



CITY OF SAN MATEO

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Agenda Report

Agenda Number: {{item.number}}

Section Name: {{section.name}}

File ID: {{item.tracking_number}}

TO: City Council
FROM: Drew Corbett, City Manager
PREPARED BY: City Attorney Department
MEETING DATE: June 15, 2020

SUBJECT:
Fiscal Year 2020-21 General Liability and Property Insurance – Agreements

RECOMMENDATION:

Authorize a staff committee comprised of the City Manager, the Finance Director, and the City Attorney to select the most cost-effective program to insure the City's general liability and property risks, and authorize the City Attorney to execute all required documents to purchase the selected insurance.

BACKGROUND:

Each year the City purchases insurance to cover its liability and property loss risks through private insurance providers. For the last several years, the City has been able to purchase liability insurance that insures against the risk of losses of up to \$25 million. The program has typically involved two separate insurance companies providing two layers of coverage. The City has retained a self-insured layer of \$500,000 per occurrence and one of the companies has insured losses above that amount and up to \$10 million. The second company then insures losses that exceed \$10 million up to \$25 million.

The insurance market has changed dramatically. Insurers are increasingly reluctant to insure municipal risks. The City's broker has been unable to locate an insurer willing to provide a quote coverage with a \$500,000 self-insured retention. In addition, no company has submitted a quote to provide coverage for losses between \$5 million and \$10 million. The best quote submitted would provide coverage up to \$5 million in excess of a \$1 million self-insured retention. This coverage would cost approximately \$230,000. By comparison, last year the City was able to purchase coverage up to \$10 million in excess of a \$500,000 self-insured retention for about \$270,000.

As of the writing of this report, the City's broker continues to seek proposals from insurers to provide complete coverage up to \$25 million per occurrence. However, it is uncertain that these efforts will be successful. The broker has reported that an organization called Public Risk Innovations, Solutions, and Management (PRISM), a joint powers authority comprised of dozens of government agencies, has indicated interest in providing coverage up to \$25 million above a \$1 million dollar self-insured retention. The City joined PRISM to obtain an Owner Controlled Insurance Program (OCIP) to insure against losses arising out of the Clean Water Program construction projects. PRISM is evaluating the City's risks and will provide a firm quote, but it is uncertain whether this will be received by the next Council meeting.

These circumstances are challenging and unusual. The City's broker reports that he has been involved in this industry for 25 years, and he has never experienced a market that has tightened so much and so quickly. To address these fluid circumstances, staff recommends that the City Council authorize a committee comprised of the City Manager, the Finance Director, and the City Attorney to evaluate all of the options presented and select the insurance program the committee determines provides the most cost-effective solution. The City Attorney would then execute all of the documents necessary to obtain that insurance. Included in this evaluation would be liability insurance and property insurance (including insuring the City's critical bridges), and the committee would be authorized to select insurance that would

provide less than \$25 million in coverage if the committee deems that to be the most cost- effective solution.

There are alternatives the Council could consider. The Council could schedule a special meeting for later this month, evaluate for itself all of the quotes received, and select what it deems to be the most cost-effective solution. Alternatively, the Council could authorize the City Attorney to purchase the insured already quoted (\$5 million in excess of a \$1 million self-insured retention) and the property insurance at the quoted amount. This is not recommended because of the relatively low amount of coverage it would provide in relation to the cost.

Finally, it is possible that by the time of your next meeting, staff will have received proposals that it would recommend that the Council approve.

BUDGET IMPACT:

The City paid approximately \$759,000 for general liability and property insurance (including bridges) for fiscal year 2018-19. This year's combined premiums are about \$818,000, which represents an 8% increase in premium cost. The proposed 2020-21 budget includes \$828,000 in budget appropriations for insurance premiums. While the cost of insurance premiums for fiscal year 2020-21 is anticipated to be greater than what is included in the proposed 2020-21 budget, the City's Comprehensive Liability Fund has sufficient fund balance to cover the additional expense.

ENVIRONMENTAL DETERMINATION:

Not a project under CEQA.

NOTICE PROVIDED

All meeting noticing requirements were met.

ATTACHMENTS

None

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