



Self-Insurance Trust Fund Board Report

Date: February 11, 2015
To: Self-Insurance Trust Fund Board
From: Debbie Spinner, City Attorney
Marc Steadman, Deputy City Attorney
Subject: Financial Viability of the Property and Public Liability Trust Fund

**Strategic
Initiatives**



Purpose and Recommendation

The purpose of this report is to provide information regarding the financial viability of the Property and Public Liability Trust Fund (PPL Fund).

Background

The Property and Public Liability Trust Fund is managed by the City Attorney's Office. The PPL Fund is funded by (1) City of Mesa annual contributions and (2) investment income earned by the PPL Fund. Exhibit 1 shows the City's contribution to the PPL Fund since FY07/08. Investment income averages approximately \$20,000 - \$30,000 per year.

Expenditures from the PPL Fund include (1) payouts and defense costs of all third-party claims/lawsuits filed against the City of Mesa, (2) the administrative cost to defend the claims/lawsuits (Mesa's litigation team), and (3) insurance premiums.

Exhibit 2 shows the history of annual payouts and defense costs for claims/lawsuits resolved and the number of claims/lawsuits resolved from FY08 to FY14.

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Mesa has a litigation team made up of three attorneys, two paralegals, one claims specialist, and two legal assistants. This team represents the City in nearly all third-party liability claims/lawsuits. Defending these cases with city employees has greatly reduced the litigation costs the City. The annual cost to operate the litigation team was approximately \$990,000 in FY13/14.

The City of Mesa purchases many types of insurance, including property insurance, liability insurance, and aviation insurance. All premiums are paid by the PPL. Excess liability insurance is the most costly. This is insurance for third-party liability claims of negligence against the City. Mesa is self-insured for \$3M per claim, so Mesa will pay the first \$3M for each claim/lawsuit filed. The excess insurance carrier will pay any amount above \$3M, up to \$50M.

Discussion

To ensure its financial viability, the PPL Fund should receive annual contributions that will, at a minimum, cover the expected expenditures. The cost of operating the litigation team and the insurance premiums are relatively stable, but the annual payout for claims/lawsuits varies significantly each year.

Exhibit 2 shows the variation in the annual payout, depending on whether any large cases were resolved during the year. The average annual cost for claims/lawsuits from the PPL Fund is approximately \$3M. Mesa has paid out in excess of \$5.7M in a year, and as little as \$700,000 in another year. These types of fluctuations are expected and, to ensure the financial viability of the fund, the PPL should have sufficient funds to absorb these wide fluctuations. In FY14/15, staff estimates only \$1.25M for claims/lawsuits paid. In FY15/16, \$3M is expected to be paid for claims/lawsuits.

The estimated cost to manage the litigation team is \$990,000. The estimated cost for insurance premiums for FY15/16 is \$1.5M

Totaling these expenses, it is expected that \$5.5M will be paid out of the PPL Fund in FY15/16.

Fiscal Impact

The Property and Public Liability Trust Fund is funded by the City's general fund. Any contribution to the PPL Fund will impact the City's general fund.

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ANNUAL CITY CONTRIBUTIONS TO THE PPL

FY08/09	\$4.3M
FY09/10	\$4.3M
FY10/11	\$4.3M
FY11/12	\$4.32M
FY12/13	\$6.3M
FY13/14	\$3.5M
FY14/15 (as of 1/31/15)	\$0**

**\$5,378,329 has been budgeted for FY14/15 contribution

EXHIBIT 1

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**Claims/Lawsuits Closed by Year
Total Payments (#Closed)
7/1/2004 - 6/30/2014**

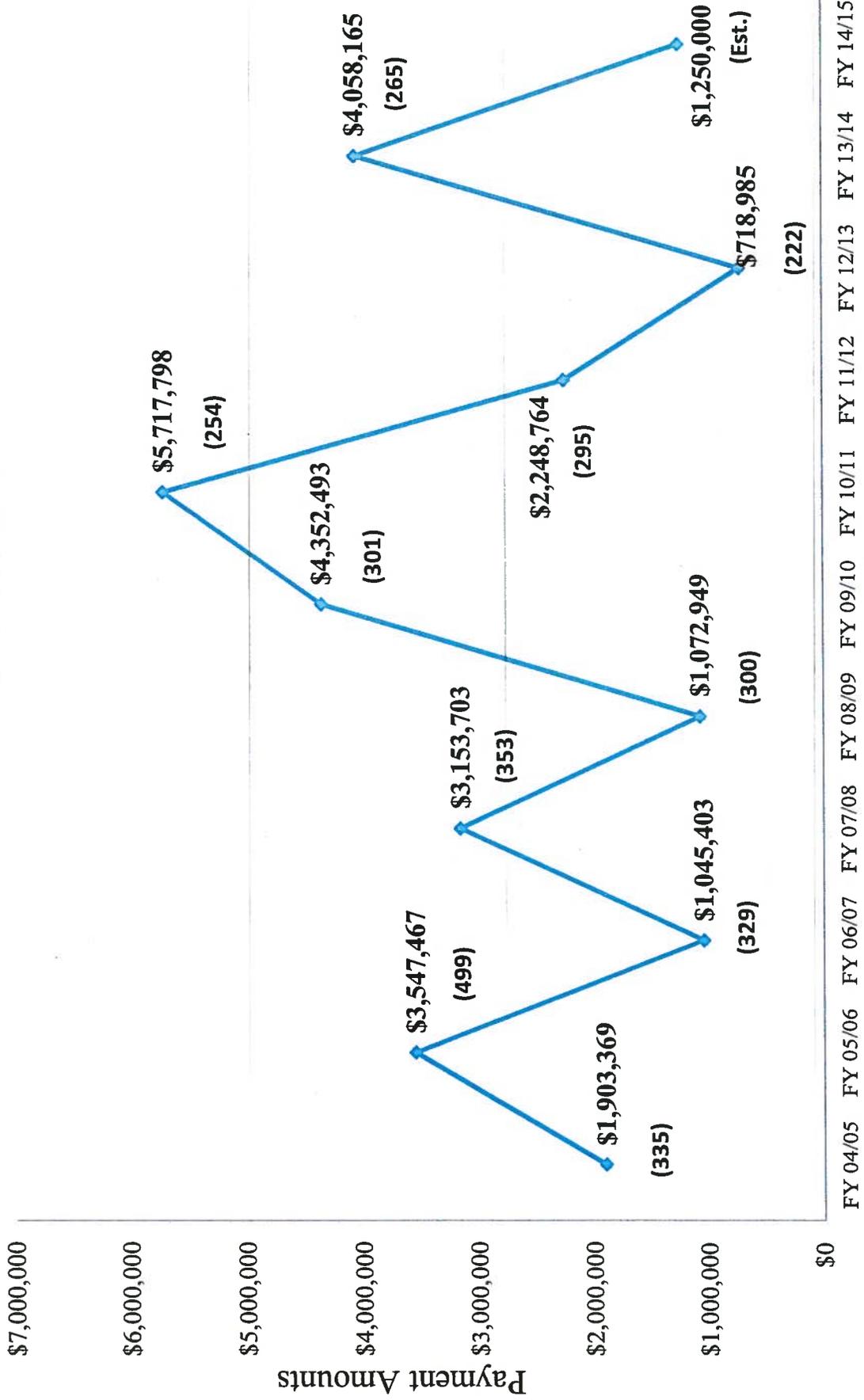


EXHIBIT 2