



Legislation Text

File #: 2021-752, Version: 1

Report to Carson Reclamation Authority

Monday, October 04, 2021

Discussion

SUBJECT:

CONSIDER RENEWAL OF A PROPERTY INSURANCE POLICY WITH STARRTECH WITH A LIMIT OF \$40 MILLION WITH A \$5 MILLION EARTHQUAKE SUBLIMIT AT A PREMIUM NOT TO EXCEED \$265,000 PLUS SURPLUS LINES TAXES AND STAMPING FEES OF 3.25% (ESTIMATED AT \$8,612.50) PROCURED THROUGH MARSH/JLT SPECIALTY INSURANCE SERVICES, INC.; AND AUTHORIZE THE EXECUTIVE DIRECTOR TO BIND THE POLICY

I. SUMMARY

This action was discussed at the September 7, 2021 Regular Meeting and the September 9, 2021 Adjourned 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 ended on September 12, 2021 and was extended by one month, to October 12, 2021. No renewals are available after that date.

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 may be able to convert to a BR policy though the timing doesn't suggest that will be necessary. This policy only covers Cells 3, 4, and 5 and Cell 1.

As of September 7, no quotes for the renewal were received by the CRA. The Broker 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.

On September 28, CRA Staff received a proposal from Marsh for the full requested limit of \$40 million. The carrier is StarrTech and the premium is approximately \$265,000 for the year. The policy would be subject to California's Surplus Lines Taxes and Stamping Fees of 3.25% (approximately \$8,600) in addition to the premium. While this is significantly higher than last year's policy, having a single carrier covering the entire limit would still be more cost effective than having one or more carriers in the primary layer and then excess carriers above.

II. RECOMMENDATION

1. APPROVE A PROPERTY INSURANCE POLICY WITH STARRTECH WITH A LIMIT OF \$40 MILLION WITH A \$5 MILLION EARTHQUAKE SUBLIMIT AT A PREMIUM NOT TO EXCEED \$265,000 PLUS SURPLUS LINES TAXES AND STAMPING FEES OF 3.25% (ESTIMATED AT \$8,612.50) PROCURED THROUGH MARSH/JLT SPECIALTY INSURANCE SERVICES, INC.;
2. AUTHORIZE the Executive Director to bind the policies.

III. ALTERNATIVES

1. 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. CRA Staff received a 2021 proposal from StarrTech through the broker, Marsh, for the full requested limit of \$40 million, with a \$5 million sublimit for earthquake. (This means a claim arising from an earthquake would have a limit of \$5 million; it is better than an earthquake exclusion and a significant portion of the premium is dedicated to this earthquake coverage.) The total premium is approximately \$265,000 for the year and would also be subject to California's Surplus Lines Taxes and Stamping Fees of 3.25% (approximately \$8,600), which is in addition to the premium.

Staff asked the brokers to investigate how much savings could be realized by reducing the amount of limit by, for example, reducing the policy to \$20 million, and the answer is relatively little since almost all of the risk (and premium) is in the lower layers of the policy. A greater saving could be realized by reducing the earthquake sublimit but this wouldn't be prudent.

It is likely that if the CRA were in the market later this year, after to loss totals for a number of recent hurricanes to hit large metropolitan areas, the premium would be even higher.

The value of the property the CRA is \$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.

V. FISCAL IMPACT

The premium is approximately \$265,000 for the year (it was quoted slightly less) and would also be subject to California's Surplus Lines Taxes and Stamping Fees of 3.25% (approximately \$8,600) in addition to the premium.

VI. EXHIBITS

1. StarrTech Quote - to be provided prior to the meeting

1.

Prepared by: John S. Raymond, Executive Director