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DEPARTMENT OF
HUMAN RESOURCES

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CALIFORNIA

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RISK MANAGEMENT DIVISION

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City Council
Sacramento, CA

Honorable Members in Session:

SUBJECT: INSURANCE COVERAGE

LOCATION AND COUNCIL DISTRICT: D-All

RECOMMENDATION: This report is for information only.

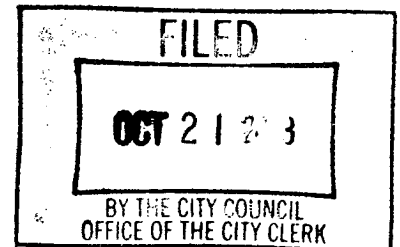
CONTACT PERSON: Terrence L. Woods, 808-7728

FOR COUNCIL MEETING OF: October 21, 2003

SUMMARY:

Staff secured insurance coverage for fiscal year 2004 as indicated on the attached matrix. The matrix also contains a cost comparison to fiscal year 2003 premium rates. Persisting hard market conditions in the insurance industry have caused escalating premiums that affect the City of Sacramento's ability to obtain insurance at reasonable prices. In part, these market conditions are the result of a 1995 decision by the Department of Insurance to deregulate the industry. Other factors contributing to the market conditions include: 1) economic downturn; 2) underwriter concern about catastrophic losses due to terrorism; 3) rapidly increasing medical costs; and 4) the regulatory environment in California.

COMMITTEE/COMMISSION ACTION: None



BACKGROUND:

Excess General Liability

- From 1991-1998, the City carried \$18 million excess liability coverage above a two million dollar self insured retention. From 1999-2003, the City carried \$20 million of excess liability coverage above either a one or two million dollar self insured retention.
- Risk management records indicate that five claims closed since 1998 pierced the first \$10 million excess liability insurance layer. No liability claims have ever pierced the second layer of excess general liability coverage.

Worker's Compensation and Employer's Liability

- The City of Sacramento has purchased excess worker's compensation coverage up to statutory limits since 1982.
- The FY 2004 renewal quotation for workers' compensation and employers' liability coverage, in excess of a two million dollar self insured retention, reduced coverage from statutory to a \$10 million excess limit with a premium increase of 350%.
- A new carrier's quotation for workers' compensation and employers' liability coverage for FY 2004, in excess of a two million dollar self insured retention, reduced coverage from statutory to a \$50 million excess limit with a premium increase of 243%.
- Due to dramatic increases in costs for decreasing coverage, the City's actuary and insurance broker report that other public agencies have chosen not to purchase excess workers' compensation insurance for FY 2004.
- Jurisdictions electing not to purchase excess workers' compensation coverage in FY 2004 include, a joint powers authority consisting of 11 Orange County cities, the County of Orange, the City of Pasadena and Sacramento Metro Fire. Historically, the Counties of San Diego and Los Angeles have self insured for their entire workers' compensation exposure.
- Our actuary reported 5 million dollars, in the City of Modesto, as the largest workers' compensation award to his knowledge.
- In the past twenty-eight years, the largest worker's compensation claim in the City of Sacramento was approximately \$1.5 million and the next largest was \$750,000.

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- Excess workers' compensation coverage benefits the City in situations involving catastrophes, such as multiple employees involved in one automobile accident, an attack on a City facility or attack on a facility to which City safety personnel must respond.
- Workers' compensation medical costs have escalated by 26 % since FY 2000.

Property

- The property insurance premium rate remained stable from FY 2003. An 11% premium increase in FY 2004 is attributed to increased values in the City's property schedule and an approximate 3% increase in premium rates for earthquake coverage.
- Over half of the property insurance premium is for earthquake coverage that has a limit of \$30 million which is equal to 3.2% of the total value of the City's property.
- City staff have determined that there are no indenture trust requirements that make earthquake coverage mandatory for City facilities. Sacramento has not historically experienced property destruction from seismic activity.

Fine Arts

- While fine arts insurance premiums have remained stable, the Crocker and Discovery Museums and the Sacramento Archives can no longer afford to directly pay \$39,000 annually for the \$25 million of coverage.

Terrorism

- The City's property insurance policy still covers terrorism. However, terrorism coverage is now specifically excluded under most other lines of insurance coverage. Where these exclusions apply, insurers offer optional coverage guaranteed by the Federal Government under the Terrorism Risk Insurance Act (TRIA).
- Premiums for optional TRIA coverage have been quoted at costs up to 25% of the underlying premium on City insurance policies.
- TRIA is scheduled to sunset in December of 2005 at which time terrorism coverage is expected to be available through the commercial insurance markets.

Special Events

- Individuals and groups that hold special events, not related to City business, at City facilities such as community centers are required to provide evidence of general liability coverage with limits of one million dollars.
- The City's insurance broker provides a program through which special event coverage can be purchased.
- Premium rates for special events coverage increased 15% for FY 2004.
- For events with multiple vendors, each vendor must provide individual coverage in addition to the general coverage for the event. Vendor premiums through the special event program range from \$45 - \$85/ day depending on the type of display, food or services provided.

Contractor Liability

- Contractors that provide services to the City are required to provide evidence of general and automobile liability coverage with limits of one million dollars.
- The City's insurance broker provides a program through Colony Insurance through which contractors can purchase general liability insurance to cover their City contracts.
- Premium rates for contractor liability coverage remained stable for FY 2004. However, Colony Insurance and other carriers have begun to require that contractors also purchase errors and omissions coverage even when the City's contract does not require this coverage.
- Knowledge workers who manipulate information, and other contractors that provide a product that City management staff are responsible for accepting and implementing, only present a liability risk due to negligent behavior.

ENVIRONMENTAL CONSIDERATIONS: None

POLICY CONSIDERATIONS:

For fiscal year 2004, staff implemented the following actions consistent with our practice of purchasing commercial insurance.

Excess General Liability

- The excess general liability premium increased 12% in FY 2004 despite a decrease from \$20 to \$10 million of coverage. Based on the City's loss history, elimination of the second \$10 million layer of excess liability insurance is cost effective and will save \$164,063 in FY 2004.

Excess Workers' Compensation and Employers' Liability

- Based on the City's loss history, self insurance of excess workers' compensation during hard market conditions is a tolerable risk. Excess workers' compensation insurance was not purchased for FY 2004.
- To contain medical costs within the current budget allocation, staff contracted with a medical bill review provider whose compensation is based upon performance. A savings of at least 35% is guaranteed or fees will be reduced.
- In the first quarter of FY 2004, an average net savings of 50% equaling \$804,558 has been achieved through the new workers' compensation medical bill review process.

Property

- Due to the high cost of earthquake insurance and relatively low limit of coverage, it may be cost effective to discontinue earthquake coverage on City buildings. Based upon current premiums, this would result in an approximate \$298,000 savings in FY 2004 for a half year premium credit and approximately \$596,000 in subsequent years.
- An earthquake hazard analysis is currently being prepared for Sacramento by technical consultants retained by the City's insurance broker. The findings of this hazard assessment will be used to develop a recommendation regarding whether continuation of earthquake insurance is a reasonable investment of City funds.

Fine Arts

- Due to the value of City property contained in the museum collections and archives, Fine Arts coverage will be maintained with the City of Sacramento named as the primary insured. Fine Arts coverage will continue to be funded through the city wide risk cost allocation plan.

Terrorism

- Optional terrorism coverage under the Terrorism Risk Insurance Act (TRIA) has not been purchased to supplement City of Sacramento insurance coverage.

Contractor Liability

- Auto liability limits are reduced if the contractor's vehicle will not be used to conduct City business or transport City employees.
- General liability insurance may be waived by the Human Resources Director for one time, low risk jobs by specialty consultants such as advisors, facilitators and classroom trainers. Insurance coverage is not waived for professional services such as those provided by architects and engineers.
- If general liability insurance is waived for extended or repeated work by a contractor, a cost factor will be applied by which the department utilizing the contract services compensates the risk fund for this exposure.
- Risk Management staff will seek options for purchase of a blanket general liability policy that could provide a cost effective option to individual coverage for small contractors.
- In hard market conditions, A.M. Best insurance carrier ratings down to B are accepted for contractor coverage. Best ratings of less than B are cause for serious concern about the carrier's financial stability and are not accepted.

General Principles

- The Human Resources Director will evaluate insurance coverage annually for the exposures identified in this report. Consistent with the actions described in this report, risk decisions will continue to be based upon an evaluation of exposures balancing the likelihood of losses, the insurance coverage available and the cost of coverage to assure a reasonable investment of City funds.

FINANCIAL CONSIDERATIONS

The financial strategies to address the stated fiscal impacts for insurance coverage issues will be brought back to council either as a part of the year end financial reporting process or the midyear financial report.

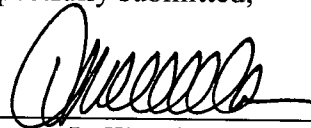
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ESBD CONSIDERATIONS:

The City's current insurance broker, Driver Alliant Insurance Services includes small business partners in providing services such as property appraisal and earthquake hazard assessment to the City of Sacramento. Risk Management staff are committed to compliance with the City's ESBD program requirements when insurance brokerage service proposals are solicited and reviewed.

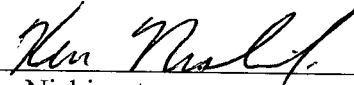
The Human Resources Department currently contracts with two local small business enterprises. J&K Risk provides risk management consultation services, and Bragg and Associates serves as the third party liability claims administrator.

Respectfully submitted,



Terrence L. Woods
Human Resources Director

Approved:



Ken Nishimoto
Deputy City Manager

RECOMMENDATION APPROVED:



Robert P. Thomas
City Manager

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Insurance Coverage Matrix

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TYPE OF COVERAGE	TERM	LIMITS	DEDUCTIBLE OR SELF-INSURED RETENTION	2002-03 PREMIUM COST	2003-04 PREMIUM QUOTED
PEPIP Property including dedicated flood, earthquake, vehicles / equipment Total Insurable Values: \$949,965,585	5/15/03-7/1/04 One time 15 month term to sync property with all other renewals at 7/1/04	\$750,000,000 \$30,000,000 Flood – City of Sacramento \$30,000,000 Earthquake – City of Sacramento \$10,000,000 Flood – Cal –EPA	\$100,000 Per Occurrence EXCEPT Flood Zone A & V Only \$250,000 5% per occurrence for earthquake per unit subject to \$100,000 minimum except for buildings prior to 1940 10% per occurrence for earthquake per unit to \$100,000 minimum for buildings prior to 1940 \$10,000 automobile comprehensive and collision	\$980,137 - total	\$572,512 - all risk coverage purchased \$596,132 - earthquake coverage purchased
PEPIP - Boiler & Machinery Excess	5/15/03 – 7/1/04	\$100,000,000	Various	\$64,943	\$32,518 coverage purchased
Crime Coverage Including: Employee Dishonesty, Inc. Faithful Performance Forgery or Alteration Theft, Disappearance and Destruction Robbery and Safe Burglary Computer Fraud	7/1/03 – 7/1/04	\$5,000,000 \$5,000,000 \$5,000,000 \$5,000,000 \$5,000,000	\$25,000 \$25,000 \$25,000 \$25,000 \$25,000	\$20,731	\$23,840 coverage purchased

TERM OF COVERAGE	TERM	LIMITS	DEDUCTIBLE OR SELF-INSURED RETENTION	2002-03 PREMIUM COST	2003-04 PREMIUM QUOTED
Fine Arts Inculding Aggregate all sections Earthquake While in Transit	7/1/03 - 7/1/04	\$25,000,000 \$12,500,000 \$ 5,000,000	\$1,000	\$39,824	\$37,687 coverage purchased no claim discount applied
Total Premiums				\$2,078,183	\$2,912,895