



Legislation Text

File #: 2021-694, Version: 1

Report to Carson Reclamation Authority

Thursday, September 09, 2021

Discussion

SUBJECT:

CONSIDER RENEWAL OF A PROPERTY INSURANCE POLICY PROCURED THROUGH MARSH/JLT SPECIALTY INSURANCE SERVICES, INC. AND AUTHORIZE THE EXECUTIVE DIRECTOR TO BIND THE POLICY

I. SUMMARY

This action is continued from the September 7, 2021 Regular Meeting and authorizes the Executive Director to approve and bind a renewal of a Property Insurance Policy on behalf of the CRA. Since the end of 2017 the Authority has had a Builder's Risk ("BR") policy on the Site instead of property insurance because of the ongoing construction of the remedial systems (premium paid for by the CRA) and the vertical construction (premium paid for by CAM). Last year the Board approved the renewal of the BR policy for a year; that policy's term ends on September 12, 2021 and no renewals are available.

The policies were presented by the Broker to the insurance markets for renewal quotations in August 2021, under new terms: with the work stoppage on Cells 2, the coverage would be for property insurance on already-constructed improvements until the resumption of construction. Faring, the developer of Cells 3, 4, and 5 would develop and procure their own Builder's Risk and GL programs for those cells. If construction resumed during the term the property policy would convert back to a BR policy.

As of September 7 and later, the publication of this staff report, quotes for the renewal have not been received by the CRA. The Broker has indicated that due to significant changes in the property insurance market, the CRA is seeing a significant increase in quoted premium for the same coverage, which was slightly more than \$80,000 in 2020. This is similar to the experience in the D&O market in June. There are fewer carriers in the property insurance market and the carriers' appetite is smaller, meaning coverage is made from a "tower" of smaller-limit insurers rather than, say, a single carrier who would take the primary layer of \$15 million.

When the quotes are received and evaluated, CRA Staff will forward them to the Board to be included in the Agenda packet.

II. RECOMMENDATION

1. APPROVE A PROPERTY INSURANCE POLICY, PROCURED THROUGH MARSH/JLT SPECIALTY INSURANCE SERVICES, INC. THROUGH AN ISSUER AND AT A PRICE TO BE PROVIDED PRIOR TO THE MEETING.
2. AUTHORIZE the Executive Director to bind the policies.

III. ALTERNATIVES

1. AUTHORIZE the Executive Director to bind a property policy up to a not-to-exceed amount, or
2. TAKE another action the Board deems appropriate.

IV. BACKGROUND

In January 2017 the CRA procured Comprehensive General Liability (“GL”) and Builder’s Risk insurance policies. These policies were different from the Pollution Legal Liability and Contractor’s Pollution Liability in that they do not insure pollution risk, but rather insure traditional risks that typically occur on a project. Those original policies were replaced in 2018 by a comprehensive “wrap” insurance program developed jointly with Macerich, called an Owner Controlled Insurance Program.

The CRA’s renewed its share of the BR policy in October 2020 and it excludes Cell 2, which is the responsibility of CAM under the wrap agreements. This policy protects the investments that CRA or its predecessors have made in the construction of civil or remedial infrastructure on Cells 1, 3, 4, and 5.

The 2020 annual premium was quoted at \$82,611.30 plus Surplus Lines Taxes and Stamping Fees of an additional \$2,643.53. The total 2020 premium plus charges was \$85,254.83.

However, due to significant changes in the property insurance market, the CRA is seeing a significant increase in quoted premium for the same coverage and many fewer companies quoting at much lower coverage limits. This is similar to the experience in the D&O market in June though the D&O policy was able to be placed with the then-current insurer, Chubb, albeit at a higher premium. There are fewer carriers now in the property insurance market and the carriers’ appetite for limit is smaller, meaning coverage is made from a “tower” of smaller-limit insurers rather than, say, a single carrier who would take the primary layer of \$15 million. This is a more expensive way to buy insurance.

The value of the property the CRA seeks to insure is \$38-\$40M, which is the value of the Landfill Operation System, the Gas Collection and Control System, the Groundwater Extraction and Treatment System, and a certain amount of landfill liner. If the quoted premiums are significantly higher than last year’s premium (or a multiple of that premium)

staff may recommend a lower limit of, say, \$10M, to provide some measure of property protection without overspending on insurance. The CRA remains covered by the remainder of a robust program of insurance for pollution liability, director's and officer's liability, and professional (design) liability. These do not need to be covered by property insurance.

On Friday, September 3, the CRA received quotes from two insurers for a combined \$10 million in excess coverage, at a cost of about \$87,000. However, no quotes have been received by this date for the primary layer of coverage, and the excess coverage would not be effective without the primary layer. That quote should be received prior to this meeting. If not, the Board will discuss other options for binding coverage.

V. FISCAL IMPACT

The cost is to be determined.

VI. EXHIBITS

1. To be provided prior to the meeting

1.

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