

## INSURANCE ADVISORY BOARD MINUTES

City of Fort Lauderdale  
100 North Andrews Avenue  
8<sup>th</sup> Floor Conference Room

Wednesday, January 5, 2011 – 8:00 a.m.

<u>Board Members</u>	<u>Meeting Attendance</u>	<u>1/11 – 12/11 Cumulative Attendance</u>	
		<u>P</u>	<u>A</u>
Joseph Cobo, Chair	A	0	1
Mark Schwartz, Vice Chair	P	1	0
Joe Piechura, Sr.	P	1	0
Jim Drake	P	1	0
Charles Grimsley	P	1	0
Steve Botkin	P	1	0
Jonathan Macy	P	1	0

### Staff and Guest

Matthew Cobb, Risk Management Coordinator  
Mike Walker, Procurement & Contracts Manager  
Guy Hine, Risk Manager  
\*Alan Florez, Vice President, PRIA

\*Via telephone conferencing

As of this date, there are 7 members of this Board, and all 7 are appointed, which means that 4 would constitute a quorum.

### Roll Call

The meeting was called to order by Vice Chair Mark Schwartz at approximately 8:00 a.m.

### Communications to City Commission

Nothing to report.

### Approval of Minutes

Mr. Grimsley stated that his attendance should be corrected to reflect 11-0.

**Motion** made by Mr. Piechura and seconded by Mr. Drake to approve the minutes of the December 1, 2010 meeting as amended. Board unanimously approved.

**Unfinished Business****Motion To Approve Crime Policy Quote**

Alan Florez joined the meeting at this time via telephone.

Mr. Hine stated that a copy of the Ordinance (actual Charter) was distributed. He referred to Section C and proceeded to read that portion. He then referred to the resolution addressing the amount of Fidelity Bonding. A color-coded hand-out was provided showing the expiring policy, and the items discussed. He stated there were some differences. One was the claims expense which was an addition of \$5,000 in coverage. He referred to the Public Officials Bond for \$500,000 with a zero dollar deductible. The total expiring premium was approximately \$7,500 which was reduced due to changes in underwriting. The new premium would be \$8,750.63. There is approximately a 15% increase over last year.

Mr. Hine stated the policy previously called for exclusion of bonded employees in connection with Employee Dishonesty. However, there is an endorsement deleting the exclusion which means that the three bonded employees have coverage. In addition, there was a \$25,000 deductible for such coverage. He feels the ordinance does not address the deductible, but the City Attorney's office interpreted that the ordinance did not allow for this, and therefore, should be excluded. Therefore, the \$500,000 bond was obtained for the three bonded employees with a zero-dollar deductible. This would be done for three years in annual installments.

Mr. Florez confirmed, but stated the bonding could not be a three-year guaranty like the crime policy.

Mr. Hine stated the fees could change, but would be minimal. Mr. Florez confirmed.

Vice Chair Schwartz asked if the policy covered anyone signing checks. Mr. Hine stated the challenge was that they had not been specifically in compliance with the City's Charter and the Ordinance. Vice Chair Schwartz stated the crime policy was a bond.

Mr. Florez stated the current policy provided coverage equivalent to the bond. The issue was that many insurance carriers exclude employees required to be bonded by a City Ordinance. Previously, it was negotiated that such exclusion be taken out of the City's current policy through the endorsement. Potentially, the existing policy provides the coverage the ordinance requires through a mechanism of an insurance policy, rather than through a bond.

Vice Chair Schwartz stated this needs to be explained to the City Commission. He asked how much extra the City was paying for such cost. Mr. Hine referred to the break down provided. Vice Chair Schwartz stated that the Board understood this coverage, and he felt they should not purchase anything additional (over and above the City's current policy, which this year has been quoted at \$5,467.16).

Mr. Florez stated they would have to talk to the carrier to create the necessary verbiage. He added that the mission of the carrier was the zero-dollar deductible. There is a difference of \$25,000 if they go with the bond. Travelers realized if they did not reduce the existing policy, there would be a significant increase to do a bond and a crime policy.

He would talk to the carrier and see what could be stated in a letter. He would also indicate in the letter that counterparts throughout the State in lieu of a bond received the employee dishonesty coverage.

Mr. Hine stated he felt that it did not say this could be done, but it did not say it could not be done in this fashion. He believed there had never been a loss in this area, and therefore, he did not see why this could not be pursued, especially if there was a savings. This will go before the City Commission on January 19, 2011. He is not sure how City management would react to this, but he feels they could move forward with this Board's recommendation.

Mr. Piechura suggested that best practices today indicate this is the way to go, and this could be passed on to the City Commission.

**Motion** made by Vice Chair Schwartz and seconded by Mr. Grimsley that it be recommended to the City Commission that the City purchase a blanket employee dishonesty policy covering all employees, including those specifically named in the past. Otherwise, they would go back and endorse the policy as necessary. This would include last year's policy of the \$25,000 deductible. Board unanimously approved.

Steve Botkin entered the meeting at this time.

#### Discussion of Property Appraisal Results

Mr. Hine stated that a list of properties had been provided, and the total is approximately \$500 million. This was an increase from \$380 million. He stated that most of the increase was due from utilities. In addition, the Stadium was included for \$25 million. He added that the City Commission is presently discussing a water park for that site, and if that occurs the water park would be responsible for the insurance.

Mr. Cobb added that when South Side School was taken over by a third party, then that would likely no longer be the City's responsibility also.

Mr. Hine stated they are still purchasing the same amount of insurance. He believes there is a total of \$150 million for wind coverage. Mr. Florez confirmed. He explained that half of the cost was for utilities, and the other half was for non-utilities. He proceeded to provide some explanation regarding such coverage. A deductible option will be offered to help offset the cost of the increase in value. They are presently reviewing all available options.

#### New Business

##### Motion To Negotiate and Market Property Policy

Mr. Piechura asked why this City owned and insured properties in other cities. Mr. Cobb explained that the address in question was the Five Ash Water Plant. At some point in time, that site was part of this City but it is now the City of Oakland Park. The other addresses were pumping stations that are spread out at locations due to water flow.

Mr. Grimsley stated he did not see City Hall listed. Mr. Hine stated it was listed on page 3 of the list. He was surprised at the value and thought it would have been listed at a

higher amount. He further stated the three highest values were two parking garages and the stadium which are structures that are virtually indestructible and have no content value. He believed this should be taken into consideration in terms of discussion with insurers.

Mr. Florez stated this is part of the argument, and in addition modeling will continue to demonstrate this is a good risk in terms of construction.

Mr. Hine stated they need to see if they want to accept the values being presented. He was concerned about a report to the City Commission regarding the procurement of property insurance quotes. He prefers to use the negotiation method. He explained to Mr. Macy that previously the City bid their insurance, but now, per the Board's recommendation, they use the negotiation method. He proceeded to explain the process.

Vice Chair Schwartz asked if this was only in regard to renewal, and not to endorse anything regarding the appraisals. Mr. Hine stated that structures had been added, and some values had changed from what had been previously listed. They were not referring back to the existing policy. Vice Chair Schwartz clarified that most values were due to utilities, and he suggested they see what the increase was regarding the utility portion.

Mr. Florez stated the increase appeared largely due to the utilities, and they could recalculate and forward that information.

Vice Chair Schwartz asked if this would be helping in regard to a total loss. Mr. Hine stated it appears they should not be paying a large increase because exposure is not there. Mr. Florez stated the market is in good condition from a buyer's standpoint. It is overcapitalized and there is a lot of capacity available. In addition, there is formidable competition that would work in favor of the City.

Mr. Grimsley asked how many companies they would be negotiating with. Mr. Florez explained there were 20 viable markets, and he could prepare a list of those he was going to contact.

**Motion** made by Mr. Grimsley and seconded by Mr. Botkin to approve the negotiation method to market the Property Policy. Board unanimously approved.

Vice Chair Schwartz asked if some preliminary information could be provided at the Board's February meeting. Mr. Florez confirmed, and stated that a not-to-exceed number would be provided. They would continue negotiating in February. If there is any movement in the negotiations, it would be downward.

Mr. Hine referred to the color graphs provided to the Board. He pinpointed various sections of the graphs that showed stability. He referred to the maroon-colored section (P&C), and stated that Fiscal Years 2006, 2007, and 2008 appeared stable at \$15 million. In 2009, it went down to \$11 million, and in 2010 it went to \$8.7 million. Vice Chair Schwartz stated that was due to having good weather (soft insurance market). Mr. Hine stated the P&C side was mainly claims and not insurance. He stated that the decrease was due to how the claims and reserves were handled. Negotiating skills were also a factor. Mr. Hine agreed that they are presently in a soft market regarding the insurance premiums, and the City will ride that as long as possible.

Two years ago there was an increase in P&C costs due to the results from the actuary. These increased costs were due to the City's current actuary who has a more conservative philosophy than the previous actuary. Subsequently, in 2009, the actuary's findings resulted in no change. This past year (2010) there was actually a recovery of almost \$900,000. There have been fluctuations, but these fluctuations have somewhat stabilized.

Vice Chair Schwartz asked if they should be getting back such a large amount, and should the actuary be more on point. Mr. Hine stated that savings were due to the hard work of Mr. Cobb's department in reducing the inventory which in turn lowered the total incurred (reserves).

Mr. Hine further stated that as a result of the decrease in P&C expenditures over the last two years, a substantial surplus had been built up in the P&C fund. As a result, there is a possibility of further reducing costs through the use of a higher property insurance deductible, and that savings on the property premium would be retained in the fund. They discussed utilizing a higher deductible that had been done in the past, since there are now funds available to cover a sizeable deductible. The hope is that a sizeable storm will not happen for a number of years. They are potentially looking at a \$5 million deductible. There has been discussion regarding the set up of a hurricane reserve and setting up the deductible in that fashion. FEMA believes this would be fiscally responsible, and they would not designate that those funds had to be used first or not be reimbursable. Mr. Florez would speak to the underwriters about this, and see if this would be feasible. The current deductible is 5%, which could add up to a sizeable amount. In 2005, about 11-12 structures met the deductible, and about 70 did not. They could not predict if a large loss would occur, but hoped that it would not.

Mr. Grimsley stated it would be fiscally prudent, and that due diligence had been done regarding FEMA, etc., and he felt this would be something positive to consider. Mr. Hine touched on the reimbursement procedure followed by FEMA.

Mr. Hine stated they need to provide the options being considered up front to the underwriters. Things could then be tweaked before the final approval by the City.

Mr. Cobb stated that Mr. Florez has all the values, but they could do some final adjustments regarding some of the buildings. Of the \$500 million, approximately \$300 million covers utilities with \$200 million for non-utility structures.

Mr. Piechura stated that they need to increase coverage on the utility side. The Commission should be told this was the most accurate accountability ever provided regarding City owned properties.

#### Additional Information On Cost of Risk/Benefits

Mr. Hine referred to information distributed to the Board. Things ran relatively steady up until 2008. He added that 2005 was an anomaly and not representative of the true exposure. Afterwards, things ran relatively steady, and both the health and P&C ran relatively even with each other. As of 2009 and 2010, it is obvious they are going in opposite directions. He asked for the Board to offer any ideas they have to address this situation. Totals were provided regarding what had been spent between the two areas, which did not include operations which was only about 5%. He stated that P&C had

gone down over the last few years, but he felt this trend would not continue and things would eventually level out. He felt improvements could be made. He was concerned that the trend regarding health would continue. He was not sure how this could be addressed.

Vice Chair Schwartz reiterated that the private sector was passing costs on to the employees.

Mr. Grimsley stated there was a \$10 million increase (on the health side), but it had been offset by a decrease on the property (and casualty) side. They need to look at the health benefits because if the trend continues upward, they would have to see how to control this.

Mr. Piechura stated that it appears only some law offices were paying complete health care costs, even for dependents. In most cases these offices have a high female content, and they obtain the insurance for the family. He sees no other industry doing the same.

Mr. Grimsley asked if the City had both PPO and HMO options. Mr. Hine confirmed. Mr. Grimsley stated that consideration might have to be given to only providing HMO options. He did not recommend that, but it might have to be considered.

Mr. Hine proceeded to compare various years on the graphs. He added that the number of employees have not increased, and in the last few years there has been a decrease.

Mr. Grimsley stated that individuals not addressing health issues might have to be penalized.

Mr. Hine stated they would discuss possible options at future meetings.

### **Old/New Business**

None.

### **Scheduled Board Meetings**

The next scheduled Board meeting is February 2, 2011 at 8:00 a.m.

**Motion** made by Mr. Piechura and seconded by Mr. Botkin to adjourn. Board unanimously approved.

There being no other business to come before the Board, the meeting was adjourned at approximately 9:00 a.m.

Respectfully submitted,

Margaret A. Muhl  
Recording Secretary