

CITY OF DANA POINT
AGENDA REPORT

Reviewed By:	
DH	_____
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CA	_____

DATE: JUNE 28, 2006

TO: CITY MANAGER/HONORABLE MAYOR AND CITY COUNCIL

FROM: SHARIE APODACA, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: RENEWAL OF TRANSIENT OCCUPANY TAX INSURANCE FY 06-07

RECOMMENDED ACTION:

That the City Council 1) ratify the renewal of the commercial property insurance and terrorism coverage policy obtained through Landmark American Insurance Company for protection of Transient Occupancy Tax revenues; 2) authorize a transfer of funds in FY 2006-07 from Reserve for Enhancement Account in the amount of \$13,167 to cover budget shortfall due to increase in premiums; and 3) authorize remittance of premium in the amount of \$48,167 for FY 2006-07.

ISSUES:

Shall the City Council authorize the renewal of the existing insurance policy providing coverage should an insured peril cause an interruption in the City's Transient Occupancy Tax (TOT) receipts?

BACKGROUND:

The current TOT insurance policy insures the City should TOT revenues be impacted as a result of damage to our local resorts and hotels caused by fire, flood, earthquake or acts of terrorism. Our current policy insures the City's TOT revenue up to the total estimated projection of \$8.9 million. Last year the City Council also approved additional optional coverage that would protect the City's TOT revenues as a result of acts of terrorism. The threat of terrorism in our every day lives is a reality, especially due to our City being a destination town visited by thousands of individuals each year. In addition, it is not uncommon for high-profile celebrities and officials to be guests at any one of our resorts.

DISCUSSION:

In early June the City's insurance agent, Tutton Insurance, notified staff that its current insurance policy with Landmark American Insurance Company (Landmark) covering an interruption in the City's Transient Occupancy Tax receipts will expire on June 17, 2006. Due to the short notice and the lack of a formal renewal proposal, the City was unable to agendaize this matter for the June 7, 2006 agenda. We were also advised that Landmark will now only offer a \$5 million policy versus a policy that would provide coverage for 100% of potential loss in TOT revenue as offered in prior years. This is due to new reinsurance agreements entered into by Landmark that limit the maximum exposure the company will accept to \$5 million.

Because TOT revenue comprises 35% of General Fund Revenue and helps to fund essential City services, the City has made it a practice to procure coverage to ensure up to a 100% loss each fiscal year. This makes the assumption that all of the hotel and resort properties would be out of business for a year and the City would suffer a 100% loss. Even though this is very unlikely, staff has asked the City's insurance agent to locate another insurer that would be willing to offer additional coverage so that the entire estimated \$9.1 million in TOT revenue in FY 2006-07 is insured.

Because the current policy expired June 17, 2006, it was necessary for staff to bind the new policy with Landmark for the coming year to ensure no lapse in coverage. Landmark is a non-admitted carrier but holds an A.M. Best Rating of "A" for excellent financial strength rating, and "A" for excellent credit rating. Since it is difficult to procure insurance for TOT revenue, staff is seeking the City Council's ratification of its binding of the renewal in insurance per the attached proposal.

FISCAL IMPACT:

\$35,000 has been budgeted in the FY2006-07 Risk Management Budget for TOT interruption insurance. The total insurance premium is \$48,167 (\$43,833.50 for TOT coverage plus \$4,333.35 for acts of terrorism coverage). Due to an unanticipated increase in premiums, staff is requesting authorization to transfer \$13,167 in FY 2006-07 from the Reserve for Enhancement Fund to the Risk Management Fund #97-417 to cover the total costs.

ALTERNATIVE ACTION:

- 1) Do not approve the insurance policy renewal.
- 2) Other action as directed by City Council.

ACTION DOCUMENT:

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A. Summary of Proposal (Hard copy provided).....

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