

INFORMATION MEMO

LMCIT Property, Crime, Bond, and Petrofund Coverage Guide

Learn about property, crime, and petrofund coverages offered by the League of Minnesota Cities Insurance Trust (LMCIT), including builder's risk coverage and property coverage options for bond, flood, equipment breakdown, and municipal electric utilities. Understand coverage limits, LMCIT's property appraisal program, and schedule of property to identify at renewal and midterm. Includes information on filing a property claim.

RELEVANT LINKS:

See LMC website, [About LMCIT](#).

For more information, contact the LMCIT underwriting department
651.281.1200
800.925.1122.

See Section I.B, *Property exclusions*; Section I.C, *Schedule of property*; and Section I.D, *Coverage limits*.

See Section VI, *Optional coverages*.

See Section V, *Municipal electric utilities* and LMC webpage, [Extraordinary Expense Coverage](#).

See LMC webpage, [LMCIT's Property Appraisal Program](#).

I. Property coverage

This guide provides a summary of property, crime, bond, and petrofund coverage available through LMCIT. Members are urged to examine LMCIT's unique coverage documents for actual wording, which are designed to meet members' coverage needs as simply as possible. In all cases, the coverage documents determine coverage, exclusions, and limitations.

Covered property includes members':

- Buildings and its contents
- Property-in-the-open
- Newly constructed and newly acquired buildings
- Buildings under construction, alteration, or repair
- Mobile equipment
- Property in the member's care, custody, and control
- Vacant buildings

LMCIT also offers optional bond coverage, supplemental flood coverage, and equipment breakdown coverage. Coverage options are also available for municipal electric utilities and for extraordinary expenses. The latter coverage is available to members as a risk financing mechanism, to be used when an unanticipated and extraordinary cost is incurred but wasn't expected.

A. Premiums

Premium that members pay for property coverage is largely based on the estimated replacement cost figures of member's property. In most cases, these figures are established by LMCIT's professional appraisal program.

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

RELEVANT LINKS:

See LMC information memo, [LMCIT Auto Coverage Guide](#), Section III, *Auto physical damage coverage*.

See Section II, *Builder's risk coverage*.

See Section I.C.1.b., *Property-in-the-open*.

See Section I.C.1.b., *Property-in-the-open*.

See Section I.C.1.b., *Property-in-the-open*.

B. Property exclusions

Since LMCIT's property coverage is broad in scope, it's easier to first look at what's not covered. Following are the standard exclusions to be aware of, but members should contact their agent or underwriter if coverage is needed in any of these areas. It's possible LMCIT may find a way to provide coverage, or at least help find coverage elsewhere.

1. Types of property not covered

- Aircrafts (a drone is not considered an "aircraft" if it's not designed for the transport of persons or property).
- Animals, except police dogs.
- Automobiles, vehicles, or self-propelled machines that are licensed for use on public roads (auto physical damage is covered under LMCIT's auto physical damage coverage).
- Bills, currency, deeds, evidence of debt, money, notes, or securities.
- Builder's risk property.
- Bridges, roadways, walks, patios, or other paved surfaces, except golf course property.
- Cannabis products, except low-potency edible cannabinoid products.
- Contraband or property in the course of illegal transportation or trade.
- Cost of excavations, grading, backfilling, or filling.
- Guardrails and bollards
- Land, subsoil, crops, or lawns, except golf course property, materials necessary for a green building, or materials necessary for a wastewater lagoon.
- Piling, piers, wharves, or docks.
- Underground and buried pipes, flues or drains including those that are part of the member's general collection system, except for underground and buried pipes, flues or drains that are part of a water treatment plant, wastewater treatment plant, lift station, or gas station, or part of a geothermal heating and cooling system.
- Foundations of buildings, structures, machinery, or boilers if their foundations are below the lowest basement floor or, if there is no basement, the surface of the ground.
- Retaining walls that are not part of the covered property.
- Transmission and distribution lines and poles and equipment that are usual to the transmission of electricity, excluding substations and transformers.
- Trees and shrubs that are not within 100 feet of a building.

RELEVANT LINKS:

See Section V.B, *Flood coverage*.

See LMC webpage, [Coverage for Cyber and Computer-Related Risks](#) and Section I.D.3.a., *Sub-limits within the specific property limit*.

See LMC webpage, [Coverage for Cyber and Computer-Related Risks](#).

See Section VI.C, *Equipment breakdown coverage*.

See Section I.D.3.b., *Sub-limits in addition to the specific property limit*.

See Section VI.A, *Bond coverage*.

2. Causes of loss not covered

- Flood, surface water, waves, tides, tidal waves, overflow of any body of water, or their spray, all whether driven by wind or not.
- Mudslide or mudflow.
- Water that backs up or overflows from a sewer, drain or sump.
- Water under the ground surface pressing on, or flowing or seeping through foundations, walls, floors, or paved surfaces; basements, whether paved or not; or doors, windows, or other openings. This water exclusion does not apply to mobile property; coverage that is provided under LMCIT's optional water and supplemental flood coverage; a fire, explosion, or sprinkler leakage that results; or a cyber event that results in water damage to members' property.
- Nuclear hazards unless a fire results.
- War.
- Organic pathogens.
- Unauthorized intrusive codes or programming, such as hacking, ransomware, or a computer virus, except for damages that result in fire, explosion, smoke, water damage, or leakage or discharge from fire extinguishing equipment.

3. Damages not covered

- Cost of fire department service charges a member is legally obligated to pay.
- Cost to repair or replace faulty workmanship, materials, construction, or design.
- Cost to repair or replace mechanical breakdown, including rupture or bursting caused by centrifugal force.
- Damages caused by artificially generated electric current claims that are covered under LMCIT's optional equipment breakdown coverage.
- Damages caused by the discharge, dispersal, seepage, migration, release or escape of pollutants. This exclusion does not apply if the discharge, dispersal, seepage, migration, release or escape of pollutants is itself caused by a specified cause of loss. It also does not apply to pollutant cleanup and removal.
- Damages caused by dishonest or criminal acts by the member, or the member's employees acting alone or in collusion with others. This exclusion does not apply to acts of destruction by the member's employees, but theft by employees is not covered.

RELEVANT LINKS:

- Damages caused by explosion of steam boilers, steam pipes, steam engines or steam turbines owned or leased by the member or operated under the member's control. If loss or damage by fire or combustion explosion results, LMCIT will pay for that resulting loss or damage, as well as loss or damage caused by or resulting from the explosion of gases or fuel within the flues or passages through which the gases of combustion pass.
- Damages caused by rust, corrosion, decay, deterioration, disease, or organic pathogen, hidden or latent defect, or any quality in property that causes it to damage or destroy itself; mold or other fungus or fungi, fungal spores, or fungal fragments or metabolites, such as mycotoxins or volatile organic components; settling, shrinking, or expanding; or wear and tear. This exclusion does not apply if damages result from a specified cause of loss. The exclusion for damages caused by disease does not apply to police dogs.
- Damage or loss caused by seizure or destruction of property by order of governmental authority; the partial or total shut down or closure of property by order of governmental authority; or the partial or total suspension of member's operations by order of governmental authority. LMCIT will pay for acts of destruction ordered by governmental authority and taken at the time of a fire to prevent its spread.
- PFAS claims as set forth in the UME-56 endorsement "PFAS Claims Exclusion."
- Unexplained loss, mysterious disappearance, or shortage disclosed upon taking inventory.

C. Schedule of property

Members need to specifically schedule buildings, contents, and property-in-the-open (PIO) it wants covered at renewal time each year. Property needs to be scheduled for coverage to apply.

In addition to the schedule of property that needs to be reported during the coverage term, members need to be aware that if it should construct, acquire, or build property outside of its renewal window, there are a few circumstances that require immediate reporting for coverage to apply.

1. Schedule of property to identify at renewal

Since most members have been part of LMCIT a long time, it's important to review the schedule at renewal time each year to ensure its accuracy. Following is the property that should be listed on members' schedules for coverage to apply, along with some other considerations.

RELEVANT LINKS:

See Section VI.B, Flood coverage.

[National Flood Insurance Program.](#)

a) Buildings and contents

Any building, including the building's contents, for which the member wants coverage should be listed on the schedule. Include any buildings or space that is rented or occupied. Even if members aren't responsible for the building itself, there still needs to be coverage for the contents.

Members also need to identify whether each building is in a flood hazard area on the schedule. This is an area that is either unmapped or an area within the 500-year floodplain as mapped by the National Flood Insurance Program (NFIP).

b) Property-in-the-open

If members want coverage for PIO, each location at which there is PIO needs to be listed. The following types of property are automatically covered at PIO locations (e.g., park), if those locations are scheduled. If members don't want coverage for these types of property, contact LMCIT so coverage can be endorsed accordingly.

- Benches, picnic tables, grills, and garbage cans.
- Fences.
- Signs that are not part of a building.
- Playground equipment.
- Sports and recreational apparatus.
- Dugouts, unless it is part of another structure such as a grandstand (in which case it would be classified as a building).
- Statues, flagpoles, and monuments.
- Light poles and outdoor lighting systems, other than streetlights.
- Portable toilets.
- Water fountains.
- Planters.

In addition to listing PIO locations, the following types of PIO must be scheduled and endorsed for coverage to apply. For example, even if a location (e.g., park) is scheduled, these kinds of property will not be covered unless specified.

RELEVANT LINKS:

- Bridges, docks, and piers.
- Underground cable or piping.
- Recreational sporting surfaces, such as tennis, basketball, and pickleball courts.
- Walkways and paved surfaces.
- Hydrants.
- Golf course property must be listed for property coverage to apply for things like greens, tees, fairways, and underground irrigation equipment.
- Trees and shrubs within 100 feet of a covered building are covered as part of the building. Members can cover other trees and shrubs by identifying them on the PIO schedule. The trees or shrubs to be covered must be specifically identified (e.g., trees in Mosquito Heights Memorial Park). Members also need to list a reasonable estimate of the number of trees or shrubs to be covered.
- Streetlights, street signs, traffic signals and signs, and fire hydrants are usually scattered around the entire city. The member doesn't need to list each specific location individually; rather, it can schedule coverage as "citywide" for coverage to apply.

c) Newly constructed and newly acquired buildings

Property that members acquire or construct during the year that has value less than \$5 million does not have to be reported. LMCIT will automatically cover the property, but it must be scheduled at renewal for the member to have coverage.

For newly acquired buildings, however, LMCIT suggests members provide an estimated replacement cost figure to its underwriter as soon as possible. In some cases, the cost to rebuild a building may be substantially more than the acquisition cost. LMCIT will schedule a formal appraisal of that building as quickly as possible.

d) Buildings under construction

LMCIT's property coverage automatically provides builder's risk coverage for buildings or PIO that are under construction, alteration, repair, or expansion, if the estimated total project cost is less than \$3 million. This type of property does not have to be reported and scheduled for the builder's risk coverage to apply; however, it must be included in the schedule of property at the member's subsequent renewal.

See Section II, *Builder's risk coverage*.

RELEVANT LINKS:

See Section I.C.1.e, *Mobile equipment* and LMC information memo, *LMCIT Auto Coverage Guide*.

e) Mobile equipment

LMCIT's property coverage automatically covers most personal property of others that is in the member's care, custody, and control. However, coverage for mobile equipment is handled differently. Mobile equipment is property that is often moved from one location to another, such as bobcats, Zambonis, and firefighter turnout gear. The definition includes:

- Machinery or equipment designed for use principally off public roads.
- Vehicles maintained for use solely on or next to locations owned or rented by the member, that are not licensed for highway use.
- Police dogs.
- Tools, including protective clothing and gear.

LMCIT's property coverage applies on a blanket basis for all mobile property, subject to a \$250,000 per unit limit. Items valued under \$250,000 do not need to be scheduled. If a higher limit is needed, individual units can be increased by endorsement for an additional premium charge.

f) Independent administrative boards

Administrative boards, commissions, agencies, authorities, and their properties are not automatically covered under a member's property, mobile property, or auto physical damage coverages. Relief associations are covered, but here are some examples of those that are not automatically covered:

- Port authority.
- Housing and redevelopment authority.
- Economic development authority.
- Gas, electrical, or steam utility commission.
- Hospital or nursing home board or commission.
- Airport commission.

LMCIT can provide coverage for these entities and their properties by endorsement, but only if it is specifically indicated which boards or commissions are to be covered and under what type of coverage. Coverage can be written under the member's coverage, or it can stand alone.

RELEVANT LINKS:

g) Vacant buildings

If a building is vacant, members should ensure it is appropriately reflected on the renewal. Rather than basing its value on estimated replacement cost, vacant buildings are based on the building's market value. A higher rate per \$100 value is used for vacant buildings, reflecting the higher risk due to things like vandalism.

2. Schedule of property to identify midterm

Most property members should construct, acquire, or build during its coverage term is automatically covered, but there are a few situations that need to be reported immediately for coverage to apply.

a) Vacant buildings

If a building becomes vacant during the year, or if a vacant building becomes occupied during the year, members should notify LMCIT. If the change in status results in a lower premium, a premium credit will be issued. If it results in an increased premium, the increase is waived until renewal. At the member's next renewal, the premium for the vacant building will be based on the building's market value, rather than on the estimated replacement cost. A higher rate per \$100 value is used for vacant buildings, reflecting the higher risk due to things like vandalism.

b) Newly constructed and newly acquired buildings

Members must immediately report and schedule any newly acquired or newly constructed property that it wants covered during the year, if its value is more than \$5 million.

c) Buildings under construction

If the estimated total project cost is more than \$3 million for buildings or PIO that are under construction, alteration, repair, or expansion, members must either contact LMCIT to arrange for builder's risk coverage, purchase builder's risk coverage from another source, or arrange for the construction contractor to provide the builder's risk coverage.

d) Mobile equipment

Each piece of mobile equipment (e.g., police dogs, bobcats, backhoes, lawnmowers, Zambonis, tractors, and firefighter turnout gear) acquired during the year with replacement cost value more than \$500,000 must be reported and scheduled if members want coverage for it.

See Section II, *Builder's risk coverage*.

RELEVANT LINKS:

See LMC webpage, [LMCIT's Property Appraisal Program](#).

See section I.D.a., *Vacant buildings*; I.D.b., *Newly constructed and newly acquired buildings*; I.D.c., *Buildings under construction*; I.D.d., *Mobile equipment*; and V., *Municipal electric utilities*.

See LMC webpage, [LMCIT's Property Appraisal Program](#).

Mobile equipment acquired during the year with replacement cost value less than \$500,000 is covered as “newly acquired mobile property” and does not have to be reported during the coverage term. It’s covered automatically until the next renewal; however, it must be reported at the next renewal if limits of greater than \$250,000 are needed.

D. Coverage limits

LMCIT provides specific limits on the amount of coverage for each scheduled property, which are based on the estimated replacement cost figures established by LMCIT’s professional appraisal program. The specific property limit applies in most situations, but different limits apply for the following types of structures:

- Vacant buildings.
- Newly constructed and newly acquired buildings.
- Buildings under construction.
- Mobile equipment.
- Municipal electric utilities.

There are also sub-limits on certain exposures; and a general property limit applies if all the member’s property were destroyed due to one incident.

1. Specific property limit

For most buildings and PIO that are scheduled, LMCIT provides a specific property limit on the amount of coverage for each structure. The limit is 150 percent of the estimated replacement cost shown on the member’s schedule for that property.

In most cases this limit is based on the estimated replacement cost figures established by LMCIT’s professional appraisal program. These figures are also used to calculate members’ property premiums.

The specific property limit is the most LMCIT will pay to repair or replace the property and its contents if it were damaged or destroyed. Property is repaired or replaced with new materials of equivalent size, kind, and quality. The coverage also includes increased costs necessary to comply with building codes; but it does not include costs for correcting a building violation that existed prior to a loss, costs associated with types of property that are explicitly excluded (e.g., paved surfaces, subsoil, pilings, building foundations, and most underground pipes), or increased costs to comply with a member’s zoning or similar ordinances.

RELEVANT LINKS:

The estimated replacement cost figures that come from LMCIT's appraisal program should be reasonably accurate for most properties, and the 150 percent provision allows for a substantial margin of error. Regardless, it's important to review the cost figures to ensure reasonableness.

2. Other limits

The specific property limit applies in most situations, but there are a few limits to be aware of that are handled differently.

a) Vacant buildings

If a building is vacant for 60 days or more, coverage for that building is limited to the building's fair market value. Members should notify LMCIT if there's a vacant building and provide the building's market value. Even if members don't notify LMCIT, coverage is automatically limited to the building's market value after 60 days.

A member-owned building is considered vacant if for a period of 60 consecutive days there is less than 31 percent of the building's total square footage either being leased or used by the member for customary operations. If the member is covering a building the member rents but doesn't own, that building is considered vacant if for a period of 60 consecutive days it doesn't contain enough contents to conduct customary operations. A building under construction or renovation, or that's intended to be used only on a seasonal basis (e.g., park shelter), is not considered vacant.

b) Newly constructed and newly acquired buildings

If members acquire or construct a new building during the year, it is automatically covered if the value is less than \$5 million. It must, though, be added to the schedule at renewal.

Until it is scheduled, the applicable coverage limit is 150 percent of the construction cost/purchase price or \$5 million, whichever is less. Buildings with value of more than \$5 million must be scheduled for coverage to apply. The coverage limit is 150 percent of the construction cost/purchase price.

c) Buildings under construction

If the total cost of a building under construction is less than \$3 million, the coverage limit is \$3 million. If more than \$3 million, the specific property limit is 150 percent of the estimated construction cost shown on the schedule.

RELEVANT LINKS:

See Section I.D.1, *Specific property limit*.

See Section VI.C, *Equipment breakdown coverage*.

See LMC webpage, [Coverage for Cyber and Computer-Related Risks](#).

d) Mobile equipment

For mobile property that is damaged or destroyed, LMCIT will pay for the least of the cost to repair the unit, 200 percent of the fair market value, the cost of a new unit, or \$250,000. If the mobile property value is more than \$250,000, members can specify that amount on their schedule of mobile property.

3. Sub-limits

There are additional types of covered property losses that have sub-limits within and in addition to the specific property limit.

a) Sub-limits within the specific property limit

The following sub-limits apply to coverage for specific types of building contents. These sub-limits are within the specific property limit. For example, if the estimated replacement cost of a building is \$5 million, and that building is destroyed, the most LMCIT would pay is \$7.5 million (150 percent of the estimated replacement cost). However, if only the member's fine arts are destroyed, LMCIT would pay no more than \$500,000 in costs to replace the arts. If the \$500,000 is paid, it counts toward the \$7.5 million specific coverage limit. The member would be left with \$7 million before the specific coverage limit is exhausted.

- 70% of the cost to repair aesthetic impairment to metal roofing. Aesthetic impairment means damage that alters the physical appearance of the structure's roof but does not result in damage that allows the penetration of water through the structure's exterior, result in the failure of the structure's exterior to perform its intended function to keep out elements over an extended period, or otherwise impair the structure's functionality.
- \$25,000 per occurrence per location for artificially caused power surges, if not already covered by equipment breakdown coverage.
- \$25,000 per occurrence per location and \$5,000 per employee for business personal effects.
- \$25,000 per occurrence per location and \$2,500 per employee for personal effects.
- \$500,000 per occurrence per location for fine arts.
- \$1 million per occurrence per location for reproduction or restoration of intangible electronic data.
- \$10 million per occurrence for water damage resulting from unauthorized intrusive codes or programming, such as computer virus, hacking, and ransomware events.

RELEVANT LINKS:

See Section I.D.1, *Specific property limit*.

These limits should be enough in most cases. However, members will want to ensure both the sub-limit and the specific property limit are enough to cover exposures in these areas. If not enough, contact LMCIT to learn more about increasing the amounts.

b) Sub-limits in addition to the specific property limit

There are additional types of covered losses that are in addition to the specific property coverage limit. For example, if the estimated replacement cost of a building is \$5 million, and that building is destroyed, the most LMCIT would pay is \$7.5 million (150 percent of the estimated replacement cost). However, if a member required pollutant clean-up and removal, LMCIT would pay an additional \$250,000 for that loss.

- 25 percent of estimated replacement cost of covered property per occurrence for demolition and debris removal (physical damage to covered property).
- Less of 90 percent of loss or \$500,000 for errors (inadvertent failure to schedule a location).
- Less of \$5 million per location or purchase price of newly acquired covered property.
- \$5,000 per fire loss for arson reward.
- \$50,000 per occurrence for debris removal (no physical damage to covered property).
- \$100,000 per occurrence for golf course property.
- \$100,000 per occurrence for utility service interruption.
- \$250,000 annual aggregate for extraordinary expense.
- \$250,000 per location for pollutant clean-up and removal.
- \$250,000 annual aggregate for rental reimbursement.
- \$250,000 per location for asbestos clean-up.
- \$250,000 per occurrence for covered property in transit.
- \$500,000 per location for leasehold interest.
- \$500,000 per unit for newly acquired mobile property.
- \$500,000 per location for accounts receivable.
- \$500,000 per location for valuable papers and records.
- \$1 million per occurrence for criminal acts other than vandalism or arson.
- \$3 million per location for buildings under construction.
- \$50 million shared pool limit per occurrence for terrorism (the shared limit does not apply for resulting fire, explosion, smoke, water damage, or leakage or discharge from fire extinguishing equipment).

These limits should be enough in most cases. If not, contact LMCIT to learn more about increasing the amounts.

4. General property limit

The general limit is the most LMCIT would pay to repair or replace all the member's property if it were destroyed. The general limit is equal to the total scheduled values of its covered property, or the sum of the estimated replacement costs shown on the schedule for buildings and contents, PIO, mobile property, and the market value of any vacant buildings.

For example, if covered property consists of three buildings, each with an estimated replacement cost of \$100,000, the general limit is \$300,000. If one building is destroyed, LMCIT pays a maximum of \$150,000 (150 percent of \$100,000) to repair or replace it. If all three are destroyed, LMCIT pays a maximum of \$300,000 to replace the three buildings.

II. Builder's risk coverage

Ownership of a construction project is generally more complicated than ownership of a completed structure. While a member may own the land, the contractor or subcontractor may own the building materials, equipment, and supplies.

Because of the unique risks involved in construction projects, the typical contract between an owner and a contractor will usually require one of the parties procure builder's risk coverage, which is designed to cover the property loss exposures associated with construction projects.

A. Procuring coverage through LMCIT

LMCIT's property coverage provides automatic builder's risk coverage for buildings or PIO that are under construction, alteration, repair, or expansion, if the estimated total project cost is less than \$3 million. Construction projects under this threshold do not have to be reported and scheduled for the builder's risk coverage to apply. However, that building must be included in the schedule of property at the member's subsequent renewal.

RELEVANT LINKS:

The key features of LMCIT's builder's risk coverage are as follows:

- A building under construction is automatically covered if the total project cost is \$3 million or less, without having to be specifically scheduled.
- No additional mid-term premium is charged for these projects. However, these values will be included in calculating the member's property premium at its next renewal.
- The contractor's and subcontractors' interests in the property are automatically covered, to the extent the construction contract makes it the member's responsibility to provide coverage for these interests.
- Items such as temporary scaffolding, falsework, and foundations, are explicitly covered by LMCIT. Under commercial carriers, these items are often only covered by a specialty builder's risk policy.

If the estimated total project cost for a building under construction, alteration, renovation, or expansion project is more than \$3 million, the member must either contact its underwriter to arrange for builder's risk coverage, purchase builder's risk coverage from another source, or arrange for the construction contractor to provide the builder's risk coverage.

Even though LMCIT's builder's risk coverage is automatic or can be provided, it's still important to understand how the builder's risk exposures are handled by LMCIT.

- A building under construction is covered by the builder's risk coverage.
- A building being renovated is covered by both the builder's risk coverage and the property coverage. The cost of the renovation is covered under the builder's risk coverage, and the existing building is scheduled as a building under the property coverage.
- An addition to an existing building is covered by both the builder's risk coverage and the property coverage. The addition is covered by the builder's risk coverage, and the existing building is scheduled as a building under the property coverage.

B. Procuring coverage through contractor

There are several issues members should think about when confronted with the alternative of covering builder's risk exposures through a policy procured by the contractor.

RELEVANT LINKS:

[LMCIT Contract Review Service.](#)

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- Price should always be a consideration. Inevitably, the cost of an insurance policy purchased by the contractor will simply be added to the cost of the overall project. Some contractors may have access to very economical insurance products; others may not.
- Confirm the member is included as a named insured on the builder's risk policy. Simply being named as a certificate holder is not enough.
- Pay attention to deductibles and coverage limits. The member will want to assure there are not unanticipated gaps where the member could be financially exposed. Members should pay special attention to the limit and deductible language found in many "standard" contract forms, such as the forms promulgated by the American Institute of Architects (AIA). These forms are widely used by contractors, and the language may often not be particularly favorable to the member.
- Ensure the policy covers items such as work stored off-site or work in transit.
- Look for coverage gaps when the contractor's coverage ends and when LMCIT's newly acquired coverage begins. For example, a contractor may cancel his or her policy, but the member has not yet taken ownership of or occupied the building.

LMCIT can assist members in reviewing all types of agreements. Members are encouraged to take advantage of this service at no additional charge.

III. Crime coverage

All members with property coverage through LMCIT automatically receive \$250,000 of coverage for crime losses by non-member employees. Higher limits are available if needed. Covered crime losses include:

RELEVANT LINKS:

See LMC webpage,
[Coverage for Cyber and
Computer-Related Risks.](#)

[Minnesota Department of
Commerce Petrofund.](#)

[Minnesota Pollution
Control Agency.](#)

[Environmental Protection
Agency.](#)

- Loss of money and securities resulting directly from theft, disappearance, or destruction, including theft by electronic means.
- Damage to the premises and/or property that may have contained the money and securities which resulted from the theft or attempted theft.
- Forgery or alteration.
- Losses resulting from credit card fraud that are not otherwise reimbursable by the issuer, owner, or holder of the card (coverage may be restricted following a credit card fraud loss that involves a point-of-sale terminal, unless and until further action is taken to prevent future losses by converting to credit card chip technology).
- Reimbursement for reasonable audit and accounting costs the member may incur to identify the existence and amount of a claim (reimbursement is limited to an amount equal to 25 percent of the actual covered loss).
- Fraudulent instruction claims, which are losses resulting from an employee's reliance on fraudulent instructions from a person purporting to be a fellow employee or a representative from an individual or entity that provided or will provide goods or services to the member." A \$50,000 sub-limit applies on these types of claims.

Ransomware and cyber extortion payments are covered under LMCIT's Municipal First Party Cyber Coverage.

IV. Petrofund coverage

Minnesota's Petrofund provides reimbursement for 90 percent of the clean-up and liability costs from a petroleum storage tank leak or spill, up to \$1 million. LMCIT's property coverage automatically provides reimbursement coverage for the member's 10 percent share of these costs, and for associated defense costs. It is unnecessary to purchase separate "petrofund supplement" coverage, or to individually schedule the member's tanks.

To be eligible for reimbursement, for both the Petrofund and Trust coverage, the tank owner must follow applicable Minnesota Pollution Control Agency (MPCA) and Environmental Protection Agency (EPA) regulations and requirements. The Petrofund reimbursement can be reduced or refused if the owner is not in compliance. If the member has any tanks, priority is to make sure it's in compliance with the applicable regulations, so it can be eligible for Petrofund reimbursement if there should ever be a problem. The key points are:

RELEVANT LINKS:

[Reciprocating Internal Combustion Engines \(RICE\) regulations.](#)

- The tank must be registered with the MPCA.
- The member must report any known leaks or spills to the MPCA immediately.
- The member must meet EPA's requirements and timetable for leak monitoring, corrosion resistance, spill prevention, and technical improvements to the tank.

V. Municipal electric utilities

Covering damage to municipal electric utilities poses some issues and considerations that are different from other types of municipal property.

A. Primary coverage options

To address the risks associated with covering municipal electric utilities, LMCIT has special property coverage options for municipal utilities. The intent is to meet municipal utilities' coverage needs as cost effectively as possible.

1. Replacement cost coverage

The replacement cost coverage LMCIT provides for electric utility equipment differs from coverage provided for other municipal property. For other types of municipal property, the replacement cost coverage specifies that repairs or replacement will be made with new materials of like kind and quality.

Replacement cost coverage for utility equipment allows for:

- The use of used parts and materials to repair or replace damaged utility property, if available.
- Additional costs necessary to comply with building codes or county, state, or federal requirements. Excluded are costs necessary to comply with the member's own zoning or other requirements, the cost to correct violations which existed prior to the loss, or costs necessary to comply with the Environmental Protection Agency's (EPA's) Reciprocating Internal Combustion Engines (RICE) regulations unless the utility complied at the time of the loss.

Estimating the replacement cost of electric utility equipment can be difficult, in part because of the wide variety of types and ages of equipment. The goal is to calculate a figure for what it would cost to reconstruct the facility exactly as it was, using new materials, if the facility were destroyed. This estimated replacement cost figure is then used as the basis both for the specific coverage limit for that building, and for the premium charge.

RELEVANT LINKS:

See LMC webpage,
[LMCIT's Property
Appraisal Program.](#)

Although the coverage provides that used parts and equipment may be used if available, the estimated replacement cost is always based on the cost of making the repairs or replacement using new equipment. This is done because it can never be assured that comparable and appropriate used equipment will be available if a loss occurs. It's always possible that new materials would have to be used for the repair or replacement.

The estimated replacement cost for each structure is listed on the property schedule. The specific coverage limit for that structure is 150 percent of the estimated replacement cost. This is the most LMCIT would pay to repair or replace that structure and its contents if a loss were to occur. The coverage also includes \$500,000 of coverage for loss of revenue, extra expense, and expediting expense arising from covered damage to utility property. Higher limits are available, but there is an additional premium charge.

In most cases, the estimated replacement cost for each covered structure is developed through an appraisal by LMCIT's appraisal contractor. For relatively new equipment (i.e., no more than a few years old) the estimated replacement cost figure may be based on the equipment's original cost. In any case, it's always important that utility staff review the estimated replacement cost figures and make sure they appear reasonable.

If a utility has old and essentially obsolete generating equipment, an "agreed amount" will be used for these items. In some cases (e.g., where the equipment doesn't play a critical role for the utility) the amount might simply be the current market value of the property. In other situations, a larger agreed amount may be appropriate to address the cost of replacing the functional capacity. LMCIT will work with the utility to find a workable solution for each situation.

2. Agreed amount coverage

In some situations, the estimated replacement cost approach could result in the municipal utility purchasing and paying for higher coverage limits than needed. Utilities can purchase coverage for an "agreed amount," which is less than the estimated replacement cost of the facility. Both the coverage limit and the premium are then based on the lower "agreed amount."

Following are two situations where the "agreed amount" coverage option might make sense.

RELEVANT LINKS:

- The existing facility has greater generating capacity than what the utility needs. If the facility were destroyed or substantially damaged, the utility would likely replace it with a smaller facility, possibly of a different type. In this situation, it may make sense to use an “agreement amount” coverage limit based on the cost of the type and size of the replacement facility the utility would construct.
- The existing facility uses older technology, and its capacity could be replaced for less cost using a different technology. For example, it may be less expensive to build a gas turbine generation facility with “x” megawatt capacity than to rebuild a coal-fired facility. In this case, it may make sense to use an “agreed amount” coverage limit based on the cost of the type of the replacement facility that would be constructed.

In some circumstances, this “agreed amount” approach may be an attractive option for the utility, but it should be done carefully. There are three key points to keep in mind.

First, when the “agreed amount” approach is used, the coverage limit for the facility is equal to that agreed amount, not 150 percent of the agreed amount. It’s therefore important to calculate and select the agreed amount carefully and perhaps to incorporate some safety margin in that amount as well. If the actual cost turned out greater than the agreed amount that was scheduled, the utility would have no coverage for the excess cost.

Second, in selecting an “agreement amount” for a facility, LMCIT recommends the amount be based on the cost of constructing the needed generating capacity using new materials and equipment. If the amount were based on the estimated construction cost using used equipment, the limit could be inadequate if used equipment were not available at the time of the loss.

Third, make sure the coverage limit for demolition and debris removal is adequate, especially in situations where there’s an old facility that has substantial unneeded and unused generating capacity. If a facility is partially destroyed and the cost to repair that damage is equal to or greater than the agreed amount, the utility will presumably choose to replace the facility, but a substantial portion of the old facility might still be standing and need to be demolished and removed.

3. “New for old” replacement cost coverage

Utilities have the option in most cases to purchase replacement cost coverage which entitles it to “new for old” replacement coverage, but a higher rate is charged.

RELEVANT LINKS:

See Section VI.C,
Equipment breakdown
coverage.

In most cases, the “new for old” coverage option probably offers little real advantage to a utility. This coverage is only offered to utilities if it can be verified that new parts are in fact available for the equipment.

B. Other optional coverages

There are some special coverage issues that municipal electric utilities face regarding equipment breakdown and risks associated with utility poles and wires. LMCIT makes available additional cost coverage options for both.

1. Equipment breakdown coverage

LMCIT can provide equipment breakdown coverage for diesel generating equipment, but not for other types of electrical generation equipment such as steam or gas turbines, wind turbines, or hydro-electric facilities.

LMCIT can also provide equipment breakdown coverage for transformers and switching equipment for utilities that don’t have generation capacity. For utilities that have these other types of generation equipment, LMCIT can assist in placing the equipment breakdown coverage with a different coverage provider.

When LMCIT provides equipment breakdown coverage for diesel generation facilities, newly acquired diesel equipment is automatically covered for up to 90 days, subject to a \$5,000,000 limit. However, the newly acquired equipment must be reported to LMCIT within that 90-day period to have continued coverage. In general, any newly acquired equipment should be reported to LMCIT’s underwriting department as soon as possible, regardless of whether the equipment breakdown coverage is being provided by LMCIT or by a private insurance company.

Two other points should be noted. First, each utility’s equipment must be evaluated individually. Certain equipment may not qualify for breakdown coverage because of its age or condition. Second, neither LMCIT nor most private mechanical breakdown insurers can provide coverage to electric utilities for loss of income or extra expense resulting from an equipment breakdown loss.

2. Utility poles and wires coverage

LMCIT’s standard property coverage excludes coverage for damage to member utility poles and lines. This could leave some utilities with a significant uncovered expense in the event of a widespread ice or windstorm that downs lines. To help avoid this potential problem, LMCIT offers optional property coverage for member utility poles and transmission and distribution lines.

RELEVANT LINKS:

The coverage is subject to a \$50,000 deductible per occurrence and a \$500,000 limit. The rates for the coverage are based on the number of miles of transmission and distribution lines.

C. Incentive programs

Electric utilities can qualify for significant credits on their property coverage rates if they have in place specified fire detection and suppression equipment and/or if they have current documented operating procedures and preventive maintenance schedules in place.

1. Operations and maintenance incentive program

Under the Operations & Maintenance (O&M) incentive program, electric utilities can qualify for a 10 percent rate reduction on property coverage if the utility has:

- An up-to-date written preventive maintenance schedule including a comprehensive inventory of critical equipment. Critical equipment includes pieces of equipment and/or instrumentation that if failed would present an immediate risk or potential risk to personnel safety, of an insurable loss, or for lost production. The utility must also have written maintenance schedules. These may be a combination of manufacturers' recommendations and staff experience and expertise with kinds of machinery used.
- Documented and up-to-date operating procedures including written procedures and guidelines for various equipment operations like start-up, shutdown, and so on.

After LMCIT determines a utility meets these criteria, the utility is then eligible for a 10 percent rate reduction at their next renewal. Utilities need to qualify for the rate reduction each year by documenting it is keeping the manuals and maintenance plans updated to reflect any newly acquired equipment, changes in the manufacturer's recommended maintenance or operating procedures, and so on. It is also necessary to conduct the preventive maintenance in accordance with the written preventive maintenance schedule. There are a couple ways for utilities to meet the criteria for this incentive.

RELEVANT LINKS:

To participate in LMCIT's O&M project, contact:

Julie Jelen, Loss Control Representative
651.268.6992
jjelen@lmc.org

- Utilities that participate in LMCIT's O&M project will work with LMCIT's utility consultants to develop written preventive maintenance schedules and documented operating procedures. Utility consultants can serve about four to five utilities per year. Participation is on a first come first serve basis, with consideration given to utility location (utilities located near each other will save consultant travel time) and equipment (utilities with very similar equipment will save time and costs in document creation).
- Utilities can develop and put into place its own operating manuals and maintenance schedules. However, the documentation will be reviewed by utility consultants to ensure compliance prior to the credit being applied. Any utility that has already developed and put in place comparable operating materials and maintenance schedules will qualify for the credit.

2. Fire protection rate credit

Utilities can qualify for fire protection credits in addition to the O&M incentive credit. Credits are as follows.

- Diesel plants receive 6.25 percent credit if they have power plant fire detection, 2.5 percent credit if they have spill containment, and 1.25 percent credit if they have transformer separation.
- Gas turbine plants receive 2 percent credit if they have power plant fire detection, 7 percent credit if they have power plant fire suppression system, and 1 percent credit if they have transformer separation.
- Steam turbine plants (gas or coal-fired) receive 2 percent credit if they have power plant fire detection, 7 percent credit if they have power plant fire suppression system, and 1 percent credit if they have transformer separation.

VI. Optional coverages

LMCIT offers bond coverage, supplemental flood coverage, and equipment breakdown coverage as additional cost coverage options to members.

A. Bond coverage

LMCIT's bond program makes available all the bond coverage and limits that members and member officials need. LMCIT coordinates the bond coverage with the member's other coverages to avoid gaps, overlaps, and inconsistencies. Most members obtain their bond coverage through LMCIT.

RELEVANT LINKS:

See also LMC information memo, [LMCIT Liability Coverage Guide](#).

1. Understanding LMCIT's bond coverage

LMCIT's bond coverage forms are specifically designed to meet the needs and requirements of Minnesota municipalities, and it's written to cover both fidelity and faithful performance risks. Separate coverage for each type of risk is not needed, but it's worth looking at a few examples when the faithful performance bond versus the fidelity bond would come into play:

- A treasurer knowingly and intentionally invests member or relief association funds in an investment that's not permitted by statute. That investment loses money. This would be covered under the faithful performance bond.
- A member employee fails to send the FICA withholding to the IRS, and instead steals the money. The member incurs penalties and interest for not remitting those funds on time. A fidelity bond would only cover what the employee stole. The faithful performance bond would cover the penalties and interest the member incurred because of the employee's malfeasance.
- The member accepts credit card payments for member services. A member employee with access to a citizen's credit card information uses that information to make fraudulent charges. A fidelity bond wouldn't cover the citizen's loss; the faithful performance bond would.
- A member employee acting within the scope of his or her duties does something that harms a member of the public, and the employee's action is clearly a case of intentional wrongdoing that constitutes "malfeasance, willful neglect of duty, or bad faith." The member's liability coverage would cover the employee's defense costs, along with any damages awarded against the member. But, if the member isn't required to pay the damages awarded against the employee, the faithful performance bond would cover those damages if the injured party was not able to recover them from the guilty employee.

a) Coverage limits

The minimum bond coverage available is \$50,000 and limits up to \$3 million are available. Premium rates are based on the number of full-time equivalent (FTE) employees and the limit of coverage selected by the member.

If more than \$50,000 in limits are needed, members must verify with LMCIT that either:

RELEVANT LINKS:

Use the [LMCIT Bond Coverage Checklist](#) to help guide you when performing an independent audit review.

- An annual outside audit is being performed; or
- An independent review of bank statements, cancelled checks, and cash receipts is being performed.

The audit requirement recognizes the increase in risk and exposure when audits are not completed. The cost of an audit varies greatly from member to member. It also depends on the state of the member's records and the scope of member operations.

Audits are a good way to mitigate the exposure for employee theft, but because the cost can be significant, members have the option to instead have an independent review performed on bank statements, cancelled checks, and cash receipts to obtain higher bond coverage limits. The independent review can be done by someone:

- With authorization to initiate or execute bank transactions.
- Without access to the member's checks or signature authority.
- Without access to the member's physical cash receipts.

If a member, for example, has staff consisting of a single clerk, the mayor might be able to conduct the independent review; or the member might contract with a neighboring member. Members are encouraged to contact LMCIT to discuss whether the independent review it has in place or plans to put into place would meet the requirement.

Regardless of the minimum bond limits available through LMCIT, deciding what bond limits to carry can be difficult. There are occasionally some members that have very low bond limits that essentially do not provide any financial protection.

The statutes have identified the following minimum bond limits for certain positions, but keep in mind these are minimums. A governing body could decide higher bond limits are appropriate. Some charters may also require specific bond amounts for some positions. Generally, though, the statutes leave the amount of the bond to the governing body's judgment.

- A relief association treasurer's bond must be at least 10 percent of the relief association's assets or \$500,000, whichever is less.
- A gambling manager's bond must be at least \$10,000.
- A port authority or economic development authority's (EDA) bond must equal at least "twice the amount of money likely to be on hand at any one time" or \$300,000, whichever is less.

[Minn. Stat. § 424A.014, subd. 4.](#)

[Minn. Stat. § 349.167, subd. 1.](#)

[Minn. Stat. § 469.051, subd. 6 and Minn. Stat. § 469.096, subd. 6.](#)

RELEVANT LINKS:

[Minn. Stat. § 574.25.](#)

See also LMC information memo, [LMCIT Liability Coverage Guide](#).

b) Covered parties

LMCIT's bond coverage protects the member and members of the public that may result from ways in which an employee might fail to faithfully perform his or her duties, such as stealing the member's money or someone else's money. Employees of city relief associations are included as a standard feature of LMCIT's bond coverage, and other member-related organizations, such as an EDA, port authority, or housing and redevelopment authority (HRA), can also be included.

Where outside parties, such as the Farmers Home Administration or the State Lottery Board, require specialized bond forms, these can be incorporated into LMCIT's basic bond coverage, generally at no charge.

c) Protection for employee's intentional wrongdoing

It's extremely important to understand that whenever LMCIT pays a loss under the bond coverage, it does not protect the employee. It protects the member and the public. The bond doesn't relieve the employee of the duty to make the payment; it relieves the member and/or the injured citizen of the hassle and uncertainty of trying to collect it from him or her.

If a member of the public makes a bond claim against a member employee, they can't collect under an employee's bond unless they have a valid claim against the employee and has first tried and failed to collect directly from the employee. State law says that when a member of the public has a claim against a public employee covered by a bond, the claim is to be paid first "... out of the property of the principal, if sufficient can be found, and, if not, out of the property of the surety."

If the member makes a bond claim against a member employee, the member is saying the employee failed to faithfully perform his or her duties, and the employee should therefore repay the member for the loss they caused. The bond will pay if the employee is found financially responsible for that claim. The bond carrier (i.e., LMCIT) is then entitled to recover from the employee anything it pays on the employee's behalf.

But if the court determines the employee was guilty of malfeasance, intentional neglect of duty, or bad faith, LMCIT's liability coverage won't pay for any damages the employee is ordered to pay. In that situation, the claimant could look to the bond if they can't collect directly from the employee. The bond would then pay the claimant and in turn, LMCIT would attempt to recover from the employee whose intentional wrongdoing caused the damage.

RELEVANT LINKS:

[Minn. Stat. § 574.24.](#)

See also LMC information memo, [LMCIT Liability Coverage Guide](#).

d) Protection for employee's simple negligence

In an instance of simple negligence of a member employee (i.e., not involving malfeasance, willful neglect of duty, or bad faith), the bond would probably not come into play in any meaningful way, though the statutes are confusing on this point and arguably may require the bond to cover losses caused by the bonded employee's ordinary negligence as well.

To ensure it meets the strictest reading of this statute, LMCIT's bond coverage provides a small amount of coverage for claims caused by an employee's ordinary negligence. This is limited to 10 percent of the bond limit. Whether that has any real practical effect is questionable, either for claims by the member or for claims by an individual of the public.

Regarding a claim for ordinary negligence by an individual of the public, here are some key points:

- Most third-party negligence claims will be covered by LMCIT's liability coverage, so there's rarely any reason to worry about how the bond coverage might apply.
- Before someone other than the member can make a claim under the bond, they must first have tried and failed to collect from the employee.
- When someone makes an ordinary negligence claim against a member employee and it's not covered by the liability coverage, the member is still required by statute to defend and pay damages on behalf of the employee.

If the bond were ever to pay on an ordinary negligence claim against a member employee, LMCIT would in turn seek reimbursement from the employee. The statute would require the member to indemnify the employee for that claim as well. In other words, an ordinary negligence claim by an individual of the public against a member employee ends up one way or the other being the member's responsibility if it's not covered by the member's liability coverage. The bond doesn't change that.

A similar kind of circularity would result if the member itself were to make a claim against a member employee for losses to the member caused by the employee's negligence. Assuming the member could even make that kind of claim, the statute would seem to require the member to indemnify the employee against the member's own claim. Or if the member made a claim under the bond for a loss caused by an employee's ordinary negligence, and the bond were to pay that claim, LMCIT would in turn seek reimbursement from the employee. Again, this creates a claim against the employee, which the statute would require the member to defend and indemnify.

RELEVANT LINKS:

See also LMC information memo, [LMCIT Liability Coverage Guide](#).

[Minn. Stat. § 424A.014.](#)

[Minn. Stat. § 469.051.](#)

[Minn. Stat. § 469.096.](#)

[Minn. Stat. § 349.167.](#)

[Minn. Stat. § 574.24.](#)

2. Advantages of LMCIT's bond coverage

There are a few advantages to carrying LMCIT's bond coverage rather than through a commercial carrier.

a) Coordinates coverage

LMCIT's bond, crime, and liability coverages fit together to meet member needs. This ensures there are neither gaps nor overlaps of coverage. If another carrier is providing the bond coverage, there's a potential overlap of the other carrier's faithful performance bond coverage with the member's liability coverage.

Additionally, if different carriers provide the member's bond and crime coverages, it can be a problem for the member at claim time. The member must be able to show whether the theft was by a member employee, which falls under the bond coverage, or by an outsider, which falls under the crime coverage. If it's not clear who stole the money, the member can face potential conflict between the two carriers. When LMCIT is providing both coverages, it eliminates that potential problem.

b) Meets statutory requirements

LMCIT's bond coverage forms are specifically designed to meet the requirements of Minnesota municipalities. In many cases the bond coverage forms commercial carriers use may not provide what the statutes require for specific officers, such as the following (these officers are required by statute to be bonded):

- Relief association treasurers.
- Port authority treasurers.
- EDA treasurers.
- Gambling managers (if fire relief association conducts lawful gambling).

Many commercial bond forms for public officials include a "sole benefit" clause. This clause states the bond is only intended for the benefit of the public body itself and that no one else may make a claim against the bond. This seems directly contrary to statutory requirements specifying that a public officer's bond is security to any person who is injured by the officer's official misconduct or neglect.

Commercial bond forms also very commonly incorporate exclusions for torts or civil rights violations. This is obviously one of the ways a public official could fail to perform his or her duties.

RELEVANT LINKS:

Another common exclusion in conventional bond forms is for losses resulting from trading securities or from other investment activities. A main reason why the statutes require a faithful performance bond on positions such as a relief association treasurer is because of the treasurer's investment responsibilities. It would seem to miss not only the letter but the intent of the law if the bond excludes coverage for that exposure.

c) Covers audit and accounting costs

In addition to the coverage limit chosen by the member, LMCIT's bond coverage will reimburse the member for reasonable audit and accounting costs the member incurs to establish the existence and amount of a loss. This reimbursement is subject to a limit equal to 25 percent of the covered loss and only applies when there is an actual loss. If the member suspects an employee dishonesty loss and incurs audit costs while investigating the claim, but ultimately is unable to show that a loss has occurred, the audit costs incurred by the member would not be reimbursed.

The 25 percent limitation on reimbursement for audit and accounting costs is meant to assure some proportionality between the loss and the amount the member spends trying to prove that loss. It's possible the member could incur audit and accounting costs greater than the 25 percent reimbursement limit. If so, those additional costs would be the member's responsibility. Keep in mind, though, that commercial carriers will not provide for these costs, since it's the claimant's responsibility to prove that a loss has occurred and to establish the amount of the loss. Under a commercial bond, any costs the member would incur to prove its loss would be entirely the member's responsibility.

d) Covers fidelity and faithful performance risks

The typical fidelity bond offered by commercial carriers covers only the risk of employee dishonesty, or the risk the employee will steal the employer's money. LMCIT's bond coverage protects this risk, as well as the risk that a member officer or employee might steal someone else's money.

In addition to covering dishonesty claims, LMCIT's bond coverage also covers losses that result from other ways that an employee might fail to faithfully perform his or her duties. It protects the member and the public against losses caused by other types of employee malfeasance.

RELEVANT LINKS:

[National Flood Insurance Program.](#)

See LMC webpage, [City Participation in the National Flood Insurance Program.](#)

See Section VI.B.3.c, *Code A.*

See Section VI.B.3, *LMCIT supplemental flood coverage.*

For detailed information see the [FEMA website.](#)

B. Flood coverage

LMCIT’s property coverage provides some protection for flood damage to members’ buildings in certain circumstances. The first step in determining what is and isn’t covered is by having members indicate on their property schedule whether their buildings are in a flood hazard area.

A flood hazard area is either within the 500-year floodplain as mapped by the NFIP or within an unmapped area. On a case-by-case basis, buildings in unmapped areas can be treated as not being in a flood hazard area if the member can provide information to LMCIT showing it’s not a significant flood risk.

1. LMCIT’s property coverage

If there hasn’t been an event that would trigger coverage under an NFIP flood policy, damage from water and related risks such as mudslides, sewer backups, seepage through foundations, and surface water entering through doors or windows is automatically covered for all buildings under LMCIT’s water and supplemental flood coverage.

Damage from a flood is covered for any building that’s not in a flood hazard area, which is the 500-year flood plain. To have this coverage, the member must identify each building that is outside the flood hazard area and have that building scheduled as “Code A” on its coverage.

For any building in a flood hazard area, the member must decide whether to add LMCIT’s optional supplemental flood coverage.

2. Federal Emergency Management Agency

Before looking at LMCIT’s supplemental flood coverage, it’s important to note that the Federal Emergency Management Agency (FEMA) provides extensive and valuable help in a flood disaster, but FEMA assistance isn’t an alternative to flood insurance. Some of the misconceptions about FEMA assistance could expose some members to significant costs for flood damage. Following are some points to keep in mind if only relying on FEMA protection for flood damage:

RELEVANT LINKS:

See LMC webpage, [City Participation in the National Flood Insurance Program](#).

- If a member building that's in FEMA's special flood hazard area (i.e., the 100-year flood plain) is damaged by a flood, FEMA disaster assistance will be reduced by the amount that NFIP flood insurance would cover, whether the member has NFIP insurance. In other words, for a building in the 100-year flood plain, FEMA won't pay for any flood damage the member could have insured with NFIP.
- If FEMA has previously aided with flood damage to a building not in the 100-year flood plain, FEMA will not provide any assistance for damage to that building caused by a subsequent flood unless the member has flood insurance on the building.
- Not every flood is a "disaster" for which FEMA will help. Localized flooding that affects only a limited area may be too small in scope for the presidential disaster declaration that's needed to qualify for FEMA help but could still cause substantial damage to individual buildings.

3. LMCIT's supplemental flood coverage

For buildings in a flood hazard area, the member must decide whether to add the supplemental flood coverage which LMCIT makes available as an additional coverage option.

LMCIT's supplemental flood coverage is available only if the member has purchased NFIP flood insurance for the building at the maximum limit available, as per Code B below. LMCIT's coverage then covers the cost of flood damages the NFIP policy doesn't cover, such as replacement cost or certain contents.

There is a \$500,000 annual aggregate limit that applies, regardless of how many buildings may be affected. Following are the coverage codes LMCIT uses to specify the water damage and flood coverage that applies to each building. Members and agents should review the member's property schedule to make sure each building has the proper coverage code.

a) Code C

Code C is the default code that is assigned to all buildings unless the member has taken steps to change it. Under Code C, the building is covered only for water damage and is treated as though it is in the 500-year flood plain. Under Code C, there is no coverage for any flood event. Newly acquired buildings automatically receive Code C coverage as well, unless and until the member provides information on the building's location to LMCIT.

RELEVANT LINKS:

b) Code B

Code B is used to show that a building is in the 500-year flood plain, the member has NFIP flood insurance on the building, and the member has purchased LMCIT's supplemental flood coverage. Code B coverage is specifically in addition to and in excess of NFIP coverage. For buildings in a flood plain, there is a charge to go from Code C to Code B.

c) Code A

Code A is for buildings that are not within the 500-year flood plain. A building with Code A coverage is covered both for flood damage and non-flood water damage. Any building that is not within the 500-year flood plain should receive Code A. There is no additional charge to go from Code C to Code A. However, it is the member's responsibility to provide the information showing where the building is to get that building classed as Code A. If the member doesn't provide that information to LMCIT, the building remains in Code C.

C. Equipment breakdown coverage

LMCIT offers equipment breakdown coverage to protect members from the unexpected cost and expense associated with equipment and machinery breakdowns. Though some specific kinds of equipment are excluded, the coverage generally applies to any property "used for the generation, transmission, or utilization of energy," as well as to steam and other pressure vessels. Following are examples of the types of machinery and equipment that are covered:

- Wastewater system equipment (pumps, agitators, air systems, electronic controls, motors).
- Air conditioning, refrigeration, heating equipment.
- Water system pumps, motors.
- Electrical wiring, breakers, transformers, switches.
- Telephone switchboard and related equipment.
- Compressors for filling fire department air packs.
- Steam boilers or other pressure vessels.
- A few types of mobile property that are temporarily off-premises (portable electric generators, pumping units, refrigeration coolers, air compressors, and extrication devices; thermal imaging cameras; body cameras; mobile radios; push lawnmowers; and chainsaws).

There's also the option to cover the following types of equipment, but a special underwriting analysis must be conducted before coverage can be granted, and special pricing, deductibles, terms, and conditions may apply:

RELEVANT LINKS:

[Leadership in Energy Design.](#)

- Electric generating equipment.
- Steam or hot water district heating systems or refuse burning facilities.
- Equipment for recovering methane or other gases from a sewage treatment plant, landfill, or any other system for producing industrial gases.
- Certain hospital and/or clinic equipment, including CT scanners, MRI units, PET units, linear accelerators, and lithotripters.

1. Coverage

The overall limits under LMCIT's equipment breakdown coverage include:

- The actual cost of repairing or replacing the equipment as quickly as possible. This is subject to a limit equal to 150 percent of the scheduled value of the property.
- Lost income or extra expense incurred to continue operations while the equipment is down. This is subject to a limit of \$5 million per occurrence.
- The additional costs to maintain Leadership in Energy Design certified equipment if the equipment is reconstructed after being damaged or destroyed. The coverage limit is 1 percent of the loss costs or \$100,000, whichever is less.
- The additional costs to recycle construction debris.

There are also sub-limits that apply for pollutant cleanup, mold, CFC refrigerants, solar generators, data restoration, underground ice rink piping, loss of perishable goods, power quality improvements, and off-premises coverage.

2. Cost

Premiums are developed in a two-step process. For most types of machinery, premiums for the equipment breakdown coverage are simply based on the total value of the member's property. It will vary depending on the deductibles and on the total amount of property, but generally this premium will range from 7 percent to 20 percent of the member's property premium.

Certain machinery and equipment must be evaluated individually, and there may be a separate additional charge to cover this equipment. This applies to the following:

RELEVANT LINKS:

- Diesel, steam, or other types of electrical generating equipment. This includes any co-generation facilities but does not include emergency backup generators that serve only a single building or function and are not part of a municipal utility system.
- Any steam or hot water district heating system.
- Any equipment for recovering methane or other gases from a sewage treatment plant or landfill, or any other system for producing industrial gases.
- Any refuse burning facility.
- Any of the following medical equipment: CT scanner, MRI unit, PET, Linear accelerator, Lithotripter.

Unless the member has any of the special equipment listed above, LMCIT's underwriters can provide a quote quickly since it already has the information on the member's property values. If a quote is needed for the other types of equipment listed, contact LMCIT at least 90 days before coverage is needed. Underwriters may need to physically inspect the equipment and obtain additional technical information before preparing a quote.

3. Coverage considerations

In considering whether to purchase equipment breakdown coverage, a member should look at:

- How much it would cost to replace various pieces of machinery.
- What extra expenses might be incurred to continue operation while a key piece of equipment is being repaired.
- How long it might take to get repairs or replacement equipment.

If the member's budget can handle these kinds of expenses, it probably doesn't make sense to carry the coverage. On the other hand, if the possible cost to repair or replace a piece of equipment is more than what the member's budget can comfortably absorb, equipment breakdown coverage is worth considering.

One way to decide whether purchasing the coverage is a good idea is to compare the potential costs of these kinds of equipment breakdowns with the member's current deductible level on its property coverage. That deductible represents the size of the financial risk the member decided it was comfortable retaining. If the potential cost of an equipment breakdown is substantially greater than that amount, it probably makes sense to consider adding coverage for the equipment breakdown risk.

RELEVANT LINKS:

[LMCIT claim forms, information sheets, and other resources.](#)

[Submit a claim online.](#)

Email: claims@lmc.org

Fax: 651.281.1297 or 888.234.7839

Mail: 145 University Ave
W, St. Paul MN 55103-2044

Phone: 651.281.1200 or 800.925.1122

VII. Filing a property claim

Property claims can be submitted to LMCIT using any one of the following formats that is most convenient for members:

- Online
- Email
- Fax
- Mail
- Phone