

COUNCIL ACTION FORM

SUBJECT: RENEWAL OF PROPERTY AND BOILER & MACHINERY COVERAGE

BACKGROUND:

The insurance policy for the City’s property (building and contents) and boiler and machinery coverage expires on July 1, 2009. FM Global has provided this coverage for the past five fiscal years.

The City has buildings and contents that are currently valued at \$363,246,000. Over \$240,353,000 of this value is concentrated in the Electric Utility (power plant, substations, and combustion turbines). For FY 2009-10 the valuation of the Power Plant was increased by \$12,586,259, and the valuation of the combustion turbines increased by \$9,417,984. The increased valuations resulted from a “correction” by FM Global of low building valuations used in previous fiscal years. As a result of this increase in the Electric Utility, the premium for these properties increased by \$25,380 or approximately 8%. In comparison, the remaining City properties only experienced a 3% to 4% increase in premiums.

The market for property insurance remains very difficult. Staff could not identify other insurance carriers who could provide all of the required coverage under one all-risk policy.

The relationship with FM Global continues to be a very satisfying one for both parties. FM Global has been invaluable to the City in their assistance with our ongoing loss control initiatives (e.g., building plan review, site evaluation, etc.). They have also provided our departments with direct help on safety programs.

The pricing structure for the property and boiler and machinery coverage is as follows:

	FY 2008-009	FY 2009-10 Budget	FY 2009-10 Proposal
Policy Limit	\$334,000,000	\$334,000,000	\$360,000,000
Base Premium	\$444,100	\$458,758	\$473,300
Premium Credit	<u>\$(21,548)¹</u>	<u>-----</u>	<u>-----</u>
	\$410,796	\$458,758	\$473,300

¹ As a policy holder for three years or more, the City is eligible for a premium credit based on premium paid. It is not guaranteed each year and a premium credit was not issued for FY2009-10.

ALTERNATIVES:

1. Accept the proposal from FM Global for renewal of property coverage and boiler and machinery coverage during 2009-10 in the amount of \$473,300.
2. Reject the FM Global proposal and request that staff seek other proposals.

MANAGER'S RECOMMENDED ACTION:

It is critical to maintain adequate insurance coverage for the City's property and boiler and machinery risks, and the premiums proposed by FM Global seem appropriate.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative #1, thereby approving the proposal from FM Global Insurance Company for property coverage and boiler and machinery coverage during 2009-10 in the amount of \$473,300.