



DATE: May 11, 2021

CATEGORY: Consent

DEPT.: Finance and Administrative Services

TITLE: **Appropriate Additional Funding for Insurance Premiums**

RECOMMENDATION

Appropriate \$250,000 to the Liability Insurance Fund due to increased costs for higher insurance premiums. (Five votes required)

BACKGROUND

The City of Mountain View procures various insurance policies annually to protect City property and cover a variety of damages, including general liability, vehicles, cyber liability, flooding, and limited earthquake coverage. Mountain View, as with all of California, is in an earthquake/liquefaction zone and susceptible to property damage from seismic activity. This type of coverage, however, is limited to five City structures: City Hall, Center for the Performing Arts, Civic Center Parking Garage, Library, and the Police/Fire Administration Building. The coverage limit for May 2021 through May 2022 is \$75 million.

Premium funding had been reserved to purchase this type of coverage in May 2021; however, due to an extremely volatile excess liability market, those funds were needed to pay for the excess liability insurance policy in July 2020. It had been estimated that this premium would increase by 40% but, in fact, it ultimately increased by 61%.

ANALYSIS

Due to insurance market conditions that are affecting all municipalities, public entities must absorb more risk and prepare for increased excess liability insurance premiums in California.

Excess liability coverage has become much more difficult to obtain at a reasonable cost as traditional liability insurance has become unavailable, loss development has caused excess carriers to reduce their excess offerings, and there have been unprecedented levels

of claims frequency. Liability claims costs have significantly increased for most California municipalities and have caused many insurance underwriters to pull back from the California market, resulting in less coverage and higher premiums. Because of the higher-than-anticipated costs paid earlier in the year, the Liability Fund has insufficient available budget to cover the earthquake premium that is due this May.

FISCAL IMPACT

Earthquake insurance is purchased off cycle from all other insurance purchases, two months prior to the new fiscal year, as market capacity becomes increasingly limited. The fund is expected to be underfunded by approximately \$250,000. Consequently, staff recommends an appropriation in this amount.

ALTERNATIVES

1. Do not purchase the earthquake insurance and forego earthquake coverage.
2. Self-insure (self-fund) for a catastrophic property damage event.

PUBLIC NOTICING – Agenda posting.

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