



**November 8, 2017**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

**Subject:** Property Insurance Policy Renewal

**Overview**

The Orange County Transportation Authority holds a property insurance policy with Zurich Insurance Company. This policy is scheduled to expire on December 1, 2017.

**Recommendation**

Authorize the Chief Executive Officer to issue Purchase Order No. A38332, in the amount of \$550,000, 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, 2017 to December 1, 2018.

**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 for an annual net of commission premium of \$435,678.85, which is based on property values of \$537,290,386. The 91 Express Lanes property is insured under a separate insurance policy.

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, 2016 to December 1, 2017. The renewal of this policy will be based on updated property values of \$544,913,653, 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. Revenue vehicles are self-insured for property damage while in operation. However, OCTA's paratransit vehicles are not included in OCTA's

insurable values since these vehicles are insured by MV Transportation, Inc., as required in Agreement No. C-2-1865, approved by the Board of Directors (Board) on March 25, 2013. In addition, fixed-route buses operated and insured by First Transit, Inc., approved by the Board on March 23, 2015, as required in Agreement No. C-4-1737, are also not included in OCTA's insurable values.

The property insurance policy limit is currently at \$230,000,000, 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, and
- \$500,000 deductible for flood in Flood Zone A.

Flood protection is also provided in the current property insurance policy. In the policy, flood is defined 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 Army Corps of Engineers 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 refers to a flood level with a one percent or less chance of being equaled or exceeded in any given year. Currently, OCTA has flood protection included in the existing policy with a limit of \$10,000,000. Flood Zone A is an area of increased risk of flooding and carries a \$500,000 deductible. Currently, OCTA's Garden Grove Maintenance, Operations, General Services Warehouse, and annex buildings are in Flood Zone A. Each of OCTA's other locations have been identified in Flood Zone X, which is defined as a moderate flood area.

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. In the policy, earthquake is defined as "the shaking or trembling of the earth's crust, caused by underground volcanic or tectonic forces, or by breaking or shifting of rock beneath the surface of the ground from natural causes, considering all events within a 168-hour period as one single event."

OCTA's Broker of Record, Marsh Risk and Insurance Services, Inc. (Marsh), will provide marketing and will purchase the property insurance coverage on behalf of OCTA for this renewal. Marsh is paid an annual flat fee of \$100,000 for marketing and placing all property and casualty insurance, approved by the Board on May 22, 2017, per Agreement No. C-7-1585. This flat fee paid to Marsh is not part of the \$550,000 Board-approved budget for the renewal of this policy. 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.

Marsh has been directed to approach all possible markets to obtain the best coverage and premium options for this renewal. 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.

OCTA will pursue five goals for renewing this policy as outlined below.

1. Explore options for over-the-road physical damage coverage for the new hydrogen buses. Consider optional deductibles to ensure OCTA is achieving the best balance between risk assumption and risk transfer.
2. Maintain the broad terms of the current program.
3. Obtain quotes for optional earthquake and flood limits beyond the current levels of coverage.
4. Maintain terrorism coverage.

The carriers that will be approached for proposals, which have an AM Best financial rating of A-7 or better, are listed below in alphabetical order:

- Affiliated FM Insurance Company
- AIG (Lexington Insurance Company)
- Allianz Insurance Group
- Axis Insurance Company
- Chubb Insurance Company
- Liberty Mutual Insurance Company
- Travelers Property Casualty Company of America
- XL Insurance Company
- Zurich Insurance Company

Fiscal Impact

This expenditure was approved in OCTA's fiscal year 2017-18 budget, Human Resources and Organizational Development Division, Risk Management Department, Account 0040-7563-A0017-DTS, and is funded through the Internal Service Fund.

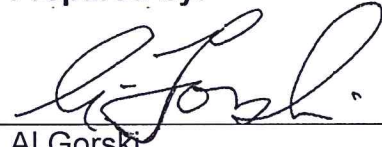
**Summary**

Based on the information provided, staff recommends the Board authorize the Chief Executive Officer to issue Purchase Order No. A38332, in the amount of \$550,000, to Marsh to purchase property insurance on behalf of OCTA for the policy period of December 1, 2017 to December 1, 2018.

**Attachment**

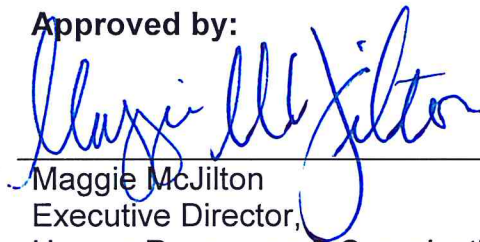
None.

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