



STAFF REPORT

Report To: Board of Supervisors **Meeting Date:** June 18, 2020

Staff Contact: Sheri Russell, Chief Financial Officer

Agenda Title: For Possible Action: Discussion and possible action regarding proposed 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 of \$744,159; Argonaut Insurance Company for excess auto liability, general liability, employment practices, errors and omissions and law enforcement liability coverage at a total premium of \$349,211; Great American Insurance Group for government crime insurance at a total premium of \$13,808; and Illinois Union Insurance Company for landfill pollution legal liability insurance at a total premium of \$14,214, for an aggregate total of approximately \$1,121,392 for fiscal year (FY) 2021 to be paid from the Insurance Fund. (Sheri Russell, srussell@carson.org)

Staff Summary: Staff proposes renewing property insurance with the same insurance carriers as prior year. PEPIP insurers are all rated at least A- by AM Best adjusted and have policyholder reserves of at least \$100 million. Most program insurers have reserves exceeding \$2 billion. The City's insurance broker checked with ten other national property insurers but they were unable to provide comparable program to PEPIP with competitive rates. The property program has quoted an increase of 23.1% for FY 2021. Staff is also recommending renewing general liability, auto liability, employment practices, errors & omissions and law enforcement liability with Argonaut, as well as crime insurance with Great American and landfill pollution liability with Illinois Union (same insurance companies as last year). Argonaut Insurance (Trident Public Risk) has quoted a moderate increase of just 4.7%, Great American has quoted a moderate increase of 5%, and Illinois Union has quoted an increase of 14.5% in premiums for FY 2021. All of these insurance companies have at least an A- rating by AM Best and have adjusted policyholder reserves of at least \$1.5 billion.

Agenda Action: Formal Action / Motion **Time Requested:** 15 Minutes

Proposed Motion

I move to enter into the insurance agreements for fiscal year 2021 as presented.

Board's Strategic Goal

Efficient Government

Previous Action

FY 2020 insurance agreements were approved by the Board of Supervisors on June 6th and June 20th, 2019.

Background/Issues & Analysis

The current property, boiler & machinery, vehicle physical damage, cyber, and pollution insurance programs (PEPIP) are purchased on a year-to-year basis. Property and catastrophe risk insurance rates have continued

to firm significantly in 2020 with insurers and reinsurers carefully evaluating pricing and capacity offered. The property insurance markets incurred losses exceeding \$200 billion in 2017 and \$80 billion in 2018, compared to a prior annual average of \$50 billion.

Between 2017 and 2019, the insurance markets sustained approximately \$400 billion in property losses. Many insurers have exited or severely reduced capacity for natural catastrophe risks. This has negatively impacted available capacity, rates and coverage terms.

Anticipated losses resulting from COVID-19 and more recent civil unrest may further tighten an already firm market. More recently, the City is seeing double-digit rate increases, with significant rate increases for insureds with natural catastrophe exposures. As of June 1st, reinsurance rates increased by over 25%, which affects pricing for primary insurers and programs.

City-insured values, which include buildings and contents, mobile equipment and vehicles, have increased slightly. 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 10,000 members in 45 states. The Program was started in 1993 and is among the largest property insurance placements in the world. The broader program includes cities, counties, schools, universities, airports, seaports, states, districts and hospitals. The overall program has approximately \$500 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, European and London insurance markets.

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 \$25,000 deductible, 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 a deductible of 2% of replacement values per unit of insurance or a minimum of \$100,000 per occurrence.
- \$50,000,000 aggregate for flood coverage, subject to a \$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 the property insurance program placement extensively in 2018 and again in 2020. Most property insurers declined to quote because they could not provide competitive rates or coverage. Two insurers previously provided quotes 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). PEPIP is marketed each year to obtain the most competitive pricing and terms available and includes layered and quota shared coverage from over 30 insurers and reinsurers.

The excess liability renewal increase of 4.7% is due to a combination of exposure changes. The rate increase is lower than other markets for similar risks ranging from 5% to 15%. The crime policies renewal increase of 5% is in line with market conditions, following several years of flat pricing. The landfill pollution renewal increased 14.5%, or \$1,805, and follows several years of stable pricing.

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 - 5900745-500512.

Is it currently budgeted? Yes

Explanation of Fiscal Impact: \$1,134,000 is budgeted for insurance premiums for FY 2021. Total insurance premiums for FY 2021 discussed above will be approximately \$1,121,382. This is a 16.4% increase in overall insurance program costs from the prior fiscal year. In FY 2020 the City realized a 5.6% decrease in premiums as the City moved from Travelers to Argonaut, for the City's General Liability policy, and given that the City is unable to obtain competitive quotes for Property, the increase in PEPIP is reasonable when compared to the market. Nevertheless, the City has had no large claims, and USI insurance will continue to negotiate a more reasonable increase in the FY 2021 premium.

Alternatives

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

Attachments:

[Property Casualty Renewal Summary 6-4-2020.pdf](#)

Board Action Taken:

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

(Vote Recorded By)

Expiring Coverage & Premiums

Renewal Coverage & Premiums

Coverage	Carriers	Coverage: Limit / Deductible or Retention	2019/20 Premiums	Carriers	Coverage: Limit / Deductible or Retention	2020/21 Premiums	Renewal Variance
Property, Auto Physical Damage, Boiler & Machinery, Cyber Liability & Pollution Liability <i>Premiums include program inspection and engineering fee, surplus lines tax (3.5%) and surplus lines stamping fee (.04%).</i>	Public Entity Property Insurance Program (PEPIP) <i>Non-Admitted, Surplus Lines Insurers</i>	Insured Property Values: \$328,127,787 Policy Limit: \$350,000,000 / \$25,000 Earth Movement: \$50,000,000 / 2%/\$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*	\$ 604,351	Public Entity Property Insurance Program (PEPIP) <i>Non-Admitted, Surplus Lines Insurers</i>	Insured Property Values: \$337,524,853 +2.9% Policy Limit: \$350,000,000 / \$25,000 Earth Movement: \$50,000,000 / 2%/\$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*	\$ 744,159	\$ 139,808
Excess Self-Insured General Liability, Employment Practices Liability, Errors & Omissions, Law Enforcement Liability	Argonaut Ins. (Trident Public Risk)	Auto Liability: \$10,000,000 / \$100,000 SIR General Liability: \$10,000,000 / \$100,000 SIR Abuse or Molestation: \$5,000,000 / \$100,000 SIR Employment Practices: \$10,000,000 / \$100,000 SIR Errors & Omissions: \$10,000,000 / \$100,000 SIR Law Enforcement: \$10,000,000 / \$100k SIR	\$ 333,476	Argonaut Ins. (Trident Public Risk)	Auto Liability: \$10,000,000 / \$100,000 SIR General Liability: \$10,000,000 / \$100,000 SIR Abuse or Molestation: \$5,000,000 / \$100,000 SIR Employment Practices: \$10,000,000 / \$100,000 SIR Errors & Omissions: \$10,000,000 / \$100,000 SIR Law Enforcement: \$10,000,000 / \$100k SIR	\$ 349,211	\$ 15,735
Crime/Employee Theft	Great American	Crime/Employee Theft: \$1,000,000/\$50,000 DED	\$ 13,150	Great American	Crime/Employee Theft: \$1,000,000/\$50,000 DED	\$ 13,808	\$ 658
Landfill Pollution Liability <i>Includes surplus lines tax 3.5% and fee (.04%)</i>	Illinois Union <i>Non-Admitted, Surplus Lines Insurer</i>	Landfill Pollution: \$2,000,000/\$25,000 SIR	\$ 12,409	Illinois Union <i>Non-Admitted, Surplus Lines Insurer</i>	Landfill Pollution: \$2,000,000/\$25,000 SIR	\$ 14,214	\$ 1,805
Expiring Annual Cost			\$ 963,386	Renewal Total Cost			\$ 1,121,392
							\$ 158,006

16.40%

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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