



City Council Report

Date: November 3, 2014

To: City Council

Through: Christopher J. Brady – City Manager

From: Risk Management

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Workers' Compensation

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SUBJECT: 2014/2015 Insurance Purchase: Property, Liability, Cyber Risk, Airport, Aircraft, Workers' Compensation and Workers' Compensation Surety Bond

STRATEGIC INITIATIVES



PURPOSE AND RECOMMENDATION

The purpose of this report is to seek approval for the purchase of insurance coverage for excess liability, property, cyber risk, airport/aircraft, workers' compensation and a workers' compensation surety bond. Mesa's insurance brokers procured bids for the various types of insurance coverage based on the direction received from Council on September 25, 2014. The expiration date for property and excess liability coverage is November 22, 2014, and December 01, 2014 for workers' compensation insurance coverage. The expiration date for the workers' compensation surety bond is January 01, 2015.

This year's recommended insurance purchases are:

- General Insurance - \$1,179,435, a 3% cost savings
- Workers' Compensation - \$314,582, a 4.72% increase

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 premiums for liability and property insurance.

The Workers' Compensation Trust fund was created 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.

On September 25, 2014, Council heard a presentation of the history of Mesa's insurance programs. Council gave staff direction to seek bids with various deductibles and policy limits. Staff has obtained the bids and is now seeking Council direction to purchase insurance for the next year.

EXCESS LIABILITY INSURANCE

This coverage protects the City from third party liability claims that exceed the City's self-insured retention, which is \$3 million. Below is a chart showing the history of excess liability insurance premiums for Mesa.

EXCESS LIABILITY INSURANCE 2009-2014			
Coverage Period	Policy Limits (including SIR)	SIR	Premium
FY 09/10	\$38M	\$3M	\$583,200
FY 10/11	\$38M	\$3M	\$543,700
FY 11/12	\$38M	\$3M	\$534,900
FY 12/13	\$40M	\$3M	\$465,000
FY 13/14	\$40M	\$3M	\$649,984
Recommended FY 14/15	\$50M	\$3M	\$611,200

On September 25, Council directed staff to seek bids at \$40 Million and \$50 Million policy limits above the City's \$3 Million self-insured retention (SIR).

All bids received by Mesa's broker for excess liability coverage are found on Attachment 1. Three (3) carriers declined to quote (AIG, Great American and Ironshore Indemnity). AIG and Ironshore failed to respond by the proposal deadline and Great American declined to quote due to target pricing of Navigator's expiring premium. The premium quotes we received this year are slightly lower than last year.

Staff Recommendation (Attachment 1 - Option F)

The recommendation increases the City's excess liability insurance coverage from \$40 million to \$50 million, and saves the City \$38,784 in premiums as compared to last year:

- Purchase primary layer excess liability insurance from Starr Indemnity for \$10 million in excess of the City's \$3 million SIR. The cost is \$386,700.
- Purchase 2nd layer excess coverage of \$15 million from Scottsdale Insurance Company. The cost is \$129,500.
- Purchase 3rd layer excess coverage of \$25 million from Navigators Insurance Company. The cost is \$95,000.

The total cost for these three layers of excess coverage is \$611,200, reflecting an overall **decrease** of \$38,784 (6%) in premium for \$10 million **more** coverage than last year.

Alternative: Other options are shown on Attachment 1. Staff recommends selecting Option F as described above.

PROPERTY INSURANCE

The City has just over \$1 billion in structural assets, vehicles and equipment. Property insurance generally covers these assets against loss from vehicle accidents, natural causes, fires, floods, wind damage and vandalism. Mesa currently carries property insurance with a policy limit of \$300 million per occurrence with a \$50,000 deductible. Below is a summary of premiums paid by Mesa since 2009.

PROPERTY INSURANCE 2009-2014			
Coverage Period	Policy Limits	Deductible	Premium
FY 09/10	\$300M	\$50,000	\$273,707
FY 10/11	\$300M	\$50,000	\$277,384
FY 11/12	\$300M	\$50,000	\$376,882
FY 12/13	\$300M	\$50,000	\$410,058
FY 13/14	\$300M	\$50,000	\$440,289
Recommended FY 14/15	\$300M	\$50,000	\$383,263

On September 25, Council directed staff to seek bids at deductible options of \$25,000; \$50,000 and \$100,000 with \$200 million and \$300 million policy limits. Carriers did not quote the \$200 million policy limit because it would not have significantly changed the premium.

It is extremely unlikely that all the City assets would be destroyed in a single event. There is no uniform standard in determining the appropriate limit for property damage coverage. We are advised that the \$300 million coverage limit falls within the coverage of similarly situated public entities.

Bids received by Mesa's broker for property coverage are found on Attachment 2. One carrier declined to quote (FM Global), stating the risk profile is not a good fit for them.

Recommendation: (Attachment 2 – Option C)

After reviewing the first bids, we asked the property insurance carriers for second bids with better price and coverage options. The policy we recommend will save the City \$57,026 (13%) compared to last year. As compared to a \$50,000 deductible, a \$25,000 deductible would increase premium cost by 15%. Travelers Insurance agreed to the \$25,000 deductible for vehicle damage or loss, and this made its revised bid more attractive than AIG's, which was \$10,389 less. Also, the City has made a property damage claim with Traveler's Insurance arising from the fire at Falcon Field airport. Traveler's has been cooperative in these negotiations.

- Purchase a property insurance policy from Travelers Insurance, with a policy limit of \$300 million per occurrence with a \$50,000 deductible. The cost is \$383,263.

If Council accepts this recommendation, the City's annual property insurance **premium will decrease** in the amount of \$57,026 (13%) compared to 2013.

Alternative: The property insurance bids are listed in Attachment 2.

CYBER RISK INSURANCE

Privacy & Network Liability insurance (Cyber Risk) insurance, covers the risk of disclosure of personal or sensitive customer and employee information (social security numbers, credit card numbers etc.) stored in the City's databases. In the event of a disclosure, Cyber Risk insurance would cover the costs of restoring credit for customers or employees who had been targeted. Cyber Risk also protects the City against claims of negligent misuse of computer software which can occur directly or through the use of vendors.

On September 25, Council directed staff to seek bids for Cyber Risk insurance with policy limits of \$7 million and \$10 million. Below is the premium paid by Mesa last year, the first year we purchased the coverage.

CYBER LIABILITY INSURANCE 2013-2014			
Coverage Period	Policy Limits	Deductible	Premium
FY 13/14	\$5M	\$75,000	\$36,743
Recommended FY 14/15	\$10M	\$150,000	\$77,618

Attachment 3 reflects the bids received by Mesa's broker for this line of coverage.

Recommendation: (Attachment 3 – Option D)

- Purchase cyber liability insurance from Illinois Union Insurance Company (ACE), with a policy limit of \$10 million per occurrence and a \$150,000 deductible. The cost is \$77,618. In light of the prevalence of cyber security issues worldwide, we recommend increasing our coverage from \$5 million to \$10 million.

Alternatives: Council may choose to purchase the \$5 or \$7 million coverage option through ACE for \$36,733 and \$24,184 less in annual premium respectively. Staff feels the additional cost for \$5 million more in coverage is prudent.

AIRCRAFT/AIRPORT LIABILITY INSURANCE

Aircraft Hull (Property) and Liability

Aircraft Hull (Property) and Liability coverage protects the City's aircraft and camera 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 previously 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 \$100 million policy limit (per occurrence) with a \$0 SIR and purchased a 2 year policy. This year, we will be seeking bids for this line of coverage, but with the option to extend coverage for 3 years.

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.

On September 25, Council directed staff to seek bids for Aircraft Hull/Airport Liability insurance with the current policy limits of \$100 million.

Below is a summary of the premiums paid by Mesa 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
Recommended FY14/15	Airport Liability Aircraft Liability Aircraft Hull (property)	\$100M \$100M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 18,299 \$ 89,055

Recommendation: Above in bold.

- Purchase Airport Liability and Aircraft Liability Insurance from AIG, with a policy limit of \$100 million per occurrence with a \$0 deductible for a 3 year term. The cost is \$107,354.

No new insurance carriers were willing to quote this coverage. In 2012, Mesa had a large fire at Falcon Field, and in June 2014, Mesa had a helicopter go down. Within the aviation insurance market, apparently insurers will decline to quote a bid 1-2 years after a significant loss. In part because of our loss history, Mesa's Aircraft Hull/Airport premiums have increased \$19,524 (22%) over last year.

EXCESS WORKERS' 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. Attachment 5A shows Mesa's history of costs for excess workers' compensation insurance coverage. Below is a summary of premiums paid by Mesa since 2008.

EXCESS WORKERS' COMPENSATION INSURANCE 2008-2014		
Coverage Period	Self-Insured Retention (SIR)	Premium
FY 08/09	\$1 M	\$204,038
FY 09/10	\$1 M	\$206,323
FY 10/11	\$1 M	\$194,401
FY 11/12	\$1 M	\$235,825
FY 12/13	\$1 M	\$266,104
FY 13/14	\$1 M	\$300,290
Recommended FY 14/15	\$1 M	\$314,582

The bid received by Mesa's broker for excess workers' compensation insurance coverage includes the SIR limit of \$1 million dollars and \$1.25 million dollars. It should be noted that four (4) additional carriers declined to quote (Midwest Employers Casualty Company, ACE Group, New York Marine and General Insurance Company, and Arch Insurance Company), stating they could not compete with pricing and/or had higher SIR limit requirements for Police and Fire Department employees.

Attachment 4 reflects the bids received by Mesa's broker for this line of coverage.

Recommendation: (Attachment 4 – Option A)

- Purchase an Excess Workers' Compensation Insurance Policy from Safety National Casualty Corporation, with a self-insured retention (SIR) for \$1 million per accident/injury/illness policy limit. The premium cost for this coverage is \$314,582.

Alternatives: Council may choose to purchase an Excess Workers' Compensation Insurance Policy from Safety National Casualty Corporation, with a self-insured retention (SIR) for \$1,250,000 per accident/injury/illness policy limit. This policy has a lower annual premium, but it also places a larger financial liability on the City of Mesa on a per claim basis. Staff does not feel that the increase in the self-insured retention is prudent.

If Council accepts this recommendation, the City's annual Workers' Compensation premium will increase in the amount of \$14,292 (4.76%) compared to the 2013/2014 premium.

WORKERS' 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 City of Mesa's broker has secured an extension of the discounted bond rate with the current incumbent, Travelers Casualty & Surety Co. of America. Incumbent has provided the following bid:

- Travelers Casualty & Surety Co. of America – Rate: \$6.00/\$1,000

Recommendation:

- Purchase the Workers' Compensation Self-Insurance Surety Bond through Travelers Casualty and Surety Co. of America for the rate of \$6.00/\$1,000. This maintains the rate decrease of \$6.00 or 50% when compared to the 2013/2014 bond rate of \$12.00/\$1,000.

The actual premium will be based on the total liabilities calculated on the Workers' Compensation Liability form filed with the Industrial Commission of Arizona.

ALTERNATIVES

Council can select any of the presented options for renewal of any of Mesa's insurance coverage lines and/or choose not to purchase coverage as noted.

FISCAL IMPACT OF INSURANCE PURCHASED

General Insurance

If Council accepts staff recommendations, the overall cost for property, liability, cyber risk, aircraft, airport liability and pollution legal liability insurance for 2014/2015 will be \$1,179,435 with significant decreases in excess liability and property and increases in cyber risk and aircraft/airport insurance from 2013/2014. This year's recommended insurance purchases are \$35,411 less than last year's costs, a 3% decrease. Payment of property, excess liability, aircraft, airport, and cyber risk insurance premiums will be paid through the Property and Public Liability Trust Fund.

Workers' Compensation Insurance

If Council accepts staff recommendations for the excess workers' compensation coverage line, the overall cost for insurance for the 2014/2015 will be \$314,582. The surety bond will be calculated utilizing the rate of \$6.00/\$1,000. The payment of the excess workers' compensation insurance premium and the self-insurance surety bond will be paid through the Workers' Compensation Trust Fund.