



## City Council Report

**Date:** November 1, 2018  
**To:** City Council  
**cc:** Christopher J. Brady – City Manager  
**From:** Jim Smith – City Attorney  
Jason Reed – Deputy City Attorney  
Lisa Lorts – Risk Management  
**SUBJECT:** 2018/2019 Insurance Procurement

### I. PURPOSE AND BACKGROUND

The City requests Council approval for the purchase of insurance coverage for excess liability, property, cyber risk, and aviation (airport/aircraft/UAV). The City 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.

Staff has now received those bids and is seeking approval to purchase insurance coverage for next year. A summary of the bids and the City’s recommendations is attached as Exhibit 1.

Staff 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 three years ago and helped to implement cost-control measures for annual insurance premiums.

## 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 2018/2019 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.

<b>EXCESS LIABILITY INSURANCE 2013-2018</b>			
<b>Coverage Period</b>	<b>Policy Limits (including SIR)</b>	<b>SIR</b>	<b>Premium</b>
FY 13/14	\$43M	\$3M	\$661,037
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
<b>Recommended FY 18/19</b>	<b>\$53M</b>	<b>\$3M</b>	<b>\$635,811</b>

The City’s insurance broker sought bids from eight carriers, but only the incumbent carrier, Travelers, provided a competitive quote (\$473,398). One other carrier submitted a quote, but it was not competitive because it was more expensive (\$709,000) and provided \$5M less in coverage. The remaining carriers declined to submit a quote because they either could not compete with Travelers’ quote or could not provide the coverages Mesa needs.

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. Recently, 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 first layer excess liability coverage from Travelers for \$15 million in excess of the City’s SIR. The cost is \$473,398.
- Purchase second layer excess liability coverage of \$10 million from Hallmark. The cost is \$64,190.
- Purchase third layer excess liability coverage of \$25 million from Navigators Insurance. The cost is \$98,223.

The total cost for these three layers of excess coverage is \$635,811, reflecting an overall increase of \$2,834 (.45%) in premium for the same coverage as last year.

**B. Property Insurance**

The City has just over \$1 billion in structural assets, vehicles, and equipment. Property insurance generally covers these assets against loss, among other things, from vehicle accidents, natural causes, fires, floods, wind damage, and vandalism. Below is a summary of premiums paid by Mesa since 2013.

<b>PROPERTY INSURANCE 2013-2018</b>			
<b>Coverage Period</b>	<b>Policy Limits</b>	<b>Deductible</b>	<b>Premium</b>
FY 13/14	\$300M	\$50,000	\$440,289
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
<b>Recommended FY 18/19</b>	<b>\$300M</b>	<b>\$50,000</b>	<b>\$416,504</b>

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.

Out of five carriers, only Travelers Insurance provided a quote to the City. The remaining four carriers declined to quote because they could not compete with Travelers’ pricing and/or coverage.

It should be noted that in the past year, the City added the Fire Dispatch Center, the Household Hazardous Waste Facility, and remodeled Pioneer Park for a total increase in property value of over \$18 million. Also, the City made property damage claims with Travelers Insurance arising from the September 8, 2014 storm as well as the loss of a solid waste truck. Travelers has been cooperative in the investigation and payment of these claims.

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.

**Recommendation:**

- Purchase a property insurance policy from Travelers, with a policy limit of \$300 million per occurrence with a \$50,000 deductible. The cost is \$416,504.

If Council accepts this recommendation, the City’s annual property insurance premium will increase in the amount of \$13,104 (3.25%) compared to 2017.

## 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 the premium paid by Mesa last year.

<b>CYBER LIABILITY INSURANCE 2013-2018</b>			
<b>Coverage Period</b>	<b>Policy Limits</b>	<b>Deductible</b>	<b>Cost</b>
FY 13/14	\$5M	\$150,000	\$37,919
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
<b>Recommended FY 18/19</b>	<b>\$10M</b>	<b>\$150,000</b>	<b>\$69,770</b>

The City received one quote which was from the incumbent Chubb Group.

### **Recommendation:**

- Purchase cyber liability insurance from Chubb Group (ACE), with a policy limit of \$10 million per occurrence and a \$150,000 deductible. The cost is \$69,770, same as last year.

## **C. Aircraft/Airport Insurance**

### **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 2013.

<b>AIRCRAFT/AIRPORT INSURANCE SINCE 2013-2018</b>				
<b>Coverage Period</b>	<b>Coverage</b>	<b>Coverage Limits</b>	<b>Deductible</b>	<b>Premiums</b>
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  \$ 70,796
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  \$ 89,054
FY15/16	Airport Liability Aircraft Liability Aircraft Hull (property)	\$100M \$100M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 18,299  \$151,963
FY16/17	Airport Liability Aircraft Liability Aircraft Hull (property)	\$100M \$100M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 18,299  \$146,895
FY17/18	Airport Liability Aircraft Liability Aircraft Hull (property)	\$100M \$100M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 18,697  \$152,137
<b>Recommended FY18/19</b>	Airport Liability Aircraft Liability Aircraft Hull (property)  UAV Hull & Liability	\$100M \$100M Stated Value	\$0 \$0 \$25,000 "In motion" \$ 1,000 "Not in motion" \$25,000 "In motion" \$ 1,000 "Not in motion"	\$ 19,521  \$150,469  \$ 7,532

**Recommendation:**

- Purchase Airport Liability, Aircraft Hull & Liability, and UAV Hull & Liability Insurance from AIG, with a policy limit of \$100 million per occurrence with a \$0 deductible. The cost is \$177,522.

**D. 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 for the last several years.

<b>GREENFIELD WATER RECLAMATION PLANT 2015-2018</b>				
<b>Coverage Period</b>	<b>Policy Limits</b>	<b>Deductible</b>	<b>Total Cost</b>	<b>Mesa's Portion</b>
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
<b>Recommended FY 18/19</b>	<b>\$11M</b>	<b>\$50,000</b>	<b>\$24,828</b>	<b>\$10,378.10</b>

**Recommendation:**

- Purchase liability insurance for the GWRP for \$10,378.10.

**III. AUTHORIZATION FOR ANNUAL RENEWALS.**

In 2015, to help the City manage annual increases to the City's insurance premiums, the Council authorized the City to renew its insurance coverage annually as long as the collective insurance premium(s) did not increase by more than 2.5% from the previous year. The City's broker recommended this strategy because, consistent with industry standards, the City was more likely to minimize annual premium increases if it were willing to establish a long-term relationship with its insurers. Based on the past three years, the strategy was effective, and the City was able to keep the annual insurance premium(s) increase below 2.5%.

The City now recommends that the Council adopt a Resolution allowing the City to renew the City's insurance coverage for up to four additional annual renewal periods as long as 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. The City's broker anticipates that this will help the City minimize future premium increases.

**IV. FISCAL IMPACT OF INSURANCE PURCHASED**

If Council accepts staff recommendations, the overall cost for property, liability, cyber risk, aircraft, airport liability, and the Mesa GWRP liability insurance for 2018/2019 will be \$1,309,985. This year's recommended insurance purchases are \$21,994 more than last year's costs, a 1.70% increase. Payment of property, excess liability, aircraft, airport, UAV, cyber risk, and liability for the GWRP insurance premiums will be paid through the PPL.