

ACTION FORM BRYAN CITY COUNCIL

DATE OF COUNCIL MEETING: September 22, 2015		DATE SUBMITTED: September 4, 2015	
DEPARTMENT OF ORIGIN: Risk Management		SUBMITTED BY: Cindy Kirk	
MEETING TYPE:	CLASSIFICATION:	ORDINANCE:	STRATEGIC INITIATIVE:
<input type="checkbox"/> BCD	<input type="checkbox"/> PUBLIC HEARING	<input type="checkbox"/> 1ST READING	<input type="checkbox"/> PUBLIC SAFETY
<input type="checkbox"/> SPECIAL	<input type="checkbox"/> CONSENT	<input type="checkbox"/> 2ND READING	<input checked="" type="checkbox"/> SERVICE
<input checked="" type="checkbox"/> REGULAR	<input checked="" type="checkbox"/> STATUTORY		<input type="checkbox"/> ECONOMIC DEVELOP.
<input type="checkbox"/> WORKSHOP	<input type="checkbox"/> REGULAR		<input checked="" type="checkbox"/> INFRASTRUCTURE
			<input type="checkbox"/> QUALITY OF LIFE
AGENDA ITEM DESCRIPTION: Consider approving the Fiscal Year 2016 extension for the City's Equipment Breakdown/Boiler Machinery insurance to Liberty Mutual Fire Insurance Company in the estimated annual amount of \$241,776.			
SUMMARY STATEMENT: The City of Bryan purchases Equipment Breakdown/Boiler Machinery insurance to provide coverage for the mechanical failure or damage of generating equipment, boilers, pumps and other mechanical equipment, excluding wear and tear. In addition, loss control engineering services are provided by the insurance carrier. A large portion of the insured equipment is for BTU power generation and transmission; power generation is specifically excluded from similar coverage provided under the City's property insurance policy.			
<p>The City's current Equipment Breakdown/Boiler Machinery insurance is provided by Liberty Mutual Fire Insurance Company (Liberty Mutual) with \$50,000,000 in coverage, and an annual premium of \$218,212 or \$0.0672 per \$100 insured value. The deductible is \$500,000, except \$10,000 for non-power generating, transmitting, and distribution locations (municipal buildings).</p> <p>In 2013, City staff and the City's Sole Broker of Record conducted a request for proposals (RFP) for Equipment Breakdown/Boiler Machinery insurance for FY2014. Travelers provided the sole response, and the City Council awarded this insurance policy to Travelers for a policy term beginning October 1, 2013, and ending September 30, 2014, with the option to renew for up to three (3) additional years. In September, 2014, Travelers presented its first renewal (Fiscal Year 2015) to the City which included a 30% premium increase. The City negotiated a one-month extension to the existing policy (FY2014), extending the policy to October 31, 2014, to allow time for the City staff and the City's Broker of Record to request proposals from the Equipment Breakdown/Boiler Machinery insurance marketplace. The (RFP) yielded three (3) proposals; Liberty Mutual offered the best terms and pricing. A premium comparison of the proposals received is attached to this Council Action Form.</p> <p>The City Council awarded the Equipment Breakdown/Boiler Machinery insurance to Liberty Mutual Insurance at an annual premium of \$218,812, prorated to \$200,213 for a shorter policy term beginning November 1, 2014, and ending September 30, 2015, with the option to renew for two (2) additional one year periods. The shorter term policy period allowed the City/BTU to return to a fiscal year renewal cycle. Historical annual premium costs are attached to this Council Action Form.</p> <p>The policy period beginning October 1, 2015, and ending September 30, 2016, is the first of the two (2) renewal options. Liberty Mutual has offered two (2) renewal options for this policy period beginning October 1, 2015, and ending September 30, 2016. The first option maintains the current deductibles (\$500,000, except \$10,000 for non-power generating, transmitting, and distribution locations). The second option reduces the deductible for BTU's electric transformers of 100 MVA or less, therefore reducing BTU's financial loss exposure; other deductibles</p>			

remain the same. Both renewal options maintain the remaining terms and conditions as the expiring policy. The following is a comparison of the current and proposed limits and deductibles:

	Current	Renewal Option 1	Renewal Option 2 - Recommended
Deductible	\$500,000 Except non-power generating, transmitting, and distribution locations (municipal buildings) \$10,000	\$500,000 Except non-power generating, transmitting, and distribution locations (municipal buildings) \$10,000	\$500,000 Except transformers 100 MVA or less \$250,000 Except non-power generating, transmitting, and distribution locations (municipal buildings) \$10,000
Policy Limit	\$50,000,000	\$50,000,000	\$50,000,000
Total Insured Value (TIV)	\$327,630,729	\$343,676,142	\$343,676,142
Rate per \$100/TIV	\$.067	\$0.067	\$0.070
Premium	\$218,812	\$230,263	\$241,776

The City's policy on determining the value of property is based on replacement value, not cash value. As property is improved, that enhanced value is considered in the City's overall value. As BTU continues to enhance and expand its generation and transmission systems, values may be increased and additional premiums may be due. Additional premiums for any increased values for this policy would be based on the Rate per \$100/TIV (total insured value).

When the City requested proposals for Equipment Breakdown/Boiler Machinery insurance it was the intent to consider extending the policy for two (2) additional years with direct negotiation of renewal terms and pricing. Firms may bid on the City's insurance policy(ies) with the expectation of a three (3) year commitment, although it is not in the policy nor does the City make such a guarantee. If the City bids each year or does not renew extensions, the City may develop a reputation of an annual contract city, which could result in inflated prices.

Side note: The City of Bryan contracts for Sole Broker of Record for its property and casualty programs. The City's Sole Broker of Record is paid on a fee basis by the City — rather than by insurance carrier commissions — to review, market, and negotiate insurance programs on the City's behalf. By using a Sole Broker of Record, the City is independently represented to the insurance market world-wide, which maximizes obtaining the most favorable coverage and price for the City of Bryan.

STAFF ANALYSIS AND RECOMMENDATION: BTU staff and City staff respectfully recommend the City Council approve Option 2 for the first renewal of Equipment Breakdown/Boiler Machinery insurance to Liberty Mutual at a rate of \$0.070 per \$100 insured value for a projected premium of \$241,776 for the policy period beginning October 1, 2015, and ending September 30, 2016.

This insurance option (Option 2) provides increased financial protection for BTU equipment while continuing remaining coverage for equipment and loss control engineering services provided by the insurance carrier. A large portion of the insured equipment is for BTU power generation and transmission.

OPTIONS (In Suggested Order of Staff Preference): (Except for Option #1, options may require consideration at a future City Council meeting. The current policy will expire on October 1, 2015.)

1. Approve Renewal Option 2 for Equipment Breakdown/Boiler Machinery insurance to Liberty Mutual at a cost of \$0.070 per \$100 insured value for a projected premium of \$241,776 for the policy period beginning October 1, 2015, and ending September 30, 2016.

2. Approve Renewal Option 1 for Equipment Breakdown/Boiler Machinery insurance to Liberty Mutual at a cost of \$0.067 per \$100 insured value for a projected premium of \$230,263 for the policy period beginning October 1, 2015, and ending September 30, 2016.
3. Do not approve the renewal options for Equipment Breakdown/Boiler Machinery insurance and require staff to request proposals for Equipment Breakdown/Boiler Machinery insurance. Note: the term of the current policy ends September 30, 2015. Requests for proposals were issued for FY2015 and Liberty mutual provided the proposal with the best terms and pricing. Rejecting this renewal option could leave the City without Equipment Breakdown/Boiler Machinery insurance coverage.
4. Do not approve the renewal and provide direction to staff.

ATTACHMENTS:

1. 2014-15 Equipment Breakdown/Boiler Machinery RFP Premium Response Comparison (attached as part of this Council Action Form)
2. Premium History (attached as part of this Council Action Form)

FUNDING SOURCE: FY2016 budget – BTU, Waste Water, Water, and General Funds (as budgeted in the FY16 proposed budget)

APPROVALS: Hugh R. Walker, 09/04/2015

APPROVED FOR SUBMITTAL: CITY MANAGER

APPROVED FOR SUBMITTAL: CITY ATTORNEY Janis K. Hampton, 09/14/2015

2014-15 RFP PREMIUM RESPONSES

Travelers Expiring	Travelers Proposed Renewal	Hartford Steam Boiler	Liberty Mutual
\$238,457	\$309,322	\$350,698	\$218,812

PREMIUM HISTORY

	FY2016	FY2016	FY2015	FY2014	FY2013	FY2012
Insurer	Liberty Mutual (Renewal Option 2)	Liberty Mutual (Renewal Option 1)	Liberty Mutual (Awarded)	Travelers (Awarded)	Travelers (Renewal)	Travelers (Renewal)
Total Property Values	\$343,676,165	\$343,676,165	\$327,630,729	\$325,736,547	\$321,079,808	\$318,660,830
Premium Rate per \$100/value	\$.070	\$.067	\$.067	\$.073	\$.068	\$.063
% Increase in Rate	4.5%	0%	-8.2%	7.4%	7.4%	-1.6%
Total Premium	\$241,776	\$230,263	\$218,212	\$238,457	\$216,621	\$199,544
Total \$ Increase	\$23,564	\$12,051	(\$20,245)	\$21,836	\$17,077	\$9,199
Total % Increase	10.8%	5.5%	-8.5%	10.1%	8.6%	4.8%