



City of Grand Island

Tuesday, August 26, 2008

Council Session

Item G19

**#2008-233 - Approving Renewal of Boiler and Machinery
Insurance - Utilities Department**

Staff Contact: Gary R. Mader; Dale Shotkoski

Council Agenda Memo

From: Gary R. Mader, Utilities Director
Dale Shotkoski, City Attorney
David Springer, Finance Director

Meeting: August 26, 2008

Subject: Boiler and Machinery Insurance – Utilities Department

Item #'s: G-19

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, 2008. 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 for renewal of the present coverage.

Over the past five years, the replacement cost of the Utilities facilities has increased greatly, primarily due to increased construction and metals costs. For example, copper prices have increased over 200% since 2004. The proposed insurance renewal includes a substantial increase in the total insured valuation of Water and Electric Utility properties, of 22%, to a total covered valuation of \$440,000,000.

Additionally, in the proposal, there are provisions for terrorism coverage. 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 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 \$393,651.00, which is a 4.7% 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 \$51,123.00.

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 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

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

Proposal

City of Grand Island
August 06, 2008



Proposal



Overview

Our proposal for 2008 is more than a summary of coverage terms and pricing – it is a package of engineering and account services, designed to respond to the interests and objectives of the City of Grand Island. The goal is to reach a point where this package is customized to such an extent that the efforts of the FM Global team of people are more of an extension of the City of Grand Island rather than a group of independent contractors.

The actual terms for the upcoming policy year are not markedly different from the current year, the exception being terrorism changes. The revisions are noted later in the proposal.

Accomplishments

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

Completed a joint inspection of both equipment and facility hazard field engineers, account engineer and plant personnel. This allowed for a mutual understanding of exposures and recommendations and actions to be taken.

Agreed to plans and completed the installation of an automatic sprinkler system in the warehouse.

Client Service Plan /Risk Improvement Plan

As indicated above this proposal is more than a summary of coverage terms and pricing. This section summarizes future action plans to continue to improve the risk. We use the Client Service Plan as the tool to keep focus.

Included in the plan is an action item to complete an oil fire hazard analysis at the Burdick Station

A second joint inspection is planned for August of 2008.

The cooling tower at Burdick is to be replaced in 2009.

The combustion control/burner management recommendation will be completed

FM Global is checking with engineering staff to determine an acceptable alternative to the steam valve dismantle and repair recommendation.

Develop and present a claims process and procedure and present it to the client.

Insurance

As a mutual insurance company, we are committed to the best interests of our policyholders.

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 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 Business Model

Financial Strength and Stability

FM Global has assets of over US \$12 billion. As of 31 December 2007, our Policyholders Surplus is approximately US \$6.3 billion and Gross Premium US \$4.7 billion.

A mutual company with a very strong balance sheet, FM Global's ability to provide stable capacity and meet its obligations to policyholders has been confirmed by major industry rating agencies, principally:

In January 2008 A.M. Best affirmed FM Global's A+ (Superior) rating and "stable" rating outlook, citing FM Global's "solid operating performance" and "extremely strong capitalization". An A+ rating is assigned to those insurers with "a very strong ability to meet their ongoing obligations to policyholders", according to A.M. Best, who also noted FM Global as a "market leader" with significant market share and policyholder retention as a result of its "stable capacity, unmatched engineering, global reach, loss prevention technology, shared commitment to property preservation . . ." for its policyholders.

In February 2008 Fitch Ratings affirmed FM Global's AA (Very Strong) rating and assigned a "stable" rating outlook. According to Fitch, "FM Global's favorable underwriting performance is due in large part to the company's ability to incorporate its engineering expertise into its risk selection and underwriting processes".

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, 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.

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

Proposal



Membership Credits - we have paid out three Membership Credits with a total of US\$918 million returned to our policyholders since 2001. We also recently declared a fourth Membership Credit for 2008 in the amount of approximately US\$380 million.

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- City of Grand Island premium credit to be given at 01 October 2008 renewal
- 15% credit based on premium as of 01 July 2008
- **Your Membership Credit is USD51,123**

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 overall market conditions.

Changes from the current Policy include:

- Policy amended in accordance with the 2007 extension of the Terrorism Risk Insurance Act of 2002.
- Need - Policy Number change for the Employers Mutual Companies Policy
- Policy Limit increased to \$440,000,000

Schedule of Locations and Values

Loc. No.	Address	100% Values
	Building	73,936,331
	Machinery & Equipment	365,762,431
	<u>Stock & Supplies</u>	0
	Total Property	439,698,762

Total Insurable Value:

Proposal



2007

2008

USD360,817,829

USD439,698,762

Premium

2007

2008

USD340,824 All Risk

USD357,865 All Risk

USD 0 Terrorism

USD 0 Terrorism see attached

USD 0 Flood

USD 0 Flood

USD375,813 Total

USD393,651 Total

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 the quote for Certified Terrorism. See the optional Terrorism quote detailed elsewhere.

U. S. Terrorism

The Terrorism Risk Insurance Act of 2002 as amended and extended in 2005 and again in 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. The Act has been extended to expire on 31 December 2014.

Attached is the Policyholder Disclosure Notice of Terrorism Insurance Coverage document and the applicable certified terrorism endorsement. **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 01, 2008 indicating your choice to accept or decline certified coverage as part of your renewal policy.

The premium for certified coverage is USD21,419 for the term of October 01, 2008 to October 01, 2009. This premium corresponds with the annual premium stated on the Policyholder Disclosure Notice of Terrorism Insurance Coverage and does not include applicable taxes or surcharges.

POLICYHOLDER DISCLOSURE NOTICE OF TERRORISM INSURANCE COVERAGE

Date: August 15, 2008

Insured Name: City of Grand Island
Account Number: 05249

Insurer Name: Factory Mutual Insurance Company

The Terrorism Risk Insurance Act of 2002, as amended and extended in 2005 and again in 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 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% OF COVERED TERRORISM LOSSES EXCEEDING A STATUTORILY ESTABLISHED DEDUCTIBLE PAID BY THE INSURER REFERENCED ABOVE.

YOU SHOULD ALSO KNOW THAT THE TERRORISM RISK INSURANCE ACT, AS AMENDED, CONTAINS A \$100 BILLION CAP THAT LIMITS THE U.S. GOVERNMENT REIMBURSEMENT AS WELL AS INSURERS' LIABILITY FOR LOSSES RESULTING FROM CERTIFIED ACTS OF TERRORISM WHEN THE AMOUNT OF SUCH LOSSES IN ANY ONE PROGRAM YEAR EXCEEDS \$100 BILLION. IF THE AGGREGATE INSURED LOSSES FOR ALL INSURERS EXCEED \$100 BILLION, YOUR COVERAGE MAY BE REDUCED.

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, 2008. 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 \$21,419. 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

SUPPLEMENTAL UNITED STATES CERTIFIED ACT OF TERRORISM ENDORSEMENT

This Endorsement is applicable to all insured Locations in the United States, 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 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 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.

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

Proposal

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.

R E S O L U T I O N 2008-233

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, 2008; 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 \$360,817,829.00 to \$439,698,762.00; and

WHEREAS a proposal was received from the current provider, Factory Mutual Insurance Company of St. Louis, Missouri, in the amount of \$393,651.00; and

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

WHEREAS the City has opted not to accept Terrorism Insurance Coverage in past policies.

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 \$393,651.00 is hereby approved, and the Utilities Director is hereby directed to execute the form to decline Terrorism Insurance Coverage.

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Adopted by the City Council of the City of Grand Island, Nebraska, August 26, 2008.

Margaret Hornady, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form	☐ _____
August 21, 2008	☐ City Attorney