



City of Grand Island

Tuesday, September 13, 2022

Council Session

Item G-29

#2022-260 - Approving Renewal of Machinery Property Peril, Fire and Terrorism Insurance with FM Global for 2022-23

Staff Contact: Tim Luchsinger, Stacy Nonhof

Council Agenda Memo

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

Meeting: September 13, 2022

Subject: Renewal of Machinery Property Peril, Fire and Terrorism Insurance with FM Global for 2022 - 2023

Presenter(s): Timothy 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. 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

The proposed renewal is based on an insured valuation of \$561,571,878, an increase of 10% from the previous year, with the annual all-risk premium changing from \$549,612 for the current year to \$634,802 for the 2022-2023 year, and an annual Terrorism Insurance premium of \$36,713. The increase in valuation is due to the current escalation of construction costs. FM Global has applied a 10% membership credit of \$87,949 in recognition of the long relationship between FM and the City as well as a 5% resiliency credit of \$29,316 for improvements to strengthen Department facilities from natural risks. This results in a total premium of \$592,750, which includes the Terrorism Insurance and policy fee of \$38,500 from our broker, FNIC.

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 like 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 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.

Terrorism

US Terrorism

The Terrorism Risk Insurance Act of 2002 as amended and extended in 2005, 2007, 2015 and again in 2019, requires that insurers advise clients of their option to elect or reject terrorism coverage under the act as part of their property program. 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 2027.

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 in your policy. In addition, in the United States, the policy would no longer be subject to a terrorism sublimit for Flood, Miscellaneous Unnamed Locations, Miscellaneous Personal Property, Off Premises Storage For Property Under Construction, and Temporary Removal of Property and any 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 **USD 36,713** for the term of October 1, 2022 to October 1, 2023 and does not include applicable taxes or surcharges.

We have provided the Policyholder Disclosure Notice of Terrorism Coverage document. Please note the Disclosure form must be completed, signed and returned to Kevin Doak, Account Manager – Client Service, FM Global indicating your choice to accept or reject the certified terrorism coverage offered.

TERRORISM

As respects locations outside the United States and Puerto Rico, terrorism coverage is provided with a limit of USD5,000,000 in the aggregate during any policy year but not to exceed the following limit(s) in the aggregate during any policy year:

- a) USD5,000,000 limit in the aggregate during any policy year for miscellaneous unnamed locations, MISCELLANEOUS PERSONAL PROPERTY, OFF PREMISES STORAGE FOR PROPERTY UNDER CONSTRUCTION and TEMPORARY REMOVAL OF PROPERTY combined
- b) USD5,000,000 limit in the aggregate during any policy year for flood when caused by or resulting from terrorism

These limits shall not include the actual cash value portion of fire damage caused by terrorism. Please see the attachment for the Terrorism Disclosure.

Insurance Proposal for The City of Grand Island
August 2022
Page 7 of 8

**POLICYHOLDER DISCLOSURE
NOTICE OF TERRORISM INSURANCE COVERAGE**

Insured Name: The City of Grand Island

Account Number: 05249

The Terrorism Risk Insurance Act of 2002, as amended and extended in 2005, 2007, 2015 and again in 2019, 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 80% 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, 2022, THEN YOUR RENEWAL POLICY WILL REFLECT YOUR DECISION NOT TO PURCHASE THE TERRORISM COVERAGE PROVIDED BY THE ACT.

_____ I hereby elect to purchase coverage for terrorist acts covered by the act for an annual premium of USD 36,713. 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

Insurance Proposal for The City of Grand Island
August 2022
Page 8 of 8

RESOLUTION 2022-260

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, 2022; and

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

WHEREAS, a proposal to renew insurance for the 2022 – 2023 fiscal year was received from the current provider, Factory Mutual Insurance Company of St. Louis, Missouri, for a renewal premium, with discounts, of \$592,750.00, and includes the terrorism coverage for \$36,713.00; 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 \$592,750.00, and to execute the form to accept Terrorism Insurance Coverage, with a premium in the amount of \$36,713.00. 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 13, 2022.

Roger G. Steele, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form	☐ _____
September 9, 2022	☐ City Attorney