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CITY MANAGER'S OFFICE
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DEPARTMENT OF FINANCE

RISK MANAGEMENT & INSURANCE DIVISION

CITY OF SACRAMENTO
CALIFORNIA

March 27, 1990
RM:90023WP:WR/eb

APPROVED BY THE CITY COUNCIL
MAR 27 1990
OFFICE OF THE CITY CLERK

AG 90-014

CITY HALL
ROOM 14
915 I STREET
SACRAMENTO, CA
95814-2685

916-449-5556

WILLIAM REDMOND
MANAGER

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: APPROVAL OF EXCESS AUTO AND GENERAL LIABILITY INSURANCE SECOND LAYER OF COVERAGE

SUMMARY

As part of the City's overall management of its exposure to risks and potential liability, the Risk Management Committee has regularly reviewed and analyzed various alternatives to liability insurance available to public agencies. The availability of excess public liability insurance in the market has improved in the past 12 months. Two years ago the City Council approved a long range solution to the excess liability problem by providing an 8.5 year three tier plan. This is the third year in the plan to provide the necessary excess liability coverage for the City. On July 12, 1988, the City purchased an excess liability policy of $10 million excess of $10 million. This report recommends a purchase of an additional layer of coverage of $5 million excess of $5 million.

BACKGROUND

Since the City's excess liability insurance coverage expired on November 20, 1985, the City had been fully self insured (uninsured) for its liability exposure. The City had been unsuccessful in finding an underwriter willing to provide excess liability insurance coverage until May 9, 1988.

Sacramento's original self insurance program, approved by Council in 1976 was designed to effectively accommodate the limited risks of that era. Since then, significant changes have occurred which have reduced the effectiveness of that program. Erratic insurance cycles, legislative changes, municipal budget constraints, and a deepening involvement of the City with community enterprises of a nontraditional local government nature have greatly expanded our exposures to catastrophic losses. As a consequence, the financial

resources and financial integrity of the City have been placed in greater jeopardy than our original self insurance program could anticipate or accommodate.

Staff has been actively pursuing alternatives to mitigate this situation since November of 1985. We have explored a number of alternatives which were more expensive and less stable than the Big Independent Cities Excess Pool (BICEP) program. On March 8, 1988, the City Council adopted a resolution authorizing the City of Sacramento to become a member of the BICEP-JPA (Joint Powers Authority) contingent on its formation and finalization of the program as presented to City Council that date.

On July 12, 1988, the City Council rescinded their intention to join BICEP and approved a three tiered program authorizing the establishment of an annualized contribution of $500,000 for the next 8.5 years to accumulate a total restricted reserve of an additional $7.5 million and the purchase of an excess liability policy of $10 million excess of $10 million at a price not to exceed $200,000 annual premium. By June 30, 1990, the restricted reserve will be at $3,785,000 level.

On March 1, 1990, the Robert Driver Company found a top rated insurance company General Star who will provide the City with an excess liability policy to cover an additional layer of coverage $5 million excess of $5 million self-insured retention. This coverage would significantly reduce the risk the City faces in a catastrophic incident. There is still significant exposure to the City should a catastrophic loss exceed $20 million.

The policy form for the subject quoted coverage offers some umbrella coverage for flood related claims as well as very good overall general liability catastrophic protection for the City.

FINANCIAL

The quote for the subject coverage has been structured by the Robert Driver Company, Inc. to fit within the City of Sacramento's fiscal budget year as follows.

Quoted price for period 4/1/90 to 7/1/90	$64,129.95 and
Quoted price for period 7/1/90 to 7/1/91	$257,550.00

Sufficient funding is available to secure this coverage for the period ending July 1, 1990. No additional funds need be appropriated this year.

Funding for next year will be recommended as part of the proposed budget.

POLICY

With the approval of the subject $5 million excess of $5 million liability insurance coverage the City will be reducing the overall risk that it faces under possible catastrophic circumstances. The intent of Council on July 12, 1988, when they approved the 8.5 year planned accumulation of $10 million restricted excess liability reserve was to provide for the possibility of one catastrophic occurrence as a policy decision.

By June 30, 1992, this restricted excess liability reserve is projected to be $5 million. At that time the City Council can assess the cost of excess liability insurance coverage and the market availability of the $5 million excess of $5 million layer of coverage to see if it's still available at a reasonable price.

Assuming the above scenario the City Council may choose one of the following options.

1) If the market for excess liability insurance coverage does not change or improves, the Council may choose to freeze the restricted reserve at $5 million and discontinue the annual budgeting of $500,000.

2) If the market for excess liability insurance coverage deteriorates and becomes more costly then the continuing budget up to the $10 million restricted reserve level can be maintained without change in policy.

RECOMMENDATION

It is recommended the City Council adopt the attached resolution authorizing the City Manager to secure the subject $5 million excess of $5 million liability coverage from Robert Driver Company.

Respectfully submitted,

William Redmond

William Redmond
Risk Manager

RECOMMENDATION APPROVED:

John Wilson, Jr.

for: Walter J. Slipe
City Manager

March 27, 1990
All Districts

Attachments

RESOLUTION NO. 90-236

APPROVED
BY THE CITY COUNCIL

MAR 27 1990

OFFICE OF THE
CITY CLERK

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF _____

RESOLUTION AUTHORIZING THE APPROVAL OF ADDITIONAL EXCESS LIABILITY INSURANCE

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

1. That the City Manager is hereby authorized and directed to purchase an excess liability insurance policy of $5 million excess of $5 million coverage through Robert Driver Insurance Company at a price not to exceed $64,130 for the period from 4/1/90 to 7/1/90.

2. The budget for the above appropriations is $64,130 and will be expended from line item number:
   4-21-110-1152-0000-4291 -- $57,536.
   4-21-110-1152-0000-4295 -- $6,594.

_____
MAYOR

ATTEST:

_____
CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____