



Date: February 17, 2011

To: Thomas J. Bonfield, City Manager
Through: Wanda S. Page, Deputy City Manager
David Boyd, Finance Director
From: Ann-Marie Sharpe, Risk Manager
Subject: Annual Insurance Plan 2011 - 2012

Executive Summary

Each year the Finance Department prepares an annual insurance plan for adoption by the City Council. The plan applies only to property and casualty insurance and is the basis for authorization of insurance purchases throughout the year. Most of the City's insurance renewals are due April 1st. The City's annual insurance plan has been prepared jointly by the Finance Department and Marsh USA, Inc., the City's broker/consultant.

The proposed 2011-2012 plan continues the existing insurance coverage. In addition to the specific coverages listed in the attachment, the City Manager may need to purchase other insurance and/or modify insurance coverage during the year as needed to protect the City's interest.

Recommendation

The Finance Department recommends that the City Council authorize the City Manager to:

1. Maintain the general insurance plan as attached and modify it as may be needed provided the modifications are consistent with the City's overall risk management and financial objectives.
2. Purchase additional insurance throughout the year, as needed for special event, lease and contract requirements, new programs, and builders risk insurance; and
3. Expend an amount for all insurance premiums not to exceed \$650,000.00 to maintain the annual insurance plan and make additional insurance purchases as may be needed beginning April 1, 2011.

Background

Marsh, USA, Inc. is the City's current broker of record and risk management consultant that handles the marketing of the City's insurance renewals. The current year contract with Marsh will expire June 30, 2011. The cost of retaining Marsh's services for the current fiscal year is \$60,000.00. The cost of retaining a broker on contract is considerably less than that of independent agent commissions that otherwise would be built into the premiums.

Workers Compensation and General Liability premiums for policy year 2011 – 2012 are estimated to be flat, that is; no increase or decrease in premium is being proposed. The City will enjoy a 0.9% decrease in premium for Property Insurance coverage despite a 1.7% increase in property values. This increase in property values is due to the addition of the following properties:

- Fire Station 15
- Wall Town Recreation Center
- Chapel Hill Road Park
- Bethesda Park

The Transportation Department will also enjoy a 16% decrease in premium for the Auto Physical Damage coverage on the buses. The Parks and Recreation department however, is estimated to see a 10% increase in flood premium. The overall percentage change in premium is estimated to be a decrease of 1%.

Financial Impact

The cost of insurance premiums for general citywide policies are budgeted and paid from the City’s Risk Fund. This Fund is comprised of funding from the City’s General Fund, Water and Sewer Fund and other enterprise funds that may contribute to the City’s exposure. Insurance premiums that are specific to department programs or properties are budgeted and paid from the respective department operating or project budget.

Issues and Analysis

The City purchases insurance only when the terms and pricing of insurance are the most favorable risk-financing option, or when the loss potential is beyond the City’s ability to retain the risk. The City retains all risk that is not transferred either by the purchase of insurance or by contract. Through its risk management practices, the City strives to identify risk and to make prudent choices concerning risk financing. Insurance policies are maintained for a one year term, with appropriate adjustments throughout the year as necessary to reflect changes in risk.

The attached spreadsheet outlines the proposed coverages as follows:

- Excess Liability at \$10 million limit with self insured retention (SIR) of \$1 million;
- Commercial property at \$300 million blanket limit with SIR of \$150,000 and
- Excess workers compensation at \$25 million limit with SIR of \$1 million

Below is a summary of the proposed insurance plan for 2011 – 2012.

| <u>Citywide Policies</u> | <u>Estimated Premium</u> |
|-----------------------------|--------------------------|
| Excess Liability | \$151,642 |
| Excess Workers Compensation | \$152,127 |
| Automobile Liability | \$ 36,352 |
| Property | \$196,838 |
| Bonds | \$ 1,968 |
| Boiler and Machinery | \$ 19,984 |
| Crime | <u>\$ 7,677</u> |
| Citywide Total | <u>\$566,588</u> |

| <u>Departmental Policies</u> | <u>Estimated Premium</u> |
|------------------------------|--------------------------|
|------------------------------|--------------------------|

| | |
|-------------------------|------------------|
| Non-standard properties | \$ 8,942 |
| Accident Insurance | \$ 21,972 |
| Volunteer Insurance | \$ 1,104 |
| Flood | \$ 3,878 |
| Transportation | \$ 43,550 |
| Automobile Liability | \$ 4,027 |
| Departmental Total | <u>\$ 83,473</u> |
| Total Premium | <u>\$650,061</u> |

SDBE Summary

This item was not reviewed by the Department of Equal Opportunity/Equity Assurance for compliance with the Ordinance to Promote Equal Business Opportunities in City contracting.

Attachment: Insurance Plan Proposal 2011-12