



AGENDA MEMORANDUM

Action Item for the City Council Meeting April 16, 2024

DATE: March 29, 2024

TO: Peter Zanoni, City Manager

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Resolution authorizing renewal of property insurance, including All Other Perils, Flood, Named Storm, Wind/Hail, Earth Movement, and Equipment Breakdown insurance, through Carlisle Insurance Agency, Broker of Record, for the upcoming policy year (May 4, 2024-May 4, 2025), for an annual premium of \$3,769,127.59.

CAPTION: Resolution authorizing renewal of property insurance, including All Other Perils (AOP), Flood, Named Storm, Wind/Hail, Earthquake, and Equipment Breakdown insurance, through Carlisle Insurance Agency, Broker of Record, for the upcoming policy year (May 4, 2024-May 4, 2025), for an annual premium of **\$3,769,127.59**.

SUMMARY: The current property insurance policy expires May 4, 2024. This renewal is under the current Broker of Record Service agreement with Carlisle Insurance Agency. **Limits, coverage and deductible structures are illustrated in the following graph.** This year, the changes are an increase in total insured limit from \$50,000,000 to \$75,000,000 and an increase in the minimum covered structure amount to \$1,000,000. This will be the first year in five years that premiums will decrease. If the insurance market continues to be stable, we will recommend further increases in limits and deductibles in following years.

	FY20-21	FY21-22	FY22-23	FY23-24	FY24-25
Total Insured/Value \$	\$706,083,206	\$761,086,240	\$769,065,740	\$764,589,621	\$674,167,737
Property Rate (per \$100 value)	\$0.4029	\$0.45298	\$0.5107	\$0.5314	\$0.5591
Premium	\$2,884,565	\$3,602,050	\$3,927,242	\$4,515,436, but reduced to \$3,932,135 by removing aquarium, which had reimbursed City in past.	\$3,749,609
Premium +/-	\$691,239 (32% increase from prev. yr)	\$751,633 (26% increase from prev. yr)	\$345,869 (10% increase from prev. yr)	\$ 615,373 (16% increase from prev. yr)	\$-182,526 (4% decrease from prev. yr)
Limits/All Risk	\$250,000,000	\$250,000,000	\$250,000,000	\$50,000,000	\$75,000,000

<i>Named Storm</i>	\$150,000,000	\$150,000,000	\$150,000,000	\$ 50,000,000	\$ 75,000,000
<i>Flood/Earth Movement</i>	\$ 50,000,000	\$ 50,000,000	\$ 50,000,000	\$ 50,000,000	\$ 75,000,000
<i>Coverage/Peril</i>	<i>Deductible</i>	<i>Deductible</i>	<i>Deductible</i>	<i>Deductible</i>	<i>Deductible</i>
<i>All Other Perils-per occurrence</i>	\$50,000	\$50,000	\$50,000	\$250,000	\$500,000
<i>Flood-per occur (storm surge included)</i>	\$100,000	\$100,000	\$100,000	\$250,000	\$500,000
<i>Named Storm</i>	2% of Total Insurable value at the time of the loss at each location involved in the loss or damage arising out of the named storm subject to a minimum of \$100,000 any one occurrence and max of \$4,000,000 any one occurrence	2% of Total Insurable value at the time of the loss at each location involved in the loss or damage arising out of the named storm subject to a minimum of \$100,000 any one occurrence and max of \$4,000,000 any one occurrence.	2% of Total Insurable value at the time of the loss at each location involved in the loss or damage arising out of the named storm subject to a minimum of \$100,000 any one occurrence and max of \$4,000,000 any one occurrence.	3% of Total Insurable value at the time of the loss at each location involved in the loss or damage arising out of the named storm subject to a minimum of \$250,000 any one occurrence No Max. Cap protection.	3% of Total Insurable value at the time of the loss at each location involved in the loss or damage arising out of the named storm subject to a minimum of \$500,000 any one occurrence. Carriers are not offering max. cap protection.
<i>Wind/Hail-per occur</i>	\$50,000	\$50,000	\$50,000	\$250,000	\$500,000
<i>Earth Movement-per occur</i>	\$50,000	\$50,000	\$50,000	\$250,000	\$500,000
<i>Equipment Breakdown (Boiler & Machinery)</i>	\$2500	\$2500	\$2500	\$2500	\$2500

BACKGROUND AND FINDINGS:

The City's Property Insurance Program, a Tier I coastal risk, currently carries property insurance coverage which includes: All Other Perils (AOP), Flood, Earth Movement, Wind, and Named Storm, with Equipment Breakdown (Boiler/Machinery) as included coverage. The City's property insurance program is a multi-layered program comprised of participating admitted and non-admitted commercial insurance carriers. In addition to traditionally insured property (buildings and contents), the City's schedule of insured property includes other specialty insurance type risks: wharves, baseball stadium, docks, piers, and fine arts. In addition, the City purchases through our broker of record agreement, flood insurance for property located in FEMA Special Flood Hazard Areas A and V through the National Flood Insurance Program (NFIP) that is not included in this amount).

Over the last six years, the property insurance market sustained world-wide catastrophes almost annually. This destabilized the markets and decreased the capacity of insurers to write property insurance, especially in coastal areas.

During last year's renewal, primary and excess carriers were unable to provide expiring aggregate limits and deductibles within budget. Carriers drastically reduced limits of coverage of AOP and Named Storm from \$250,000,000 to \$50,000,000, while increasing deductibles. AOP, Hail and Earth movement deductible limits increased from \$50,000 to \$250,000 while the Named Storm deductible limit increased from 2% damage per building value to 3% damage per building value while removing maximum cap protection.

Carlisle Insurance Agency provided extensive options with varying limits, rates, and deductibles. This year the property insurance markets slightly stabilized and improved, which allowed Carlisle to provide options of a \$75 million limit. We chose this higher limit to more precisely manage risk at higher damage levels.

Risk Management staff and Carlisle Insurance Agency recommend the proposal with the following property program changes:

- To pay for the increase in total coverage from \$50,000,000 to \$75,000,000, we are increasing deductibles and providing a minimum valuation level for coverage. The City has more than 600 structures in its inventory. The vast majority of these structures are lower-valued locations for which the City manages its risk internally. In the 2023-2024 insurance year, the deductible was \$250,000. In 2024-2025, the deductible will increase from \$250,000 to \$500,000, and the minimum insured value will increase to \$1,000,000.
- The higher deductible for Named Storm coverage will remain at 3% of total insurable value per building.

ALTERNATIVES: Risk Management obtained, reviewed and analyzed several property insurance renewal proposals submitted by Carlisle Insurance Agency. One option would increase the deductible from \$250,000 to \$500,000, and increase the policy limit to \$75 million. However that option would have resulted in an 8% premium increase.

Another alternative is for the City to fully self-insure property losses. However, such an increase in risk might be considered a negative for the City's bond rating agencies. Any decrease in credit rating would quickly absorb any self-insurance savings.

FISCAL IMPACT: Premium increases have slowed, and coastal communities are now able to acquire slightly higher policy limits. Accordingly, we have increased the City's coverage limits from \$50,000,000 to \$75,000,000. Further, we have purchased insurance within budget, registering a **4% decrease in premium (\$182,526 savings)** from last year. Risk Management included this expenditure in its FY 2024-2025 budget. The Risk Management fund is an internal operating fund based on departmental property value cost allocation to each department. Approval of this item is an annual reoccurring expenditure to limit the City's financial exposure under its current property insurance program.

FUNDING DETAIL:

Fund: Fund 5611-Liab/EB Liab; Fund 1030-Business Job Dev; Fund 4710-Visitor Facility

Organization/Activity: Org. 40520-Ins Policy Premiums; Org.13826-Baseball Stadium;

Org. 13625-Arena Operations; Org. 13600-Convention Center/Auditorium Operations;

Departments: 054, 034, & 034

Project # **(CIP Only):**

Account: 537090-Flood Ins., 537095-Windstorm Ins., & 537420-Property Ins.

RECOMMENDATION:

Staff recommends the City renew its property insurance as illustrated above with higher loss limits and higher deductible structure.

LIST OF SUPPORTING DOCUMENTS:

Resolution

Historical Timeline Property Limits