

EXECUTIVE SUMMARY

Property

The US property insurance market remains soft so far in 2016. This year, Lexington is offering a very competitive option including property coverage, auto physical damage coverage (both on-site and over-the-road) and property coverage for the bridges. Lexington is also offering a 2-year rate guarantee, with a 50% loss ratio provision. We negotiated several improvements in sublimits; these are highlighted in our quote comparison.

Zurich indicated that they can support the expiring terms for the bridges, including the 3-year option, but they will need clarification on the valuation methodology for the bridges, since the values haven't changed since 2013.

Below is a summary of the various market responses.

Market Responses		
XL	Declined	They cannot be competitive; they would need a \$.10 rate
Zurich	Property Indication	\$.059 rate, excluding bridges
Zurich	Bridges Indication	\$.051 rate
Lexington	Quoted	\$.0364 average rate, including bridges and auto physical damage over-the-road coverage
Swiss Re	Declined	They cannot be competitive; they cannot include auto physical damage over-the-road coverage
Affiliated FM	Declined	They cannot offer auto physical damage over-the-road coverage

The renewal option from Lexington results in a savings of just over \$61,000 or 14% over the expiring property program.

Casualty

Public Entity Excess Liability - As discussed at our renewal strategy meeting in January 2016, the typical rate change across the country for excess liability coverage at renewal for average to good public entity risk profiles was flat to 8% increase in Q3 2015. Rates vary in specific regions, especially in the west. In western states where immunities have been challenged or do not exist, underwriters have been extremely selective on excess liability placements. At the time of our renewal strategy meeting, Starr Companies, your expiring lead excess liability carrier, had withdrawn from writing any accounts in California and Arizona with police or sports related exposure. Starr Companies has now completely withdrawn from the public entity sector.

Due to Starr Companies non-renewing and based on current market conditions, we advised at our renewal strategy meeting that the City could expect the following changes in terms and conditions at renewal:

- A general aggregate will apply, which may be 2 or 3 times the occurrence limit
- Some carriers may require an exclusion for concussions and athletic participants
- Expect pricing for the program to increase due to the non-renewal by Starr Companies and the uncertainty of pricing from the new lead carrier

We are happy to present a renewal program with pricing that is slightly less than expiring, as shown on the next page:

Layer	2015 Carrier	2015 Premium	2016 Proposed Program		
			Layer	2016 Carrier	2016 Premium
10M Lead xs 2M SIR	Starr Indemnity	261,100	10M Lead xs 2M SIR	Allied Public Risk	258,901
15M xs 10M	Berkley	119,000	15M xs 10M	Berkley	119,000
15M xs 25M	Great American	61,000	15M xs 25M	Great American	61,000
Total Premium		441,100	Total Premium		438,901
TRIA is excluded			TRIA is excluded		
			\$ Change in Premium		(2,199)
			% Change in Premium		-0.5%

Allied Public Risk's quote includes a general aggregate, but does not add an exclusion for concussions and athletic participants. A comparison of Allied Public Risk's coverage forms to the expiring Starr form is included in our proposal.

Here is a summary of the various market responses:

Market Responses		
AmTrust	Indication for 10M Lead	\$1,000,000 with defense costs inside the SIR and inside the policy limits
Lexington	Indication for 10M Lead	\$800,000
Munich	Indication for 10M Lead	\$401,000
BRIT	Indication for 10M Lead	\$400,000 with defense costs inside the SIR and inside the policy limits
Alteris	Quote for 10M Lead	\$351,654
Midlands	Indication for 10M Lead	\$350,000 is their minimum premium for this layer
Allied Public Risk	Quote for 10M Lead	\$258,901
XL	Declination for 10M Lead	This does not fit our underwriting guidelines
Genesis	Declination for 10M Lead	Their premium would be multiples of the expiring premium
ACE	Declination for 10M Lead	Their premium would be multiples of the expiring premium
Scottsdale	Indication for 10M xs 10M	\$100,000 to \$110,000
Hallmark	Indication for 10M xs 10M	\$90,000
Berkley	Quote for 15M xs 10M	\$119,000
Great American	Quote for 15M xs 25M	\$61,000
ARCH	Declined Excess	They cannot be competitive
ACE/Westchester	Declined Excess	They declined due to the transit exposure
Scor	Declined Excess	They cannot be competitive
AXIS	Declined Excess	They cannot be competitive
XL	Declined Excess	They cannot provide coverage for public officials E&O and employment practices liability
Swiss Re	Declined Excess	They are not a market for public entity business
Lexington	Declined Excess	They cannot be competitive

Excess Workers' Compensation – As discussed at our renewal strategy meeting in January, the typical rate change for excess workers' compensation at renewal for average to good public entity risk profiles was 5% to 10% increase in Q3 2015. Safety National's renewal quote reflects a 2.5% rate increase, or \$14,174. Safety National is offering a 2-year policy, with a rate guarantee, subject to various conditions outlined in our proposal. Below is a summary of all of the market responses to our request for excess workers' compensation quotes:

Market Responses		
Midlands	Indication	\$320,000 plus terrorism premium; \$500,000 SIR except \$750,000 for police/fire except \$1,500,000 for presumptive claims
Safety National	Quote	\$236,608
Midwest	Declined	Their minimum SIR is \$1,000,000
Arch	Declined	They cannot be competitive
Chubb	Declined	Their minimum SIR is \$1,000,000, and they cannot be competitive

Environmental

At the start of 2015, the market trend showed most insurers seeking rate increases up to about 5%. At the time of our renewal strategy meeting, we were seeing the environmental market softening for certain risks, with rates remaining generally flat.

Pollution Legal Liability – The renewal quote from Ironshore is \$1,069 or 3.7% higher than the expiring premium. Two new exclusions are being added this year:

- Exclusion for bodily injury claims for lead in drinking water
- Exclusion for lead related to remediation costs that could arise through the replacement of drinking water pipes

Here is a summary of all of the market responses:

Market Responses		
Ironshore	Quoted	\$29,929
Zurich	Declined	They do not feel they can be competitive
XL Catlin	Declined	They do not feel they can be competitive, especially since Ironshore is including pre-existing conditions and new conditions

Underground Storage Tank Liability – The ACE policy covering 2 USTs was renewed effective 4/13/16 for an annual term and then cancelled effective 7/1/16 to get this policy on a 7/1 renewal date. The renewal quote from ACE for the 7/1/16 – 17 policy term is \$742.

Crime

This is the third anniversary of a 3-year crime policy with Zurich. We have two options from Zurich for adding fraudulent impersonation coverage, also known as social engineering coverage:

1. \$328 additional premium for \$500,000 limit with \$100,000 deductible
2. \$456 additional premium for \$1,000,000 limit with \$200,000 deductible

Based on our discussions, our recommended program reflects Option 1: \$328 additional premium for \$500,000 limit with \$100,000 deductible.

Network Security and Privacy Liability

Cyber premiums are increasing, especially for high exposure classes of business such as retail and healthcare. AIG quoted three options for the renewal:

1. \$42,503 annual premium, with terms and conditions per expiring
2. \$50,608 annual premium, with an increase in the Event Management limit from \$1,000,000 to \$3,000,000 and the addition of Network Business Interruption coverage
3. \$52,869 annual premium, with terms and conditions per expiring except Event Management coverage is for 1,000,000 affected persons, subject to a minimum 100 affected persons

Our recommended program reflects Option 2 with the increased Event Management limit.

Here are all of the market responses:

Market Responses		
AIG	Quoted	\$42,295 net premium; \$52,869 gross premium - with terms and conditions per expiring except Event Management coverage is for 1,000,000 affected persons, subject to a minimum 100 affected persons
AIG	Quoted	\$40,486 net premium; \$50,608 gross premium - with terms and conditions per expiring except \$3,000,000 Event Management limit plus Network Business Interruption coverage
AIG	Quoted	\$34,002 net premium; \$42,503 gross premium - with terms and conditions per expiring with \$1,000,000 Event Management limit
ACE	Quoted	\$39,883 net premium - with \$3,000,000 breach (aka Event Management) limit
ACE	Quoted	\$54,930 net premium - with \$5,000,000 breach (aka Event Management) limit

Foreign Package

This is a new coverage this year for the City of Tempe. ACE/CHUBB quoted their minimum premium of \$2,500 for a foreign package policy including general liability, contingent auto liability, voluntary compensation benefits, and accidental death and dismemberment benefits.

The recommended program reflects a premium savings of \$37,189 or 3.1% over the expiring program.

Thank you for allowing Marsh to represent the City of Tempe in the insurance marketplace. We look forward to reviewing our proposal with you, answering any questions you may have and finalizing the renewal program for the City of Tempe.

PREMIUM COMPARISON – RECOMMENDED PROGRAM

July 1, 2016 - July 31, 2017

Coverage & Layer	Carrier	Exposures	Expiring Premium	Expiring Rate	Renewal Carrier	Renewal Exposure	Renewal Premium	Renewal Rate	Exposure Change	Premium \$ Change	Premium Change	Rate Change
Property & Automobile Physical Damage	Lexington	\$ 862,025,693	\$ 350,000	0.0406	Lexington	\$ 869,759,275	\$ 314,461	0.0362	0.90%	-\$35,539	-10.15%	-10.95%
Property Engineering Fee	Lexington	n/a	\$ 6,000		Lexington	n/a	\$ 8,500			\$2,500	41.67%	
Bridges	Zunch	\$ 134,262,350	\$ 68,584	0.0511	Lexington	\$ 134,262,350	\$ 40,539	0.0302	0.00%	-\$28,045	-40.81%	-40.89%
Auto Physical Damage - Over the Road Vehicles valued over \$200,000	Lexington	\$ 41,109,320	\$ 10,000	0.0243	Lexington	\$ 41,109,320	\$ 10,000	0.0243		\$0	0.00%	
Public Entry Liability	Starr Indemnity	\$ 127,688,860	\$ 261,100	0.0020	Allied Public Risk	\$ 132,553,408	\$ 258,901	0.0020	3.81%	-\$52,199	-0.84%	-4.48%
Excess Liability	Berkley	\$ 127,688,860	\$ 119,000	0.0009	Berkley	\$ 132,553,408	\$ 119,000	0.0009	3.81%	\$0	0.00%	-3.67%
\$15 Mil XS \$10 Mil XS \$2 Mil SIR	Great American	\$ 127,688,860	\$ 61,000	0.0005	Great American	\$ 132,553,408	\$ 61,000	0.0005	3.81%	\$0	0.00%	-3.67%
\$15 Mil XS \$25 Mil XS \$2 Mil SIR	Great American	\$ 127,688,860	\$ 61,000	0.0005	Great American	\$ 132,553,408	\$ 61,000	0.0005	3.81%	\$0	0.00%	-3.67%
Excess Workers Compensation	Safety National	\$ 127,688,860	\$ 222,434	0.1742	Safety National	\$ 132,553,408	\$ 236,608	0.1785	3.81%	\$14,174	6.37%	2.47%
XS SIR \$750k Police, Fire, EMT / \$500k All Other	Safety National	\$ 127,688,860	\$ 222,434	0.1742	Safety National	\$ 132,553,408	\$ 236,608	0.1785	3.81%	\$14,174	6.37%	2.47%
Foreign Package - International Travel	n/a				Chubb/ACE	n/a	\$ 2,500			\$2,500		
Accident - New Coverage	n/a				Chubb/ACE	n/a	\$ 2,500			\$2,500		
Environmental Coverage	Ironshore	n/a	\$ 28,860		Ironshore	n/a	\$ 29,929			\$1,069	3.70%	
\$5,000,000 Limit	Ironshore	n/a	\$ 28,860		Ironshore	n/a	\$ 29,929			\$1,069	3.70%	
Underground Storage Tanks	ACE	2	\$ 742		ACE	2	\$ 742			\$0	0.00%	
(cancel/rewrite of 4/13/16-17 policy)	ACE	2	\$ 742		ACE	2	\$ 742			\$0	0.00%	
Crime (expires 7/01/2017)	Fidelity & Deposit	n/a	\$ 10,993		Fidelity & Deposit	n/a	\$ 11,321			\$328	2.98%	
Crime - Fraudulent Impersonation Coverage \$500,000 Limit	Fidelity & Deposit	n/a	\$ 10,993		Fidelity & Deposit	n/a	\$ 11,321			\$328	2.98%	
Network Security & Privacy	Fidelity & Deposit	n/a	\$ 10,993		Fidelity & Deposit	n/a	\$ 11,321			\$328	2.98%	
Increased Event Mgt Limit from \$1M to \$3M	AIG	n/a	\$ 40,993	n/a	AIG	n/a	\$ 50,608			\$5,615	23.46%	
+3.2% Surplus Lines Taxes / Fees - Applicable to Lexington Property & ACE Environmental	AIG	n/a	\$ 40,993	n/a	AIG	n/a	\$ 50,608			\$5,615	23.46%	
Totals			\$ 1,194,536				\$ 1,157,347			-\$37,189	-3.11%	

TRIA applies to Property & XS Workers Compensation only - Excluded on Liability Lines

Property - Additional premium to increase flood coverage at all locations to \$30,000,000 = \$15,000