Fiscal and Organizational Stability
- Infrastructure and City Assets.

FISCAL IMPACT

The projected cost of the various property and casualty insurance coverages funded by the Liability Program is projected to be \$1,317,641. This figure includes the known cost of those policies renewing on July 1, 2019 that the City purchases directly and the anticipated cost of coverage through the Independent Cities Risk Management Authority as well as renewals scheduled for later in the year. The 2019-20 budget, approved by City Council on June 4, 2019, is adequate to cover these costs. In the event the ICRMA costs are greater than expected, Staff will follow up with appropriate action at a future meeting.

The premium for excess workers' compensation insurance is \$188,655. The 2019-20, budget approved by City Council on June 4, 2019, is adequate to cover these costs.

DISCUSSION

The City of Fullerton's risk financing strategy combines self-insurance with commercial insurance and reinsurance policies to protect against the exposure to financial or property losses and to employee workers' compensation losses. The portion of losses paid from City funds is known as the self-insured retention (SIR). Recommendations for funding of the self-insured layer are based on projections performed annually by an independent actuary retained by the City. Such funding was approved by City Council in the recently adopted budget for 2019-20.

The City has been a member of and has obtained excess liability coverage and other group purchase coverages through the Independent Cities Risk Management Authority (ICRMA) since 1993. ICRMA is a joint powers authority with member cities including Adelanto, Bell, Downey, El Monte, El Segundo, Fullerton, Glendora, Hawthorne, Hermosa Beach, Huntington Park, Inglewood, Lynwood, Monterey Park, San Fernando and South Gate. All ICRMA costs referenced in this agenda letter are based on the proposed ICRMA budget which is scheduled for consideration by the Governing Board on June 13, 2019.

Insurance purchased outside the ICRMA programs is secured with the assistance of Arthur J Gallagher & Co. This broker services the ICRMA account as well as the City of Fullerton. Broker commissions for the various lines of coverage range from 10% to 17.5%. The commission earnings represent the total compensation for procuring coverage quotations, negotiating premiums and coverage details and providing a wide range of support services throughout the year.

Workers' Compensation

The SIR for the workers' compensation program is \$750,000 per occurrence for non-safety employees and \$1 million per occurrence for safety employees. Excess insurance is purchased to protect against losses above the SIR. The incumbent carrier is Safety National Insurance Company, an A+ XV rated company. Last year, the carrier offered an affordable option to return to a maximum coverage limit set at statutory limits, up from \$75 million per occurrence, generally accepted as the industry standard. The premium for the same limits of coverage this year is \$188,655, down from \$200,467 last year. Broker commission on this policy is 12.5%.

Airport Liability

The City directly purchases insurance to protect against airport liability exposures. ACE Property and Casualty Insurance Company, an A+ XV rated company, is the incumbent carrier for Airport Liability Insurance. In the 2017-18 fiscal year, Ace offered increased limits of \$75 million per occurrence (up from \$50 million) at a premium of \$17,736. Last year's renewal premium for the same limit was \$18,182, a 2.5% increase. The rate came with a three year guarantee at this rate. The broker commission on this policy is 17.5%

Earthquake Insurance / Flood Insurance

In the 2018-19 fiscal year, the City Council approved purchase of Earthquake and Flood insurance for the first time in more than a decade. The program structure was built around the following considerations:

1. In anticipation of the cost of coverage for the entire inventory of properties scheduled for All Risk property losses (\$316 million) exceeding budget tolerance, Staff identified a select list of 102 facilities and properties key to the delivery of core City services. This list includes such properties as City Hall and other facilities housing business operations of the City; water pump stations, wells and reservoirs and facilities required for transportation and parking needs within the City. The properties on the select list had a total insured value of \$263 million. Based on an appraisal completed this year, the updated value of these properties is \$273 million.
2. Review of losses related to the La Habra earthquake revealed significant exposure to water main losses due to earth movement. Again in recognition of the high cost of insuring the entire water main system, a sublimit of \$10 million for the water main system was included on the select list of properties.
3. The broker worked with a consultant to identify Probable Maximum Loss (PML) recommendations for the select list of properties. Using factors including the number of locations, total insured values, coverage types, geocoding results, construction types, occupancy, number of stories, year of construction and square footage, the consultant developed a PML of \$20,510,123 for a 250 year return period (industry recommended.)

The City's broker developed a program insuring the select list of properties through a combination of three policies affording \$20 million limits of insurance exclusive to the City of Fullerton at a premium cost of \$465,226. Although AXIS Surplus Insurance Co, one of carriers providing coverage for the current year, has pulled out of the market for this line of coverage, Endurance American Specialty Insurance Company has provided a quote for an equivalent piece of the program structure. The renewal for the 2019-2020 structure illustrated below is \$480,258.

LIMITS	INSURERS	
\$10 Million excess of \$10M	Lloyds of London Rated A XV Provides 100% of second layer of coverage Premium = \$107,369.28	
\$10 Million excess of: Earth Movement: 5% or \$50,000 minimum deductible Flood: \$50,000 minimum deductible	Endurance American Speciality Ins. Co. Rated A+ XV Provides 50% of first layer of coverage Premium = \$186,444.22	Landmark American Insurance Co. Rated A+ XIV Provides 50% of first layer of coverage Premium = \$186,444.22

Excess Liability

The City's structure for liability loss financing includes three parts:

1. An SIR financed through allocations to departments. The SIR for the liability program was \$2 million per occurrence for more than a decade. In the 2018-19 fiscal year, the City Council approved reduction of the SIR to \$1 million per occurrence.
2. Excess insurance purchased by the City covering losses the City of Fullerton above the SIR and up to the attachment point of the group-purchased reinsurance coverage through ICRMA. (This layer is referred to herein as Fullerton-only.)
3. Reinsurance purchased in a group purchase program through ICRMA.

Last year Allied World Insurance Company / Allied World Assurance Company, an A XV rated company offered a policy for the Fullerton-only layer of coverage with expanded policy limits of \$1 million to \$8 million at a cost of \$247,418. City Council approved the purchase of this policy, cutting the City's self-insured exposure for the year by half from \$2 million per occurrence to \$1 million per occurrence. In April of this year, City Council approved purchase of a renewal policy with the same limits for a total cost of \$263,051.

This 2019-20 ICRMA layer of coverage comes with an increase to the upper limit of the ICRMA policy by \$10 million, from \$30 million to \$40 million. The projected cost of this layer of coverage is \$294,000, a 12.8% increase from the prior year. In addition, ICRMA now provides third party claims adjustment (TPA) services as a component of membership. These services will be provided by Carl Warren & Company, the same company the City has been directly contracting with for this service. ICRMA will include a projected charge of \$93,000 for the 2019-20 fiscal year. This cost is consistent with the costs of contracting directly with the TPA. The City's average cost of the TPA service for the past three fiscal years has been \$85,500.

The program structure history and proposal for 2019-2020 is detailed in the following table:

2016/2017	2017/2018	2018/2019	Proposed 2019/2020
SIR = \$2 Million	SIR = \$2 Million	SIR = \$1 Million	SIR = \$1 Million
Fullerton-only Layer \$2 Million to \$6 Million Cost = \$124,828	Fullerton-only Layer \$2 Million to \$8 Million Cost = \$189,895	Fullerton-only Layer \$1 Million to \$8 Million Cost = \$247,418	Fullerton-only Layer \$1 Million to \$8 Million Cost = \$263,051
ICRMA Layer \$6 Million to \$30 Million Cost = \$340,416	ICRMA Layer \$8 Million to \$30 Million Cost = \$288,618	ICRMA Layer \$8 Million to \$30 Million Cost = \$242,356	ICRMA Layer \$8 Million to \$40 Million Cost = <i>estimated at \$294,000</i>
Self - insured above ICRMA Layer			

Property Insurance / Auto Physical Damage Insurance

Beginning in fiscal year 2017-18, ICRMA offered a group purchase program that combined All Risk Property, Boiler and Machinery and Auto Physical Damage Insurance into one group purchase program with a \$250,000 pool deductible and a \$500,000 aggregate deductible with layers of commercial coverage stacked above the deductible. The program provides a \$250 million limit per loss with a \$10,000 per member deductible.

This year, the All Risk Property and Boiler and Machinery coverage will be separate from the Auto Physical Damage coverage. The City's projected cost for the All Risk Property and Boiler and Machinery coverage is expected to be \$190,000 and for the Auto Physical Damage coverage is expected to be \$35,000. These costs are flat compared to the 2018-2019 premium of \$222,245 for the combined coverages.

Crime

This policy protects the City against risk of loss due to employee acts of dishonesty or theft by an outside party. In July of 2016, the City joined the ICRMA crime protection group purchase program. The per loss limit is \$5 million. The City's 2019-20 premium cost is anticipated to be \$5,700, a slight increase from last year.

Cyber Risk Liability

In 2012-13, the City began purchasing cyber risk liability coverage, insurance for failure to protect or unauthorized release of personal information of employees or customers. ICRMA began offering this coverage as group coverage in 2014-15 at a much lower cost than the City's individual coverage. The 2017-18 renewal was \$13,985, an increase from the prior year associated with a per loss limit increase from \$3 million to \$10 million. The following year, the cost of this coverage decreased significantly due to market reassessment of the risk and broker strategy. The City's 2019-20 premium cost is expected to be \$7,800, similar to last year's cost.

Underground Storage Tanks

The City purchases coverage compliant with the EPA and State Water Resources Control Board requirements for owners and operators of underground storage tanks. The City currently has five underground storage tanks; two at the Public Works Basque Yard, two at the Police Department and one at City Hall. Limits on this coverage are \$1 million per "Storage Tank Incident" with a \$2 million aggregate limit per incident, a \$2 million legal defense expense aggregate limit and an overall \$4 million policy aggregate. The policy has a \$10,000 deductible and is written on a "claims made" form. This policy will be renewed at the end of July with a premium of \$4,623.

CNG Station - Commercial General Liability

The City purchases commercial general liability protection for the CNG Station. The current policy with Scottsdale Insurance Company provides \$2 million per occurrence limits with a \$3 million aggregate. This policy was renewed in February 2019. Staff anticipates renewing for 2019-10 at a premium near the expiring premium of \$2,829.

Terrorism Coverage

At their June 13, 2019 meeting, the ICRMA Governing Board will be considering the addition of Terrorism Coverage to the ICRMA coverages. This coverage, if put in place, will provide coverage for losses related to acts of foreign or domestic acts of terror. Fullerton's cost is projected to be \$11,000 if the coverage is put in place.

Special Event Liability

The City purchases various Special Event Liability policies as the need arises from one of four special events carriers. For the past several years, the City has purchased coverage insuring recurring events such as the Fullerton Market, July 4th Event, First Night, and Concerts in the Park, as well as Weather Insurance for the First Night event. Premiums for special event insurance are generally borne by the department hosting the event.