

City Council Report

Date: September 17, 2009
To: City Council
Through: Christopher Brady, City Manager
From: Debbie Spinner, City Attorney
Barry Hegrenes, Risk Management
Subject: 2009/2010 Property, Liability and Aviation Insurance

PURPOSE AND RECOMMENDATION

The purpose of this report is to provide information and seek direction on the upcoming renewal of excess liability, property, and aviation (airport/aircraft) insurance coverage. In October, Mesa's insurance broker will obtain bids for Mesa's 2009 insurance renewals. The renewal date for this coverage is November 22, 2009.

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 insurance premiums. It is now time for the City to renew its insurance. The cost of these policies will depend on the policy limits, deductibles, and self-insured level desired.

Attachment 1 is a chart showing the history of insurance premiums paid by Mesa since fiscal year 2002/2003.

EXCESS LIABILITY INSURANCE

The City is currently self-insured for the first \$2 million for any incident or occurrence resulting in a liability claim or lawsuit against the City or its employees. This is called the self-insured retention (SIR). The City procures excess liability insurance to cover the City for settlements or judgments exceeding the \$2 million SIR.

Liability claims come in many forms, including police incidents, vehicle collisions, roadway design/maintenance, and damage from construction. The annual amount paid for all liability claims is typically between \$1,000,000 and \$1,500,000. Mesa's total payment for liability claims in Fiscal Year 2008/2009 was well below average at approximately \$800,000. See Attachment #2 for a history of liability claims paid.

Attachment 3 shows Mesa's Excess Liability insurance coverage from the year 2003 to the present. Mesa currently carries excess liability coverage with \$2 million SIR and policy limit (per occurrence) of \$37 million (including SIR).

Research of other Arizona cities indicates Mesa’s SIR is consistent. Mesa’s excess liability coverage is slightly below some other Valley cities.

Comparison

<u>City</u>	<u>SIR</u>	<u>Excess coverage</u>
Mesa	\$2,000,000	\$35,000,000
Chandler	\$2,000,000	\$30,000,000
Scottsdale	\$2,000,000	\$50,000,000
Tempe	\$2,000,000	\$40,000,000
Phoenix	\$5,000,000 Auto \$7,500,000 GL	\$150,000,000

Mesa has considered various SIR levels when purchasing excess liability insurance in years past. From 2002 through 2004, the SIR was \$3 million based upon market conditions (premiums were higher in the aftermath of events occurring on 09-11-2001). Since 2004, the City has maintained an SIR of \$2 million, based on market stability and premiums. Based on the current market, our insurance broker estimates Mesa can purchase the same coverage for little or no increase in premium.

Recommendation: Obtain quotes for excess liability coverage with the following variables:

- **Self Insured Retention (SIR):** \$2 million
- **Policy Limit (Per Occurrence):** \$35 million and \$45 million in excess of Self-Insured Retention.

PROPERTY INSURANCE

The City has approximately \$730 million 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 \$200 million per occurrence and \$50,000 deductible. Mesa has an excellent loss record.

Boiler and machinery insurance covers loss that occurs due to the failure of a boiler or piece of machinery. Until 2007, Mesa carried boiler and machinery coverage of \$50 million with a \$10,000 deductible under a separate policy from the property policy. In 2007 and 2008, boiler and machinery coverage was included in the property policy, resulting in a cost savings to Mesa.

Our broker recommends procuring quotes for a higher “per occurrence” limit of coverage to ensure proper coverage of Mesa’s assets. Attachment 4 shows Mesa’s property and boiler and machinery insurance coverage from 2003 to the present.

Recommendation: Obtain quotes for property coverage, including boiler and machinery coverage, with the following variables:

- **Deductible:** \$50,000 and \$100,000
- **Policy Limit (Per Occurrence):** \$250 million and \$300 million

AIRPORT LIABILITY INSURANCE

Airport Liability Insurance protects the City against third party claims of negligence associated with airport operations. An example might be allegations of improper maintenance of a runway resulting in damage to an aircraft and/or injury to passengers.

Attachment 5 shows Mesa's airport liability insurance coverage since 2003. For the past seven years, Mesa has purchased Airport Liability Insurance with \$0 SIR and \$50 million policy limit (per occurrence). In 2008, we procured quotes with a \$1 million deductible and the cost savings were negligible.

Recommendation: Obtain quotes for airport liability insurance with the following variables:

- **Deductible:** \$0
- **Policy Limit (Per Occurrence):** \$50 million and \$100 million

AIRCRAFT HULL AND LIABILITY INSURANCE

Aircraft Hull (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.

Attachment 5 shows Mesa's Aircraft Hull and Liability Insurance coverage from the year 2003 to the present. For the past seven years Mesa has purchased aircraft liability coverage with \$0 SIR and \$50 million policy limit (per occurrence). Mesa has 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). In 2008, we procured quotes with a \$1 million liability deductible and the cost savings were negligible.

Recommendation: Obtain quotes for aircraft hull coverage with the following variables:


- **Deductible:** \$25,000 deductible (in motion) and \$1,000 deductible (not in motion).
- **Policy Limit:** Stated value of aircraft

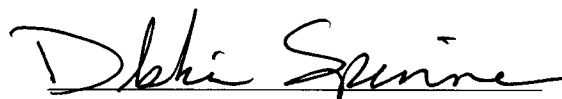
Recommendation: Obtain quotes for aircraft liability coverage with the following variables:

- **Deductible:** \$0
- **Policy Limit (Per Occurrence):** \$50 million and \$100 million

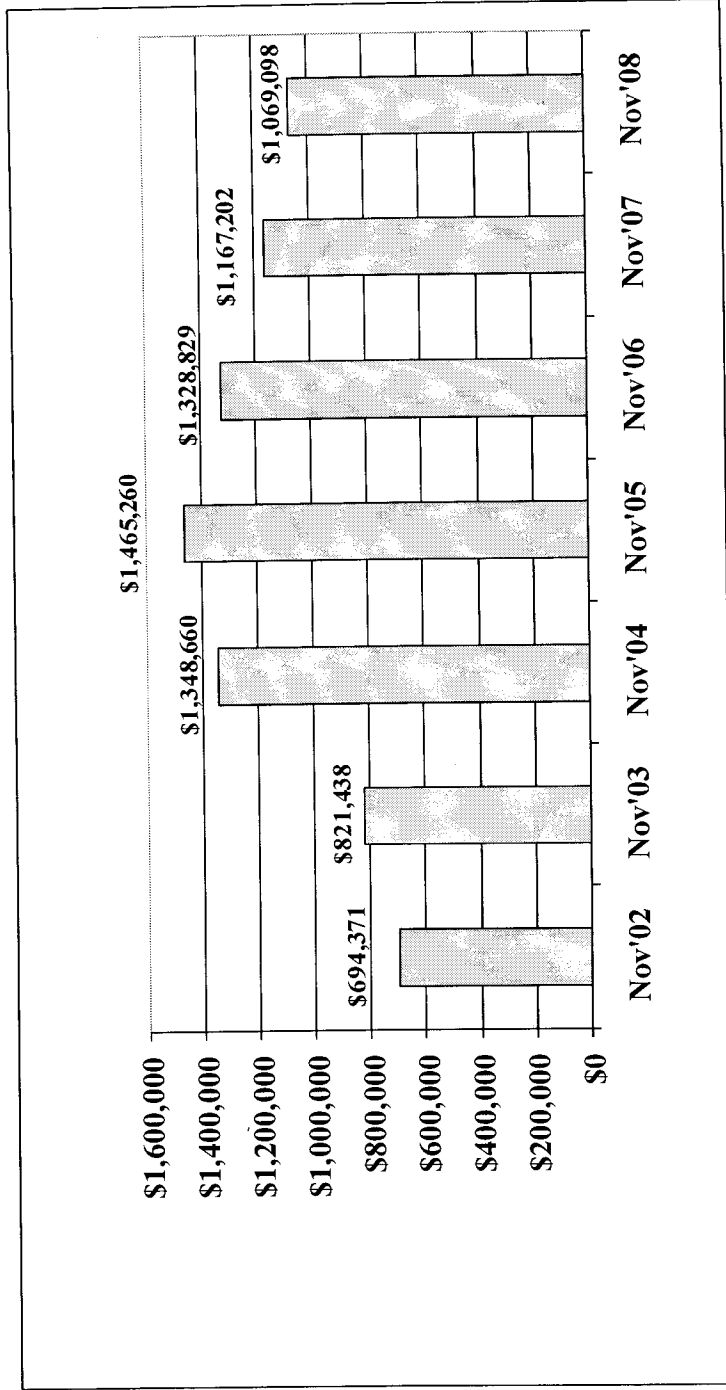
ALTERNATIVES

1. Instruct Mesa's insurance broker to obtain quotes using a greater number of SIRs, deductibles and coverage amounts for any/all of the types of insurance.

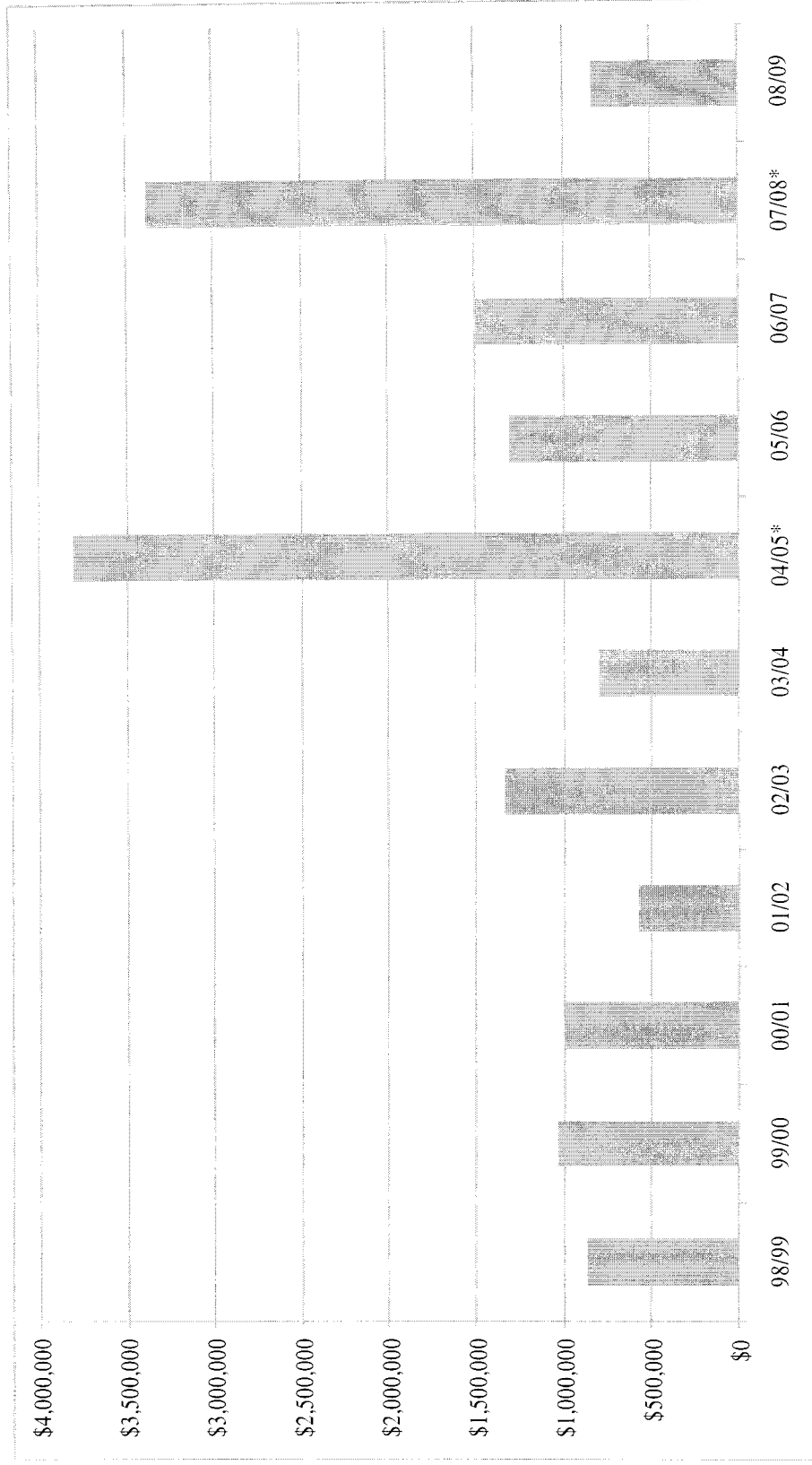

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Insurance Premium Costs



Liability Claims and Cases Paid



* The increases in these years are due, primarily, to one case in each year which resulted in a significant settlement.

CITY OF MESA
EXCESS LIABILITY INSURANCE HISTORY
2003 - 2009

Coverage Period	Coverage Limits (Including SIR)	SIR	Premiums
FY 02/03	\$20MM	\$3MM	\$288,228
FY 03/04	\$28MM	\$3MM	\$340,016
FY 04/05	\$27MM	\$2MM	\$790,993
FY 05/06	\$27MM	\$2MM	\$846,237
FY 06/07	\$27MM	\$2MM	\$755,750
FY 07/08	\$37MM	\$2MM	\$734,463
FY 08/09	\$37MM	\$2M	\$663,366

CITY OF MESA
PROPERTY AND BOILER/MACHINERY INSURANCE HISTORY
2003 - 2009

Coverage Period	Policy Limits (including SIR)	Self-Insured Retention	Premiums
FY 02/03 Property Boiler	\$100M \$50M	\$50,000 \$10,000	\$222,000 \$9,079
FY 03/04 Property Boiler	\$100M \$50M	\$50,000 \$10,000	\$262,509 \$9,981
FY 04/05 Property Boiler	\$165M \$50M	\$50,000 \$10,000	\$294,303 \$12,880
FY 05/06 Property Boiler	\$165M \$50M	\$50,000 \$10,000	\$347,651 \$11,824
FY 06/07 Property Boiler	\$200M \$50M	\$50,000 \$10,000	\$254,870 \$11,824
FY 07/08 Property (including boiler/machinery)	\$200M	\$50K	\$200,000
FY 08/09 Property (including boiler/machinery)	\$200M	\$50K	\$214,949

CITY OF MESA
AIRPORT LIABILITY INSURANCE HISTORY
2002-2008

Coverage Period	Coverage Limits	Deductible	Premiums
FY 02/03			
Airport Liability	\$50M	\$0	\$32,134
Aircraft Liability	\$50M	\$0	\$141,974
Aircraft Hull (property)	Stated Value	\$25,000 "In motion" \$1,000 "Not in motion"	
FY 03/04			
Airport Liability	\$50M	\$0	\$35,852
Aircraft Liability	\$50M	\$0	\$172,124
Aircraft Hull (property)	Stated Value	\$25,000 "In motion" \$1,000 "Not in motion"	
FY 04/05			
Airport Liability	\$50M	\$0	\$35,640
Aircraft Liability	\$50M	\$0	\$213,371
Aircraft Hull (property)	Stated Value	\$25,000 "In motion" \$1,000 "Not in motion"	
FY 05/06			
Airport Liability	\$50M	\$0	\$28,003
Aircraft Liability	\$50M	\$0	\$189,545
Aircraft Hull (property)	Stated Value	\$25,000 "In motion" \$1,000 "Not in motion"	
FY 06/07			
Airport Liability	\$50M	\$0	\$33,204
Aircraft Liability	\$50M	\$0	\$193,921
Aircraft Hull (property)	Stated Value	\$25,000 "In motion" \$1,000 "Not in motion"	
FY 07/08			
Airport Liability	\$50M	\$0	\$23,802
Aircraft Liability	\$50M	\$0	\$130,675
Aircraft Hull (property)	Stated Value	\$25,000 "In motion" \$1,000 "Not in motion"	
FY 08/09			
Airport Liability	\$50M	\$0	\$15,758
Aircraft Liability	\$50M	\$0	\$106,025
Aircraft Hull (property)	Stated Value	\$25,000 "In motion" \$1,000 "Not in motion"	