



City of Grand Island

Tuesday, September 12, 2017

Council Session

Item G-6

#2017-240 - Approving Renewal of Machinery, Property Peril, Fire and Terrorism Insurance with FM Global for 2017 - 2018

Staff Contact: Tim Luchsinger, Utilities Director

Council Agenda Memo

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

Meeting: September 12, 2017

Subject: Renewal of Machinery Property Peril, Fire and Terrorism Insurance with FM Global for 2017 - 2018

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 August 9, 2016 provided for a two year term, effective October 1, 2016, 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 \$532,910,939.00 to \$500,864,016.00 which results in an annual all-risk premium change from \$413,059.00 for the current year to \$387,475.00 for the 2017-2018 year, and an annual Terrorism Insurance premium change from \$22,343.00 for the current year to \$21,067.00 for the 2017-2018 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 change. The decrease was due to the removal of the Burdick steam units from the coverage.

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.

**POLICYHOLDER DISCLOSURE
NOTICE OF TERRORISM INSURANCE COVERAGE**

Date: September 9, 2017

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, 2017, THEN YOUR RENEWAL POLICY WILL REFLECT YOUR DECISION NOT TO PURCHASE THE TERRORISM COVERAGE PROVIDED BY THE ACT FOR THE TERM OF October 1, 2017 TO October 1, 2018.

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

Date: September 9, 2017

**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 USD21,067. 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 2017-240

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, 2017; 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 \$535,910,939.00 to \$500,864,016.00; and

WHEREAS, a proposal to renew insurance for the 2017 – 2018 fiscal year was received from the current provider, Factory Mutual Insurance Company of St. Louis, Missouri, for a renewal premium of \$408,542.00, 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 except or reject Terrorism Insurance Coverage by executing the form provided.

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 \$387,475.00, to execute the form to accept Terrorism Insurance Coverage, with a premium in the amount of \$21,067.00, for a total of \$408,542.00. The Mayor is hereby authorized to sign the acceptance form for the Terrorism Insurance on behalf of the City of Grand Island.

- - -

Adopted by the City Council of the City of Grand Island, Nebraska, September 12, 2017.

Jeremy L. Jensen, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form	☐ _____
September 8, 2017	☐ City Attorney