



ADMINISTRATION COMMITTEE

Agenda Report

Administration Building
10844 Ellis Avenue
Fountain Valley, CA 92708
(714) 593-7433

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Agenda Item No: 21.

FROM: James D. Herberg, General Manager
Originator: Lorenzo Tyner, Assistant General Manager

SUBJECT:

2022-23 PROPERTY-LIABILITY INSURANCE RENEWALS

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

Approve the Orange County Sanitation District FY 2022-23 Property-Liability Insurance Renewals included in the FY 2022-23 and FY 2023-24 Budget for the not-to-exceed amounts specified below:

Property and Boiler & Machinery - Not to Exceed	\$ 1,812,868
Excess General Liability Insurance - Not to Exceed	\$ 1,064,822
Excess Workers' Compensation Insurance - Not to Exceed	\$ 343,000
Earthquake Insurance - Not to Exceed	\$ 131,927
TOTAL	\$ 3,352,617

BACKGROUND

Financial Management staff and the Orange County Sanitation District's (OC San) operational insurance broker, Alliant, began the renewal process in January and receives 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 considerable amount of uncertainty in the market as insurers have taken outsized losses for previous years, and the concern is that rates are insufficient to keep pace with the expectation of future losses. As a result, insurance costs need to increase to absorb these expectations.

The extreme uncertainty in the market due to COVID-19 and 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 2022-23 is \$ 3,352,617, an increase of \$ 662,547 (24%). 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 July 1, 2022.

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 2022 - informational presentation to the Administration Committee providing an overview of the insurance renewal market.

February 2022 - 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 FY 2022-23 is \$ 3,325,617, an increase of \$662,547 (24%).

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, however our broker was able to get an additional \$200,000,000 in limits for this renewal to return the limit to \$1BB which is historically what has been carried. Further, there is \$25,000,000 for the peril of flood, with many other favorable sub-limits for various situations.

Most significant of these is Boiler and Machinery where we are currently resolving a very significant claim that our carriers have been very helpful with. In order to reach \$1BB in limits, the broker had to arrange for more than a dozen different insurers to participate in our program. The SIR is \$500,000 per occurrence for most types of losses, and \$1,000,000 for flood.

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 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 \$ 1,812,868, an increase of \$ 388,592 (29%).

2) **Excess General Liability Insurance**

OC San's Excess General Liability Insurance Program is currently provided through the Alliant National Municipal Liability Program (ANML), formerly known as The California Municipal Excess Liability Program (CAMEL). OC San has participated in the ANML/CAMEL program since FY 1996-97.

This program currently provides OC San with a \$40 million dollar limit of comprehensive coverage for municipal liability exposures, including bodily injury, property damage, personal injury, and so called "Executive Risk" coverages such as Employment Practices, and Public Officials Errors and Omissions coverage. The program has a self-insured retention of \$750,000.

The estimated cost for Excess General Liability is \$1,064,822, an increase of \$177,470 (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 \$343,000, an increase of \$76,645 (29%).

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 on 15 structures. Staff has reviewed the coverage and it appears that the contents of the buildings are covered for most of the structures. Alliant will provide a written evaluation and report on the coverage.

The estimated cost for Earthquake Insurance is \$131,927, an increase of \$19,839 (18%).

FINANCIAL CONSIDERATIONS

This request complies with authority levels of OC San's Purchasing Ordinance. This item has been included in the FY 2022-23 and FY 2023-24 Budget.

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