

TO: James L. App, City Manager
FROM: Mike Compton, Director of Administrative Services
SUBJECT: Terrorism Coverage – Property Insurance
DATE: September 17, 2002

Needs:

For the City Council to consider whether or not to purchase additional property insurance to specifically cover acts of terrorism.

Facts:

1. Prior to the September 11, 2001 terrorism attack on the World Trade Center, property insurance exclusions were mainly restricted to losses incurred during “acts of war”.
2. Since September 11th, insurance companies have significantly broadened the property insurance exclusions to include “acts of terrorism”.
3. The City’s current property insurance policy contains an exclusion for “acts of terrorism”. Thus, providing no insurance coverage should such an event occur in Paso Robles.
4. Separate terrorism insurance is available at an estimated premium cost of \$17,200 for the first policy year. This premium includes all City properties (and facilities) with a \$500,000 deductible.
5. The City may opt for coverage to be provided solely on certain facilities that one might consider having a higher risk than others. The premium is determined by multiplying the estimated property value by .0225%.

Analysis
and
Conclusion:

It is not unusual to see this exclusion written so broadly that it covers virtually any purposeful act upon property that results in damage. While a terrorism act in Paso Robles is highly unlikely, there is nuclear power plant within relatively close proximity. Additionally, given the broad context of the exclusion, if an irrate citizen decides for some reason to knock a hole in a City reservoir, it is a real possibility that the insurance carrier would consider this an “act of terrorism”.

Staff considers this a policy decision for Council review and consideration. Options for Council consideration include purchasing no coverage, purchasing coverage for all City properties or purchasing coverage for only its’ most expensive properties; i.e. library/city hall, public safety center and bridges, etc.

Fiscal
Impact:

Depending upon the Council's desire on this matter, the fiscal impact would range from \$0 (no coverage) to \$17,200 (coverage for all City properties).

The Council may wish to defer implementing actual coverage should they choose to acquire coverage until the next budget cycle given that the the four-year financial plan projection update presented to the Council on June 18, 2002 indicated, assuming a worst case scenario, that the General Fund would experience a \$(1,255,000) operating loss for fiscal year 2003. Since that presentation, the Council has approved the following additional General Fund budget appropriations:

Public Safety Staffing	\$124,000
Downtown Trash Receptacles	17,000
Paso VCB Incentive Payment	66,500
City Speed Zone Survey	15,000

These additional appropriations plus the additional \$17,200 (assuming maximum amount) would increase the projected General Fund deficit to \$(1,494,700).

Options:

- a. Provide direction to staff as to whether or not terrorism coverage should be purchased, and if so, to what extent; and direct staff to return to Council with budget appropriation; or
- b. Amend, modify, or reject the above option.