

# Grand Rapids Public Utilities Commission

## Insurance Summary

June, 2023

### League of MN Cities Insurance Trust (LMCIT)

- ✚ Not-for-profit organization formed in 1980
- ✚ Has paid a dividend to members every year since 1987

Presented by



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# Property

## Building, Contents & Income Coverage's

Coverage	2022-2023	2023-2024
Building	\$74,510,879	\$83,079,632
Business Personal Property	\$27,286,454	\$30,015,100
Business Income & Extra Expense	\$5,000,000	\$5,000,000
Property Deductible Per Occurrence / Aggregate	\$50,000 / \$100,000	\$50,000 / \$100,000
Income Deductible / Waiting Period	No waiting period	No waiting period

- ✦ **The building limits increased by 11.5% and the business personal property limits by 10% based on inflation factors that LMCIT receives from their property appraisal vendor. Costs of labor and building materials are finally showing some signs of stabilizing, and LMCIT's preliminary estimate for inflation factors in 2024 is 5-7%. Appraisals are performed every 7 years, and your next one should be in 2026.**
- ✦ **If you exceed the \$100,000 aggregate deductible in a policy term, the deductible per claim is reduced to \$2,500 for sewer backups and \$1,000 for all other types of losses.**
- ✦ **The deductible applies per occurrence but not per location, so in the event of a major storm only one deductible would apply to all damage at all locations.**
- ✦ **Equipment breakdown coverage will now cover solar backup generators, up to \$100,000.**
- ✦ **A limitation has been added for cosmetic damage losses to metal roofs. If the roof is dented or chipped but the damage doesn't cause it to fail and leak, they will only pay 70% of the cost to replace the roof. Many of the markets that we work with are adding these roof coverage limitations, and other coverage reductions, in response to the severe storms that have become part of our normal weather patterns.**
- ✦ **They have reduced the limits for their no-fault sewer backup program to \$1,000,000 per occurrence and \$2,000,000 aggregate and taken a 20% rate increase. They have also added language to clarify that there is no coverage if the backup is caused by obstructions or conditions in lines to which your system feeds. You aren't currently enrolled in this program, but you've expressed interest in it in the past so I thought I would relay the current trends.**

## Other Property Coverage's

Coverage	Limit
Ordinance & Law – A, B, C	Included in Building Limit
Flood and Sewer Backup	\$500,000 per occurrence
Debris Removal / Additional Limit	25% of Property Limit
Accounts Receivable	\$500,000
Valuable Papers & Records	\$500,000
Pollutant Cleanup Expenses	\$250,000
Terrorism Losses – Special Pooled Limit	\$50,000,000 Per Occurrence

- ✚ **A Terrorism Loss Occurrence is defined as all losses arising from terrorist activities occurring during a period of 72 consecutive hours.**
- ✚ **Terrorism includes any activity associated, even in part, with the intent to disrupt or interfere with basic public services and government functions such as utilities. This includes the following types of situations:**
  - Use or threatened use of force, violence, or harm against people, intangible or tangible property, the environment or natural resources
  - Use of biological, chemical, radioactive, or nuclear devices
  - Use of bombs, incendiary devices, explosives, and firearms
  - Hijacking motor vehicles
  - Kidnapping or other attacks on government officials and employees
  - Seizure, blockage or interference with government buildings and other assets
- ✚ **Coverage is limited to \$1,000,000 per policy period for losses and expenses resulting out of any discharge of pollutants, chemical or biological release or exposure of any kind, attack by electronic means and any threat or hoax when directly or indirectly related to terrorism. This sublimit doesn't apply to resulting fire, smoke, water damage or sprinkler leakage.**
- ✚ **If the total of all members' losses arising out of terrorist activities within a 72-hour period exceeds \$15,000,000, there will be no coverage for any subsequent losses of this type. They must put this limitation in place to protect the financial position of the Trust.**

## Mobile Equipment Coverage

Coverage	Limit	Deductible
Unscheduled Equipment	\$250,000 per item	\$5,000
Hired and Leased Equipment	\$100,000 per item	\$50,000

- ✚ **Items with a value higher than \$250,000 must be scheduled on the policy. There are no items currently scheduled.**

## Crime Coverage

Coverage	Limit	Deductible
Limit Per Occurrence	\$250,000	\$500
Fraudulent Instructions Sublimit	\$50,000	\$500

- ✚ **This covers theft of your money and property, loss caused by forgery or alteration and credit card fraud. It does not apply to theft by your employees.**
- ✚ **“Fraudulent Instructions”, often referred to as “social engineering”, is loss caused by an employee authorizing a payment or a money transfer based on instructions received from someone posing as a supervisor, client, or vendor.**

## Fidelity & Faithful Performance Bond Coverage

Coverage	Limit	Deductible
Limit Per Occurrence	\$1,000,000	\$1,000

- ✚ **This coverage applies to losses arising out of an employee’s theft, negligence, or breach of duty. The Commission or the other party would have to press charges or bring a suit and try to collect any damages directly from the employee. If those attempts fail, the League will pay the damages and then pursue legal action against the employee.**

# First Party Cyber

## Primary Coverage

Coverage	Limit	Deductible
Annual Aggregate Limit	\$500,000	\$250 Per Occurrence

- ✚ This is the maximum amount available to you during the policy term for all losses.
- ✚ Coverage applies to legal and professional IT service fees, costs to notify affected individuals and expenses to provide required credit monitoring & identity restoration services resulting from a data breach. It also covers loss of revenue, accounts receivable losses, computer equipment & electronic data restoration costs resulting from a cyber-attack on your system.
- ✚ The policy form does not specifically address coverage for monies paid in response to a ransomware or extortion attack. These attackers are almost always on the Federal Government's list of terrorist and criminal entities, which makes paying them ransoms illegal.
- ✚ There is no coverage for losses and expenses arising out of cyber operations by or on behalf of a government entity to disrupt, degrade, manipulate, or destroy information in any computer system, cloud system, server, or other infrastructure that you own or rely upon. And they won't pay for any losses while the disruption is being investigated to determine where it originated from and what entity may be behind it.

## Shared / Pooled Coverage Limits

Coverage	Limit	Deductible
Common Cause Event Limit	\$10,000,000	N/A
12 Month Shared Aggregate Limit	\$25,000,000	N/A

- ✚ If a cyber event or a related series of cyber events is large enough that the total losses for all members exceed the \$10,000,000 "Common Cause Event Limit", LMCIT will pro-rate the amount paid to each member. For example, if you had a \$60,000 loss and the total losses arising out of that event were \$15M, you would only receive  $\$60,000 \times \$10M / \$15M = \$40,000$ . This would apply to your annual aggregate of \$500,000.
- ✚ In any 12-month period where LMCIT's total losses for all claims exceeds the \$25M "12 Month Shared Aggregate Limit", they will retroactively apply a pro-rate factor to the total losses paid to each member during that period, using a formula like that above. This means they could potentially have to seek recovery from members of losses previously paid.

# Liability

General Coverage's	
Coverage	Limit
Limit Per Occurrence	\$2,000,000 – Shared with Auto
General Aggregate	None
Products Liability Aggregate Limit	\$3,000,000
System Security Breach Claims Aggregate Limit	\$3,000,000
Failure to Supply Claims Aggregate Limit	\$3,000,000
Electromagnetic Field Claims Aggregate Limit	\$3,000,000
Limited Contamination Liability Aggregate Limit	\$3,000,000 Including Defense Costs
Land Use, Special Risk Claims Aggregate Limit	\$1,000,000
Outside Organization Claims Aggregate Limit	\$100,000
Medical Expenses	\$2,500 per person
Statutory Tort Limits	Apply
Deductible Per Occurrence	\$500
Retroactive Date	01/01/1983

- ✚ **Defense expenses are provided in addition to the limits shown above unless otherwise noted.**
- ✚ **Limited contamination coverage includes accidental backup, rupture or overflow of the sewer or water supply systems, and damages arising out of the deposit of dredged pollutants excavated to construct or maintain the utility supply systems.**
- ✚ **Sudden and accidental release of pollutants is also covered under limited contamination liability unless it happens at the wastewater and water treatment plants. There is no pollution liability coverage for these facilities.**
- ✚ **LMCIT's coverage form incorporates general liability, directors' and officers' liability and employment practices liability together. It is designed to defend the commission, officials and employees against claims alleging acts of malfeasance, neglect of duty and bad faith. It also provides defense for claims alleging harassment, discrimination, etc.**

## Auto Coverage

Coverage	Limit
Combined Single Limit Per Occurrence	\$2,000,000 – Shared with General Liability
Personal Injury Protection	Statutory Limits
Uninsured & Underinsured Motorist Liability	\$200,000 – Highest available with LMCIT
Comprehensive & Collision	\$1,000 deductible each, Actual Cash Value basis
Hired & Non-Owned Auto Liability	Included
Liability Deductible	\$1,000 Per Claim


## Excess Liability Coverage


Coverage	Limit
Annual Aggregate Limit	\$3,000,000
Retention	None


- ✚ **These limits do not extend to failure to supply or pollution claims. It also doesn't extend to claims arising out of officials and employees acting as members of outside organizations, such as serving on a non-profit board of directors.**
- ✚ **They are adding an absolute exclusion for data security breach liability claims and any other claim for damages arising from unauthorized codes or programming such as hacking. Previously they only excluded coverage for regulatory and PCI fines and penalties.**
- ✚ **They are also adding an exclusion for all claims arising out of Perfluorinated and Polyfluorinated Substances (PFAS). There is no explicit exclusion for this in the General Liability coverage, but the pollution exclusion there typically eliminates coverage for it.**
- ✚ **Both new exclusions are due to the requirements of their reinsurance liability carrier. Many of our companies are under pressure from reinsurance markets to reduce their exposure to these types of claims, especially the PFAS. They have the potential for catastrophic claims that exhaust even the reinsurance limits.**


# Premiums


Annual Premiums		
Coverage	2022-2023	2023-2024
Property & Crime	\$64,142	\$80,029
Bond	\$1,142	\$1,142
General Liability	\$41,342	\$45,448
Auto	\$8,159	\$8,598
Excess Liability	\$17,872	\$20,654
First Party Cyber	\$4,368	\$6,552
<b>Total</b>	<b>\$137,025</b>	<b>\$162,423</b>

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About 11% of the property premium increase is due to increased coverage. The base rates increased by 8%, which is consistent with rate increases we are seeing from our other markets. Also, last year they applied a one-time 5.5% credit on your policy to help absorb a portion of the impact of their rate restructuring, which is not available this year. These rates are still very competitive with rates we are seeing from other carriers on our large property accounts.
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The general liability rate increased by 5%, which was partially offset by a decrease in your experience mod from 1.006 to 0.983. The main reason for the premium increase is a 12% increase in your average expenditures. They average the projected expenditures for the year ahead, the most recent completed year and the second most recent completed year. This year's application reflected an increase in each of those years' numbers.
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The increase in your average expenditures also moved you into a new rating tier for the First Party Cyber coverage, which is the reason for that premium increase.
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The Excess Liability rate increased by 15%, which is primarily due to pressure from LMCIT's reinsurance carrier. This is another coverage line where we see new exclusions, reductions in limits and large rate increases being added at renewal on large accounts.
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LMCIT does pay dividends in this program, and in 2022 you received a dividend of \$4,663. They will announce any dividends for this year in December.