



COUNCIL MINUTES

September 19, 2013

The City Council of the City of Mesa met in a Study Session in the lower level meeting room of the Council Chambers, 57 East 1st Street, on September 19, 2013 at 7:31 a.m.

COUNCIL PRESENT

Alex Finter
Christopher Glover
Dennis Kavanaugh
David Luna
Dave Richins
Scott Somers

COUNCIL ABSENT

Scott Smith

OFFICERS PRESENT

Kari Kent
Debbie Spinner
Dee Ann Mickelsen

Vice Mayor Finter excused Mayor Smith from the entire meeting. He excused Councilmember Richins from the beginning of the meeting; he arrived at 7:32 a.m.)

1. Review items on the agenda for the September 23, 2013 Regular Council meeting.

All of the items on the agenda were reviewed among Council and staff and the following was noted:

Conflict of Interest: None

Items removed from the consent agenda: None

2. Hear a presentation, discuss and provide direction on insurance and Surety Bond Renewal, Options and Strategies.

City Attorney Debbie Spinner reported that each year, the City seeks bids for Property, Liability and Workers' Compensation insurance. She stated that last year, the City entered into a two-year contract for Aviation Liability insurance and noted that it was unnecessary to obtain bids for that kind of insurance at this time.

Ms. Spinner displayed a PowerPoint presentation (**See Attachment 1**) and explained that the Property and Public Liability (PPL) Trust Fund is funded by the City's General Fund and pays for liability claims and cases, attorney's fees and litigation costs, and insurance premiums. She noted that the types of insurance that are derived from the PPL Trust Fund include Excess Liability, Property, Aviation and a few smaller policies.

Ms. Spinner highlighted a document titled "Property and Liability – Insurance Premium Costs" (See Page 4 of Attachment 1), which illustrates such costs between November 2008 and November 2012.

Ms. Spinner pointed out that Bill Schultz, who represents the City's insurance broker, was present in the audience and available to respond to any questions the Council may have.

Ms. Spinner, in addition, commented that the City presently has Excess Liability insurance coverage in the amount of \$40 million above the City's self-insured retention (SIR) amount of \$3 million. She stated that the insurance broker recommends that the City's SIR remain at \$3 million and that it obtain bids for total excess coverage of \$40 million and \$50 million.

Ms. Spinner further remarked that with respect to Property insurance, the City has approximately \$1 billion in assets, which are covered by a policy that offers coverage of \$300 million per occurrence with a \$50,000 deductible. She noted that this year, the City's broker recommends obtaining quotes for the same limit of coverage, but with two options (\$50,000 or \$100,000 deductible) in order to determine if the City can achieve a significant premium savings.

Ms. Spinner also reported that the insurance broker recommends that the City obtain bids for Cyber Risk insurance, which it has not carried in the past. She explained that such insurance would protect personal or sensitive customer and employee data (i.e., credit card or date of birth information) that is transmitted electronically. She stated that Phoenix, Tempe, Gilbert and Flagstaff have purchased Cyber Risk insurance. She added that the City's insurance broker recommends that it obtain bids with policy limits of \$5 million, \$7 million and \$10 million, which will be presented to the Council for consideration.

Councilmember Somers stated that he had no objection to the City seeking bids for Cyber Risk insurance. He suggested, however, that it would be appropriate for staff to perform an assessment of the City's cyber security risk profile and meet with the Councilmembers on an individual basis to discuss the results. He also suggested that staff begin to focus on how to address the City's cyber security risks by establishing new protocols in order to ensure that such information is secure.

Ms. Spinner responded that she would be happy to work on those issues and might even ask the City Auditor to assist in this regard.

Councilmember Somers pointed out that he was especially concerned with the City's computer systems for its electric and gas utilities, as well as its billing system.

Councilmember Kavanaugh concurred with Councilmember Somers' suggestions. He stated that perhaps the issue could be included as an agenda item for a future Public Safety Committee meeting, depending upon staff's recommendation with respect to the sensitivity of the information.

Councilmember Richins inquired if the City has ever sought out a second or third opinion from other insurance brokers regarding the amount of insurance coverage that is appropriate.

Ms. Spinner responded that the City selects its insurance broker through a Request for Qualifications (RFQ) process and enters into a contract for services. She explained that the City relies on the broker's recommendations, but also requests that the broker research what types of insurance are carried by other local communities.

Councilmember Richins suggested that a better gauge of the appropriate amount of insurance coverage that the City should have might be for the broker to evaluate its assets and risks as opposed to research what kinds of insurance other cities are carrying. He added that he was not convinced that the recommended coverage limitations were correct for the City.

Bill Schultz, representing Willis of Arizona, came forward and addressed the Council. He explained that Willis is the largest public entity insurance broker in Arizona and has been in business for 26 years. He reported that the company's recommendations are based on the City of Mesa's possible exposure, the largest lawsuits against public entities in Arizona and also cost. He pointed out that Phoenix has higher limits than Mesa, but also has certain unique exposures, such as Sky Harbor Airport. He reiterated that he considers past lawsuits, affordability of excess limits and a general sense of the municipality's operations.

Responding to a question from Councilmember Richins, Mr. Schultz clarified that one of the largest claims in Arizona was with the Flagstaff School District. He explained that on the first day of school, a bus driver, who was drinking coffee while driving, ran off the road into a ditch, resulting in multiple children being injured with lifetime medical costs. He noted that the claim was for \$29 million and said that the school district only had \$10 million of coverage and was required to bond an additional \$19 million in order to obtain sufficient coverage limits.

Councilmember Richins commented that Mesa has several airports and inquired what the City's liability exposure would be if a plane crashed into a local neighborhood or a public facility.

Mr. Schultz pointed out that Aviation Liability is a separate program from the Excess Liability and Property program. He stated that Willis has a different broker that deals with Aviation Liability insurance matters who would be better qualified to respond to Councilmember Richins' question than he would.

Risk Management Claims Analyst Barry Hegrenes clarified that last year, the City raised its limits on both Airport Liability and Aircraft Liability coverage. He explained that the Aircraft Liability coverage related to the aircraft operated by the Mesa Police Department's (MPD) air support. He also noted that the limits of coverage were increased from \$50 million to \$100 million per occurrence.

Councilmember Richins remarked that he was confused by Mr. Schultz's comment that Phoenix had a unique exposure since Sky Harbor Airport was located in that community.

In response to a series of questions from Councilmember Richins, Mr. Hegrenes remarked that airport operations and aircraft liability is specifically excluded from an Excess General Liability policy and said it would be necessary to purchase separate insurance for those items. He pointed out that Sky Harbor Airport's exposure would be significantly higher than, for instance, Mesa's Falcon Field Airport, due to the significant number of large commercial airlines that fly in and out of Sky Harbor. He added that the City's Airport Liability insurance covers the tarmac where the planes land, but not the control tower.

In response to comments from Vice Mayor Finter, Ms. Spinner clarified that the City of Mesa purchases insurance for Falcon Field Airport, but not for Phoenix-Mesa Gateway Airport.

Councilmember Richins remarked that in recent years, the City of Mesa has engaged in many new activities, such as shooting fireworks off of City buildings, sponsoring bike races, marathons and 5Ks. He questioned whether the City was adequately insured so that it could continue to hold similar events.

Ms. Spinner responded that she was “comfortable” that the City had sufficient insurance coverage for such events, but cautioned “that does not mean that a much more significant liability cannot happen.” She reiterated that the City has Excess Liability coverage of \$40 million and noted that to the best of her knowledge, the City has never had a liability case that exceeded \$3.5 million.

Councilmember Somers stated that he would prefer that the City had “a little bit too much than not enough” liability insurance in order to protect against unforeseen events that might occur in the community.

Ms. Spinner indicated that the majority of the City’s day-to-day liability exposure generally involves Police-incident situations. She stated that such events are “just going to happen because they are difficult situations.”

Mr. Schultz concurred that the largest claims nationwide have involved law enforcement activity.

Vice Mayor Finter stated that the Council was comfortable with the broker’s recommendations related to the Property and Liability insurance.

Safety Administrator Nitra Hawkins addressed the Council and reported that the Workers’ Compensation Trust Fund is funded by the City’s General Fund. She stated that Rose Unruh, a representative of the insurance broker, was available to respond to any questions the Council may have. She explained that the Workers’ Compensation Trust Fund pays for industrial injury and illness claims, medical and legal costs associated with those claims, special and administrative taxes, and insurance premiums and the surety bond.

Ms. Hawkins advised that the Workers’ Compensation Trust Fund protects the City from excessive financial loss in the event of a catastrophic injury or illness. She stated that the recent Yarnell Fire near Prescott would be an example of a catastrophic event. She further remarked that the City’s self-insured retention (SIR) amount is \$1 million, meaning that the City would pay the first \$1 million in claims, after which time it would be reimbursed per the terms and conditions of the insurance policy.

Ms. Hawkins highlighted a document titled “Workers’ Compensation Insurance Premium Costs” (See Page 13 of Attachment 1) and compared such costs between FY 2008/09 and FY 2012/13. She pointed out that in light of the Yarnell Fire, which resulted in the loss of 19 firefighters, Mesa’s premium costs for the coming year will be impacted.

Councilmember Somers stated that he was curious why Mesa’s insurance premiums would be increased even though the Mesa Fire and Medical Department (MFMD) is not involved in the same risk behavior of fighting wildland fires like the Prescott firefighters were.

Rose Unruh, a representative of Arthur J. Gallagher and Company, addressed the Council and reported that there was more of an industry-wide impact on insurance premiums overall and not just because the Yarnell Fire killed 19 firefighters. She explained that the cost for medical expenses associated with injuries increases every year and impacts the premiums the most.

Ms. Unruh remarked that the State of Arizona establishes the Workers' Compensation rates for Arizona employers and noted that if those rates increase, it slightly impacts Excess Liability insurance rates. She stated that she did not foresee the City of Mesa's rate increasing any more than 7% for this year, which she clarified was different than a 7% premium increase.

Responding to a question from Councilmember Luna, Ms. Hawkins explained that the City's Workers' Compensation insurance covers all employees, including full and part-time, as well as official volunteers.

In response to a question from Councilmember Glover, Ms. Hawkins clarified that if the Yarnell Fire occurred in Mesa today, the City would have sufficient Workers' Compensation coverage.

Ms. Hawkins indicated that it is the recommendation of the broker that the City obtain quotes with the same SIR (\$1 million) for Workers' Compensation insurance. She explained that most of the insurance companies that respond to the proposal can offer higher SIRs, meaning that the risk would take a higher financial responsibility before the insurance would take effect. She said that staff would forward on that information to the Councilmembers for their consideration. She added that the City has maintained the \$1 million SIR since FY 2007/08 and noted that it currently meets the City's needs.

In response to a question from Councilmember Kavanaugh, Ms. Hawkins advised that on average, the City receives approximately 400 new Workers' Compensation claims annually.

Vice Mayor Finter stated that the Council concurred with the broker's recommendation as it relates to the Workers' Compensation insurance.

Vice Mayor Finter thanked everyone for the presentation.

3. Acknowledge receipt of minutes of various boards and committees.

3-a. Parks and Recreation Advisory Board meeting held May 8, 2013.

3-b. Public Safety Committee meeting held August 26, 2013.

It was moved by Councilmember Glover, seconded by Councilmember Kavanaugh, that receipt of the above-listed minutes be acknowledged.

Vice Mayor Finter declared the motion carried unanimously by those present.

4. Hear reports on meetings and/or conferences attended.

Councilmember Glover: Mesa Arts Center Season Opening "Remix Remaster"

Councilmember Richins: Valley Metro Board press conference

Councilmember Somers: Public Safety Communications meetings

Vice Mayor Finter: District 2 Building Strong Neighborhoods event; East Valley Adult Resources Center event; Oakwood Care Center event; A.T. Still University Center of Advanced Dental Care Grand Opening

5. Scheduling of meetings and general information.

Deputy City Manager Kari Kent stated that the meeting schedule is as follows:

Monday, September 23, 2013, TBA – Study Session

Monday, September 23, 2013, 5:45 p.m. – Regular Council Meeting

Friday, September 27, 2013, 7:30 a.m. – Coffee with Councilmember Kavanaugh

Ms. Kent also noted that Councilmember Glover was hosting a Shoe Drive to benefit Paz de Cristo Community Center. She stated that he was asking for donations of new and used tennis shoes and added that a collection bin was located in the lobby of the Mesa City Plaza building.

6. Adjournment.

Without objection, the Study Session adjourned at 8:14 a.m.

ALEX FINTER, VICE MAYOR

ATTEST:

DEE ANN MICKELSEN, CITY CLERK

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Study Session of the City Council of Mesa, Arizona, held on the 19th day of September, 2013. I further certify that the meeting was duly called and held and that a quorum was present.

DEE ANN MICKELSEN, CITY CLERK



2013 Insurance Coverage Renewal

Property & Public Liability Trust Fund
And Workers' Compensation

Renewal of City's Insurance Coverage



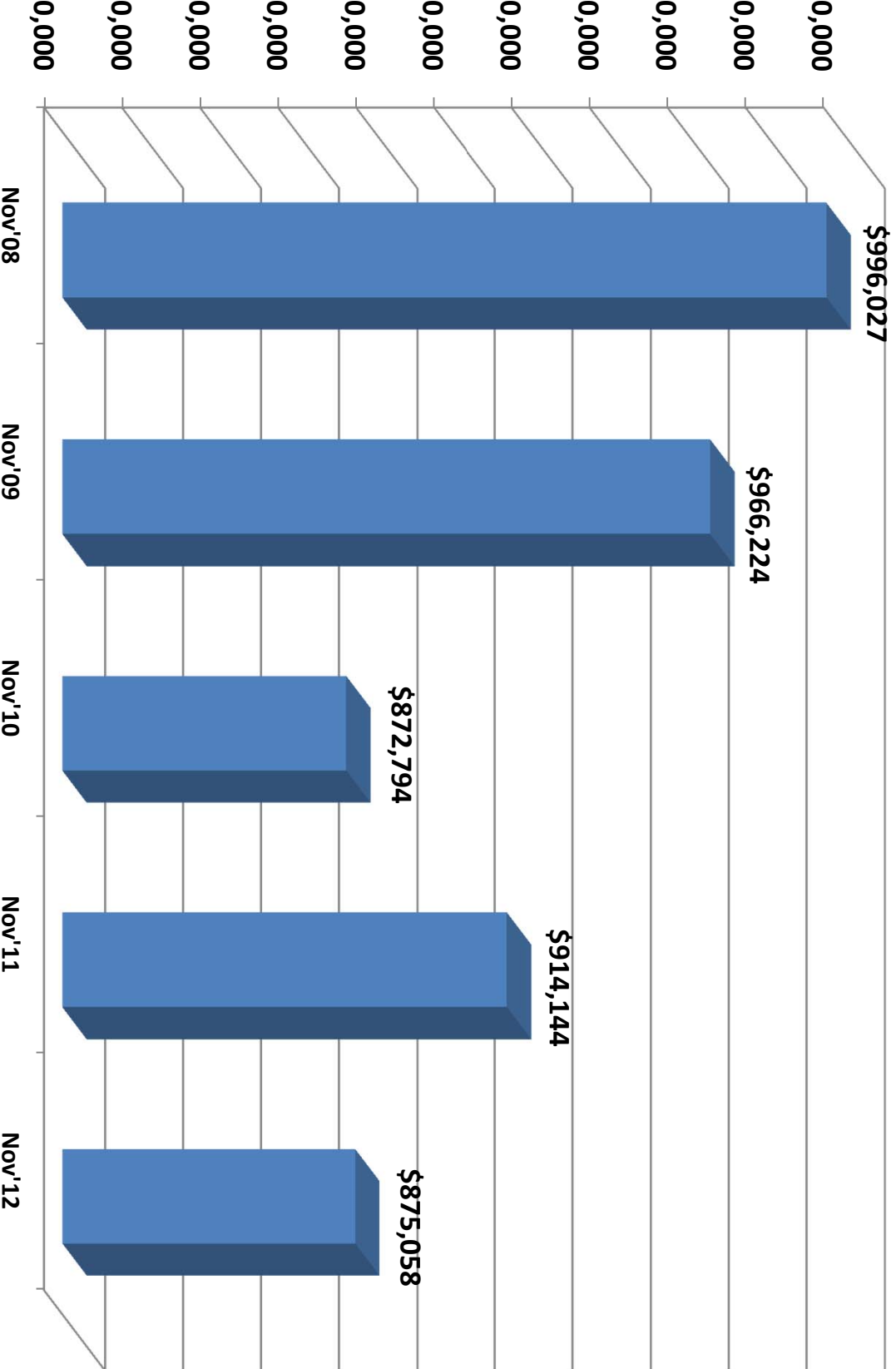
Property and Public Liability Trust Fund

- Funded by City General Fund
- Disbursements include:
 - Liability claims and cases
 - Attorneys fees and Litigation Costs
 - Insurance Premiums

Insurance Coverage Renewal

- Excess Liability
- Property
- Aviation
- Other

Property and Liability - Insurance Premium Costs



Excess Liability Insurance

- Insurance coverage above the City's SIR (self-insured retention)
- Current coverage
 - City's SIR - \$3 million
 - Excess coverage - \$40 million

Recommendation

- Obtain quotes with the following variables:
 - SIR - \$3 million
 - Policy limit (per occurrence)
 - \$40 million
 - \$50 million

Property Insurance

- City has approximately \$1 billion in property assets.
- Current Coverage
 - \$50,000 deductible
 - \$300 million (per occurrence)

Recommendation

Obtain quotes with the following variables:

- Deductible
 - \$50,000
 - \$100,000
- Policy limit (per occurrence)
 - \$300 million

Cyber Risk Insurance

- Protects personal or sensitive customer and employee information which is transmitted electronically.
- Credit Card Information
- Date of Birth

Cyber Risk Insurance

- Arizona Cities with this Insurance
 - Phoenix, Tempe, Gilbert, Flagstaff
- Recommendation
 - Obtain quotes with policy limits of \$5M, \$7M and \$10M

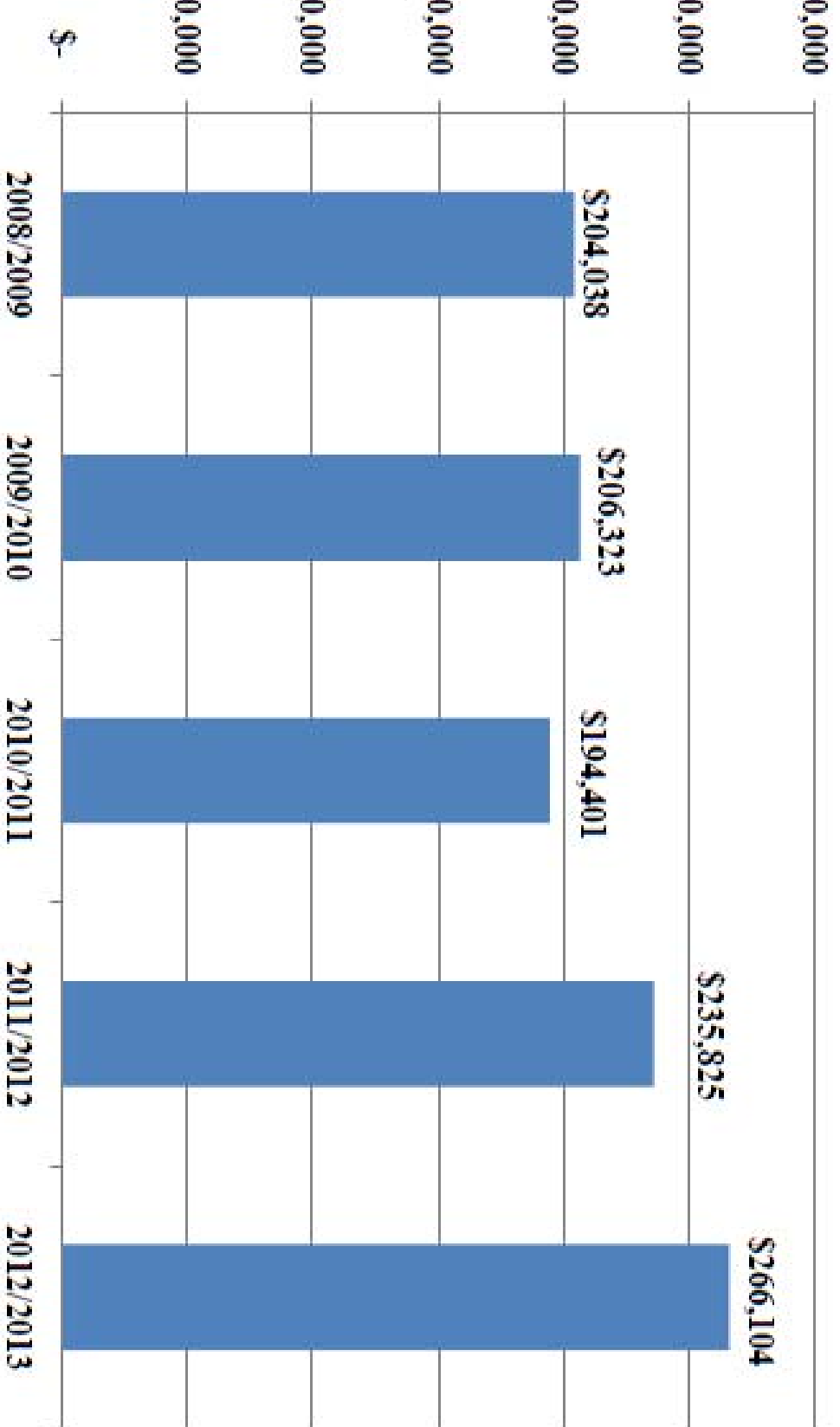
Workers' Compensation Trust Fund

- Funded by City General Fund
- Disbursements include:
 - Industrial Injury and Illness claims
 - Medical and Legal Costs
 - Special and Administrative taxes
 - Insurance Premiums

Workers' Compensation Insurance

- Protects the city from excessive financial loss in the event of a catastrophic injury / illness
- Insurance coverage above the City's SIR (self-insured retention)
- Current coverage
 - City's SIR - \$1 million

Workers' Compensation Insurance Premium Costs



Recommendation

Obtain quotes with the same SIR limit (\$1 million) for workers' compensation.

■ QUESTIONS?