



City Council Report

Date: November 18, 2019
To: City Council
cc: Christopher J. Brady – City Manager
From: Jim Smith – City Attorney
Jason Reed – Deputy City Attorney
Lisa Lorts – Risk Management
SUBJECT: 2019/2020 Insurance Procurement

I. PURPOSE AND BACKGROUND

The City Attorney's Office requests Council approval for the purchase of insurance coverage for excess liability, property, cyber risk, and aviation (airport/aircraft/UAV) as recommended in this report. The City Attorney's Office also recommends the adoption of a Resolution that will authorize the City to agree to four additional renewal periods for cost-containment purposes related to insurance procurement.

In 1977, the City established the Property and Public Liability Trust Fund ("PPL"). In accordance with state law, the PPL is used to pay costs associated with, among other things, the approximately 40 lawsuits and 300 claims that the City handles each year. One of these costs is the premiums the City pays to purchase insurance.

Each November, the City purchases the following insurance coverage: excess liability, property, cyber risk, and aviation. Mesa's insurance broker solicits bids for each type of insurance consistent with industry standards and Mesa's coverage needs.

Last year, Council authorized (in Resolution 11239) obtaining insurance with up to four additional years of renewing the insurance if the renewal rates were limited within certain parameters stated in the Resolution. This year's renewal was not within such parameters so Council action is needed to procure insurance.

Staff is seeking approval to purchase insurance coverage for next year and is also seeking approval of a Resolution authorizing the City to obtain insurance coverages for up to four additional annual renewal periods. A similar Resolution was approved last year.

II. SUMMARY OF INSURANCE COVERAGE

The following sections provide a brief description of the City's insurance coverage, the bid(s) that the City received for the 2019/2020 insurance premiums, and a recommendation for Council.

A. Excess Liability Insurance

Excess Liability coverage protects the City from third party liability claims that exceed the City's self-insured \$3 million retention ("SIR"). Below is a chart showing the history of excess liability insurance premiums for the City.

EXCESS LIABILITY INSURANCE 2013-2018			
Coverage Period	Policy Limits (including SIR)	SIR	Premium
FY 14/15	\$53M	\$3M	\$611,200
FY 15/16	\$53M	\$3M	\$606,210
FY 16/17	\$53M	\$3M	\$629,746
FY 17/18	\$53M	\$3M	\$632,977
FY 18/19	\$53M	\$3M	\$635,811
Recommended FY 19/20	\$53M	\$3M	\$779,735

Travelers is the largest insurer of public entity business in the United States, including municipalities in Arizona. They offer onsite and online Risk Control Services such as consulting services for accident prevention, accident trend analysis, and contractual risk transfer. In 2018, Travelers provided a Fundamentals of Risk Management for Law Enforcement Liability program to police command staff, which was well received. The City recommends that Mesa maintain its relationship with Travelers and stay insured by Travelers Insurance Company.

Recommendation:

- Purchase the first layer of excess liability coverage from Travelers with a policy limit of \$15 million in excess of the City's SIR. The City has received an initial quote of \$543,361 for the first layer of excess liability coverage. We recommend purchasing the first layer excess liability coverage insurance if the final quote is within 2.5% of the initial quote.
- Purchase the second layer of excess liability coverage from Allied World National Assurance Company (AWAC) with a policy limit of \$10 million. The City has received an initial quote of \$80,003 for the second layer of excess liability coverage. We recommend purchasing the second layer excess liability coverage insurance if the final quote is within 2.5% of the initial quote.
- Purchase the third layer of excess liability coverage from Navigators Insurance Company with a policy limit of \$10 million. The City has received an initial quote of \$69,371 for the third layer of excess liability coverage. We recommend purchasing the third layer excess liability coverage insurance if the final quote is within 2.5% of the initial quote.
- Purchase the fourth layer of excess liability coverage from Great American with a policy limit of \$15 million. The City has received an initial quote of \$87,000 for the fourth layer of excess liability coverage. We recommend purchasing the fourth layer excess liability coverage insurance if the final quote is within 2.5% of the initial quote.

B. Property Insurance

Property insurance generally covers property against loss, among other things, natural causes, fires, floods, wind damage, and vandalism. Below is a summary of premiums paid by Mesa since 2014.

PROPERTY INSURANCE 2013-2018			
Coverage Period	Policy Limits	Deductible	Premium
FY 14/15	\$300M	\$50,000	\$383,263
FY 15/16	\$300M	\$50,000	\$387,611
FY 16/17	\$300M	\$50,000	\$394,826
FY 17/18	\$300M	\$50,000	\$403,400
FY 18/19	\$300M	\$50,000	\$416,504
Recommended FY 19/20	\$300M	\$50,000	\$489,827

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 by the City's broker that the \$300 million coverage limit falls within the coverage of similarly situated public entities.

The property and assets at the Greenfield Water Reclamation Plant (GWRP) are covered by this insurance. Because the GWRP is co-owned by the City of Mesa, the Town of Gilbert, and the Town of Queen Creek, the Towns of Gilbert and Queen Creek reimburse the City for their portion of the insurance premium that covers the GWRP.

Last year, auto physical damage coverage was included in the property coverage. This year, a separate policy for auto physical damage coverage needed to be procured. See below in Auto Physical Damage section.

Recommendation:

- Purchase a property insurance policy from Travelers, with a policy limit of \$300 million per occurrence with a \$50,000 deductible. The City received an initial quote of \$489,827 for property coverage. We recommend purchasing the property insurance if the final quote is within 2.5% of the initial quote.

C. Auto Physical Damage

As noted above, the Auto Physical Damage coverage was included in the Property Coverage. This year, the Auto Physical Damage coverage has been separated out from the Property Insurance coverage. There are three Options for Deductibles:

Option 1 - \$50,000 deductible at a cost of \$131,789.

Option 2 - \$100,000 deductible at a cost of \$105,471.

Option 3 – \$250,000 deductible at a cost of \$83,500.

In the past 4 years, two claims have been made against the City's property coverage for vehicle losses. In September 2015, a prison transport van was totaled in a collision. The gross total loss of \$95,281.73 (net loss was \$55,036.65 after \$25,000 deductible and retained salvage value of \$15,245.08). Initially, the responsible party for the damaged van denied liability resulting in the claim against our carrier. In the end, we were able to recoup from the responsible party monies for the van but having made the initial claim allowed the City to purchase a new van for immediate use. The second claim was made in 2017 for a Solid Waste truck that caught fire. The City received payment of \$151,210 (value of the truck less \$25,000).

The City Attorney's Office recommends selecting the coverage with the \$100,000 deductible. First, the City has not made a high number of claims under this coverage. The City likely can save money over the long term by selecting a policy with a higher deductible (as opposed to the \$50,000 deductible) and the lower premium. That said, the City owns and operates some very sophisticated and expensive vehicles (like fire trucks). If the City selected the coverage with the highest deductible, it would lose \$150,000 worth of coverage per incident, but would not see a proportional reduction in the premium.

Recommendation:

- Purchase an auto physical damage policy from Travelers with a \$100,000 deductible. The cost is \$105,471. The City received an initial quote of \$105,471 for auto physical damage coverage. We recommend purchasing the property insurance if the final quote is within 2.5% of the initial quote.

D. 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 credit monitoring 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. Below is a summary of the premiums paid by Mesa since 2014.

CYBER LIABILITY INSURANCE 2013-2018			
Coverage Period	Policy Limits	Deductible	Cost
FY 14/15	\$10M	\$150,000	\$80,102
FY 15/16	\$10M	\$150,000	\$67,730
FY 16/17	\$10M	\$150,000	\$68,885
FY 17/18	\$10M	\$150,000	\$69,770
FY 18/19	\$10M	\$150,000	\$69,770
Recommended FY 19/20	\$10M	\$150,000	\$75,291

Recommendation:

- Purchase cyber liability insurance from Chubb Group (ACE), with a policy limit of \$10 million per occurrence with a \$150,000 deductible. The City received an initial quote of \$75,291 for cyber risk insurance coverage. We recommend purchasing the cyber risk insurance if the final quote is within 2.5% of the initial quote as long as the retention remains at \$150,000.

E. Aircraft/Airport Insurance (Aviation)

Aircraft – Property and Liability

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).

Airport Liability

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).

Below is a summary of the Aircraft/Airport Insurance premiums paid by Mesa since 2014.

AIRCRAFT/AIRPORT INSURANCE SINCE 2013-2018				
Coverage Period	Coverage	Coverage Limits	Deductible	Premiums
FY14/15	Airport Liability	\$100M	\$0	\$ 18,299
	Aircraft Liability	\$100M	\$0	
	Aircraft Hull (property)	Stated Value	\$25,000 “In motion” \$ 1,000 “Not in motion”	\$ 89,054
FY15/16	Airport Liability	\$100M	\$0	\$ 18,299
	Aircraft Liability	\$100M	\$0	
	Aircraft Hull (property)	Stated Value	\$25,000 “In motion” \$ 1,000 “Not in motion”	\$151,963
FY16/17	Airport Liability	\$100M	\$0	\$ 18,299
	Aircraft Liability	\$100M	\$0	
	Aircraft Hull (property)	Stated Value	\$25,000 “In motion” \$ 1,000 “Not in motion”	\$146,895
FY17/18	Airport Liability	\$100M	\$0	\$ 18,697
	Aircraft Liability	\$100M	\$0	
	Aircraft Hull (property)	Stated Value	\$25,000 “In motion” \$ 1,000 “Not in motion”	\$152,137
FY18/19	Airport Liability	\$100M	\$0	\$ 19,521
	Aircraft Liability	\$100M	\$0	
	Aircraft Hull (property)	Stated Value	\$25,000 “In motion” \$ 1,000 “Not in motion”	\$150,469
	UAV Hull & Liability		\$25,000 “In motion” \$ 1,000 “Not in motion”	\$ 7,532
Recommended FY19/20	Airport Liability	\$100M	\$0	\$ 21,228
	Aircraft Liability	\$100M	\$0	
	Aircraft Hull (property)	Stated Value	\$25,000 “In motion” \$ 1,000 “Not in motion”	\$164,329
	UAV Hull & Liability		10% value of UAV “In motion”/“Not in motion”	\$ 7,958

Recommendation:

- Purchase Airport Liability, Aircraft Hull & Liability, and UAV Hull & Liability Insurance from AIG, with a policy limit of \$100 million per occurrence. The initial quote is \$193,515. We recommend purchasing the aviation insurance if the final quote is within 2.5% of the initial quote.

F. Greenfield Water Reclamation Plant

The Greenfield Water Reclamation Plant (GWRP) is operated by Mesa and co-owned with the Towns of Gilbert and Queen Creek. The cost of the liability insurance for the GWRP is apportioned among the partners based on the percent of usage by each member. The percentage of usage is reviewed annually.

Below is a summary of the GWRP premiums paid by Mesa since 2015.

GREENFIELD WATER RECLAMATION PLANT 2015-2018				
Coverage Period	Policy Limits	Deductible	Total Cost	Mesa's Portion
FY 15/16	\$11M	\$50,000	\$24,896	\$10,406.53
FY 16/17	\$11M	\$50,000	\$24,871	\$10,396.08
FY 17/18	\$11M	\$50,000	\$26,340	\$11,010.12
FY18/19	\$11M	\$50,000	\$24,828	\$10,378.10
Recommended FY 19/20	\$11M	\$50,000	\$46,533	\$19,451.79

Recommendation:

- Purchase liability insurance for the GWRP with policy limits of \$11 million. The City received an initial quote of \$46,533 for the liability coverage. We recommend purchasing the liability coverage insurance for the GWRP if the final quote is within 2.5% of the initial quote.

III. AUTHORIZATION FOR ANNUAL RENEWALS

The City Attorney's Office recommends that Council allow the City to obtain the insurance as recommended in this report and to adopt a Resolution authorizing the City Manager to renew such insurance coverages (including the ability to change carriers and modifying deductibles as appropriate or as needed) for up to the next four annual renewal periods thereafter if the cost of the renewal each year does not exceed a 2.5% increase to the rate for a specific coverage/policy and/or a 2.5% increase to the premium.