

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: APPROVAL OF CITYWIDE
INSURANCE RENEWALS

DATE: 09-19-06

Approved

Deanna Sabra

Date

9/19/06

SUPPLEMENTAL

REASON FOR SUPPLEMENTAL MEMORANDUM

This supplemental memorandum is to provide additional information, related to the efforts of the City's insurance broker to negotiate lower premiums on the excess earthquake insurance coverage for the remaining two parking garages currently insured for earthquake that the City continues to carry coverage with staffs intent to eliminate coverage upon completion of earthquake retrofitting of the 2nd and San Carlos Street Garage.

ANALYSIS

As stated in the memorandum about Citywide Insurance Renewals, the cost for earthquake insurance for the 2nd and San Carlos Street and Market/San Pedro Street Garages increased by 310%, due to a restricting insurance market for catastrophic coverages such as earthquake, flood, and hurricanes. Since the issuance of the original memorandum, Willis Insurance of California, the City's Broker, attempted to negotiate lower rates for similar coverage, but was unsuccessful.

In March 2001 and April 2002, the Department's of Transportation and Finance received structural analyses of 2nd and San Carlos Street, 3rd Street, and Market/San Pedro Street Garages. EQE Structural Engineering Consultants recommended that the City complete seismic retrofits for the 2nd and San Carlos Street and 3rd Street Garages. However, the consultant recommended no seismic upgrades for Market Street Garage at that point in time given its seismic condition. The 3rd Street Garage seismic retrofit has been completed, and as a result earthquake insurance has not been continued on that facility. Currently, the 2nd and San Carlos Street Garage is undergoing a seismic retrofit with a projected completion date in early 2007. Staff anticipated that earthquake insurance would not be continued, once the seismic retrofit was complete.

Since the annual cost for the current earthquake insurance coverage increased four times, from \$92,221 to \$378,652, staff recommends retaining insurance for the 2nd and San Carlos Street Garage until March 31, 2007, for \$5 million excess coverage over \$5 million deductible, at a

premium of \$141,608. The City's insurance broker was able to negotiate continued coverage at Market/San Pedro Street Garage, with the same terms, at no additional cost beyond the \$141,608, due to its condition. The table below depicts the current insurance coverage, the proposed renewal coverage in the original Council Memorandum, and the updated proposal.

**City of San Jose
DOT Parking Garages Earthquake Damage Property Insurance
Renewal Options**

	Current	Proposed	Updated Proposal
	2005-06	2006-07	2006-07
Covered Garages			
S. 2nd St./San Carlos	Yes	Yes	Yes
N. Market St.	Yes	Yes	Yes
Insurable Value			
S. 2nd St./San Carlos	\$10,490,000	\$10,490,000	\$10,490,000
N. Market St.	\$25,266,000	\$25,266,000	\$25,266,000
	\$35,756,000	\$35,756,000	\$35,756,000
Deductible			
First Aggregate	\$5,000,000	\$5,000,000	\$5,000,000
First Event			
Deductible Ratio	14%	14%	14%
Subsequent	\$2,500,000	\$2,500,000	\$2,500,000
Coverage Amount (Aggregate)	\$25,000,000	\$25,000,000	\$5,000,000
Premium (Annual)	\$90,221	\$367,000	\$250,000
Calif. Taxes/Fees	\$2,168	\$11,652	\$7,938
Total (Annual)	\$92,389	\$378,652	\$257,938
Cancellation 04/01/2007	Not Applicable.	Not Applicable.	(\$116,330)
Term Cost	\$92,389	\$378,652	\$141,608

Staff believes retaining modified coverage until March 31, 2007 is the most cost effective action, given the increased cost of earthquake insurance, the major seismic retrofit at the 2nd and San Carlos Garage that will be completed in early 2007, and the previous report by EQE Structural

HONORABLE MAYOR AND CITY COUNCIL

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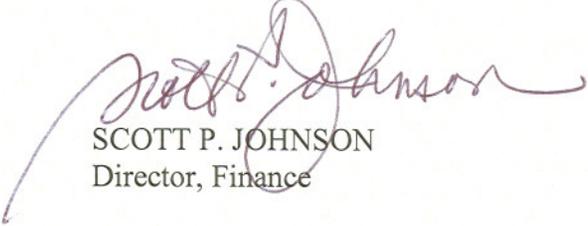
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Engineering Consultants that does not recommend a seismic retrofit of the Market/San Pedro Garage.

COORDINATION

This memorandum was coordinated with the Departments of Transportation and Public Works.



SCOTT P. JOHNSON
Director, Finance