



City Council Report

Date: September 25, 2014
To: City Council
Through: Christopher J. Brady – City Manager
From: Debbie Spinner – City Attorney
Marc Steadman – Deputy City Attorney
Lisa Lorts – Risk Management
Gary Manning – Human Resources Director
Nitra Hawkins – Safety Administrator

SUBJECT: 2014/2015 Property, Liability, Aviation, Cyber Risk & Workers' Compensation Insurance and Self-Insurance Surety Bond.

Strategic Initiatives



PURPOSE AND RECOMMENDATION

The purpose of this report is to provide information and seek direction on the renewal of excess liability, property, cyber risk, aviation (airport/aircraft) insurance coverage and the renewal of excess workers' compensation insurance coverage and self-insurance surety bond. Mesa's insurance brokers will be seeking bids for Mesa's 2014 renewals. The renewal date for these coverage lines is November 22, 2014 for property, liability, cyber risk, and aviation insurance and December 1, 2014 for workers' compensation insurance coverage. The renewal date for the surety bond is January 01, 2015. The cost of the insurance policies will depend on the policy limits, deductibles, and self-insured level desired. The cost of the surety bond will depend on the net remaining liability of open workers' compensation claims.

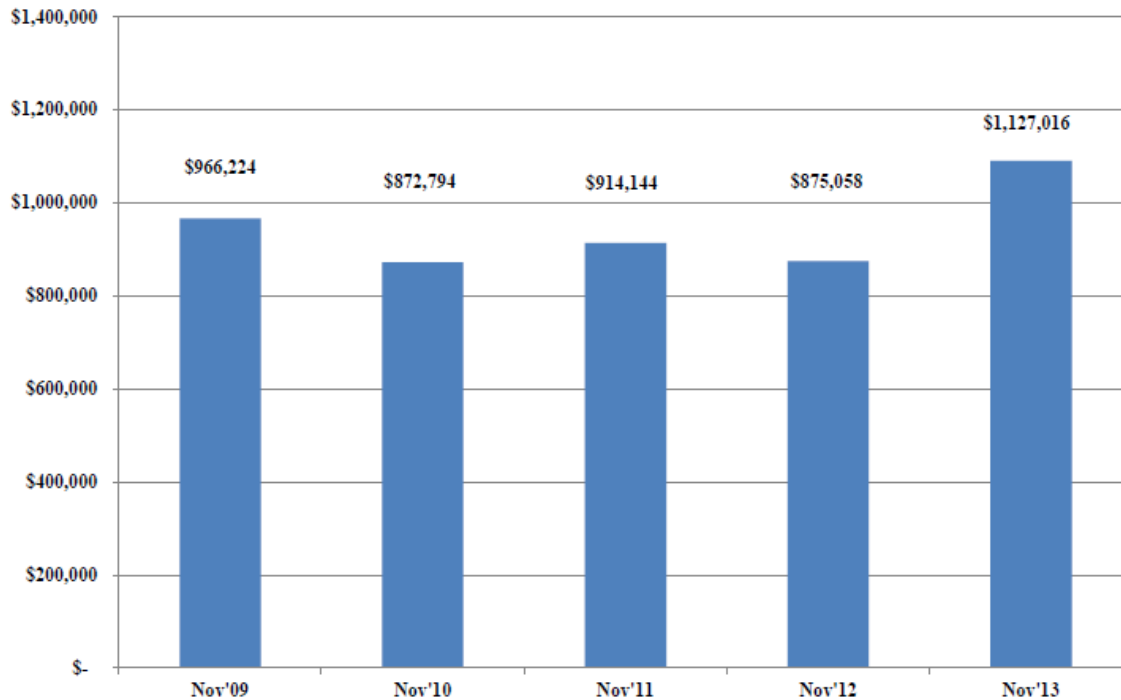
BACKGROUND

Section 610 of the City Charter authorizes the City to establish the Property and Liability Trust Fund to "maintain a reserve fund for self-insurance purposes." The Property and Liability Trust Fund was established in 1977 and is funded through the General Fund. From this Trust Fund, the City pays all liability claims, attorney's fees, litigation costs and insurance premiums for 3rd party liability claims.

The Workers' Compensation Trust fund was established on June 21, 1982, pursuant to Resolution Number 5076. The Workers' Compensation Trust is funded through the General Fund. From the Workers' Compensation Trust fund, the City pays all industrial injury and illness claims, medical and legal costs, self-insurance surety bond costs, special and administrative taxes and excess workers' compensation insurance premiums.

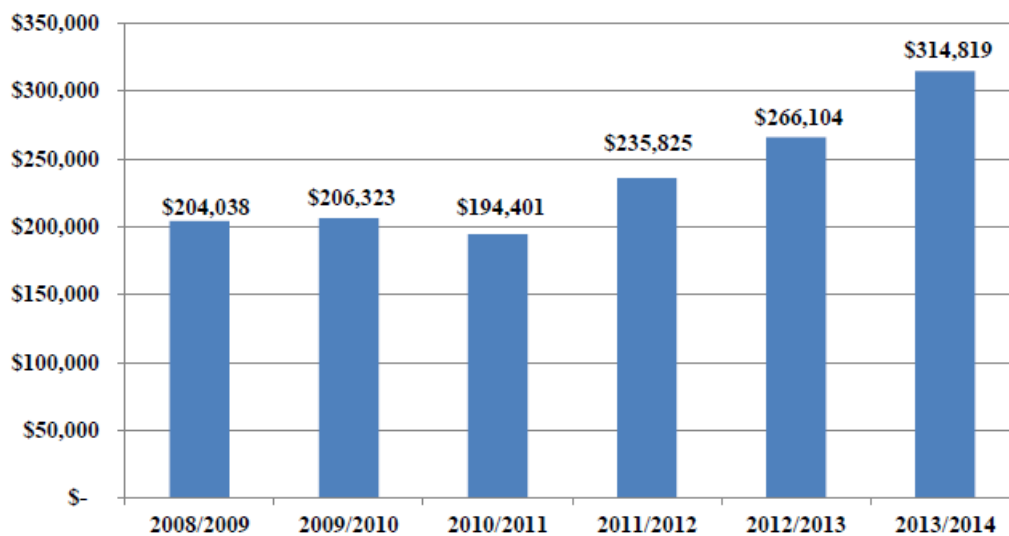
Below shows the total cost of Excess Liability and Property insurance from 2009-2014, including Cyber Risk for 2013/2014.

Total Excess Liability and Property Insurance Premiums



Below shows the total cost of Workers' Compensation insurance from 2008-2014.

Workers' Compensation Insurance Premiums



DISCUSSION

EXCESS LIABILITY INSURANCE

Third party liability claims come in many forms, including police incidents, vehicle collisions, and utility malfunctions. The City is currently self-insured for the first \$3 million for any incident resulting in a liability claim or lawsuit against the City or its employees. Self-insured retention (SIR) functions the same as a deductible. For each incident, Mesa is responsible for payment up to \$3M. The City purchases Excess Liability insurance to cover the City for settlements or judgments exceeding the \$3M.

Liability insurance premiums are primarily determined by the national insurance market. The claims history of the City is an additional factor.

Below are Excess Liability insurance premiums for the years 2009 to present:

<u>Coverage Period</u>	<u>Coverage Limits (including SIR)</u>	<u>SIR</u>	<u>Premium</u>
FY09/10	\$38M	\$3M	\$612,340*
FY10/11	\$38M	\$3M	\$543,000
FY11/12	\$38M	\$3M	\$534,900
FY12/13	\$43M	\$3M	\$465,000
FY13/14	\$43M	\$3M	\$649,984

*Includes \$17,670 for a Special Facility policy purchased mid-year

Mesa currently carries Excess Liability coverage with \$3 million SIR and policy limit (per occurrence) of \$43 million (including SIR). Mesa's excess coverage is within the range for other Valley cities.

<u>City</u>	<u>SIR</u>	<u>Excess coverage</u>
Mesa	\$3,000,000	\$40,000,000
Chandler	\$2,000,000	\$30,000,000
Scottsdale	\$2,000,000	\$50,000,000
Tempe	\$2,000,000	\$40,000,000
Phoenix	\$5,000,000 Auto \$7,500,000 General Liability	\$150,000,000

Mesa has considered various SIR and coverage levels when purchasing Excess Liability insurance in previous years. This year, our broker recommends our SIR remain at \$3M but that we request bids for total excess coverage of \$40M and \$50M. We will also inquire about premiums using a \$5M SIR. Based on the current market and our loss history, our insurance broker anticipates Mesa can purchase the same coverage for a **moderate increase** in premium costs.

PROPERTY INSURANCE

The City has just over \$1 Billion in structural assets, vehicles and equipment. Property insurance generally covers these assets against loss from, among other things, vehicle accidents, natural causes, fires, floods, wind damage and vandalism. Mesa currently carries property insurance with a policy limit of \$300 million per occurrence and \$50,000 deductible.

Below is a summary of premiums paid by Mesa in recent years for Property insurance.

<u>Coverage Period</u>	<u>Policy Limits (including SIR)</u>	<u>SIR</u>	<u>Premium</u>
FY09/10	\$300M	\$50,000	\$273,707
FY10/11	\$300M	\$50,000	\$277,384
FY11/12	\$300M	\$50,000	\$376,882*
FY12/13	\$300M	\$50,000	\$410,058
FY13/14	\$300M	\$50,000	\$440,289

*\$260 Million in additional assets added

Our broker recommends procuring quotes for the same limit of coverage, but with two (2) deductible options (\$50,000 & \$100,000) to see if we can achieve a significant premium savings.

AIRPORT LIABILITY INSURANCE

Airport Liability Insurance protects the City against third party claims of negligence associated with airport operations at Falcon Field Airport (Phoenix-Mesa Gateway Airport is owned and operated by the Phoenix-Mesa Gateway Airport Authority and procures its own insurance). An example of a claim might be allegations of improper maintenance of a runway resulting in damage to an aircraft and/or injury to passengers.

In 2012, Mesa increased Airport Liability Insurance to \$0 SIR with a \$100 million policy limit (per occurrence) and purchased a 2 year policy. This year, we will be seeking bids for this line of coverage.

AIRCRAFT HULL AND LIABILITY INSURANCE

Aircraft Hull (Property) and Liability coverage protects the City's aircraft and electronic surveillance equipment against damage (Property) and protects the City against third party claims of negligence associated with aircraft operations (Liability). A "liability" example might involve a police officer/pilot making an emergency helicopter landing which causes damage to personal property and/or injury to civilians.

Mesa also purchased aircraft hull (property) coverage for the stated value of the aircraft, with a \$25,000 deductible (in motion) and a \$1,000 deductible (not in motion). In 2012, Mesa increased Aircraft Liability Insurance to \$0 SIR with a \$100 million policy limit (per occurrence) and purchased a 2 year policy. This year, we will be seeking bids for this line of coverage.

Below shows Mesa's Airport Liability and Aircraft Hull and Liability insurance coverage since 2009.

Coverage Period	Coverage	Coverage Limits	Deductible	Premiums
FY09/10	Airport Liability Aircraft Liability Aircraft Hull (property)	\$50M \$50M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 15,443 \$109,256
FY10/11	Airport Liability Aircraft Liability Aircraft Hull (property)	\$50M \$50M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 14,740 \$116,645
FY11/12	Airport Liability Aircraft Liability Aircraft Hull (property)	\$50M \$50M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 12,662 \$103,414
FY12/13	Airport Liability Aircraft Liability Aircraft Hull (property)	\$50M \$50M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 15,024 \$ 72,806
FY13/14	Airport Liability Aircraft Liability Aircraft Hull (property)	\$50M \$50M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 15,024 \$ 72,806

CYBER RISK INSURANCE

Privacy & Network Security insurance aka "Cyber Risk" insurance, protects personal or sensitive customer and employee information which is transmitted electronically. Cyber Risk also protects the City against claims of misuse of software which can occur directly or through the use of vendors.

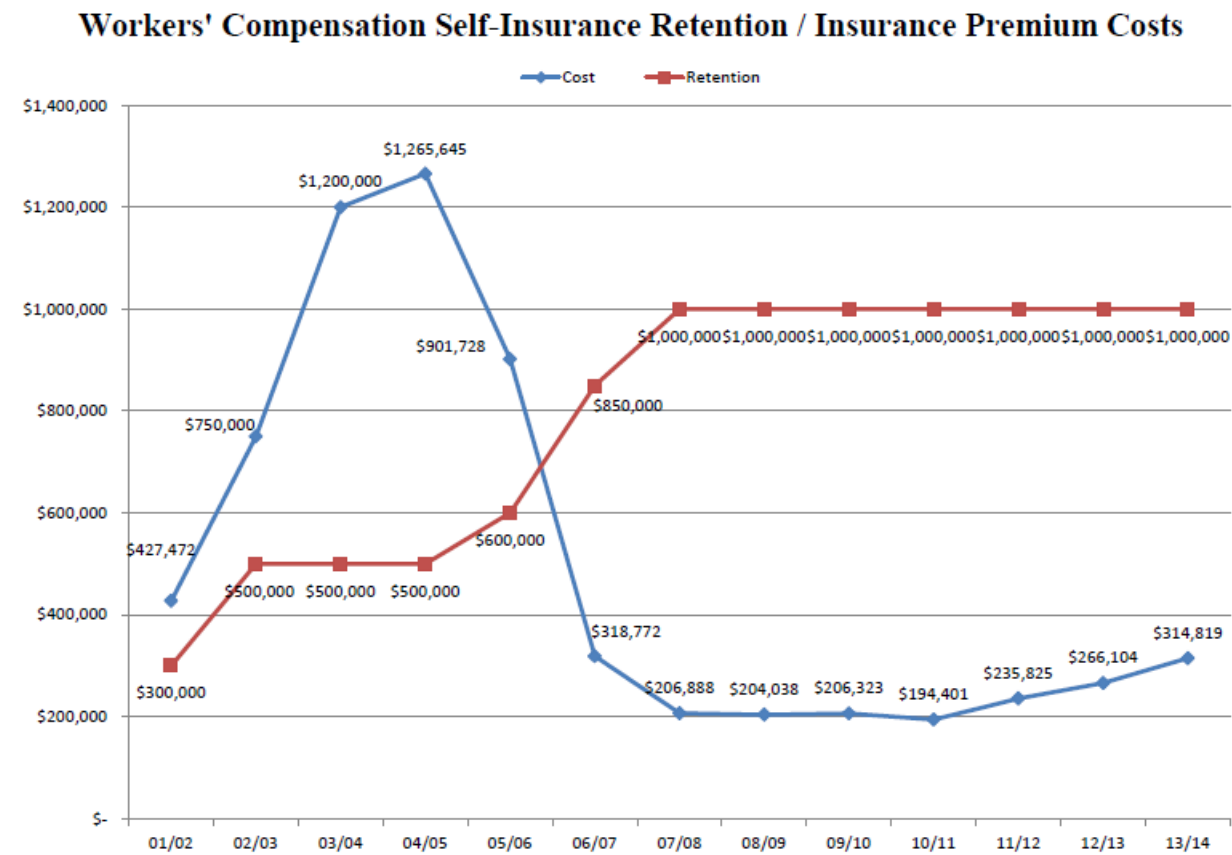
Last year, Mesa purchased Cyber Security insurance with a \$5 million policy limit (each claim). The premium for 2013/2014 was \$36,743. This year, we will be procuring quotes with policy limits of \$5 million and \$10 million.

EXCESS WORKER'S COMPENSATION INSURANCE

The City of Mesa is required by the Arizona Administrative Code to purchase an excess workers' compensation insurance policy. The excess workers' compensation insurance coverage shields the City against excessive financial loss in the event that an employee suffers a catastrophic work-related injury or illness. The City currently has a self-insured retention (SIR) for \$1 million per accident/injury/illness. For each compensable industrial injury or illness, Mesa is responsible for payment up to \$1 million dollars. The City's excess workers' compensation insurance carrier will reimburse the City for industrial injury/illness claim costs exceeding the \$1 Million.

Mesa has considered various SIR levels when purchasing excess workers’ compensation insurance in years past. Based on the current market and our loss history, our broker recommends we seek bids with the same SIR limits this year with the anticipation of a moderate increase in premium costs. We also requested bids for SIR limits up to \$2 Million to see if we can achieve a significant premium savings.

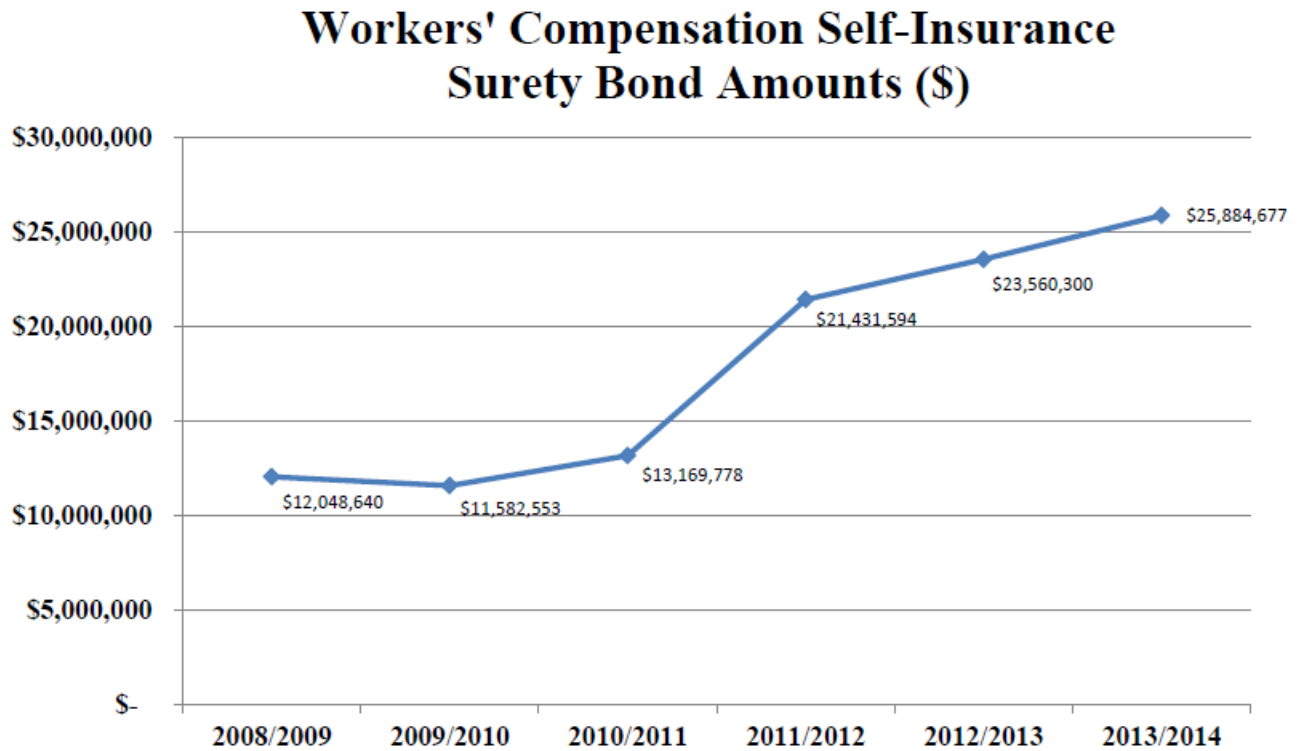
Below shows Mesa’s Self-Insured Retention (SIR) and the excess insurance premium costs since the fiscal year 2001/2002 to the present.



WORKER’S COMPENSATION SELF – INSURANCE SURETY BOND

The City of Mesa is authorized under Arizona Revised Statutes, Section 23-961, Article 2, the authority to act as a self-insurer for the payment of workers’ compensation benefits by the Industrial Commission of Arizona. To retain self-insurance authority, the City must provide a security deposit based on the total unpaid losses of open workers’ compensation claims. The City currently provides the required securities through the purchase of a surety bond. The surety bond provides a guarantee to the Industrial Commission of Arizona that the City of Mesa will meet its fiduciary obligations related to current and future workers’ compensation costs as a self-insured entity.

Below shows a summary of Mesa's self-insurance surety bond amounts since the fiscal year 2008/2009 to the present.



ALTERNATIVES

Council can instruct Mesa's insurance broker to obtain quotes using higher or lower deductible or total coverage amounts for any/all of the types of insurance.

COORDINATED WITH

City Attorney's Office/Risk Management and Human Resources/Safety Services Administration.