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**File ID:** 2024-01206

6/25/2024

**Consent Item 17.**

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**Contracts: Authorizing City's Insurance Broker to Renew the City's Contracts for Insurance  
[Published for 10-day Review 06/14/2024]**

File ID: 2024-01206

**Location:** Citywide

**Recommendation:** 1) Pass a **Motion** authorizing the City Manager or City Manager's designee to authorize Alliant Insurance Services, Inc., the City's insurance broker, to secure insurance policies for Excess Liability, Excess Workers' Compensation, Property, Fine Arts, Aircraft, and other insurance including Crime, Pollution, Underground Storage Tank, Special Events, and Airport Liability, for an amount not-to-exceed \$22,029,225, including \$700,000 for unexpected increases in costs.

**Contact:** Patrick Flaherty, Risk Manager, (916) 808-8587, pflaherty@cityofsacramento.org, Department of Human Resources

**Presenter:** None

**Attachments:**

- 1-Description/Analysis
- 2-Attachment A Fiscal Year 2025 Insurance Premiums
- 3-Attachment B Schedule of Insurance

**Description/Analysis**

**Issue Detail:** The City faces a complex array of risks that can result in severe or catastrophic losses. The City utilizes professional insurance brokerage services to place a variety of commercial insurance policies to protect the City from these losses. The City currently contracts with Alliant Insurance Services Inc. (Alliant) to perform this function. Purchasing insurance helps protect the City from catastrophic liability claims, automobile accidents, and workers' compensation injuries. Additionally, purchasing insurance protects the City from loss due to damage or destruction of City assets, pollution, crime, fine arts, cyber liability, special events, and airport/aircraft exposures. The City's insurance broker marketed all lines of insurance coverage to ensure all viable options were considered. Alliant and the Department of Human Resources, Risk Management Division have evaluated each of the insurance programs in terms of potential loss, coverage, self-insured retentions, deductibles, premiums, and policy limits and recommend the purchase of insurance as outlined in Attachment A. Attachment B provides a comparison of insurance policies for fiscal year

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(FY) 2023/24 and FY2024/25.

In FY2023/24, Alliant placed insurance policies for the City with a total cost of \$17,472,979 and the FY2024/25 estimated total cost of insurance is \$22,029,225, a 26% increase. The increase is primarily driven by higher excess liability and property insurance costs which are discussed below. Similar to last year, this has been a very difficult insurance renewal process with costs increasing in many lines of coverage for the City and public entities throughout California and the nation. These recommendations for insurance policies, premiums, self-insured retentions, and deductibles may change as most quotes are not finalized and in some instances the City may receive additional insurance quotes that would change the costs and information outlined in this report.

**Policy Considerations:** Failure to purchase insurance policies to protect the City in case of catastrophic losses would place the City at risk of financial hardship should one or more of the losses referenced in this report occur.

The Sacramento City Code Section 4.04.020 and Council Rules of Procedure (Chapter 7, Section E.2.d) mandate that unless waived by a 2/3 vote of the City Council, all labor agreements, and all agreements greater than \$1,000,000 shall be made available to the public at least ten (10) days prior to council action. This item was published for 10-day review on June 14, 2024, in compliance with the City Code.

**Economic Impacts:** None.

**Environmental Considerations:** This report concerns administrative activities that will not have a significant effect on the environment and does not constitute a "project" as defined by CEQA [CEQA guidelines Sections 15061(b)(3); 15378(b)(2)].

**Sustainability:** There are no sustainability considerations applicable to this action.

**Commission/Committee Action:** Not applicable.

**Rationale for Recommendation:** The recommended insurance policies are as follows:

Excess Liability: The excess liability insurance renewal was extremely challenging again this year for the City and public entities throughout California and the nation. Costs continue to rise as the state of the liability insurance market for public entities continues to harden as plaintiff settlement demands, jury verdicts, and high dollar liability claims continue to rise dramatically. This results in more and larger claims which drives increasing premiums. For example, according to Verdict Search, Inside P&C, the estimated number of nuclear verdicts, defined as court cases with verdicts above \$20 million, increased from 140 in 2022 to 210 in 2023.

Unfortunately, these increases do not appear to be an anomaly but rather are the new normal. For example, the annual growth rate for claim costs for the last decade has been at 11% per year. Additionally, claim payouts by the City's excess liability carriers lead to increasing premiums and there are now fewer reinsurers willing to write public entity business, reducing the available capacity in the insurance market. The City participates in the General Liability 2 program in Public Risk Innovations, Solutions, and Management (PRISM), a member directed insurance risk sharing pool, for excess liability coverage. Policy limits were increased to \$40 million in FY2022/23 due to rising settlement and verdict values and remain at \$40 million this year. This amount of excess liability coverage is appropriate for a city the size of Sacramento and will provide additional protection from catastrophic losses. The City's self-insured retention is \$2 million with a \$2 million loss corridor deductible. The loss corridor deductible is an aggregate deductible for claims over the City's \$2 million self-insured retention. The City and other General Liability 2 program members received large premium increases in FY2024/25. Our FY2023/24 premium was \$9,841,618 and our FY2024/25 premium is 31% higher, estimated at \$12,883,000.

Excess Workers' Compensation: The City is self-insured for the first \$2 million of any workers' compensation loss and has purchased excess workers' compensation insurance from PRISM since 2007. PRISM uses pool purchasing power to achieve broad coverage for the lowest rates available. The PRISM pool is one of the largest pools in the nation and provides services to 93% of the counties and 60% of the cities in California. Excess workers' compensation insurance premiums were \$1,188,796 in FY2023/24 and increased 30% to an estimated amount of \$1,550,000 in FY2024/25. While this is a large increase, the City was able to get an exceptionally low premium last year due to a program restructuring effort by PRISM. The premium for FY2022/23 was \$1,402,953, not significantly different than this year's premium. The premium increase is primarily driven by estimated higher City payroll, greater claim experience in the higher layers of the pool's reinsurance, and a premium surcharge due to one large City workers' compensation claim.

Property: Property insurance is currently purchased from the Public Entity Property Insurance Program (PEPIP) with a \$100,000 deductible. PEPIP was formed in 1993 to meet the property insurance needs faced by public entities and is currently the largest property insurance placement in the world. PEPIP is a joint purchase program and there is no risk of assessments. Because of PEPIP's large size, members receive low premiums with the best possible coverage terms. FY2023/24 premiums were \$6,103,397 and estimated premiums increased 18% in FY2024/25 to \$7,190,303.

While the increase in the City's property insurance premium is less than last year, costs continue to increase. Large storm losses in California in recent years, which caused extensive damage to City property as well as many other entities in California, are adding to the increases in premiums. Inflation, labor shortages, and rising material costs have also increased construction costs. These factors along with an increase in the City's insurable value and several large property claims (two fires and windstorm claims in FY2021, FY2023, and FY2024) reported to our property insurer are

resulting in a large premium increase.

**Fine Arts:** Fine arts insurance with a limit of \$175 million was purchased last year to provide coverage for the Crocker Art Museum, Discovery Museum, Golden 1 Center, the Sacramento Archives and Museum Collection, and other locations throughout the City. Fine arts insurance was purchased from Axis last year and they remain the insurer this year. The FY2023/24 premium was \$116,078. As the Crocker Art Museum continues to acquire artwork, some of high value, it is recommended we increase the policy limit from the current \$175 million to \$200 million for FY2024/25. The increased premium costs for this additional coverage are \$13,346 and the estimated FY2024/25 premium is \$134,313, an increase of 16%.

**Aircraft:** Aircraft insurance is purchased to cover the City's small plane and three helicopters. The premium in FY2023/24 was \$53,510, and the premium for FY2024/25 is \$54,621, an increase of 2%.

**Other Insurance:** Other insurance includes policies for pollution, underground storage tanks, crime, airport, and special events, with a total cost of \$216,988, a 28% increase from the prior year's cost of \$169,580. The increase is primarily from higher pollution insurance costs as pollution claims increased in frequency and severity nationwide, and there are few insurers interested in writing this coverage.

**Total Insurance Costs:** Attachment A provides a summary of the FY2024/25 insurance policies and premiums. Attachment B provides a comparison of insurance policies and premiums from FY2023/24 and FY2024/25.

**Financial Considerations:** Sufficient funds will be available in the Department of Human Resources FY2024/25 operating budget for the Risk Management Fund (6502) and Workers' Compensation Fund (6504) for coverages through June 30, 2025.

**Local Business Enterprise (LBE):** Alliant is a qualified LBE.

**Attachment A**  
**Fiscal Year 2025 Insurance Premiums**

<b>Schedule of Insurance</b>	<b>Self-Insured Retention</b>	<b>Policy Limits</b>	<b>Premium</b>	<b>Carrier</b>
Excess Liability	2,000,000*	40,000,000	12,883,000	PRISM
Workers' Compensation	2,000,000	Statutory	1,550,000	PRISM
Property	100,000	1,000,000,000	7,190,303	PEPIP
Fine Arts	10,000	200,000,000	134,313	AXIS
Aircraft	Varies	20,000,000	54,621	Starr Indemnity
Other Insurance: Includes pollution, crime, ust, airport, special events			216,988	
<b>Total Insurance:</b>			<b>22,029,225</b>	

\*2,000,000 loss corridor deductible

## Attachment B Schedule of Insurance

<u>Comparison Chart</u>					
	Fiscal Year	Self-Insured Retenti	Policy Limits	Premium	Carrier
Excess Liability	FY25	2,000,000*	40,000,000	12,883,000	PRISM
	FY24	2,000,000*	40,000,000	<u>9,841,618</u>	
	Difference:			3,041,382	
Workers' Compensation	FY25	2,000,000	Statutory	1,550,000	PRISM
	FY24	2,000,000	Statutory	<u>1,188,796</u>	
	Difference:			361,204	
Property	FY25	100,000	1,000,000,000	7,190,303	PEPIP
	FY24	100,000	1,000,000,000	<u>6,103,397</u>	
	Difference:			1,086,906	
Fine Arts	FY25	10,000	200,000,000	134,313	AXIS
	FY24	10000	175,000,000	<u>116,078</u>	
	Difference:			18,235	
Aircraft	FY25	Varies	20,000,000	54,621	Starr Indemnity
	FY24	Varies	20,000,000	<u>53,510</u>	
	Difference:			1,111	
Other Insurance: Includes pollution, crime, ust, airport, special events	FY25			216,988	
	FY24			<u>169,580</u>	
	Difference:			47,408	28%
<b>Total Insurance</b>	FY25			22,029,225	
	FY24			<u>17,472,979</u>	
	Difference:			4,556,246	26%

\*2,000,000 loss corridor deductible