



# City of Grand Island

Tuesday, August 9, 2016

Council Session

## Item G-7

**#2016-186 - Approving Renewal of Machinery Property Peril, Fire and Terrorism Insurance with FM Global for 2016 - 2017**

Staff Contact: Tim Luchsinger, Stacy Nonhof

# Council Agenda Memo

**From:** Tim Luchsinger, Utilities Director  
Stacy Nonhof, Assistant City Attorney

**Meeting:** August 9, 2016

**Subject:** Renewal of Machinery Property Peril, Fire and Terrorism Insurance with FM Global for 2016 - 2017

**Presenter(s):** Tim Luchsinger, Utilities Director

## Background

The Utilities Department Boiler and Machinery Property Peril and Fire insurance is specifically designed for Electric Utility and is readily adaptable to the Water Utility, which is also included in the coverage. Approval of the insurance policy by Council on September 9, 2014 provided for a two year term, effective October 1, 2014, with a premium adjustment for the second year based on any changes in the insured valuation at the same rates for the first year. The standard policy excludes losses due to acts of terrorism unless the optional Terrorism Insurance is accepted. The Utilities Department's insurance provider, FM Global, provided the attached proposal for renewal of the present coverage.

The complete policy is available in the Utilities office for review, along with a Policy Holder Disclosure form for execution by the City, either accepting or rejecting terrorism coverage. The renewal proposal and proposed policy have been reviewed by the Legal Department.

## Discussion

Key provisions included in the proposed renewal are a decrease in the insured valuation from \$609,200,000, to \$535,000,000, a premium decrease of \$64,737.00, which results in an annual premium change from \$477,796.00 for the current year to \$413,059.00, for the 2016-2017 year, and a premium decrease of \$3,516.00 for Terrorism Insurance, which results in an annual premium change from \$25,859.00 for the current year to \$22,343.00 for the 2016-2017 year.

The insured valuation of assets was reviewed by Department staff and is in line with replacement costs seen in the utility industry, as well as the resulting policy premium

decrease. The decrease was driven by the removal of the Burdick steam units 1 and 2 from the coverage, as they were retired from service last October.

The annual premium to add terrorism coverage is \$22,343.00. The probability that a relatively remote location in the central part of the nation would be targeted for a terrorist attack may be very unlikely, but the determination of a terrorist attack is not clearly defined, such as an attack similar to the Oklahoma City Federal Building. Regardless of the cause, the loss of a high valued asset as the Platte Generating Station must be protected from risk, and the acceptance of Terrorism Insurance is recommended.

Execution of the Notice of Terrorism Insurance Coverage form is required annually, and is recommended by the Utilities Department for approval.

### **Alternatives**

It appears that the Council has the following alternatives concerning the issue at hand. The Council may:

1. Move to approve
2. Refer the issue to a Committee
3. Postpone the issue to future date
4. Take no action on the issue

### **Recommendation**

City Administration recommends that the Council approve renewal of the Utilities Department's Terrorism Insurance with FM Global with execution of the Notice of Terrorism Insurance Coverage form to accept that coverage.

### **Sample Motion**

Move to approve acceptance of the FM Global Terrorism Insurance for the Utilities Department.

## United States Terrorism Quote

The Terrorism Risk Insurance Act of 2002 as amended and extended in 2005, 2007 and again in 2015, requires that insurers advise clients of their option to elect or reject terrorism coverage under the act as part of their property policy. It also requires insurers to disclose the cost of such coverage for the policy term. As a brief reminder, the act provides licensed, admitted carriers with a substantial federal reinsurance backstop for terrorism acts that are certified by the Secretary of the Treasury of the United States as covered events (known as certified losses). Generally speaking, the act responds strictly to events that take place within the United States, its protectorates, territories, and possessions. The Act has been extended to expire on 31 December 2020.

Pursuant to the act, we are offering certified terrorism cover in the United States with no specific terrorism limit of liability meaning your certified terrorism limit would be equal to the policy limit of liability or any location or coverage sublimits being proposed. In addition, in the United States, we are offering no terrorism sublimit for Flood, Miscellaneous Unnamed Locations, Miscellaneous Personal Property and Off Premise Storage For Property Under Construction, and Temporary Removal of Property and no terrorism exclusion for Service Interruption, Contingent Time Element Extended, Protection And Preservation of Property, Ingress/Egress, Logistics Extra Cost, Extended Period of Liability, Crisis Management and Attraction Property coverages.

The premium for certified coverage is USD22,343 for the term of October 1, 2016 to October 1, 2017 and does not include applicable taxes or surcharges.

The Policyholder Disclosure Notice of Terrorism Coverage document and the applicable certified terrorism endorsement are attached for your review. Please note the Disclosure form must be completed, signed and returned to Patrick Belding prior to October 1, 2016 indicating your choice to accept or reject the certified terrorism coverage offered.

**POLICYHOLDER DISCLOSURE  
NOTICE OF TERRORISM INSURANCE COVERAGE**

**Date: July 26, 2016**

**Insured Name: City of Grand Island**

**Account No: 07640**

**Insurer Name: Factory Mutual Insurance Company**

The Terrorism Risk Insurance Act of 2002, as amended and extended in 2005, 2007 and again in 2015, gives you the right as part of your property renewal policy to elect or reject insurance coverage for locations within the United States or any territory or possession of the United States for losses arising out of acts of terrorism, as defined and certified in accordance with the provisions of the act.

YOU SHOULD KNOW THAT WHERE COVERAGE IS PROVIDED FOR LOSSES RESULTING FROM CERTIFIED ACTS OF TERRORISM, SUCH LOSSES MAY BE PARTIALLY REIMBURSED BY THE UNITED STATES GOVERNMENT UNDER A FORMULA ESTABLISHED BY FEDERAL LAW. UNDER THIS FORMULA, THE UNITED STATES GOVERNMENT GENERALLY PAYS 85% (AND BEGINNING ON JANUARY 1, 2016, SHALL THEN DECREASE BY 1 PERCENTAGE POINT PER CALENDAR YEAR UNTIL EQUAL TO 80 PERCENT) OF COVERED TERRORISM LOSSES EXCEEDING A STATUTORILY ESTABLISHED DEDUCTIBLE PAID BY THE INSURER REFERENCED ABOVE. **ALSO, THERE IS A \$100,000,000,000 CAP ON THE FEDERAL AND INSURER SHARE OF LIABILITY STATING THAT IF THE AGGREGATE INSURED LOSSES EXCEED \$100,000,000,000 DURING ANY CALENDAR YEAR, NEITHER THE UNITED STATES GOVERNMENT NOR ANY INSURER THAT HAS MET ITS INSURER DEDUCTIBLE SHALL MAKE PAYMENT OR BE LIABLE FOR ANY PORTION OF THE AMOUNT OF SUCH LOSSES THAT EXCEED \$100,000,000,000.** THE PREMIUM CHARGED FOR THIS COVERAGE IS PROVIDED BELOW AND DOES NOT INCLUDE ANY CHARGES FOR THE PORTION OF LOSS COVERED BY THE FEDERAL GOVERNMENT UNDER THE ACT.

**ACCEPTANCE OR REJECTION OF TERRORISM INSURANCE COVERAGE:** UNDER FEDERAL LAW, YOU HAVE THE RIGHT TO ACCEPT OR REJECT THIS OFFER OF COVERAGE FOR TERRORIST ACTS COVERED BY THE ACT AS PART OF YOUR RENEWAL POLICY. IF WE DO NOT RECEIVE THIS SIGNED DISCLOSURE FORM PRIOR TO THE RENEWAL POLICY EFFECTIVE DATE OF October 1, 2016, THEN YOUR RENEWAL POLICY WILL REFLECT YOUR DECISION NOT TO PURCHASE THE TERRORISM COVERAGE PROVIDED BY THE ACT FOR THE TERM OF October 1, 2016 TO October 1, 2017.

**POLICYHOLDER DISCLOSURE  
NOTICE OF TERRORISM INSURANCE COVERAGE  
(Page 2 of 2)**

**Date: July 26, 2016**

**Insured Name: City of Grand Island  
Account No: 07640**

\_\_\_\_\_ I hereby elect to purchase coverage for terrorist acts covered by the act for an annual premium of USD22,343. This premium does not include applicable taxes or surcharges.

\_\_\_\_\_ I hereby decline this offer of coverage for terrorist acts covered by the act.

\_\_\_\_\_  
Policyholder/Applicant Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Date

RESOLUTION 2016-186

WHEREAS, the City's Utility Department subscribes to insurance for boiler and machinery, property, peril and fire coverage; and

WHEREAS, the boiler and machinery, property, peril and fire coverage insurance term expires October 1, 2016; and

WHEREAS, the insurance of electric and water utilities facilities is a specialized market with a limited number of potential providers; and

WHEREAS, valuation adjustments resulted in a decreased total insured value of property from the present amount of \$609,200,000.00 to \$535,000,000.00; and

WHEREAS, a proposal to renew insurance for the 2016 – 2017 fiscal year was received from the current provider, Factory Mutual Insurance Company of St. Louis, Missouri, for a renewal premium of \$435,402.00, including the terrorism coverage; and

WHEREAS, the City has opted to accept the optional Terrorism Insurance Coverage; and

WHEREAS, the insurance provider requires that the City either accept or reject Terrorism Insurance Coverage by executing the form provided; and

WHEREAS, the Factory Mutual proposal includes an option to renew the policy for a second year at the same premium rate subject to the policy valuation.

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that the proposal of Factory Mutual Insurance Company of St. Louis, Missouri, with premium in the amount of \$413,059.00, to execute the form to accept Terrorism Insurance Coverage, with a premium in the amount of \$22,343.00, for a total of \$435,402.00, and the option to include the renewal of the policy for a second year at the same premium rate subject to the policy valuation, is hereby approved.

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Adopted by the City Council of the City of Grand Island, Nebraska, August 9, 2016.

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Jeremy L. Jensen, Mayor

Attest:

\_\_\_\_\_  
RaNae Edwards, City Clerk

Approved as to Form	☐ _____
August 5, 2016	☐ City Attorney