Title: (Contract for Review) Renewal of City Insurance Policies

Location: Citywide

Recommendation: Accept and publish for review 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 $15,872,937, including $400,000 for unexpected increases in costs; and continue to June 28, 2022, for approval.

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

Presenter: None

Attachments:
1-Description/Analysis
2-Fiscal Year 2023 Insurance Premiums
3-Schedule of Insurance Comparison Chart
Description/Analysis

**Issue Detail:** The City faces a complex array of risks that can result in severe or catastrophic loss. 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, special events, and airport/aircraft exposures. The City’s insurance broker marketed all lines of insurance coverage to ensure all viable options were considered. The City’s insurance broker 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 FY2021/22 and FY2022/23.

In FY2021/22, Alliant placed insurance policies for the City with a total cost of $11,803,341 and in FY2022/23 the total cost of insurance is $15,872,937, a 34% increase. The increase is primarily driven by higher excess liability, property, and workers’ compensation insurance costs, which are discussed below. This has been a very difficult insurance renewal process with costs increasing in all 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 some 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 for financial hardship should one or more of these losses 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.

**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: None.

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 due to challenges related to social inflation 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, the median average of the top 50 United States jury verdicts almost doubled from 2014 to 2018. Additionally, claim payouts by the City’s excess liability carriers leads 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 Public Risk Innovations, Solutions, and Management (PRISM), a member directed insurance risk sharing pool, General Liability 2 program for excess liability coverage which is designed for larger public entities. Policy limits remain at $35,000,000. 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 $2,000,000 with a $2,000,000 loss corridor deductible. The loss corridor deductible is an aggregate deductible for claims over the City’s $2,000,000 self-insured retention. The City, and other General Liability 2 program members, received large premium increases in FY2022/23. Our FY2021/22 premium was $7,568,113 and our FY2022/23 estimated premium is 34% higher, estimated at $10,177,000.

Excess Workers’ Compensation: The City is self-insured for the first $2,000,000 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 $1,165,619 in FY2021/22 and increased 28% to $1,487,000 in FY2022/23. The premium increase is primarily driven by estimated higher City payroll, greater claim experience in the higher layers of the pool’s reinsurance, and increased reinsurer concerns with wildfire smoke risk. Additionally, there is 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. FY2021/22 premiums were $2,814,214 and estimated premiums increased 38% in FY2022/23 to $3,900,000. This premium increase was primarily driven by a hardening property insurance market resulting from catastrophic property losses in 2021,
which was the fourth highest year on record. This led to a large underwriting loss to insurers resulting in higher premiums. Labor shortages, rising material costs and supply chain interruptions have also increased construction costs. These factors along with an increase in the City’s insurable values and several large property claims (two fires and windstorm) reported to our property insurer by the City is resulting in a large premium increase.

Fine Arts: Fine arts insurance with a limit of $150,000,000 is purchased to provide coverage throughout the City including the Crocker Art Museum, Discovery Museum, Golden 1 Center and the Sacramento Archives and Museum Collection. Fine arts insurance was purchased from Axis last year and they remain the insurer this year. The FY2021/22 premium was $86,456 and the estimated FY2022/23 premium is $96,806, an increase of 12%. The increase is driven by higher exposure at the Crocker and one claim paid by the insurer.

Aircraft: Aircraft insurance is purchased to cover the City’s small plane and three helicopters. The premium in FY2021/22 was $60,939 and the premium FY2022/23 is $64,311.

Other Insurance: Other insurance includes policies for pollution, underground storage tanks, crime, airport, and special events, with a total cost of $147,820; a 37% increase from the prior year. The increase results from the purchase of special events policies that were not purchased the prior year due to COVID.

Total Insurance Costs: Attachment A provides a summary of the FY2022/23 insurance policies and premiums. Attachment B provides a comparison of insurance policies and premiums from FY2021/22 and FY2022/23.

Financial Considerations: The estimated cost of insurance in FY2022/23 is $15,872,937, which is 34% higher than in FY2021/22, primarily due to the increases in excess liability, property, and workers’ compensation insurance premiums. The increase in excess liability premiums is driven largely by the hardening liability insurance market and recent payouts by the City’s excess liability carriers. The increase in property insurance premiums is driven by significant catastrophic losses in recent years in the property market related to hurricanes and wildfires. Additionally, the City has reported numerous property claims to the insurer in recent years. The increase in workers’ compensation premiums is due to increased payroll, higher reinsurance costs, and a premium surcharge from a large claim. Sufficient funds will be available in the Department of Human Resources FY2022/23 operating budget for the Risk Management fund (6502) and Workers’ Compensation fund (6504), for coverages through June 30, 2023.

Local Business Enterprise (LBE): Alliant is a qualified LBE.
### Attachment A

**Fiscal Year 2023 Insurance Premiums**

<table>
<thead>
<tr>
<th>Schedule of Insurance</th>
<th>Self-Insured Retention</th>
<th>Policy Limits</th>
<th>Premium</th>
<th>Carrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess Liability</td>
<td>2,000,000*</td>
<td>35,000,000</td>
<td>10,177,000</td>
<td>PRISM</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>2,000,000</td>
<td>Statutory</td>
<td>1,487,000</td>
<td>PRISM</td>
</tr>
<tr>
<td>Property</td>
<td>100,000</td>
<td>1,000,000,000</td>
<td>3,900,000</td>
<td>PEPiP</td>
</tr>
<tr>
<td>Fine Arts</td>
<td>10,000</td>
<td>150,000,000</td>
<td>96,806</td>
<td>AXIS</td>
</tr>
<tr>
<td>Aircraft</td>
<td>Varies</td>
<td>20,000,000</td>
<td>64,311</td>
<td>Starr Indemnity</td>
</tr>
<tr>
<td>Other Insurance:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Includes pollution, crime, ust,</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>airport, special events</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>147,820</td>
<td></td>
</tr>
<tr>
<td><strong>Total Insurance:</strong></td>
<td></td>
<td></td>
<td><strong>15,872,937</strong></td>
<td></td>
</tr>
</tbody>
</table>

*2,000,000 loss corridor deductible*
## Attachment B
### Schedule of Insurance

<table>
<thead>
<tr>
<th>Comparison Chart</th>
<th>Fiscal Year</th>
<th>Self-Insured Retention</th>
<th>Policy Limits</th>
<th>Premium</th>
<th>Carrier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excess Liability</td>
<td>FY23</td>
<td>2,000,000*</td>
<td>35,000,000</td>
<td>10,177,000</td>
<td>PRISM</td>
</tr>
<tr>
<td></td>
<td>FY22</td>
<td>2,000,000*</td>
<td>35,000,000</td>
<td>7,568,113</td>
<td></td>
</tr>
<tr>
<td><strong>Difference:</strong></td>
<td></td>
<td></td>
<td></td>
<td>2,608,887</td>
<td>34%</td>
</tr>
<tr>
<td>Workers’ Compensation</td>
<td>FY23</td>
<td>2,000,000*</td>
<td>Statutory</td>
<td>1,487,000</td>
<td>PRISM</td>
</tr>
<tr>
<td></td>
<td>FY22</td>
<td>2,000,000*</td>
<td>Statutory</td>
<td>1,165,619</td>
<td></td>
</tr>
<tr>
<td><strong>Difference:</strong></td>
<td></td>
<td></td>
<td></td>
<td>321,381</td>
<td>28%</td>
</tr>
<tr>
<td>Property</td>
<td>FY23</td>
<td>100000</td>
<td>1,000,000,000</td>
<td>3,900,000</td>
<td>PEPIP</td>
</tr>
<tr>
<td></td>
<td>FY22</td>
<td>100000</td>
<td>1,000,000,000</td>
<td>2,814,214</td>
<td></td>
</tr>
<tr>
<td><strong>Difference:</strong></td>
<td></td>
<td></td>
<td></td>
<td>1,085,786</td>
<td>38%</td>
</tr>
<tr>
<td>Fine Arts</td>
<td>FY23</td>
<td>10000</td>
<td>150,000,000</td>
<td>96,806</td>
<td>AXIS</td>
</tr>
<tr>
<td></td>
<td>FY22</td>
<td>10000</td>
<td>150,000,000</td>
<td>86,456</td>
<td></td>
</tr>
<tr>
<td><strong>Difference:</strong></td>
<td></td>
<td></td>
<td></td>
<td>10,350</td>
<td>12%</td>
</tr>
<tr>
<td>Aircraft</td>
<td>FY23</td>
<td>Varies</td>
<td>20,000,000</td>
<td>64,311</td>
<td>Starr Indemnity</td>
</tr>
<tr>
<td></td>
<td>FY22</td>
<td>Varies</td>
<td>20,000,000</td>
<td>60,939</td>
<td></td>
</tr>
<tr>
<td><strong>Difference:</strong></td>
<td></td>
<td></td>
<td></td>
<td>3,372</td>
<td>6%</td>
</tr>
<tr>
<td>Other Insurance:</td>
<td>FY23</td>
<td></td>
<td></td>
<td>147,820</td>
<td></td>
</tr>
<tr>
<td>Includes pollution, crime, ust, airport, special events</td>
<td>FY22</td>
<td></td>
<td></td>
<td>108,000</td>
<td></td>
</tr>
<tr>
<td><strong>Difference:</strong></td>
<td></td>
<td></td>
<td></td>
<td>39,820</td>
<td>37%</td>
</tr>
<tr>
<td><strong>Total Insurance</strong></td>
<td>FY23</td>
<td></td>
<td></td>
<td>15,872,937</td>
<td></td>
</tr>
<tr>
<td></td>
<td>FY22</td>
<td></td>
<td></td>
<td>11,803,341</td>
<td></td>
</tr>
<tr>
<td><strong>Difference:</strong></td>
<td></td>
<td></td>
<td></td>
<td>4,069,596</td>
<td>34%</td>
</tr>
</tbody>
</table>

*2,000,000 loss corridor deductible