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<b>TRANSMITTAL MEMORANDUM</b>
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**TO:** The Honorable Mayor and City Council

**FROM:** Karl R. Amylon, City Manager

**DATE:** February 26, 2020

**RE:** **Ketchikan Public Library Pellet Boiler Fire Update**

The attached memorandum from Finance Director Bob Newell is self-explanatory and requires little elaboration on the part of my office. Unless directed otherwise by the City Council, I intend to direct the Finance Director to accept the settlement of \$85,000 and direct the Public Works Director to pursue replacement of the pellet boiler with a more conventional fuel based boiler.

Mr. Newell and Mr. Hilson will be attending the City Council meeting of March 5, 2020, in order to address any questions and/or concerns that Councilmembers may have.

**MEMORANDUM**  
**CITY OF KETCHIKAN, ALASKA**  
**Finance Department**  
*Office of the Finance Director*

*Bob Newell, Finance Director*  
*Camille Nelson, Financial Analyst*  
*Phone: (907) 228-5621*  
*Facsimile: (907) 228-5617*

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TO: Karl R. Amylon, City Manager/KPU General Manager

FROM: Bob Newell, Finance Director

DATE: February 25, 2020

**SUBJECT: Library Pellet Boiler Claim**

In February 2018, the pellet boiler at the Ketchikan Public Library experienced a serious malfunction, which damaged the boiler. The City filed a claim for damage against its machinery and boiler policy. To support its claim, the City hired Wisewood Energy, a firm that designs and construction biomass energy projects, to assess the damaged boiler. The City's insurance company, APEI/Liberty Mutual, also conducted an onsite review of the damaged boiler.

Wisewood Energy concluded that the boiler could be repaired but recommended against it because, in their opinion, it was oversized and the risk of another malfunction was above average. APEI/Liberty Mutual concluded that the boiler could be repaired. APEI/Liberty offered to settle for \$49,815 if the City decided to repair the pellet boiler or \$59,765 if the City decided to replace the pellet boiler. Initial attempts to close this claim were not successful due to conflicting opinions and the City's uncertainty about how it wanted to address the deficient pellet boiler. On Thursday, February 20, 2020, the City's insurance broker and I met with APEI/Liberty Mutual to make another attempt to reach a mutually agreeable settlement. APEI/Liberty Mutual agreed to settle for a cash payment of \$85,000. All amounts shown here are net of a \$10,000 deductible.

Subject to your approval, it is my recommendation that we accept this settlement for \$85,000. According to Public Works Director Mark Hilson, the estimated cost to replace the pellet boiler with a more conventional fuel based boiler will cost between \$100,000 and \$120,000. The proposed settlement could cover as much as 85% of the cost of a replacement boiler. The insurance company has also offered cash payment to settle and close the claim. Finally, Wisewood Energy concluded that the boiler malfunctioned because it was oversized. Typically, insurance companies do not pay to claims correct design or construction deficiencies. Instead, they only pay for the damages caused by the design or construction deficiencies. The City was fortunate that its insurance company was willing make an exception and agree to pay for a significant portion of the cost of replacing the pellet boiler.