



**Request for City Council Committee Action
From the Finance Department**

Date: November 28, 2008
To: Ways and Means Committee
Referral to: None

Subject: Annual Property Insurance Premium for the Mpls. Convention Center, Tallmadge Building, and Parking Ramp

Recommendation: To authorize the City's Finance Officer to review options for property insurance for the Convention Center (including the Tallmadge Bldg. and the Ramp) for 1-1-09 coverage. Accept the XL Insurance quote of \$284,083 plus taxes & surcharges and lock in the binder for the 2009 property coverage. Accept the quote for additional terrorism coverage. This will impact Fund 0760, Agency MCC, Org MCCD, Object Code 6080, Sub-Object Code 05 for the Convention Center's Insurance and Fund 0760, Agency MCC, Org MCCJ, Object Code 6080, Sub-Object Code 05 for the Parking Ramp.

Previous Directives: None

Prepared or Submitted by:

Chris Larson, Director of Facility Services, Mpls. Convention Ctr., 335-6116
Ellen Velasco-Thompson, Director of Risk Mgmt. 673-3994

Approved by: Steve Ethier, Exec. Director of the MCC _____

Patrick Born, City Finance Officer _____

Steven Bosacker, City Coordinator _____

Presenters in Committee: Ellen Velasco-Thompson, Director of Risk Mgmt. & Claims
Steve Ethier, Exec. Director of the Mpls. Convention Ctr.
Chris Larson, Director of Facility Services, Mpls. Convention Ctr.
Marty Mauser and Judy Corradi, Marsh USA, Inc.

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to Background/Supporting Information)
 Action requires an appropriation increase to the Capital Budget
 Action requires an appropriation increase to the Operating Budget
 Action provides increased revenue for appropriation increase

<input type="checkbox"/> Action requires use of contingency or reserves <input type="checkbox"/> Other financial impact (Explain): <input type="checkbox"/> Request provided to the Budget Office when provided to the Committee Coordinator
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Community Impact (use any categories that apply) <input type="checkbox"/> Neighborhood Notification <input type="checkbox"/> City Goals <input type="checkbox"/> Comprehensive Plan <input type="checkbox"/> Zoning Code <input type="checkbox"/> Other <input checked="" type="checkbox"/> Not applicable

Background/Supporting Information Attached:

In summary, last year we negotiated a two-year rate guaranty, in addition to securing an 18% rate reduction. As a result, our renewal for 2009-10 was effectively 'pre-negotiated' at the expiring rates. Since we confirmed last year's renewal was very competitive, our principal goal was to confirm how that rate compared to current market conditions.

The global financial crisis is spilling over into the property insurance marketplace as the softening of pricing experienced in the first nine months of 2008 is now 'stable' to 'moderately firming'. A complicating factor has been the increasing estimates of the industry losses for Hurricanes Ike and Gustav (currently at \$20-25 billion). As we will explain in greater detail below, we are confident the two year rate guaranty secured last year was well timed, and our current rates compare very favorably to current conditions.

At our renewal strategy meeting, we met with Christopher Larson (Convention Center) and Marty Mauser, (Marsh Sr. Vice Pres. and Property Client Advisor) on October 10th to review the current state of the property market, review our coverages and relationship with our incumbent insurer, and agree upon a renewal strategy plan.

There was an update of current conditions, with a marketplace showing signs of firming rates after a continued slide throughout the first nine months of 2008.

While our 3rd quarter renewals continued to show some rate reductions, the average reduction was only 10%, much less than the two previous quarters. The majority of renewals did experience some rate reductions but the trends seen in September showed the market was already firming.

With the advent of the credits crisis on Wall Street and around the world, property markets accelerated the 'turn' to firmer renewal and new business pricing. Some markets are now mandating increases of between 5-10% and nearly all are expressing an unwillingness to lower rates at all for the balance of 2008.

In addition, insurer loss ratios for 2008 (losses divided by earned premium) has slipped considerably, with a number of key markets above 100% from an unusually high number of losses other than natural catastrophes. Without an underwriting profit, and

with limited (or negative) returns on investments, our prediction for the first quarter of 2009 is pricing and terms will continue to harden

In light of the firming property market, we were and remain convinced our rate guaranty with XL was struck at an excellent time, allowing us to maintain for another year the extremely competitive rates negotiated last year.

The following renewal proposal demonstrates that coverage will remain unchanged for the 2009-10. Key points in the renewal include:

- Loss Limit remains \$400 million each and every occurrence
- Terrorism coverage is included with a \$250 million limit
- Deductible remains at \$100,000 per occurrence
- Renewal values have increased 4.8%

We attempted to extend our current two-year agreement for another year, however XL was unwilling to do so and informed us they are no longer offering rate guarantees – another clear sign of our current program competitiveness.

Total cost of the property insurance will increase from \$271,863 to 284,424 (exclusive of taxes and fees), for an overall premium increase of 4.7% over last year.

In summary, with the global financial markets in shaken and property rates firming, we are pleased to present this flat renewal for the Convention Center. We look forward to discussing this renewal offering further and to answer any questions that you may have.