

COUNCIL ACTION FORM

SUBJECT: **PROPERTY INSURANCE RENEWAL FOR FY 2020/21**

BACKGROUND:

The City contracts with Willis of Greater Kansas, Inc., to provide property insurance brokerage services for the City's property insurance program. Willis has obtained quotes for property insurance coverage for FY 2020/21 and a proposed option is 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. In FY 2018/19 this coverage was moved to Starr Tech.
- 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, WPC 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 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 municipal and flood coverage in the renewal proposal comes from Chubb (municipal property), and RSUI (flood insurance). **The account rates for Chubb and RSUI have increased significantly compared to FY**

2019/20. This is due to the commercial property market hardening because of numerous catastrophic events worldwide. The flood insurance quote also increased because of the recent flooding in the Midwest. **Staff requested Willis take the municipal property and flood insurance to the marketplace, but no other carrier was able to improve upon the incumbent carriers' rates.** The quotation details for the municipal portion of the program are as follows:

FY 2020/21 'Municipal' Facilities Renewal {Chubb & RSUI}			
Chubb "Municipal" Assets Coverage	FY 2020/21	FY 2019/20	Change
Indexed Insured Values@ Replacement Cost, including CvRide Buses on Premises	\$253,604,697	\$255,226,800	-0.6%
Chubb Rate	.0683	.0594	15%
Chubb Premium	\$173,278	\$151,672	14.2%
Excess Flood \$5M Layer (RSUI) for WPC, CyRide, Furman Aquatic Center	\$57,291	\$48,737	17.55%
TRIA coverage (terrorism)	\$14,713	\$17,937	-18%
Total Municipal Property Premium	\$245,282	\$212,552	15%

For the FY 2018/19 program, City staff instructed Willis to market our power facility renewal. This resulted in a significant savings for the City. Starr Tech provided the best rate and guaranteed its rate for two years. The guarantee ended last fiscal year and Starr is now proposing an increase to its rate. While the rate increase is large, because of the City's excellent claim history within this area, the rate increase was not as large as originally anticipated.

FY 2020/21 'Power' Facilities Renewal			
	FY 2019/20	FY 2019/20	Change
Indexed Insured Values @ Replacement Cost	\$435,708,999	\$435,708,999	--
Coverage Purchased (MFL Basis; assumes Power Plant Total Loss @ ACV)	\$200,000,000	\$200,000,000	--
Account Rate	\$0.1054	\$0.0859	22.7%
Total Power Premium, with Terrorism Coverage, taxes, Loss Control Fees, Boiler Inspection	\$482,855	\$400,261	21%

The combined Power and Municipal premium is as follows:

FY 2020/21 Combined Property Renewal			
	FY 2019/20	FY 2019/20	Change
Total Municipal Property Premium	\$245,282	\$212,552	15%
Total Power Premium	\$482,855	\$400,261	21%
TOTAL	\$728,137	\$612,813	19%

The FY 2020/21 Budget includes \$746,171 for the property program premiums.

ALTERNATIVES:

1. Approve the renewal for the property insurance program coverage at the combined quoted premium of \$728,137 for FY 2020/21.
2. Do not approve the renewal of the property insurance program and direct staff to seek additional coverage quotes.

CITY MANAGER'S RECOMMENDED ACTION:

The proposed insurance renewal provides adequate coverage of the City's assets. Although the premiums are increased compared to the current coverage, City staff is satisfied that the proposed coverage is competitive. The City Budget includes sufficient funding for the proposed premiums.

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 \$728,137 for FY 2020/21.