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MEMORANDUM Management Services Memo No. 07-139

DATE: May 10, 2007

TO: MAYOR AND COUNCIL

THRU: MARK PENTZ, CITY MANAGER *mp*
 O.D. BURR, ACTING MANAGEMENT SERVICES DIRECTOR *ODB*

FROM: LADD LEDER, RISK MANAGER *Ladd Leder*

SUBJECT: PROPERTY AND CASUALTY INSURANCE RENEWAL, FY 2007-08

RECOMMENDATION:

Staff recommends purchasing commercial insurance coverage and services for \$876,534, effective July 1, 2007. Insurance premiums are net of commission, except for Airport Owners and Operators Liability Insurance.

BACKGROUND:

For the past 30 months, commercial property and casualty insurance rates have been flat. Factors influencing the insurance market include, but are not limited to:

- Number of insurers with underwriting capacity willing to insure large entities,
- Pressure brought on Underwriters by Risk Managers,
- Downward insurance cycle, brought on by fewer catastrophic losses

Property. For the City of Chandler, total property values continue to increase because of the relentless increase in building cost, pushing replacement values up, and in turn, causing premium increases. Based on our pro-active approach to managing the risk, including regular safety audits of our facilities and loss control measures taken, we had no property losses. The property deductible is \$50,000. **Attachment A** shows a ten-year history for property insurance.

The property insurance policy is rather broad covering buildings, contents, vehicles valued in excess of \$50,000, and equipment, as well as boiler and machinery coverage. As in previous years, there is a \$50,000 deductible for all perils, not including Earth Movement and Flood with a \$100,000 deductible.

Liability. The City is extremely active in defending claims and lawsuits made against the City. During the past 12 months, our excess insurers made no payments on behalf of the City; all settlements made were part of our \$2 million self-insured retention (SIR) for liability losses. **Attachment B** outlines the City's liability insurance program for the past ten years. Again, active safety and loss control programs, risk avoidance and other programs helped eliminate and mitigate losses.

The City's current liability program includes:

- Insurance Co of the State of PA, \$10 million excess of \$2 million
- Lexington, \$20 million excess of \$12 million

Workers' Compensation. The City is self-insured for the first \$500,000 of loss for workers' compensation. Excess of our retention, there is a policy to protect the City against catastrophic loss. **Attachment C** shows historical rates and premiums for the excess self-insured workers' compensation program. The City continues to focus on loss control and safety measures to mitigate losses.

Attachment D is a summary of recommended coverage and associated premium for fiscal year 2007-08. Compared to the previous year the total premium decreased from \$935,662 to \$886,534 for a \$59,128 reduction. The property and liability premiums decreased for several reasons including excellent loss experience and competition among insurers.

DISCUSSION:

For the fiscal year 2007–08, the City requested up to four insurance underwriters to provide quotation for each line of insurance.

Staff recommends obtaining property insurance coverage from Allianz with a premium of \$257,871, including terrorism risk insurance. Several insurers provided quotations; the recommendation goes to Allianz with the broadest coverage. The property rate decreased from .088 to .068 per \$100 of value from the last fiscal year. Terms and conditions on average with Allianz were slightly better than other property insurers. This is the second year of the Allianz program.

A review of the financial implication associated with adjusting the deductible level does not warrant a change in the retained risk for property coverage at this time.

For fiscal year 2007-08, Staff recommends no change in limits or structure of the program. Even though the limits remain the same, premiums will decrease from \$543,967 to \$476,052. Staff recommends the following insurers:

- Insurance Co. of the State of PA, \$10 million excess of \$2 million
- St. Paul Surplus Lines, \$20 million excess of \$12 million

Last year Council approved a \$30 million liability insurance program excess of \$2 million self-insured retention.

A review of the financial implication associated with adjusting the SIR level does not merit a change in the attachment point of excess insurance.

Staff recommends placing the Crime policy with Fidelity & Deposit of Maryland (Zurich) with an A.M. Best rating of Axv for \$5,965, slightly less than the previous year. Coverage included state required bonds for Management Services Director and Accounting Manager.

Staff recommends renewing the Underground Storage Tank Liability policy with Illinois Union Insurance Company (a subsidiary of ACE) for \$24,258, including terrorism coverage. The premium decreased slightly from the previous year. Policy limits are \$1 million per tank, with a \$25,000 per incident deductible. Coverage complies with the financial responsibility mandates of the Environmental Protection Agency. The coverage includes Airport fueling facilities and various water production facilities.

Staff recommends maintaining \$50 million coverage limit under the Airport Owners and Operators liability insurance for \$38,213 with ACE, USA. The premium includes commissions with identical terms and conditions as the previous year. Premium funding is through the Airport budget. Airport staff is aware of the coverage and anticipated premium.

Staff recommends renewing the Excess Workers Compensation insurance coverage with Midwest Employers Casualty (A.M. Best rating A), with a deposit premium of \$74,175, including Terrorism Coverage. The rate for this program has decreased slightly over the previous year from .0786 to .0770. Based on an increase in payroll from the previous year, even with a reduced rate, the premium is slightly greater than last year. Coverage is excess over our \$500,000 self-insured retention, with statutory limits for workers' compensation, and a \$2 million limit for employers' liability.

Staff, in conjunction with our new broker, Willis of Arizona, negotiated the 2007-08 insurance program. The team assigned to the City account specializes in Arizona public entities. Premiums are net of commissions with the exception of the Airport coverage. The total cost to insure the City decreased \$59,128 from the previous year. Attachment D is a synopsis of the insurance program recommended for FY 2006-07.

FINANCIAL IMPLICATION:

Funds for these premiums, with the exception of the Airport premium as noted, are budgeted in the following accounts:

- 736-1260-0000-5620
- 736-1260-0000-5621
- 737-1260-0000-5610
- 737-1260-0000-5614
- 737-1260-0000-5618

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PROPOSED MOTION:

Move to authorize purchase of insurance policies, bonds, and services for \$876,534.

cc: Rich Dlugas, Assistant City Manager

Attachments:

1. 'A' Property Insurance
2. 'B' Liability Insurance
3. 'C' Workers' Compensation
4. 'D' Premium Summary

Attachment 'A'
TEN YEAR SUMMARY OF PROPERTY INSURANCE

Fiscal Year	Premium	Insured Value	Rate per \$100 of Value
1998-99	\$72,713	\$125,448,287	0.058
1999-00	\$100,001	\$173,699,863	0.058
2000-01	\$96,696	\$148,142,464	0.058
2001-02	\$142,466	\$189,836,512	0.060
2002-03	\$189,346	\$191,345,706	0.070
2003-04	\$347,689	\$210,632,428	0.980
2004-05	\$309,461	\$235,460,914	0.100
2005-06	\$272,936	\$241,549,710	0.100
2006-07	\$259,753	\$276,188,018	0.088
2007-08	\$257,871	\$315,897,015	0.068

Note: Property Insurance includes Automobile Physical Damage for select vehicles, Boiler & Machinery and Inland Marine coverage as well as Certified Acts of Terrorism TRIA 2002. Fine arts, high dollar vehicles, inland marine, engineering services, boiler are rated separately.

Attachment 'B'
TEN YEAR SUMMARY OF LIABILITY COVERAGE

Fiscal Year	Premium	Coverage	Self-Insured Retention
1998-99	\$151,565	\$20,000,000	\$1,000,000
1999-00	\$160,651	\$40,000,000	\$1,000,000
2000-01	\$156,894	\$40,000,000	\$1,000,000
2001-02	\$277,538	\$50,000,000	\$1,000,000
2002-03	\$573,441	\$50,000,000	\$1,000,000
2003-04	\$567,037	\$25,000,000	\$2,000,000
2004-05	\$617,510	\$25,000,000	\$2,000,000
2005-06	\$573,137	\$25,000,000	\$2,000,000
2006-07	\$543,967	\$30,000,000	\$2,000,000
2007-08	\$476,052	\$30,000,000	\$2,000,000

Attachment 'C'
EXCESS WORKERS' COMPENATION

Fiscal Year	Premium	Employee Exposure	Rate per \$100
2003-04	\$43,713	\$120,030,336	0.0852
2004-05	\$56,406	\$72,785,593	0.7200
2005-06	\$61,873	\$82,607,619	0.0749
2006-07	\$68,201	\$86,440,320	0.0786
2007-08	\$74,175	\$96,330,813	0.0770

Note: 2003 - 2004 based on an 18 month policy period

Attachment 'D'
 FY 2007 - 08 RECOMMENDED INSURANCE COVERAGE

Line of Coverage	Insurance Company	Premium
Excess Liability	State of PA, St. Paul Surplus Lines \$30 million excess of \$2 million	\$476,052
Property	Allianz Insurance Blanket Limits, \$50,000 deductible, \$25,000 Deductible vehicle	\$257,871
Crime	Zurcuh / Fidelity & Deposit \$2 million crime coverage and Blanket Employee Bond	\$5,965
Underground Storage Tanks	Illinois Union Insurance Company \$1 million per occurrence / per aggregate \$25,000 Deductible	\$24,258
Airport	ACE, USA \$50 million Airport Liability \$50 million Non-owned Aviation \$50 million Hangar keeper's Liability	\$38,213
Workers' Compensation	Midwest Employers Casualty \$2 million employer's liability Statutory Workers' Compensation limits each accident	\$74,175
	Premium 2007-08	\$876,534
	Premium 2006-07	\$935,662
	Premium 2005-06	\$970,675
	Reduction from previous year	\$59,128
	Reduction from fy 2005-06	94,141