



City Council Report

Date: October 1, 2015

To: City Council

From: Jim Smith – City Attorney
Marc Steadman – Deputy City Attorney
Lisa Lorts – Risk Management
Gary Manning – Human Resources Director
Nitra Hawkins – Safety Administrator

SUBJECT: 2015/2016 Property, Liability, Aviation, Cyber Risk & Workers' Compensation Insurance and Self-Insurance Surety Bond.

cc: Christopher J. Brady – City Manager

**Strategic
Initiatives**



PURPOSE AND RECOMMENDATION

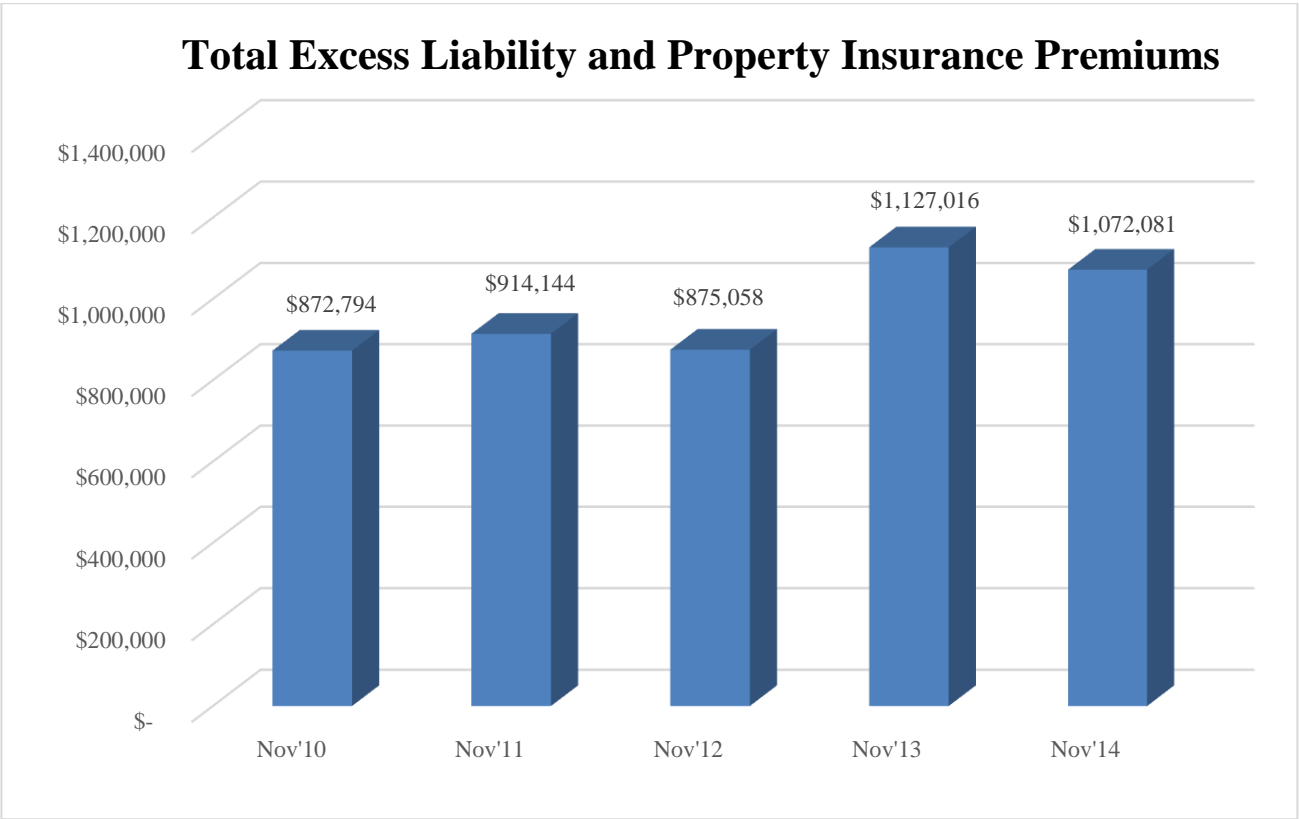
The purpose of this report is to provide information and seek direction on the purchase of insurance for excess liability, property, cyber risk, aviation (airport/aircraft), workers' compensation and a self-insurance surety bond. Mesa's insurance brokers will be seeking bids for Mesa's 2015 renewals. The renewal date for these coverage lines is November 22, 2015 for property, liability, cyber risk, and aviation insurance, and December 1, 2015 for workers' compensation coverage. The renewal date for the surety bond is January 01, 2016. 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

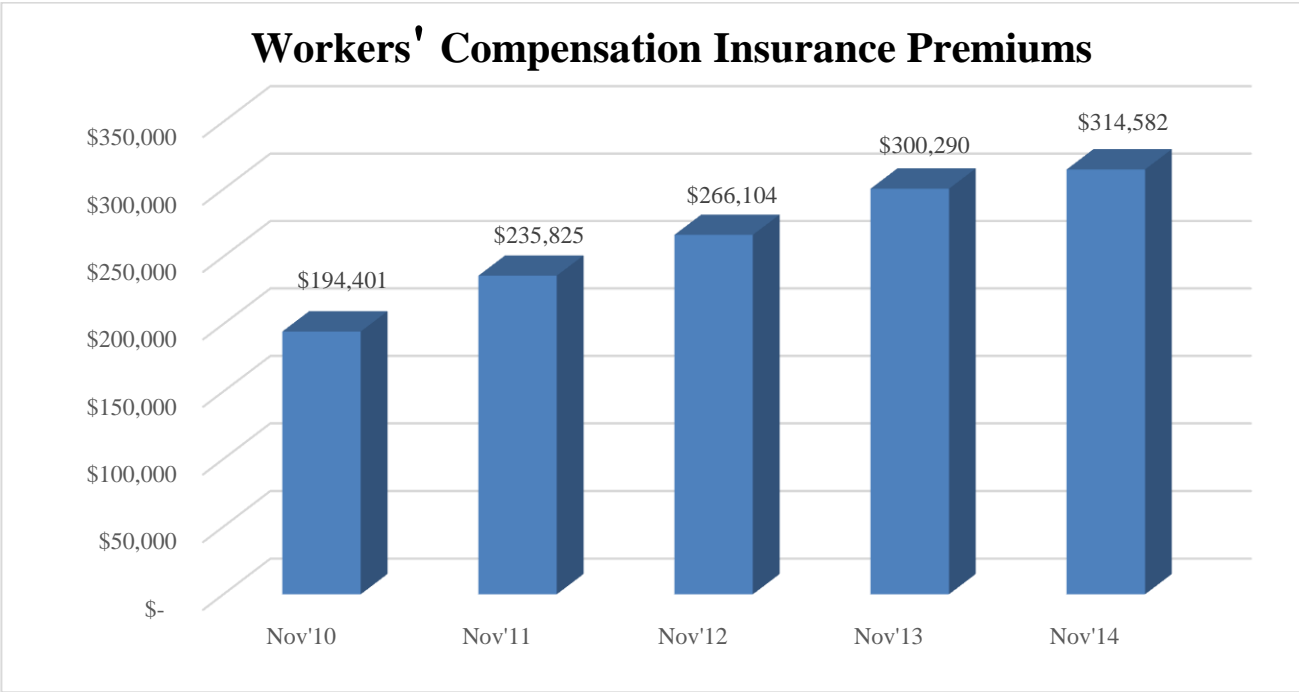
Section 610 of the City Charter authorizes the City to establish the Property and Liability Trust Fund to "maintain a reserve fund for self-insurance purposes." The Property and Liability Trust Fund was established in 1977 and is funded through the General Fund. From this Trust Fund, the City pays all liability claims, attorney's fees, in house 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 2010-2015, including Cyber Risk for 2013-2015.



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



DISCUSSION

EXCESS LIABILITY INSURANCE

Third party liability claims arise from many City activities 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 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 that may exceed \$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 2010 to present:

<u>Coverage Period</u>	<u>Coverage Limits (including SIR)</u>	<u>SIR</u>	<u>Premium</u>
FY10/11	\$38M	\$3M	\$543,000
FY11/12	\$38M	\$3M	\$534,900
FY12/13	\$43M	\$3M	\$465,000
FY13/14	\$43M	\$3M	\$649,984
FY14/15	\$53M	\$3M	\$607,763

Mesa currently carries Excess Liability coverage with \$3 million SIR and policy limit (aggregate) of \$50 million. 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	\$50,000,000
Chandler	\$2,000,000	\$50,000,000
Scottsdale	\$2,000,000	\$50,000,000
Tempe	\$2,000,000	\$40,000,000
Tucson	\$3,000,000	\$50,000,000
Phoenix	\$5,000,000 Auto \$10,000,000 General Liability	\$150,000,000

Mesa has considered various SIR and coverage levels when purchasing Excess Liability insurance in previous years. Last year, we extended excess coverage to \$50M. This year, we recommend maintaining the same coverage.

Despite Mesa's favorable claims history, and a very encouraging insurance audit, this will be a challenging year in which to obtain insurance quotes. First, two years ago the City's carrier at the time, Star Insurance Company, dropped out of the local insurance market. Next, our current carrier, Starr Indemnity, will no longer offer law enforcement coverage, a necessary piece of Mesa's insurance coverage. Also, on the national level, police liability claims are expected to rise.

This year, to encourage more carriers to bid on insurance for Mesa we have offered to consider entering

into longer term insurance options. The annual underwriting process of evaluating the City's many assets and liability risks is a substantial burden. This is particularly so for carriers that have submitted unsuccessful bids, and one major carrier has declined to offer a quote this year. We hope to address this concern with this year's offer to consider longer term insurance options.

In these circumstances, we expect our insurance premiums to increase over the next year.

PROPERTY INSURANCE

The City has 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>
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
FY14/15	\$300M	\$25,000 Auto \$50,000 Other	\$383,263

We recommend procuring quotes for the same limits of coverage.

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.

Last year, Mesa renewed Airport Liability Insurance with a \$0 SIR and \$100 million policy limit (per occurrence) based on an optional 3rd year renewal policy endorsement to the two year policy purchased in 2012. This year, we will be looking to procure options based on annual term and what longer term policies may be available.

AIRCRAFT - PROPERTY LIABILITY INSURANCE

Aircraft (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). Last year, Mesa purchased a new 3 year policy and rate guarantee which would provide coverage from 2014 to 2017. The rate guarantee remains as long as loss ratio incurred for each annual term is less than 50%. This year, we will be renewing the above policy. Premiums will be higher due to the purchase of the new helicopter.

Below shows Mesa's Airport Liability and Aircraft Hull and Liability insurance coverage since 2010.

Coverage Period	Coverage	Coverage Limits	Deductible	Premiums
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
FY14/15	Airport Liability Aircraft Liability Aircraft Hull (property)	\$50M \$50M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 18,299 \$ 89,054

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 increased Cyber Security Insurance to \$10 million policy limit (each claim). The premium for 2014/2015 was \$77,618. This year, we will again be procuring quotes with policy limits of \$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's excess coverage is within the range for other Valley cities.

<u>City</u>	<u>SIR</u>
Mesa	\$ 1,000,000
Chandler	\$ 650,000
Scottsdale	\$ 1,000,000
Tempe	\$ 500,000
Tucson	\$ 1,000,000
Phoenix	\$ 15,000,000

Mesa has considered various SIR levels when purchasing excess workers' compensation insurance in years past. Workers' compensation insurance premiums are primarily determined by the national insurance market. The claims history of the City is an additional factor in premium costs. Based on the current market and our loss history, our broker recommends we seek bids with the same SIR limits with the anticipation of a moderate increase in premium costs.

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.

COORDINATED WITH

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