



November 11, 2020

To: Finance and Administration Committee

From: Darrell E. 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, 2020, and a renewal is necessary to maintain coverage.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A46200 in the amount of \$629,269, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority with Zurich Insurance Company for the policy period of December 1, 2020 to December 1, 2021.

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 \$534,429, which is based on property values of \$577,477,554 and includes all OCTA-owned property, except the 91 Express Lanes, which 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, 2019 to December 1, 2020. The renewal of this policy will be based on updated property values of \$580,397,366, 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 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., as required in Agreement No. C-4-1737, approved by the Board on March 23, 2015, are also not included in OCTA's insurable values.

The property insurance policy limit is currently at \$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 expenses 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 refers to a flood level with a one percent or less chance of being equaled or exceeded in any given year. OCTA currently has flood protection included in the current 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 damage. Earthquake is defined in the policy “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), provided marketing and will purchase the property insurance coverage on behalf of OCTA for this renewal. Marsh is paid an annual flat fee of \$105,000 for marketing and placing all property and casualty insurance per Agreement No. C-7-1585, approved by the Board on May 22, 2017. This flat fee paid to Marsh is not part of the \$700,000 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. 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 identified a market trend of increased premium rates of 20 to 40 percent for 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. Marsh was directed to approach all possible markets to obtain the best coverage and premium options for this renewal. The following insurance carriers with a required AM Best financial rating of A-7 or better listed below were approached for proposals:

- Affiliated FM Insurance Company
- Allianz Insurance Group
- Endurance American Insurance Company
- Liberty Mutual Insurance Company
- XL Insurance Company
- Zurich Insurance Company

Marsh received a response from all of the insurance companies listed above and only one insurer, Zurich Insurance Company, provided a renewal quote. The other insurers declined to provide quotes due to the fact that OCTA requires the inclusion of insuring the bus fleet along with real and business personal property. Zurich Insurance Company quoted a net commission premium of \$629,269 for the policy period of December 1, 2020 to December 1, 2021.

Fiscal Impact

This expenditure was approved in OCTA's Fiscal Year 2020-21 Budget, Human Resources and Organizational Development Division, Risk Management Department, Account No. 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 negotiate and execute Purchase Order No. A46200, in the amount of \$629,269, to Marsh Risk and Insurance Services, Inc., to purchase property insurance on behalf of the Orange County Transportation Authority with Zurich Insurance Company for the policy period of December 1, 2020 to December 1, 2021.

Attachment

- A. OCTA – Property Program Bus Bases, Renewal Proposal Property All Risk, December 1, 2020 - 2021

Prepared by:



Al Gorski
Department Manager,
Risk Management
714-560-5817

Approved by:



Maggie McJilton
Executive Director,
Human Resources and Organizational
Development Division
714-560-5824



Pia Veasapen
Interim Director, Contracts
Administration and Materials
Management
714-560-5619