



City of Grand Island

Tuesday, September 9, 2014

Council Session

Item G-12

#2014-269 - Approving Renewal of Boiler and Machinery Insurance with FM Global for the Utilities Department

Staff Contact: Tim Luchsinger, Utilities Director

Council Agenda Memo

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

Meeting: September 9, 2014

Subject: Boiler, Machinery, and Terrorism Insurance Renewal –
Utilities Department

Item #'s: G-12

Presenter(s): Tim Luchsinger, Utilities Director

Background

The Utilities Department Boiler and Machinery Property Peril and Fire insurance expires October 1, 2014. This insurance is specifically designed for Electric Utilities 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

Key provisions included in the proposed renewal are an increase in the insured valuation from \$525,012,331.00, to \$546,640,412.00, a premium increase of \$18,128.00, which results in an annual premium change from \$418,992.00 for the current year to \$436,252.00, for the 2014-2015 year, and a premium increase of \$868.00 for Terrorism Insurance, which results in an annual premium change from \$24,304.00 for the current year to \$25,172.00 for the 2014-2015 year. The proposal also provides for the addition of the \$40,000,000 emission control equipment currently being installed at the Platte Generating Station. This equipment is scheduled to begin operation during the fall plant outage. The annual premium for this coverage is \$26,871, and would be pro-rated based on the actual equipment startup date. Also being offered is a proposal to renew the policy for a second year at the same premium rates adjusted for insurable values. This has not

ever been offered to the Department and is reflective of very favorable claims experience and loss prevention programs.

The increase in 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 increase.

The annual premium to add terrorism coverage is \$25,172.00. 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.

The premium for the renewal of the Boiler and Machinery, Property Peril, and Fire coverage is \$461,424.00, which includes Terrorism Insurance, and is recommended by the Utilities Department for approval, as well as the option for the addition of the Platte emission control equipment and the renewal of the policy for the 2015-16 term.

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 Boiler and Machinery, Property and Peril, and Fire Insurance with FM Global, and execution of the Notice of Terrorism Insurance Coverage form to accept that coverage.

Sample Motion

Move to approve acceptance of the FM Global Insurance for the Utilities Department, with authorization to accept the Terrorism Coverage.

Proposal

City of Grand Island
August 12, 2014



Overview

FM Global's sole purpose is to serve our mutual policyholders. At every level of engagement we seek to identify and meet our clients' needs. We know corporate sustainability initiatives continue to develop and the risk management role is critical. FM Global feels loss prevention and control are the cornerstones of a sustainable business model. Along with loss prevention FM Global has a broad state-of-the-art coverage provided in the FM Global Power Gen Advantage policy, a stable insurance program providing large capacity and unparalleled contract certainty. These items combined gives our clients confidence in their risk management strategy.

We feel the policy structure and aligned goals are positioning the renewal to be another smooth process to allow our combined efforts to be focused on risk reduction

Thank you for your business and partnership!

Client Service Plan / Accomplishments

As a result of the continued collaboration there is only one open recommendation and it is dated May 2014.

Field engineering has been assisting with the plans and installation of the emission control equipment to be installed at the Platte Station.

Another Membership Credit was announced in 2014!

A Multi-Year Policy is being offered at this renewal

Insurance

Contract Certainty – FM Global strives to continue to be a leader in contract certainty. Another new resource available is the FM Global Advantage Policy Commentary; available on *MyRisk* to help you better understand the full scope of the FM Global Advantage policy. The commentary takes language directly from the policy and offers simple explanations of the clauses and definitions, plus realistic loss examples. It is structured to make it quick and easy to find a specific term, clause or definition. This is unique in the marketplace, and demonstrates our commitment to policy transparency.

We continue to pride ourselves on ensuring that documentation reflecting our agreements is provided in a timely manner. With agreement to all renewal terms, if an order to bind coverage as outlined herein is confirmed at least five business days prior to renewal, FM Global will guarantee that the Master Policy will be delivered prior to the renewal date.

Additional changes from the current Policy include:

- The state of Nevada will be added to the High Hazard Earth Movement schedule and exclude unnamed locations.
- Provide prior to binding the latest Employers Mutual Companies Policy number – Policy for exclusion
- Name of Insurance Company and Policy Number of Company insuring the builders Risk
- Renewal policy will exclude any builders risk exposures
- 2 year Multi-Year Agreement with clients agreement
- An option to add the \$40,000,000 pollution control equipment after construction completed is included.
- Increasing the policy Limit to \$550,000,000 then to \$590,000,000

Financial Strength and Business Model

Financial Strength and Stability

Despite the tumultuous economy, FM Global maintains a solid balance sheet with ample liquidity to meet policyholder obligations. As of 31 December 2013, Policyholders' Surplus was US \$9.7 billion and Gross Premium in force was US \$5.6 billion.

FM Global's ability to provide stable capacity and meet its obligations to policyholders has been confirmed by major industry rating agencies, principally:

In September 2013 A.M. Best affirmed FM Global's A+ (Superior) financial strength rating and Stable rating outlook, citing FM Global's "excellent level of risk-adjusted capitalization, historically strong operating performance, the benefits gained from its innovative loss prevention process and approach to property conservation", as well as its "market leadership position in the commercial property market".

In October 2013 Fitch Ratings affirmed FM Global's AA (Very Strong) financial strength rating and Stable rating outlook. Fitch views FM Global's engineering capabilities and property loss prevention services as "key advantages that are difficult for competitors to replicate", and believes "this expertise will result in future underwriting results that are consistently better than peers."

Mutual Ownership

As a mutual company, our clients are our owners. Our difference is the ability to absorb and tolerate volatility. The value to our clients is large, stable capacity and the ability to focus on understanding the risk.

Our philosophy as a mutual company is that to meet our customers' needs we must maintain open lines of communication. Through our Board of Directors, Regional Advisory Boards and Risk Management Executive Councils, FM Global senior management receives input from a representation of policyholders. Many positive changes in our operations including the development of new products have been made as a result of these interactions.

As a mutual company, FM Global is able to share our positive results with clients instead of returning money to shareholders. We have been able to deliver this benefit in a number of ways including:

Membership Credits - we have distributed six Membership Credits with a total of nearly US \$2.1 billion returned to our policyholders since 2001.

Expanded Capacity - as our capital grows we have an obligation as a mutual insurer to make available corresponding additional capacity to our clients.

Increased Program Stability - as our capacity expands we are less reliant on facultative reinsurance and therefore certain market conditions.

Membership Credits - we have previously distributed six Membership Credits with a total of nearly US \$2.1 billion returned to our policyholders since 2001. As you know a 2014/15 Membership Credit has been announced. Clients will collectively receive an estimated US\$465 million in premium reduction when they renew their policies between June 30, 2014 and June 29, 2015. This new "membership credit" is the largest FM Global has ever offered its clients and is a result of FM Global's continued financial success due, in large part, to policyholders' diligent property loss prevention efforts. The credit each client will receive will be based on client tenure, with longer-term clients benefiting the most. Approximately 1,900 clients qualify, some of which have been policyholders with FM Global since the late 1800s. Following this credit, FM Global clients will have benefited from approximately US\$3billion in membership credit since the program was introduced in 2001.

For 2013 -2014 a Membership Credit was paid and was applied to your invoice for the 2013 renewal. This amount was \$58,411.

The 2014 – 2015 estimated amount will be; USD 60,782

Schedule of Locations and Values

100% Values

Building	87,648,089
Machinery & Equipment	455,902,323
<u>Stock & Supplies</u>	<u>3,090,000</u>
Total Property	546,640,412

Premium

Overall Summary

Total Insurable Value:
2013
USD 525,012,331

2014
USD 546,640,412

4.12% Increase in Value

Premium

2013
USD 418,992 All Risk
USD 24,304 Terrorism
USD 443,296 Total

2014
USD 436,252 All Risk
USD 25,172 Terrorism
USD 461,424 Total

Flat Rate
3.5% Increase in Rate
4.09% Total Increase

\$40,000,000 Equipment addition at Platte Generating Station – Annual Premium - \$26,871

Payment is due upon receipt of invoice or on the date coverage begins, whichever is later. Policies will be subject to cancellation for non-payment of premium bills.

Premium does not include various fees, taxes, surcharges or brokerage commission.

Premium does not include the quote for Certified Terrorism. See the optional Terrorism quote detailed elsewhere.

U. S. Terrorism Terms and Conditions

The Terrorism Risk Insurance Act of 2002 as amended and extended in 2005 and 2007, requires that insurers advise clients, prior to the renewal date of their current policy, of their option to elect or reject terrorism coverage under the act as part of their property renewal 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.

Attached is the Policyholder Disclosure Notice of Terrorism Insurance Coverage document. **Please note the following important conditions that require your action:**

The Disclosure form must be completed, signed and returned to Patrick Belding prior to the renewal policy effective date of October 1, 2014 indicating your choice to accept or decline certified coverage as part of your renewal policy.

The premium for certified coverage is USD6,276 for the term of October 1, 2014 to December 31, 2014. This premium does not include applicable taxes or surcharges.

On June 26, 2014 you were sent a conditional renewal notice advising you of changes in your renewal policy as respects terrorism coverage for locations in the United States, its territories and possessions and the Commonwealth of Puerto Rico. In conjunction with that notice, the following provides additional details of the terrorism coverage afforded under your renewal policy:

Should TRIA expire, the following post-TRIA policy terms and conditions for terrorism coverage will apply effective the expiration date of TRIA:

- A terrorism sublimit of USD550,000,000 per occurrence will apply to all locations except those in the State of New York.
- The annualized terrorism premium will be USD25,172 and will not change if TRIA expires. However, if TRIA does expire the annualized premium will be considered pro-rated between the portion of the policy term when TRIA coverage was in effect and the remainder of the policy term where post-TRIA terrorism coverage was in effect.
- The terrorism deductible will remain unchanged.
- All other changes to policy terms and conditions are per the conditional renewal notice and the attachments thereto.

**POLICYHOLDER DISCLOSURE
NOTICE OF TERRORISM INSURANCE COVERAGE**

Date: August 12, 2014

**Insured Name: The City of Grand Island
Account Number: 05249**

Insurer Name: Factory Mutual Insurance Company

The Terrorism Risk Insurance Act of 2002, as amended and expanded in 2005 and 2007, 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 COVERAGE FOR LOSSES CAUSED BY ACTS OF TERRORISM WILL BE PARTIALLY REIMBURSED BY THE UNITED STATES GOVERNMENT UNDER A FORMULA ESTABLISHED BY FEDERAL LAW. UNDER THIS FORMULA, THE UNITED STATES PAYS 85% OF COVERED TERRORISM LOSSES EXCEEDING A STATUTORILY ESTABLISHED RETENTION BY THE INSURER REFERENCED ABOVE. THE PREMIUM CHARGED FOR THIS COVERAGE IS PROVIDED BELOW.

SELECTION 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, 2014 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 a pro-rated premium from policy inception through December 31, 2014 of \$6,276 (annual premium of \$25,172. This premium does not include applicable taxes or surcharges.

_____ I hereby reject this offer of coverage for terrorist acts covered by the act.

Policyholder / Applicant Signature

Print Name

Date

SUPPLEMENTAL UNITED STATES CERTIFIED ACT OF TERRORISM ENDORSEMENT

This Endorsement is applicable to all insured Locations in the United States (except in the State of New York), its territories and possessions and the Commonwealth of Puerto Rico.

Coverage for “Certified Act of Terrorism” Under The Terrorism Risk Insurance Act of 2002, as amended.

In consideration of a premium charged of USD6,276 pro rated premium from the Policy's inception date through December 31, 2014 (Annual premium of USD25,172), this Policy, subject to the terms and conditions therein and in this Endorsement, covers direct physical loss or damage to insured property and any resulting TIME ELEMENT loss, as provided in the TIME ELEMENT section of the Policy, caused by or resulting from a Certified Act of Terrorism as defined herein.

It is agreed that the coverage provided by this SUPPLEMENTAL UNITED STATES CERTIFIED ACT OF TERRORISM ENDORSEMENT attached to the Policy shall expire simultaneously with the expiration of the Terrorism Risk Insurance Act of 2002 including its extensions unless the Terrorism Risk Insurance Act of 2002 is further extended without modification by an Act of the United States Congress. In that event, coverage under this SUPPLEMENTAL UNITED STATES CERTIFIED ACT OF TERRORISM ENDORSEMENT will expire on the earliest of the expiration or cancellation date of the Policy to which it is attached or the revised expiration date of the United States Terrorism Risk Insurance Act of 2002 as specified in the provisions of such further extension. It is further agreed that an additional pro-rata premium will be due upon any extension of coverage.

Notwithstanding anything contained elsewhere in this Policy, any exclusion or limitation of terrorism in this Policy and any endorsement attached to and made a part of this Policy, is hereby amended to the effect that such exclusion or limitation does not apply to a “Certified Act of Terrorism” as defined herein. This amendment does not apply to any limit of liability for a Certified Act of Terrorism, if any, stated under the LIMITS OF LIABILITY clause of the DECLARATIONS section of this Policy.

With respect to any one or more Certified Act(s) of Terrorism, this Company will not pay any amounts for which the Company is not responsible under the terms of the Terrorism Risk Insurance Act of 2002 (including subsequent action of Congress pursuant to the Act) which includes a provision stating that if the aggregate insured losses exceed USD100,000,000,000 during any program year, neither the United States Government nor any insurer that has met its insurer deductible shall be liable for the payment of any portion of the amount of such losses that exceed USD100,000,000,000. If the aggregate insured losses for all insurers exceed USD100,000,000,000, your coverage may be reduced.

Proposal

The coverage provided under this Endorsement for “Certified” losses caused by acts of terrorism will be partially reimbursed by the United States Government under a formula established by Federal Law. Under this formula, the United States pays 85% of covered terrorism losses exceeding a statutorily established retention by the insurer referenced in this Policy. The premium charged for this coverage is provided above.

The terms and limitations of any terrorism exclusion, or the inapplicability or omission of a terrorism exclusion, do not serve to create coverage for any loss which would otherwise be excluded under this Endorsement or the Policy.

The coverage provided by this Endorsement only applies to a Certified Act of Terrorism.

Reference and Application: The following term(s) means:

Certified Act of Terrorism:

A “Certified Act of Terrorism” means any act that is certified by the Secretary of the Treasury, in concurrence with the Secretary of State, and the Attorney General of the United States, to be an act of terrorism pursuant to the federal Terrorism Risk Insurance Act of 2002 as amended and extended in 2005 and in 2007. The criteria contained in that Act for a “Certified Act of Terrorism” include the following:

- a. The act resulted in aggregate losses in excess of USD5,000,000; and
- b. The act is a violent act or an act that is dangerous to human life, property or infrastructure and is committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

SUPPLEMENTAL UNITED STATES CERTIFIED ACT OF TERRORISM ENDORSEMENT

This Endorsement is applicable to all insured Locations in the State of New York and remains in effect until December 31, 2014

Coverage for “Certified Act of Terrorism” Under The Terrorism Risk Insurance Act of 2002, as amended.

In consideration of a premium charged of USD6,276 pro rated premium from the Policy's inception date through December 31, 2014 (Annual premium of USD25,172), this Policy, subject to the terms and conditions therein and in this Endorsement, covers direct physical loss or damage to insured property and any resulting TIME ELEMENT loss, as provided in the TIME ELEMENT section of the Policy, caused by or resulting from a Certified Act of Terrorism as defined herein.

Notwithstanding anything contained elsewhere in this Policy, any exclusion or limitation of terrorism in this Policy and any endorsement attached to and made a part of this Policy, is hereby amended to the effect that such exclusion or limitation does not apply to a “Certified Act of Terrorism” as defined herein. This amendment does not apply to any limit of liability for a Certified Act of Terrorism, if any, stated under the LIMITS OF LIABILITY clause of the DECLARATIONS section of this Policy.

With respect to any one or more Certified Act(s) of Terrorism, this Company will not pay any amounts for which the Company is not responsible under the terms of the Terrorism Risk Insurance Act of 2002 (including subsequent action of Congress pursuant to the Act) which includes a provision stating that if the aggregate insured losses exceed USD100,000,000,000 during any program year, neither the United States Government nor any insurer that has met its insurer deductible shall be liable for the payment of any portion of the amount of such losses that exceed USD100,000,000,000. If the aggregate insured losses for all insurers exceed USD100,000,000,000, your coverage may be reduced.

The coverage provided under this Endorsement for “Certified” losses caused by acts of terrorism will be partially reimbursed by the United States Government under a formula established by Federal Law. Under this formula, the United States pays 85% of covered terrorism losses exceeding a statutorily established retention by the insurer referenced in this Policy. The premium charged for this coverage is provided above.

The terms and limitations of any terrorism exclusion, or the inapplicability or omission of a terrorism exclusion, do not serve to create coverage for any loss which would otherwise be excluded under this Endorsement or the Policy.

The coverage provided by this Endorsement only applies to a Certified Act of Terrorism.

Proposal



Reference and Application: The following term(s) means:

Certified Act of Terrorism:

A "Certified Act of Terrorism" means any act that is certified by the Secretary of the Treasury, in concurrence with the Secretary of State, and the Attorney General of the United States, to be an act of terrorism pursuant to the federal Terrorism Risk Insurance Act of 2002 as amended and extended in 2005 and in 2007. The criteria contained in that Act for a "Certified Act of Terrorism" include the following:

- a. The act resulted in aggregate losses in excess of USD5,000,000; and
- b. The act is a violent act or an act that is dangerous to human life, property or infrastructure and is committed by an individual or individuals as part of an effort to coerce the civilian population of the United States or to influence the policy or affect the conduct of the United States Government by coercion.

RESOLUTION 2014-269

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, 2013; 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 an increased total insured value of property from the present amount of \$525,012,331.00 to \$546,640,412.00; and

WHEREAS, a proposal to renew insurance for the 2014 – 2015 fiscal year was received from the current provider, Factory Mutual Insurance Company of St. Louis, Missouri, for a renewal premium of \$461,424.00, 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 include the emission control equipment being installed at the Platte Generating Station valued at \$40,000,000 for an annual premium of \$26,871, pro-rated on the actual startup date; 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 \$436,252.00, to execute the form to accept Terrorism Insurance Coverage, with a premium in the amount of \$25,172.00, for a total of \$461,424.00, the option to include the emission control equipment for an annual premium of \$26,871, 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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Approved as to Form	☐ _____
September 5, 2014	☐ City Attorney

Adopted by the City Council of the City of Grand Island, Nebraska, September 9, 2014.

Jay Vavricek, Mayor

Attest:

RaNae Edwards, City Clerk