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MEMORANDUM Management Services Memo No. 08 - 074

DATE: May 20, 2008

TO: MAYOR AND COUNCIL

THRU: MARK PENTZ, CITY MANAGER *MP*
 RICH DLUGAS, ASSISTANT CITY MANAGER *RD*
 DENNIS STRACHOTA, MANAGEMENT SERVICES DIRECTOR

FROM: LADD LEDER, RISK MANAGER *Ladd Leder*

SUBJECT: PROPERTY AND CASUALTY INSURANCE RENEWAL,
 FY 2008 - 09

RECOMMENDATION:

Staff recommends purchasing commercial insurance and services to protect the City against significant financial loss for \$852,401 effective July 1, 2008. Insurance premiums are net of commission, except for Airport Owners and Operators Liability Insurance.

BACKGROUND:

The City continues to benefit from a sluggish insurance market. Using our insurance broker, Willis of Arizona, we were able to negotiate with incumbent insurers favorable terms and conditions. Although rates did not increase, and in many cases actually decreased, the insured values used during the renewal increased. Despite the increase in insured values, the overall insurance expense decreased from the previous year.

Although we have seen rate reductions during the past three years, we do not anticipate this trend to continue indefinitely. 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,
- Fewer insured catastrophic losses
- Cyclic nature of insurance

Property. For the City of Chandler, total property values increased because of new construction such as the Tumbleweed Recreation Center, and the Chandler Heights Police substation. In addition, the cost of construction continues to push up the replacement value of City owned buildings. Offsetting the increase in total insured values was the reduction in rates, keeping the total premium in check.

The City takes an active approach in managing risk, including regular safety audits and loss control measures taken at our facilities. Our insurer paid one claim for \$63,642 for damage done to a street sweeper. **Attachment A** shows a ten-year history for property insurance. Our active loss control measures are in part a factor in rate decreases.

The property insurance policy provides rather broad coverage for buildings, contents, certain 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. High value vehicles have a \$25,000 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 with claimants 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
- St. Paul, \$20 million excess of \$12 million

Workers' Compensation. The City is self-insured for the first \$500,000 of loss for workers' compensation. Premium is based total payroll times a rate. Fortunately, we were able to negotiate the rate, tempering any premium increase based on payroll.

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 2008-09. Compared to the previous year the total

premium decreased from \$876,534 to \$852,401 or \$24,133. The property and liability premiums decreased for several reasons including excellent loss experience and competition among insurers.

DISCUSSION:

For the fiscal year 2008–09, the City elected to negotiate with incumbent insurers on terms and conditions. Although our broker discussed our placement with other insurers, none would commit to lower rates than incumbent insurers offered. Based on our broker's recommendation and the fact we had a complete marketing survey the prior year, we elected to focus on improving policy terms and conditions.

Staff recommends obtaining property insurance coverage from Allianz with a premium of \$253,662, including terrorism risk insurance. Allianz continues to provide very broad coverage. They reduced several deductibles and reduced the premium rate, resulting in a premium reduction of \$3,800. The property rate decreased from .0677 to .0626 per \$100 of value for a 7.5 percent reduction from the previous the fiscal year. Terms and conditions on average were also improved. This is the third year with 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 2008-09, Staff recommends no change in limits or structure of the liability program. Even though the limits remain the same, premiums will decrease from \$476,052 to \$454,345. 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**

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, with no change in premium, terms or conditions. 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 \$25,522, including terrorism coverage. Although the City continues to remove tanks, the premium increased. Underwriters feel as our tanks age, the risk increases. The premium increased five percent 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 \$30,811 with ACE, USA. The premium decreased 19 percent or \$7,400 over the previous year with identical terms and conditions. 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 \$82,096, including Terrorism Coverage. The rate for this program decreased seven percent over the previous year. Offsetting the rate decrease was an increase in payroll, resulting in a premium increase of \$7,921. Coverage is excess over our \$500,000 SIR, with statutory limits for workers' compensation, and a \$2 million limit for employers' liability.

Staff, in conjunction with our broker, Willis of Arizona, negotiated the 2008-09 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 \$24,133 from the previous year. Attachment D is a synopsis of the insurance program recommended for FY 2008-09.

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

PROPOSED MOTION:

Move to authorize purchase of insurance policies, bonds, and services for \$852,401.

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
2008-09	\$ 253,662	\$350,606,228	0.063

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.

Note: Insured value does not include automobile physical damage, which is rated separately. The rate shown is for real and personal property, auto is rated separately.

Attachment 'B'
TEN YEAR SUMMARY OF LIABILITY COVERAGE

Fiscal Year	Premium	Coverage	Self-Insured Retention
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
2008-09	\$454,345	\$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
2008-09	\$82,096	\$114,659,035	0.0716

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

Attachment 'D'
 FY 2008 - 09 RECOMMENDED INSURANCE COVERAGE

Line of Coverage	Insurance Company	Premium
Excess Liability	State of PA, St. Paul Surplus Lines \$30 million excess of \$2 million	\$454,345
Property	Allianz Insurance Blanket Limits, \$50,000 deductible, \$25,000 Deductible vehicle	\$253,662
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	\$25,522
Airport	ACE, USA \$50 million Airport Liability \$50 million Non-owned Aviation \$50 million Hangar keeper's Liability	\$30,811
Workers' Compensation	Midwest Employers Casualty \$2 million employer's liability Statutory Workers' Compensation limits each accident	\$82,096
	Premium 2008-09	\$852,401
	Premium 2007-08	\$876,534
	Premium 2006-07	\$935,662
	Premium 2005-06	\$970,675