



## AGENDA MEMORANDUM

Action Item for the City Council Meeting April 25, 2023

**DATE:** March 20, 2023  
**TO:** Peter Zanoni, City Manager  
**FROM:** Miles Risley, City Attorney  
mrisley@cctexas.com  
(361) 826-1941

Josh Chronley, Assistant Director of Contracts and Procurement  
[JoshC2@cctexas.com](mailto:JoshC2@cctexas.com)  
(361) 826-3169

**Resolution authorizing renewal of property insurance, including All Risk, Flood, Named Storm, Wind/Hail, Earthquake, and Equipment Breakdown insurance, through Carlisle Insurance Agency, Broker of Record, for the upcoming policy year (May 5, 2023-May 4, 2024), for an annual premium of \$4,540,615.35**

### **CAPTION:**

Resolution authorizing renewal of property insurance, including All Risk, Flood, Named Storm, Wind/Hail, Earthquake, and Equipment Breakdown insurance, through Carlisle Insurance Agency, Broker of Record, for the upcoming policy year (May 4, 2023-May 4, 2024), for an annual premium of \$4,540,615.35

### **SUMMARY:**

The current property insurance policy expires May 4, 2023. This renewal is under the current Broker of Record Service agreement with Carlisle Insurance. Limits, coverage and deductible structures will change significantly under this renewal as illustrated in the graph below.

### **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, Named Storm and Equipment Breakdown (Boiler/Machinery). The City's property insurance program is a multi-layered program comprised of participating admitted and non-admitted commercial insurance carriers. In addition to traditional 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. The City also purchases through our broker of record agreement flood insurance for property located wholly or partially within the Special Flood Hazard Areas (SFHA) as defined by the Federal Emergency Management Agency (FEMA) in Flood Zone A and V through the National Flood Insurance Program that **is not** included in this amount).

Historically, over the last four years, the property insurance market capacity has been contracting, steadily pushing rates and premium upwards but while maintaining property limits and deductibles.

Two years ago, it appeared for a period of time, that rates were stabilizing, however, unforeseen, winter storm Uri, affected property all across Texas and pushed property insurance rates even higher and continued to de-stabilize the market. Continued worldwide catastrophic events last year further destabilized the markets making the current/expiring property program financially unsustainable. Property insurance underwriting capacity has forced carriers to drastically reduce coverage limits, terms and conditions while at the same time increasing deductibles, rates and premiums, to levels not seen in recent history.

Further, the City's recent property claims loss history which includes Hurricane Harvey, Hurricane Hannah, and now Winter storm Uri have also been a moderate but contributing factor for increase in rates as well. Based on the afore stated, the following is presented as the best option with the changes in loss limits and deductibles highlighted below.

	<i>FY19-20</i>	<i>FY20-21</i>	<i>FY21-22</i>	<i>FY22-23</i>	<i>FY23-24</i>
<b>Total Insured/Value \$</b>	\$704,560,606	\$706,083,206	\$761,086,240	\$769,065,740	\$854,409,066
<b>Property Rate (per \$100 value)</b>	\$0.3115	\$0.4029	\$0.4598	\$0.5107	\$0.5314
<b>Premium</b>	<b>\$2,194,681</b>	<b>\$2,884,565</b>	<b>\$3,602,050</b>	<b>\$3,927,242</b>	<b>\$4,515,436</b>
<b>Premium +/-</b>	\$85,367 (4% increase from prev. yr.)	\$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.)
<b>Limits/All Risk</b>	\$250,000,000	\$250,000,000	\$250,000,000	\$250,000,000	<b>\$ 50,000,000</b>
<b>Named Storm</b>	\$150,000,000	\$150,000,000	\$150,000,000	\$150,000,000	<b>\$ 50,000,000</b>
<b>Flood/Earth Movement</b>	\$ 50,000,000	\$ 50,000,000	\$ 50,000,000	\$ 50,000,000	<b>\$ 50,000,000</b>
<b>Coverage/Peril</b>	<b>Deductible</b>	<b>Deductible</b>	<b>Deductible</b>	<b>Deductible</b>	<b>Deductible</b>
<b>All Risk-per occurrence</b>	\$50,000	\$50,000	\$50,000	\$50,000	<b>\$250,000</b>
<b>Flood-per occur (storm surge included)</b>	\$100,000	\$100,000	\$100,000	\$100,000	<b>\$250,000</b>
<b>Named Storm</b>	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.	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	<b>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 \$250,00 any one occurrence. Carriers are not offering max. cap protection. \$250,00</b>
<b>Wind/Hail-per occur</b>	\$50,000	\$50,000	\$50,000	\$50,000	<b>\$250,00</b>
<b>Earth Movement-per occur</b>	\$50,000	\$50,000	\$50,000	\$50,000	<b>\$250,000</b>
<b>Equipment Breakdown (Boiler &amp; Machinery)</b>	\$2500	\$2500	\$2500	\$2500	\$2500

Future strategies to address property insurance program challenges, if needed:

- Continue to refine the property schedule to identify and insure only those locations of high operational value that would allow the City to lower its Total Insurable Value, potentially decreasing rates and premium and possibly enhancing coverage.
- Continue to review deductible structures and make any adjustments necessary that are within the City's risk appetite based on market conditions.
- Explore alternative property insurance market risk pool placement.

**ALTERNATIVES:**

Risk Management obtained, reviewed and analyzed alternative property insurance renewal proposals and of the options submitted, the **first option offered only a \$25 million limit for a rate of 0.4131 and a premium of \$3,529,834** for all risk. The risk tolerance for a catastrophic loss that the city would be assuming with a loss limit of only \$25 million would be too great to financially bear. The **third option proposed a \$100 million dollar limit at a rate of .6890 and a premium of \$5,886,631**. This option far exceeded Risk Management's budget by almost \$2 million and was not financially feasible.

Also, if this item is not approved, 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 as we are not financially structured to assume. Any decrease in credit rating would quickly absorb any self-insurance savings.

**FISCAL IMPACT:**

Risk Management included this expenditure in its FY 2023-2024 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 5611-Liab/EB Liability  
Fund 1030-Hotel Occupancy Tax  
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  
Account: 537090-Flood Insurance  
Account: 537095-Windstorm Insurance  
Account: 537420-Property Insurance  
Department: Legal/Risk Management  
Project # **(CIP Only):**

**RECOMMENDATION:**

Staff recommend the City renew its property insurance as illustrated above with lower loss limits and higher deductible structure. Future premiums renewals which are less may be subject to automatic renewal.

**LIST OF SUPPORTING DOCUMENTS:**

Certification of Funds  
Resolution  
Historical Timeline and Rates  
Property Survey