



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** October 11, 2011  
**TO:** Mayor and Councilmembers  
**FROM:** Risk Management Division, Finance Department  
**SUBJECT:** City Of Santa Barbara Insurance Programs

### **RECOMMENDATION:**

That the Finance Committee receive a report from staff regarding the City's insurance programs covering city operations and facilities.

### **DISCUSSION:**

City Council established the "Workers' Compensation Self-Insurance Trust Fund" in November 1974. City Council amended and revised this program over the ensuing years into its current format known as the Self-Insurance Trust Fund, which is administered by the Risk Management Division of the Finance Department.

The Self-Insurance Trust Fund provides a funding source that covers a variety of exposures to loss or damage. The types of coverage include workers' compensation; general liability; automobile liability; property, including earthquake and boiler and machinery; airport liability; marine liability; employee dishonesty (crime); notary bonds; and volunteer medical insurance. This report provides a brief discussion about each of the major types of coverage provided, the dollar value of coverage limits, any associated deductible, otherwise known as the Self-Insured Retention (SIR), and the premium costs for each type of coverage for Fiscal Year 2012.

### **Workers' Compensation**

California law requires that all employers provide workers' compensation coverage for their employees. City Council authorized the creation of the self insured workers' compensation program in November 1974. The City obtained approval from the Department of Industrial Relations to implement a self insured workers' compensation program in 1978. The City purchases excess insurance to cover any workers' compensation loss that exceeds the designated SIR. The SIR value has varied from year to year since the inception of the program.

The City purchased excess workers' compensation insurance through the California State Association of Counties Excess Insurance Authority (CSAC-EIA) for Fiscal Year 2012 with a \$750,000 SIR. The premium for this excess insurance equals \$164,917. The premium for Fiscal Year 2012 increased by 8% from Fiscal Year 2011 (\$152,087).

### **General and Automobile Liability**

City Council authorized the creation of a self insured general and automobile liability program in December 1976. This action by the City Council combined the existing self insured workers' compensation program with the newly created self insured liability program. The resolution establishing the Self Insurance Trust Fund requires staff to review and adjust the limits of insurance and any associated deductible or SIR on an annual basis.

The City is a founding member of a joint powers authority risk sharing pool. The Authority for California Cities Excess Liability (ACCEL) is a group of medium-size California cities that share the combined risk of losses in excess of SIR amounts. Member cities first joined together in 1986 when the commercial marketplace was unable to offer cities sufficient insurance coverage. ACCEL pools General Liability, Automobile Liability, and Public Officials Errors and Omissions losses. Member cities share risk in excess of \$1,000,000. ACCEL covers almost every catastrophic loss incurred by its members, thereby eliminating the need for commercial excess insurance protection.

Each ACCEL member city has a representative on the Board of Directors. The Board and its committees are responsible for deciding the risks the Authority will underwrite, monitoring the costs of large claims, and arranging financial programs. Underwriting decisions determine the eligibility of cities for membership and identify specific risks that will not be pooled.

ACCEL provides pooled coverage for losses ranging from \$1,000,000 to \$5,000,000. For Fiscal Year 2012, eight ACCEL members (including the City of Santa Barbara) participate in a joint purchase of excess liability insurance coverage for losses ranging from \$5,000,000 to \$50,000,000. Three smaller member agencies purchase limits up to \$35,000,000. Four ACCEL member agencies purchase additional excess liability insurance coverage ranging from \$50,000,000 to \$150,000,000. The City does not purchase excess liability coverage above the \$50,000,000 limits.

The City's Fiscal Year 2012 premium for the pooled losses (\$1 Million - \$5 Million) is \$477,859. The Fiscal Year 2012 premium for the excess coverage (\$5 Million - \$50 Million) is \$190,054. Each agency also pays a pro-rata share of the administrative costs for the JPA pool administrator. The administrative fee paid in Fiscal Year 2012 is \$38,513. The total amount paid for excess liability coverage in Fiscal Year 2012 is \$706,426, which represents a 5% decrease from the prior year (\$745,074).

The limits of coverage provided by ACCEL have increased since the inception of the pool in 1986. The chart below lists the coverage limits under the ACCEL program for each fiscal year.

Fiscal Year	Self Insured Retention	Pooled Layer	Coverage Limits
FY87 – FY90	\$ 1,000,000	\$9,000,000	\$ 10,000,000
FY91 – FY95	\$ 1,000,000	\$9,000,000	\$ 20,000,000
FY95	\$ 1,000,000	\$4,000,000	\$ 15,000,000
FY96	\$ 1,000,000	\$4,000,000	\$ 20,000,000
FY97	\$ 1,000,000	\$3,000,000	\$ 20,000,000
FY98 - FY99	\$ 1,000,000	\$ -	\$ 20,000,000
FY00 – FY03	\$ 500,000	\$ -	\$ 20,000,000
FY04	\$ 1,000,000	\$2,000,000	\$ 23,000,000
FY05 - FY06	\$ 1,000,000	\$4,000,000	\$ 25,000,000
FY07	\$ 1,000,000	\$4,000,000	\$ 35,000,000
FY08 - FY12	\$ 1,000,000	\$4,000,000	\$ 50,000,000

### **Property, Boiler and Machinery, Earthquake Insurance**

The City purchases an “all risk” insurance policy for property damage through a joint purchase plan called Public Entity Property Insurance Program (PEPIP). Numerous public agencies throughout the western United States purchase property insurance as part of PEPIP. This joint purchase program allows the participants to negotiate better terms of coverage and price than they could obtain alone.

PEPIP provides coverage for property damage to owned buildings; extends coverage for damage to boilers and machinery; and includes designated limits of \$50,000,000 for earthquake coverage for City owned facilities. The PEPIP policy provides property coverage for City facilities with total insured values (TIV) of \$390,003,358. The policy includes a deductible amount of \$50,000 per occurrence (except Stearns Wharf which is \$250,000) and a maximum loss limit of \$1,000,000,000. The Earthquake portion of the policy includes TIV of \$443,461,488. The earthquake portion of the policy includes a deductible of a minimum of \$100,000 or 5% of the loss and a maximum loss limit of \$50,000,000.

The property insurance policy provides coverage for items beyond the building structures, such as business interruption expense; money and securities; unscheduled fine arts; boilers and machinery; the City’s fleet of vehicles and vessels; and cyber liability (new this year).

The inclusion of Boiler and Machinery coverage in this policy eliminates the need for the City to purchase separate coverage for this peril. The City owns and operates a variety of commercial machines. In Fiscal Year 2012, the City’s premium is \$4,906 for Boiler &

Machinery, \$446,510 for all-risk property coverage, and \$774,407 for earthquake coverage for a total of \$1,225,823. This is a 13% increase from last year's premium of \$1,083,984.

### **Course of Construction**

In Fiscal Year 2011, the City purchased an addition to the PEPiP property policy to cover the Airport Terminal renovations and improvements called Course of Construction (COC) coverage. This addition to the property insurance policy provides coverage for any damages to the Airport Terminal structure that may occur during the construction process before the City begins using the building for its intended purpose.

The completion of the main terminal project allowed the City to drop this coverage from its portfolio of insurance policies. The PEPiP property policy does provide coverage for the COC on the remaining portion of the construction project. Eliminating the COC policy reduced the annual property insurance premium by \$131,016 (amount paid in 2011).

### **Airport & Aviation:**

The ACCEL risk sharing pool does not cover any losses arising from the ownership or operations of an airport. The City purchases a separate liability policy that provides Bodily Injury and Property Damage Liability. The policy includes a \$0 deductible, with coverage limits of \$50,000,000 per occurrence. The annual premium for this policy equals \$20,275. The premium paid in Fiscal Year 2012 decreased 10% from prior year (\$22,528).

### **Marine Coverage:**

The ACCEL risk sharing pool does not cover any losses arising from the ownership or operations of boats or other marine vessels. The City purchases two separate liability policies that provide Bodily Injury and Property Damage Liability to cover the 14 Vessels owned by the Waterfront and Water Resources. The primary insurance policy includes a \$1,000 deductible with coverage limits of \$1,000,000. The annual premium for the primary policy equals \$4,724. The excess policy includes a \$1,000,000 deductible, with coverage limits of \$5,000,000. The annual premium for the excess Marine coverage equals \$11,700. The average cost for the excess coverage equals \$836 per vessel. The total premium paid in Fiscal Year 2012 (\$16,424) decreased 13% from the prior year (\$18,846).

**Employee Dishonesty (Crime):**

The Employee Dishonesty or Crime policy provides coverage for employee theft; forgery or alteration; theft of money and securities; robbery; computer fraud; funds transfer fraud; and money orders and counterfeit money. The policy also provides the mandatory coverage for specific officials as required by California law. The annual premium for this coverage equals \$6,511 for Fiscal Year 2012.

**PREPARED BY:** Mark W. Howard, Risk Manager

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**APPROVED BY:** City Administrator's Office