



ADMINISTRATION COMMITTEE

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Agenda Report

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Agenda Item No: 10.

FROM: Robert Thompson, General Manager
Originator: Wally Ritchie, Director of Finance

SUBJECT:

FY 2023-24 PROPERTY - LIABILITY INSURANCE RENEWALS

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Approve the Orange County Sanitation District FY 2023-24 Property-Liability Insurance Renewals included in the FY 2023-24 Budget Update for the not-to-exceed amounts specified below:

Property and Boiler & Machinery - Not to Exceed	\$2,617,059
Excess General Liability Insurance - Not to Exceed	\$1,247,262
Excess Workers' Compensation Insurance - Not to Exceed	\$ 391,000
Earthquake Insurance - Not to Exceed	\$ 173,054
TOTAL	\$4,428,375

BACKGROUND

Financial Management staff and the Orange County Sanitation District's (OC San) operational insurance broker, Alliant, began the renewal process in January and received final quotes in June. After negotiating with the insurance carriers, Alliant was able to secure competitive rates for OC San without compromising the quality of coverage provided. The insurance market has been in a state of flux due to reduced reinsurer capacity, COVID-19, weather extremes, sea level rise, wildfires, catastrophic losses, social inflation, and cybersecurity threats around the world and in the state of California. There is a lot of uncertainty in the market and insurers have taken losses for previous years and, as a result, insurance costs will increase to absorb the losses.

The extreme uncertainty in the market due to the above-mentioned factors will impact the insurance rates. As such, OC San will need to pay higher rates to obtain the same coverage limits. The current extreme degree of uncertainty in the insurance industry means severe rate increases, at least in the short term, until the numbers play out for the insurance industry over the next few years.

The proposed cost of insurance coverage for FY 2023-24 is \$4,428,375, an increase of \$1,183,571 (36%). A summary of the insurances is included in the Additional Information section below.

RELEVANT STANDARDS

- Protect OC San assets

PROBLEM

Current insurance coverage expires June 30, 2023 and insurance coverage is necessary to protect OC San assets and financial well-being.

PROPOSED SOLUTION

Approve the insurance renewals as described to ensure continued coverage of OC San assets.

TIMING CONCERNS

Board approval is necessary since current coverage expires June 30, 2023.

RAMIFICATIONS OF NOT TAKING ACTION

Without Board approval, OC San cannot finalize the contracts with the insurance carriers and OC San's insurance will lapse.

PRIOR COMMITTEE/BOARD ACTIONS

May 2023 - Informational presentation to the Administration Committee providing an overview of the insurance renewal market.

February 2023 - Informational presentation to the Administration Committee detailing each of the five major insurances for OC San.

ADDITIONAL INFORMATION

The cost of insurance coverage for FY 2023-24 is \$4,428,375, an increase of \$1,183,571 (36%). OC San's budget provides funds for the renewal of the following four major insurances for OC San operations:

1) All-Risk Property and Flood Insurance (Includes Boiler & Machinery)

The All-Risk Property and Flood Insurance Program (Property Insurance) provides comprehensive coverage for much of OC San's real and personal property regarding virtually all perils including fire, flood, and business interruption. Current Property Insurance limits are \$1 billion dollars for most perils other than flood and earthquakes, and \$25 million dollars for flood, with many sub-limits for various situations. In order to reach \$800 million dollars in limits, the broker had to arrange for more than a dozen different insurers. The self-insured retention (SIR) is \$500,000 per occurrence for most types of losses.

Since the late 1990's, the Property Insurance has been with a nationwide joint purchase property insurance program called Public Entity Property Insurance Program (PEPIP), one of the world's largest property programs. It is important to note that this joint purchase property insurance offers the purchasing power of numerous large public entities without the pooling or sharing of coverage or losses. The Boiler & Machinery Insurance component of the property insurance provides comprehensive coverage for loss caused by machinery breakdown and explosion of steam boilers or other covered process equipment, including damage to the equipment itself and damage to other property caused by covered accidents. The current Boiler & Machinery Insurance Program provides coverage of \$100 million per occurrence with deductibles ranging from \$25,000 to \$350,000 for losses caused by covered machinery breakdown (e.g., motors, steam turbines, digesters, co-gen engines). Damages to the equipment, as well as damage to other property and improvements from machinery breakdown, are covered by the Boiler & Machinery Insurance. This program augments OC San's All-Risk Property Insurance that covers perils such as fire and flood.

The estimated cost for All-Risk Property and Flood is \$2,617,059, an increase of \$849,844 (48%).

2) Excess General Liability Insurance

OC San's Excess General Liability Insurance Program is currently provided through the California Municipal Excess Liability Program (CAMEL) and its sister program, the Alliant National Municipal Liability Program (ANML). OC San has participated in the CAMEL program since FY 1996-97. This program currently provides OC San with a \$40 million dollar policy of comprehensive coverage for municipal liability, bodily injury and property damage, and personal injury. The program was structured to also include Employment Practices and Public Officials Errors & Omissions coverage. The \$40 million dollar coverage has a self-insured deductible of \$500,000. Since 1997, the Employment Practices portion of coverage has been enhanced from a \$2 million-dollar sub-limit to the full policy limit of \$40 million dollars.

The estimated cost for Excess General Liability is \$1,247,262, an increase of \$207,877 (20%).

3) Excess Workers' Compensation

The Excess Workers' Compensation insurance coverage is with Public Risk Innovation, Solutions, and Management (PRISM) (formerly California State Association of Counties Excess Insurance Authority (CSAC EIA)). OC San has participated in this program or its predecessor since 2003. The Excess Workers' Compensation program currently provides "Statutory" (unlimited) coverage with a SIR, or deductible, of \$1 million. The use of Excess Workers' Compensation Insurance dates back to the late 1980's.

The estimated cost for Excess Workers' Compensation is \$391,000, an increase of \$81,341 (26%).

4) Earthquake Insurance

OC San previously carried earthquake insurance as part of its Property Insurance, but in the last 15 years earthquake insurance proved difficult to obtain or not cost-effective. Each year, OC San asked

its insurance broker to survey the market to see if rates changed. In 2015, a plan was created to maintain coverage on several key OC San structures identified by Engineering, thus keeping the cost manageable. The insurance is a high deductible plan with a limit of \$25 million dollars in total.

The estimated cost for Earthquake Insurance is \$173,054, an increase of \$44,508 (35%).

CEQA

N/A

FINANCIAL CONSIDERATIONS

This request complies with authority levels of OC San's Purchasing Ordinance. This item has been included in the FY 2023-24 Budget Update.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

N/A