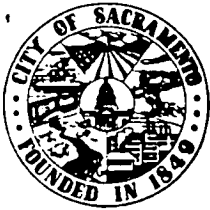


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# CITY OF SACRAMENTO

CITY MANAGER'S OFFICE  
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DEPARTMENT OF FINANCE  
915 I STREET SACRAMENTO, CALIFORNIA 95814  
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JACK R. CRIST  
DIRECTOR OF FINANCE  
FRANK MUGARTEGUI

April 3, 1981

City Council  
Sacramento, California

Honorable Members in Session:

SUBJECT: ANNUAL SELF-INSURED RETENTION (SIR) COMPREHENSIVE AUTOMOBILE  
AND GENERAL LIABILITY PROGRAM STATUS REPORT

SUMMARY

Presented herewith is the Fifth Annual Report to the City Council providing an overview of the subject program, together with comparative financial and loss experience data. The City's experience with this program has resulted in a savings of approximately \$2.7 million.

BACKGROUND

Over the years public entities have typically protected themselves by purchasing insurance. However, their ability to do this changed drastically during the 1970's. This was due to legal, social, and economic developments which affected the availability and cost of public entity insurance. The most dramatic impact was the elimination by the courts of the common law "Doctrine of Sovereign Immunity", which meant that citizens who considered themselves wronged by the actions of the Government could now sue the Government for damages.

During the mid 1970's, insurance for public entities became scarce, the premiums for those policies which were still available skyrocketed and many kinds of coverage disappeared. These events forced public entities to focus on alternatives to combat the problem of increasing premiums.

In January 1976, the City of Sacramento began its SIR Program for Automobile and General Liability Coverage assuming a SIR of \$250,000 per occurrence, with a maximum liability limit of \$20 million (see Exhibit IV). Thereafter, the level of retention was increased as follows —

<u>Effective Date</u>	<b>FILED</b> By the City Council Office of the City Clerk	<u>Level of Retention Per Occurrence</u>
1/20/77		\$300,000
9/07/77		\$500,000
9/07/78		\$1 Million

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HOW SIR PROGRAM OPERATES

The City's SIR Comprehensive Automobile and General Liability Program is a fully funded program, as opposed to a "pay-as-you-go" system. Premiums are received from the General Fund, Enterprise Funds, and Fleet Management Fund. The 1st program years' premium was the amount budgeted for FY 1975-76, thereafter annual premiums are determined by the "averaging method", a running average of incurred losses<sup>1</sup> and other associated costs for the past three years. This is a somewhat indirect way to charge losses and other costs; however, it is more predictable than direct cost method, helps smooth the fluctuations which may occur from year to year, avoids retroactive reimbursement fee paid claims and facilitates allocation of costs back to the various operating funds.

The majority of claims filed against the City are handled by Brown Brother's Adjusters, an independent company not affiliated with an insurance company. Minor property damage claims are handled by in-house staff.

Claims reserves and paid losses are revised annually and a re-evaluation is made of the SIR programs cost effectiveness.

In addition to the reserves for open cases, the City maintains a Contingency Reserve of \$1 million, which was established to cover excessive losses resulting from a catastrophic claim or occurrence. Initially, this reserve was \$250,000, thereafter, as the level of retention was increased, the Contingency Reserve was increased (i.e. \$300,000, \$500,000, to \$1 Million).

Reserves serve two significant purposes: 1) reserves held by the City are invested by the City, reducing the overall program costs; and 2) enhance the financial stability of the program.

By using the above method of operation, the City has been maintaining a fully funded program which is fiscally sound and has resulted in a substantial savings to the City.

SIR PROGRAM OVERVIEW

Program year 1980 - (1/20/80-81) reflects a 5% decrease of costs with an 8.5% increase of claims compared to 1979, as summarized below —

Program Year	Auto		General		Total		Average Cost/Claim
	# of Claims	\$	# of Claims	\$	# of Claims	\$	
1980	132	\$186,597	238	\$387,254	370	\$573,851	\$1,445
1979	136	177,194	205	423,660	341	600,854	1,762
Change	(4)	+\$ 9,403	+ 33	\$(36,406)	+29	\$(27,003)	\$ (317)

<sup>1</sup>"Incurred Losses" - Losses that have happened. Includes amounts paid and reserved for future payment.

As indicated above, the City continues to maintain a favorable pattern of high frequency with low severity (i.e. low dollar cost/claim, as opposed to high dollar value per claim).

Over the past 5 years the City's SIR Program has resulted in a savings of approximately \$2.7 million, as compared to a fully insured program (see Exhibit I). These are dollars which would have been paid to insurance companies (permanently lost) if the City had not elected to assume some of its exposure.

Besides the savings, we have set aside and retained the following funds for open cases and the grey area of contingent liabilities —

Contingent Liability Reserve (as of 1/31/81)		\$1,000,000
Reserve for Open Cases (as of 1/31/81)		
First Year Claims	\$ 51,900	
Second Year Claims	157,330	
Third Year Claims	301,691	
Fourth Year Claims	403,550	
Fifth Year Claims	<u>444,066</u>	<u>1,358,537</u>
Total SIR Auto & Gen. Lia. Program		
Cash Reserves		<u>\$2,358,537</u>

Over the past 4 years claims for Vehicular and General Liability with the greatest frequency are summarized as follows —

<u>Vehicular</u>		<u>General</u>	
<u>Description</u>	<u># of Claims</u>	<u>Description</u>	<u># of Claims</u>
Hit Parked Car	202	Slip & fall	199
Backing up	142	False arrest	166
Rear end claimant	84	Hazardous road cond.	165
Hit object	80	Falling tree	147
		Hazardous cond. other	113

(Represents 60%  
of claims filed)

(Represents 51%  
of claims filed)

Of the 1464 paid and closed claims under the SIR Program, 14 or 1% of those closed exceeded \$10,000 and are as follows —

<u>Program Yr</u>	<u>Description</u>	<u>Type</u>	
		<u>Auto</u>	<u>General</u>
1976	Intersection collision Alledged poor lighting	\$ 54,815	\$ 28,669
1977	Slip & fall		42,154
	Intersection collision	29,671	
	Rear end	24,109	
	Falling tree		10,965
	Right hand turn	71,787	
1978	Hazardous road cond.		10,758
	Error & omission		77,703
	Water damage		11,440
	Rear end	36,830	
	Hit house		10,237
	Slip & fall		51,700
1979	Pull from curb	<u>10,000</u>	
	Totals	<u>\$227,212</u>	<u>\$243,626</u>

The annual audit of the City by Price Waterhouse & Co. for period ending 6/30/80 includes a claims audit of the City's adjusters by the firm of Warren, McVeigh Griffin & Savage. Their conclusions on the audit of Auto and General Liability claims were — "that the quality and promptness of handling City of Sacramento claims by Brown Bros. Adjusters is very good. The few deficiencies noted did not indicate any adverse pattern or trends and when related to the size of the program, were negligible. There was complete compliance with contract provisions. Recommend renewal of the contract with Brown Bros. Adjusters and continuance of all present claims procedures".

Exhibits VI, VII, and VIII provide a 10 year overview of the City's experience with its Auto and General Liability exposure.

#### FINANCIAL

Exhibit II "Statement of Revenues and Expenditures", reflects an excess of revenue vs expenditures of \$164,180 for the 5 year SIR Program, which is a significant turn-around when compared to last year's \$423,337 deficit.

The changes of incurred costs previously reported are as follows —

	Reported Increase Costs		Change
	As of 1/30/80	As of 1/30/81	
1st Yr 1976	\$ 454,588	\$ 477,303	\$ 22,715
2nd Yr 1977	637,949	660,439	22,490
3rd Yr 1978	767,359	771,691	4,332
4th Yr 1979	<u>689,802</u>	<u>600,854</u>	<u>(88,948)</u>
Total	<u>\$2,549,698</u>	<u>\$2,510,287</u>	<u>\$(39,411)</u>

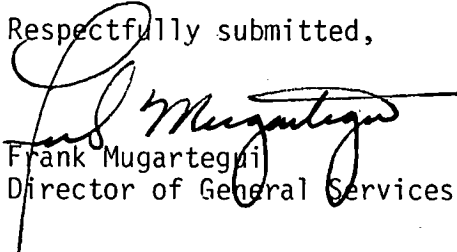
It should be noted that this is the 1st year that incurred costs have reflected a decrease when compared to previously reported costs since the beginning of the subject program. This reduction is primarily attributed to the reduction of the potential exposure on a couple of program year 1979 claims.

Since the inception of the City's SIR Program in 1976, 79% of the incurred costs are attributable to General Fund supported activities (See Exhibit V).

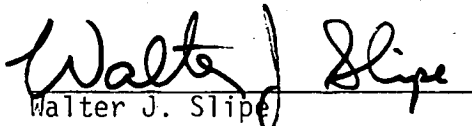
#### CONCLUSION

The City's experience with the subject program has certainly proved that: 1) the decision to self-insure the 1st \$1 million per occurrence to be correct; and 2) we can do it for less cost than a Fully Insured Program. In addition, the savings derived from this program has enabled the City to utilize the \$2.7 million towards other beneficial programs for the Citizens of Sacramento.

Respectfully submitted,

  
Frank Mugartegui  
Director of General Services

FOR CITY COUNCIL INFORMATION:

  
Walter J. Slipes  
City Manager

All Districts  
April 14, 1981

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Attachments: Exhibit I - 5 year SIR Auto & Gen. Lia. Program  
Costs vs Fully-Insured Program  
Exhibit II - SIR Auto & Gen. Liab. Program-State of Rev. & Exp.  
Exhibit III - " " -Incurred Claim Cost Detail  
Exhibit IV - " " -Excess Insurance Schedule  
Exhibit V - " " -5 yr Summary of Claims by Acty.  
Exhibit VI - Auto & Gen Lia Program - 10 Yr Claim Experience  
Exhibit VII - " " - 10 Yr Average Cost/Claim  
Exhibit VIII - " " - 10 Yr Insured Premium vs SIR Cost  
Comparison

cc: Risk Mgmt & Ins Committee  
Department & Division Heads  
Harold R. Wiener, Vice-President, Corroon & Black-James Burpo Ins.  
Don Sams, Brown Brothers Adjusters

City of Sacramento  
 SIR Automobile and General Liability Program  
 5-Year SIR Program costs vs. Fully-Insured Program Costs

<u>SIR PROGRAM</u>	<u>1st Year</u> <u>1/20/76-77</u>	<u>2nd Year</u> <u>1/20/77-78</u>	<u>3rd Year</u> <u>1/20/78-79</u>	<u>4th Year</u> <u>1/20/79-80</u>	<u>5th Year</u> <u>1/20/80-81</u>	<u>Total</u>
Fixed Costs -						
Excess insurance premium	\$ 266,900	\$ 377,450	\$ 372,845	\$ 205,200	\$ 114,900	\$1,337,295
Brokerage fee	8,640	6,480	6,480	12,333	13,222	47,155
Claims administration	40,000	38,500	42,302	39,200	42,026	202,028
Miscellaneous	240	-0-	-0-	-0-	-0-	240
Total fixed costs	\$ 315,780	\$ 422,430	\$ 421,627	\$ 256,733	\$ 170,148	\$1,586,718
Incurred Claim Cost <sup>1</sup>	477,303	660,439	771,691	600,854	573,850	3,084,137
Gross total SIR Program	\$ 793,083	\$1,082,869	\$1,193,318	\$ 857,587	\$ 743,998	\$4,670,855
Less Interest Income	(56,672)	(112,373)	(224,472)	(163,620)	(117,990)	(675,127)
Net total SIR Program costs	\$ 736,411	\$ 970,496	\$ 968,846	\$ 693,967	\$ 626,008	\$3,995,728
<u>FULLY-INSURED PROGRAM (FIP)</u>						
Estimated premium cost	\$1,066,900	\$1,577,450	\$1,572,845	\$1,405,200	\$1,114,900	\$6,737,295
Savings to City (FIP vs SIR)	\$ 330,489	\$ 606,954	\$ 603,999	\$ 711,233	\$ 488,892	\$2,741,567

Note: <sup>1</sup>Incurred costs include paid claims (\$1,725,601) and reserves for open cases (\$1,358,537)  
 (Ref Exhibit III for details)

City of Sacramento  
SIR Automobile and General Liability Program  
Statement of Revenues and Expenditures

	<u>Current Period</u> <u>Jan 20, 1976 thru Jan 19, 1981</u>	<u>Prior Period</u> <u>Jan 20, 1976 thru Jan 19, 1980</u>
Revenues -		
Premium income	\$4,159,909	\$3,209,804
Interest income from revenues & reserves	<u>675,127</u>	<u>333,127</u>
Total revenues	\$4,835,036	\$3,542,931
Expenditures and potential liability (open Cases)-		
Excess insurance premium	\$1,337,295	\$1,222,395
Brokerage fee	47,155	33,933
Claims administration	202,028	160,002
Miscellaneous	240	240
Paid Claims	<u>1,725,601</u> \$3,312,319	<u>1,026,979</u> \$2,443,549
Reserve for open cases	<u>1,358,537</u>	<u>1,522,719</u>
Total expenditures and potential liability	\$4,670,856	\$3,966,268
Excess (deficit) of revenues over expenditures	<u>\$ 164,180</u>	<u>\$ (423,337)</u>

City of Sacramento  
Incurred Claim Cost Detail

Program Year	Reserves for Open Claims		Closed Claims		Total Incurred	
	<u># of Claims</u>	<u>\$</u>	<u># of Claims</u>	<u>\$</u>	<u># of Claims</u>	<u>\$</u>
1976 - 1/20/76-77	18	\$ 51,900	306	\$ 425,403	324	\$ 477,303
1977 - 1/20/77-78	32	157,330	416	503,109	448	660,439
1978 - 1/20/78-79	57	301,691	330	470,001	387	771,692
1979 - 1/20/79-80	96	403,550	245	197,304	341	600,854
1980 - 1/20/80-81	<u>203</u>	<u>444,066</u>	<u>167</u>	<u>129,784</u>	<u>370</u>	<u>573,850</u>
	<u>406</u>	<u>\$1,358,537</u>	<u>1,464</u>	<u>\$1,725,601</u>	<u>1,870</u>	<u>\$3,084,138</u>



City of Sacramento  
 Comprehensive Automobile and General Liability  
 SIR Program Excess Insurance Schedule

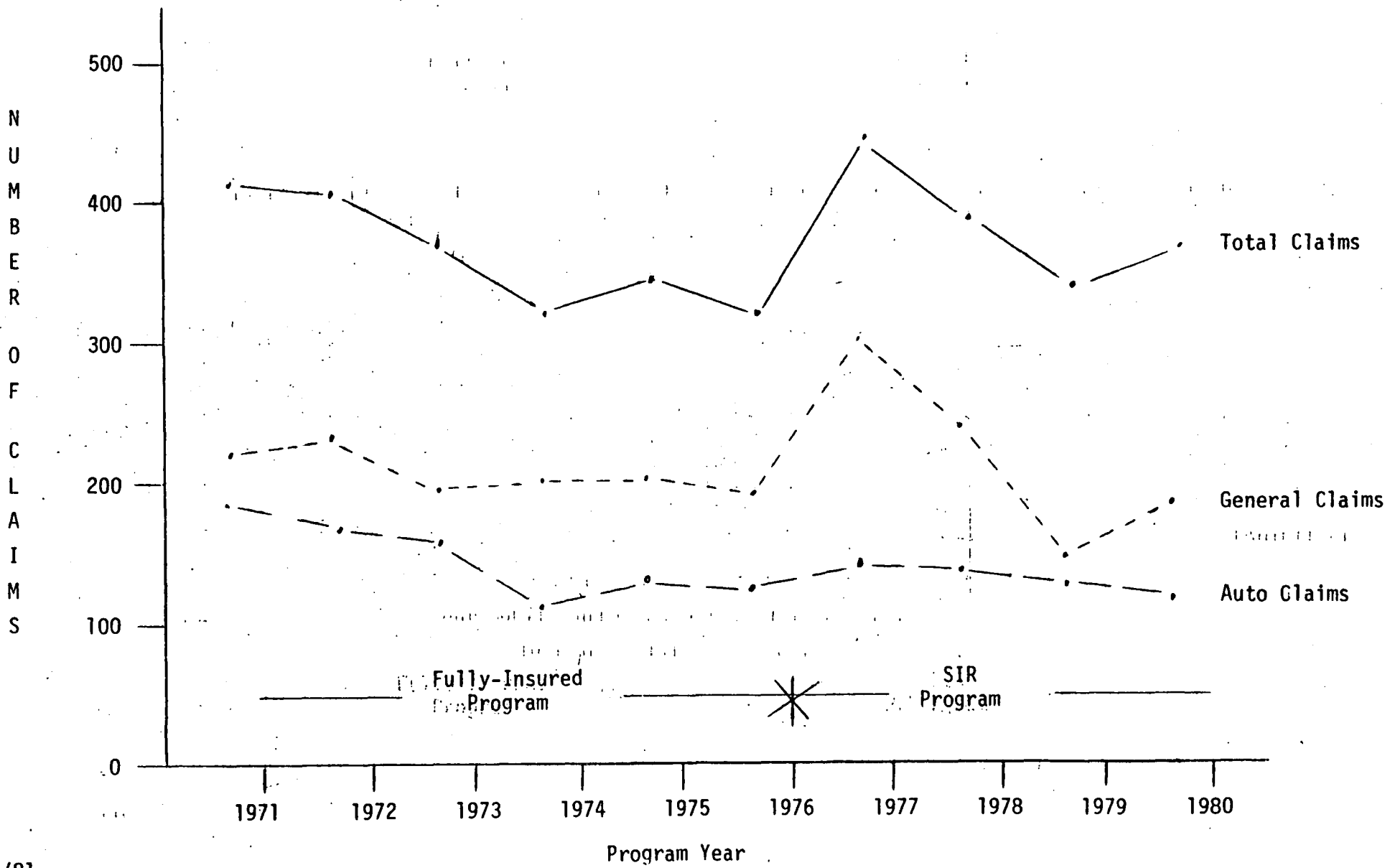
	1st Year	2nd Year	3rd Year	4th Year	5th Year
\$20	Columbia Casualty \$5M (\$5M Ex of \$15M)	Pinetop \$5M (\$5M Ex of \$15M)	Pinetop \$5M (\$5M Ex of \$15M)	Pinetop \$10M	
\$15	Northbrook \$5M (\$5M Ex of \$10M)	Employers Re \$5M (\$5M Ex of \$10M)	Employers Re \$5M (\$5M Ex of \$10M)		National Union \$19M
\$10	American Re-Ins \$5M (\$5M Ex of \$5M)	Pinetop \$5M (\$5M Ex of \$5M)	Pinetop \$5M (\$5M Ex of \$5M)	Freemont Ins \$5M (\$5M Ex of \$5M)	(\$19M Ex of \$1M)
\$5	American Home \$4M (\$5M Ex of \$1M)	National Union \$4M (\$5M Ex of \$1M)	National Union \$4M (\$5M Ex of \$1M)	Charter Home \$3M	
\$1	Columbia Casualty \$500M (1M Ex of \$500M)	Admiral Insurance \$500M (\$1M Ex of \$500M)	Admiral Insurance \$500M (\$1M Ex of \$500M)	Southern American \$1M	Transcontinental (\$1M Ex of SIR)
.5	Admiral Ins \$200M (\$500M Ex of SIR)	\$500,000	\$500,000	\$1 Million Self-Insured Retention	\$1 Million Self-Insured Retention
.3	\$300,000 Self-Insured Retention	Self-Insured Retention	Self-Insured Retention		
0					

Program Yr	1976	1977	1978	1979	1980
Premium	\$226,900	\$377,450	\$372,845	\$205,200	\$114,900

City of Sacramento  
SIR Automobile and General Liability Program  
5 Year Summary of Claims by Activity

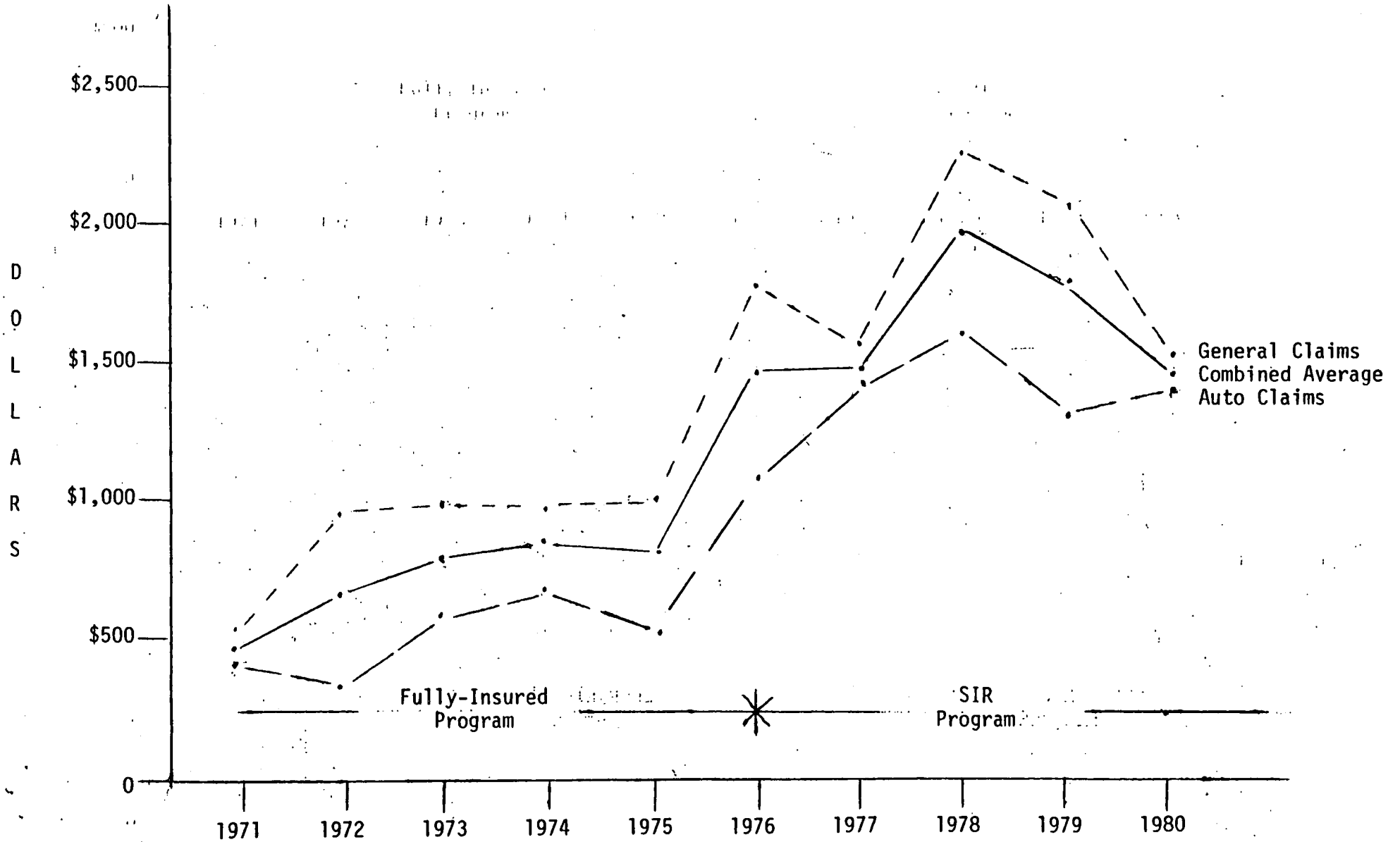
Activity	5 Year Total		% of Total	
	1/20/76 # of Claims	1/19/81 \$	Claims	Costs
Personnel	1	\$ 1,659	.1	.1
Finance	4	1,501	.2	.1
Animal Control	21	25,438	1.1	.8
Police	475	989,294	25.4	32.0
Fire	67	115,112	3.6	3.7
Community Center	14	7,095	.7	.2
Community Services	277	240,313	14.8	7.8
Golf	3	14,727	.2	.4
Planning				
Engineering	28	157,061	1.5	5.0
Facility Maintenance	23	54,315	1.2	1.7
Street Maintenance	188	395,814	10.0	12.8
Equipment Maintenance	6	2,291	.3	.1
Water	57	63,982	3.0	2.1
Sewer	79	90,653	4.2	2.9
Traffic Engineering	100	327,135	5.3	10.6
Parking	121	91,638	6.5	3.0
Waste Removal	223	252,191	11.9	8.2
Street Cleaning	16	67,350	.9	2.2
Garden Refuse	86	55,367	4.6	1.8
Inspection	9	9,428	.5	.3
Real Estate	1	500	.1	.1
MULS	1	112	.1	.1
Library	1	100	.1	.1
Non-Departments	69	121,062	3.7	3.9
Sub-total	1,870	\$3,084,138	<u>100.0%</u>	<u>100.0%</u>
Claims Closed No Payment	1,159	-0-		
Total	<u>3,029</u>	<u>\$3,084,138</u>		
<u>Claims by Type</u>				
Automobile	389	\$ 939,247		
General	1,181	\$2,144,891		
<u>Average Cost/Claim</u>				
Automobile		\$1,363		
General		\$1,816		
Total		\$1,649		

City of Sacramento  
Automobile and General Liability Program  
10 Year - Claims Experience



City of Sacramento  
 Automobile and General Liability Program  
 10 Year - Average Cost/Claim

EXHIBIT VII



Comprehensive Automobile and General Liability  
Insured Premium vs SIR Program Cost Comparison

