



Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Ward and Members of the City Council

THROUGH: Geoff Dolan, City Manager

FROM: Marcie Scott, Human Resources Director
Howard Fishman, Risk Manager

DATE: August 15, 2006

SUBJECT: Appropriate \$107,496 from the Insurance Fund to Cover the Cost of Increased Insurance Premiums for 2006-2007

RECOMMENDATION:

Staff recommends the City Council appropriate \$107,496 from the Insurance Fund to cover the cost of increased insurance premiums for FY06-07 and to reallocate those costs to the using departments.

FISCAL IMPLICATION:

The cost to cover this insurance premium appropriation is \$107,496. There are monies available in the City's Insurance Fund to cover this cost. This appropriation will result in adjustments in departmental insurance allocations presented in the FY 06-07 budget.

BACKGROUND:

The City of Manhattan Beach participates in a 28 member city insurance pool called the Independent Cities Risk Management Authority (ICRMA). Manhattan Beach purchases Excess Liability, Workers Compensation and Property All Risk/Earthquake insurance through this insurance pool. Those cities that participate in the Property insurance program share coverage limits which last year were \$165M. The ICRMA pool broker, Marsh, solicits insurance proposals from the marketplace every year. However, this year, due to an abrupt downturn in the Property insurance marketplace, insurance quotes which are usually received in late May and early June, were received later than anticipated well after staff presented its budget numbers.

DISCUSSION:

At the May 23, 2006 budget session, the Risk Manager presented to City Council an overview of the City's Insurance program. A concern regarding the Property All Risk/Earthquake premium was raised due to the negative impacts Hurricane Katrina and several other natural disasters have had on property insurance carriers. Due to estimated losses as high as \$70 Billion, carriers recalculated their pricing and limit exposure formulas. Several insurance carriers left the California marketplace entirely due to earthquake concerns that could produce yet another catastrophic loss condition. For many years, the total insurable property value of City buildings, contents and

vehicles was approximately \$35M; however, since recently adding the Metlox, Police and Fire facility and underground parking, total property values are approximately \$82M.

As a result of the above factors, the City of Manhattan Beach’s property premium increased by approximately 165 % over the previous year. Last year, the City’s property premium was \$196,778 which has now increased to \$521,717. Additionally, shared earthquake coverage limits for ICRMA cities were reduced from \$165M to \$65M due to a compressing of available capacity at affordable prices. In the past, all city facilities, vehicles and contents were covered by a Master Property policy for All Risk/Earthquake with \$165M shared limits. However, since shared coverage limits were reduced, a separate stand alone policy was purchased providing exclusive earthquake coverage for the Police and Fire facility and not shared with other ICRMA cities. The cost of this stand alone policy is included in this year’s premium increase. However, all other city facilities, vehicles and contents remain covered but are part of the Master Property policy with \$65M shared limits.

Due to premium savings in both Excess Liability (\$60,794) and Workers Compensation (\$40,427- due to Senate Bill 899 reforms) there is some offset to the steep Property Premium increase of \$208,717.

| | <u>Budget</u> | <u>Actual</u> | <u>Difference</u> |
|------------------|---------------|---------------|-------------------|
| Excess Liability | \$322,000 | \$261,206 | \$60,794 |
| Workers Comp | \$175,755 | \$135,328 | \$40,427 |
| Property | \$313,000 | \$521,717 | (\$208,717) |
| Total: | \$810,755 | \$918,251 | (\$107,496) |

Finally, staff researched the feasibility of raising the property insurance deductibles to further reduce the premium. If the City increased the All Risk Property deductible (this covers fire, flood, vandalism, etc) from the present \$10,000 to \$50,000, the City would recognize a savings of approximately \$11,000. Moreover, if the City raised the Earthquake deductible from the present 5% or \$100,000 (whichever is higher) to 10%, there would be a premium savings of \$20,000. However, it is important to note that raising these deductibles could potentially cost the City up to an additional \$1.5M should a major earthquake occur. In staff’s opinion, the added risk does not justify the minimal savings.

CONCLUSION

As a result of the above findings, it is recommended the City Council leave the current deductibles as is and appropriate \$107,496 from the Insurance Fund and offset this appropriation with an increase in internal charges. There will be a corresponding increase in insurance appropriations in the benefiting funds (primarily the General Fund). There are monies in the Fund to cover the new premium. This ensures that all city facilities are reasonably covered for potential earthquake damage and other property losses for FY06-07.