



**City of Coral Gables**  
**CITY COMMISSION MEETING**  
**April 26, 2022**

**ITEM TITLE:**

A RESOLUTION OF THE CITY COMMISSION OF CORAL GABLES, FLORIDA, AUTHORIZING THE RENEWAL OF THE PROPERTY AND CASUALTY INSURANCE PROGRAM WHICH INCLUDES, BUT IS NOT LIMITED TO, PROPERTY, GENERAL LIABILITY, AUTOMOBILE LIABILITY, PUBLIC OFFICIALS ERRORS & OMISSIONS, EXCESS WORKERS' COMPENSATION, CRIME LIABILITY, CYBER LIABILITY, TERRORISM PROPERTY & LIABILITY, POLLUTION LIABILITY, DEADLY WEAPON PROTECTION COVERAGE, FLOOD, AS WELL AS OTHER ANCILLARY LINES OF INSURANCE COVERAGE AND INSURANCE BROKER FEES THROUGH ARTHUR J. GALLAGHER RISK MANAGEMENT SERVICES, INC., FOR A NOT TO EXCEED AMOUNT OF \$3,046,176 FOR THE POLICY PERIOD OF MAY 1, 2022 TO MAY 1, 2023. (FUNDING SOURCE: INSURANCE FUND)

**DEPARTMENT HEAD RECOMMENDATION:**

Approve.

**BRIEF HISTORY:**

The City's Agent of Record, Arthur J. Gallagher Risk Management Services, Inc. ("Gallagher"), has solicited and received quotes from various insurance carriers for the desired insurance policies shown below.

In addition to seeking quotes from various insurance carriers in the open market, Gallagher also obtained a quote from Florida Municipal Insurance Trust (FMIT) as a possible option to insure the City's Package, Excess Workers Compensation and Property Programs. FMIT is a self-insurance trust fund that is administered by the Florida League of Cities. The total cost of the program if the City continued with its current insurance program structure in the open market is \$3,046,176 and the overall estimated premium for the FMIT proposal is \$3,580,190 (FMIT's estimated premium includes the additional premium if the City were to increase the value of its bridges, docks and seawalls, which is explained in more detail below).

The City conducted a detailed analysis of the two (2) insurance programs (FMIT and the City's current open market program structure), and after careful consideration is recommending that the City continue with its current insurance program structure in the open market. In addition to the overall lower premium for the City if it remains in the open market, when comparing the open market proposal and the FMIT proposal, there are several differences between the two proposals that favor the City continuing with its current insurance program structure in the open market. Some of these notable differences are as follow:

- **Financial Security:**

- FMIT is a self-insurance trust fund that is not regulated to the same degree or in the same manner as a standard insurance company and, in addition, FMIT is unrated by A.M. Best Company. The City's insurance carriers from the open market all have an AM best rating of A or above. Because FMIT is a without a Best rating (or similar

type evaluation), the City conducted its own review on FMIT's financial security based on FMIT's financial statements and reinsurance program, which FMIT provided. Although based on this review, the City was satisfied that FMIT does appear to have a stable financial and reinsurance structure, we were not convinced that they had the same degree of financial security that the A rated insurers in the open market proposal could provide. In addition, given the number of municipalities with high property values in Florida that are insured by FMIT, there were concerns as to whether FMIT had the solvency required in the event of a major catastrophe impacting numerous Florida municipalities which are insured by FMIT. The addition of Coral Gables to FMIT's portfolio would increase FMIT's total insured values in Miami-Dade County by 50% to over \$900 million.

- **Property Coverage:**

- *Windstorm Limits:*

- FMIT offered the City \$150 million of windstorm coverage. The City's current program structure in the open market has \$50 million of windstorm coverage. Based on a windstorm analysis conducted to calculate the potential loss of the City of Coral Gables, there is a 0.4% annual chance of one hurricane (named storm) event causing \$12,197,674 or more in loss net of the deductible structure. Historically, based upon the results of the windstorm modeling reports and the City's prior loss experiences, the current windstorm limit of \$50,000,000 has been deemed to be a reasonable and sufficient amount coverage for the City.
- Further, FMIT's windstorm coverage for the City's bridges, seawalls and docks ("Marine Assets") is without blanket coverage (unlike the open market) and subject to the limits in the schedule of values applying as coverage limits for these Marine Assets. The City has deemed there to be a higher likelihood of suffering significant damage to its Marine Assets from a hurricane than the likelihood of the City suffering total windstorm losses exceeding \$50 million dollars from a single storm. Because of both of these issues, if the City were to switch to FMIT it is extremely important that the values shown in the schedule for these Marine Assets are accurate and adequate to repair or replace the item if they were damaged in a major storm. To assure that these Marine Assets are properly insured if the City were to go with FMIT, the value of these assets should be increased by approximately \$10 million as a result of the current construction market and the date that these Marine Assets were last appraised (until such time as they are physically appraised). While FMIT did not provide a formal quote for this \$10 million increase in values, they did disclose the rate for these Marine Assets in their proposal, which was \$7.613 per \$100 TIV. Assuming this rate would be applicable to any additional values added to the Marine Assets, we were able to approximate the premium for an additional \$10 million of value at \$761,300. When this additional premium is included as part of FMIT's quote, FMIT's quote is \$534,014 higher than the open market proposal.
- *Limits/Sub-limits:* Other sub limits in the FMIT property program provide significantly less coverage than the City's current open market program. Some of the more notable coverages which are less in the FMIT program include: increased cost of construction for ordinance and law (open market - \$10 million in coverage; FMIT- 25% of the loss),

fungus/mold cleanup costs (open market - \$2.5 million; FMIT - \$25,000), and forgery, theft, computer fraud, and fund transfer fund (open market - \$5 million; FMIT - \$1 million).

- *Anti-Concurrent Endorsement*: Under this FMIT endorsement, an entire loss could be excluded if even a small portion of it was caused by an excluded peril.
- *Historical Valuation*: The FMIT program does not offer historical replacement cost coverage.
- **Package Coverage / Excess Workers' Compensation:**
  - *Claims-made issues*: FMIT Provides Public Officials, Employment Practices and Employee Benefits Liability on an occurrence bases (these coverages are currently insured on a claims made basis). FMIT did offer an add-on provision to cover prior acts for Public Officials and Employment Practices, but no offer was extended for Employee Benefits Liability. The premium for the add-on provision to cover prior acts for Public Officials and Employment Practices is \$182,104, which would be billed over a 4-year installment period. The total premium for FMIT set forth above (\$3,580,190) only includes the first of the four annual installments. The City would be obligated to pay the remaining balance (\$136, 578) if the City changes programs. Further, if the City leaves FMIT in the future, it could potentially prove difficult to repurchase the City's coverages with the current retroactive dates.
  - *Questionable Exclusions*: Below are several policy language /coverage issues that also were considered:
    - Contractual liability. The FMIT policy excludes coverage for indemnity agreements except between governments and very limited exceptions.
    - Exclusions for City employee actions:
      - “the willful violation of a federal, state or local law, ordinance or regulation committed by or with the knowledge or consent of any Member [i.e., Employee].” This exclusion is overly broad because many losses are actually caused, at least in part, by violations of laws and ordinance in some manner.
      - “violation of public trust.” This exclusion is also overly broad because the terms “public trust” and “violation of public trust” are not defined in the policy.

Presented below is the renewal cost of the City's insurance program in the open market under its current program structure.

- **Property**: the City's overall property insurance rate increased by 8%, which was attributable to a hardening market. The City's overall property insurance premium increased by approximately 12.8% (i.e., \$200,435), which was attributable to the increased values as a result of on-site appraisals of 19 locations and the addition of the Coral Gables Country Club to the City's Statement of Values.
- **Package (Liability and Workers' Compensation)**: The City's Package policy with the incumbent increased by approximately 5%, which was attributable to the hardening market as well as the addition of the County Club to the City's exposures and the addition this year of Sports Liability coverage (in prior years, the City purchased separate Sport Liability coverage).

- **Excess Workers' Compensation:** The incumbent offered a 6% rate reduction with a 2-year rate guarantee.
- **Cyber Liability:** The cyber liability insurance market is currently the hardest market. The incumbent primary cyber carrier is not renewing coverage. The City was able to obtain \$2 million in coverage (currently, the City has \$5 million in coverage) with Corvus, who is the City's current excess carrier, for approximately the same premium as it paid last year.

The City's general terms and conditions for all the other coverages are similar to last year with some less significant increases/terms.

The total cost to renew the various insurance policies in the open market is \$200,435 more than the cost of these policies in the prior year.

The following is a summary description indicating insurance policies and premiums:

<b>Description of the Insurance Policy, Surcharge or Fee</b>	<b>Premiums/Fees May 1, 2021 to May 1, 2022</b>	<b>Premiums/Fees May 1, 2022 to May 1, 2023</b>
Package	\$767,500	\$804,000
Excess Workers Comp	\$177,506	\$172,305
Property	\$1,585,707	\$1,788,142
Boiler & Machinery	\$10,135	\$10,800
ADD Business Travel	\$750	\$750
ADD Police and Fire	\$12,864	\$12,864
Bond Finance Director	\$1,138	\$1,138
Pollution Liability	\$23,900	\$23,900
Crime	\$11,079	\$11,656
Sports Liability	\$29,608	Included in the Package
ADD Sports	\$10,030	\$11,662
Cyber Liability	\$86,635	\$79,569
Terrorism Liability and Property	\$20,000	\$20,000
Active Assailant	\$5,900	\$5,900
Flood	\$9,261	\$9,720
EMPA & TRIA fees	\$3,728	\$3,770
Insurance Brokerage Fee (Gallagher)	\$90,000	\$90,000
<b>Total Cost of Program</b>	<b>\$2,845,741</b>	<b>\$3,046,176</b>

In February, March and April of 2022, we had 5 meetings with the Insurance and Risk Management Advisory Board (the "Board") that took place on February 11<sup>th</sup>, March 15<sup>th</sup>, March 30<sup>th</sup>, April 18<sup>th</sup> and April 20<sup>th</sup> to discuss the insurance renewal. During these meetings, the Board was provided with detailed presentations of the quotes obtained from the different

carriers for the various types of insurance coverage. There were also thorough discussions concerning the differences between FMIT's proposal in terms of pricing and coverage compared to the City's current program. FMIT representatives also were present to answer questions from the Board and City staff during the April 18, 2022, meeting.

There was consensus among the Board members that for this renewal year (May 1, 2022 through May 1, 2023), the City continue with its current program structure (as detailed above). In addition, George Erickson from Siver Insurance Consultants, the City's independent insurance consultant, also concurred with the Board members and the above recommendations.

**FINANCIAL INFORMATION: (If Applicable)**

	<b>Amount</b>	<b>Account No.</b>	<b>Source of Funds</b>
	Not to exceed \$3,046,176	540-0000-590-4550	Insurance Fund
<b>Total:</b>		<b>APPROVED BY:</b>	

**Attachments:**

1. Resolution
2. Insurance renewal proposal and premium summary presented by Arthur J. Gallagher
3. Board Minutes (February 11, March 15, March 30, April 18, and April 20, 2022)