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 $1.475 billion

• 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

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

**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.

<table>
<thead>
<tr>
<th>FY06 Premium</th>
<th>FY07 Premium</th>
<th>Percentage of increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,650,000</td>
<td>$3,218,607*</td>
<td>18%</td>
</tr>
<tr>
<td>*Still being negotiated and may decrease</td>
<td>($568,607)</td>
<td></td>
</tr>
</tbody>
</table>

• 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.

<table>
<thead>
<tr>
<th>Deductible Options</th>
<th>$250K</th>
<th>$500K</th>
<th>$1M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible Amount</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Associated Premium Savings</td>
<td>$0</td>
<td>-$86K</td>
<td>-$265K</td>
</tr>
</tbody>
</table>

- 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.