



February 10, 2021

To: Finance and Administration Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: 91 Express Lanes Property Insurance Renewal

Overview

The Orange County Transportation Authority currently has a primary property and flood insurance policy for the 91 Express Lanes with Zurich American Insurance Company, and six earthquake insurance policies with Everest Indemnity Insurance Company, General Security Indemnity Company of Arizona, Old Republic Union Insurance Company, QBE Specialty Insurance Company, Steadfast Insurance Company, and Princeton Excess and Surplus Lines Insurance Company, all of which will expire on March 1, 2021. Renewal of these policies is necessary to maintain coverage.

Recommendation

Authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A46898, in the amount of \$460,332 to Marsh USA, Inc., to purchase the 91 Express Lanes property, flood, and earthquake insurance on behalf of the Orange County Transportation Authority for the policy period of March 1, 2021 to March 1, 2022.

Discussion

Insurance companies determine property insurance quotes based upon current insurance market conditions and the total value of property to be insured. Currently, seven insurers provide primary property, flood, and earthquake coverage for the 91 Express Lanes for a premium of \$435,949, and a total policy coverage limit of \$140 million. These policies provide catastrophic protection for the roadway, structures, and business personal property, including business interruption coverage against losses caused by fire, flood, and earthquake. Other coverage includes losses due to civil authority, ingress/egress, debris removal, demolition and increased costs of construction, equipment breakdown, including electronic data processing equipment, valuable papers, earthquake sprinkler leakage, and boiler and machinery.

Policy deductibles for these seven policies vary by category of coverage. The current policies carry a \$50,000 deductible that applies to all perils except:

- \$10,000 deductible for surveillance equipment,
- \$100,000 deductible for flood,
- Seven-day deductible for business interruption,
- \$1 million deductible for earthquake.

Flood protection is provided in the current policy with a \$50 million coverage limit and a \$100,000 deductible. As with many properties in Orange County, the 91 Express Lanes has structures and buildings that are in areas susceptible to flooding. Flood is defined in the policy to mean “a general and temporary condition of partial or complete inundation of normally dry land areas from (1) the rising or overflow of inland or tidal waters, (2) the unusual and rapid accumulation of run off of surface waters from any source, (3) mudslide (i.e., mud-flow), meaning a river or flow of liquid mud proximately caused by flooding as defined in (1) above or by the accumulation of water under the ground, or (4) water that backs up from a sewer or drain. Each loss by flood shall constitute a single claim hereunder; provided if more than one flood shall occur within any period of 72 hours during the term of the policy, such floods shall be deemed to be a single flood.”

Earthquake protection is provided in the current policy with a \$90 million limit and a \$1 million deductible. Earthquake means “any natural or man-made earth movement (except mudslide or mud-flow caused by accumulation of water on or under the ground) including, but not limited to, earthquake and resultant earthquake sprinkler leakage, volcanic action, landslide, subsidence or tsunami, regardless of any other cause or event contributing concurrently or in any other sequence of loss. Notwithstanding anything in the above to the contrary, to the extent mudslide or mudflow caused by accumulation of water on or under the ground is caused by or results from a tsunami, it shall be considered to be an earthquake.”

The Orange County Transportation Authority (OCTA) Broker of Record, Marsh USA, Inc. (Marsh), has provided marketing and will purchase the 91 Express Lanes insurance coverage on behalf of OCTA for this renewal. Marsh is paid a flat fee of \$105,000, for marketing and placing all property and casualty insurance per Agreement No. C-7-1585, approved by the Board of Directors (Board) on May 22, 2017. This flat fee paid to Marsh is not part of the premium approved by the Board for the renewal of this policy. Marsh was directed to seek quotes from property insurance carriers and additional markets and wholesale companies, if needed, to obtain a sufficient number of competitive quotes.

The carriers listed below with transit insurance coverage experience and an A.M. Best financial rating of A-7 or better were approached for proposals to provide primary property, flood, and earthquake coverage for the 91 Express Lanes:

Allianz Global Risks US Insurance Company
American Home Assurance Company (AIG)
AXA XL Insurance Company
Liberty Mutual
Lloyds of London
Starr Technical Risks Agency
Zurich American Insurance Company

Since some of these carriers are unable to provide earthquake and flood coverage in a combined program, Marsh also approached the following markets and wholesalers:

Arrowhead General Insurance Agency, Inc.
Everest Indemnity Insurance Company
General Security Indemnity Company of Arizona
Hudson Specialty Insurance Company
Old Republic Union Insurance Company
Princeton Excess and Surplus Lines Insurance Company
QBE Specialty Insurance Company
Steadfast Insurance Company

Although Marsh received declinations from five insurers, their marketing was successful in obtaining the necessary quotes to renew the primary property and flood insurance policy and combined quotes for earthquake insurance. Zurich American Insurance Company proposed renewing the property and flood coverage and Lexington Insurance Company, QBE Specialty Insurance Company, General Security Indemnity Company of Arizona, and Steadfast Insurance Company have proposed \$90 million in earthquake coverage. The renewal combined premium increased approximately 5.6 percent to \$460,332. Staff is requesting Board approval to renew the current policies in an amount of \$460,332 for a total policy coverage limit of \$157 million.

Fiscal Impact

The project was approved in OCTA's Fiscal Year 2020-21 Budget, Human Resources and Organizational Development Division, Risk Management Department, Account No. 0036-7563-A0017-GGN, and is funded through the 91 Express Lanes.

Summary

Based on the information provided, staff recommends the Board of Directors authorize the Chief Executive Officer to negotiate and execute Purchase Order No. A46898, in the amount of \$460,332, to Marsh USA, Inc. to purchase the 91 Express Lanes' property, flood, and earthquake insurance on behalf of the Orange County Transportation Authority for the period of March 1, 2021 to March 1, 2022.

Attachments

None.

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