



# ADMINISTRATION COMMITTEE

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## Agenda Report

**File #:** 2021-1715

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**Agenda Item No:** 14.

**FROM:** James D. Herberg, General Manager  
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**SUBJECT:**

**2021-22 PROPERTY - LIABILITY INSURANCE RENEWALS**

**GENERAL MANAGER'S RECOMMENDATION**

RECOMMENDATION:

Approve the Orange County Sanitation District FY 2021-22 Property-Liability Insurance Renewals included in the FY 2021-22 Budget Update for the not-to-exceed amounts specified below:

Property and Boiler & Machinery - Not to Exceed	\$ 1,484,593
Excess General Liability Insurance - Not to Exceed	\$ 906,635
Excess Workers' Compensation Insurance - Not to Exceed	\$ 271,860
Earthquake Insurance - Not to Exceed	\$ 118,166
<b>TOTAL</b>	<b>\$ 2,781,254</b>

Includes Option #2 of the OC San 2021 Year Over Year Premiums Worksheet which is a reduction to the Flood Limit from \$100M to \$25M and an increase in the deductible from \$500,000 to \$1M.

**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 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 COVID-19 and the abovementioned 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 Fiscal Year is \$2,781,254, an increase of \$645,809 (30%). A summary of the insurances is included in the Additional Information section below.

## **RELEVANT STANDARDS**

- Protect OC San assets

## **PROBLEM**

Insurance is necessary to protect OC San's assets and financial well-being.

## **PROPOSED SOLUTION**

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

## **TIMING CONCERNS**

Board approval is necessary since current insurance coverage expires on June 30, 2021.

## **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**

June 2021 - The Administration Committee received two (2) options related to the Property Insurance. Option #1 is for the expiring coverage with the associated deductibles in the amount of \$1,642,913 which is greater than the not to exceed amount. Option #2 reduces the Flood Limit from \$100M to \$25M and increases the deductible from \$500,000 to \$1M. This option costs \$1,428,061, which was within the not to exceed limit. Option #2 was approved to recommend to the Board of Directors.

May 2021 - Informational presentation to the Administration Committee providing an overview of the insurance renewal market.

March 2021 - Informational presentation to the Administration Committee detailing each of the five major insurances for OC San operations, and the status of the insurance market.

## **ADDITIONAL INFORMATION**

The cost of insurance coverage for Fiscal Year is \$2,781,254, an increase of \$645,809 (30%).

OC San's budget provides funds for the renewal of the following four (4) 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 \$800 million dollars for most perils other than flood and earthquakes, and \$100 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 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 damages 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 \$1,484,593, an increase of \$408,154 (38%).

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 \$906,635, an increase of \$151,106 (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 self-insured retention (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 \$271,860, an increase of \$67,091 (33%).

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. OC San asked its insurance broker each year to survey the market to see if rates have 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 \$118,166, an increase of \$19,459 (20%).

## **FINANCIAL CONSIDERATIONS**

This request complies with authority levels of OC San's Purchasing Ordinance. This item has been included in the FY 2021-22 Budget Update.

## **ATTACHMENT**

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

- OC San 2021 Year Over Year Premiums Worksheet