



City of Grand Island

Tuesday, August 25, 2015

Council Session

Item G-8

#2015-222 - Approving Terrorism Insurance Renewal with FM Global for 2015 - 2016 for the Utilities Department

Staff Contact: Tim Luchsinger, Stacy Nonhof

Council Agenda Memo

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

Meeting: August 25, 2015

Subject: Terrorism Insurance Renewal with FM Global for 2015 - 2016

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 September 9, 2014 provided for a two year term, effective October 1, 2014, 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 an increase in the insured valuation from \$586,640,412.00, to \$609,200,000.00, a premium increase of \$14,673.00, which results in an annual premium change from \$463,123.00 for the current year to \$477,796.00, for the 2015-2016 year, and a premium increase of \$687.00 for Terrorism Insurance, which results in an annual premium change from \$25,172.00 for the current year to \$25,859.00 for the 2015-2016 year.

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 \$25,859.00. 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.

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.

Proposal

City of Grand Island
Anniversary
October 1, 2015



Overview

FM Global and the City of Grand Island have been partners for over 30 years and FM Global wants to continue this relationship for many more years. Part of this commitment to this partnership is to continue our strong engineering support a stable insurance program and another membership credit for the 2015 -16 policy period.

Client Service Plan

Continue to collaborate with the client to help reduce the potential for loss. As of this date there are no open recommendations. As you know FM Global is ready to assist with any changes in operation or property.

Insurance

FM Global continually looks for opportunities to improve our policy form, either by enhancing coverage or by making modifications that result in greater clarity or better continuity. We strive to be a leader in contract certainty and are proud to offer the 2011 version of the FM Global **PowerGen** Advantage form tailored to specifically address exposures and meet the unique needs of the Power Generation industry.

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.

Additional changes from the current Policy include:

- Provide prior to binding the latest Employers Mutual Companies Policy number – Policy for exclusion
- Final year of a 2 year Multi-Year Agreement
- Increasing the policy Limit to \$610,000,000

Financial Strength and Business Model

Financial Strength and Stability

FM Global maintains a solid balance sheet with ample liquidity to meet policyholder obligations. As of 31 December 2014, Policyholders' Surplus was US \$10.6 billion and Gross Premium in force was US \$5.3 billion. Our financial strength and stability have been affirmed by major industry rating agencies, principally:

A.M. Best – A+ (Superior) Rating | Stable Outlook

“Excellent risk-adjusted capitalization and historically solid operating performance”
“Innovative loss prevention process and approach to property conservation”
“Market leadership position in the commercial property market”

Fitch – AA (Very Strong) Rating | Stable Outlook

“Engineering capabilities and property loss prevention services [are] key advantages that are difficult for competitors to replicate”
“Expertise will result in future underwriting results that are consistently better than peers”

Standard & Poor's (S&P) – A+ Rating | Stable Outlook

“Very strong business risk profile and strong financial risk profile”
“Highly regarded reputation for using its engineering expertise to assess client risks to help prevent and mitigate loss give it a significant competitive advantage”
“Best-in-class products and services that keep pace with policyholder/owner needs”

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. Deliverable benefits for our clients include:

Membership Credits – Following our seventh membership credit in 2014/2015, we will have applied more than US \$2.5 billion in total membership credit to our mutual owners

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

The 2014 – 2015 estimated amount was: \$60,782

The 2015 – 2016 estimated amount is: \$66,720

Schedule of Locations and Values

100% Values

Building	91,477,531
Machinery & Equipment	514,539,769
Stock & Supplies	<u>3,182,700</u>
Total Property	609,200,000

Total Insurable Value:

2014	2015
USD 586,640,412	USD 609,200,000

Premium

2014	2015
USD 463,123 All Risk	USD 477,796 All Risk
<u>USD 25,172 Terrorism</u>	<u>USD 25,859 Terrorism</u>
USD 488,295 Total	USD 503,655 Total

- Actual premium paid in 2014 was only \$479,240 as the \$40,000,000 equipment at Platte Generating station was added mid term and was pro-rated.

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

United States Terrorism Quote

The Terrorism Risk Insurance Act of 2002 as amended and extended in 2005, 2007 and again in 2015, requires that insurers advise clients of their option to elect or reject terrorism coverage under the act as part of their property 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 2020.

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 being proposed. In addition, in the United States, we are offering no terrorism sublimit for Flood, Miscellaneous Unnamed Locations, Miscellaneous Personal Property and Off Premise Storage For Property Under Construction, and Temporary Removal of Property and no 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 25,859 for the term of October 1, 2015 to October 1, 2016 and does not include applicable taxes or surcharges.

The Policyholder Disclosure Notice of Terrorism Coverage document and the applicable certified terrorism endorsement are attached for your review. Please note the Disclosure form must be completed, signed and returned to Patrick Belding prior to October 1, 2015 indicating your choice to accept or reject the certified terrorism coverage offered.

**POLICYHOLDER DISCLOSURE
NOTICE OF TERRORISM INSURANCE COVERAGE**

Date: August 11, 2015

Insured Name: City of Grand Island
Account No: 05249

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, 2015, THEN YOUR RENEWAL POLICY WILL REFLECT YOUR DECISION NOT TO PURCHASE THE TERRORISM COVERAGE PROVIDED BY THE ACT FOR THE TERM OF October 1, 2015 TO October 1, 2016.

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

Date: August 11, 2015

**Insured Name: City of Grand Island
Account No: 05249**

_____ I hereby elect to purchase coverage for terrorist acts covered by the act for an annual premium of USD 25,859. 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 2015-222

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

WHEREAS, the coverage against terrorism expires October 1, 2015; and

WHEREAS, a proposal to renew the terrorism insurance for the 2015 – 2016 fiscal year was received from the current provider, Factory Mutual Insurance Company of St. Louis, Missouri, for a renewal premium of \$28,859.00; and

WHEREAS, the insurance provider requires that the City either except or reject Terrorism Insurance Coverage by executing the form provided, and the City has opted to accept the optional Terrorism Insurance Coverage for the upcoming fiscal year, 2015 – 2016.

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 for terrorism insurance in the amount of \$25,859.00, is hereby approved, and the Mayor is hereby authorized to execute the Acceptance of Terrorism Insurance on behalf of the City.

Adopted by the City Council of the City of Grand Island, Nebraska, August 25, 2015.

Jeremy L. Jensen, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form	☐ _____
August 21, 2015	☐ City Attorney