



October 25, 2023

To: Finance and Administration Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: Property Insurance Policy Renewal

A handwritten signature in blue ink, appearing to read "Darrell Johnson", is placed over the "From:" line of the memo.

Overview

The Orange County Transportation Authority holds a property insurance policy with Zurich Insurance Company. This policy is scheduled to expire on December 1, 2023, and a renewal is necessary to maintain coverage.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A55552, in an amount not to exceed \$495,000, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority for the renewal of the coverage for the period of December 1, 2023 to June 30, 2024.

Discussion

The Orange County Transportation Authority (OCTA) purchases insurance to protect OCTA property, including buildings, contents, and buses from accidental loss. OCTA is currently insured with Zurich Insurance Company (Zurich) for an annual premium in the amount of \$724,879, net of commission, which is based on property values of \$610,524,592, and includes all OCTA-owned property except the 91 Express Lanes, which are insured under a separate policy.

Historically, OCTA has renewed its insurance policies at various times throughout the year as the policies expire. As previously approved by the Board in February 2023, effective this calendar year (2023) and moving forward, staff is recommending a new approach to achieve efficiency and consistency. Rather than procure insurance policies at various times throughout the year, staff is recommending moving all policy renewals to a fiscal year renewal basis. There are several advantages to OCTA with this approach including the following:

- Ties insurance premium budgeting to the fiscal year budget planning cycle.
- Enables OCTA to review and procure all its policies at one time with a July 1 effective date for the following fiscal year.
- Ties any claims made to the fiscal year in which it occurred.

The Board of Directors (Board) adopted the implementation of this approach with the renewal of the 91 Express Lanes Property policies on February 27, 2023.

In order to realign the renewal date on a fiscal year basis, staff recommends that the incumbent, Zurich, renew the current policy for seven months, from December 1, 2023, to June 30, 2024. Staff will then return to the Board in spring 2024 to renew the subsequent OCTA Property Insurance policy for the 12-month period from July 1, 2024, to June 30, 2025, placing this policy on a fiscal year renewal basis.

Insurance companies determine property insurance quotes based upon current insurance market conditions affecting rates per \$100 in property values. The current policy runs December 1, 2022 to December 1, 2023. The renewal of this policy will be based on updated property values of \$637,670,242, which includes real and business personal property, information system equipment, and directly operated revenue and non-revenue vehicles. Due to the large number of insured buses included in this policy, there is a special insurance condition that OCTA buses are only insured while parked at the bus base. Included in the current policy, OCTA is also insured for active shooter and malicious attack coverage, which covers damage to property and additional post-event expenses not provided for in a traditional property insurance policy.

Currently, a \$50,000 deductible is applied per occurrence for fire loss or damage to OCTA's bus fleet in this policy. Revenue vehicles are self-insured for property damage while in operation. OCTA's paratransit vehicles are not included in OCTA's insurable values since these vehicles are insured by Transdev, as required by Agreement No. C-0-2150, approved by the Board on September 13, 2021. In addition, fixed-route buses operated and insured by Keolis, as required by Agreement No. C-2-2578 and approved by the Board on March 13, 2023, are also not included in OCTA's insurable values.

The property insurance policy limit is currently \$235,000,000, which provides catastrophic protection equivalent to a total loss just above the current insurable values at OCTA's single largest property value location, the Santa Ana Bus Base. The insurance provides protection for real and business personal property, improvements and betterments, rolling stock, and extra expense incurred after a loss. Other coverage includes fire, flood, terrorism, civil authority, ingress/egress, leaks to fire sprinkler pipes caused by earthquakes, valuable papers, and boiler and machinery. Policy deductibles for this policy vary by

category of coverage. The policy has a \$50,000 deductible that applies to all losses except:

- \$100,000 deductible for flood, except Flood Zone A
- \$500,000 deductible for flood in Flood Zone A

Flood protection is also provided in the current property insurance policy. Flood is defined in the policy as “surface water, underground water, waves, tides, tidal waves, tsunamis, overflow of any body of water or their spray, all whether driven by wind or not.” As with many properties in Orange County, OCTA has buildings that are in areas susceptible to flooding. Flood zones are identified by the National Flood Insurance Program and classified as a special flood hazard area if the area is within a 100-year flood boundary. A “100-year flood” does not refer to a flood that occurs once every 100 years but to a flood level with a one percent or less chance of being equaled or exceeded in any given year. OCTA has flood protection included in the current policy with a limit of \$10,000,000. “High hazard flood zone areas” with increased risk of flooding carries a \$500,000 deductible. OCTA’s Garden Grove Maintenance, Operations, General Services Warehouse, and Annex buildings are in “high hazard flood zone area”. Each of OCTA’s other locations have been identified as moderate flood areas.

Earthquake coverage is also provided in the current property insurance policy. The policy provides a \$15,000,000 limit subject to a five percent deductible of the insurable value per location, with a minimum of \$250,000 damage.

With direction from the Board, OCTA’s Broker of Record, Marsh Risk and Insurance Services, Inc. (Marsh), will purchase the property insurance coverage on behalf of OCTA for this renewal. Marsh is paid an annual flat fee of \$110,000 for marketing and placing all property and casualty insurance per Agreement No. C-2-2257 approved by the Board on June 13, 2022. By agreement, Marsh does not earn any additional compensation or commission for its services. The contract further requires that any commissions offered by insurers will offset OCTA’s premiums. In addition, Marsh has been instructed not to disclose broker compensation to prospective insurers to avoid having them net the broker’s commission against their quoted premiums.

Marsh has reported an increasing premium market trend of five to 17 percent for property insurance policies renewing this year. Although OCTA has a very favorable loss history, premium rate increases are expected as insurers are experiencing significant losses due to unprecedented fires and an active weather season.

Fiscal Impact

This expenditure was approved in OCTA's Fiscal Year 2023-24 Budget, People and Community Engagement Division, Risk Management Department, Account No. 0040-7563-A0017-DTS, and is funded through the Internal Service Fund. While the FY 2023-24 budget is \$850,000, the premium will be approximately \$495,000 due to the policy period being seven months instead of 12 months. Total fiscal impact is an amount not to exceed \$495,000.

Summary

Based on the information provided, staff recommends the Board of Directors authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A55552 in an amount not to exceed \$495,000, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority for the policy period of December 1, 2023 to June 30, 2024.

Attachment

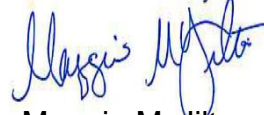
None.

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