

CITY OF PEORIA, ARIZONA
COUNCIL COMMUNICATION

CC 15C
Amend No _____

Date Prepared June 6, 2008

Council Meeting Date June 17, 2008

TO Mayor and City Council
FROM Stephen M Kemp, City Attorney
THROUGH Steve Burg, Chief Assistant City Attorney *Steve Burg*
PREPARED BY Christine Nobles, Claims Coordinator
SUBJECT Award of General Liability Insurance Package FY2009

RECOMMENDATION

Recommend that Mayor and Council award the FY2009 insurance package as recommended by the City's insurance broker, Mesirow Financial, with the Self-Insured Retention to remain at \$500,000 per claim and the annual aggregate at \$2,500,000

BACKGROUND

The general liability insurance coverage package includes all of the City's property, liability, equipment, casualty, and fidelity bonds. It does not include workers' compensation and employee benefits. The package must be renewed annually. The Office of the City Attorney's Claims Management Program works closely with the City's insurance broker, Mesirow Financial, concerning the City's insurance program. Mesirow has sought and obtained bids from a variety of national carriers to provide insurance coverage to the City in FY09.

Currently the City operates under a limited form of self-insurance. In FY 2008 the City retained the first \$500,000 of risk on any claim, together with an aggregated amount of risk of \$2,500,000 on all claims within any year. Every dollar above the aggregate is covered by insurance subject to the \$40 million total insurance coverage currently maintained by the City.

The Office of the City Attorney is recommending some adjustments to the current insurance for FY09.

- 1 Adjust Boiler and Machinery limits to 25,000.00 deductible and total coverage to 50,000,000. This recommendation is based on the need to

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protect the equipment contained within the new Butler Drive Water Reclamation Facility

- 2 Include "Cyber Liability" coverage to protect against regulatory actions arising out of unlawful electronic release of information

We recommend that the City retain the remainder of its various insurance coverages at the same level for another year. The only coverage change we are recommending is to raise the "Boiler and Machinery" limits from \$26 million to \$50 million.

Insurance providers review a variety of factors in determining insurance packages that they will offer to specific entities. This year the City added \$109,925,248 in City property values, which is a 43.96% increase from last year. The City also has experienced increases in loss exposure tied to growth in various City services. As we develop more distant facilities, we increase vehicular miles driven and add employees resulting in additional loss exposure.

As part of this year's renewal process, we requested that our Broker, Mesirow Financial evaluate our current program and identify areas for future consideration. These are listed in detail on pages 5.1 – 5.3 of the stewardship report. These include:

- 1 Owner's builder's risk coverage
- 2 Fiduciary Liability
- 3 Additional Workplace Violence Coverages
- 4 Animal Mortality Coverage for working animals such as police dogs
- 5 Tax interruption coverage
- 6 Additional environmental coverages

While we believe our existing coverages are adequate, we will be reviewing the stewardship report for possible additions in future years.

Balanced against this growth in property, equipment, and other insurable items, the City continues to excel in limiting its liability claims and loss exposure. The cooperative effort between the Safety Program, the City Attorney's Office and individual departments is directly responsible for the City's success in controlling liability claims. The following are important benchmarks in looking at this program over the past five years:

- | | |
|--|----|
| 1 Number of Claims where payouts exceeded the City's Self Insured Retention in the past five years | 0 |
| 2 Number of Employer Practices Liability Claims in the last five years | 2 |
| 3 Number of Law Enforcement Liability Claims in the last five years | 11 |

4 In 2003-2004, the City's total incurred losses was 646,746, by 2006 - 2007, the City's total incurred losses were 466,423, a drop of 28%

Even with effective claims management in a growing city, like Peoria, we would expect to see growth in the numbers and amounts of incurred losses due to increasing risk

The impact of effective claims management is demonstrated in two areas First, declining rates Second, companies bidding on the City's package The total cost of the City's package will decline by 3.04% from last year The City will again be insured by Traveler's insurance company While there are many companies that will write coverages to large numbers of cities, companies such as Traveler's and St. Paul are more selective

It should be noted that the insurance market is in a soft stage Most companies have made significant profits on Auto Insurance The Hurricane season in the Southern U.S. was below expectations allowing companies to improve their financial positions Should there be multiple years of higher claims due to weather or natural events, upward pressure on rates will result Working with the Finance Department under the Principles of Sound Financial Management, we continue to look for ways to position the City when the market does change

Attached is both the complete proposal for the City's liability insurance package and a stewardship report outlining activities during the last few years and projections for the future

The lowest premium quote obtained for the City's FY09 insurance package is \$1,163,406 This premium is actually a 3.88% decrease from last year's amount of \$1,197,180 The Risk Management Budget for FY09, Liability Insurance Account Number 3200-3600-523011, contains funding for \$1,275,750 for insurance premiums

Therefore, the Office of the City Attorney recommends that Mayor and Council award the FY2009 insurance package as recommended by the City's insurance broker, Mesirow Financial, with the Self-Insured Retention to remain at \$500,000 per claim and the annual aggregate at \$2,500,000

Attachment

- 1 Insurance Proposal
- 2 Stewardship Report

SUPPORTING DOCUMENTATION
PERTAINING TO THIS
AGENDA ITEM IS ON FILE IN THE
OFFICE OF THE CITY CLERK