

ITEM #:	<u>36</u>
DATE:	<u>06-27-23</u>
DEPT	<u>HR</u>

COUNCIL ACTION FORM

SUBJECT: **PROPERTY INSURANCE RENEWAL FOR FY 2023/24**

BACKGROUND:

The City contracts with Willis of Greater Kansas, Inc. to provide property insurance brokerage services for the City's property insurance program. Willis has obtained quotes for property insurance coverage for FY 2023/24 and these quotes are now being presented for City Council approval.

The City's property insurance program is split into two main components:

- 1) The "Municipal" component, which covers City Property excluding the Resource Recovery and Power facilities described below. This component has been underwritten by Chubb Insurance Group since 2012.
- 2) The "Power" component, which covers Resource Recovery, the Power Plant, and assets related to the electrical infrastructure. In FY 2018/19 this coverage was moved to Starr Tech for underwriting the policy.

Splitting the City's insurance coverage into two major components allows for an optimization of terms and pricing to fit each insurer's specialty, rather than placing all City property under a one-size-fits-all program. In addition, the broker arranges for flood insurance for properties susceptible to flood damage (CyRide, WPC, and Furman Aquatic Center).

The number of natural disasters in the past few years has caused the commercial insurance market to harden, meaning it is becoming increasingly difficult to find reasonably priced coverage. Additionally, fewer companies are willing to participate in the reinsurance market which drives up the cost further. In the month of May 2023, Willis saw an average rate change of more than 22% across their entire book of business.

“MUNICIPAL” PROPERTY QUOTE:

As with prior years through Willis, the municipal and flood coverage in the renewal proposal comes from Chubb (municipal property), and RSUI (flood insurance). **Chubb is the only carrier willing to provide coverage for any CyRide bus damaged due to natural disaster while sitting outside the facility.** There is therefore lack of competition for this coverage, although historically Chubb's quotes have been within the anticipated budget and staff believes the quotes have been reasonable for the coverage.

The premium cost for municipal facilities is determined in part by the value of the covered property (based on replacement cost). Quotation details for the municipal portion of the program are as follows:

FY 2023/24 'Municipal' Facilities Renewal (Chubb & RSUI)			
	FY 2023/24	FY 2022/23	Change
Indexed Insured Values@ Replacement Cost, including CyRide Buses on Premises	\$296,118,864	\$275,163,817	8%
Chubb Premium	\$290,035	\$231,730	25%
TRIA coverage (terrorism)	\$17,788	\$15,749	13%
Excess Flood \$5M Layer (RSUI) for WPC, CyRide, Furman Aquatic Center	\$91,000	\$74,068	23%
Total Municipal Property Premium	\$398,823	\$321,547	24%

“POWER” PROPERTY QUOTE:

Willis took the power coverage to market this year. Unfortunately, of eight companies contacted, only the incumbent (Starr) provided a quote. Starr reinsures 25% of the City’s coverage, and reinsurance is increasingly costly to obtain. Willis attempted to take the reinsurance portion of this coverage to market to try to reduce premium costs. No reinsurer was able to provide a quote more competitive than Starr.

The premium for Power Facilities is based in part on the Indexed Insured Values for covered facilities (based on replacement cost). Quotation details for the power portion of the program are as follows.

FY 2023/24 'Power' Facilities Renewal			
	FY 2023/24	FY 2022/23	Change
Indexed Insured Values @ Replacement Cost	\$496,871,888	\$461,851,538	8%
Coverage Purchased	\$200,000,000	\$200,000,000	--
Total Power Property Premium	\$825,341	\$608,295	36%

In addition to the premium increase, Starr also raised the City’s deductibles and reduced covered limits in numerous areas with this quote:

- The Combustion Turbine Generator deductible increased from \$350,000 to \$500,000
- The Steam Turbine Generator deductible increased from \$250,000 to \$500,000

- The deductible for ‘All Other Peril’ increased from \$100,000 to \$250,000
- Starr added a \$100M sublimit for convection storm coverage, down from \$200M.

COMBINED PROPERTY QUOTE:

The combined Power and Municipal premiums result in an overall property insurance program cost increase of \$294,322 for FY 2023/24 over the prior year. This is a combined 32% increase compared to the total FY 2022/23 premium.

FY 2023/24 Combined Property Renewal			
	FY 2023/24	FY 2022/23	Change
Total Municipal Property Premium	\$398,823	\$321,547	24%
Total Power Premium	\$825,341	\$608,295	36%
TOTAL	\$1,224,164	\$929,842	32%

At the time the FY 2023/24 City Budget was prepared, staff had anticipated a property insurance premium increase of up to 20%. Therefore, the adopted FY 2023/24 budget includes \$1,119,955, which is allocated to the affected City budget programs. The difference between the budgeted funding and the quoted premiums is a shortfall of \$104,209. This shortfall will be spread to each of the affected budget programs as part of the adjusted FY 2023/24 budget process. At that time the affected programs will have to be amended to reflect savings to offset these increased costs.

ALTERNATIVES:

1. Approve the renewal for the property insurance program coverage at the combined quoted premium of \$1,224,164 for FY 2023/24.
2. Do not approve the renewal of the property insurance program and direct staff to seek additional coverage quotes.

CITY MANAGER’S RECOMMENDED ACTION:

The proposed insurance renewal provides adequate coverage of the City’s assets. However, it comes with significant increases in the premium costs. Although staff expected a substantial premium increase with this renewal, the renewal quote is approximately twice what was anticipated.

Staff has had several conversations with Willis, the property insurance broker, to understand how this unanticipated increase occurred. Unfortunately, the City is left with

few options. There are few, if any, alternative underwriters for the unique property the City must insure. This limited pool of underwriters subjects the City to substantial increases in premiums as the underwriters attempt to recover from major losses elsewhere in their portfolios in recent years.

City staff will review the City's property insurance strategy this summer and determine if there are options the City can pursue to reduce the cost of future property insurance increases. These options may include changes to coverage limits, re-marketing the coverage partway through the fiscal year, or other strategies.

In the meantime, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as noted above.