

COUNCIL ACTION FORM

SUBJECT: 2015/16 PROPERTY BROKER AND INSURANCE RENEWAL

BACKGROUND:

Two components are involved in renewing the City's property insurance for the upcoming fiscal year. The first is extending the City's agreement with Willis of Illinois, Inc., for property insurance brokerage services. The second is accepting the actual renewal premium quotations for the City's property insurance program.

Part One – Broker Contract One Year Extension

Effective July 1, 2012, the City entered into a three year program with Willis of Illinois, Inc., for property insurance brokerage services. The contract included two extension options of one year each. The recommended 2015/16 contract renewal will be the first of the two optional one year extensions. The annual fee will be \$45,000, which has remained unchanged since 2012. Willis of Illinois has done an effective job providing brokerage, consulting and insurance placement services since the inception of the contract.

During Willis' original three year term, beginning with the FY 2012/13 renewal, the City made major risk management changes to its property insurance program.

The first major change was splitting the property insurance program into two parts, with one part covering power (Power Plant & Resource Recovery Plant) and related assets, and the other part covering all other municipal property. This enabled the City to consider insurance companies with coverages tailored to certain types of risks. The "Power" and related insurance was placed by Willis with Associated Electric and Gas Insurance Services (AEGIS), which specializes in utilities. The "Non-power" or "Municipal" facilities insurance was placed with Chubb Insurance Group with an insurance policy specifically designed for municipal properties. This approach enabled optimization of terms and pricing based on the insurer's specializations, versus placing insurance in a "one size fits all" program.

The second major change was the City's approach to financing the property risk, either through insurance or self-insurance. The question of "how much insurance is enough?" was addressed by the City Council in June 2012. Historically, it was determined to be prudent to purchase insurance limits equal to 100% of the total value of all property assets, even if the worst case loss scenario would never result in a claim equal to 100%?

As an alternative to insuring at 100% of value, the City Council determined it would use the widely accepted risk management technique known as Maximum Foreseeable Loss

(MFL) for quantifying a worst case scenario to finance or insure the City’s property risk. The City used a model of an EF5 tornado with a wide swath, touching down at or near the CyRide facility, traveling east and parallel with Lincoln Way, and not lifting up until it had reached the Public Works Maintenance Facility in east Ames. This MFL assumption is now used to calculate the Total Insured Value (TIV) included in the two part property insurance program.

Utilizing the MFL valuation approach, Electric Services advises that, in the event the Power Plant sustained a total loss, it would not be replaced in its current configuration. Therefore, the City’s TIV amount does not include a full Replacement Cost claim (\$311 million). Instead, the total loss (MFL) estimate used for the Power Plant is based on an Actual Cash Value (ACV) claim (\$124 million). This amount is estimated to be sufficient to replace the same megawatt capacity with a new natural gas generating plant. Other than the Power Plant, all other assets are insured at estimated replacement cost.

Part Two – Insurance Renewal

Besides approving the one year extension of Willis’ contract, Council is asked to consider renewal premium quotations for the two part insurance program. The quotation proposals from the expiring insurance companies, Chubb (Municipal) and AEGIS (Power related) is summarized in the table below:

Summary of City of Ames Two Part Program Costs For “Municipal” & “Power” Insurance			
<i>Council Action</i> needed for Annual Premiums in Shaded Cells	FY 2015/16 Proposed COMBINED ANNUAL PREMIUM	FY 2014/15 Proposed ANNUAL PREMIUM	Difference 2015/16 vs. 2014/15
“Municipal” Properties (Chubb) including CyRide Buses on Premises Coverage	\$117,858	\$127,269	-7.4%
\$5.0M Excess Flood Layer covers flood zones and includes WPC, CyRide & Furman Aquatic. Insurer is RSUI since 2012.	\$45,000	\$50,000	-10%
“Power” Properties (AEGIS)	\$481,283	\$502,325	-5.1%
“Power” Terrorism \$200.0 Million limits: TRIA in 2015/16, versus Lloyd’s in 2014/15	\$18,716	\$46,171	-59.5%
Total Insurance Premiums	\$662,857	\$725,765	-8.67%

Comment on TRIA (Terrorism Coverage)

The City’s insurance costs were negatively impacted last year because Congress failed to authorize The Terrorism Risk Insurance Act (TRIA) until six months after the July 1 renewal. Because TRIA was renewed effective January 12, 2015, it was unnecessary to source terrorism coverage from Lloyd’s of London for the AEGIS part of the program.

TRIA government backed coverage, while shown on a separate line in the table to highlight the cost difference, will be included in the insurance policy issued by AEGIS at a significant cost reduction, from \$46,171 (Lloyds) to \$18,716 from AEGIS.

TOTAL COST RECAP

Property Insurance Program costs. (Approval requested)	FY 2015/16	FY 2014/15	Difference
Total Premiums from above Table	\$662,857	\$725,765	-8.67%
Annual Broker Fee (Willis 1-yr. extension)	\$45,000	\$45,000	--
TOTAL COST of Premiums and Broker	\$707,857	\$770,765	-8.17%
APPROVED BUDGET	\$795,000	\$769,851	

In addition to the \$662,857 for premiums noted in the above table, Willis’ annual brokerage fee is \$45,000. Therefore, total cost of the two part property insurance program described above is \$707,857, which is 8% less than the previous fiscal year total and 11% less than the approved 2015/16 budget amount of \$795,000. (See attachment A for a detailed breakdown that includes rates and insured values changes.)

ALTERNATIVES

1. Approve a) the one year extension of the Willis of Illinois broker contract in the amount of **\$45,000** and **b)** the proposed 2015/16 Annual Premium for "Power" and "Municipal" properties, brokered by Willis, of **\$662,857**, for a total cost of **\$707,857**.
2. Direct staff to seek other options for insuring the City's property.

MANAGER'S RECOMMENDED ACTION:

The proposed insurance renewal quotes obtained by the City's broker, Willis of Illinois, Inc., for the “Municipal” buildings from Chubb Group, for the Excess Flood insurance from RSUI, and for the “Power” and related facilities from AEGIS, as shown in the shaded cells in the above tables, provide appropriate coverage for the City’s property assets. The FY 2015/16 program is essentially the same as the expiring FY 2014/15 insurance coverages, except for the change in terrorism coverage, which is once again included in AEGIS’ insurance policy due to the federal renewal of TRIA.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving a) the one year extension of the Willis of Illinois broker contract in the amount of \$45,000 and b) the proposed 2015/16 Annual Premium for "Power" and "Municipal" property coverage, brokered by Willis, in the amount of \$662,857, for a total program cost of \$707,857.

Attachment A – Details of Renewal Premium Quotes, Rates and Insured Values

2015/16 ‘Power’ Facilities Premium Renewal Pricing (AEGIS) Same basic program as expiring, except terrorism is included in TRIA			
“Power” and Related Assets Coverage	FY2015/16 AEGIS	FY2014/15 AEGIS & Lloyds	Difference 2015/16 vs. 2014/15
Indexed Insured Values @ Replacement Cost	\$387,924,474	\$381,373,643	+1.7%
Amount of Coverage Purchased (MFL Basis; assumes Power Plant Total Loss @ ACV)	\$200,000,000	\$200,000,000	--
Account Rate	\$0.1241	\$0.1317	-5.8%
Power Related Premium, includes TRIA terrorism coverage, without Terrorism	\$481,283	\$502,325	-4.2%
Terrorism Coverage; 2014/15 from Lloyd’s and 2015/16 included in Policy under TRIA	\$18,716	\$46,171	
Total Power Related Premium, with Terrorism Coverage Cost Included	\$499,999	\$548,496	-8.8%

2015/16 ‘Municipal’ Facilities Premium Renewal Pricing (Chubb Group & RSUI) Same basic program as expiring			
Chubb “Municipal” Assets Coverage	FY2015/16 CHUBB	FY2014/15 CHUBB	Difference 2015/16 vs. 2014/15
Indexed Insured Values @ Replacement Cost, including CyRide Buses on Premises	\$154,824,237	\$152,164,669	+1.7%
Excess Flood Limits, applies to WPC, CyRide, Furman Aquatic Center.	\$5,000,000	\$5,000,000	--
Chubb Premium	\$117,858	\$117,618	+0.2%
Library Builders Risk Premium (not renewed)	\$0	\$9,651	
Chubb Total	\$117,858	\$127,269	-7.4%
Chubb Rate	.0761	.0836	-9.0%
Excess Flood \$5.0 million Layer (RSUI)	\$45,000	\$50,000	-10%
Total Municipal Property Premium	\$162,858	\$177,269	-8.1%