

CITY OF LONG BEACH R-26

DEPARTMENT OF HUMAN RESOURCES

333 West Ocean Boulevard 13th Floor • Long Beach, CA 90802

March 2, 2010

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to Purchase Additional Property and Boiler/Machinery Insurance for the Southeast Resource Recovery Facility (SERRF) related to the Re-appraisal of SERRF associated with the Assignment of the Operating Agreement to Covanta, in an amount not to exceed \$150,000, payable to Covanta Holding Corporation. (District 2)

DISCUSSION

The purchase of property and boiler and machinery insurance is required under the terms of the Southeast Resource Recovery Facility (SERRF) revenue bonds and lease, currently with Covanta Holding Corporation.

On August 18, 2009, the SERRF Operating Agreement was transferred from Veolia to Covanta in association with Covanta's purchase of Veolia's worldwide refuse-to-energy assets. Simultaneous with this transfer, the SERRF property and boiler/machinery insurance purchased through Veolia for SERRF as part of Veolia's master refuse-to-energy property insurance program was cancelled, and SERRF obtained new coverage through a similar program through Covanta. Veolia refunded SERRF its insurance payment for the period from August 18, 2009 to December 31, 2009; the return premium (pro rata) was \$206,106.53. Covanta's initial replacement insurance for the period from August 18, 2009 to October 20, 2009 was \$41,490. If the prior Veolia annualized premium had been used, the premium for this period would have been \$96,183. Thus, this generated a net savings for SERRF for this period of \$54,693.

On October 20, 2009, in coordination with its master refuse-to-energy property insurance program's renewal, Covanta renewed the Property and Boiler/Machinery Insurance for the Southeast Resource Recovery Facility (SERRF) based on its then-current appraised value of \$232,784,059 for \$650,000. This purchase was approved and paid pursuant to City Council action on October 20, 2009.

As part of its transition to operating SERRF, Covanta arranged for an appraisal and probable maximum loss (PML) study of SERRF concurrent with the October 20th renewal. As a result of these studies, the appraised value (the cost to replace SERRF new) was determined to be \$314,262,000, an approximate 36 percent increase over its prior valuation.

The deductible and coverage terms remain unchanged from last year. The limits of coverage increase 36 percent in conjunction with the appraisal increase. This year's total premium of \$800,000 is an increase of \$242,749, or approximately 44 percent, over last year's premium. The increase is due to the increase in the appraised value, the general hardening of the commercial insurance marketplace, and the transition of the Operating Agreement from Veolia to Covanta. The unique nature of this transaction is a one-time event associated with the Operator transition. Risk Management explored other options through the City's insurance brokers, and the subject option is the best overall option available to the City.

This matter was reviewed by Deputy City Attorney Amy Burton on February 8, 2010 and by Budget Management Officer, Victoria Bell on February 11, 2010.

TIMING CONSIDERATIONS

City Council action to authorize the payment of this coverage is requested on March 2, 2010 to ensure continued insurance coverage.

FISCAL IMPACT

The additional premium cost will not exceed \$150,000 for the period of October 20, 2009 to October 20, 2010 for a total premium of \$800,000, which is partially offset by the one-time savings of \$54,693. Sufficient funding has been budgeted in the Insurance Fund (IS 390) in the Department of Human Resources (HR) for reimbursement by SERRF. This cost is allocated to the SERRF Fund as part of the annual Insurance Fund budget allocation.

SUGGESTED ACTION:

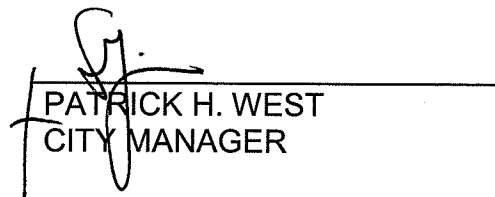
Approve recommendation.

Respectfully submitted,



DEBORAH R. MILLS
ACTING DIRECTOR OF HUMAN RESOURCES

APPROVED:



PATRICK H. WEST
CITY MANAGER