

AGENDA ITEM SUMMARY

December 1, 2020

City Council

STAFF

Travis Storin, Interim Chief Finance Officer
Claire Goodwin, Sr. Mgr, Safety and Risk Management
Zachary Mozer, Finance Analyst
John Duval, Legal

SUBJECT

First Reading of Ordinance No. 146, 2020 Appropriating Prior Year Reserves in the Self Insurance Fund for Increased Premiums for Property Loss Insurance.

EXECUTIVE SUMMARY

The purpose of this item is to appropriate funds to compensate for increased premiums for the City's property loss insurance that were paid by the Self Insurance Fund for the 2020/2021 period.

The City's Self Insurance Fund is currently over budget through October 2020 and is expected to remain over budget through year-end. The primary driver of this increase is the higher insurance premiums that have been realized in 2020. These increases are due to two factors: an industry wide adjustment in coverage due to increased risk exposure in the state of Colorado, and more hail storm damage realized at the City in prior years, most notably in 2018.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

BACKGROUND / DISCUSSION

From 2017 through 2019, there has been an increase in hail activity that has been experienced in the Western and Midwestern regions of the US causing an increase in property insurance premiums. According to a recent report from the National Insurance Crime Bureau (NICB), the top 10 states in the US contributed 72% of the total number of hail claim losses for this period. Colorado ranks 2nd highest in the nation, trailing only Texas. In May of 2017, a powerful hailstorm caused widespread damage across Colorado, resulting in \$3.6 billion of damages, according to the National Oceanic and Atmospheric Administration (NOAA).

Based on the data provided by NICB, Colorado's hail losses saw a significant increase in 2018. Most specific to Fort Collins was a June 2018 event, in which the City sustained significant damages to buildings and vehicles that are still in the process of being repaired. The total claim amount to date for this one incident is \$4.1 million. Further, the information provided in this report shows that four of the top cities in the US that have the highest hail claims for this period are in Colorado.

These increased damage events have resulted in higher premiums which have negatively impacted the Safety and Risk Management (SRM) budget. In March 2018, the upcoming two-year budget (for 2019 and 2020) provided that other service areas could incorporate SRM's internal service charges into their budgets. At the time the outside vendor insurance quotes were provided, they had not yet incorporated the industry-wide impacts that are noted above. Compounding the situation is the renewal period of the City's policies in May,

which leads to more uncertainty in the budget process. During the 2019 budget year, the SRM budget was short by \$200K - this amount was addressed in the annual supplemental appropriation ordinance last fall.

Because of upward pressure on insurance industry corrections, compounded by severe hailstorms in June of 2018, premiums increased from just over \$1 million realized in 2018 to \$1.9 million in 2020; a 90% increase. This, in addition to the cadence of the two-year budget cycle that solidified the SRM's budget before the insurance premium adjustments, significantly underfunded what was needed for this expense.

There is some potential for higher inherent variances in estimated vs. actual premiums due to the long lead time between when estimates are quoted versus when the coverages take effect. When the budget is made, insurance quotes are given 17 months in advance, causing a lower confidence that those premiums will hold steady until the first budgeted renewal period. SRM is currently working to move the renewal period from May to January so that it can be better synchronized with the City fiscal year.

This item was reviewed by the Council Finance Committee on November 16, 2020, and was approved to move forward for Council consideration.

SRM is requesting a supplemental appropriation of \$660K because of industry premium corrections and realized losses in 2018.

CITY FINANCIAL IMPACTS

This item will appropriate \$660,000 from the prior year reserves in the Self Insurance Fund to be pledged to support the increased insurance premiums that have been realized for the 2020/2021 coverage period.

ATTACHMENTS

1. Council Finance Committee Minutes, November 16, 2020 (excerpt) (PDF)



Finance Committee Meeting Minutes
 November 16, 2020
 10:00 am - noon
 Zoom Meeting

Council Attendees: Mayor Wade Troxell, Ross Cunniff, Ken Summers, Emily Gorgol

Staff: Darin Atteberry, Kelly DiMartino, Travis Storin, Carrie Daggett, John Duval, Tyler Marr, Blaine Dunn, Dave Lenz, Jo Cech, Zack Mozer, Lawrence Pollack, Cody Forst, Lance Smith, Renee Callas, Jordan Granath, Erik Martin

Others: Gavin Kaszynski
 Kevin Jones, Chamber of Commerce

Meeting called to order at 10:04 am

Mayor Troxell; I'd like to note for the record that I've conferred with the City Manager and the City Attorney and have determined that the Committee should conduct this meeting remotely because meeting in person would not be prudent for some or all persons due to a public health emergency.

Approval of Minutes from the October 19, 2020 Council Finance Committee Meeting. Ken Summers moved for approval of the minutes as presented. Mayor Troxell seconded the motion. Minutes were approved unanimously.

Travis reviewed Fund Review schedule table below which was also included on the agenda.

Fund	Timing
Parking	August 2020
Recreation	December 2020
Self-Insurance	November 2020
Cultural Services	TBD, if applicable

A. Supplemental Appropriation Request for the Risk Fund for Increased Insurance Premiums

Claire Goodwin, Sr. Manager of Safety and Risk Management
 Zack Mozer, Financial Analyst

EXECUTIVE SUMMARY

The Risk Fund is currently over budget through October and is expected to remain over budget through year-end. The primary driver of this increase is the higher insurance premiums that have been realized in 2020. These increases are due to two factors; an industry wide adjustment in coverage due to increased risk exposure in the state of Colorado and more hailstorm damage realized at the City of Fort Collins in prior years, most notably in 2018.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Staff seeks the approval of a supplemental appropriation of \$660K to compensate for the increased premiums realized during the 2019/2020 coverage period.

BACKGROUND/DISCUSSION

From 2017 through 2019 there has been an increase in hail activity that has been experienced in the Western and Midwestern regions of the US causing an increase in property insurance premiums. According to a recent report from the National Insurance Crime Bureau (NICB), the top 10 states in the US contributed 72% of the total number of hail claim losses for this period. Colorado ranks 2nd highest in the nation, trailing only Texas. In May of 2017, a powerful hailstorm caused widespread damage across Colorado, resulting in \$3.6B of damages, according to the National Oceanic and Atmospheric Administration (NOAA).

Based on the data provided by NICB, Colorado’s hail losses saw a significant increase in 2018. Most specific to Fort Collins was a June 2018 event, in which the City sustained significant damages to buildings and vehicles that are still in the process of being repaired. The total claim amount to date for this one incident is \$4.1M. Further, the information provided in this report shows that 4 of the top cities in the US that have the highest hail claims for this period are in Colorado.

These increased damage events have resulted in higher premiums which have negatively impacted the Safety and Risk Management (SRM) budget. In March 2018, the two-year budget (for 2019 and 2020) was established so that other service areas could incorporate SRM’s internal service charges into their budgets. At the time the outside vendor insurance quotes were provided, they had not yet incorporated the industry-wide impacts that are noted above. Compounding this situation is the renewal period of the City’s policies in May, which leads to more uncertainty in the budget process. During the 2019 budget year, the SRM budget was short by \$200K – this amount was addressed in the annual clean up exercise last fall.

Because of upward pressure on insurance industry corrections, compounded by severe hailstorms in June of 2018, premiums increased from just over \$1M realized in 2018 to \$1.9M in 2020; a 90% increase. This, in addition to the cadence of the two-year budget cycle that solidified the SRM’s budget before the insurance premium adjustments, significantly underfunded what was needed for this expense.

There is some potential for higher inherent variances in estimated vs. actual premiums due to the long lead time between when estimates are quoted vs. when the coverages take effect. When the budget is made, insurance quotes are being given 17 months in advance, causing a lower confidence that those premiums will hold steady until the first budgeted renewal period. SRM is currently working to move the renewal period from May to January so that it can be better synchronized with the City fiscal year.

SRM is requesting a supplemental appropriation of \$660K because of industry premium corrections and realized losses in 2018 which are detailed in the table below:

Premium Item	2020 Budget	2020 Actual	Variance
Work Comp	165	179	(14)
Liability	696	468	228
Property	346	1220	(874)
Total	1207	1866	(660)

Discussion / Next Steps:

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

Staff seeks the approval of a supplemental appropriation of \$660K to compensate for the increased premiums realized during the 2019/2020 coverage period

Ross Cunniff; we saved \$228K on liability but had to pay more for Worker’s Comp / Property

Zack Mozer; budget - it was an allocation of that budget

Ken Summers; we have to pay to the premium, so where is the additional \$660K coming from?

Travis Storin; this would be from fund balance for purposes of 2020- the way we make that up in the self-insurance program is the premium that we charge out to departments will increase
 Claire Goodwin is running the insurance company - we are allocating all of the premium out to departments – in future cycles our allocations would be adjusted to repay

Ken Summers; there is an allocation to various departments for those premiums?

Travis Storin; we are self-insured up to a deductible \$500K property

Claire Goodwin; hail tends to be a percentage of the value of the building
 Stop loss kicks in – we charge out to department for claims under \$500K - ultimately will be made up by departments by what they pay into the program

Ken Summers; is \$660K an insurance premium for the stop loss?

Travis Storin; the \$600K is specific to the stop loss premium

Mayor Troxell; what is the alternative?

Travis Storin; in near term there are not a lot of alternatives - we could appropriate these monies out of General Fund instead of the Self-insurance Fund -
 We have to have some level of appropriation to maintain the stop loss coverage.
 On a go forward basis, we work closely with our insurance broker to determine the appropriate level of the deductible as a means to manage the premium and how much risk the city is willing to take on.

One of our key objectives today was to shine a light on this fund for benefit of this committee. The 2018 hail had a substantial cost on the spot and will impact ongoing costs.

Ross Cunniff; what our risk tolerance should be more cars under roofs or higher hail rating on our other roofs that can reduce the other 30% part and of course continue to shop around for providers.

Zack Mozer; we are pursuing a number of possibilities - Brown and Brown goes out to a number of providers to get the best rate for us – we have also looked at doing an insurance coop possibly with other cities - make sure we are exploring the best option - self-insurance is really the most affordable option. We are moving the current May 1st renewal date to January to be more in line with our fiscal budget. It was a 17-month window and that is when unforeseen hailstorms happened.

Claire Goodwin; how do we improve materials we use when replace roofs (longer life span and weather tolerance) and alternative places to store vehicle – this is more the proactive side of risk management. We are working with some of the other department in the city - what is the long-term forecast for exposure. We are definitely looking at how we can reduce that 30%.

Mayor Troxell; Do Denver, Colorado Springs, Greeley self-fund?

Claire Goodwin; collective group of cities within Colorado who group together and self- insure CIRSA Colorado Intergovernmental Risk Sharing Agency. There are pros and cons to this - less city control but collectively sharing the risk.

ACTION ITEM:

Mayor Troxell; more information awareness on CIRSA - their rates which are going up as well - through Colorado Municipal League

Travis Storin; cities like Denver, Colorado Springs, Aurora even PSD and CSU do maintain self-insurance programs. When it gets to a certain level of asset management and you are measuring a vehicle fleet in 100s and you have your own inhouse fleet shop it often does make sense to move to self-insurance up to a certain threshold so that you are covered for catastrophic but you are able to handle your own costs for more minor type claims – we continue to test this as an assumption

Mayor Troxell, Ross Cunniff and Ken Summers approved this to go forward
Will be going to Council soon on the consent calendar

Meeting adjourned at 10:57 am

ORDINANCE NO. 146, 2020
OF THE COUNCIL OF THE CITY OF FORT COLLINS
APPROPRIATING PRIOR YEAR RESERVES IN THE SELF INSURANCE FUND FOR
INCREASED PREMIUMS FOR PROPERTY LOSS INSURANCE

WHEREAS, from 2017 through 2019, Colorado and Fort Collins have experienced increased hailstorm activity resulting in significant property damage that has caused the insurance industry to increase in Colorado their premiums for property loss insurance; and

WHEREAS, this has caused the City's premiums for property loss insurance to significantly increase this year beyond what had previously been approved by City Council in the City's 2019-2020 biennial budget and its 2020 annual appropriation ordinance; and

WHEREAS, as a result, there are insufficient appropriated funds in the City's Self Insurance Fund to pay this increase in premiums thereby requiring this supplemental appropriation; and

WHEREAS, this appropriation benefits the health, safety and welfare of the residents of Fort Collins and serves the public purpose of purchasing property loss insurance for the City's capital assets; and

WHEREAS, Article V, Section 9 of the City Charter permits the City Council, upon the recommendation of the City Manager, to appropriate by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated; and

WHEREAS, the City Manager has recommended the appropriation described herein and determined that this appropriation is available and previously unappropriated from the Self Insurance Fund and will not cause the total amount appropriated in the Self Insurance Fund to exceed the current estimate of actual and anticipated revenues to be received in that Fund during this fiscal year; and

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT COLLINS as follows:

Section 1. That the City Council hereby makes and adopts the determinations and findings contained in the recitals set forth above.

Section 2. That there is hereby appropriated from prior year reserves in the Self Insurance Fund the sum of SIX HUNDRED AND SIXTY THOUSAND DOLLARS (\$660,000) for increased premiums for property loss insurance.

Introduced, considered favorably on first reading, and ordered published this 1st day of December, A.D. 2020, and to be presented for final passage on the 15th day of December, A.D. 2020.

Mayor

ATTEST:

City Clerk

Passed and adopted on final reading on the 15th day of December, A.D. 2020.

Mayor

ATTEST:

City Clerk