



City of Grand Island

Tuesday, September 14, 2010

Council Session

Item G10

**#2010-244 - Approving Boiler & Machinery Insurance - Utilities
Department**

Staff Contact: Gary R. Mader

Council Agenda Memo

From: Gary R. Mader, Utilities Director
Dale Shotkoski, City Attorney
Mary Lou Brown, Finance Director

Meeting: September 14, 2010

Subject: Boiler and Machinery Insurance – Utilities Department

Item #'s: G-10

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, 2010. 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.

Key provisions included in the proposed renewal are an increase in the insured valuation from \$440,304,760, to \$456,743,074; a premium reduction of \$21,266, reducing the annual premium from \$375,641 for the current year, to \$354,375 for the 2010-2011 year; and a Factory Mutual Membership Credit of \$54,073 reflecting the recent good loss record of companies insured by this mutual insurer.

Additionally, in the proposal, there are provisions for terrorism coverage. The City Council firmly rejected the terrorism coverage several years ago, but it was included in the 2009-2010 renewal. Price quotes for terrorism coverages are provided in the proposal along with a Policy Holder Disclosure form for execution by the City, either accepting or rejecting 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 \$354,375, which is a 5.7% decrease from the current policy premium.

Utility and Finance staff have evaluated the Terrorism Coverage. The annual premium to add that coverage is \$21,721. The probability that a relatively remote location in the central part of the nation would be targeted for a terrorist attack is evaluated as very unlikely. However, given the demonstrated high magnitude of destruction resulting from a terrorist attack, the potential loss from such an attack could be very high. It is estimated that an attack similar to the Oklahoma City Federal Building, at a high value target such as the Platte Generating Station (PGS), could result in damages in excess of \$100,000,000. For perspective, the annual premium adder is roughly equivalent to one day's fuel use at PGS.

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 add 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



Additional changes from the current Policy include:

Policy Limit increased to USD456,000,000 from USD440,000,000

No other changes to the renewal policy.

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.

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 2009, Policyholders' Surplus was US \$6.2 billion and Gross Premium in force was US \$4.7 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 October 2009 A.M. Best affirmed FM Global's A+ (Superior) rating and Stable rating outlook, citing FM Global's "solid operating performance" and "very 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 and shared commitment to property preservation . . ." for its policyholders.

In February 2010 Fitch Ratings affirmed FM Global's AA (Very Strong) rating and Stable rating outlook. Fitch views FM Global's "engineering capabilities and loss prevention services as key advantages that are difficult for competitors to replicate", and believes "this expertise will result in sustainable underwriting results that are better than peers."

Proposal



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 four Membership Credits with a total of nearly US \$1.3 billion returned to our policyholders since 2001. A fifth Membership Credit is being disbursed during mid-2010 through mid-2011 in the amount of approximately US\$ 420 million.

A Membership Credit has been declared by the Board of Directors for the 2010 renewal. If the policy is renewed a 15% premium credit based upon the 2010 premium will be applied to the renewal invoice. This amount will be USD54,073.

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.

Proposal



Schedule of Locations and Values

Loc. No.	Address	100% Values	
See Policy for schedule of locations		Building	USD 68,242,555
		<u>Machinery and Equipment</u>	USD388,500,519
		Total Property	USD456,743,074

Total Insurable Value:

2009	2010
USD 440,304,760	USD456,743,074

Premium

2009	2010
USD 375,641 All Risk	USD 354,375 All Risk
<u>USD 21,631 Terrorism</u>	<u>USD 21,721 Terrorism</u>
USD 397,272 Total	USD 376,096 Total

Sustainability Select Coverage

Coverage	Limit	Premium
A	USD100,000	USD 6,367
	USD500,000	USD 9,551
B	USD500,000	USD12,735
	USD5,000,000	USD25,469

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 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 1, 2010 indicating your choice to accept or decline certified coverage as part of your renewal policy.

The premium for certified coverage is USD21,721 for the term of October 1, 2010 to October 1, 2011. 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 23, 2010

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 1, 2010 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 \$21,721. 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 USD 21,721 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.

RESOLUTION 2010-244

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, 2010; 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 \$440,304,760 to \$456,743,074; and

WHEREAS, a proposal to renew insurance for the 2010 – 2011 fiscal year was received from the current provider, Factory Mutual Insurance Company of St. Louis, Missouri, for a renewal premium of \$376,096, 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 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 \$354,375 is hereby approved, and the Utilities Director is hereby directed to execute the form to accept Terrorism Insurance Coverage, with a premium in the amount of \$21,721.

- - -

Adopted by the City Council of the City of Grand Island, Nebraska, September 14, 2010.

Margaret Hornady, Mayor

Attest:

RaNae Edwards, City Clerk

Approved as to Form	☐ _____
September 10, 2010	☐ City Attorney