



## City Council Report

**Date:** November 16, 2020  
**To:** City Council  
**cc:** Christopher J. Brady – City Manager  
**From:** Jim Smith – City Attorney  
Jason Reed – Deputy City Attorney  
Lisa Lorts – Risk Management  
**SUBJECT:** 2020/2021 Insurance Procurement

### **I. PURPOSE AND BACKGROUND**

The City Attorney's Office requests that Council adopt a Resolution that authorizes the purchase and renewal of insurance coverage for excess liability, property, cyber risk, and aviation (airport/aircraft/UAV) as recommended in this report.

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 USI Insurance Services, LLC (an experienced, national broker) solicits pricing for each type of insurance consistent with industry standards and Mesa's coverage needs.

Staff is seeking approval of a Resolution that authorizes the City to purchase and renew its insurance coverages. Per the Resolution, that authorization will include authorization to change carriers, to add additional insurance or excess layers of insurance, to modify coverage amounts, and to modify deductibles as appropriate or as needed.

## II. SUMMARY OF INSURANCE COVERAGE

The following sections provide a brief description of the City's insurance coverage, the premiums for the City's insurance for 2020/2021, 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 \$3 million self-insured retention ("SIR"). Below is a chart showing the history of excess liability insurance premiums for the City.

EXCESS LIABILITY INSURANCE 2015-2020			
Coverage Period	Policy Limits (including SIR)	SIR	Premium
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
FY 19/20	\$53M	\$3M	\$779,735
Quote FY 20/21	\$33M	\$3M	\$869,675

Starting the latter part of 2019, the insurance market has been hardening due to lower investment returns for insurers and rising catastrophic losses. Based on these market conditions, it is becoming significantly more difficult and more expensive for municipalities to obtain insurance.

It is also challenging for large cities, like the City of Mesa, to obtain insurance. As cities grow, the value of their insurable assets increases (raising insurance premiums) and the cities are subject to a higher number of claims (including claims associated with property damage and law enforcement activities). Depending on a city's size, the market of available insurers and coverages may be quite small.

To that end, the City has worked to maintain a good relationship with its primary excess liability carrier, Travelers. Travelers is one of the largest insurers for municipalities and has the capacity to provide coverage to the City. The City recommends that Mesa maintain its relationship with Travelers and stay insured by Travelers, including for the first layer of excess liability.

To date, the City has received a quote of \$869,675 for its excess liability insurance (as provided by Travelers, Allied World National Assurance Company, and Allied World Assurance Company) with cumulative policy limits of \$30 million.

In addition to that coverage, the City and its broker are obtaining quotes for an additional \$20 million in coverage. Due to market conditions (including, among other things, the market disruptions caused by COVID 19 and the recent state and federal elections), the City has not finalized quotes for this coverage. The City anticipates finalizing quotes for those coverages in the next seven to ten days.

**Recommendation:**

- Purchase excess liability coverage from Travelers, Allied World National Assurance Company, and Allied World Assurance Company with cumulative policy limits of \$30 million in excess of the City's SIR.
- Purchase an additional \$20 million of excess liability coverage through the use of and with the recommendation of the City's Insurance Broker.

**B. Property Insurance**

Property insurance generally covers property against loss, among other things, from natural causes, fires, floods, wind damage, and vandalism. Below is a summary of premiums paid by Mesa since 2015.

<b>PROPERTY INSURANCE 2015-2020</b>			
<b>Coverage Period</b>	<b>Policy Limits</b>	<b>Deductible</b>	<b>Premium</b>
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
FY 19/20	\$300M	\$50,000	\$489,827
<b>Quote FY 20/21</b>	<b>\$300M</b>	<b>\$50,000</b>	<b>\$592,478</b>

It is extremely unlikely that all of the City's assets would be destroyed in a single event. We are advised by the City's broker that the \$300 million coverage limit falls within the coverage of similarly situated public entities.

The City has received a quote of \$592,478 for its property insurance as provided by Travelers with policy limits of \$300 million per occurrence with a \$50,000 deductible.

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.

### **C. Auto Physical Damage**

Auto Physical Damage insurance covers automobile damage to City vehicles. Last year, the City chose a policy with a \$100,000 deductible at a cost of \$105,471. This year, the City received a quote from Travelers of \$135,381 with a \$100,000 deductible.

While other deductibles may be available, the City Attorney's Office has recommended this coverage because the City has not submitted a high number of claims under this coverage. With fewer claims made, the City likely will save money by paying a lower premium in exchange for the higher deductible. While a higher deductible may be available, historical pricing suggests that the City would not see a proportional reduction in the premium to justify that selection.

#### **Recommendation:**

- Purchase an auto physical damage policy from Travelers with a \$100,000 deductible.

### **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 2015.

<b>CYBER LIABILITY INSURANCE 2015-2020</b>			
<b>Coverage Period</b>	<b>Policy Limits</b>	<b>Deductible</b>	<b>Cost</b>
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
FY 19/20	\$10M	\$150,000	\$75,291
<b>Quote FY 20/21</b>	<b>\$10M</b>	<b>\$150,000</b>	<b>\$86,325</b>

#### **Recommendation:**

- Purchase cyber liability insurance from Chubb Group (ACE), with a policy limit of \$10 million per occurrence with a \$150,000 deductible.

## **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 2015.

<b>AIRCRAFT/AIRPORT INSURANCE SINCE 2015-2020</b>				
<b>Coverage Period</b>	<b>Coverage</b>	<b>Coverage Limits</b>	<b>Deductible</b>	<b>Premiums</b>
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
FY18/19	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
FY19/20	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” 10% value of UAV “In motion”/“Not in motion”	\$ 21,228  \$164,329  \$ 7,958

<b>Quote FY20/21</b>	<b>Airport Liability Aircraft</b>	<b>\$100M</b>	<b>\$0</b>	<b>\$ 25,263</b>
	<b>Liability Aircraft Hull</b>	<b>\$100M</b>	<b>\$0</b>	
	<b>(property)</b>	<b>Stated Value</b>	<b>\$25,000 “In motion”</b>	<b>\$199,750</b>
	<b>UAV Hull &amp; Liability</b>		<b>\$ 1,000 “Not in motion”</b>	
			<b>10% value of UAV</b>	<b>\$ 7,958</b>
			<b>“In motion”/“Not in motion”</b>	

**Recommendation:**

- Purchase Airport Liability, Aircraft Hull & Liability, and UAV Hull & Liability Insurance from AIG, with a policy limit of \$100 million per occurrence.

**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.

<b>GREENFIELD WATER RECLAMATION PLANT 2015-2020</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
FY18/19	\$11M	\$50,000	\$24,828	\$10,378.10
FY 19/20	\$11M	\$50,000	\$42,400	\$17,723.20
<b>Quote FY 20/21</b>	<b>\$11M</b>	<b>\$50,000</b>	<b>\$43,135</b>	<b>\$18,030.43</b>

**Recommendation:**

- Purchase liability insurance for the GWRP with policy limits of \$11 million.

**III. AUTHORIZATION FOR ANNUAL RENEWALS**

Significant pressures continue to affect the municipality insurance market (both as to coverages and premiums). The City anticipates that this market volatility will continue into, at a minimum, next year. To manage that volatility, the City Attorney’s Office recommends that Council adopt a Resolution authorizing the City Manager to enter into new insurance agreements for property, liability, cyber risk, and aviation insurance coverages as recommended by the City Attorney’s

Office. The Resolution authorizes the City Manager and City Attorney, for the calendar years of 2020 and 2021, to purchase and renew insurance coverages (including the ability to change carriers, to add additional insurance or excess layers of insurance, to modify coverage amounts, and to modify deductibles as appropriate or as needed) with PPL Trust funds for the benefit of the City. The Resolution also authorizes the City Manager, for years 2022 through 2024, to enter into new annual insurance agreements including insurance for property, liability, cyber risk, and aviation insurance coverages that are recommended by the City Attorney if the rates for such insurance coverages do not exceed the previous year's rates for a specific coverage/policy by more than 5% and/or the premium for such insurance coverages does not exceed the then-current premium for a specific coverage/policy by more than 5%.