



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Materials Management

CM: Todd Hileman

DATE: October 17, 2017

SUBJECT

Consider adoption of an ordinance of the City of Denton, Texas, providing for, authorizing, and approving the purchase of Property and Boiler & Machinery Insurance Coverage for the City of Denton, through the City's sole broker of record, McGriff, Seibels, and Williams of Texas, Inc, and in accordance with Chapter 252.024 of the Texas Local Government Code such coverage is exempt from the requirements of competitive bidding; and providing an effective date (File 6603 awarded to Affiliated FM Insurance Company with a rate of \$0.0646 per \$100 of insurable value, with a one (1) year not-to-exceed amount of \$340,000 and a three (3) year not-to-exceed amount of \$1,020,000).

BACKGROUND

The City of Denton purchases property and boiler & machinery insurance coverage to protect assets totaling approximately \$480,000,000 in buildings, machinery, contents, equipment, and vehicles. This insurance policy covers City buildings and facilities from the standard exposures such as fire, windstorm, hail, tornado, etc. In addition, the policy provides insurance coverage for physical damage due to a catastrophic event (tornado, windstorm, hail, etc.) to our parked and unoccupied vehicles and equipment while they are parked/stored on our property or worksites.

The property market in Texas is a difficult market. Even before the recent hurricanes that hit Houston and Florida, the Texas market was seeing changes. Wind and hail have become the driving forces behind property insurance placement in Texas. Because of the hundreds of millions of dollars of property losses due to hail in Texas, insurance carriers have left this market completely, or severely decreased their capacity to insure property in Texas.

Public entities are difficult for insurance carriers to insure due to the large property limits placed in a small geographical area. This has historically limited the number of property carriers willing to write public entity property insurance. As that list has grown shorter due to losses, the remaining carriers have had to make some changes to their limits and deductible structures to maintain feasibility in the market.

Given the complexities of this insurance product solicitation as described above, and given that Chapter 252.024 of the Texas Local Government Code provides that such products are exempt from the requirements of competitive bidding, the City utilized the services of our sole broker of record, McGriff, Seibels, and Williams of Texas, Inc. (McGriff), to assist us in procuring this coverage without going through the Request for Proposal (RFP) process.

Over the past several months, McGriff has been actively engaged in working with our incumbent carrier, Affiliated FM Insurance Company (AFM), and with Lexington Insurance Company, the other company writing commercial property insurance for public entities in the Texas market.

The City's current carrier, AFM, which has a capacity to write the City's full insurable limits, agreed to the same rate (\$0.0646 per \$100) as we had last year. Therefore, the only increase in premium was due to an increase in the City's total insurable values (TIV). However, AFM did make changes to their deductible structure for the wind/hail exposure by increasing the deductible to 2% per location, with a minimum location deductible of \$50,000, and a maximum occurrence deductible of \$2,000,000. Previously the City's policy with AFM provided for a \$50,000 per location deductible up to a maximum occurrence deductible of \$250,000.

Lexington Insurance Company has also increased their deductible state wide to 5% per location, with a \$100,000 minimum per location deductible, and no maximum occurrence deductible. Moving our coverage to Lexington would make the City's maximum deductible \$23,945,403 for a catastrophic wind/hail event, compared to a \$2,000,000 maximum deductible under the current program.

While there are other coverage advantages in remaining with AFM, the difference in potential deductible exposure for a wind/hail event alone makes AFM a better choice than Lexington. Even with the limitations on available coverage for large public entities in Texas, and the cost shifting to the insureds on wind and hail losses, the AFM proposal still represents a good overall value for the City of Denton.

RECOMMENDATION

Staff recommends a three (3) year award to Affiliated FM Insurance Company for Property and Boiler & Machinery Insurance Coverage.

ESTIMATED SCHEDULE OF PROJECT

The City of Denton's property insurance was effective on October 1, 2017, and will expire on September 30, 2018. The Council is being asked to award this contract retroactively back to October 1. Given the weather related losses that occurred in September of 2017, the underwriter with AFM was delayed in submitting the final price to McGriff until September 22, 2017. Additionally, the underwriter had requested more detailed data on the City's electric substations that also delayed the process.

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

On September 18, 2012, City Council awarded a contract to Affiliated FM Insurance Company (File #5017 with a rate of \$0.0655 per \$100 of insurable value.

FISCAL INFORMATION

Funding for Property Insurance is available in the Risk Retention Fund, 860002.6703. Additional capacity has been built into the not-to-exceed amounts to allow for newly acquired and renovated facilities to be added to the policy over the three (3) year term.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and

Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: Organizational Excellence

Related Goal: 1.1 Manage financial resources in a responsible manner

EXHIBITS

Exhibit 1: Agenda Information Sheet

Exhibit 2: AFM Proposal

Exhibit 3: Broker Recommendation Letter

Exhibit 4: Ordinance

Respectfully submitted:

Karen Smith

Purchasing Manager

For information concerning this acquisition, contact: Scott Payne, Risk Manager, at 349-7836.