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MAY 28 2009



MEMORANDUM Management Services Memo No. 09 - 090

DATE: May 14, 2009

TO: MAYOR AND COUNCIL

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

FROM: LADD LEDER, RISK MANAGER

SUBJECT: PROPERTY AND CASUALTY INSURANCE RENEWAL,
FY 2009 -10

RECOMMENDATION:

Staff recommends obtaining commercial insurance and services to protect the City against significant financial loss for \$840,098 effective July 1, 2009.

BACKGROUND:

With the help of our insurance broker, Willis of Arizona, the City was able to negotiate favorable terms and conditions with insurance providers realizing a net premium reduction of 1.4 percent over the previous year with no degradation in coverage.

Property. The property insurance policy provides broad coverage for buildings, contents, equipment, vehicles (valued in excess of \$50,000), as well as boiler and machinery coverage. As in previous years, there are various deductibles associated with coverage including \$50,000 per occurrence for most perils, \$100,000 for earth movement, and \$50,000 for flood. High value vehicles have a \$25,000 deductible.

For the City of Chandler, total property values increased by 11 percent from \$381 million to more than \$425 million. The increase was due in part to the Water Treatment facility. Rates per \$100 of value remained essentially flat.

The City actively manages the property program through annual property and safety audits of all facilities. Major facilities within the City comply with the Highly Protected Risk standard established by property insurers.

For the fiscal year ending on June 30, 2009, the City of Chandler submitted four losses for payment to the property insurer including two losses for theft of copper wire, one loss for vandalism to playground equipment, and one loss for damage to the Planning and Development building. The net recovery from Allianz was \$303,915.

Attachment A shows a ten-year history for property insurance. Our active loss control measures are in part a factor in controlling and maintaining favorable rates.

Allianz, the incumbent was not able to competitively price coverage.

Liability. The City has a \$2 million self-insured retention (SIR). For losses excess of our retention, up to \$30 million, insurers provide coverage.

The City is extremely active in defending claims and lawsuits made against the City. There have been no claims payments made in excess of our retention.

Attachment B outlines the City's liability insurance program for the past ten years. Again, active safety and loss control programs, risk avoidance, contractual risk transfer and other programs helped eliminate and mitigate losses.

The City's current liability program includes:

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

The incumbent insurers were not able to competitively price coverage.

Excess Workers' Compensation. The City is self-insured for the first \$500,000 of loss for workers' compensation. Excess of our retention, the City has a policy to protect against catastrophic loss. The basis for premium is total annual payroll times a rate. Our insurer annually audits this policy.

The incumbent was not competitive, asking for a 59 percent rate increase, or more than \$48,000.

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. Unfortunately with an aging work force, loss trends are slightly increasing.

Airport Liability. The Airport Owners and Operators Liability policy provides \$50 million in coverage per occurrence. We were able to obtain a competitive quote from the

incumbent insurer, ACE. With no degradation in coverage, premiums decreased from \$30,811 to \$18,675 or 39.4 percent.

Attachment D is a summary of recommended coverage and associated premium for fiscal year 2009-10. Compared to the previous year, total premium decreased 1.4 percent from \$852,066 to \$840,098.

DISCUSSION:

For the fiscal year 2009 –10, the City approached various insurance markets looking for improved terms and conditions over the previous year.

As a result, several insurers displayed a willingness to work with us and we were able to realize on average slightly better financial terms from the previous year.

Staff recommends obtaining property insurance coverage from Travelers with a premium of \$269,146, including terrorism coverage. Travelers will continue to provide the same broad coverage as the incumbent, Allianz. The coverage includes auto physical damage for certain vehicle. Other policy conditions are the same as the Allianz policy. The property rate increased from \$.0626 to \$.0634 per \$100 of insured value. Travelers included auto physical damage coverage, and Allianz carved out the premium, charging \$14,604. Terms and conditions on average remain the same. The City of Chandler was with Allianz for three years.

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.

Staff recommends obtaining excess liability insurance coverage with no change in limits with the following insurers:

- 1. Everest National, \$10 million excess of \$2 million**
- 2. Endurance American, \$20 million excess of \$12 million**

The premium for the first layer of coverage decreased to \$273,360 from \$287,161 for a net reduction of 5.0 percent. The second layer premium decreased to \$150,000 from \$167,184 for a net reduction of 11.5 percent. Even though the limits remain the same, the City will realize a premium savings of \$30,885 or 6.8 percent.

A review of the financial implications associated with adjusting the Self Insured Retention 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 \$5,979, for a slight reduction premium, and no change in policy 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 \$24,854, including terrorism coverage. The City continues to remove tanks, but the existing tanks continue to age. The City was able to reduce the overall premium by \$669 or 2.6 percent. Policy limits remain at \$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 \$18,675 with ACE, USA. The incumbent insurer, ACE, USA worked with us by reducing the premium by \$12,136 or 39.4 percent with no degradation in terms or conditions. Premium funding is through the Airport budget. Airport staff is aware of the coverage and anticipated premium.

Staff recommends placing the Excess Workers Compensation insurance coverage with Safety Mutual (A.M. Best Rating AIX), with a deposit premium of \$89,094, including Terrorism Coverage. The rate for this program increased slightly over the previous year. The incumbent, Midwest Employers was not able to provide a competitive quotation, necessitating a change. 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 2009-10 insurance program. The Willis team assigned to the City 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 \$11,968 from the previous year. Attachment D is a synopsis of the insurance program recommended for FY 2009-10.

Insurer Financial Strength. In light of issues associated with the financial sector, Risk Management gave additional scrutiny to the relative strength of insurers selected to protect the City. Risk Management relied in part on A. M. Best ratings, the insurance industry standard.

A.M. Best assigns to insurance related organizations rating opinions. The Best Rating represents an opinion based on comprehensive quantitative and qualitative evaluation of a company's balance sheet strength and operating performance. All prospective insurers selected have a Secure Best's Rating of Superior (A+) or Excellent (A or A-).

A.M. Best assigns a financial size category to all insurance companies that reflects size based on their capital, surplus and conditional reserve funds in millions of U. S. dollars. All prospective carriers had a Best Financial Size Category (FSC) of XV (greater than \$2 billion), with the exception of Safety Mutual with a FSC of IX (\$250 to \$500 million).

FINANCIAL IMPLICATIONS:

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 \$840,098, as itemized in attachment D.

Attachments:

- A: Property Insurance
- B: Liability Insurance
- C: Workers' Compensation
- D: Premium Summary

Attachment 'A'
TEN YEAR SUMMARY OF PROPERTY INSURANCE

Fiscal Year	Premium	Insured Value	Rate per \$100 of Value
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
2009-10	\$269,146	\$425,888,143	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
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
2009-10	\$423,360	\$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
2009-10	\$98,084	\$115,257,830	0.0851

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

Attachment 'D'
 FY 2009 - 10 RECOMMENDED INSURANCE COVERAGE

Line of Coverage	Insurance Company	Premium
Excess Liability	Everest National, Endurance American \$30 million excess of \$2 million	\$423,360
Property	Travelers Indemnity Blanket Limits, \$50,000 deductible, \$25,000 Deductible vehicle	\$269,146
Crime	Zurcuh / Fidelity & Deposit \$2 million crime coverage and Blanket Employee Bond	\$5,979
Underground Storage Tanks	Illinois Union Insurance Company \$1 million per occurrence / per aggregate \$25,000 Deductible	\$24,854
Airport	ACE, USA \$50 million Airport Liability \$50 million Non-owned Aviation \$50 million Hangar keeper's Liability	\$18,675
Workers' Compensation	Safety National \$2 million employer's liability Statutory Workers' Compensation limits each accident	\$98,084
	Premium 2009-10	\$840,098
	Premium 2008-09	\$852,401
	Premium 2007-08	\$876,534
	Premium 2006-07	\$935,662
	Premium 2005-06	\$970,675