



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

Date: November 26, 2007
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 1-1-08 coverage. Accept the XL Insurance quote of \$274,083 plus taxes & surcharges and lock in the binder for the 2008 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: Patrick Born, City Finance Officer _____

Steven Bosacker, City Coordinator _____

Presenters in Committee: Ellen Velasco-Thompson, Director of Risk Mgmt. & Claims
Jeffrey Johnson, Interim 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
- Action requires use of contingency or reserves

Other financial impact (Explain):

Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (use any categories that apply)

Neighborhood Notification

City Goals

Comprehensive Plan

Zoning Code

Other

Not applicable

Background/Supporting Information Attached:

In summary, we worked diligently to take advantage of the soft property market and secured an extremely competitive **18% rate reduction** from our incumbent insurer, XL, **reducing the cost of the program by at \$43,867** (If Congress renews TRIA, the savings will increase to \$46,267). In addition, we secured a two year program guaranty, locking in these low rates until 1/1/10.

We met with Christopher Larson (Convention Center) and Ellen Velasco-Thompson (City of Minneapolis, Risk Director) on October 31st 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. Marsh national property benchmarking data was reviewed in depth including the overall Marsh property results over the past 90 days, which portrayed a very competitive marketplace. Over 70% of our clients received rate reductions of 5% or more.

We also 'drilled down' to review peer group benchmarking, including risks renewed by Marsh over the past twelve months that are most comparable to the Convention Center. These include large value, single location sites with public access. Included in the group are other convention centers, airports, libraries, stadiums, and commercial buildings. This sampling of twenty four 'peers' placed the Convention Center in the top quartile for competitive pricing. This review confirmed our satisfaction with our current pricing.

It was agreed that we could secure competitive quotes or approach our incumbent for a 'pre-emptive' reduction to avoid marketing. Chris Larson and Ellen Velasco-Thompson instructed Marsh to approach our incumbent, XL Insurance, with an offer to renew at an 18% rate reduction and to include a two year rate guaranty.

Chris Larson reviewed and revised the property damage and business interruption values to reflect changes in construction and material costs over the past twelve months. Updating the values has led to an increase in exposure of 4.2% (from \$452.3 to \$471.3 million). Since the premium is directly affected by value increases, this change would create pressure for a higher premium in 2008.

XL has been insuring the program for three years and has incurred no losses. They have also been very pleased with the responsiveness of Chris Larson's team in addressing loss prevention recommendations. In addition to offering an 18% rate reduction, they were willing to agree to our request for a multiple year rate guaranty, securing very competitive rates for the next twenty four months.

After 9/11, all property insurers excluded damage from acts of terrorism. At the end of 2002, Congress acted to provide government reinsurance for insurers, under certain circumstances. The act was renewed on January 1, 2005 and is currently set to expire at the end of this year. Congress is currently reviewing the extension of the Terrorism Risk Insurance Act (TRIA) and all parties seem confident some form of government-back reinsurance will be renewed or extended. The current program includes \$250 million for 'certified' acts by foreign interests (TRIA) and also \$250 million for terrorist acts perpetrated by domestic terrorists.

Since the TRIA extension debate continues in Congress, insurers are uncertain whether (or at what terms) they will have reinsurance after January 1, 2008. XL Insurance has offered a renewal with the same limits as expiring with the following contingent charge:

- If TRIA is extended, they will return approximately \$2,400 of premium (or 0.87% of the total cost of insurance)
- If TRIA is not extended, they will keep the \$2,400 as an additional charge for deleting the terrorism exclusion absent the reinsurance protection currently provided by the US Government.

It is Marsh's recommendation that the Minneapolis Convention Center and the City accept this renewal offering, including the two year program guaranty. Our extensive benchmarking information demonstrates that the current program is very competitive and the 18% rate reduction is well above average in the marketplace.