

COUNCIL ACTION FORM

**SUBJECT: RENEWAL OF PROPERTY AND BOILER & MACHINERY INSURANCE
COVERAGE**

BACKGROUND:

The insurance policy coverage for the City's property (building and contents) and boiler and machinery (also known as equipment breakdown insurance) expires on June 30, 2010.

Property insurance, after meeting a deductible (also known as a retention), pays for accidental damage by fire, flood, lightning, etc., that might occur at any of the City's structures or with their contents. The City's properties vary greatly, ranging from more common types of buildings like City Hall and the library to the power plant, water towers, electric substations and combustion turbines. Yet one more property just added in January, 2010 is the Furman Aquatic Center.

Boiler and machinery insurance covers losses resulting from the accidental breakdown of almost any type of equipment that operates under pressure or that controls, transmits, transforms, or uses mechanical or electrical power. Common examples of such equipment are steam boilers; electrical generating and transmitting equipment; pumps, turbines and engines; air conditioning and refrigeration systems; and all types of electrically powered office equipment such as copiers and computers.

FM Global has provided these coverages for the last six fiscal years. FM Global is a U.S.-based company that specializes in loss prevention services primarily to large corporations throughout the world in the Highly Protected Risk property insurance market sector. This sector includes property that is judged to be subject to a much lower than normal probability of loss by virtue of low hazard, occupancy or property type, superior construction, special fire protection, equipment and procedures, and management commitment to loss prevention.

The company employs a non-traditional business model whereby risk and premiums are determined by engineering analysis as opposed to historically based actuarial calculations. This business approach is centered on the belief that property losses can be prevented or mitigated. FM Global engineering personnel regularly visit insured locations to evaluate hazards and recommend improvements to their property or work practices to reduce physical and financial risk if a loss occurs.

The relationship with FM Global continues to be acceptable for both parties. FM has provided helpful assistance with the City's ongoing loss control initiatives, such as building plan review and site evaluation. They have also provided City departments with direct help on safety programs.

The City has buildings and contents that are currently valued at \$439,377,048. Over \$306,489,000, or 70%, of this value is concentrated in the Electric Utility (power plant, substations, and combustion turbines). The premium charged for this coverage is dependent on the replacement value of the structures. A statement of values and corresponding premium is summarized in the attachment.

Based on these values, the premium comparison indicates a 9.1% increase from FY09/10 to FY 10/11. The majority of this increase is due to a 28% increase in valuations on the power plant and a 26% increase on the valuation of the combustion turbines as FM Global has implemented a new software program called "Thermaflow" to value utilities such as ours. **As reflected on the attachment, of the total \$43,522 increase in the premium cost (before the membership credit), \$42,614 is associated with the Electric Services Utility.** Since the adjustments to the values have been made over the last two years, it is hoped that we will not experience such large valuation increases from FM Global in the future.

On a positive note, the City will be eligible for a membership credit of 10% of the premium paid in 9/10 that will be deducted from the 10/11 premium. The credit is not guaranteed each year, as it is dependent on earnings and was not issued for FY 09/10. With the membership credit, the premium actually drops from 09/10 to 10/11 by \$18,321 below the FY 10/11 budgeted amount of \$494,296.

	FY 2009-2010	FY 2010-2011 Budget	FY 2010-2011 Proposal
Policy Limit	\$360,000,000	\$360,000,000	\$440,000,000
Base Premium	\$473,300	\$494,296	\$523,303
Aquatic Center (6 months)	\$3,100	-----	-----
Membership Credit	<u>\$(0)</u>	<u>-----</u>	<u>(47,328)</u>
	\$476,400	\$494,296	\$475,975

Deductibles for this coverage have not changed from 09/10 to 10/11. These amounts range, for example, from \$350,000 for the combustion gas turbines, \$250,000 for the Power Plant, \$100,000 for the treatment plants and substations, and \$25,000 for City Hall and the Library.

ALTERNATIVES:

1. Accept the proposal from FM Global for renewal of property coverage and boiler and machinery coverage during 2010-11 in the amount of \$475,975.
2. Reject the FM Global proposal and direct staff to seek other proposals.

MANAGER'S RECOMMENDED ACTION:

Maintaining property coverage, as well as boiler and machinery coverage, with FM Global will continue to protect the City from catastrophic losses. 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 these coverages during 2010-11 in the amount of \$475,975.

City of Ames

Locations, Values, Premiums and Rates as of 1 July 2010

Summarized by D E Lindgren

Loc	Name	Address	2010 Values	2010 Premium	2010 Rate	2009 Values	2009 Premium	2009 rate
1	City Administration	5th Street & Clark Avenue	\$10,681,028	\$7,082	0.066	\$10,585,138	\$7,018	0.066
2	Transit Garage & Maintenance Building	1700 6th Street	\$6,667,343	\$6,501	0.098	\$6,613,477	\$6,448	0.098
3	Power Plant - Building nos. 1 - 4, 6 - 12, 14 - 18 & 20	East 5th Street & 502 Carroll Avenue	\$250,797,387	\$290,892	0.116	\$195,488,699	\$266,754	0.136
4	Combustion Turbines & Substation	Pullman Avenue	\$52,358,945	\$89,369	0.171	\$41,534,774	\$70,893	0.171
4A	City Maintenance Facility & Storage Building nos. 1 - 5	2207 Edison Street	\$3,396,709	\$3,312	0.098	\$3,369,532	\$3,285	0.098
4B	Distribution Work Center	2208 Edison Street	\$2,166,556	\$2,112	0.098	\$2,152,552	\$2,099	0.098
5	Sewage Treatment Plant - Building nos. 1 - 46	56797 280th Street	\$44,676,963	\$43,557	0.097	\$44,433,239	\$43,319	0.097
6	Resource Recovery Building	110 Center Avenue	\$12,695,018	\$24,758	0.195	\$12,632,638	\$24,636	0.195
7	Water Treatment Plant - Building nos. 1 - 24 & Fencing	300 East 5th Street	\$13,371,773	\$8,864	0.066	\$13,261,553	\$8,791	0.066
8	Library	515 Douglas Avenue	\$13,561,648	\$15,867	0.117	\$13,485,013	\$15,777	0.117
9	Airport Building nos. 1 - 7	Airport Road	\$2,359,177	\$2,300	0.098	\$2,335,737	\$2,277	0.098
10	Fire Station no. 1	1300 Burnett Avenue	\$2,118,320	\$3,098	0.146	\$2,098,707	\$3,069	0.146
11	Fire Station no. 3	2400 South Duff Avenue	\$1,228,715	\$1,797	0.146	\$1,218,186	\$1,782	0.146
12	Water Tower	Bloomington Road	\$2,069,015	\$3,026	0.146	\$2,048,755	\$2,996	0.146
13	Water Tower	500th Street & US Highway 30	\$1,449,234	\$2,120	0.146	\$1,435,115	\$2,099	0.146
14	Office	426½ & 428 Southwest 5th Street	\$583,450	\$1,566	0.268	\$583,450	\$1,566	0.268
15	Cemetery - Maintenance Building, Office & Storage Garages	320 East 9th Street	\$194,999	\$209	0.107	\$193,441	\$207	0.107
16	Fire Station no. 2	132 Welch Avenue	\$889,741	\$1,431	0.161	\$881,959	\$1,419	0.161
17	Squaw Creek Pump Station	Squaw Creek	\$68,509	\$110	0.161	\$67,947	\$109	0.161
18	Pump Station	State Avenue & Mortenson Road	\$593,675	\$955	0.161	\$588,451	\$947	0.161
19	Substation - Mortenson	Mortenson Road	\$852,877	\$832	0.098	\$852,525	\$831	0.098
20	Substation - Stange	Stange Road & 24th Street	\$700,501	\$683	0.098	\$700,149	\$683	0.098
21	Substation - Top-O-Hollow	Top-O-Hollow Road	\$998,372	\$973	0.098	\$998,021	\$973	0.098
22	Substation - South 9th (D.O.T.)	South 9th Street	\$110,402	\$108	0.098	\$110,262	\$108	0.098
23	Substation - Iowa State (AEC)	Iowa State University	\$313,315	\$305	0.098	\$313,174	\$305	0.098
24	Substation - Switching Gear	Downtown	\$179,342	\$175	0.098	\$179,342	\$175	0.098
25	Substation - Haber (ISU)	Haber Road	\$177,645	\$173	0.098	\$175,880	\$171	0.098
26	Furman Aquatic Center	1635 13th Street	\$9,163,925	\$6,546	0.071	\$9,100,000	\$6,500	0.071
	MUL - US	Misc Unnamed Locs - US	\$4,952,465	\$4,583	0.093	\$4,908,252	\$4,542	0.093
			\$439,377,048	\$523,303	0.119	\$372,345,971	\$479,781	0.129
		Change ->	18.0%	9.1%	-7.6%			