

DATE ISSUED: August 19, 2003

REPORT NO. 03-174

ATTENTION: Honorable Mayor and City Council

SUBJECT: Buy-down of City's Self-Insured Retention, Excess Liability Coverage

#### SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE CITY COUNCIL.

#### BACKGROUND

In 1995 the City of San Diego, in conjunction with the County of San Diego, joined the California State Association of Counties (CSAC), a Joint Power Authority designed to enhance its members ability to manage risk. Membership in CSAC has allowed the City to spread its risk among a pool of California counties and strengthen its purchasing power for Property and Excess Liability Insurance. The City is the only non-County municipal entity within CSAC.

In July of 2001, the City Council authorized continued membership in CSAC for an additional five (5) years, with annual renewal proposals for property values, liability limits and special endorsements to be reviewed and processed by Risk Management subject to City Manager approval.

In FY03, the City's primary layer of excess liability insurance, obtained through CSAC, was provided by a 3-year policy with limits of \$1M to \$24M. That policy, which expired June 30, 2003, insulated the City from the post-9/11 rate increases experienced with the City's property insurance portfolio last year. However, our CSAC insurance broker advised Risk Management staff to anticipate premium increases up to 100 percent on the City's liability coverages; a result of the dwindling number of insurers willing to underwrite public entity lines of business.

Liability coverages have been renewed effective June 30, 2003; however, there have been significant changes in the City's Excess Liability insurance portfolio of which you should be aware.

## DISCUSSION

As currently structured, liability premiums have increased approximately \$1 million for the portfolio. While this increase is significant, it represents less than a 50 percent increase from rates secured three years ago, which under current insurance market conditions is favorable.

The most significant change to the City's liability coverage pertains to its Self Insured Retention (SIR). The SIR is comparable to the "deductible" portion of a standard homeowner or auto insurance policies. Previously set at \$1M, the new terms from CSAC increase the City's SIR to \$2M. CSAC has advised that buying down the SIR to the previous \$1M level would cost approximately \$1.5M in additional premium.

This is not recommended. In our recorded loss history, the City has never experienced a year in which our covered losses exceeding \$1M would have justified paying an additional \$1.5M relative to the cost for a \$2M SIR. In other words, annual combined covered losses between \$1M and \$2M have never exceeded \$1.5M. The City purchased the \$1M SIR during a "soft" insurance market when coverages were widely available and relatively inexpensive.

The other change of note is that the City's overall liability limits have been reduced from \$54M to \$50M. The \$54M level was the result of an effort several years ago to substantially increase our overall coverage which was at the time \$24M. The additional layers of coverage were quoted in \$5M blocks, and the decision was made to purchase an additional \$30M of coverage which brought the total to \$54M. The current portfolio restructures the layers, and absent a purchase of an additional layer the total coverage amounts to \$50M.

If desired, an additional layer of coverage can be purchased to maintain the \$54M coverage, but it should be noted that \$50M of coverage exceeds the national average for large cities with excess liability coverage (several large cities are entirely self-insured, with no excess liability coverage at all). Also, a \$50M coverage limit is consistent with industry practice for high exposure coverage limits, e.g., the City's coverage limits for our Aircraft and Airport policies have been set at \$50M.

The primary \$15M layers, purchased through CSAC via AIG underwriters, provide a three year rate guarantee for the initial \$10M layer, with rates frozen in the second year and a 20 percent cap for any increases in the third year.

The City's total premium for excess liability insurance will amount to approximately \$2.8M for FY04. Allocations for enterprise fund departments, i.e., Water and MWWD, have not yet been generated based on total FY03 loss payments.

Although discussions regarding renewal of the City's excess liability insurance were ongoing for several months prior to the actual renewal date, given the nature of the current "hard" insurance market CSAC underwriters were unable to secure quotes for policy renewals until shortly before the expirations on June 30, 2003. The coverage discussed above has been bound, but former limits can be purchased if directed. The attached table provides additional comparative detail between the current policy limits and those of prior years.

Respectfully submitted,

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Assistant City Manager

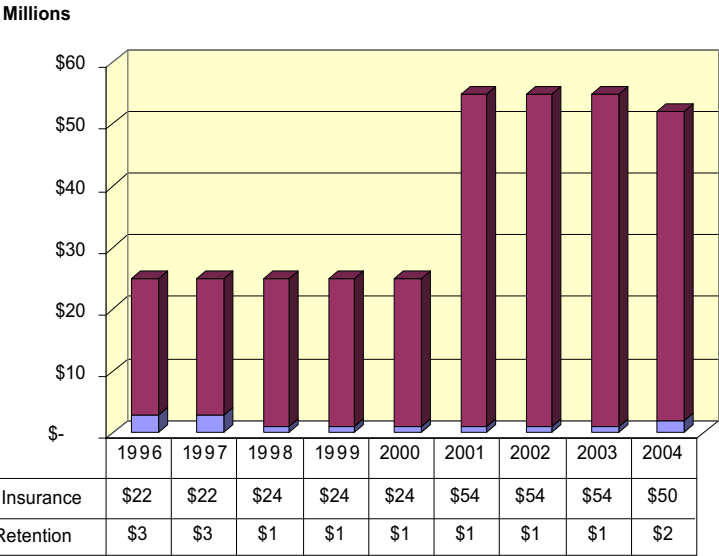
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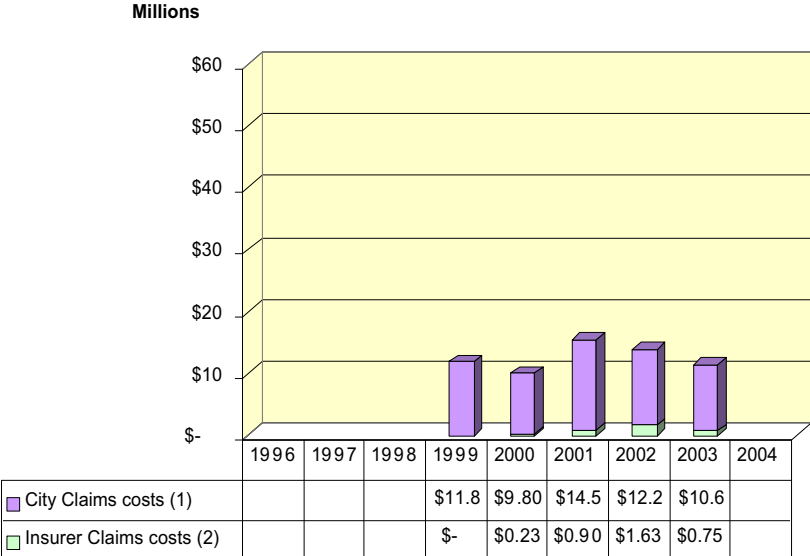
1. City Liability Fund Insurance limits and Expenditure history

### City Liability Fund Insurance limits and Expenditure history

City insurance coverage limits



Claims costs\*



**Note: Data provided includes coverage and expenditure history for Enterprise Fund departments. De La Fuente defense costs reimbursed by the the insurer is for reimbursement for defense costs incurred in multiple fiscal years.**

\* Information provided is based on current available data.

(1) Based on Auditor Organizational Financial Status reports (Period 13).

(2) FY 2000 includes Beverly Walker settlement. FY 2001 includes June Meng settlement. FY 2002 includes De La Fuente defense costs. FY 2003 includes Brownfield Aviation settlement and De La Fuente defense costs.