



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: March 6, 2020

REPORT NO: HCR20-023

COUNCIL DISTRICT: Citywide

ORIGINATING DEPT: Financial Services

SUBJECT: 2020-2021 Procurement of Property Insurance Coverage

CONTACT/PHONE NUMBER: Tracey McDermott (619) 578-7737

REQUESTED ACTION:

Approve the procurement and binding of property insurance coverage from the California State Association of Counties Excess Insurance Authority (CSAC EIA) in an amount not to exceed \$500,000 plus 10 percent as a contingency reserve, with effective dates of March 31, 2020, to March 31, 2021.

EXECUTIVE SUMMARY OF KEY FACTORS:

- Housing Commission staff is asking for authorization to procure and bind property insurance coverage from CSAC EIA in an amount not to exceed \$500,000 plus 10 percent as a contingency reserve, with effective dates of March 31, 2020, to March 31, 2021.
- In late December, the CSAC EIA provided the Housing Commission with a preliminary premium estimate of \$500,000 for the 2020-2021 policy year.
- The 46 percent premium increase directly corresponds to the hardening of the insurance market, industry natural catastrophe and non-catastrophe loss experience, growing total insured values (TIV), the CSAC EIA Property Program's rate/loss ratio, and the Housing Commission's claims experience.
- While the CSAC EIA attempts to be conservative with a preliminary premium estimates, the number on the CSAC EIA estimate is not a not-to-exceed amount. Therefore, staff added in additional 10 percent as a potential contingency reserve since the amount to be approved by this action is defined as a not-to-exceed amount.
- The Housing Commission currently procures its property insurance coverage from the CSAC EIA insurance pool through a contract awarded based on competitive marketing of the Housing Commission's coverage in 2017 by its insurance broker, Alliant Insurance Services (Alliant).
- The best practice is to market insurance coverage every three to five years to maintain bidding interest from insurance company underwriters. Therefore, staff does not recommend a new competitive process for the policy year beginning March 31, 2020. However, the property insurance coverage is scheduled to be marketed by Alliant next year for the policy year beginning March 31, 2021.



REPORT

DATE ISSUED: February 27, 2020

REPORT NO: HCR20-023

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of March 6, 2020

SUBJECT: 2020-2021 Procurement of Property Insurance Coverage

COUNCIL DISTRICT: Citywide

REQUESTED ACTION

Approve the procurement and binding of property insurance coverage from the California State Association of Counties Excess Insurance Authority in an amount not to exceed \$500,000 plus 10 percent as a contingency reserve, with effective dates of March 31, 2020, to March 31, 2021.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) approve the procurement and binding of property insurance coverage for the Housing Commission from the California State Association of Counties Excess Insurance Authority (CSAC EIA) in an amount not to exceed \$500,000 plus 10 percent as a contingency reserve, with effective dates of March 31, 2020, to March 31, 2021.

SUMMARY

Housing Commission staff is asking for authorization to procure and bind property insurance coverage from CSAC EIA in an amount not to exceed \$500,000 plus 10 percent as a contingency reserve, with effective dates of March 31, 2020, to March 31, 2021.

The Housing Commission currently procures its property insurance coverage from the CSAC EIA insurance pool through a contract awarded based on competitive marketing of the Housing Commission's coverage in 2017 by its insurance broker, Alliant Insurance Services (Alliant). The marketing process resulted in five bids received, and CSAC EIA was determined to provide the most comprehensive and lowest price coverage available.

Alliant was re-selected to be the Housing Commission's insurance broker in a comprehensive procurement process in January 2018. As the broker of record for the Housing Commission, Alliant provides support to all facets of brokerage services for the Housing Commission, including the marketing of all lines of insurance coverage, as well as the administrative support and servicing, loss control, and claims managements handling. Alliant ensures that the Housing Commission has the most effective insurance program design, with the broadest terms and conditions, at the most competitive premium available. As the Housing Commission's risk consultant, Alliant is also responsible for keeping the Housing Commission informed of any changes, trends and emerging risks within the public entity and commercial insurance industry.

The Industry best practice is to market insurance coverage every three to five years to maintain bidding interest from insurance company underwriters. Therefore, staff does not recommend a new competitive process for the policy year beginning March 31, 2020. However, the property insurance coverage is scheduled to be marketed by Alliant next year for the policy year beginning March 31, 2021.

In 1979, 29 California counties formed the CSAC EIA for the sole purpose of finding cost-effective insurance and risk management solutions. Today, 52 of the 58 counties in California participate. Later, membership was offered to cities and to other non-county public entities, such as housing authorities, public authorities, educational organizations, fire districts, etc., tasked with supporting the public.

The Housing Commission has been a long-time member of the CSAC EIA's Property Program, which is one of the largest public entity property placements worldwide, joining in conjunction with San Diego County on June 13, 1993. This group purchase program has been highly successful over the years in providing extremely broad coverage and substantial limits (including more combined California earthquake limits than purchased by any other entity). The CSAC EIA Program is summarized in Table 1 below.

Table 1:

PROPERTY PROGRAM SUMMARY	
Program	CSAC EIA Property Program
Type of Insurance	All Risk, including Flood, Earthquake and Boiler & Machinery
Number of Members	109 Members, including 52 counties and 54 other public entities
Policy Period	March 31, 2020, to March 31, 2021
Total Insured Values	\$74 Billion

The market for insurance is cyclical. It fluctuates between the soft market (when premiums hold steady or decrease) and the hard market (when rates increase and coverage is harder to find.) After seven years of mostly decreasing or steady insurance rates that have benefited all insureds, Housing Commission staff are now seeing signs of a hardening insurance market as insurance companies are increasing their rates, becoming more conservative with the capacity that they deploy, and reevaluating their exposures

Higher-than-expected losses are also driving insurance prices higher. Reported ratio for the property insurance industry has been above 100 percent—indicating an underwriting loss. If these losses continue, rate increases will follow. Securing coverage may become more challenging.

Businesses, organizations and public entities with commercial property and liability policies are expected to maintain adequate loss ratios. Otherwise, they may face premium increases and cancellations. To determine if and for what amount a premium increase is warranted, carriers review claims history and loss ratios for the current year plus the past five years. In general, for the CSAC

EIA’s Property Program, loss ratio above 55 percent means high future risk.

In late December 2019, the CSAC EIA provided the Housing Commission with a preliminary premium estimate of \$500,000 for the 2020-2021 policy year.

The CSAC EIA, like much of the industry, has experienced loss ratios of more than 100 percent. As a result, the CSAC EIA Program increased rates this year, in the 25-50 percent range for each member of the pool, depending on the entity’s claims experience. Members with minimal or no losses in the last five years can expect to be on the lower end of the range. The Housing Commission’s five year loss ratio is 81 percent, which is attributable to five major fires and two significant water damage incidents taking place at Housing Commission-owned properties in the last five years. The information the Housing Commission has received about the above mentioned incidents indicates that they were not caused by any structural issues with the properties; the majority involved situations specific to the tenants at the properties at the time of the incidents. The loss ration resulted in the Housing Commission receiving a 46 percent proposed premium increase.

The 46 percent increase in the Housing Commission’s premium also directly corresponds to the hardening of the insurance market, industry natural catastrophe and non-catastrophe loss experience, growing total insured values (TIV) and the CSAC EIA Property Program’s rate/loss ratio. The growing total insured values and rate/loss ratios are summarized in Table 2 and Table 3 below.

Table 2:

INCREASE OF TOTAL INSURED VALUES SUMMARY			
	2019 – 2020	2020 - 2021	Change
SDHC's Total Insured Values	\$318.6 M	\$322.2 M	\$3.6 M
CSAC EIA’s Total Insured Values	\$65 B	\$74 B	\$9 B

Table 3:

CURRENT YEAR + FIVE YEAR RATE/LOSS RATIO SUMMARY				
Policy year	Premium	Claim	Difference	Loss ratio
2014 - 2015	\$ 233,892	\$ 644,848	\$ (410,956)	276%
2015 - 2016	231,186	109,735	121,451	47%
2016 - 2017	284,669	0	284,669	0%
2017 - 2018	289,091	325,724	(36,633)	113%
2018 - 2019	298,963	0	298,963	0%
2019 - 2020	341,991	275,000*	66,991*	80%*
Total	\$ 1,679,792	\$ 1,355,308	\$ 324,484	81%

* Estimate as of 12/31/2019

In conclusion, the worldwide property market has seen significant natural disasters, including the devastating wildfires that have hit California. California has experienced unprecedented wildfire

activity over the last three years, including the largest, deadliest and costliest wildfires in our state's history. These events have impacted the market's surplus, capacity and available reinsurance, pushing the industry into a hardening market for consumers. This trend is impacting all insurance buyers, including public entities such as counties, cities and housing authorities, particularly in California.

While the CSAC EIA attempts to be conservative with a preliminary premium estimates, the number on the CSAC EIA estimate is not a not-to-exceed amount. Therefore, staff added in additional 10 percent, as a potential contingency reserve since the amount to be approved by this action is defined as a not-to-exceed amount.

The CSAC EIA will be providing their final premiums after March 6, 2020; however, the premiums are not expected to exceed the amounts provided in Table 4 below. Nevertheless, large catastrophic events or an economic downturn prior to the March 31, 2020, renewal could impact the property insurance marketplace, resulting in further hardening of the market and potentially resulting in premiums that vary from this estimate.

Table 4:

	2019/20	2020/21	Inc. /Dec. (%)
Premium	\$341,991	\$500,000	46%
10% Contingency Reserve		50,000	
Total		\$550,000	

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this action were approved in the Fiscal Year (FY) 2020 Housing Authority Approved Budget. Approving this action will not change the FY 2020 Total Budget. Funding sources for the portion of the policy year from July 1, 2020, to March 31, 2021, will be budgeted in FY 2021.

EQUAL OPPORTUNITY/CONTRACTING

CSAC EIA is a nonprofit, member-directed, risk-sharing pool of public agencies and is not subject to the requirement to submit a Workforce Report.

PREVIOUS COUNCIL and/or COMMITTEE ACTION

On March 8, 2019, the Housing Commission unanimously approved a contract with CSAC EIA for property insurance coverage for the period of March 31, 2019, to March 31, 2020.

ENVIRONMENTAL REVIEW

The purchase of insurance is not a project as defined by the California Environmental Quality Act Section 21065 and State CEQA Guidelines Section 15378(b)(5), as it is an administrative activity of government that will not result in direct or indirect physical changes in the environment. The determination that this activity is not subject to CEQA, pursuant to Section 15060(c)(3), is not appealable and a Notice of Right to Appeal the Environmental Determination (NORA) is not required. Processing under the National Environmental Policy Act is not required as no federal funds are involved in this action.

Respectfully submitted,



Tracey McDermott
Senior Vice President & Chief Financial Officer
Financial Services Department

Approved by,



Jeff Davis
Executive Vice President & Chief of Staff
San Diego Housing Commission

Attachments:

1. CSAC Excess Insurance Authority - 2020/21 Early Budget Estimates – December 2019
2. 2020 Insurance Summary

Hard copies are available for review during business hours at the security information desk in the main lobby and the fifth floor reception desk of the San Diego Housing Commission offices at 1122 Broadway, San Diego, CA 92101 and at the Office of the San Diego City Clerk, 202 C Street, San Diego, CA 92101. You may also review complete docket materials in the “Governance & Legislative Affairs” section of the San Diego Housing Commission website at www.sdhc.org



CSAC Excess Insurance Authority
2020/21 Early Budget Estimates, December 2019

San Diego Housing Commission

These early estimates have been prepared to aid you in budgeting for the 2020/21 fiscal year. It is important to keep in mind it is early on in the process of determining each Program's total cost. Since the initial version provided in October, we have updated the EWC and GL1 budget estimates to reflect the estimated 2020/21 payroll submitted via the renewal applications and losses evaluated as of 6/30/2019. The estimates provided are intended to be conservative; however, since there is a chance that final premiums may be in excess of these estimates, we recommend you budget towards the upper end of the range plus any differences in exposure or experience which have not yet been considered.

If you are aware that you have had any substantial changes over the past 12 months, please contact Brian Kelley and a better estimate can be developed for you.

Property Program

Premium

18/19 Premium:	\$298,963	2020/21 AR TIV:	\$322,191,141
19/20 Premium:	\$341,991	2020/21 EQ TIV:	\$173,938,129
20/21 Estimated Premium:	\$500,000		

The updated 2020/21 October premium estimates had an overall premium increase of 28% - 47% for most members. That estimate was based on 2019/20 binding total insured values (TIV) and did not yet take into consideration property schedule updates for 2020/21. The December premium estimates are based on updated TIV as of November 14, 2019 and loss history. As indicated in the last budget estimate, members with adverse loss history and/or significant TIV increases may see premium increases which are higher than the range provided in October. Finally, large catastrophic events or economic downturn prior to the March 31, 2020 renewal could impact the property insurance marketplace, resulting in further hardening of the market and potentially resulting in premiums which vary from these estimates.

Master Crime Program

Premium

18/19 Premium:	\$9,101
19/20 Premium:	\$10,011
20/21 Estimated Premium:	\$12,000 to \$13,000

The program is in the first year of a 2 year agreement with AIG. Premium estimates provided assume 10-15% increase over the expiring premium and do not contemplate any exposure changes.



CSAC Excess Insurance Authority
2020/21 Early Budget Estimates, December 2019

San Diego Housing Commission

Cyber Liability Program

Premium

18/19 Premium:	\$2,310
19/20 Premium:	\$2,416
20/21 Estimated Premium:	\$4,000 to \$5,000

The estimated premiums shown are based on a 25-30% premium increase. The premium does not include the Beazley Breach Response (BBR), previously known as Cyber Enhancement Option (CEO). Please note these premium estimates do not contemplate any additional TIV increases excluding appraisals. The higher end of the range contemplates the possibility of adding additional limits to the program.

Beazley Breach Response (BBR)

Premium

18/19 Premium:	\$25,575
19/20 Premium:	\$25,575
20/21 Estimated Premium:	\$27,000 to \$29,000

The estimated premiums shown are based on a 5-10% premium increase. Please note these premium estimates do not contemplate any increases in total operating budget.

Pollution Program

Premium

18/19 Premium:	\$2,037
19/20 Premium:	\$1,858
20/21 Estimated Premium:	\$1,858

The program is in the second year of a three year policy term. The prior year premium reflects the annual premium for the policy.



2020 INSURANCE SUMMARY

Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Property	CSAC EIA	03/31/2019	\$341,991	\$25,000,000	\$25,000	Provides coverage for damage to real estate and personal property, and business income as a result of a covered peril such as a fire.
Fiduciary Liability	Hudson Insurance Company	07/01/2019	\$5,614	\$2,000,000		Provides coverage for losses that arise as a result of alleged errors or omissions or breach of fiduciary duties.
Pollution	CSAC EIA	07/01/2019	\$1,858	\$10,000,000	\$75,000	Provides coverage for pollution conditions and includes 1st and 3rd party coverages.
Master Crime	CSAC EIA	07/01/2019	\$8,259	\$15,000,000	\$2,500	Coverage that manages the loss exposures resulting from criminal acts such as robbery, burglary and other forms of theft.
Smart Corner - Premises Liability	Travelers	07/01/2019	\$21,256.50	\$5,000,000		Provides coverage for claims from SDHC's liability to damage or injury during performance of business. Premises liability coverage only, as operations are excluded.
Smart Corner - Excess Liability	Travelers	07/01/2019	\$17,113.05	\$20,000,000		Provides excess coverage specific to the Smart Corner location and follows the primary liability placement.
General Liability	HARRG	07/01/2019	\$206,888	\$20,000,000	\$10,000	Provides third party coverage for SDHC liabilities that occur as a result of negligence or omissions. Coverage includes bodily injury, physical damage and personal injury.

Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Commercial Auto	Travelers	07/01/2019	\$38,736.20	\$1,000,000	\$1,000	Provides comprehensive and collision. Liability and all other coverages such as medical payments and physical damage.
Excess Auto	Travelers	07/01/2019	\$9,967.95	\$9,000,000	\$0 Deductible at \$1,000,000 attachment point	Provides excess auto coverage following the primary auto placement.
Cyber	CSAC EIA	07/01/2019	\$2,416	\$2,000,000	\$50,000	Provides first and third party coverage for cyber incidents such as liabilities that arise from but not limited to a breach of secured data, taxes and penalties.
Cyber Buy Up Option	CSAC EIA	07/01/2019	\$25,575	1M Notified Individuals		Provides dedicated “per life” coverage for notification costs associated to a cyber-breach, and this coverage does not erode the limit of liability or program aggregate associated to the primary cyber placement.
Director's & Officers	Stratford Insurance Company	12/08/2019	\$89,981	\$5,000,000	\$100,000 Agreement C,D \$150,000 Agreement A \$250,000 Agreement B	Liability insurance payable to the directors and officers of a company as indemnification (reimbursement) for losses or advancement of defense costs in the event an insured suffers such a loss as a result of a legal action brought for alleged wrongful acts in their capacity as directors and officers.
Excess Director's & Officers	Ironshore Indemnity Inc.	12/08/2019	\$28,950.90	\$3,000,000	\$0 Deductible at \$5,000,000 attachment point	Provides excess coverage following the primary Director's & Officers placement.

Policy	Carrier	Effective Date	Premium	Limits	Deductible/Retention	Description of Coverage
Flood - 355 S. 33rd Street	Wright Flood	02/21/2019	\$3,224	\$500,000 building \$100,000 contents	\$10,000 building and contents	Provides mandated flood (NFIP) coverage for the 355 S. 33rd Street location.
Flood - 351 S. 33rd Street	Wright Flood	02/21/2019	\$1,778	\$500,000 building \$100,000 contents	\$10,000 building and contents	Provides mandated flood (NFIP) coverage for the 351 S. 33rd Street location.
Flood - 5071 Muir Ave	Hartford Insurance Company	11/30/2019	\$3,553	\$250,000 building \$10,700 contents	\$2,000 building and contents	Provides mandated flood (NFIP) coverage for the 5071 Muir Ave location.
Flood - 5077 1/2 Muir Ave	Hartford Insurance Company	10/04/2019	\$3,380	\$250,000 building	\$2,000 building and contents	Provides mandated flood (NFIP) coverage for the 5077 ½ Muir Ave location.
Flood - 3051 54th Street	Hartford Insurance Company	08/07/2019	\$883	\$350,000 building \$20,000 contents	\$1,000 building and contents	Provides mandated flood (NFIP) coverage for the 3051 54th Street location.
Workers' Compensation	CHWCA	01/01/2020	\$590,000	\$5,000,000	First Dollar	Form of insurance that provides wage replacement and medical benefits for employees that are injured during the course of employment. Also provides coverage for Employment Practice Liability to include wrongful termination.