

COUNCIL ACTION FORM

SUBJECT: PROPERTY INSURANCE RENEWAL FOR FY 2021/22

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 2021/22 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. 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 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 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 compared to FY 2020/21. This is due to the commercial property market hardening because of an increasing number of 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 2021/22 'Municipal' Facilities Renewal (Chubb & RSUI)			
Chubb "Municipal" Assets Coverage	FY 2021/22	FY 2020/21	Change
Indexed Insured Values@ Replacement Cost, including CyRide	\$263,281,233	\$253,604,697	4%
Chubb Rate	.000798	.000683	16.8%
Chubb Premium	\$210,092	\$173,278	21.2%
Excess Flood \$5M Layer (RSUI) for WPC, CyRide, Furman Aquatic Center	\$65,902	\$57,291	15.03%
TRIA coverage (terrorism)	\$15,100	\$14,713	2.6%
Total Municipal Property Premium	\$291,094	\$245,282	16%

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 also guaranteed its rate for two years. The guarantee ended with the current fiscal year. Therefore, 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 2021/22 'Power' Facilities Renewal			
	FY 2021/22	FY 2020/21	Change
Indexed Insured Values @ Replacement Cost	\$451,394,523	\$435,708,999	3%
Coverage Purchased (MFL Basis; assumes Power Plant Total Loss @ ACV)	\$200,000,000	\$200,000,000	--
Account Rate	\$0.1159	\$0.1054	9.93%
Total Power Property Premium	\$523,049	\$482,855	13.89%

The combined Power and Municipal premiums are as follows:

FY 2021/22 Combined Property Renewal			
	FY 2021/22	FY 2020/21	Change
Total Power Premium	\$523,049	\$482,855	17%
Total Municipal Property Premium	\$291,094	\$245,282	13%
TOTAL	\$814,143	\$612,813	25%

Knowing that the property coverage rate guarantee was ending in the current fiscal year, and also anticipating rate increases due to insurance market forces, City staff incorporated a larger than normal increase in funding into the FY 2021/22 recommended budget. Therefore, the FY 2021/22 budget includes \$946,435 for the property program premiums, which is sufficient to cover these increased premium expenses.

ALTERNATIVES:

1. Approve the renewal for the property insurance program coverage at the combined quoted premium of \$814,143 for FY 2021/22.
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 have increased, these increases were anticipated, and sufficient funding has been incorporated into the City's budget. There are no alternative carriers who quoted coverage for the City's property program.

Therefore, it is the recommendation of the City Manager that the City Council adopt Alternative No. 1, as described above.