

STAFF REPORT

Date: October 26, 2022

To: Mayor and City Council

Thru: Doug Thornley, City Manager

Subject: Staff Report (For Possible Action): Approval of Purchase of Excess Liability and Workers' Compensation Insurance coverage from October 1, 2022 through September 30, 2023 in the amount of \$1,188,633. (Risk Management Fund)

From: Michael Payne

Department: City Manager's Office – HR

Summary:

Staff recommends approving the purchase of excess liability and workers' compensation insurance at an annual cost of \$1,188,633 for coverage from October 1, 2022 through September 30, 2023.

Alignment with Strategic Plan:

Fiscal Sustainability

Previous Council Action:

Annually Council approves the City's liability and excess workers' compensation insurance coverage that is purchased through a brokerage firm. On April 27, 2022 Council approved a five year agreement, with the option of three additional one year renewals, for the property and casualty brokerage services with Aon Risk Services West, Inc. at an annual amount of \$98,000 for year one through three, \$103,000 for options years four and five, and \$108,000 for option years seven and eight.

Background:

Excess liability insurance coverage helps protect the City from large liability losses which could impact the general fund. To protect itself from such claims, the City currently carries excess liability insurance in the amount of \$10,000,000 for automobile liability, employment-practices liability, general liability, law enforcement and public official's liability, under which insurance the City has a self-insured retention for the first \$1,000,000, including qualified defense costs. The City purchases excess liability insurance on a year-to-year basis. Coverage

runs from October 1 in the calendar year of purchase through September 30 of the following year.

The City's previous broker was compensated through commissions that were based upon a percentage of the premium charge. The agreement with Aon is a flat fee for brokerage services in lieu of their remuneration being based upon a percentage of premium. The current fee arrangement eliminates the situation whereby the broker's commission is increased solely because of a premium increase and their commission is decreased if there is a premium reduction.

Discussion:

Liability: The incumbent carrier, Safety National, provided renewal terms for the City's primary liability program with the same limits and terms as last year. The year-over-year premium decreased by 4% which translates into a reduction of \$18,383. The previous broker for the City was placing this line of coverage through a wholesaler who was taking a 12% commission on the placement. Aon has removed the wholesaler and placed this line of coverage directly with Safety National, resulting in a savings of \$51,306 annually.

The second liability layer of the City's program was previously placed with Allied Public Risk. This year, Allied Public Risk was unable to quote; thus, Aon marketed the City's program to many different carriers. Berkley PE came back with the most competitive quote. The year-over-year premium increased by 2% or \$4,032 annually. One item to note is they exclude Wildfire Coverage. The previous broker for the City was placing this line of coverage through a wholesaler who was taking a 15% commission on the placement. Aon has removed the wholesaler and placed this line of coverage directly with Berkley PE, resulting in a savings of \$37,230 annually.

Excess workers' compensation coverage provides protection to the City's general fund for catastrophic workers' compensation claims. The City carries excess workers' compensation for statutory limits in excess of the City's \$2,500,000 self insured retention.

Excess Workers Compensation: The incumbent carrier, Safety National, provided renewal terms on the City's Excess Workers' Compensation program with the same limits and terms as last year. The year-over-year premium increased by 32% which translated into an increase of \$123,319. This increase in premium is almost entirely due to the increase in the year-over-year payroll as the rate only increased slightly from .7632 to .7693. The previous broker for the City was placing this line of coverage through a wholesaler who was taking a 10% commission on the placement. Aon has removed the wholesaler and placed this line of coverage directly with Safety National, resulting in \$50,322 in annual savings for the City.

Governmental Crime: The City's incumbent Crime carrier, the Hartford, offered a renewal quote substantially higher than last year with an estimated premium of \$14,500. Aon marketed the City's Crime program and received a favorable quote from Hanover offering a year-over-year savings of 31%, or \$4,412.

All coverages are equal or better than expiring policies with the same level of self insured retentions. While some premiums increased and decreased, as can be seen in the attached exhibit, the total overall increase of 10% is more than offset by the increase in workers' compensation coverage attributable to increased budgeted payrolls.

The property & casualty insurance market continues to face challenges with respect to catastrophic losses and reduced investment income. The limited number of insurers offering coverage for municipal entities with law enforcement exposures has further been restricted in the current market. Quotes were requested from multiple public entity insurers to obtain the best terms and pricing available in the current market.

The recommended insurers will allow the City to continue to self-administer liability claims and utilize City staff to defend claims within the self-insured retention, resulting in savings and efficiency over the use of third parties.

The recommended policies would also include coverage for losses resulting from acts of terrorism, as defined in Section 102(1) of the Terrorism Risk Insurance Act of 2002 (as amended, extended and/or re-authorized).

Financial Implications:

The premium is budgeted in the Risk Management Fund.

Legal Implications:

Legal review completed for compliance with City procedures and Nevada law. Amounts of insurance coverage and coverage limits are a policy decision. However, it is recommended that the City maintain excess liability and workers' compensation insurance for large claims.

Recommendation:

Staff recommends Council approve the purchase of excess liability and workers' compensation insurance coverage from October 1, 2022 through September 30, 2023 for a premium of \$1,188,633 and authorize the City Manager or designee to execute all documents related to such renewal.

Proposed Motion:

I move to approve staff recommendation.

Attachments:

Premium Comparison 2022 vs 2023