

ITEM #: 27
 DATE: 06-25-24
 DEPT: HR

COUNCIL ACTION FORM

SUBJECT: PROPERTY INSURANCE RENEWAL FOR FY 2024/25

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 2024/25, and these quotes are now being presented for City Council approval.

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

- 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 for underwriting of the policy.
- 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 the specific properties susceptible to flood damage (CyRide, WPC, and Furman Aquatic Center).

QUOTATION SUMMARY:

This year, City staff had property appraisals completed for several City properties. These appraisals increased the values of some municipal properties but ensure that the City has adequate coverage in the event of a loss. 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 rate for Chubb increased by 3% while the RSUI rate remains unchanged from FY 2023/24. The rise in the premiums is due to updated values for some properties after appraisals were completed.

The quotation details for the municipal portion of the program are as follows:

FY 2024/25 'Municipal' Facilities Renewal (Chubb & RSUI)

Chubb "<u>Municipal</u>" Assets Coverage	<u>FY 2024/25</u>	<u>FY 2023/24</u>	Change
Indexed Insured Values@ Replacement Cost, including CyRide Buses on Premises	\$345,745,037	\$298,840,328	16%
Chubb Rate (<i>premium plus TRIA</i>)	.1061	.1030	3%
Chubb Premium	\$366,822	\$307,823	19%
TRIA coverage (terrorism)	\$19,299	\$17,788	8.5%

Excess Flood \$5M Layer (RSUI) for WPC, CyRide, Furman Aquatic Center	\$111,957	\$91,000	23%
<u>Total Municipal Property Premium</u>	<u>\$498,078</u>	\$416,611	+20%

The municipal property premium is calculated by dividing the indexed insured value by 100, then multiplying the result by the rate. $[(\$345,745,037/100) \times .1061] = \$366,835$ (the quote uses a slightly more precise number for rate, which results in the quote being calculated at \$366,822).

The coverage for the Power facilities remains fixed at \$200,000,000. This amount is the maximum that the City has been able to procure from the market. The Council should note that this is less than the value of all the Power facilities combined, meaning that in the extremely unlikely event that all power assets (including the Power Plant, all substations, the combustion turbines, and the Resource Recovery Plant) were destroyed in a single incident, the City would have to finance the portion of the replacement cost that exceeds the coverage limit.

The premium is based on the total insured value rather than the policy limit, since a higher-valued property has a greater chance of reaching the policy limit compared to a lower valued property. In previous years, City staff used commercial insurance industry standard property value increases annually. This year, an appraisal was conducted, which revealed that the Power Plant had been overvalued by \$196,500,352. By adjusting the value to the appraisal amount, the City will realize a substantial savings for the FY 2024/25 renewal.

FY 2024/25 "Power" Facilities Renewal

	<u>FY 2024/25</u>	<u>FY 2023/24</u>	Change
Indexed Insured Values @ Replacement Cost	\$300,371,536	\$496,871,888	-39%
Coverage Purchased	\$200,000,000	\$200,000,000	--
Account Rate	\$0.158	\$0.160	-0.94
Total Premium	<u>\$496,230</u>	\$825,341	-39.9%

The power property premium is calculated by dividing the indexed insurance value by 100 multiplied by the rate. $[(\$300,371,536/100) \times .158] = \$474,587$ (the quote uses a slightly more precise number for rate, which results in the quote being calculated at \$475,718). Added to the premium is TRIA (terrorism) coverage (\$20,512) for a total of \$496,230.

The combined Power and Municipal premiums result in an overall property insurance program cost decrease of \$247,644 for FY 2024/25. This is a 19.94% decrease compared to the FY 2023/24 premiums. A summary of the combined premium amounts is shown below:

FY 2024/25 Combined Property Renewal

	FY 2024/25	FY 2023/24	Change
Total Power Premium	\$496,230	\$825,341	-39.88%

Total Municipal Property Premium	\$498,078	\$416,611	+20.00%
TOTAL	\$994,308	\$1,241,952	-19.94%

At the time the FY 2024/25 City Budget was prepared, staff had anticipated a property insurance premium increase of up to 30%. Therefore, the adopted FY 2024/25 City budget includes a total of \$1,596,873 for the property program premiums: \$489,270 for Municipal Property premiums and \$1,107,603 for Power facilities premiums.

The renewal quote for FY 2024/25 municipal properties is slightly higher than the budgeted amount due to increased values on properties appraised in 2024. The shortfall will come from the available balance in the Risk Fund.

The Power premium was budgeted to increase from the current year. Due to the rate reduction and the decrease in value, the premium cost is significantly less than the budgeted amount for the Power properties. The budgets of the affected programs will be modified at the next budget amendment to reflect a lower transfer to the Risk Fund to cover the premium.

ALTERNATIVES:

1. Approve the renewal for the property insurance program coverage at the combined quoted premium of \$994,308 for FY 2024/25.
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 Municipal premium has increased by 20%, the combined Power and Municipal premiums have decreased by a total of \$247,644 (-19.94). Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1.