



## STAFF REPORT

**Report To:**

**Meeting Date:** June 20, 2019

**Staff Contact:** Sheri Russell, Chief Financial Officer, SRussell@carson.org; Pam Ganger, Deputy Chief Financial Officer, PGanger@carson.org

**Agenda Title:** For Possible Action: Discussion and possible action regarding insurance agreements with Public Entity Property Insurance Program (PEPIP) for property insurance (including automobile physical damage), boiler and machinery, pollution and cyber insurance at a total premium not to exceed \$635,089 for FY 2020. (Pam Ganger, PGanger@Carson.org)

Staff Summary: Staff proposes renewing Property Insurance with the same insurance program as last year. PEPIP insurers are all rated at least A- by AM Best Services adjusted policyholder reserves of at least \$150 million. Most of the program insurers have reserves exceeding \$2 billion.

**Agenda Action:** Formal Action / Motion

**Time Requested:** 10 Minutes

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### **Proposed Motion**

I move to direct authorized staff to enter into the insurance agreements as described.

### **Board's Strategic Goal**

Efficient Government

### **Previous Action**

FY 2019 insurance agreements were approved by the Board of Supervisors on June 21, 2018. General Liability and Excess Workers Compensation insurance programs were approved by the Board of Supervisors on June 6, 2019.

### **Background/Issues & Analysis**

The current Property Insurance Program and Vehicle Physical Damage Program are purchased on a year-to-year basis. As of June 10th, the underwriters have given the City a 17.15% premium increase to renew.

Property insurance rates have increased significantly in 2019. The market experienced losses at an all-time high in 2017, due to unprecedented windstorms and flooding with estimated losses of \$200 billion. Unprofitability for carriers continued with severe storms in 2018, with estimated losses of around \$80 billion (higher than the 20-year average of approximately \$55 billion). Accounts with catastrophic loss exposures (including earthquake, wind or flood) are facing double-digit rate increases.

City-insured values, which include buildings, contents, mobile equipment and vehicles, have increased by 4.65%. USI Insurance Services, the City's broker is still negotiating on the City's behalf to mitigate the premium rate increase as much as possible.

Currently, PEPiP provides property coverage for the City's buildings, contents, vehicles and mobile equipment with coverage including terrorism. The program also provides dedicated earthquake and flood coverage, pollution liability and cyber liability insurance.

PEPiP is a property insurance program which has more than 8,700 members in 45 states. The Program was started in 1993 and is part of the largest single property insurance placement in the world. The broader program includes cities, counties, schools, universities, airports, seaports, states, districts and hospitals. PEPiP has approximately \$350 billion in insured values. The Program is administered by Alliant Insurance Services, Inc.

The program is designed to provide flexibility for each of the separate entities to be able to elect various coverage and various deductibles. The placement of this coverage is provided by a combination of layering and quota sharing with various domestic, Bermuda, and London insurance companies.

The program is divided into towers which includes various other public entities. Carson City will be in a tower with other entities from other states. The insureds in a given tower share a \$1 billion each occurrence limit for the all-risk coverage (i.e. fire). The earthquake and flood limits are dedicated specifically to Carson City.

The Program provides a broad manuscript form which includes All Risk Property coverage, Boiler and Machinery coverage, Terrorism coverage and Vehicle Physical Damage coverage. Earthquake and Flood coverage is included with dedicated limits to the City. Cyber Liability and Pollution Liability have also been included as recommended coverage. All buildings over \$5,000,000 in replacement value will be appraised once every 5 years with no additional cost to the City. Claims are paid by Alliant Insurance Services, Inc. in San Francisco, California.

The following are the limits and deductibles that Staff is suggesting the City purchase:

- \$350,000,000 for All Risk coverage subject to a deductible of \$25,000 and Vehicle Physical Damage subject to a \$25,000 deductible.
- \$100,000,000 for Boiler and Machinery coverage subject to various deductibles depending on size of equipment.
- \$50,000,000 Aggregate for Earthquake coverage subject to 2% of replacement values per unit, minimum \$100,000 per occurrence.
- \$50,000,000 Aggregate for Flood coverage subject to \$100,000 per occurrence deductible except for High Hazard Flood Zones.
- \$5,000,000 Aggregate for High Hazard Flood locations in A and V Zones subject to a \$250,000 per occurrence deductible.
- \$2,000,000 Aggregate limit of Pollution Liability for the City and a \$25,000,000 program aggregate limit.
- \$2,000,000 Aggregate limit of Cyber Liability for the City and a \$25,000,000 program aggregate limit.

USI Insurance Services, marketed this placement extensively in 2018. Most property insurers declined to quote because they could not provide competitive rates or coverage. Two insurers provided quotes last year but offered significantly reduced earthquake and flood coverage. Pricing for excess earthquake and flood coverage made those quote options noncompetitive with the incumbent program (PEPiP). USI received a preliminary indication from another market in 2019 that did not offer high-hazard flood, automobile physical damage, pollution or cyber coverage. PEPiP is marketed each year to obtain the most competitive pricing and terms available and includes layered and quota shared coverage from over 20 insurers.

**Applicable Statute, Code, Policy, Rule or Regulation**

N/A

**Financial Information**

**Is there a fiscal impact? Yes**

**If yes, account name/number:** Insurance Fund / Insurance Premiums - 590- 0745-415-05-12.

**Is it currently budgeted? Yes**

**Explanation of Fiscal Impact:** \$1,134,000 is budgeted in this account for FY 20. Total insurance premiums for FY 20 will not exceed \$1,030,423. This is a 8.4% increase in overall insurance program costs from the prior fiscal year. As of the June 6th Board meeting, Liability Insurance through Argonaut with CCSMI as the Third Party Administrator, Great American Insurance for Crime, and Illinois Union for Landfill Pollution Liability is estimated to be \$395,334. The property program is projected to increase by a maximum of 22.6% over the prior year as a result of the current market conditions and increased property values for a total of \$635,089. To reduce this massive increase to property insurance, USI is eliminating their placement fee of \$13,803, which brings the total increase to 19.4% for property insurance over the prior year. The City's current property values are insured at \$328 million.

**Alternatives**

Elect not to enter into the agreements noted above and pursue other options for insurance.

**Attachments:**

[Property Program Renewal Summary 2019-20 Rev 6-10 \(2\).pdf](#)

**Board Action Taken:**

Motion: _____	1) _____	Aye/Nay
	2) _____	_____
		_____
		_____
		_____

\_\_\_\_\_  
(Vote Recorded By)

Expiring Coverage & Premiums

Coverage	Carriers	Coverage: Limit / Deductible	2018/19 Expiring Premiums
Property, Earthquake, Flood, Auto Physical Damage, Mobile Equipment, Boiler & Machinery, Cyber Liability & Pollution Liability	Public Entity Property Insurance Program	<b>Insured Values: \$313,558,255</b> Occurrence Limit: \$350,000,000 / \$25,000 Earth Movement : \$50,000,000 / 2% min.\$100,000 Flood Limit: \$50,000,000 / \$100,000 High Hazard Flood Limit: \$5,000,000 / \$250,000 Business Interruption: Included Extra Expense: \$50,000,000 Boiler & Machinery: \$100,000,000 / \$25,000* Vehicle Physical Damage: Replacement Cost / \$25k Cyber Liability: \$2,000,000 / \$50,000* Pollution Liability: \$2,000,000 / \$100,000*	\$ 490,242
	(Surplus Lines Carriers)		
		Property Program Inspection/Engineering Fee	\$ 8,674
		NV Surplus Lines Taxes & Fees	\$ 19,119
		Property Broker Fee	\$ 13,803
	<b>Total Costs</b>		<b>\$ 531,838</b>

Renewal Coverage & Premiums

Carriers	Coverage: Limit / Deductible	2019/20 Renewal Premiums	Notes	
Public Entity Property Insurance Program (Surplus Lines Carriers)	<b>Insured Values: \$328,127,787 (+4.65%)</b> Occurrence Limit: \$350,000,000 / \$25,000 Earth Movement : \$50,000,000 / 2% min.\$100,000 Flood Limit: \$50,000,000 / \$100,000 High Hazard Flood Limit: \$5,000,000 / \$250,000 Business Interruption: Included Extra Expense: \$50,000,000 Boiler & Machinery: \$100,000,000 / \$25,000* Vehicle Physical Damage: Replacement Cost / \$25k Cyber Liability: \$2,000,000 / \$50,000* Pollution Liability: \$2,000,000 / \$100,000*	\$ 600,150	Insured values increased <b>4.65%</b>  Account rate increased <b>17.15%</b>	
		Property Program Inspection/Engineering Fee	\$ 11,533	
		NV Surplus Lines Taxes & Fees	\$ 23,406	
		Property Broker Fee	\$ - <i>Fee waived</i>	
	<b>Total Costs</b>	<b>\$ 635,089</b>		
	Cost Variance	\$ 103,251		
	Percentage Change	19.41%		

\* Deductibles may vary depending on the type of equipment (boiler & machinery) and perils insured (cyber & pollution)

This proposal is merely a descriptive summary of coverage provided by the insurance companies being proposed and should be used for reference purposes only. This is a quotation of coverage only. It is not a binder. This proposal does not amend or alter the insurance contract.

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