



City of Seattle

Department of Finance and Administrative Services

April 18, 2011

Exhibit D

D. Jess Qunell
Property Manager
Aviation Properties
Seattle Tacoma International Airport

RE: City of Seattle's Self-Insurance Program

SUBJECT: Any Contract, Agreement or Use of Premises

This is to verify the City of Seattle's Liability Self-Insurance Programs for General Liability, including Environmental Liability, Automobile Liability and Worker's Compensation. We maintain a primary self-insured layer and two layers of commercially-purchased excess of loss liability insurance. An extract from the City's most recent 2009 Comprehensive Annual Financial Report (CAFR) is appended for further detail.

The City of Seattle's primary self-insured retention program is administered in-house and approved by the State of Washington. In the event of an incident that occurred as a result of the City's negligence or for which the City was found responsible, indemnification would be addressed under this program. Provisions of the Seattle Municipal Code would be followed, with subrogation as may be appropriate.

If the above described self-insurance program is cancelled or materially reduced, the City will provide not less than ten (10) days notice. Please contact me at 206-386-0071 if you need additional information.

Sincerely,

William S. Vaughn, ARM
Operational Risk Manager
Risk Management Division

Fred Podesta, Director
700 Fifth Avenue, 42nd and 43rd Floors
P.O. Box 94669
Seattle, Washington 98124-4669

Tel (206) 684-5212
Fax (206) 684-7898
TDD (206) 615-0476
fred.podesta@seattle.gov

<http://www.seattle.gov>

Note 15 (CONTINGENCIES) to Financial Statements December 31, 2009

The City is exposed to the risk of loss from torts, theft of or damage to assets, business interruption, errors or omissions, law enforcement actions, contractual actions, natural disasters, failure to supply utilities, environmental regulations, and other third-party liabilities. The City also bears the risk of loss for job-related illnesses and injuries to employees. The City has been self-insured for most of its general liability risks prior to January 1, 1999, for workers' compensation since 1972, and for employees' health care benefits starting in 2000.

Since January 1, 1999, the City obtained excess general liability insurance coverage for occurrences on or after said date which covers losses over \$2.5 million per occurrence self-insured retention, with a \$25.0 million limit per occurrence and in the aggregate. Starting February 1, 2002 through 2006, the City's excess general liability insurance covers losses over \$5.0 million per occurrence self-insured retention, with a \$25.0 million limit per occurrence and in the aggregate. In June 2007 the limit was increased to \$30.0 million over a \$5.0 million self-insured retention. Beginning June 2009 the self-insured retention was increased to \$6.5 million with a \$30.0 million excess insurance limit.

The City also purchased an all-risk comprehensive property insurance policy that provides \$500.0 million in limits, subject to various deductible levels depending upon the type of asset and value of the building. This includes \$100.0 million in earthquake and flood limits. Hydroelectric and other utility producing and processing projects owned by the City are not covered by the property policy. The City also purchased insurance for excess workers' compensation, fiduciary and crime liability, inland marine transportation, volunteers, and an assortment of commercial general liability, medical, accidental death and dismemberment, and miscellaneous policies. Bonds are purchased for public officials, notaries public, pension exposures, and specific projects and activities as necessary.

The City did not purchase any annuity contracts in 2009 to resolve litigation. No structured settlements were entered into by the City in 2009. No large liability settlements were received in 2009. No settlements made in 2009, 2008, or 2007 were in excess of insurance coverage.

Claims liabilities are based on the estimated ultimate cost of settling claims, which include case reserve estimates and incurred but not reported (IBNR) claims. Liabilities for lawsuits and other claims are assessed and projected annually using historical claims, lawsuit data, and current reserves. The Personnel Department estimates case reserves for workers' compensation using statistical techniques and historical experience. The ultimate cost of settling claims was estimated for lawsuits, workers' compensation, and other claims based on independent actuarial studies performed in 2009 on data as of year-end 2008 and for health care as of year-end 2009. IBNR undiscounted totaled \$48.6 million and \$52.1 million at December 31, 2009 and 2008, respectively. The \$3.5 million decrease in the IBNR amount in 2009 compared to 2008 was mainly due to the lower estimates of liabilities by \$14.2 million while the liability reserves decreased by \$11.4 million. Changes in the reserves and liability estimates for workers' compensation claims accounted for the remaining \$0.7 million change in IBNR.

Estimated claims expenditures are budgeted by the individual governmental and proprietary funds. Actual workers' compensation claims are processed by the General Fund and reimbursed by the funds that incurred them. Operating funds pay health care premiums to the General Fund, and the latter pays for all actual health care costs. The General Fund originally pays for lawsuits, claims, and related expenses and receives reimbursements from City Light, Water, Drainage and Wastewater, Solid Waste, and the retirement funds for payments and expenses incurred by these funds.

Claims liabilities include claim adjustment expenditures if specific and incremental to a claim. Recoveries from unsettled claims, such as salvage or subrogation, and on settled claims are deposited in the General Fund and do not affect reserves for general government. Workers' compensation annual subrogation recoveries amounted to \$0.3 million in 2009 and \$0.2 million in 2008. All workers' compensation recoveries are deposited into the General Fund. Lawsuit and other claim recoveries of payments reimbursed for the utilities are deposited into the paying utility fund and do not affect the utility reserves.

Claim liabilities recorded in the financial statements are discounted at 1.650 percent for 2009 and 3.905 percent for 2008, the City's average annual rates of return on investments. The total discounted liability at December 31, 2009, was \$114.6 million consisting of \$80.1 million for general liability, \$3.6 million for health care, and \$30.9 million for workers' compensation.

Table 15-1

**RECONCILIATION OF CHANGES IN
AGGREGATE LIABILITIES FOR CLAIMS**

(In Thousands)

	<u>General Liability</u>		<u>Health Care</u>		<u>Workers' Compensation</u>		<u>Total City</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
UNDISCOUNTED								
Balance - Beginning of Fiscal Year	\$ 98,220	\$ 77,139	\$ 3,281	\$ 3,424	\$ 30,811	\$ 28,949	\$ 132,312	\$ 109,512
Less Payments and Expenses During the Year	(22,298)	(26,017)	(82,006)	(69,836)	(14,158)	(11,582)	(118,462)	(107,435)
Plus Claims and Changes in Estimates	8,037	47,098	82,432	69,693	15,951	13,444	106,420	130,235
Balance - End of Fiscal Year	<u>\$ 83,959</u>	<u>\$ 98,220</u>	<u>\$ 3,707</u>	<u>\$ 3,281</u>	<u>\$ 32,604</u>	<u>\$ 30,811</u>	<u>\$ 120,270</u>	<u>\$ 132,312</u>
UNDISCOUNTED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	\$ 61,893	\$ 70,932	\$ 3,707	\$ 3,281	\$ 23,530	\$ 22,303	\$ 89,130	\$ 96,516
Business-Type Activities	22,065	27,287	-	-	9,074	8,508	31,139	35,795
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	<u>\$ 83,959</u>	<u>\$ 98,220</u>	<u>\$ 3,707</u>	<u>\$ 3,281</u>	<u>\$ 32,604</u>	<u>\$ 30,811</u>	<u>\$ 120,270</u>	<u>\$ 132,312</u>
DISCOUNTED/RECORDED BALANCE AT END OF FISCAL YEAR CONSISTS OF								
Governmental Activities	\$ 59,053	\$ 63,011	\$ 3,648	\$ 3,158	\$ 22,274	\$ 19,552	\$ 84,975	\$ 85,721
Business-Type Activities	21,052	24,239	-	-	8,590	7,458	29,642	31,697
Fiduciary Activities	1	1	-	-	-	-	1	1
Balance - End of Fiscal Year	<u>\$ 80,106</u>	<u>\$ 87,251</u>	<u>\$ 3,648</u>	<u>\$ 3,158</u>	<u>\$ 30,864</u>	<u>\$ 27,010</u>	<u>\$ 114,618</u>	<u>\$ 117,419</u>