

RESOLUTION

Resolution Authorizing Approval of the County of McHenry 2025 Property and Casualty Insurance Program (19)

WHEREAS, the County of McHenry's Insurance Broker/Consultant of record, Gallagher, has solicited quotations on casualty, property and specialty insurance coverage from various insurance markets for the County's 2025 Property and Casualty Insurance Program; and

WHEREAS, the County's Administrative Services Committee and Finance & Audit Committee reviewed the recommendations made by Gallagher and Risk Management staff for general liability, casualty, excess liability, automobile, property, professional liability, excess workers' compensation, crime, medical professional liability, and other policies and services necessary to properly insure McHenry County for the policy period beginning on December 1, 2024 through December 1, 2025 as identified on Exhibit A to this Resolution; and

WHEREAS, funding for the insurance premiums and related costs for the FY 2025 Property and Casualty Insurance Program has been appropriated within the FY 2025 Budget under the Risk Management Liability Insurance Fund (Department 19, Fund 203) in Main Accounts 402300 (Professional Services), 403030 (Premiums for Excess Insurance) and 403034 (Premiums for Specific Insurance) with additional amounts to be provided through other Contractual Services line items.

NOW, THEREFORE BE IT RESOLVED, by this County Board of McHenry County, Illinois that the Deputy County Administrator is hereby authorized to execute the necessary documentation to bind insurance coverage and to obtain the related insurance for the County of McHenry's 2025 Property and Casualty Insurance Program in accordance with the program recommended as summarized on Exhibit A, attached hereto and made part hereof, and other coverages and services that may be deemed necessary to properly insure the County in an amount not to exceed \$1,770,000; and

BE IT FURTHER RESOLVED, that the County Clerk is hereby authorized to distribute a certified copy of this Resolution to the County Auditor, Director of Procurement and Special Services, Deputy County Administrator, Chief Financial Officer and County Administrator.

DATED at Woodstock, Illinois, this 19th day of November, A.D., 2024.

Michael Buehler, Chairman
McHenry County Board

ATTEST:

Joseph J. Tirio, County Clerk

RESOLUTION

SUBJECT: Resolution Authorizing Approval of the County of McHenry 2025 Property and Casualty Insurance Program (19)

Board / Committee Action Requested:

To approve the binding of insurance coverage through stated insurance carriers for the County's 2025 Property and Casualty Insurance Program in an amount not to exceed \$1,770,000.

Background and Discussion: Gallagher, the County's insurance broker and consultant, obtained quotes from various insurance carriers for casualty, property, excess workers' compensation, and other specialized insurance policies per consultation with the County on appropriate coverage levels and needs. The 2025 program provides insurance coverage at the same risk tolerances as in recent years.

Overall, the FY 2025 Insurance renewal came in at 6.9% higher than the expiring year's program. Primary and excess policy premiums will cost \$1,742,185 compared to \$1,629,394 for the expiring policies – an overall increase of \$112,791. The FY 2025 Budget contemplated \$1,710,000 for insurance costs and Risk Management will endeavor to absorb the \$32,185 difference without requesting a budget adjustment.

Excess Insurance continues to be a pain point. In addition, there are significant increases in the auto liability coverage and law enforcement liability. Regarding the excess coverage, the County has the option not to take the additional \$5M follow-form excess coverage and reduce costs by \$180,622 but this is not recommended by our broker and will be discussed later. There has been some general stabilization in the market which tempered premium increases compared to recent years. Historic pain points of cyber insurance and long-term nursing home care coverage have normalized.

General/Professional, Law Enforcement, Public Officials and Employment (Package Policy)

The incumbent carrier, Travelers, offers a renewal for the package policy consisting of general/professional liability, law enforcement liability, public entity management liability (PEML), employment practices, and other related lines of coverage at an overall **11.4% increase** over the 2024 premium - from \$247,848 to **\$276,084** which is an increase of \$28,236. There were decreases in the general liability (-5.9%) and employment practices coverages (-1.5%). However, there was a 5% increase in PEML coverage and a significant increase (29.7%) for the law enforcement liability coverage. During the renewal process, County staff discovered errors with the Traveler's loss development schedule which contributes to the premium rate calculation. At the time of this writing, this dispute is still in process and it is too early to tell if this will result in a rate adjustment.

This quote includes Terrorism Risk Insurance Act (TRIA) coverage. Gallagher recommends renewing with Travelers.

Excess Liability

Given the scope and scale of the County operations, it is recommended the County carry a minimum of \$15M in excess coverage. The excess market continues to be a “pain point” for renewals and has become increasingly more challenging and expensive as settlements & judgements have skyrocketed, no new companies are joining the market, and other companies are exiting the market. In connection with the FY2022 program renewal, Travelers reduced the available excess coverage from \$15M to \$10M. Gallagher advised this was not unique to the County and reflected the trend in the industry. Gallagher notes that Travelers is one of the few insurance companies that will still write an excess policy at \$10M as \$5M limits are now becoming commonplace. To maintain the \$15M of excess coverage, an additional \$5M “follow form” policy is necessary.

For the FY 2025 program, Travelers offered a renewal of the \$10M excess/umbrella policy for a premium of **\$163,463** (includes TRIA coverage). This is an **increase** of \$19,717 or 13.7% from last year’s premium of \$143,746. Of note, this is on top of last year’s renewal for this policy which experienced a 12.8% increase which was on top of a 17.1% increase for the FY 2023 program year.

Gallagher shopped the \$5M follow form policy and received two quotes with the most favorable being from the incumbent carrier, Arch Specialty Insurance Company, at a premium of **\$180,622**. This is an **increase** of \$9,160 or 5.3% from last year’s premium of \$171,462. As noted earlier, the excess market has been a recent challenge, and this is epitomized with this policy which nearly doubled in price from 2022 to 2023 and had a 10.4% increase for this policy last year.

Combined, the excess liability policies total **\$344,085** and represent an overall increase of \$28,877 or 9.2%.

For reference, the County moved from a \$10M to \$15M excess coverage limit with the 2015 policy year. A reduction in coverage back to the \$10M level is an option but is not recommended due to the degree of the County’s potential exposure and the size of judgements that are now being awarded. However, it is an option for the County which will save \$180,622.

Auto Liability and Auto Physical Damage

This year’s Auto Liability and Auto Physical Damage coverage renewal from Travelers is quoted at **\$158,195** - a \$30,707 (24.1%) **increase** from the 2023 premium cost of \$127,448. It is noted that Risk Management routinely makes claims against this policy for vehicle incidents. In addition, the value of the County’s fleet has increased by 7%, so the degree of premium increase is not unexpected. Also, as you may have experienced with your own personal auto policies, this coverage has organically increased simply due to the increasing cost of repairing and replacing vehicles. As noted previously, County staff is disputing errors on the Traveler’s loss development schedule which could affect this rate. Gallagher is recommending that McHenry County accept Traveler’s proposal to renew auto insurance. For reference, each vehicle will cost the County \$378.15 to insure for liability, comprehensive and collision.

Property and Boiler/Machinery

Gallagher marketed this policy and received a renewal proposal from Liberty Mutual Fire

Insurance Company in the amount of **\$259,660**. This is a \$9,473 (3.8%) **increase** from the expiring policy premium of \$250,187. This increase is essentially reflective of the County's increase in exposure based on the value of the buildings and personal property which rose by 5%. This quote includes TRIA coverage.

There is another carrier who will be visiting County facilities and may provide a quote but it is not available at the time of this writing. If it is more favorable than this quote, then the recommended program will be adjusted accordingly. If not or if the quote does not materialize, it will be recommended that McHenry County renew the property/boiler/machinery policy with Liberty Mutual Fire Insurance for 2025.

Valley Hi Casualty Insurance and Excess Liability

In recent years, the public nursing home market has been challenged with fewer providers and skyrocketing premiums. However, for the third year in a row, costs have stabilized, giving much needed respite Valley Hi's insurance costs.

The Valley Hi coverage consists of three policies: \$1M Primary/\$4M excess through Columbia Casualty Company and a \$5M "follow form" excess policy through Starstone Specialty Insurance for a total of \$10M in coverage. The incumbent carriers offered to renew the policies for an overall 4.5% increase. The combined total premium to renew the policies is **\$263,593** which is a \$11,248 **increase** overall to last year's combined premium of \$252,345. This maintains the \$250K SIR and includes TRIA coverage.

Gallagher recommends the renewal of the Columbia Casualty Company and Starstone Specialty Insurance policies for Valley Hi.

Cyber Liability

Cyber liability coverage has evolved from being a novelty/niche coverage prior to 2015 to a sophisticated and essential coverage to aid in the response and recovery to one of our greatest risks: cyber-attacks. The current carrier, Palomar Excess and Surplus Insurance Company (aka Cowbell), offered a renewal of the current policy at a premium of **\$83,405** which is a \$4,394 or 5% **reduction** from the expiring policy premium of \$87,799. This reduction is due in no small part to the proactive efforts and protections implemented by our IT staff. It is recommended that this policy be renewed at the quoted premium rate.

Risk Management and IT continue to work as partners to look for ways to minimize our risk and ensure our cyber liability policy provides appropriate coverage to respond to and recover from a cyber-attack. Your continued support of network and cybersecurity protections is paramount to these efforts.

Workers' Compensation

In conjunction with the FY 2024 program year, McHenry County shifted from its historical workers' compensation approach of being self-insured with a stop loss policy to becoming a member of the Illinois Public Risk Fund (IPRF), which is a public sector workers' compensation risk pool. This transition went very smoothly, and the Risk Management staff has been pleased with the quality of service and support. The premium and administrative fee to renew the IPRF membership totals **\$264,660**, which is a 1.4% (\$3,631) **increase** from last year's rate of \$262,900.

Workers' Compensation rates are primarily driven by payroll totals. It is quite noteworthy to point out that the County's estimated payroll increased by 6% which means the IPRF increase is less than the County's increase in payroll exposure. Also, if IPRF has a favorable year, they provide

a grant back to its membership that can be used for safety programs and equipment. In August, the County received a grant of \$6,563 which was used to cover the cost of additional AED units and the OSHA 10-hour safety course.

It is recommended that the County continue its membership in IPRF for the FY 2025 Program year.

Professional Liability - State's Attorney, Public Defender, Judiciary

The County provides professional liability insurance for the State's Attorney and the Public Defender through the National Specialty Insurance Company. The State's Attorney premium **increased** by \$3,594 (7.9%) to **\$49,016**. The Public Defender premium has remained flat since the FY 2022 program year at **\$5,444**.

Professional liability insurance is provided to the eight circuit judges through individual policies with Columbia Casualty Company. The 2025 renewal premium remains flat at **\$17,464** which equates to \$2,183 per Judge/policy. This does not include extended reporting period coverage that would be obtained in the event a judge retires.

It is recommended that McHenry County bind coverage as stated above.

Crime and Fidelity

McHenry County is entering the second year of a three-year policy with Allmerica Financial Benefit Insurance Co. (Hanover Insurance Company) at an annual premium of **\$4,769** per year. This coverage includes \$150K in false pretense coverage, which is the most available through this policy in accordance with the Auditor's Office recommendation to increase this coverage as available.

Medical Professional Liability – Department of Health and Medical Advisor

Since the FY 2018 program year, the medical professional policy for the Department of Health's professional liability and medical advisor coverage with Landmark American Insurance Company remained flat. However, this year's renewal has a 25% **increase** – from \$10,354 to **\$12,943** which is a difference of \$2,589. It is noted that the Department of Health's encounters have substantially increased – from 18,000 to 33,000 – an 83% increase from the expiring policy period. Given the six years of flat renewals coupled by the increase in encounters, this increase in premium is not at all shocking. Gallagher recommends binding coverage with Landmark American Insurance Company.

Volunteer Medical Payment Policy

Given the County's reliance on volunteer workers to assist with certain operations and emergency needs (EMA, Nursing Corps, Animal Control, Sheriff's Auxiliary), the 2016 insurance program introduced medical coverage for our volunteer workers in the event an injury was sustained in the course of their volunteer service with the County. While the County has no obligation to provide this type of coverage, it is an inexpensive benefit and peace of mind the County can provide to those volunteers upon whom we rely to help deliver services and keep operational costs down.

The County's incumbent carrier, Starr Indemnity and Liability Company, has exited this marketplace and is no longer providing coverage. However, Gallagher was able to find a comparable policy with Federal Insurance Company (in the CHUBB family) for less than half the cost - \$996. It is recommended the County bind this coverage with Federal Insurance Company.

Insurance Broker/Consultant Fee

In July 2021, the McHenry County Board approved a contract with Gallagher to continue serving as the County's broker/consultant. FY2025 is the third of three option years of this contract and has a prescribed brokerage fee of **\$34,000**. Gallagher does not receive a commission on existing policies obtained by the County.

Third Party Administrator (TPA)

Under the previous program, Insurance Program manager's Group (IPMG) provided third party administration services to administer workers' compensation claims that are litigated or have lost work time. The switch to IPRF includes TPA services for new claims. However, run-off claims – those claims that are still active after the switch – will remain with IPMG to continue processing the charges and expenses (medical bills, defense costs, TTD payments, etc.) which are then passed through to the County. Based on the number of run-off claims and considering those that will likely be closed within FY 2025, IPMG TPA services are estimated to be \$7,500 for the upcoming program year.

Human Resources: There will be no personnel impacts as a result of the 2025 Insurance Program as recommended.

Impact on Budget (Revenues, Expenses, Fringe Benefits): Overall, the 2025 insurance policies as recommended will cost \$1,742,185. Funding for the insurance program is provided in the FY 2024 Budget under Fund 203 Department 19 Risk Management, Division 1900, Main Accounts 402300 (Professional Services), 403000 (Premiums for Excess Insurance) and 403034 (Premiums for Specific Insurance). The FY 2025 budget provides \$1,710,000 for insurance premiums, leaving a shortfall of \$32,185. Risk Management will endeavor to absorb this shortfall within the overall budget as presented. The resolution is seeking authorization to bind coverage and associated services in an amount not to exceed \$1,770,000 to provide additional latitude to address pricing contingencies, policy adjustments that may arise and additional coverage that may become necessary (such as judicial extended reporting period coverage and specialized insurance needs).

Impact on Capital Expenditures: There will be no impact on capital expenditures.

Impact on Physical Space: There will be no impact on physical space.

Impact on Other County Departments or Outside Agencies: County Departments receive the benefits of the insurance coverage and transference of risks from the County to the insurer. Risk Management practices required by the insurance providers help foster a safe and secure work environment.

Conformity to Board Ordinances, Policies and Strategic Plan: Continuation of the current insurance program conforms to County approach of self-insurance while also transferring upper-end risk to insurance carriers to reduce the overall insurance costs.