



# Orange County Sanitation District

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## Agenda Report

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**SUBJECT:**

### **2020-21 PROPERTY - LIABILITY INSURANCE RENEWALS**

#### **GENERAL MANAGER'S RECOMMENDATION**

##### RECOMMENDATION:

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	\$ 1,151,935
Excess General Liability Insurance - Not to Exceed	\$ 745,336
Excess Workers' Compensation Insurance - Not to Exceed	\$ 207,000
Earthquake Insurance - Not to Exceed	\$ 100,000
<b>TOTAL</b>	<b>\$ 2,204,271</b>

#### **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 \$2,204,271, an increase of \$579,209 (36%).

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 and business interruption from all perils not excluded, including fire and flood. The most significant peril excluded is earthquake, as is the peril of pandemic.

To obtain property insurance, the Sanitation District participates in the Alliant Public Entity Property Insurance Program, a group purchase insurance program with thousands of public entity participants. In operation since the '90s, the program provides extreme buying power for public agencies with a breadth of coverage not found in the open commercial insurance market. For OCSD, current Property Insurance limits are \$1 billion dollars for most perils other than flood, and a \$150MM flood limit for buildings located in Zones A&V and \$300 million dollars for buildings in all other flood zones. Generous sub-limits for various situations are provided for as standard offerings. Earthquake coverage is purchased separately for specific buildings.

In order to provide a complete set of coverage with a maximum of \$1 billion dollars in limits, the Program utilizes the global insurance marketplace with 20 different insurers taking a different degree of risk in a layered and quota-share structure. See list of current carriers attached. The SIR is \$500,000 per occurrence for most types of losses. Given the overall extreme tightening in the insurance market, it is believed that in order to keep the price of coverage somewhat comparable to the expiring at the same retention that the final limit of coverage for the Program will drop from \$1 Billion to \$500 Million. Given the value, construction type, and spread of the facilities relative to the expected cost to keep the limit at \$1 Billion, it is believed that the \$500 million limit would be sufficient for a worst case scenario for coverages provided in the program, primarily, fire.

The Boiler & Machinery Insurance Program, part 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 dollars 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 caused by the 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 \$1,151,935, an increase of \$346,591 (43%).

2) **Excess General Liability Insurance**

The Sanitation District's Excess General Liability Insurance Program is currently provided through the Alliant National Municipal Liability Program (ANML) . The Sanitation District has participated in the ANML, and its predecessor namesake, the California Municipal Excess Liability Program (CAMEL), since FY 1996-97.

This program currently provides the Sanitation District with a \$40 million dollar limit 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 limits are provided by three carriers in a layered structure, Security National, Berkley National and Great American. See the attached Insurance Summary May 2020 list of carriers that our broker is currently engaged with in the renewal marketing process.

The estimated cost for Excess General Liability is \$745,356, an increase of \$229,965 (45%).

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 purchases a separate earthquake policy with limits of \$25MM on specific buildings valued at ~\$160MM deemed to be important to the operations of the District. The goal of the purchase is to provide limited cover for the peril of earthquake in a manner that is relatively inexpensive so as to not put an excessive burden on the budget. From time to time, usually annually, OCSD considers adding structures to the earthquake insurance schedule.

The estimated cost Earthquake insurance is \$100,000, an increase of \$13,415 (15%).

## 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 four 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](http://www.ocsd.com)) with the complete agenda package:*

- June 2020 Insurance Quotes
- Insurance Summary May 2020