

COUNCIL ACTION FORM

SUBJECT: 2014/15 PROPERTY INSURANCE RENEWAL

BACKGROUND:

In July 1, 2012, the City entered into a three year program for property insurance. The 2014/15 renewal will be the last year of this program. The City's coverage runs from July 1 to June 30. In 2012, City Council approved major changes to the City's property insurance program that are detailed below.

The first major change in 2012 was splitting the program into one covering power and another covering all other municipal property. The "power" insurance covers the power plant and related power generation assets, as well as the Resource Recovery Plant. This coverage is provided by Associated Electric and Gas Insurance Services (AEGIS). The non-power City facilities or "Municipal" are covered by Chubb Insurance Group. The split insurance program has permitted more coverage specialization, flexibility and pricing advantages in the marketplace. AEGIS specializes in power generation utilities and Chubb has a special insurance policy designed for municipalities.

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

Maximum Foreseeable Loss (MFL): Financing the Appropriate Amount of Risk

In 2012, the Council decided it would use the widely accepted risk management technique for quantifying a worst case scenario to finance or insure known as the Maximum Foreseeable Loss (MFL). The City used a model of an EF5 tornado with a wide swath, touching down at the CyRide facility, traveling east and parallel with Lincoln Way, and not lifting up until it has reached the Public Works Facility in east Ames. Such a large path tornado can actually happen, as evidenced in Joplin, MO, in May 2011. The MFL assumption equals the Total Insured Value (TIV) of City facilities along this path. A photo of this path is included with this Council Action Form with affected City Buildings identified, along with a table showing the TIV of these locations. Again, some of the facilities in the path are insured with Chubb in the "Municipal" (non-power generation) program and some are insured with the "Power" group by AEGIS.

Power Plant Coverage Assumption

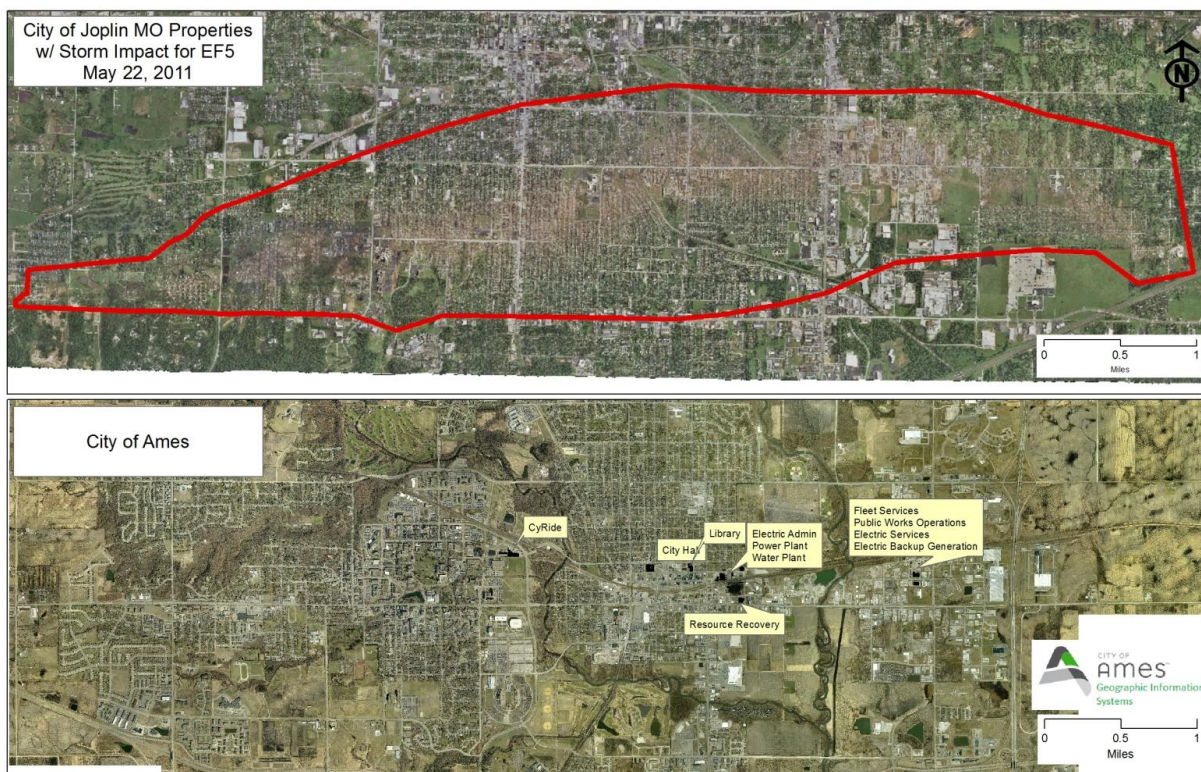
The “Power” related insured value amount is based on an important assumption, also adopted by the City Council in 2012, that only the Actual Cash Value (ACV) for the Power Plant will be insured. This decision was made because Electric Services staff advised that in the event the Power Plant was destroyed, the existing plant could not be replaced due to issues with coal and permitting. Therefore, ACV dollars instead of replacement cost would be the claim amount for a total Power Plant loss. The ACV amount would be sufficient to replace the same megawatt capacity with a new natural gas generating plant in another location. The MFL for the Power related properties totals a maximum of \$198,838,809, of which \$124,000,000 of that figure is the Power Plant’s ACV, with the balance being the Resource Recovery facility, transformers and substations. The table shows the affected “Municipal” buildings at their current replacement value of \$110,449,172.

Tornado Damage = Total Loss, Per Joplin F5 Tornado Scenario	Electric Locations w/ Power Plant @ \$124.0M Actual Cash Value (ACV)	Non-electric @ 100% Replacement Cost
“MFL” – Maximum Foreseeable Loss of properties in tornado path	\$198,838,809	\$ 110,449,172
Policy Limits	\$200,000,000	\$ 139,614,671

Property “MFL” Risk Planning Scenario

(See next page)

The photos below are to scale, showing the May 2011 Joplin EF5 tornado compared to Ames' Lincoln Way path.



TRIA Terrorism Coverage Impacted by Current Congressional Actions

Past property insurance policies have included federally backed terrorism insurance that Congress authorized to counteract the insurance industry's underwriting difficulties for such a volatile coverage. After the September 11, 2001 attacks, terrorism became a standard policy exclusion. The Terrorism Risk Insurance Act (TRIA) was signed into law in 2002 and enabled the insurance industry to once again offer terrorism coverage. TRIA limits insurance company losses to 15% of certified acts of terror. The Act has been renewed twice, with the current version set to expire on December 31, 2014. Congress is currently debating the renewal of TRIA and the terms of coverage, one example being the probable increase of the insurance companies' claims percentage to 20%. With no certainty if this law will be renewed or what the coverage terms will include, many insurance companies are unwilling to extend the coverage or its renewal pricing at this time. **Chubb is willing to provide the coverage for renewals and it is included in the quote shown below. AEGIS, the "Power" facilities insurer, is not willing to offer or price the coverage without Congressional approval. However, the AEGIS renewal quote does include a firm price for replacing the TRIA coverage with higher cost terrorism coverage from Lloyd's of London.**

If Congress renews the TRIA law prior to July 1, AEGIS will offer the federal TRIA coverage to the City, which will reduce the cost shown in the table from \$46,171 to approximately \$24,000.

Combined Insurance Coverages for “Municipal” & “Power” Insurance			
<i>Council Action needed for Annual Premiums in Shaded Cells</i>	FY 2014/15 Proposed ANNUAL PREMIUM	FY 2013/14 ANNUAL PREMIUM	Difference 2014/15 vs. 2013/14
“Municipal” Properties (Chubb) -- includes Library Builders Risk (charged to Project) and TRIA	\$127,269	\$123,763	+2.8%
\$5.0M Excess Flood Layer (RSUI) --for WPC, CyRide & Furman Aquatic	\$50,000	\$50,000	
“Power” Properties (AEGIS)	\$502,325	\$463,930	+8.3%
“Power” Terrorism \$200.0 Million -- Lloyd’s in 2014/15 and TRIA 2013/14	\$46,171	\$23,498	+96.5%
Total Property Insurance	\$725,765	\$661,191	+9.8%

See attachment A for a further breakdown of the two programs.

The 2014/15 Budget set aside \$768,200 for the City’s property insurance program. In addition to the \$725,765 expense for property insurance noted above, the City will also pay \$45,000 for brokerage fees and \$2,000 for the National Flood Insurance program. Due to these other costs, the program will exceed the budget by \$4,565 for FY 2014/15.

ALTERNATIVES

1. Approve the proposed 2014/15 Combined Annual Insurance Coverages for "Power" and "Municipal" in the amount of \$725,765.
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, for “Power” facilities from AEGIS, and Lloyd’s provide appropriate coverage for City facilities. The 2014/15 program is essentially the same as the expiring 2013/14 insurance coverages, given that the City had to seek Terrorism coverage outside of TRIA.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the 2014/15 Combined Annual Insurance Coverage for "Power" and "Municipal" property insurance in the amount of \$725,765.

Attachment A

2014/15 'Power' Facilities Renewal Pricing (AEGIS) Same basic program as expiring, except terrorism is excluded.			
AEGIS "Power" Coverage	FY2014/15	FY2013/14	Difference 2014/15 vs. 2013/14
Insured Values @ Replacement Cost	\$381,373,643	\$374,933,674	+1.7%
Amount of Coverage Purchased (MFL)	\$200,000,000	\$200,000,000	
Account Rate	\$0.1318	\$0.1237	+6.5%
Annual Premium	\$502,535	\$463,930	+8.3%

2014/15 'Municipal' Facilities Renewal Pricing (Chubb Group) Same basic program as expiring.			
Chubb "Municipal" Coverage	FY2014/15	FY2013/14	Difference 2014/15 vs. 2013/14
Insured values @ replacement cost*	\$152,164,669	\$143,697,905	+5.9%
Excess Flood Limits, applies to WPC, CyRide, Aquatic Ctr.	\$5,000,000	\$5,000,000	
Account Rate	.076	.078	-2.6%
Chubb Premium	\$117,618	\$114,112	+3.1%
Library Builders Risk Premium	9,651	9,651	
Flood Annual Premium	\$50,000	\$50,000	
Total Municipal Property Insurance	\$177,269	\$173,763	2.0%

*Added value for Police Remodel, Library completion and CyRide Facility Expansion