



City of Chula Vista

Staff Report

File#: 15-0154, **Item#:** 5.

RESOLUTION NO. 2015-095 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA CONSENTING TO THE TERMINATION OF THE SAN DIEGO COUNTY CITIES JOINT POWERS AGREEMENT FOR RISK MANAGEMENT SERVICES AND RELATED INSURANCE COVERAGES CREATING THE SAN DIEGO POOLED INSURANCE AUTHORITY FOR MUNICIPAL ENTITIES (SANDPIPA) EFFECTIVE JULY 1, 2016 AND ASSOCIATED AMENDMENTS TO THE JOINT POWERS AGREEMENT, AND AUTHORIZING THE MAYOR TO EXECUTE ANY DOCUMENTS REQUIRED TO CONFIRM AND IMPLEMENT THESE ACTIONS

RECOMMENDED ACTION

Council adopt the resolution.

SUMMARY

At its March 26, 2015, meeting, the SANDPIPA Board, representing the twelve member cities, determined that it is in the best interest of SANDPIPA members and in the interest of the public that SANDPIPA should be terminated and its assets distributed to members per the Joint Powers Agreement. This resolution will provide Chula Vista's consent to the termination of SANDPIPA effective July 1, 2016, and will allow SANDPIPA to continue to exist for the purpose of disposing of all claims, distributions of assets, and all other functions necessary to wind up the affairs of the Authority.

ENVIRONMENTAL REVIEW

Not applicable.

BOARD/COMMISSION RECOMMENDATION

Not applicable.

DISCUSSION

The City of Chula Vista has been a member of SANDPIPA since its inception in 1986. SANDPIPA was established to enable its members, all of which are San Diego County cities, to secure insurance coverage for their liabilities and for protection of property at economical rates. Based on payroll, the membership ranges in size with Chula Vista as the largest and Lemon Grove as the smallest.

The City's current coverage for tort liability claims consists of three layers of funding. The first layer is the City's self-insured retention, which is currently \$500,000. The second layer of coverage is SANDPIPA's pooled layer, which is currently \$2.5 million dollars. In this layer all of the SANDPIPA members have pooled their assets based on actuarial information to fund this coverage. Finally, the third layer includes an additional \$45 million dollars of commercial insurance that is purchased by the group.

SANDPIPA's sole employee, its General Manager, announced that she would be retiring around 2016. At the time of her announcement the Board began to strategically explore its options as to the

future of SANDPIPA including: whether SANDPIPA should continue in its current administrative structure, should a revised administrative structure be created, should the Board contract with a third party administrator to conduct business on its behalf or had SANDPIPA outgrown its useful life altogether and were there other pooling insurance options available that would better serve its members. After an exhaustive review of the options available the Board determined, by a unanimous vote, that it is in the best interest of SANDPIPA's members and the public they serve to terminate SANDPIPA as a JPA and distribute its assets to its members per the Joint Powers Agreement.

In order to make this a smooth transition, and to provide the most financial protection to each of its members, effective July 1, 2015, SANDPIPA will no longer provide liability insurance. Instead, SANDPIPA members will join, as a group, with each member at their individual self-insured retention, the CSAC-Excess Insurance Authority (CSAC EIA). CSAC-EIA is one of the largest governmental insurance pools in the country and with a majority of the cities, counties, and special districts in the state as its members. It is an extremely stable and financially sound organization. During the transition year each member can determine whether to continue with the CSAC-EIA's General Liability 1 program, change to another one of CSAC-EIA's programs, or to seek insurance somewhere else completely. SANDPIPA will initiate a "run-off" period with SANDPIPA as a JPA terminating effective July 1, 2016. After that date, SANDPIPA members would remain together for the purpose of resolving outstanding liabilities, distributing assets and all other functions necessary to close out the affairs of the authority. The SANDPIPA Board will continue to meet to manage the "run-off" process. It is estimated that this process will take from four to six years.

This resolution will make the necessary changes to the Joint Powers Agreement to ensure that all members are involved in the decision making process until the "run-off" process is complete.

DECISION-MAKER CONFLICT

Not Applicable.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. This action supports Operational Excellence, by improving the City's fiscal health through this alternative risk financing mechanism that continues to fully protect the City in a more cost effective manner.

CURRENT YEAR FISCAL IMPACT

There is no fiscal impact in the current year as a result of this change.

ONGOING FISCAL IMPACT

The first year net savings for fiscal year 2015/16 will be approximately \$390,000. In addition, SANDPIPA will payout approximately a total of \$3,000,000 to member agencies as part of the distribution of SANDPIPA assets. As part of this process, Chula Vista will receive approximately \$434,000. These savings have been incorporated into the City Manager's Proposed Budget for fiscal year 2015/16 and have aided in balancing the budget.

For future fiscal years, it is anticipated that the ongoing cost of insurance will continue to be significantly less than what it would be were the City to remain in SANDPIPA. It is expected that

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SANDPIPA's assets will continue to be paid out over four to six years at an anticipated rate of \$3,000,000 total for all member agencies per year. Chula Vista's share of a \$3,000,000 annual dividend (pay out) would be approximately \$434,000 per year for a period of four to six years. Beginning in fiscal year 2016/17 staff is recommends using these funds to help address projected increases in pension costs and/or to create a pension smoothing fund to address increased volatility in pension costs. Further discussion on the use of these funds will be incorporated into the next Five Year Financial Forecast.

ATTACHMENTS

Attached is a ~~strikeout~~ underlined version of the SANDPIPA JPA agreement as proposed by this resolution.

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