

Minutes

Risk Management Trust Board

May 19, 2021

Minutes of the Risk Management Trust Board meeting held virtually via Cisco Webex on May 19, 2021 at 5:00 p.m.

Board Members Present:

Robin Arredondo-Savage
Heather Bilodeau
Jerry Hart
Ken Jones

Board Members Absent:

Bill Goodman

City Staff Present:

Tom Duensing, Deputy Internal Services Director-Finance
Chris Hansen, Risk Manager
Nichole Martinez, Workers' Compensation Program Specialist
Susan Buck, Executive Assistant

Guests Present:

Chuck Halsey, Willis Towers Watson
Sharla Kissel, Willis Towers Watson

Agenda Item 1 – Call to Order:

Chair Ken Jones called the meeting to order at 5:02 p.m.

Agenda Item 2 – Approval of Board Meeting Minutes:

Motion by Jerry Hart to approve the March 3, 2021 board meeting minutes with correction as discussed: second by Robin Arredondo-Savage. Motion passed on a voice vote 4-0.

Ayes: Chair Jones, Boardmembers Arredondo-Savage, Bilodeau and Hart

Nays: None

Absent: Boardmember Bill Goodman

Agenda Item 3 – Update on Workers' Compensation Full and Final Settlement Process

Risk Manager Chris Hansen provided the Board with an update, noting that staff checked with the City Attorney's Office and were told that there is no need to amend the City Code in order to implement the full and final settlement process previously presented to the Board. Mr. Hansen stated that one of the city's excess carriers sent a notice to a claimant's attorney to see if there was interest in a full and final settlement. Mr. Hansen stated that staff are currently reviewing other claims that they may move forward in the full and final settlement process.

Agenda Item 4 – FY21-22 Insurance Renewal Program Update:

Chair Jones stated that staff just received information on the costs of the renewal and will be presenting that information tonight. Chair Jones noted that the Board doesn't need to make any final decisions at this point but will need to review the information presented and request any additional information needed in order to develop a recommendation for City Council. Tempe City Council will then decide what to do with the renewal.

Tom Duensing, Deputy Internal Services Director-Finance, stated that as far as timing, if the recommendation is targeted to go to City Council for the June 10, 2021 meeting, it will need to be completed

and submitted by May 27. If that target date can't be met, the last Council meeting of the fiscal year is June 24, 2021, with a submittal deadline of June 10. Staff has tentatively scheduled two follow-up meetings with the Board for Monday, May 24 and Tuesday, June 1 in order to allow time for discussion and to formulate a recommendation.

Mr. Duensing stated that there has been a significant disruption in the market, noting three areas of excess insurance that discussion will focus on: auto, workers' compensation, and general liability (which has significant market disruption). He further noted that based on the current data provided, the city is looking at an estimated 86% increase in total premiums along with an increase of the self-insured retention (SIR) amount and a decrease in excess layer coverage.

Auto Insurance

Mr. Duensing presented an overview of the options for auto insurance as shown below:

	FY20-21 Current	FY21-22 Option 1	FY21-22 Option 2	FY21-22 Option 3
Type	ACV	ACV	ACV	ACV
Value	\$17.0M	\$20.4M	\$19.8M	\$18.2M
Deductible	\$75,000	\$75,000	\$100,000	\$150,000
Premium	\$76,278	\$103,540	\$95,120	\$82,501
Change in Premium		\$27,262	\$18,842	\$6,223
% Change		35.74%	24.27%	8.16%

Mr. Duensing noted that staff is recommending Option 1, which keeps the same \$75,000 deductible as current coverage and results in a \$27,262 (35.74%) premium increase for a total premium of \$103,540. He further noted that the majority of the price increase is due to the net addition of 10 vehicles to the policy.

Sharla Kissel of Willis Towers Watson (WTW) provided an overview of the deductible options on auto insurance and stated that the recommendation from WTW is to keep the existing deductible.

Boardmember Robin Arredondo-Savage inquired how many vehicles are included in the coverage. Mr. Hansen responded that the city currently insures 70 vehicles. Boardmember Arredondo-Savage questioned why the premium rate would be so high. Ms. Kissel clarified that the vehicles insured include high value vehicles like fire trucks and solid waste trucks.

Chair Jones inquired if the recommendation was based on an analysis of the city's claims history or if it was just a generic recommendation to keep the deductible the same. Ms. Kissel indicated that it was both. Ms. Kissel noted that it is very important to keep the list of covered vehicles up to date; she further noted that the city will have less vehicles covered if they go with the higher deductible. Chair Jones asked what data the deductible level was based on. The Board generally discussed prior claim history.

Chair Jones stated that the recommendation should be based on some analysis of the value of city vehicles and the cost of past claims. Boardmember Arredondo-Savage concurred, noting information on how many claims went over the deductible level would be good to know, as well as the circumstances surrounding those claims in order to identify trends.

Workers' Compensation

Next, Mr. Duensing presented an overview of the Workers' Compensation renewal options as shown below, noting that the premium is based on increase in payroll (exposure) plus the change in the rate.

	FY20-21 Current	FY 21-22 Option 1	FY21-22 Option 2
SIR	\$500,000	\$500,000	\$750,000
SIR – EMT/Police/Fire	\$750,000	\$750,000	\$1.0 Million
Exposure	\$148.3M	\$152.9M	\$152.9M
Premium	\$291,495	\$375,227	\$251,422
Change in Premium		\$83,732	\$23,665
% Change		28.72%	8.12%

Mr. Duensing noted that the premium quote is \$375,227, which is a 28% increase. Mr. Duensing indicated that the \$251,422 premium amount in Option 2 should actually be \$315,160; the change in premium amount is correct. Mr. Duensing stated that the preliminary recommendation from WTW is for Option 1.

Ms. Kissel stated that the legislation finally passed for the firefighter presumption of cancer claims. Ms. Kissel noted that the city has some of those claims already and indicated that WTW is fairly certain that they are going to increase. Regarding SIR limits, Ms. Kissel indicated that once the city increases them, it is unlikely they will be able to lower them in future. Ms. Kissel noted that if the city decides to raise the SIR, it's not a dollar-for-dollar savings – it would save a little bit of money up front, but it would be lost once the claims came in. Ms. Kissel reiterated their recommendation to leave the SIR at current levels.

Mr. Hansen stated that staff looked at reserves and tightened them up; there was accounting for lifetime loss of earning capacity, some of the dependent awards for the cancer presumption, and increasing ongoing medical costs. Mr. Hansen noted that the actual frequency of claims has come down a little, but the severity of claims and cancer presumption claims are generating this increase. Mr. Hansen stated that he is concerned about raising the SIR and never being able to go back to a lower level, noting that it does afford some insulation and protection; it is worth the change in premium to protect that.

Boardmember Jerry Hart concurred, stating that once you raise an SIR it is hard to reduce it in future.

Chair Jones inquired about what the cost difference would be if the city raised the SIR for the non-public safety, since the frequency of claims would be much lower for that group.

Boardmember Arredondo-Savage inquired if the \$148.3 million exposure listed is for all of the employees across the city and how Covid played into that number. Ms. Kissel indicated that the exposure listed was for employees citywide for the current fiscal year and reflects current coverage. Ms. Kissel stated that there will be an audit at the end of the year by Safety National and, there is a possibility of getting money back.

Ms. Kissel clarified that the \$148.3 million exposure number was provided pre-Covid, in February 2020. Mr. Hansen clarified that the \$152.9 million exposure listed for FY 21-22 is a general *estimate* that includes cost of living increases in employee group Memorandums of Understanding (MOUs). The Board generally discussed the audit process.

Mr. Duensing inquired if the Board wants to include an option of raising the premium on the SIR for the non-public safety. Chair Jones stated that it would be good to see what the premium would be if it was raised from \$500,000 to \$750,000 because those claims are less frequent. Boardmember Arredondo-Savage stated that it would be good to see how many times the city has hit the \$500,000 SIR. Mr. Hansen stated that it is rare to hit that number for non-public safety. Ms. Kissel stated that she would request that information and have it for the next meeting.

General Liability

Mr. Duensing stated the biggest substantial increase is in excess insurance for general liability.

Ms. Kissel noted that a key factor is the current social/cultural climate regarding law enforcement issues. Ms. Kissel talked about recent law enforcement settlements that set precedent for the market. Ms. Kissel stated that legal liability for law enforcement and public officials has been turned completely upside down, with larger retentions, higher volumes of claims submitted, and increased severity of the claims.

Ms. Kissel stated that City of Tempe has done everything correctly – there is an oversight committee, they submitted recommendations, there were policy changes, changes to procedures – all of that has been taken into consideration. Even so, the minimum amount being offered in the market for law enforcement liability is \$5 million SIR, which is an increase of \$2 million. Ms. Kissel stated that WTW approached 27 carriers, including a wholesaler, for quotes to see if they could provide anything close to the \$40 million liability coverage the city currently has. The city's current carrier, Allied/AWAC, dropped their first layer coverage limits from \$10 million to \$5 million with no option to go above that and trying to find someone to bridge that gap has proven unsuccessful. Ms. Kissel stated the market is completely unstable because of law enforcement legal liability. Ms. Kissel stated she would not recommend trying to self-insure on this, especially with the recent monetary awards and settlements. Ms. Kissel reiterated that the City of Tempe is taking all the right steps.

Mr. Duensing provided an overview of the current excess general liability coverage versus the preliminary estimate for next fiscal year, as follows:

FY20-21 Current		FY21-22 Prelim.	
Self Insured Retention	Law Enforce. - \$3M All other - \$2M	Self Insured Retention	Law Enforce. - \$5M All other - \$2M
First Layer - \$10M	\$252,406	First Layer - \$5M	\$429,728
Second Layer - \$15M	\$136,608	Add'l Layers - \$25M	\$1,115,592
Third Layer - \$15M	\$81,000		
Total	\$470,014	Total	\$1,545,320

Mr. Duensing stated the current excess insurance coverage is a total of \$40 million over the \$3 million SIR for law enforcement and \$2 million SIR for all other claims. The preliminary quote for FY 21-22 shows an increased SIR for law enforcement of \$5 million, with a first layer of coverage of \$5 million and additional layers of coverage of \$25 million. Ms. Kissel clarified the umbrella coverage above the SIR is now being broken up into \$5 million limits; no carrier is willing to offer more than a \$5 million limit at a time, with the pricing close to the primary limits.

Boardmember Hart stated that while the city currently has a \$40 million excess layer, it looks like the preliminary estimate for FY 21/22 is only a \$30 million excess layer. Ms. Kissel confirmed that was correct and noted that they are working to try to build those layers; she is hopeful they will be able to reach \$35

million. Boardmember Hart noted that the premium increase will exceed \$1 million. Ms. Kissel confirmed that was correct.

Ms. Kissel stated that in the last 30 days, they have been turned down by nearly every carrier, noting that has been very difficult to try to fill the full \$40 million excess coverage. Ms. Kissel stated they sent out 10 years' worth of loss history. Ms. Kissel provided a brief overview of some of quote scenarios requested.

The Board discussed various options and strategies to possibly lower the premiums. Ms. Kissel stated the city could lower the excess layer of coverage, but there is increased exposure with that.

Chair Jones inquired if there is a limit on the number of claims for the SIR. Ms. Kissel stated there was not. Chair Jones requested benchmarking data to see how other valley cities are being impacted by and handling this issue.

Boardmember Arredondo-Savage concurred, noting it is important to show that this is not just happening to Tempe. It will also be important to know who we went out to in the market, who said no, and why they said no. Boardmember Arredondo-Savage stated that it would also be good to have some basic information on Tempe's claim history for the 10 years, as mentioned earlier by Ms. Kissel, especially any that have gone above the SIR or into reserve.

Chair Jones requested that staff reach out to risk managers in other east valley cities for benchmark data. Mr. Duensing confirmed that staff would do so and will provide as much information as possible to the Board at the next meeting.

Chair Jones stated a concern that insurance carriers are looking at community demographics when factoring costs. Chair Jones requested that the benchmarking also include a variety of communities that have different demographics than Tempe so that costs can be reviewed to ensure that Tempe is not being penalized for being a diverse community.

Mr. Duensing recapped the discussion, noting that items for future discussion will include:

- Auto:
 - how many times claims have gone over the deductible
- Workers' Compensation:
 - how many times we have gone over the \$500,000 SIR
 - effect on premium if the non-public safety SIR increases from \$500,000 to \$750,000
 - how reasonable is the increase in payroll/exposure due to the reduction in staff
- General Liability:
 - benchmark data

Chair Jones noted that staff could reach out to Mark Day in Budget to determine what is budgeted for payroll for next fiscal year.

Mr. Duensing stated that staff will try to provide as much information as possible to the Board for consideration at the meeting on Monday, May 24.

Agenda Item 5 - Board Member and Staff Announcements

There were no announcements.

Agenda Item 6 – Public Appearances

There were no public appearances.

Motion to adjourn by Robin Arredondo-Savage; second by Jerry Hart. Motion passed on a voice vote 4-0.

Ayes: Chair Jones, Boardmembers Arredondo-Savage, Bilodeau and Hart

Nays: None

Absent: Boardmember Bill Goodman

Minutes prepared by: Susan Buck

Minutes reviewed by: Chris Hansen and Tom Duensing