

COUNCIL ACTION FORM

SUBJECT: PROPERTY INSURANCE RENEWAL FOR FY 2017/18

BACKGROUND:

The City contracts with Willis of Greater Kansas, Inc., to provide property insurance brokerage services for the City's property insurance program. In March, the City Council approved an extension of the property brokerage services agreement with Willis through June 2018. Willis has obtained quotes for property insurance coverage for FY 2017/18 and they are now being presented for City Council approval.

The City's property insurance program is split into two main components:

- 1) The "Power" component, which covers Resource Recovery, the Power Plant, and assets related to the electrical infrastructure. This component has been underwritten by Associated Electric and Gas Insurance Services (AEGIS) since 2012.
- 2) The "Municipal" component, which covers all other City property. This component has been underwritten by Chubb Insurance Group since 2012.

Splitting the City's insurance coverage into two major components allows for an optimization of terms and pricing to fit each insurer's specialty, rather than placing all City property under a one-size-fits-all program. In addition, the broker arranges for flood insurance for properties susceptible to flood damage (CyRide and Furman Aquatic Center).

After initiating the brokerage arrangement with Willis, the City modified its philosophy regarding how much insurance to purchase for property coverage. Prior to 2012, the City purchased insurance coverage equal to 100% of the total value of all City assets, even though there was a very small likelihood that all of the City's assets would be totally destroyed in even the most devastating of events. **In 2012, the City Council authorized staff to procure insurance using the technique of Maximum Foreseeable Loss (MFL). Under this technique, the valuation to cover was based on the scenario of a large EF5 tornado touching down near the CyRide facility and destroying everything between it and the Public Works warehouse in east Ames. This assumption is used to calculate the Total Insured Value included in the property insurance program.**

QUOTATION SUMMARY

As with prior years through Willis, the coverage in the renewal proposal comes from AEGIS, Chubb, and RSUI (flood insurance). The account rates for both AEGIS and Chubb declined slightly compared to FY 2016/17. The quotation details for the Power portion of the program are as follows:

2017/18 ‘Power’ Facilities Renewal (AEGIS)			
	FY 2017/18	FY 2016/17	Change
Indexed Insured Values @ Replacement Cost	\$422,100,480	\$400,516,414	5.4%
Coverage Purchased (MFL Basis; assumes Power Plant Total Loss @ ACV)	\$200,000,000	\$200,000,000	--
Account Rate	\$0.1078	\$0.1195	- 7.5%
Total Power Premium, with Terrorism Coverage, taxes, Loss Control Fees, and AEGIS Membership Credit	\$466,449	\$478,494	-2.6%

The rate for coverage on the Power properties has declined slightly, offsetting an increase in the valuation of the power assets. **Overall, the premium for the Power portion of the property program has decreased.**

The quotation details for the Municipal properties are as follows:

2017/18 ‘Municipal’ Facilities Renewal (Chubb & RSUI)			
Chubb “Municipal” Assets Coverage	FY 2017/18	FY 2016/17	Change
Indexed Insured Values @ Replacement Cost, including CyRide Buses on Premises	\$252,291,530	\$183,002,250	40.7%
Chubb Rate	.0754	.0867	-17.2%
Chubb Premium	\$146,719	\$114,273	27.9%
Excess Flood \$5M Layer (RSUI) for WPC, CyRide, Furman Aquatic Center	\$43,567	\$45,000	-3.3%
Total Municipal Property Premium	\$190,286	\$159,273	19.5%

Of note for the Municipal property renewal, the valuation has increased significantly. This is primarily due to the addition of the new Water Treatment Plant (\$52 million valuation) to the City’s list of covered properties. As the old Water Treatment Plant is decommissioned, City staff will work with the broker to ensure the covered values are adjusted accordingly in future renewals.

Additionally, the broker discovered this year that the CyRide buses, which are covered for property damage when stored overnight at the transit facilities, were not covered the

way it was believed when this coverage was originally obtained. It was originally believed that the entire fleet was covered at a level that would make CyRide whole in the event of a substantial loss. **However, the coverage as written left CyRide approximately \$15 million short of the actual replacement cost of the bus fleet should a disaster destroy it entirely.**

Through negotiations between City staff, the broker, and the underwriter, an arrangement has been reached to cover the buses at original cost, with a \$50,000 minimum reimbursement per bus. **This would allow Cyride to recover approximately 98% of the value of the fleet through insurance in the event of the total destruction of the fleet.** CyRide’s premium for this modified bus coverage increases from \$9,002 in FY 2016/17 to \$15,658 in the renewal due to the increase in covered valuation.

The combined Power and Municipal premium is as follows:

2017/18 Combined Property Renewal			
	FY 2017/18	FY 2016/17	Change
Total Power Premium	\$466,449	\$478,494	-2.6%
Total Municipal Property Premium	\$190,286	\$159,273	19.5%
TOTAL	\$656,735	\$637,767	3%

In addition to the \$656,735 in quoted premium, the annual brokerage fee for Willis (paid in March) is \$45,000, for a total property program expense of \$701,735. The FY 2017/18 budget includes \$726,909 for the property program premiums and fees.

ALTERNATIVES:

1. Approve the renewal for the property insurance program coverage at the combined quoted premium of \$656,735 for FY 2017/18.
2. Do not approve the renewal of the property insurance program.

MANAGER’S RECOMMENDED ACTION:

The proposed insurance renewal provides adequate coverage of the City’s assets. The program is essentially the same as the expiring program, with modifications to cover the new water treatment plant and an adjustment to the CyRide bus coverage. The rates for both components of the property insurance program are an improvement over the expiring rates.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, thereby approving the renewal for the property insurance program coverage outlined above at the combined quoted premium of \$656,735 for FY 2017/18.