MEMORANDUM

Date: May 8, 2012

To: Administration Committee and Department Heads
From: Pamela A. Captain, City Attorney

RE: Local Government Property Insurance Fund – Policy Changes

The State of Wisconsin has provided notice of policy changes with respect to the Local Government Property Insurance Fund effective with the next renewal period – January 2013. Please let me know if any of these change are a cause for concern such that we should seek additional coverage.

140 Main Street • Menasha, Wisconsin 54952-3151 • Phone (920) 967-3600 • Fax (920) 967-5273
www.cityofmenasha-wi.gov

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Ted Nickel, Commissioner

Wisconsin.gov

Local Government Property Insurance Fund
125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 264-8113 • Fax: (608) 264-6220
E-Mail: louie.cornelius@wisconsin.gov
Web Address: oci.wi.gov

April 27, 2012

NOTICE OF ALTERED POLICY TERMS
VALUATION POLICY OCI 41-080 (R01-2012)

City of Menasha
Pamela Captain
140 Main Street
Menasha, WI, 54952

Policy Number: 140411
Renewal Date: 6/12/2013

Dear Insured:

Wisconsin Statute 631.36 provides that policyholders be notified of any significant policy alterations at least 60 days prior to any anniversary (*i.e., renewal*) date if the changes are to become effective on the renewal date. In the event the renewal is sent by first class mail less than 60 days prior to the anniversary date, the policy change becomes effective 60 days after the notice is mailed. As a policyholder, you have the right to cancel coverage without penalty within the prescribed 60 day time period. After 60 days, cancellation may be subject to customary short rate cancellation charges.

This notice is being sent to all policyholders since changes have been incorporated into the Valuation Policy. The Valuation policy provides your property coverage through the Local Government Property Insurance Fund. As you read through the reductions in coverage below please keep in mind that the Fund policy still provides much broader coverage than industry norms in many areas including but not limited to:

- Ordinance or Law
- Surface Water
- Property Off Premises
- Property of others that you are legally or contractually obligated to insure.
- Extra Expense.
- Electronic data processing equipment, software and electronic data.

A brief description of the significant coverage changes are listed below

Policy Changes That Enhance Coverage:

- **911 Systems.** The $50,000 Specific Limit for 911 systems, fiber optic networks and other similar items will no longer apply. You will only need to indicate whether or not you have the systems present in your buildings. The estimated value for these items will then be added to your building limits shown on the declarations page. Previously it was necessary for you to provide a value on these items in order to have coverage in excess of the $50,000 limit.
- **Vacancy.** The exclusion for vacant buildings and structures previously applied to any peril that caused a loss. The new policy excludes only the "specified causes of loss" for losses to a vacant building or structure. The most important "specified causes of loss" perils applying to vacancy are fire, lightning, smoke and vandalism. For a definition of "specified causes of loss" refer to your new policy. Any other peril, other than "specified causes of loss", that causes a covered loss to a

vacant building or structure will reduce the claims payment by 15%. A Vacancy Permit endorsement is available for purchase that negates the vacancy exclusion.

- **Elevator Collision.** The mechanical breakdown exclusion was revised so that coverage is provided if an elevator breaks down and causes damage to the building or contents due to the collision of the elevator with the structure.
- **Fire Exception to the Nuclear Exclusion.** An exception is provided for a fire that would otherwise not be covered by the nuclear exclusion.
- **Sewer, Septic System or Sump Pump Back-Up.** Language was added to provide an exception to the exclusions in order to provide sewer, septic system or sump pump back-up contained within a covered building or structure.

Description of Policy Changes That Reduce, or Potentially Reduce, Coverage:

- **Aggregate Deductible.** If you have an aggregate deductible applying to your policy, covered losses that are less than $500 will not apply to the calculation of the threshold for meeting the policy period aggregate deductible. Previously all covered losses, including those below $500, were included in determining when you reached the aggregate deductible limit.
- **Fine Arts**. Fine arts, including museum collections and collectibles, will now have Actual Cash Value (depreciated value) rather than replacement cost apply in the event there is a covered loss. A Fine Arts Agreed Value endorsement is available to provide coverage on an agreed value basis.
- **Land or Water.** Land or water is now excluded property to agree with the exclusions in our reinsurance coverage where land and water is excluded. The policy was previously silent on whether there was coverage since land and water also was not mentioned in Section IV – Covered Property. This could be construed to be a reduction in coverage.
- **Pollution Exclusion.** Previously the pollution exclusion only applied to debris removal. The $10,000 debris removal limit for extraction of pollutants and contaminants from water is now an additional coverage and excluded from debris removal. We also have added a pollution or contaminant exclusion that applies to all losses unless due to one of the "specified causes of loss". The exclusion now tracks with the pollution exclusion in our reinsurance agreement.
- **Virus Exclusion.** An exclusion has been added for loss arising from a virus, bacterium or other micro-organism unless due to the "specified causes of loss". The exclusion now tracks with the virus, bacterium and micro-organism exclusion in our reinsurance agreement.
- **Surface Water.** Due to a reduction in the amount of reinsurance available for flood, including surface water, it was necessary for us to reduce the amount of coverage provided under your policy for loss due to surface water to $1,500,000 per occurrence during a 72 hour event window. This coverage, and the limit, is still substantially broader than the industry norm.
- **Vacancy.** Personal property contained in a vacant building or structure will be excluded. Previously the vacancy exclusion only applied to buildings or structures. Also see the enhanced coverage for vacant property to identify improvements to the vacancy exclusion.
- **Employee Dishonesty.** Previously only embezzlement or theft was listed as excluded for dishonest acts committed by your employees. The exclusion has been expanded to exclude dishonest or criminal acts to make the exclusion track with case law related to employee dishonesty losses. The exclusion does not apply to losses arising out of the "specified causes of loss", (e.g. vandalism).
- **Culverts.** Culverts located more 100 feet from a covered building are not covered. The policy was previously silent on whether there was coverage for culverts.
- **Anti-concurrent Causation.** Anti-concurrent causation language now applies to certain losses that are excluded in Section VI of the policy. The language applies to exclusions related to nuclear; fungus; virus; flood and surface water; war; and excluded water losses such as those that arise from water pressure below the surface of the ground. Anti-concurrent causation language means that these losses are excluded even if another covered peril contributes to a loss arising from these excluded perils.
- **Suit Against the Fund.** The policy condition related to how long you have to bring a suit against the Fund or request a hearing has been changed to 6 months rather than the current 12 months since action against the Fund may only be pursued through judicial review under Wis. Stat. s.

227.52 commenced within six months of a final determination made by the "Fund". This differs from requirements for private insurers.

- **Proof of Loss.** The Proof of Loss Condition was changed to state that any extension of the 90 day time period allowed for filing a Proof of Loss must be provided to you in writing for the extension to be valid. Previously the extension did not necessarily have to be provided to you in writing for it to be valid.

Description of Other Policy Changes:

- **Electronic Data Processing Equipment, Software and Electronic Data.** The policy language in this area has been updated to be in line with current terminology. There is no reduction in coverage – only editorial clarifications.
- **Inspection Clause**. An inspection clause was added to Section VIII – Conditions that says that you will allow your property to be surveyed by such entities as the Insurance Services Offices or an appraisal company. The clause also clarifies that these companies do not perform safety inspections and that neither the Fund nor these companies may be sued for failing to notice safety defects. The policy was previously silent in this area.
- **Valuable Records**. Previously Valuable Records coverage included items converted to an electronic format. The coverage for Valuable Records converted to an electronic format is now included in the Electronic Data Processing coverage. Also, some editorial revisions were made to this section to clarify policy intent.
- **Extra Expense and Ordinance or Law Coverage.** Editorial revisions were made to these coverages to clarify intent. There is no reduction in coverage.
- **No Benefit To Bailee.** This new clause was added to Section VIII – Conditions. It simply states that a bailee of any of your covered property will not benefit from their possession of your property since the policy contract is between you and the Fund.
- **Added an Additional Coverage Section X.** Additional coverages that now appear in this section are Fungus, Fine Arts, Surface Water, and Pollutants or Contaminants.
- **Subrogation**. The condition related to subrogation has been modified to clarify when the Fund may honor waiver agreements that existed prior to a policyholder now insured by the Fund.
- **Definitions.** Definitions that changed or are new to Section IX that you should review in your new policy: "computer programs"; "electronic data"; "employees"; "fine arts"; "flood"; "sinkhole collapse"; "specified causes of loss"; "surface water"; and "water damage"

No coverage is provided by this summary nor can it be construed to replace any provisions of your policy. You should read your renewal policy and review your Declarations Page for complete information on the coverages you are provided. If there is any conflict between the policy and this summary, the provisions of the policy shall prevail.

The Fund's Advisory Committee, which is comprised of 21 Fund insured members, worked with the Fund in reviewing these changes and has endorsed making the changes noted above except for the change to the surface water coverage. The Oversight Committee made the final determination that, in order to protect the solvency of the Fund, it was necessary that the Fund limit the amount of coverage available for surface water losses. If you have questions about any of the above changes, please contact the undersigned at (608) 264-8113, or email me at louie.cornelius@wisconsin.gov.

Please review this new policy closely when you receive your renewal policy.

Sincerely,

Louie Cornelius

Louie Cornelius
Administrator for Funds and Program Management
Office of the Commissioner of Insurance

RECEIVED MAY 08 2012