

COUNCIL ACTION FORM

SUBJECT: 2013/14 PROPERTY INSURANCE RENEWAL

BACKGROUND:

The insurance policies for the City's property (buildings and contents) coverage expire on June 30, 2013. Last year, on July 1, 2012, Council approved staff recommendations to make major changes to the City's property insurance program.

The first major change was splitting the program and utilizing two primary insurance policies:

- 1) Non-power related facilities coverage. (These are designed as "Muni" on the chart on the next page. For FY 2012/2013 Chubb Group supplied "Muni" coverage.)
- 2) Power plant and related power generation assets. (These are designated as "Power" in the charts on the next page. For FY 2012/2013 AEGIS supplied "Power" coverage.)

This split in the program permitted more flexibility and pricing advantages in the marketplace.

The second major change was the City's adoption of a new approach on evaluating how much risk it should appropriately transfer and finance through insurance versus self-assumption. The overarching question answered last year was "How much insurance is enough?" In other words, is it financially prudent to purchase 100% of insurance limits equal to the total valuation of all property assets if the worst case loss scenario would never result in a claim equal to the 100% valuation amount?

A widely accepted risk management technique for quantifying a worst case scenario to finance or insure is known as the **Maximum Foreseeable Loss (MFL)**. In the case of the City of Ames, the City used the assumption of an EF5 tornado with a wide swath, touching down near the CyRide facility, traveling east along or near Lincoln Way, not lifting up until it reached the Public Works Facility in east Ames. Assuming damage to City buildings in this path would result in 100% total destruction, the MFL would equal the Total Insured Value of City facilities along this path.

A photo of this path and the Total Insured Value (TIV) of these buildings is attached in Exhibit A. Some are insured in the "Muni" program and some are included with the "Power" program. Table 1, on the next page, shows "Muni" buildings in the path valued

at \$113 million which is included in the \$147,622,144. As for the MFL of the of the “Power” related facilities (Table 2), we used the Actual Cash Value (ACV) claim for the Power Plant and other related power assets. ACV is used for this insurance program, due to the understanding that if the Power Plant is destroyed, the City is not planning (or may not be permitted) to replace it. Therefore, the \$198,790,087 MFL for the "Power" properties program, shown in Exhibit A, includes \$112 million ACV for the Power Plant plus other power related assets of approximately \$86 million.

2013 ‘Muni’ Facilities Renewal (Chubb Group)
TABLE 1

Chubb ‘Muni’ Coverage	2013	2012	Difference
Insured Values, includes improved bus coverage	\$147,622,144	\$169,860,381	-13.1%
Final ‘Muni’ Rate with improved bus physical damage coverage (Per \$100 of Insured Valuation)	.0773	.0701	+10.27%
Premium	\$114,112	\$119,031	-\$4,919
RSUI Excess Flood	\$5 <u>M</u> excess of Chubb’s \$1 <u>M</u>	\$5 <u>M</u> excess of Chubb’s \$1 <u>M</u>	
Excess Flood Insured Values of WPC + CyRide + Furman Aquatic	\$66,670,042	\$73,436,118	-9.2%
Annual Premium (minimum)	\$50,000	\$49,500	+1.0%

2013 ‘Power’ Facilities Renewal
Associated Electric and Gas Insurance Services Ltd. (AEGIS)
TABLE 2

AEGIS “Power” Coverage	2013	2012	Difference
Insured Values @ Replacement Cost	\$374,933,674	\$368,492,489	+1.7%
MFL Value with Power Plant at ACV	\$198,790,087	\$195,467,146	+1.7%
Amount of Coverage Purchased	\$200,000,000	\$200,000,000	no change
Account Rate (Per \$100 of Insured Valuation)	\$0.1288	\$0.1173	+9.8%
Premium	\$482,775	\$432,080	+11.7%

**2013-14 Combined Programs (Total Cost)
 “Muni” & “Power” Insurance
 TABLE 3**

	FY 2013/14 Excl. Intermodal	FY 2012/13 Incl. Intermodal	Difference
1. “Muni” Properties (Chubb)	\$114,112	\$119,031	-4.1%
2. \$5.0M Excess Flood (RSUI) for WPC, CyRide & Furman Aquatic	\$50,000	\$49,500	+1.0%
3. “Power” (AEGIS)	\$482,775	\$432,080	+11.7%
TOTAL of Insurer Quotations for ‘Muni’ and ‘Power’ Programs	\$646,887	\$600,111	+7.8%
Budget	\$652,639		

ALTERNATIVES:

1. Approve the FY 2013/14 Property Insurance Program proposal as shown in Table 3.
2. Reject the FY 2013/14 Property Insurance Program proposal as shown in Table 3 and direct staff to obtain property insurance quotes from other companies.

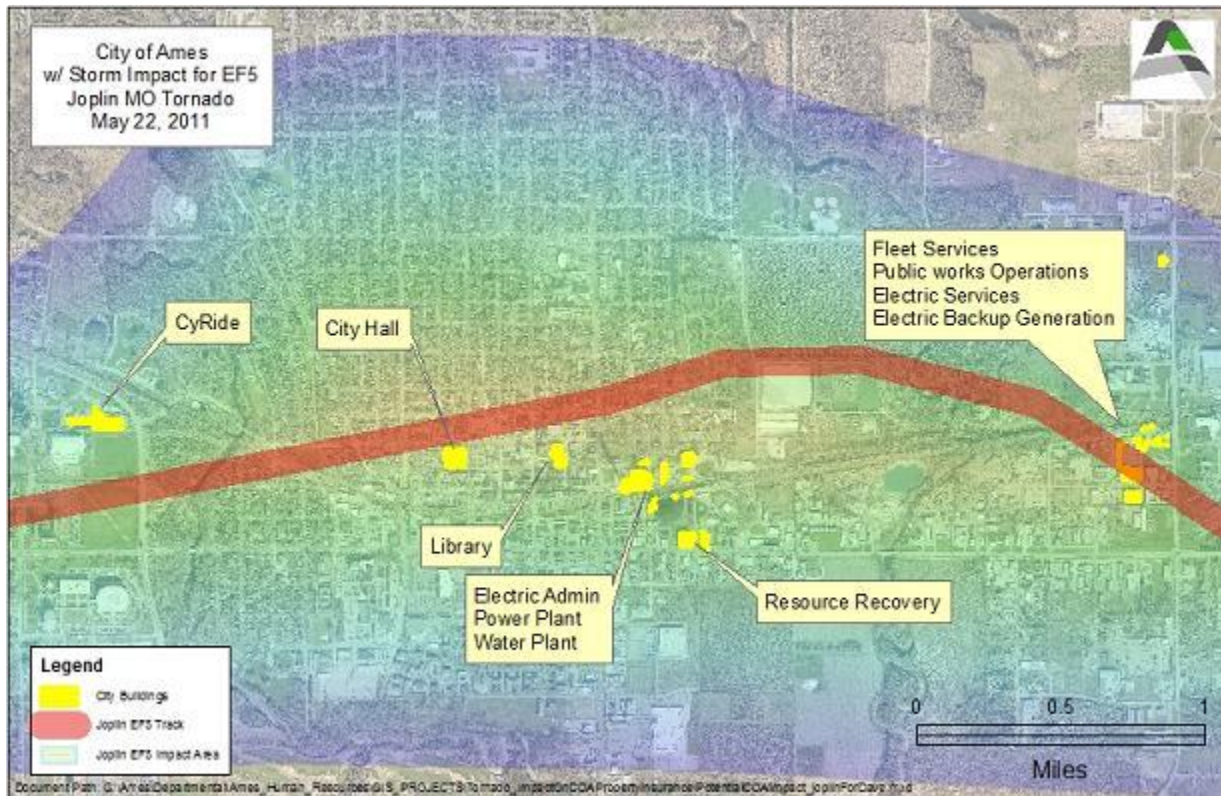
MANAGER'S RECOMMENDED ACTION:

The program that is being considered is similar to the coverage that that was approved in July 2012, with minor coverage updates due to new property appraisals. To date, the City staff has been very satisfied with the coverage and the services offered by the insuring companies. The total cost of the property insurance proposal for FY 2013-14 is \$5,752 less than the budget amount.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the proposed insurance renewal quotes obtained by our broker, Willis, for the “Muni” buildings from Chubb Group, for the “Power” facilities from AEGIS, and for the Excess Flood insurance from RSUI as presented in Table

Exhibit A

Maximum Foreseeable Loss (MFL) Tornado Path along Lincoln Way – Red Line is the Joplin, MO, EF5 tornado path overlaid to scale.



MFL Total Loss in the Depicted Corridor	Policy Year	“Power” Locations with Power Plant at Replacement Cost	“Power” Locations with Power Plant @ Actual Cash Value (ACV)	“Muni” Properties at Replacement Cost
“MFL” Loss Potential	2013-14	\$379,384,146	\$198,790,087	\$ 113,210,013
Policy Limits Purchased	2013-14	NA	\$200,000,000	\$ 147,622,144

Exhibit B
CITY of AMES Property Rate History

Year	T I V incl. buses PD FY2012 and FY2013	Premium	Blended Account Rate per \$100 Total Insured Values
2008-09	\$333M	\$444,098 FM	.1333
2009-10	\$363M	\$473,281 FM	.1303
2010-11	\$439M	\$523,303 FM	.1191
2011-12	\$471M	\$677,330 FM	.1438
2012-13 quoted	\$541M	\$823,915 FM	.1488
2012-2013 purchased	\$341M (MFL)	\$600,111 Chubb/AEGIS	.1170
2013-2014 Quoted: awaiting Council action	\$347M (MFL)	\$646,887 Chubb/AEGIS	.1242