



Legislation Text

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**Report to Carson Reclamation Authority**

Wednesday, October 04, 2023

Discussion

**SUBJECT:**

**CONSIDER RENEWAL OF A PROPERTY INSURANCE POLICY WITH STARR TECHNICAL RISKS AGENCY, INC. WITH A LIMIT OF \$58,631,848 AND WITH A \$5,000,000 EARTHQUAKE SUBLIMIT AT A TOTAL PREMIUM NOT TO EXCEED \$515,164 PROCURED THROUGH MARSH USA, INC.; AND AUTHORIZE THE EXECUTIVE DIRECTOR TO BIND THE POLICY**

**I. SUMMARY**

This action is the renewal of the Property Insurance Policy (PIP) previously acquired by the CRA in October 2021 and renewed in October 2022, and authorizes the Executive Director of the CRA to approve and bind a renewal of the PIP on behalf of the CRA.

The proposal contained herein for the CRA Board's approval is for the full requested limit of \$58,631,848, up from the previous estimated value of \$39,599,519. All insurers in the current property insurance environment have required their insureds to update the total insured value (TIV) of their properties, and as a result the CRA had to undertake a replacement cost exercise for the Landfill Operations Center, the installed remedial systems, and the on-site inventory. The past several years has seen significant construction cost escalation. The insurance carrier proposed is the current insurer, Starr Technical Risks Agency, Inc. and the premium is \$515,164, up from last year's \$304,678, which will provide for coverage for a year. The rate is 14.2% percent higher than last year's, which was 9.2% higher than 2021's, but the 69.1% increase in the total cost is the higher rates compounded by the significantly increased TIV for the same coverage.

However, pursuant to the Insurance Administration Agreement between Carson Goose Owner, LLC (CGO) and the CRA, approved by the CRA Board in September, CGO is obligated to pay for the CRA's costs of the PIP premium as a "bridge" policy covering the CRA until construction can commence and the CRA can be covered by a Builder's Risk policy.

**II. RECOMMENDATION**

1. APPROVE A PROPERTY INSURANCE POLICY WITH STARR TECHNICAL RISKS AGENCY, INC. WITH A LIMIT OF WITH A LIMIT OF \$58,631,848 AND WITH A \$5,000,000 EARTHQUAKE SUBLIMIT AT A TOTAL PREMIUM NOT TO EXCEED \$515,164 PROCURED THROUGH MARSH USA, INC.
2. AUTHORIZE the Executive Director of the CRA to bind the PIP.

### **III. ALTERNATIVES**

1. TAKE another action the Board deems appropriate.

### **IV. BACKGROUND**

In 2017 the CRA procured Comprehensive General Liability (GL) and Builder's Risk (BR) insurance policies for the former Cal Compact Landfill site (Site). These policies differ from the Pollution Legal Liability and Contractor's Pollution Liability in that they do not insure against pollution risk, but rather insure against risks that typically occur on a construction project. Those original policies were replaced in 2018 by a comprehensive "wrap" insurance program developed jointly with CAM-Carson LLC (CAM), called an Owner Controlled Insurance Program (OCIP).

From 2017 until 2021, the CRA had a BR policy on the Site instead of property insurance because of the ongoing construction of the remedial systems (the premium of which was paid by the CRA) and the horizontal construction (the premium of which was paid for primarily by CAM). In 2020, the CRA Board approved the renewal of the BR policy for a year at a cost of \$82,611.30 plus Surplus Lines Taxes and Stamping Fees of \$2,643.53; that policy's term ended on October 12, 2021. No renewals to the BR were available after that date.

When the CRA renewed its share of the BR policy in October 2020 it excluded Cell 2, which was the responsibility of CAM under the wrap agreements and was covered by the existing wrap program. Instead, the 2020 renewal protected the investments that CRA or its predecessors made in the construction of civil or remedial infrastructure on Cells 1, 3, 4, and 5. The wrap program has expired, and with the return of CAM to the project, CAM has the responsibility to develop a new wrap program on Cell 2 if that's the direction they choose. Carson Goose Owner, LLC (CGO), the developer of Cells 3, 4, and 5, is developing such a program on those cells.

In 2021, CRA Staff procured a property insurance policy (PIP) from Starr Technical Risks Agency, Inc. through the broker, Marsh USA, Inc., for the full requested limit of \$39,599,519, with a \$5,000,000 sublimit for earthquake. (This means a claim arising from an earthquake would have a limit of \$5,000,000; it is better than an earthquake exclusion and a significant portion of the premium is dedicated to this earthquake coverage.) The total premium was \$276,980 for 2021. There were also \$4,680 in engineering and

inspection fees which were in addition to the premium but there was no Surplus Lines Tax as is common on several other CRA policies, as the insuring paper was with Ace American Insurance Company, an admitted carrier in California.

In 2022, given the dramatic increase in premiums in 2021 from the previous 2020 BR policy renewal, Marsh started early soliciting renewal quotes from the current insurer and additional quotes from other insurance markets under similar terms as 2021 (i.e., the coverage would be for property insurance on already-constructed improvements until the resumption of construction). Notwithstanding the additional time the Broker had in the market, the only quote received by the CRA for renewal of the PIP was from the current insurer, Starr Technical Risks Agency, Inc. Due to significant the nature of the risk presented by the Site and volatility in the property insurance market, there were no other takers for the policy. There are fewer carriers in the property insurance market and the carriers' appetite for risks such as an uncomplete remedial system on an unclosed landfill is smaller, and the insurer increased premiums as a hedge against higher construction costs.

The 2022 renewal premium was \$304,678 for the PIP. The \$39,599,519 represents the value of the CRA's installed remedial systems including the Landfill Operation System, the Gas Collection and Control System, the Groundwater Extraction and Treatment System, and certain landfill liner.

This year the full requested limit has risen to \$58,631,848, up from the previous estimated value of \$39,599,519. Based on the extreme volatility in the property insurance market globally, all insurers in the current property insurance environment have required their insureds to update the TIV of their properties, and a result the CRA had to undertake a replacement cost exercise for the Landfill Operations Center, the installed remedial systems, and the on-site inventory. The past several years has seen significant construction cost escalation and we used construction cost guidebooks.

The insurance carrier proposed is still the current insurer, Starr Technical Risks Agency, Inc., and the premium is \$515,164, up from last year's \$304,678, which will provide for coverage for a year. The rate is 14.2% percent higher than last year's, which was 9.2% higher than 2021's, but the 69.1% increase in the total cost from last year is the higher rates compounded by the significantly increased TIV for the same coverage as well as a \$3,500 inspection Fee (payable in 2021 but not last year) and \$15,877 in Surplus Lines Taxes. The CRA has not had to pay Surplus Lines taxes in prior years because Ace American was an admitted carrier, but the insured paper this year is through Starr Surplus lines Insurance Company, which is not.

Under the terms of the Insurance Administration Agreement approved in September, CGO will procure its own BR and GL insurance programs for those cells upon closing, as will CAM with respect to its proposed project on Cell 2. If construction commences on Cells 3, 4, and 5 or resumes on Cell 2 during the term of the proposed renewal of the PIP, coverage may be able to switch to a BR policy with a return of some of the pro-rated premium.

## **V. FISCAL IMPACT**

The premium for the PIP is estimated to be approximately \$515,164. However, pursuant to the Insurance Administration Agreement between Carson Goose Owner, LLC (CGO) and the CRA, approved by the CRA Board in September, CGO is obligated to pay for the CRA's costs of the PIP premium as a "bridge" policy covering the CRA until construction can commence and the CRA can be covered by a Builder's Risk policy. Thus, there would be no fiscal impact upon the CRA and/or its finances.

## **VI. EXHIBITS**

1. 23-24 Property Proposal from Starr Technical Risks Agency, Inc. (pgs. 5-6)
2. 23-24 CRA Property Quote from Staff Technical Risks Agency, Inc. (pg. 7-35)

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