

Council Meeting
July 3, 2007

Honorable Mayor and Members
of the Torrance City Council
City Hall
Torrance, CA

Members of the Council

SUBJECT: Request for Approval to Purchase Property Insurance for the period of July 1, 2007 through June 30, 2008.

Expenditures: \$123,158

RECOMMENDATION

The Human Resources Director recommends that the City Council approve the purchase of property insurance at a premium of \$123,158.

Funding

Funds are available in the Fiscal Year 2007/08 Self-Insurance Fund and the Fiscal Year 2007/08 Transit Fund operating budget.

BACKGROUND

The City purchases property insurance covering buildings, contents, boilers and machinery, all vehicles valued over \$100,000 and buses and vans. The insurance provided is "all risk" coverage, subject to exclusions. The current coverage expired on July 1, 2007. This coverage was based on estimated property values of \$204,188,777, and the premium was \$113,615. The estimated property values for FY 2007/08 are \$221,875,187, an increase in value of over 8%, primarily due to higher construction costs.

Alliant Insurance Services, The City's insurance broker, obtained price proposals from PEPiP, the program that insures the City. In addition, the City utilized another broker, Arthur J. Gallagher, to obtain competitive proposals. The lowest proposal was again provided through Alliant by PEPiP. ATTACHMENT A provides the property renewal proposals from Alliant and Arthur Gallagher. As compared with the expiring coverage, PEPiP is offering coverage with an increase in values of City property of over 8%, at a premium of \$123,158. The proposed premium increase of \$10,020 (just over 8%) corresponds with the increase in values. Comparable coverage offered through Gallagher would be \$265,814.

A proposal for earthquake coverage with \$10,000,000 in limits is offered through Alliant Insurance Services at \$199,524, not including certain taxes and fees.

Since Fiscal Year 1993/94 the City purchased property insurance through the Public Entity Public Insurance Program (PEPIP). PEPIP is a joint purchase plan that includes the City of Torrance and hundreds of other governmental entities within. Each of the members has its own insurance policy and there is no sharing of risk between members.

ANALYSIS

In recent years the property insurance market has fluctuated significantly. In order to mitigate cost increases, starting in FY 2001/02 the City elected to forego costly earthquake coverage, and in FY 2002/03 the City increased its deductible. ATTACHMENT B provides a summary of property insurance since FY 2000/01.

Staff recommends the renewal purchase of property insurance from PEPIP as the insurance provides high quality property coverage at a reasonable cost. The purchase of earthquake coverage is not recommended due to its high cost and the relatively low coverage limit offered.

Respectfully Submitted,

ELAINE M. WINER
HUMAN RESOURCES DIRECTOR

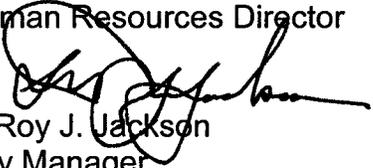


By Randall Sellers
Risk Manager

CONCUR:



Elaine M. Winer
Human Resources Director



LeRoy J. Jackson
City Manager

ATTACHMENTS: A. Property Insurance Renewal Proposal
B. Summary of Property Insurance Premiums



PUBLIC ENTITY PROPERTY INSURANCE PROGRAM (PEPIP)

PROPERTY PROPOSAL

TYPE OF INSURANCE: Insurance Reinsurance

NAMED INSURED: City of Torrance

DECLARATION: 2-Cities 2

POLICY PERIOD: July 1, 2007 to July 1, 2008

COMPANIES: See Attached List of Companies

TOTAL INSURED VALUES: \$ 221,875,187 as of May 30, 2007

COVERAGES & LIMITS:

	\$	1,000,000,000	Per Occurrence: All Perils, Coverages and Insureds/Members combined, subject to the following per occurrence and/or aggregate sub-limits as noted.
			Not Covered Dedicated Flood Limit - Per Occurrence & Annual Aggregate
			Not Covered Per occurrence and annual aggregate Flood Zone A & V Sublimit (inclusive of all 100 year exposures) and does not increase the specific flood limit of liability
			Not Applicable Per Occurrence for Tier 1 Wind and Tier 2 Wind exposure
			Not Covered Dedicated Earthquake Shock Limit - Per Occurrence & Annual Aggregate
	\$	100,000,000	Combined Business Interruption, Rental Income and Tax Interruption Per Member; except \$500,000 / \$2,500,000 maximum Per Occurrence limit if values are not reported by member
	\$	50,000,000	Extra Expense
	\$	10,000,000	Miscellaneous Unnamed Locations for existing Members Excluding Earthquake coverage for Alaska, California and Washington Members. If Flood coverage is purchased for all scheduled locations, this extension will extend to include Flood coverage for any location not situated in Flood Zones A or V.
			See Policy Provisions \$25,000,000 Automatic Acquisition up to \$100,000,000 for 90 days per policy Automatic Acquisition Clause. The peril of EQ is excluded for the states of Alaska, California and Washington. If Flood coverage is purchased for all scheduled locations, this extension will extend to include Flood coverage for any location not situated in Flood Zones A or V.

2007-Public Entity Property Insurance Program (PEPIP) Optional Property Proposal

City of Torrance

**COVERAGES &
LIMITS (Continued):**

\$	1,000,000	Unscheduled Landscaping, tees, sand traps, greens and athletic fields and further subject to \$25,000 / 25 gallon maximum per tree
\$	5,000,000	Scheduled Landscaping, tees, sand traps, greens and athletic fields and further subject to \$25,000 / 25 gallon maximum per tree. Higher limits available for members with scheduled values greater than \$5,000,000 for an additional premium with underwriting approval
\$	40,000,000	Errors & Omissions
\$	25,000,000	Course of Construction and remodeling projects (including new) with project values not exceeding \$25,000,000. Projects valued between \$25,000,001 and \$50,000,000 can be added for an additional premium with underwriting approval
\$	2,500,000	Money & Securities
\$	2,500,000	Unscheduled Fine Arts
\$	250,000	Accidental Contamination per occurrence and annual aggregate per member with \$500,000 annual aggregate for all insureds / members
\$	500,000	Unscheduled Tunnels, Bridges, Dams, Catwalks (except those not for public use), Roadways, Highways, Streets, Sidewalks, Culverts, Street Lights and Traffic Signals unless a specific value has been declared (excluding coverage for the peril of Earthquake Shock, and excluding Federal Emergency Management Agency (FEMA) and/or Office of Emergency Services (OES) declared disasters)
\$	25,000,000	Increased Cost of Construction due to the enforcement of building codes
\$	25,000,000	Transit
\$	1,000,000	Unscheduled Animals; not to exceed \$50,000 per Animal
\$	2,500,000	Watercraft up to 27 feet
\$	2,500,000	Per acquisition for Newly Acquired Vehicles for members who participate in the Optional Licensed Vehicle - Off Premises Coverage
\$	25,000,000	Off Premises Services Interruption including Extra Expense resulting from a covered peril at non-owned/operated locations
\$	5,000,000	Per Occurrence and Annual Aggregate for Earthquake shock on Licensed Vehicles, Unlicensed Vehicles, Contractor's Equipment and Fine Arts for all insured/members in this declaration combined that do not purchase Earthquake coverage

2007-Public Entity Property Insurance Program (PEPIP) Optional Property Proposal
City of Torrance

**COVERAGES &
LIMITS (Continued):**

\$	5,000,000	Per Occurrence and Annual Aggregate for Flood on Licensed Vehicles, Unlicensed Vehicles, Contractor's Equipment and Fine Arts for all insured/members in this declaration combined that do not purchase Flood coverage
\$	2,500,000	Contingent Business Interruption, Contingent Rental Values, and Contingent Extra Expense separately
\$	500,000	Jewelry, Furs, Precious Metals and Stones Separately
\$	500,000	Claims Preparation Expenses
\$	50,000,000	Expediting Expenses
\$	500,000	Personal Property Outside of the USA
\$	100,000,000	per member subject to \$200,000,000 Annual Aggregate of Declarations 1-10, 12, 13 and 17 combined as respects Property Damage, Business Interruption, Rental Income and Extra Expense Combined for Terrorism (Primary Layer)
\$	100,000,000	Per Occurrence, Per Member in any one Occurrence for Terrorism (Excess Layer)
\$	200,000,000	Per Occurrence, All Members combined for Terrorism (Excess Layer)
\$	400,000,000	Annual Aggregate shared by all Members/Entities combined in Declarations 1-9, 12, 13 and 17 for Terrorism (Excess Layer)

VALUATION:

- Repair or Replacement Cost
- Actual Loss Sustained for Time Element Coverages
- Vehicles & Contractor's Equipment / either Replacement Cost or Actual Cash Value as declared by each member. If not declared, valuation will default to actual cash value.

**EXCLUSIONS
(Including but not limited to):**

- Seepage & Contamination
- Cost of Clean-up for Pollution
- Mold

**ALL RISK BASIC
DEDUCTIBLE:**

\$	100,000	Except \$1,000 for Traffic Signals, and \$10,000 for Fine Arts Per Occurrence
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2007-Public Entity Property Insurance Program (PEPIP) Optional Property Proposal

City of Torrance

(Continued):

**DEDUCTIBLES FOR
SPECIFIC PERILS
AND COVERAGES:**

	Not Covered	Per Occurrence for Flood Zones A & V
	Not Covered	All Flood Zones Per Occurrence excluding Flood Zones A & V
	Not Applicable Tier 1 Wind and Tier 2 Wind	
	Not Covered	Per occurrence for Earthquake Shock (Real & Personal Property and Time Element) subject to \$100,000 minimum
\$	1,000	Per Occurrence for Specially Trained Animals
\$	500,000	Per Occurrence for Unscheduled Tunnels, Bridges, Dams, Catwalks (except those not for public use), Roadways, Highways, Streets, Sidewalks, Culverts, Street Lights and Traffic Signals unless a specific value has been declared (excluding coverage for the peril of Earthquake Shock, and excluding Federal Emergency Management Agency (FEMA) and/or Office of Emergency Services (OES) declared disasters)
\$	10,000	Minimum subject to \$100,000 Maximum per Vehicle or Item for Licensed Vehicles, Unlicensed Vehicles and Contractors Equipment Per Occurrence and Annual Aggregate and shared by all members of this Declaration for the peril of Earthquake for members who do not purchase dedicated Earthquake limits
\$	50,000	Per Occurrence and Annual Aggregate and shared by all members of this Declaration for Fine Arts for the peril of Earthquake for members who do not purchase dedicated Earthquake limits
\$	10,000	Minimum subject to \$100,000 Maximum per Vehicle or Item for Licensed Vehicles, Unlicensed Vehicles and Contractor's Equipment Per Occurrence and Annual Aggregate and shared by all members of this Declaration for the peril of Flood for members who do not purchase dedicated Flood limits
\$	50,000	Per Occurrence and Annual Aggregate and shared by all members of this Declaration for Fine Arts for the peril of Flood for members who do not purchase dedicated Flood limits
	24 Hour Waiting Period for Service Interruption for All Perils and Coverages	
	2.5% of Annual Tax Value per Location for Tax Interruption	
\$	10,000	For Van Pool Vans; \$10,000 for all vehicles with Total Insurable Values less than \$100,000; and \$25,000 for all vehicles with Total Insurable Values in excess of \$100,000 Vehicle Physical Damage
\$	100,000	Per Occurrence for Contractor's Equipment

2007-Public Entity Property Insurance Program (PEPIP) Optional Property Proposal

City of Torrance

(Continued):

\$ 100,000 Except \$1,000 for Traffic Signals, and \$10,000 for Fine Arts
Per Occurrence for Primary Terrorism

\$ 500,000 Per Occurrence for Excess Terrorism (Applies only if the
Primary Terrorism Limit is exhausted)

CONDITIONS: 25% Minimum Earned Premium and cancellations subject to 10% penalty

NOTICE OF CANCELLATION: 90 days except 10 days for non-payment of premium

	Annual Cost*
Total Property Premium:	\$ 113,807
Excess Boiler:	\$ 1,925
ABS Fee:	\$ 3,870
SLT&F's (Estimate)	\$ 3,556
Broker Fee:	\$ <u>0</u>
TOTAL COST:	
(Including Taxes and Fees)	\$ 123,158

*Premiums are based on the TIV's above. Changes in TIV's will require a premium adjustment.

Option #2 - \$50,000 All Risk Deductible:

Total Property Premium:	\$ 116,921
Excess Boiler:	\$ 1,925
ABS Fee:	\$ 4,010
SLT&F's (Estimate)	\$ 3,654
Broker Fee:	\$ <u>0</u>
TOTAL COST:	
(Including Taxes and Fees)	\$ 126,510

Option #3 - \$10,000,000 Earthquake Coverage

\$199,524 ** (plus SLT&F's) Additional Premium

**Indication only

QUOTE VALID

UNTIL: July 1, 2007

2007-Public Entity Property Insurance Program (PEPIP) Optional Property Proposal
 City of Torrance
 (Continued):

BROKER: **ALLIANT INSURANCE SERVICES, INC.**
 License No. 0C36861

Rennetta Poncy
 Vice President

Julia D. Gordon
 Account Manager

NOTES:

- *Major pending and approved changes to the PEPiP Program are described in the Executive Summary.*
- *Coverage outlined in this Proposal is subject to the terms and Conditions set forth in the policy.*
- *Excess Carriers in the layers over \$250,000,000 may require the use of their own policy forms in lieu of the PEPiP policy form.*

Commissions are customarily paid by the insurance carriers to their agents and to brokers as a percentage of premiums. In addition to the commissions that Alliant receives, its related entity, Alliant Underwriting Services, Inc. ("AUS") may receive compensation from Alliant and/or the carrier for providing underwriting services. The financial impact of the compensation received by AUS is a cost included in the premium. Additionally, the related entities of Alliant Business Services and/or Strategic HR may receive compensation from Alliant and/or the carrier for providing designated, value-added services. Services contracted for by the client directly will be invoiced accordingly. Otherwise, services will be provided at the expense of Alliant and/or the carrier. Further information is available upon written request directed to: Alliant Insurance Services, Attention: Chief Operating Officer, 1301 Dove St., Suite 200, Newport Beach, CA 92660.

Analyzing insurers' over-all performance and financial strength is a task that requires specialized skills and in-depth technical understanding of all aspects of insurance company finances and operations. Insurance brokerages such as Alliant Insurance Services, Inc. typically rely upon rating agencies for this type of market analysis. Both A.M. Best and Standard and Poor's have been industry leaders in this area for many decades, utilizing a combination of quantitative and qualitative analysis of the information available in formulating their ratings.

A.M. Best has an extensive database of nearly 6,000 Life/Health, Property Casualty and International companies. You can visit them at www.ambest.com. For additional information regarding insurer financial strength ratings visit Standard and Poor's website at www.insure.com/ratings/profiles. To learn more about companies doing business in California, visit the California Department of Insurance website at www.insurance.ca.gov.



PUBLIC ENTITY PROPERTY INSURANCE PROGRAM (PEPIP)

BOILER & MACHINERY PROPOSAL

NAMED INSURED: City of Torrance

POLICY PERIOD: July 1, 2007 to July 1, 2008

COMPANIES: Lexington Insurance Company 100% of \$25,000,000 Primary
 CNA Insurance Company 50% of \$75,000,000 Excess of \$25,000,000
 Foreign Excess Ins. Companies 50% of \$75,000,000 Excess of \$25,000,000
 (See attached list of Companies)

TOTAL INSURED VALUES: \$ 221,875,187 as of May 30, 2007

STATUS/RATING:: See attached list of Companies for Best's Guide Ratings, Admitted Status and Standard & Poor's Ratings.

COVERAGES & LIMITS: \$ 100,000,000 Boiler & Machinery, Breakdown, Combined Property Damage and Business Interruption/Extra Expense (Including Bond Revenue Interest Payments where Values Reported and excluding Business Interruption for power generating facilities). Limit includes loss adjustment agreement, defense costs outside of limits and electronic computer or electronic data processing equipment with the following sub-limits:

Included	Inspection Services
\$ 10,000,000	Per Occurrence for Utility Interruption for Utilities owned by others
\$ 10,000,000	Per Occurrence for Ammonia Contamination
\$ 10,000,000	Per Occurrence for Water Damage
\$ 10,000,000	Per Occurrence for Consequential Damage
\$ 2,000,000	Per Occurrence for Electronic Data Processing Media
\$ 2,000,000	Per Occurrence for Annual Aggregate for Earthquake Resultant Damage for Members who purchase Dedicated Earthquake Coverage
\$ 25,000,000	Per Occurrence for Demolition and Increased Cost of Construction and Building Ordinance
\$ 1,000,000	Per Occurrence for Hazardous Substance
Included	Per Occurrence for Machine or Apparatus used for Research, Diagnosis, Medication, Surgical, Therapeutic, Dental or Pathological Purposes

NAMED INSURED CLAUSE: Named Insured covers entities you acquire or in which you have 50% or more ownership or contractual control prior to loss

2007-2008 Public Entity Property Insurance Program (PEPIP) Optional Boiler & Machinery Proposal
City of Torrance

NEWLY ACQUIRED

LOCATIONS: \$ 25,000,000 Automatic Acquisition for Boiler & Machinery values at newly acquired locations. Values greater than \$25,000,000 or Power Generating Facilities must be reported within 90 days and must have prior underwriting approval prior to binding

VALUATION: Repair or Replacement except Actual Loss sustained for all Time Element coverages

EXCLUSIONS

(Including but not limited to):

- Testing
- Explosion, except for steam or centrifugal explosion
- Explosion of gas or unconsumed fuel from furnace of the boiler

OBJECTS EXCLUDED:

(Including but not limited to):

- Insulating or refractory material
- Buried Vessels or Piping
- Furnace, Oven, Stove, Incinerator, Pot Kiln

NOTICE OF CANCELLATION:

90 days except 10 days for non-payment of premium

DEDUCTIBLES:

\$ 2,500 Except as shown for Specific Objects or Perils

\$ 2,500 Electronic Data Processing Media

\$ 2,500 Consequential Damage

\$ 2,500 Objects over 200 hp, 1,000 KW/KVA/Amps or Boilers over 5,000 square feet of heating surface

\$ 50,000 Objects over 350 hp, 2,500 KW/KVA/Amps or Boilers over 10,000 square feet of heating surface

\$ 100,000 Objects over 500 hp, 5,000 KW/KVA/Amps or Boilers over 25,000 square feet of heating surface

\$ 250,000 Objects over 750 hp, 10,000 KW/KVA/Amps or Boilers over 75,000 square feet of heating surface

\$ 350,000 Objects over 25,000 hp, 25,000 KW/KVA/Amps or Boilers over 250,000 square feet of heating surface

\$ 10 per foot / \$2,500 Minimum Deep Water Wells

24 Hours Business Interruption/Extra Expense Except as noted below

30 Days Business Interruption – Revenue Bond

24 Hour Waiting Period – Utility Interruption

5 x 100% of Daily Value – Business Interruption – All Objects over 750 hp or 10,000 KW/KVA/Amps or 10,000 Square feet Heating Surface

2007-2008 Public Entity Property Insurance Program (PEPIP) Optional Boiler & Machinery Proposal
City of Torrance

DEDUCTIBLES:
(Cont)

5 x 100% of Daily Value – Business Interruption – All Objects at Waste Water Treatment Facilities and All Utilities

COST: Cost is included on Property Proposal

BROKER: **ALLIANT INSURANCE SERVICES, INC.**
License No. 0C36861

Rennetta Poncy
Vice President

Julia D. Gordon
Account Manager

Major pending and approved changes to the PEPIP Program are described in the attached Executive Summary.

Coverage outlined in this Proposal is subject to the terms and Conditions set forth in the policy.

Commissions are customarily paid by the insurance carriers to their agents and to brokers as a percentage of premiums. In addition to the commissions that Alliant receives, its related entity, Alliant Underwriting Services, Inc. ("AUS") may receive compensation from Alliant and/or the carrier for providing underwriting services. The financial impact of the compensation received by AUS is a cost included in the premium. Additionally, the related entities of Alliant Business Services and/or Strategic HR may receive compensation from Alliant and/or the carrier for providing designated, value-added services. Services contracted for by the client directly will be invoiced accordingly. Otherwise, services will be provided at the expense of Alliant and/or the carrier. Further information is available upon written request directed to: Alliant Insurance Services, Attention: Chief Operating Officer, 1301 Dove St., Suite 200 Newport Beach, CA 92660.

Analyzing insurers' over-all performance and financial strength is a task that requires specialized skills and in-depth technical understanding of all aspects of insurance company finances and operations. Insurance brokerages such as Alliant Insurance Services, Inc. typically rely upon rating agencies for this type of market analysis. Both A.M. Best and Standard and Poor's have been industry leaders in this area for many decades, utilizing a combination of quantitative and qualitative analysis of the information available in formulating their ratings.

A.M. Best has an extensive database of nearly 6,000 Life/Health, Property Casualty and International companies. You can visit them at www.ambest.com. For additional information regarding insurer financial strength ratings visit Standard and Poor's website at www.insure.com/ratings/profiles. To learn more about companies doing business in California, visit the California Department of Insurance website at www.insurance.ca.gov.



Arthur J. Gallagher
Risk Management Services



CITY OF TORRANCE
3031 TORRANCE BLVD
TORRANCE, CA 90503

Proposal of Insurance
Date Presented: June 21, 2007

John Chino, Area Senior Vice President
Nasreen Kopecky, Account Manager

Arthur J. Gallagher Risk Management Services
Arthur J. Gallagher & Co. Insurance Brokers
of California, Inc.
www.ajg.com
California Broker-Agent License #0726293

Public Entity and Scholastic Division

Market Premium Summary

Coverages	Expiring (PEPIP)	Allianz
Property	\$113,616	\$265,814
Grand Total	\$113,616	\$265,814

Notes and Highlights:

1. Premiums for the above policies are due and payable as billed, in full or as insurance company installments. Premiums may be financed, subject to acceptance by an approved finance company. Note: Following acceptance, completion (and signature) of a premium finance agreement with the specified down payment is required.
2. Quote is valid until June 30, 2007.

Market Review

Obtaining a comprehensive and competitively priced program of insurance in the marketplace requires more than access to the market. Past experience and credibility with markets are the foundation of a successful campaign for your company. Complete and accurate submissions, with detailed specifications, are essential. Gallagher Companies made a complete and personal presentation to each company contacted.

Insurance Carrier	Coverages	Best's Rating (June 19, 2007)	Surplus Lines (Yes/No)	Carrier's Position (Quoted/Declined & Reason)
Allianz Insurance Co	Property	A XV	No	Quoted
Great American Insurance Company	Property	A XIV	No	Declined; Cannot compete with current pricing
RSUI Indemnity	Property	A XI	Yes	Declined;
Travelers	Property	A+ XV	No	Declined; Cannot compete with current pricing

Note: If a company is indicated as a surplus lines company, the placement does not benefit from state guarantee funds in the event of carrier insolvency.

ATTACHMENT B

SUMMARY OF PROPERTY AND BOILER AND MACHINERY PREMIUMS

July 1, 2007 to June 30, 2008	
Property and Boiler and machinery	\$123,158*
July 1, 2005 to June 30, 2006	
Property and Boiler and machinery	\$113,616*
July 1, 2005 to June 30, 2006	
Property and Boiler & Machinery	\$ 94,023*
July 1, 2004 to June 30, 2005	
Property and Boiler & Machinery	\$111,025*
May 15, 2003 to June 30, 2004	
Property	\$121,930*
Boiler & Machinery	\$ 7,235
May 15, 2002 to May 15, 2003	
Property	\$144,606**
Boiler & Machinery	\$ 9,247
May 15, 2001 to May 15, 2002	
Property	\$ 89,405***
Boiler & Machinery	\$ 7,867
May 15, 2000 to May 15, 2001	
Property	\$128,124
Boiler & Machinery	\$ 6,067

*Deductible \$100,000 and no earthquake coverage

**Deductible increased from \$25,000 to \$100,000, and no earthquake coverage

***No earthquake coverage