

Commercial Property Insurance

City of Dallas
Finance, Audit, & Accountability
Committee
August 29, 2006

Purpose

- Brief Committee of commercial property insurance program for the City of Dallas
- Review Request-for-proposal process
- Explain outcome of proposal process
- Recommend contract award for commercial property insurance

Background

- AON serves as the City's Risk Management Consultant (Broker of Record).
- City of Dallas has property valued at over \$3.3 billion (700+ facilities).
- Since 2001, the City has had difficulty in securing insurance for total value of property and now covers only a portion of total property value per occurrence.

AON Recommendation for Property Coverage

- City's property and contents valued in excess of \$3.3B (700+ facilities).
- AON evaluated the Maximum Probable Loss and determined the following locations to be the greatest risk to the City including:
 - Convention Center/Heliport \$970m
 - Central Library \$246m
 - City Hall & Garage \$259m
 - **Total** **\$1.475billion**
- The **\$1.5 billion** per occurrence coverage is based on protecting the City from a major downtown disaster such as a tornado.

Request for Proposal Process

- RFCSP was issued 7/13/2006
- 184 vendors solicited
- Proposals were due 8/11/2006
 - The City received a two sealed proposals
 - Arthur J. Gallagher
 - Texas Municipal League Risk Pool
 - To be included in Gallagher's Layers of Coverage
 - AON evaluated the proposals
- AON recommends City stay with Arthur J. Gallagher Risk Management
- Current coverage expires October 1, 2006

Market Trends and Pricing

- General tightening of terms & conditions...
- Increased pricing for exposure to natural catastrophe perils...
- Deteriorating markets as key property insurers renew reinsurance treaties...
- Reduced reinsurance treaty capacity...
- Reduction in “All Risk” peril limits...

In FY06 the City experienced the first property claim since 1995

Flood Claim-March 19, 2006

– Total Estimated Damage is \$6.9M

- Estimated Damage to Love Field-\$6.65M
- Estimated Damage to Other Depts.-\$250K

– City's Deductible is \$250K.

Proposed Terrorism Coverage

- Federal program put in place after 9/11 to limit insurance companies' exposure due to terrorism.
 - Federal program expires 12/31/07
- There is no planned further extension of TRIEA after its expiration in 2007.
- Pricing includes \$200M of terrorism coverage.

FY2006 – FY2007 Premium Summary Comparison

Coverage (Limits)	Actual FY06 Premium	Proposed FY07 Premium
Property Primary Layer (\$200M)	\$1,177,339	\$1,371,032
Excess Property Layer 1 (\$300M)	\$330,000	\$450,000
Excess Property Layer 2 (\$500M)	\$360,000	\$500,000
Excess Property Layer 3 (\$500M)	\$250,000	\$400,000
Boiler & Machinery (\$50M)	\$60,861	\$53,721
Terrorism (\$200M)	\$252,891	\$198,944
Fine Arts (\$41M)	\$39,599	\$42,518
Crime (\$1.5M)	\$16,881	\$16,881
Engineering	\$78,750	\$111,375
Appraisals	\$45,000	\$41,250
Surplus Lines Tax and Fee	\$38,679	\$32,886
Total Premium	\$2,650,000	*\$3,218,607

Note

- Quote is valid until 9/30/06
- *Still Negotiating final premium

FY2007 Recommendations

- Arthur J. Gallagher to retain property coverage.
- Layers of coverage are from eleven (11) “A” rated carriers plus the Texas Municipal League Risk Pool, which is not rated by A.M. Best.
- Gallagher’s Program Includes:
 - Web-Based Property Value Tracking System (Property Pro)
 - Facility Inspections
 - Satisfies Insurance Carrier Requirements for Property Inspections
- Property values have increased approximately 10% from FY’06 values.
- Cost of insurance has increased from FY’06 policy. The following chart shows a comparison from FY’06 to FY’07.

FY06 Premium	FY07 Premium	Percentage of increase
\$2,650,000	\$3,218,607* *Still being negotiated and may decrease	18% (\$568,607)

- FY07 proposed program increase: \$272,931 (8% ^ from FY06)
- FY07 property value increase: \$295,676 (10%^ from FY06)
- \$568,607 (18% ^ from FY06)

AON's Analysis of Deductible Options

- Proposal requested deductibles of \$250K, \$500K, and \$1M
 - Gallagher provided quotes for each requested deductible amount.
 - Current deductible is \$250,000 per occurrence.
- The Chart illustrates the possible premium savings if a different deductible is chosen.

Deductible Options			
Deductible Amount	\$250K	\$500K	\$1M
Associated Premium Savings	\$0	-\$86K	-\$265K

- City Staff recommendation is to change to the deductible to \$1,000,000 per occurrence to save \$265,000.

Next Steps

- Present to Finance, Audit, and Accountability Committee and request approval of recommendations.
- Present to City Council at the September 13, 2006 Agenda meeting.