WORKSHOP

Comprehensive Review of Leon County Insurance Program

Tuesday, January 29, 2008
1:30pm – 2:30pm

Leon County Board of County Commissioner Chambers
Leon County Courthouse, 5^{th} Floor

This document distributed: January 24, 2008

Board of County Commissioners

Date of Meeting:	January 29, 2008
Date Submitted:	January 23, 2008
To:	Honorable Chairman and Members of the Board
From:	Parwez Alam, County Administrator PA Alan Rosenzweig, Assistant County Administrator AR Karen Harrell, Risk Manager KH
Subject:	Comprehensive Review of Leon County Insurance Program

Statement of Issue:
This workshop provides the Board an over view of the County's insurance program and offers recommendations for alternative methods/levels of coverages for consideration during the next renewal period.

Background:
At the September 11, 2007 meeting the Board approved insurance coverages for the current fiscal year. As part of the approval, the Board directed staff provide additional information regarding the County's risk program prior to the next renewal period.

The following analysis will describe those insurance coverages; current year premiums and losses; and future purchase recommendations.

Analysis:
The goal of risk management is to manage the effects of uncertainty on a local government's operations, minimize potential loss, and arrange to pay for losses that do occur. "Risk" means the chance of financial loss. All insurance is designed to offset the financial impact upon an insured of such losses. It is the amount of risk the insured is willing to absorb which determines what type of insurance will be purchased, against what perils and for what amounts.

Florida has enacted legislation that partially waives the doctrine of sovereign immunity and permits suits for relief from tort claims. 768.28, Florida Statute (2007) limits liability for damages to $100,000 per person or a total of $200,000 per single accident. Judgments in excess of these caps may be entered; however, payment of excess judgments is not required unless a claims bill requiring payment is enacted by the Legislature. These limitations on liability do not apply to workers' compensation and other types of claims.

The state, its agencies and subdivisions are authorized to be self-insured, to enter into risk management programs, to purchase liability insurance for whatever coverage they may choose, or to have any combination thereof, in anticipation of any claim, judgment, and claims bill which they may be liable to pay.

The balance of the analysis section is divided as follows. Each section provides a brief overview of the coverage, claims and premium history and when appropriate, recommendations for coverage alternatives:

A. General Liability
B. Property/Inland Marine
C. Excess Workers' Compensation
D. Automobile Liability and Physical Damage
E. Accidental Death & Dismemberment
F. Aviation
G. Pollution Liability
H. Summary of Recommendations

A. General Liability

General liability insurance embraces business liability hazards other than those dealt with by more specialized forms of coverages such as automobile, aviation, marine, professional and workers' compensation. An insured's liability for existence of these hazards may be direct – for example, a person being injured by an allegedly unsafe condition on premises owned or occupied by the insured. The most common types of liability claims made against the County include:

- Auto damage resulting from road conditions (i.e. potholes)
- Slip and fall on County owned/maintained property
- Falling trees/limbs from County maintained rights-of-way
- Flooding from County owned/maintained property
- Damage caused by County operated heavy equipment (i.e. Graders, Excavator)
- Utility cable disruption from cutting

For all contracted work, the County requires its vendors to have appropriate levels of general liability insurance. In addition, the vendor is required to name Leon County as an additional insured. Through these requirements the County is provided coverage for claims against the vendor for the specific contract.

The County currently carries $3,000,000/per claim and $6,000,000/aggregate (the total for all claims during a policy period) for general liability coverage, with a deductible of $10,000 per claim and includes coverage for the Board and all constitutional officers, except the Sheriff. The Sheriff obtains coverage through the Florida Sheriff's Self-Insured Fund. The following table provides a summary of the average annual losses and premiums for the past five years.

Table 1: General Liability

Insurance Type	Limits of Coverage	Deductible	5-Year Average Annual Loss	5-Year Average Annual Premium	FY 07/08 Premium
General Liability	**$3,000,000 per claim $6,000,000 aggregate**	**$10,000**	**$255,044**	**$411,892**	**$435,793**

As reflected in the table, the net difference between the average loss and premium is approximately $150,000 per year. There are alternative approaches that could provide a reduced level of premium, while maintaining adequate coverage. Attachment #1 contains a summary of comparative data for seven (7) like sized counties which found an equal number of different approaches to coverage options. Lake County has the smallest deductible at $50,000 per claim and Escambia had the largest per claim deductible with $1,000,000. Alternatively, other counties are completely self-insured for general liability and carry no coverage. For claims processing, some counties handled claims in-house and others purchased a Third Party Administrator for claims; and others purchased commercial general liability coverage and all claims were handled by an agent.

Staff recommends adding the following marketing approaches for the upcoming renewal coverages:

1) Eliminate the purchase of commercial general liability insurance and rely on sovereign immunity limits of $100,000 per person/$200,000 per claim for day-to-day claims and employing the services of a Third Party Administrator. This approach would require the hiring or contracting for legal counsel currently provided through the commercial insurer. The County would purchase some level of "catastrophic" coverage and concurrently establishing a reserve account to pay claims that become payable. The monies not expended on this insurance premium would be placed in the reserve.

2) Obtaining premium quotes to include increased deductibles of $100,000 per person/$200,000 per claim and purchasing an Excess policy with limits of $1,000,000 per occurrence/$2,000,000 aggregate or $3,000,000 per occurrence/$6,000,0000 aggregate.

B. Property/Inland Marine

Commercial property insurance is the form of insurance that covers direct and indirect losses related to damages due to covered perils to covered tangible property, such as building structures and personal property associated with such structures.

The County currently carries approximately $250,000,000 for property coverage with deductibles of 5% of total insured value (TIV)/per location for named windstorms, with a minimum of $50,000; and $25,000 for all other covered perils.

To put this in perspective, the Courthouse is valued at approximately $81,000,000. If the Courthouse was a total loss due to a named storm, the County would be responsible for the first $4,000,000 and the insurer would be responsible for the balance, $77,000,000. If this was a non-windstorm related loss, the County would be responsible for the first $25,000 and the insurer would be responsible for the balance, $80,975,000.

Inland Marine insurance generally provides coverage for property in transit or subject to transit, land mobile equipment (but not licensed highway equipment), and "instrumentality of transportation and communication" (bridges, tunnels, radio and TV towers, aerial navigation beacons, dams, piers and docks).

The County currently carries approximately $25,000,000 for inland marine coverage with a $5,000 deductible and includes coverage for the Board and the constitutional officers, except the Sheriff's Office whose only coverage is for their computer equipment.

This coverage may be triggered in conjunction with a property loss as described above, or may be triggered independent of such a loss. For example, the garbage compactors (heavy equipment) at the Solid Waste Management Facility are valued at approximately $419,000. In the event of a total loss of one of these compactors, the County would be responsible for the first $5,000 and the insurer would be responsible for the balance, $414,000.

Table 2: Property/Inland Marine

Insurance Type	Limits of Coverage	Deductible	5-Year Average Annual Loss	5-Year Average Annual Premium	FY 07/08 Premium
Property/Inland Marine	**$275,000,000**	**$25,000/$5,000**	**$26,257**	**$823,233**	**$1,413,101**

Similar to the variations in coverage options for general liability insurance, property insurance deductibles varied among the queried counties, but not as widely. Deductibles were either $50,000 or $100,000 per claim for each of those counties. Unlike general liability where counties have many common features to insure against, for the most part property has no such common features. Proximity to the coast; historic losses; and total insured value are considerations in acquiring property insurance. Constant among the counties is that every county purchased commercial property insurance.

There are two approaches, in addition to increasing the deductible amount, to effect a reduction in the property insurance premium. The first approach is to reduce the total value of property to be insured by eliminating identified properties from the current schedule. This can be accomplished by eliminating properties whose value is at or below the deductible amount or other agreed upon amount. That would mean in the event of a loss, there would be no insurance coverage for those properties. Table 3 below provides a breakdown of the number of properties valued at various increments. Note that 79% of the current property value is contained in five (5) properties.

Table 3: Property Values

Value Range	# of Properties	Combined Values	% of Total Insured Value
$5,000,000 & up	**5**	**$175,500,000**	**79%**
$1,000,000 to $4,999,999	**21**	**$34,800,000**	**16%**
$500,000 to $999,999	**6**	**$4,575,000**	**2%**
$100,000 to $499,999	**24**	**$5,990,000**	**3%**
Less than $99,999	**24**	**$992,300**	**< 0.5%**
Total	**80**	**$221,857,300**	

For non-wind storm related coverage, the County is currently paying $0.08 per $100 in building value. If the County elected to eliminate coverage for all buildings valued less then $1,000,000 ($11,557,300 in building value) the savings would be $9,245.

A second mechanism to reduce the property insurance premium is to *increase* the deductible specific to named windstorms. The County currently pays $0.37 per $100 in building value for this coverage. The County currently has a 5% total insured value per occurrence/per location named storm deductible. The County could look to double this deductible. Dropping this coverage completely for buildings valued less then $1,000,000 would save $42,762.

Staff recommends adding the following marketing approaches for the upcoming renewal coverages:

3) Obtaining premium quotes to include increased deductibles of $100,000 while maintaining the current level of coverage.

4) Obtaining premium quotes to include higher deductibles for wind storm.

C. Excess Workers' Compensation

Workers' compensation is a statutory requirement that employers pay compensation and furnish benefits (i.e. medical costs) if an employee suffers an accidental compensable injury or death arising out of work performed in the course and the scope of the employment. Employees are compensated for occupationally incurred injuries, regardless of fault, in return for which employers are immunized from personal injury lawsuits (excepting intentional torts and gross negligence claims) by employees. The County currently is self-insured and maintains a self-insured retention (SIR, basically a deductible) of $350,000 per claim. Most policies are written with a $500,000 SIR, but entities with positive claims experience (drug-free workplace policies; strong return-to-work strategies; aggressive case management, etc.) are afforded the opportunity to operate with a lesser SIR. Above and beyond the SIR, the County purchases excess workers' compensation coverage for protection in the event of catastrophic claims. The County historically experiences an average of 175 claims per year.

The County currently carries Excess Coverage Part I – Workers' Compensation -- the statutory requirement for bodily injury and; Part II – Employers Liability -- $1,000,000 coverage for employer's liability (if an employee sues the County for alleged intentional harm or gross negligence) and includes coverage for the Board and all the constitutional officers, except the Supervisor of Elections.

As an example, if an employee suffers a serious injury (i.e. a back injury) that results in hospitalization, surgery, physical therapy and on-going medication management, his/her expenses may well exceed the County's $350,000 SIR. At that point the excess workers' compensation coverage is triggered. The County has no further monetary obligation relative to this injury. If that injured employee is unable to return to work due to permanent medical restrictions, he/she is entitled to 66% of their customary wages and medical care until they are eligible for Medicare at which point workers' compensation benefits are offset. If the injured employee was relatively young at the point of injury, he/she could be entitled to benefits for 30 years or more, including annual cost of living increases.

Table 4: Excess Workers' Compensation

Insurance Type	Limits of Coverage	Deductible	5-Year Average Annual Loss	5-Year Average Annual Premium	FY 07/08 Premium
Excess Workers' Compensation	**Statutory and $1,000,000**	**n/a**	**$25,000**	**$324,312**	**$414,141**

Staff recommends adding the following marketing approaches for the upcoming renewal coverages:

5) Obtaining premium quotes for excess workers' compensation to include an increased SIR of $450,000 and $500,000.

D. Automobile Liability and Physical Damage

The function of auto liability insurance is to pay on behalf of the insured (the County) money damages for which the insured becomes legally liable to others for bodily injuries or property damages. Also included is defense against claims or suits for such liabilities. The policy limits apply only to damages. The cost of defending the insured against claims, and all of the supplementary payments, are payable in addition to the policy limits, and there is no separate limit applicable to this part of the coverage. Thus, the total cost of a claim for the insurer may substantially exceed the policy limits. Physical damage coverage provides protection for direct and indirect accidental loss to an insured auto.

The County currently carries $3,000,000 for automobile liability coverage with a $10,000 deductible per claim and includes coverage for the Board and all constitutional officers, except the Sheriff. The Sheriff obtains coverage through the Florida Sheriff's Self-Insured Fund. Physical damage coverage is provided for vehicles valued at $25,000 and above with a deductible of $1,000.

As an example, if a County vehicle valued at less than $25,000 is involved in an at-fault accident resulting in a partial or total loss of that County vehicle, there is no coverage for this portion of the loss. The other party's damages (repair of vehicle, medical expenses, etc.) and the cost of the County's defense, if applicable, are covered by the insurer minus the first $25,000 deductible which the County is responsible for.

If a County vehicle valued above $25,000 (i.e. an ambulance valued at $146,000) is involved in an accident – at-fault or not – the County is covered by the insurer minus the first $1,000 deductible. The County would pay $1,000 toward the replacement of a totaled ambulance and the insurer would be responsible for the balance, $145,000. If at-fault, the other party's damages would be covered as described above.

Table 5: Automobile Liability and Physical Damage

Insurance Type	Limits of Coverage	Deductible	5-Year Average Annual Loss	5-Year Average Annual Premium	FY 07/08 Premium
Automobile	**$3,000,000**	**$10,000**	**$72,520**	**$94,362**	**$85,330**

Staff does not recommend any changes to this coverage at this time.

E. Accidental Death & Dismemberment

In accordance with Florida law, accidental death and dismemberment benefits (AD &D) will be paid to all classes of law enforcement who are accidentally, intentionally or unlawfully killed or receive bodily injury which results in the person's death or dismemberment. This is in addition to the benefits provided within the worker's compensation system.

The County currently carries a maximum of $250,000 coverage for A D & D and only includes the Sheriff's Office.

Table 6: Accidental Death & Dismemberment

Insurance Type	Limits of Coverage	Deductible	5-Year Average Annual Loss	5-Year Average Annual Premium	FY 07/08 Premium
Accidental Death and Dismemberment	**$250,000**	**n/a**	**$0**	**$19,820**	**$19,398**

Staff does not recommend any changes to this coverage at this time.

F. Aviation

Aviation insurance is a highly specialized field which provides both liability and physical damage coverage for aircraft. Hull coverage is provided to protect against the risk of loss or damage to an insured aircraft. Aircraft liability is written to cover public and passenger liability and property damage liability. The Sheriff's Office operates three helicopters for law enforcement purposes and assists in aerial larviciding for mosquito control.

The County currently carries $1,000,000 for liability coverage and $200,000 for hull coverage with a deductible of $1,000 and includes coverage only for the Sheriff's Office.

As an example, if an insured helicopter should crash and damage property as well as damage the helicopter, the County would be responsible for the first $1,000 related to that crash and the insurer would be responsible for the balance. If the helicopter was a total loss, the County would be responsible for $1,000 toward replacement of the helicopter and the insurer would be responsible for the balance, $199,000.

Table 7: Aviation

Insurance Type	Limits of Coverage	Deductible	5-Year Average Annual Loss	5-Year Average Annual Premium	FY 07/08 Premium
Aviation	**$1,000,000/$2,000,000**	**$1,000**	**$0**	**$37,719**	**$29,922**

Staff does not recommend any changes to this coverage at this time.

G. Pollution Liability

Pollution liability is coverage added to general liability coverage for liability for a "pollution incident", meaning emission of pollutants into or on land, the atmosphere or water, causing environmental damage. The county purchases this specialized type of insurance to cover activities of the landfill and transfer station as well as the underground storage tanks of fuel located at sites throughout the county.

The County currently carries $1,000,000 for pollution liability coverage with a $10,000 deductible for public entities and $25,000 for (fuel) storage tanks.

Table 8: Pollution Liability

Insurance Type	Limits of Coverage	Deductible	5-Year Average Annual Loss	5-Year Average Annual Premium	FY 07/08 Premium
Pollution Liability	**$1,000,000**	**$10,000**	**$0**	**$33,274**	**$29,694**

Staff does not recommend any changes to this coverage at this time.

H. Summary of Recommendations

As part of the insurance renewal process, staff recommends the County evaluate alternatives to the current coverages and deductibles for different lines of insurance. Specifically, the following options are recommended for consideration for pricing as part of the up-coming renewal process:

A. General Liability

1) Eliminate the purchase of commercial general liability insurance and rely on sovereign immunity limits of $100,000 per person/$200,000 per claim for day-to-day claims and employing the services of a Third Party Administrator. This approach would require the hiring or contracting for legal counsel currently provided through the commercial insurer. The County would purchase some level of "catastrophic" coverage and concurrently establishing a reserve account to pay claims that become payable. The monies not expended on this insurance premium would be placed in the reserve.

2) Obtaining premium quotes to include increased deductibles of $100,000 per person/$200,000 per claim and purchasing an Excess policy with limits of $1,000,000 per occurrence/$2,000,000 aggregate or $3,000,000 per occurrence/$6,000,000 aggregate.

B. Property/Inland Marine

3) Obtaining premium quotes to include increased deductibles of $100,000 while maintaining the current level of coverage.

4) Obtaining premium quotes to include higher deductibles for wind storm.

C. Excess Workers' Compensation

5) Obtaining premium quotes for excess workers' compensation to include an increased SIR of $450,000 and $500,000.

Staff does not recommend any changes to the following coverages at this time:

D. Automobile Liability and Physical Damage

E. Accidental Death & Dismemberment

F. Aviation

G. Pollution Liability

Options:

1. Direct staff to develop alternative insurance pricing for Fiscal Year 2008/2009 utilizing the options identified in the workshop packet.
2. Do not direct staff to develop alternative insurance pricing for Fiscal Year 2008/2009 utilizing the options identified in the workshop packet.
3. Board direction.

Recommendation:

Options 1

<u>Attachments:</u>

1. Comparable County Insurance Analysis

PA/AR/kh

Attachment # 1
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COMPARABLE COUNTY INSURANCE ANALYSIS

	Property Insurance	General Liability Insurance	Workers' Compensation Insurance	Insured Utilities?
Alachua	$50,000 Deductible $150MIL Total Insured Value	$200,000 Self-Insured Retention In-house claims management $5,000,000/$10,000,000 Excess	$250,000 Self-Insured Retention Third Party Administrator Excess Part 1:Statutory Requirement Part II: $1,000,000	No
Escambia	$50,000 Deductible $429MIL Total Insured Value	Self-Insured for 1st $1,000,000 In-house claims management $1,000,000/$2,000,000 Excess	$450,000 Self-Insured Retention Third Party Administrator Excess Part 1:Statutory Requirement Part II: $1,000,000	No
Lake	$100,000 Deductible $190MIL Total Insured Value	$50,000 Self-Insured Retention Third Party Administrator $5,000,000/$8,000,000 Excess	$450,000 Self-Insured Retention Third Party Administrator Excess Part 1:Statutory Requirement Part II: $1,000,000	No
Leon	$25,000 Deductible $250MIL Total Insured Value	$10,000 Deductible Third Party Administrator $3,000,000/$6,000,000 Excess	$350,000 Self-Insured Retention Third Party Administrator Excess Part 1:Statutory Requirement Part II: $1,000,000	No
Manatee	$100,000 Deductible $511Mil Total Insured Value	$500,000 Self-Insured Retention Third Party Administrator $5,000,000/$10,000,000 Excess	$500,000 Self-Insured Retention Third Party Administrator Excess Part 1:Statutory Requirement Part II: $1,000,000	Water treatment
Marion	$200,000 Deductible $250MIL Total Insured Value	$100% Self-Insured. In-house claims management $1,000,000/$2,000,000 Excess	$1,000,000 Self-Insured Retention Excess Part 1:Statutory Requirement Part II: $1,000,000	Yes
Osceola	$100,000 Deductible $125MIL Total Insured Value	$100,000 Deductible Third Party Administrator $5,000,000/$5,000,000 Excess	$350,000 Self-Insured Retention Third Party Administrator Excess Part 1:Statutory Requirement Part II: $1,000,000	No
St. Lucie	$100,000 Deductible $300MIL Total Insured Value	100% Self-Insured (Pool) Third Party Administrator No Excess beyond Sovereign Immunity	Commercial Excess Part 1:Statutory Requirement Part II: $1,000,000	Waste Water

*Part I – Workers' Compensation -- refers to the statutory requirement to provide for bodily injury
**Part II – Employers Liability -- refers to coverage for alleged intentional harm or gross negligence