



Self-Insurance Trust Fund Board Report

Date: February 13, 2017
To: Self-Insurance Trust Fund Board
From: Jim Smith, City Attorney
Jason Reed, Assistant City Attorney
Subject: The Property and Public Liability Trust Fund

Purpose and Recommendation

This report addresses the financial viability of the Property and Public Liability Trust fund.

PPL Finances

State law authorizes cities to establish trust funds to cover the payment of claims, staff costs for property losses and liability claims, and insurance costs – the PPL Trust fund. A.R.S. § 11-981(A)(2).¹

The City deposits money into the PPL Trust fund in an amount determined appropriate by the City Council. A.R.S. § 11-981(B). Per the City Council's direction, the PPL currently maintains a \$10 million balance through transfers from the City's general fund.

The City Attorney's Office manages expenditures from the PPL Trust fund. These include (1) payouts and defense costs of third-party claims/lawsuits filed against the City and its employees, (2) costs to staff the litigation unit in the City Attorney's Office, and (3) insurance premiums.

¹ This statute also authorizes the establishment of the Employee Benefits Trust.
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Claims/Lawsuits

Each year, the City receives approximately 300 claims and 45 lawsuits. As of February 6, 2017, the City had 200 claims and lawsuits open. Exhibit 1 shows the number of claims and lawsuits that the City has closed annually during the past five years.

Exhibit 2 shows annual payouts associated with the claims and lawsuits asserted against the City and its employees. The variation in the annual payout depends primarily on whether high exposure cases were resolved during the fiscal year. The average annual cost for claims/lawsuits from the PPL Trust fund for the past 10 years is approximately \$2.5 million.

Litigation Staffing

To reduce the costs of hiring outside lawyers, the City's litigation team defends the City and its employees in nearly all third-party liability claims and lawsuits. The City's litigation team is comprised of three attorneys, two paralegals, two secretaries, and one claims adjuster. The cost to operate the litigation team in FY15/16 was \$1,017,331.

From time to time, the City also retains outside council to handle certain lawsuits, including certain high exposure claims. Last fiscal year, the City paid \$85,186 in outside council fees, and the City had paid \$122,968 as of February 1, 2017 for the current fiscal year.

Insurance

The City also purchases property insurance, liability insurance, cyber insurance, and aviation insurance. Insurance premiums are paid by the PPL Trust fund. The total insurance cost for FY16/17 was \$1,334,013. Annual insurance costs since 2008 are shown on Exhibits 3 and 4.

For FY16/17, the cost of this insurance increased by approximately two percent from the previous year. The City has agreed that, if the premiums for next year's insurance coverage does not exceed a 2.5% increase in premiums, the City may renew its policies with its current insurers without going through a solicitation and procurement process. This has helped the City attract and retain insurers that want a longer term relationship with the City.

The City anticipates that the annual cost of insurance will continue to increase due to a

number of factors. For example, governmental entities, including cities, are frequent targets for litigation. Because more claims are being made against government entities like the City of Mesa, the City anticipates that insurers will pay additional amounts to resolve those claims. Because of this, the City anticipates that insurers will raise future premiums to reflect the increased number of claims made against governmental entities and increased payments associated with those claims.

In addition to raising premiums, insurers may put pressure on the City to raise its self-insurance. The City is currently self-insured for \$3 million per claim, and the City has purchased excess liability coverage that applies after the City has paid \$3 million on a claim. This excess insurance covers the next \$50 million in exposure.

Prior to last fiscal year, the City typically budgeted \$3 million to replenish the PPL Trust fund for payments made from the fund to resolve claims and lawsuits. Last year, that amount was raised to \$4 million to address high-exposure cases.

Summary

The City has had a successful year in managing claims and lawsuits asserted against the City and its employees. Future pressure exists on the PPL Trust fund, however, based on the number of claims filed against the City, the high exposure claims filed against the City, and the rising cost of insurance. The City will continue to evaluate the PPL Trust fund in order to provide recommendations about amount that the City should budget to replenish the PPL Trust fund, whether the PPL Trust fund balance should be increased, and whether the level of the City's self-insurance should be increased.

**Closed Claims/Lawsuits
7/1/2011 - 1/30/2017**

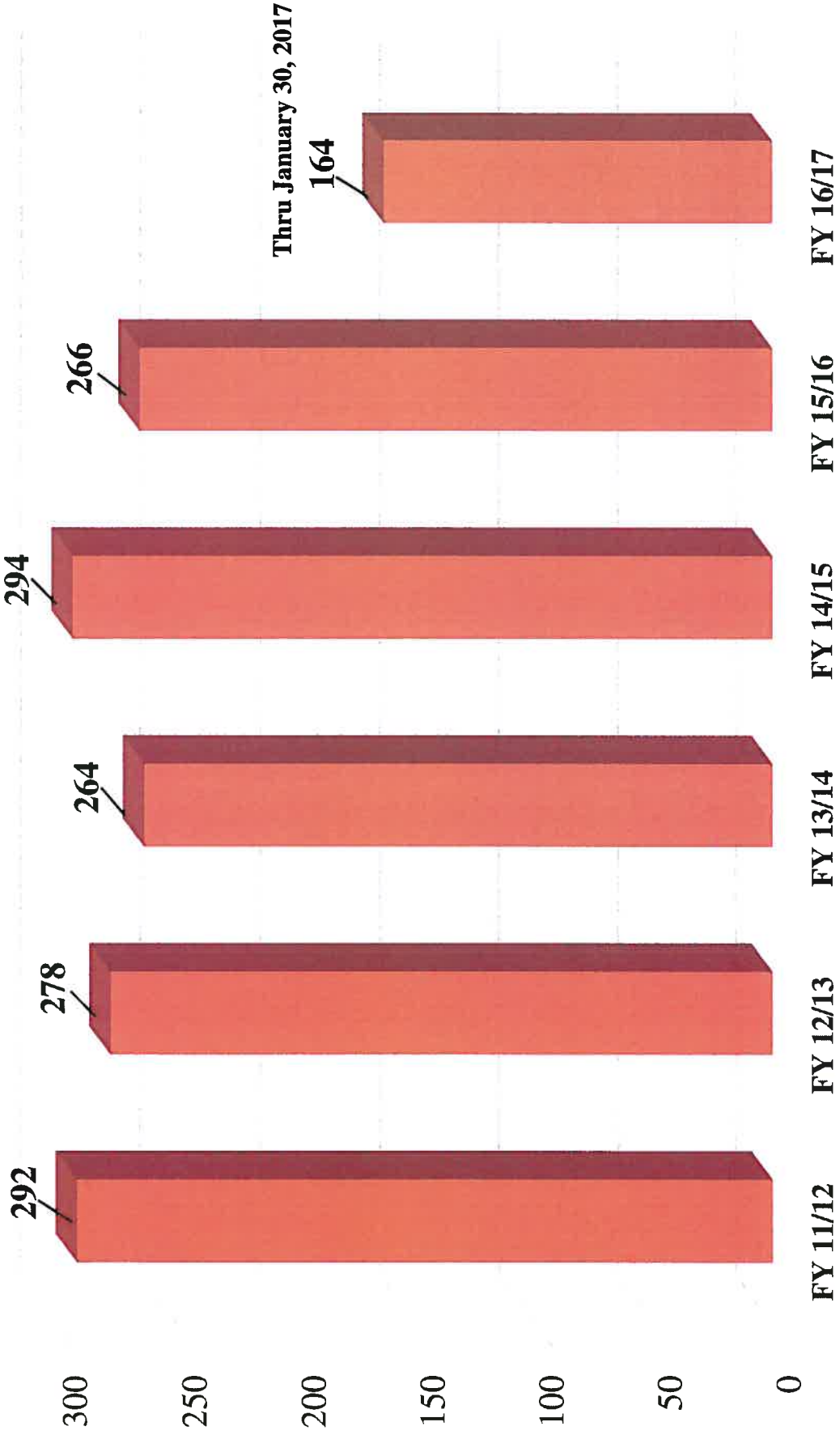


EXHIBIT 1

**Claims/Lawsuits
Expenditures from
7/1/2007 - 1/30/2017**

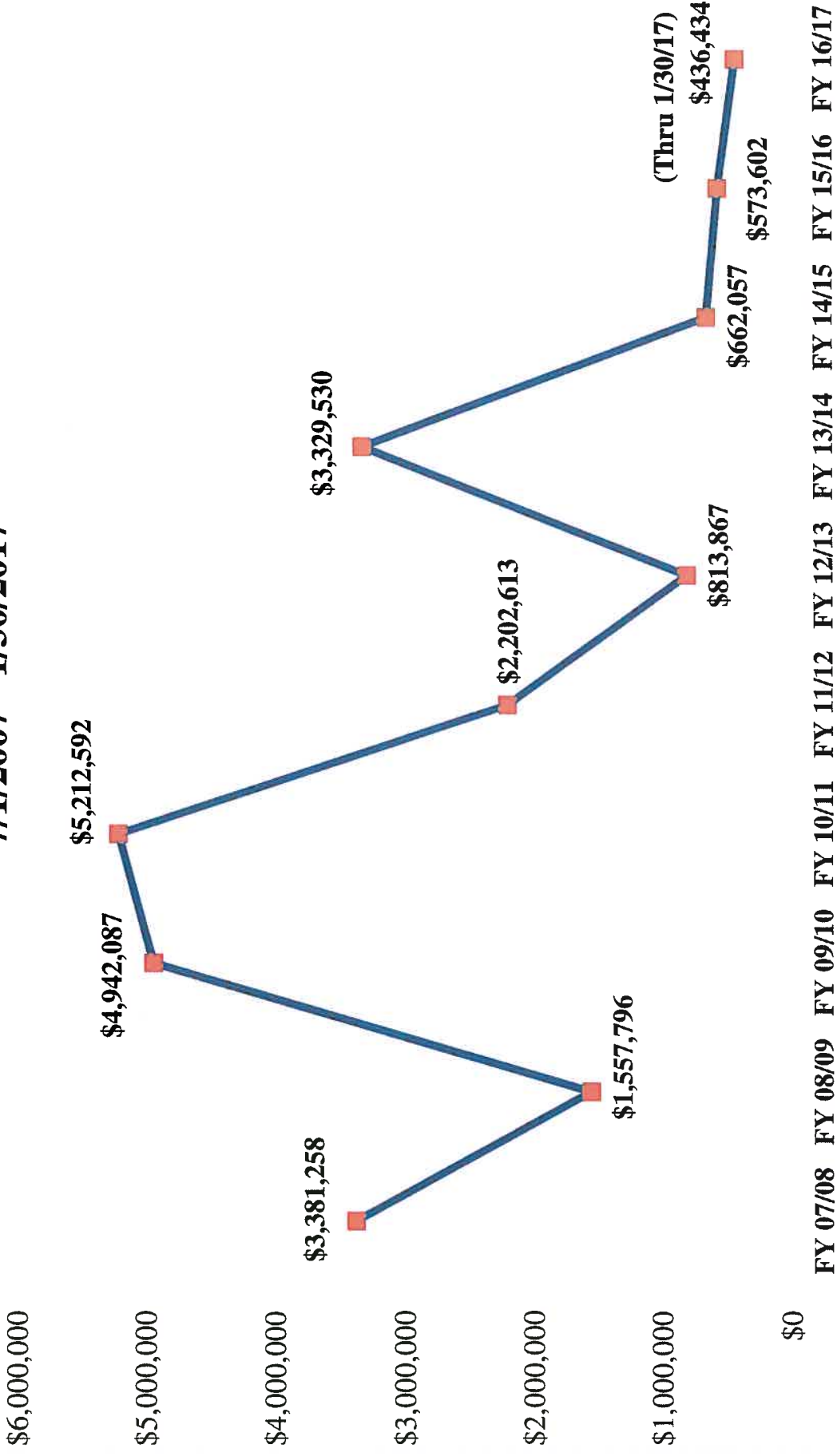


EXHIBIT 2

INSURANCE PREMIUM COSTS

	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Actual
City S.I.R. Level	\$2,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000	\$3,000,000
Excess Liability*	666,363	587,659	550,427	550,713	468,022	670,442	613,832	608,010	629,746	629,746
Greenfield Water Reclamation Plant (GWRRP)		17,670	27,562	23,907	20,536	24,711	24,991	24,896	24,871	24,871
Property	251,949	273,707	280,036	372,992	413,107	440,442	383,876	387,611	396,177	396,177
Airport Liability	15,758	15,443	14,740	12,662	15,024	15,024	18,299	18,299	18,299	18,299
Aircraft Liability	107,464	109,256	116,645	103,414	70,796	70,796	89,054	151,963	146,895	146,895
Museum & Fine Arts	8,715	11,177	11,177	7,500	7,700	7,700	9,100	9,100	9,240	9,240
Cyber Risk						37,919	80,102	67,730	68,885	68,885
Broker Fees	69,000	69,000	35,200	35,200	35,200	35,200	35,200	39,900	39,900	39,900
Total	1,119,249	\$1,083,912	1,035,787	1,106,388	1,030,385	1,302,234	1,254,454	1,307,509	1,334,013	1,334,013

*Includes special events and special facilities liability coverage through Allied Specialty Insurance, USI Insurance Services, etc.
Museum & Fine Arts coverage through Huntington T. Block Insurance Agency
Cyber Risk Insurance started FY13/14

EXHIBIT 3

INSURANCE PREMIUM COSTS 2008 - 2017

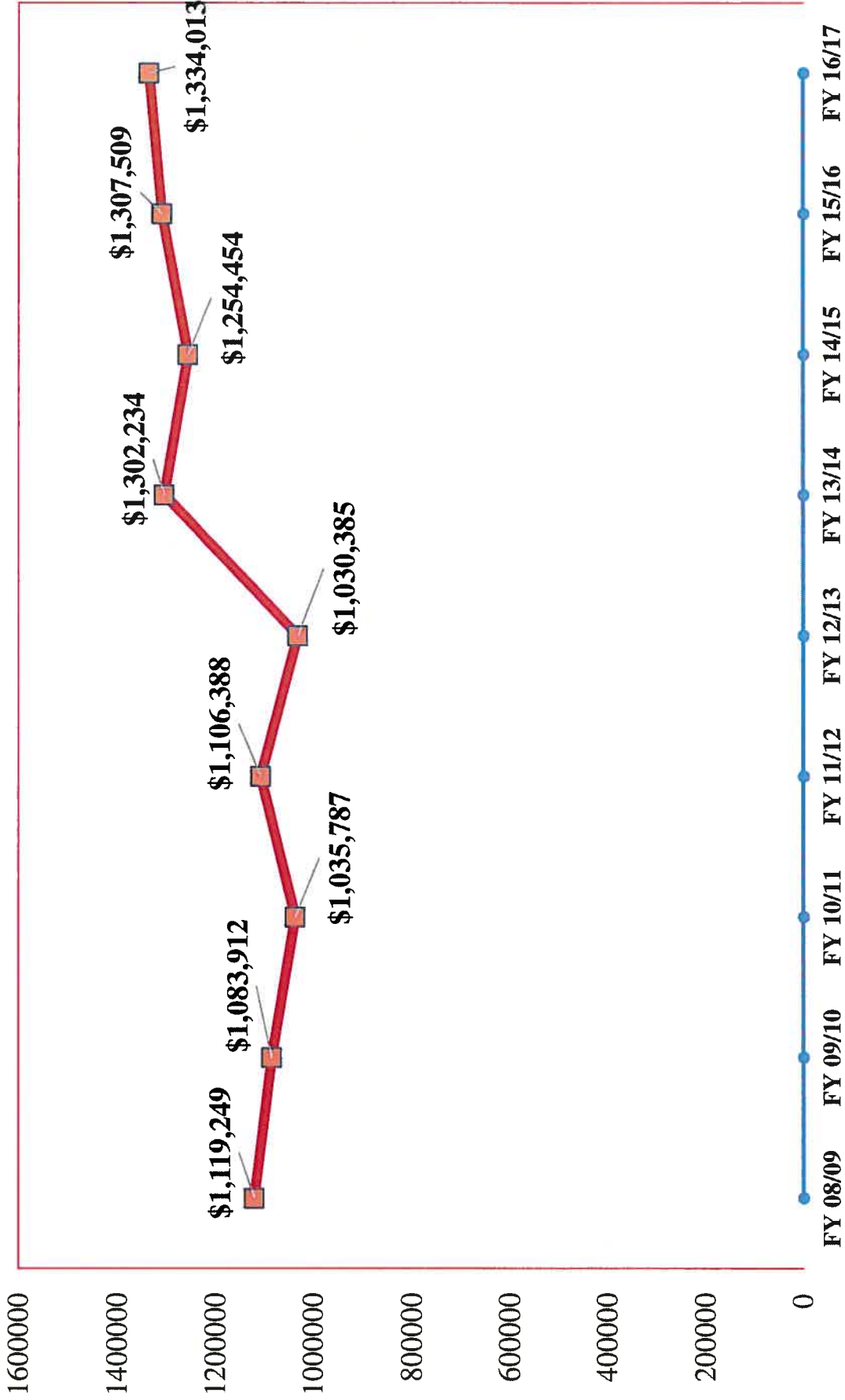


EXHIBIT 4