MEMO TO: City Council

FROM: John Marchione, Mayor

DATE: September 7, 2010

SUBJECT: RATIFYING THE ACQUISITION OF PROPERTY INSURANCE

FROM AFFILLIATED FM IN THE APPROXIMATE AMOUNT OF \$162,131 AND GENERAL LIABILITY INSURANCE FROM TRAVELERS INSURANCE COMPANY IN THE APPROXIMATE

AMOUNT OF \$329,991 FOR THE CITY OF REDMOND

I. RECOMMENDED ACTION:

Approve the decision of staff to acquire property insurance from Affiliated FM in the approximate amount of \$162,131 and general liability insurance from Travelers Insurance Company in the approximate amount of \$329,991 as further described herein.

II. DEPARTMENT CONTACTS:

Michael E. Bailey, Finance and I.S. Director 425-556-2160

III. DESCRIPTION:

The City has worked with Public Risk Underwriters (PRU) as its insurance broker for several years. At some point during this time the City placed its liability insurance programs with the Cities Insurance Authority of Washington (CIAW), a risk pool of mostly smaller cities. The CIAW pool is operated by Canfield and Associates of Ephrata, WA. The property insurance coverage has been provided by Affiliated FM Insurance Company.

Insurance pools work on the premise that each member of the pool shares the risks (and rewards) of being in the pool. Redmond's situation was unique in that we were a member of the pool but did not have exposure to the losses of other members of the pool. The City of Redmond was able to participate in the pool's access to insurance markets but remain independent of the risks posed by other members of the pool. Last year the CIAW was advised by the State Risk Manager that Redmond could no longer remain as a member of the pool without sharing the general exposures to other participants in the pool. This arrangement had to change by the end of 2010.

One other item of note: Over the years, a national insurance conglomerate (Brown & Brown) has acquired Public Risk Underwriters and Canfield and Associates. Therefore, our insurance broker was owned and operated by the same company that provided our coverage.

Knowing we needed to make a change in our insurance programs we decided to assess our program through an independent review. We conducted a Request for Proposals (RFP) and hired Jim McDonald to conduct such a review (we advised the City Council of the review through the Mayor's weekly updates). Mr. McDonald's review concluded that the City's risk program was sound, but that changes would need to be made to conform to the direction from the State Risk Manager. Mr. McDonald recommended an RFP for brokerage services. The RFP for brokerage services resulted in our contracting with Bannon, Carlson & Kessel.

Mr. Dan Delorenzo is the lead for public entities at Bannon, Carlson & Kessel. Mr. Delorenzo has worked with City staff to develop the information necessary to obtain quotes to replace the City's insurance programs which expire on September 1, 2010. Through a significant amount of effort on the part of both Mr. Delorenzo and staff throughout the City, we were able to encourage aggressive quotes for insurance.

Attached is a summary prepared by Mr. Delorenzo of the effort resulting in the quotes for insurance coverage reviewed by city staff. The timing is such that staff has advised Traveler's Insurance Company and Affiliated FM that they intend to select them as the providers of insurance for the City.

Staff will work with representatives of both companies to assure that we manage risks and protect the City from claims and lawsuits. This will start with a comprehensive review of related activities including staff, representatives from the insurance carriers, our broker, and the City Attorney.

Summary of the coverage up to 9/1/2010 – premiums totaling \$590 thousand:

Coverage	Self Insured	Per	Aggregate
	Retention	Occurrence	Annual
General Liability	\$100,000	\$21,000,000	\$31,000,000
- Sewer Backups			\$2,000,000
- Terrorism			Declined
- Employment Practices			\$20,000,000
- Public Officials	\$100,000	\$20,000,000	\$50,000,000
Property	\$25,000	\$100,000,000	\$500,000,000
- Flood	3% / \$100,000		\$50,000,000
- Earthquake	3% / \$100,000		\$50,000,000
Boiler / Machinery	\$10,000		\$50,000,000
Crime / Fidelity	\$10,000		\$1,000,000

Summary of the coverage after 9/1/2010 – premiums totaling \$491 thousand:

Coverage	Deductible	Per	Aggregate
		Occurrence	Annual
General Liability	\$25,000	\$31,000,000	\$31,000,000
- Sewer Backups			\$2,000,000
- Terrorism			Included
- Employment Practices			\$31,000,000
- Public Officials	\$25,000	\$31,000,000	\$31,000,000
Property	\$25,000	\$100,000,000	\$500,000,000
- Flood	3% / \$100,000		\$50,000,000
- Earthquake	3% / \$100,000		\$50,000,000
Boiler / Machinery	\$10,000		\$50,000,000
Crime / Fidelity	\$10,000		\$1,000,000

IV. IMPACT:

- Retains very good insurance coverage for all lines with no exposure to shared risks with insurance pool participants.
- Reduces premiums by just under \$100,000 per year.

V. ALTERNATIVES:

- Review other insurance proposal or other alternatives to transfer and / or mitigate risks to the City.
- Retain / develop a relationship with a municipal insurance pool.

VI. TIME CONSTRAINTS:

The City's current coverage expires September 1, 2010

VII. LIST OF ATTACHMENTS:

- A. Insurance Quote Recap
- B. August 26, 2010, Letter to M. Bailey from D. Delorenzo

/s/ Mike E. Bailey, Finance Director			08/26/2010 Date
Approved for Council Agenda	/s/ John Marchione,	 Mayor	08/27/2010 Date



INSURANCE QUOTE RECAP

	<u>2009</u>	<u>2010</u>
Property: Affiliated FM Global	\$180,148	\$162,131
Liability: CIAW (\$100,000 Deduct)	\$410,429	\$357,194
Liability: CIAW (\$25,000 Deduct)	N/A	\$397,544

LIABILITY OPTIONS AT \$25,000 DEDUCTIBLE

American Alternative	Best Rating	A+ XV
	\$21,000,000 Limit	\$308,645
	\$31,000,000 Limit	\$333,662

No Garagekeepers LiabilitySexual Abuse Limitation

Travelers Insurance	Best Rating	A+ XV
	\$21,000,000 Limit	\$314,408
	\$31,000,000 Limit	\$329,991
Abuse/Molestation SublimitSewer BackupFailure to Supply	\$11,000,000 \$2,000,000 \$2,000,000	
Law Enforcement LiabilityElectric Utility	No Bodily Injury Coverage Excluded	e for Volunteers
 Garagekeepers Liability 	\$1,000,000	

August 26, 2010

To: Mike Bailey, CPA

Director Finance & Information Service

In brief, here is a summary of the insurance marketing process over the past three months.

After obtaining underwriting information covering all city departments we went to the key public sector insurance companies as well as the incumbent property carrier Affiliated FM & liability carrier which is the CIAW pool. Of utmost importance was advertising the fact that the City of Redmond's decision as to carrier would be helpful for the successful bidder in opening the door to other Washington cities. This created a very competitive bid situation.

Due to Redmonds excellent claim loss ratio and the competitive bid setting we were able to reduce your \$100,000 Liability deductible to \$25,000, raise your \$21,000,000 Liability limits to \$31,000,000 per occurrence and reduce your premiums by approximately \$98,000.

The incumbent property carrier, Affiliated FM came in with the lowest Property quote while Travelers came in with the best overall Liability program.

It is our recommendation you keep the Property with Affiliated FM and move the Liability insurance to Travelers.

We look forward to answering any questions you may have.

Daniel J. DeLorenzo, CIC

Sincerely,