



Orange County Sanitation District

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Date	Ver.	Action By	Action	Result
6/10/2020	1	ADMINISTRATION COMMITTEE		

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

SUBJECT:

2020-21 PROPERTY - LIABILITY INSURANCE RENEWALS

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Approve the Orange County Sanitation District FY 2020-21 Property-Liability Insurance Renewals for the not-to-exceed amounts specified below:

Property and Boiler & Machinery - Not to Exceed	\$ 1,167,866
Excess General Liability Insurance - Not to Exceed	\$ 584,718
Excess Workers' Compensation Insurance - Not to Exceed	\$ 207,000
Earthquake Insurance - Not to Exceed	\$ 93,079
TOTAL	\$ 2,052,663

BACKGROUND

Financial Management staff and the Orange County Sanitation District's (Sanitation District) 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 the Sanitation District without compromising the quality of coverage provided. The insurance market has been in a state of flux due to COVID-19 and events 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.

There are key differences over expiring coverages - the historic \$1 billion All Risk Limit and extensive flood limits previously provided are not sustainable. Such flood limits are worth millions of dollars in the market currently, as flood is viewed as a catastrophic exposure, in the same vein that the earthquake peril is viewed. The coverage can be bought, but the costs are extremely high, as available capacity in the market is going to the highest bidder, especially with what is expected to be an above average hurricane season for 2020.

The extreme uncertainty in the market is due mainly to COVID-19 and its impacts. As such, the Sanitation District cannot realistically obtain the same coverage limits, especially on flood, and if attempting to obtain comparable, it would be a 500% increase. The extreme degree of uncertainty that COVID-19 introduced in the insurance industry, means extreme rate hikes, at least in the short term until the numbers play out for the insurance industry over the next few years.

The cost of insurance coverage for Fiscal Year is \$2,052,663, an increase of \$427,601 (26.3%).

The Sanitation District's budget provides funds for the renewal of the following four (4) major insurances for Sanitation District 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 the Sanitation District'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 \$300 million dollars for flood, with many sub-limits for various situations. In order to reach \$1 billion dollars in limits, the broker had to arrange for more than a dozen different insurers. The SIR is \$250,000 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 the Sanitation District's All-Risk Property Insurance that covers perils such as fire and flood.

The estimated increase cost for All-Risk Property and Flood is \$1,167,866, an increase of \$362,522 (45%).

2) **Excess General Liability Insurance**

The Sanitation District'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). The Sanitation District has participated in the CAMEL program since FY 1996-97.

This program currently provides the Sanitation District 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 \$584,716, an increase of \$69,347 (13%).

3) **Excess Workers' Compensation**

The Excess Workers' Compensation insurance coverage is with the California State Association of Counties Excess Insurance Authority (CSAC EIA). The Sanitation District 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 \$207,000, a decrease of \$10,762 (5%).

4) **Earthquake Insurance**

The Sanitation District 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. The Sanitation District asked its insurance broker each year to survey the market to see if rates have changed. Finally, in 2015 a plan was created to insure several key Sanitation District structures identified by Engineering, thus keeping the cost in line. The insurance is a high deductible plan with a limit of \$25 million dollars in total.

The estimated cost Earthquake insurance is \$93,079, an increase \$6,494 (8%).

RELEVANT STANDARDS

- Protect Orange County Sanitation District assets

PROBLEM

Insurance is necessary to protect the Sanitation District's assets and financial well-being.

PROPOSED SOLUTION

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

TIMING CONCERNS

Board approval is necessary since current insurance will expire June 30, 2020.

RAMIFICATIONS OF NOT TAKING ACTION

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

PRIOR COMMITTEE/BOARD ACTIONS

April 2020 - informational presentation to the Board of Directors detailing each of the five major insurances for the Sanitation District operations, and the status of the insurance market.

ADDITIONAL INFORMATION

N/A

CEQA

N/A

FINANCIAL CONSIDERATIONS

This request complies with authority levels of the Sanitation District's Purchasing Ordinance. This item has been included in the FY 2020-21 Proposed Budget

ATTACHMENT

The following attachment(s) may be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

- 19-20 APIP SOC AmBest Ratings (California)
- Insurance Summary May 2020