



City of Grand Island

Tuesday, September 11, 2007

Council Session

Item G12

**#2007-221 - Approving Renewal of Boiler & Machinery
Insurance - Utilities Department**

Staff Contact: Gary R. Mader;David Springer;Wesley Nespor

Council Agenda Memo

From: Gary R. Mader, Utilities Director
David Springer, Finance Director

Meeting: September 11, 2007

Subject: Boiler and Machinery Insurance – Utilities Department

Item #'s: G-12

Presenter(s): Gary R. Mader, Utilities Director

Background

The Utilities Department Boiler and Machinery Property Peril and Fire coverage insurance is up for renewal as of October 1, 2007. This insurance is specifically designed for Electric Utilities and is readily adaptable to the Water Utility, which is also included in the coverage. The Utilities Department's insurance provider, FM Global, provided the attached proposal (attachment #2) for renewal of the present coverage.

The proposal outlines minor changes to the current policy, dealing with clarification of definitions of terms, adding coverage for power lines within 1000' of a substation, and increasing total covered valuation by 9% to \$360,817,829.

Additionally, in the proposal, there are extensive explanations of terrorism coverage, both certified and non-certified. The City Council firmly rejected the terrorism coverage several years ago, and it has not been included in subsequent renewals. Price quotes for terrorism coverages are provided in the proposal along with a Policy Holder Disclosure form (attachment #1) for execution by the City. FM Global requires execution of the form, either accepting or rejecting terrorism coverage. The current renewal does not include terrorism coverage. The complete policy is available in the Utilities and Finance offices for review. The renewal proposal and proposed policy have been reviewed by the Legal and Finance Departments.

Discussion

The premium for the renewal of the Boiler and Machinery, Property Peril, and Fire coverage is \$375,813.00, which is a 2% increase from the current policy premium.

Additionally, FM Global is a mutual company of insureds. Recent good claims records of insureds has resulted in a premium refund from the current year in the amount of \$49,663.00.

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 the Fire Insurance with FM Global and, if Council agrees, authorization of the Utilities Director to execute the Notice of Terrorism Insurance Coverage form to decline that coverage.

Sample Motion

Motion to approve acceptance of the FM Global insurance for the Utilities Department, with authorization to decline the Terrorism Coverage.

**POLICYHOLDER DISCLOSURE
NOTICE OF TERRORISM
INSURANCE COVERAGE**

Date: August 24, 2007

Insured Name: City of Grand Island
Account Number: 05249

Insurer Name: Factory Mutual Insurance Company

The Terrorism Risk Insurance Act of 2002, as extended on December 22, 2005, 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 90% (85% IN 2007) OF COVERED TERRORISM LOSSES EXCEEDING A STATUTORILY ESTABLISHED DEDUCTIBLE PAID BY THE INSURER REFERENCED ABOVE. 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 01, 2007, 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 the Policy's inception date through December 31, 2007 of USD5,340 (an annual premium of USD21,419. 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



ATTACHMENT #1

Proposal

City of Grand Island
August 24, 2007



ATTACHMENT #2

Proposal



Overview

We remain committed to protecting the value created by The City of Grand Island with strong engineering support and a stable insurance program. Your loss prevention program protects you from unwanted interruptions to your business, and unplanned expenses. A stable insurance program commits large capacity to 100% of The City of Grand Island's property risks.

Accomplishments

Over the last year, FM Global and The City of Grand Island have accomplished the following:

A Client Service Plan was completed that serves as an agreement and map to focus our efforts toward completing mutual objectives. Some of these important objectives include;

Collaboration of Field Engineering, Account Engineering and Grand Island management during the most recent field engineering visits to ensure the focus of risk improvement.

Agreement to issue the renewal policy by September 14.

Set a time frame for installing automatic sprinkler protection in the warehouses.

Client Service Plan

At FM Global, we are mindful that the strategies we pursue and decisions we make must ultimately be for the benefit of our mutual policyholders.

Our aim is always to mobilize our range of value added services in support of mutually agreed objectives.

The Plan already implemented included discussions about Risk Avoidance and/or Reduction, Communications, Administration, Claims and Client Training. The Risk Improvement Plan also discussed includes the short term and long term risk improvement. This Plan will be incorporated into the Client Service Plan.

Insurance

As a mutual insurance company, we are committed to the best interest of our policy holders. We are pleased to provide coverage for Transmission and Distribution power lines up to 1,000 feet from generating stations.

Contract Certainty - an issue of utmost importance to our relationship, we pride ourselves on ensuring that documentation reflecting our agreements are provided in a timely manner. With agreement to all renewal terms, if an order to bind coverage as outlined herein is confirmed at



Proposal

least five business days prior to renewal, FM Global will guarantee that the Master Policy will be delivered prior to the renewal date.

Financial Strength and Stability

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

- A. M. Best - A+ (Superior/Stable Outlook)
- Fitch - AA (Very Strong/Stable Outlook)
- In April 2007, A. M. Best affirmed FM Insurance Company Limited, the European and Australian based operations of FM Global, an A+ (Superior) rating, citing FM Global's superior capitalization, prominent market position, strong liquidity and positive long-term earnings prospects.

FM Global has assets of over USD12 billion. As of 31 March 2007, our Policyholders' Surplus is approximately USD5.5 billion and Gross Premium USD4.5 billion.

Mutual Ownership

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

- Membership Credits - We have paid out two membership credits with a total of USD575 million returned to our policyholders in 2001 and 2004 with another USD355 million expected to be returned in 2007.
- The City of Grand Island's premium credit to be given at 01 October 2007 renewal
- 15% credit based on premium as of 30 September 2006
- Your Membership Credit is USD49,663

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, senior management receives input from a representation of major insureds. Many positive changes in our operations including the development of new products have been made as a result of these discussions.

Proposal

Special Announcement – 2007 Policy Form Changes:

FM Global continually strives to provide market leading products and services. This includes our policy. Our client/owners have indicated that clear articulation and understanding of their policy are important to them. As a result, the latest standard version of our policy incorporates several changes, all aimed at increasing the understanding of coverages and contract certainty. None of these revisions represent changes in coverage intent:

- 1) Add an **Occurrence Definition**, including modifications throughout the form to make the term “Occurrence” consistent throughout.
- 2) Changes within the **Limits and Deductibles** sections including the following:
 - a) Wording has been added/revised to reinforce that limits and deductibles apply to both Property Damage and Time Element.
 - b) All deductibles state whether they apply on a “per Occurrence” or “per Location” basis.
 - c) Where applicable, limits that apply on a “per Location” basis are so specified.
 - d) Wording has been added to indicate how deductibles will interact when there are concurrent causes of loss (e.g. earthquake, flood, wind).
- 3) Add a definition of **Contamination** to the policy.
- 4) The policy continues to have an absolute exclusion for discharge, explosion or use of any nuclear device including any fire following. Wording has been added to the terrorism exclusion that clearly states that the **“fire following” provision does not extend to terrorism events involving a nuclear device.**
- 5) Issue new TRIA **“sunset endorsement”** due to the extension to 31 December 2007.

Additional changes from the current Policy include:

- The Limits for Automatic Coverage and Off Premises Storage for Property Under Construction will be per Location rather than per Occurrence.
- Specify the Terrorism limits and deductibles to apply upon the expiration of the Terrorism Risk Insurance Act of 2002.
- Transmission and Distribution Systems coverage within 1000 feet is added and applies to Location Nos.1, 2 on the current policy
- Extra Expense coverage to be provided for non-generating locations with a USD1,000,000 limit.
- Transportation Limit is increased to USD15,000,000 combined per Occurrence and deductibles are revised to the following:
 USD50,000 per Occurrence, except:
 USD250,000 per Occurrence applies to Turbine Units or any components or parts thereof,
-

Proposal

Premium

2006		2007	
USD367,507		USD375,813	
USD	Terrorism	USD	Terrorism
USD	Non Cert.	USD	Non Cert.
USD	Flood	USD	Flood
USD367,507 Total		USD375,813 Total	

Total Insurable Value:

2006	2007
USD330,842,703	USD360,817,829

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, or surcharges.

Premium does not include the quotes for Certified and expanded Non Certified Terrorism.
See the Optional Terrorism Quotes detailed elsewhere.

Florida Hurricane Catastrophe Fund Emergency Assessment: (New)

As required by law, all policies issued or renewed effective 01 January 2007 to 31 December 2007 involving locations in Florida must employ a surcharge equal to 1.0% on all premium with respect to those locations. This assessment is not subject to premium taxes, commissions, service fees or other charges and is not a premium.

Proposal



U. S. Terrorism

The Terrorism Risk Insurance Act of 2002 as amended by the Terrorism Risk Insurance Extension Act of 2005, 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 internationally instigated 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 2007.

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 01 October 2007, indicating your choice to accept or decline certified coverage as part of your renewal policy.

Our quotation for Certified Terrorism follows. The premium quoted does not include applicable taxes or surcharges.

While the coverage afforded under the Terrorism Risk Insurance Act of 2002 and the extension Act represents a significant enhancement to terrorism coverage, it does not respond to all types of terrorism events. The act provides coverage for certain types of events that occur in the U.S., its territories, and protectorates, when committed by individuals acting on behalf of foreign people or interests as certified by the Secretary of the Treasury of the United States. To supplement this federally backed coverage for certified acts, Factory Mutual Insurance Company also offers, as part of the property insurance policy, optional expanded coverage limits for non-certified terrorism exposures. This supplemental coverage applies to locations in the U.S., its territories, and protectorates, subject to policy terms and conditions relating to terrorism.

Our quotation for Non Certified Act of Terrorism follows. The sublimits quoted are inclusive of, and not in addition to, one another. The premium does not include applicable taxes and surcharges. Our quotation remains valid until 25 June 2007.

Proposal



Optional Terrorism Quotes

Coverage

Limit

Terrorism - Certified per the Terrorism Risk Insurance
Act of 2002

Policy Limit

Applies in the United States, its territories and
possessions and the Commonwealth of Puerto Rico

The Limit shown is per Occurrence.

The Policy Deductible would apply.

Note: If this offer for Certified Act of Terrorism is
declined, the Limit(s) for Terrorism and Non
Certified Act of Terrorism shown in the Draft Policy
will apply as respects Certified Act of Terrorism.

Additional premium for Certified Terrorism:

USD21,419

Proposal

Optional Terrorism Quotes

Coverage

Terrorism and Non Certified Act of Terrorism combined

Non Certified Act of Terrorism applies in the United States, its territories and possessions and the Commonwealth of Puerto Rico.

The Policy Deductible would apply as respects Non Certified Act of Terrorism.

Coverage applies at locations specifically described on the Schedule of Locations, at Miscellaneous Unnamed Locations and property covered under Miscellaneous Personal Property and Off Premises Storage for Property Under Construction.

Excluding Dependent Time Element; Extended Period of Liability; Ingress/Egress; Protection and Preservation of Property; and Service Interruption.

Note: If this offer for Terrorism and Non Certified Act of Terrorism is declined, the Limit(s) for Terrorism and Non Certified Act of Terrorism shown in the Draft Policy will apply.

Limit

USD250,000,000 for property located in the United States, its territories and possessions and the Commonwealth of Puerto Rico but not to exceed the following Limits in the Aggregate During Any Policy Year:

USD1,000,000 for Miscellaneous Unnamed Locations, Miscellaneous Personal Property, Off Premises Storage for Property Under Construction and Temporary Removal of Property combined

USD1,000,000 for Flood when caused by or resulting from Terrorism or Non Certified Act of Terrorism combined

These Limits shall not include the Actual Cash Value portion of fire damage caused by Terrorism.

Time Element Limit:
12 month period, not additive to any other Time Limits or Period of Liability, and subject to the Terrorism and Non Certified Act of Terrorism Limits shown above

Proposal



Optional Terrorism Quotes

Terrorism and Non Certified Act of Terrorism combined – continued:

Upon the expiration of the Terrorism Risk Insurance Act of 2002, the above Limits for Terrorism - Certified per the Terrorism Risk Insurance Act of 2002, and Terrorism and Non Certified Act of Terrorism combined, will be considered null and void and replaced with the following Limits for **Terrorism**:

USD250,000,000 for property located in the United States (except the state of New York), its territories and possessions and the Commonwealth of Puerto Rico but not to exceed the following Limits:

USD1,000,000 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

USD1,000,000 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.

Time Element Limit:

12 month period, not additive to any other Time Limits or Period of Liability, and subject to the Terrorism Limits shown above

Terrorism for property located outside of the United States, its territories and possessions and the Commonwealth of Puerto Rico:

USD5,000,000 for Terrorism in the Aggregate During Any Policy Year, but not to exceed the following Limits in the Aggregate During Any Policy Year:

USD1,000,000 for Miscellaneous Unnamed Locations, Miscellaneous Personal Property, Off Premises Storage for Property Under Construction and Temporary Removal of Property combined

USD1,000,000 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.

Time Element Limit:

12 month period, not additive to any other Time Limits or Period of Liability, and subject to the Terrorism Limits shown above

Proposal



Optional Terrorism Quotes

NOTE: Upon the expiration of the Terrorism Risk Insurance Act of 2002, if either or both offers of Certified Terrorism or increased Non Certified Act of Terrorism had been elected, the Terrorism Limits shown above will apply. If the offers of Certified Terrorism and increased Non Certified Act of Terrorism were both declined, the Limits for Terrorism shown in the Draft Policy will apply.

**Additional annual premium for Non Certified Act of
Terrorism:**

USD10,710

Proposal



Account No. 05249
Policy No. TBD

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

SUPPLEMENTAL UNITED STATES CERTIFIED ACT OF TERRORISM ENDORSEMENT

Coverage for "Certified Act of Terrorism" Under The Terrorism Risk Insurance Act of 2002

In consideration of a premium charged of USD5,340 pro rated premium from the Policy's inception date through December 31, 2007 (Annual premium of USD21,19), 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 Endorsement shall expire 31 December 2007 simultaneously with the expiration of the Terrorism Risk Insurance Act of 2002 as amended and extended in 2005 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 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 the 2005 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. Nor does the coverage provided by this Endorsement insure any TIME ELEMENT loss as provided in the TIME ELEMENT section of this Policy for more than the number of months shown in 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).

Proposal

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 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 90% (85% in 2007) 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 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. 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 acting on behalf of any foreign person or foreign interest, 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.

Proposal



Account No. 05249
Policy No. TBD

**This endorsement is applicable to Locations in the State of New York
and remains in effect until December 31, 2007**

SUPPLEMENTAL UNITED STATES CERTIFIED ACT OF TERRORISM ENDORSEMENT

Coverage for "Certified Act of Terrorism" Under The Terrorism Risk Insurance Act of 2002

In consideration of an additional premium charged of USD5,340 pro rated premium from the Policy's inception date through December 31, 2007 (Annual premium of USD21,419), 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 or 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.

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).

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

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 90%(85% in 2007) 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 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:

Proposal

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. 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 acting on behalf of any foreign person or foreign interest, 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 2007-221

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

WHEREAS, the City of Grand Island invited proposals for the renewal of the boiler and machinery insurance in accordance with the City's Purchasing Code; 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 \$330,222,703.00 to \$360,817,829.00;

WHEREAS, only one proposal was received, that being from the current provider, Factory Mutual Insurance Co. of St. Louis, Missouri, in the amount of \$375,813.00; and

NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF GRAND ISLAND, NEBRASKA, that the proposal of Factory Mutual Insurance Co. of St. Louis, Missouri, in the amount of \$375,813.00 is hereby approved.

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Adopted by the City Council of the City of Grand Island, Nebraska, September 11, 2007.

Margaret Hornady, Mayor

Attest:

RaNae Edwards, City Clerk