

**TUCSON AIRPORT AUTHORITY | Finance and Risk Management Council Meeting  
Tuesday, August 9, 2022 | 9:00 a.m. | Virtual Meeting**

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THIS ADVISORY COUNCIL MEETING WAS HELD VIRTUALLY, WITH COUNCIL MEMBERS ATTENDING VIA MICROSOFT TEAMS OR TELEPHONICALLY. MEMBERS OF THE PUBLIC WHO COMPLETED A REGISTRATION FORM RECEIVED A LINK TO VIEW THE MEETING VIA MICROSOFT TEAMS OR TO LISTEN TELEPHONICALLY.

**1. CALL TO ORDER | ROLL CALL**

Chair Overton called the meeting to order at 9:02 a.m.

**Council Members Present:** Chair Tim Overton, Vice Chair Omar Mireles, Council Member Rob Draper, Council Member Ricardo Platt, and Council Member Angela Gee

**Council Members Absent:** Council Member Mike Hanley and Council Member Tony Penn

**Others Present:** TAA Chair Bruce Dusenberry, TAA Vice Chair Keri Silvyn, Secretary Mike Hammond, Director Judy Rich, Director Todd Jackson, Director Sally Fernandez, Director Vance Falbaum, and TAA Member Carol Stewart  
**From Lovitt & Touché:** Yvianna Arenas and Douglas Adelberg  
**From Alliant Insurance:** Rex Jorgensen and Matt McManus

**Staff Present:** President/Chief Executive Officer Danette Bewley, Vice President/General Counsel Christopher Schmaltz, Vice President/Chief People Officer Twyla Salaiz, Deputy General Counsel Kim Ryan, Financial Controller Clark Wager, Insurance and Finance Coordinator, Alexander St. Paul, IT Customer Support Technician Randy Janek, and TAA Clerk Byron Jones

**2. APPROVAL OF MINUTES**

**MOTION BY Council Member Draper, SECONDED BY Chair Overton, to APPROVE the minutes of the Finance and Risk Management Council meeting held on August 24, 2021. The motion carried by the following vote:**

**Ayes 5 Chair Overton, Vice Chair Mireles, Council Member Draper, Council Member Platt, and Council Member Gee**

**Nays 0**

### 3. PRESIDENT/CEO REPORT

#### a. State of the Industry | Update

President/CEO Danette Bewley reported the following:

- ❑ The COVID-19 pandemic has had a devastating impact on the aviation industry. While a recovery is underway, it is projected that air traffic will not return to pre-COVID levels until 2024. Factors which are hampering the recovery include pilot shortages due to early retirements, training backlogs due to a shortage of check pilots, and fuel prices, which have increased 73% in one year.
- ❑ TUS has kept all the major carriers; however, the ultra-low-cost carrier Allegiant suspended service, but it plans to return in the future. Also, the ultra-low-cost carrier Avelo operated for approximately six weeks beginning in December 2021, but reduced passenger traffic caused by the Omicron Variant, forced them to pull out of the market.
- ❑ Despite these setbacks, Tucson has held up well as destination and is poised to be the next Austin. Passenger traffic at TUS is approximately 90% of pre-COVID levels.
- ❑ Future goals include restoring the frequency of lost air service, lobbying seasonal operators to extend the duration of their service, leveraging strategy for domestic routes, and growing the Canadian markets with Flair Airlines, which starts service in November.

### 4. ACTION ITEMS

#### a. EMPLOYEE GROUP INSURANCE FOR FY 2023:

Vice President/CPO Twyla Salaiz presented.

- ❑ Benefits for FY 2023 are estimated at \$2.7M, which is a 9.7% increase. The average nationwide is 3.6%.
- ❑ The TAA's loss ratio for FY 2022 was 107%. Employers typically must maintain a 100% average or less to avoid an increase. The initial renewal rate was 23%, but with some plan design changes and negotiations, Lovitt & Touché was able to minimize the increase to less than 10%. The changes include increasing the annual deductible on the Preferred Provider Organization (PPO) plan from \$500 to \$2,000, increasing the employee contribution on the \$1,500 High Deductible Health Plan (HDHP) by 25%, and adding an employee contribution to the \$3,000 HDHP.
- ❑ The TAA will move to Delta Dental from Cigna Dental, which will result in a 6% rate decrease. Delta Dental also has a larger network of providers,

which enables employees to not have to pay upfront for services. This encourages employees to use dental services.

- The TAA will change to WEX for FSA and COBRA.

**COUNCIL DISCUSSION:**

- How does increased premiums and higher deductibles affect employee retention?** Salaiz stated that she was not concerned with impact on employee attrition or recruitment. The rates are competitive and slightly below market. People Operations will host a series of informational meetings with the goal of educating employees about the changes and encouraging them to approach their healthcare choices as consumers.
- Was employee input gathered regarding the changes?** Salaiz stated that employee input is primarily gathered through employee satisfaction surveys. Responses received said benefits were reasonable and that they were comfortable with having higher deductibles. Employees want more access to Banner Health, but this can only be offered through the HDHP plans. There was not a lot of room to negotiate this year as the focus was to mitigate the rate increase as much as possible.
- Supports encouraging employees to switch to HDHP plans.**

**MOTION BY Council Member Draper, SECONDED BY Vice Chair Mireles, to recommend to the Board of Directors APPROVAL of the Tucson Airport Authority’s employee group insurance coverages for the policy year beginning October 1, 2022 and ending September 30, 2023. The motion carried by the following vote:**

**Ayes    5    Chair Overton, Vice Chair Mireles, Council Member Draper, Council Member Platt, and Council Member Gee**

**Nays    0**

**b. WORKERS’ COMPENSATION INSURANCE FOR FY 2023:**

Vice President/CPO Twyla Salaiz presented.

The TAA will remain with AmTrust for a third year. The premium increase was a slight 2%. Having police and fire departments makes the TAA a higher risk, so People Operations was pleased with the rate.

**MOTION BY Council Member Draper, SECONDED BY Council Member Gee, to recommend to the Board of Directors APPROVAL of the Tucson**

**Airport Authority's Workers' Compensation insurance coverage for the policy year beginning September 1, 2022 and ending August 31, 2023. The motion carried by the following vote:**

**Ayes 5 Chair Overton, Vice Chair Mireles, Council Member Draper, Council Member Platt, and Council Member Gee**

**Nays 0**

**c. COMMERCIAL LINES OF INSURANCE FOR FY 2023:**

Vice President/CFO Kirk Eickhoff introduced Rex Jorgensen and Matt McManus of Alliance Insurance, who presented.

- The overall rate increase for FY 2023 is 13.9%. This is a reasonable increase considering the current state of the market.
- There has been significant pressure from property underwriters to raise premiums due to significant catastrophic claims paid out due to natural disasters.
- Labor and material costs have increased, which is driving up the value of both real and private property. Insurers are examining the schedule of values more closely to ensure proper replacement costs are figured. This adds to the premiums.
- Liability insurance premiums are increasing due to social inflation, large litigation settlements, and jury verdicts.
- Cyber liability is difficult for public entities as carriers are exiting the market and/or decreasing the capacity they will deploy. They are also becoming more stringent with security controls. The TAA has good security controls in place and continues to be an acceptable risk for insurers.
- Commercial auto has increased significantly due to the higher cost of vehicles and runaway litigation. Packaging commercial auto insurance with other lines has kept the increase stable.

**COUNCIL DISCUSSION:**

- What was the rationale for not shopping around?** McManus stated that Alliant strongly discourages marketing coverages in back-to-back years unless there is a needful reason to do so. The goal is to build a relationship with the insurer and build up a bank of premiums for when losses need to be paid out. The TAA saved a significant amount of money last year by switching to six new carriers. He does not believe that there would have

been a significant reduction in the premiums if the plans were marketed again this year.

- ❑ **Does the TAA have an umbrella component?** Jorgensen stated that Airport Liability Coverage is the umbrella component and serves as both general liability and excess liability. There is \$200M of policy limits to address third-party claims (e.g., bodily injury, property damage) as they relate to the TAA's operations. Airport Liability supplements the Auto Liability and Law Enforcement Liability as well.

**MOTION BY Council Member Platt, SECONDED BY Vice Chair Mireles, to recommend to the Board of Directors APPROVAL of the Tucson Airport Authority's commercial lines of insurance, including Property, Airport Liability, Commercial Auto, Inland Marine, Management Liability (Directors and Officers), Crime and Special Risk, Cyber Security, Law Enforcement Liability, and Deadly Weapon Response for the policy year beginning August 15, 2022 and ending August 14, 2023. The motion carried by the following vote:**

**Ayes    5    Chair Overton, Vice Chair Mireles, Council Member Draper, Council Member Platt, and Council Member Gee**

**Nays    0**

## **5. FINANCIAL BRIEFING**

Vice President/CFO Kirk Eickhoff presented an overview of the TAA's business model, including rates and charges, revenues, the Airline Use Agreement, and the annual budget process.

## **6. ADMINISTRATIVE UPDATES**

Vice President/CFO Kirk Eickhoff reported the following:

- a. Investment Report for the Third Fiscal Quarter ended June 30, 2022.

The TAA currently has \$140M in investments. These are pooled funds, which are mostly earmarked for capital expenditures and other projects. Due to market trends, the current yield is extremely low. The TAA follows the restrictions under state law, which limit the securities it can purchase. A memorandum with additional information was included in the agenda packet.

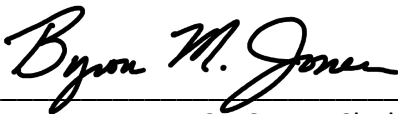
b. June 2022 YTD Financial Report.

- FY 2022 operating revenues through June 2022 were \$7.5M, or \$3.7M over budget. This was due primarily to favorable revenues from rental car transactions.
- Staff is working diligently to control costs because of the slower-than-expected recovery. As a result, operating expenses were \$2M favorable to budget.
- A memorandum with additional information was included in the agenda packet.

7. **ADJOURN**

There being no further business to discuss, Chair Overton adjourned the meeting at 10:02 a.m.

**PREPARED BY:**



Byron M. Jones, CMC, TAA Clerk

Date: August 9, 2023