



Legislation Text

File #: 2022-833, Version: 1

Report to Carson Reclamation Authority

Monday, October 03, 2022

Discussion

SUBJECT:

CONSIDER RENEWAL OF A PROPERTY INSURANCE POLICY WITH STARR TECHNICAL RISKS AGENCY, INC. WITH A LIMIT OF \$39,599,519 AND WITH A \$5,000,000 EARTHQUAKE SUBLIMIT AT A PREMIUM NOT TO EXCEED \$304,678 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 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 \$39,599,519. The insurance carrier proposed is Starr Technical Risks Agency, Inc. and the premium is approximately \$304,678, which will provide for coverage for a year commencing on placement of the renewed PIP. This is about 9.2% higher than last year's policy premium of \$276,980 for the same insurance policy.

However, pursuant to the Amendment to Option Agreement, between Carson Goose Owner, LLC (CGO) and the CRA, proposed for approval by the CRA Board concurrently herewith, CGO will be obligated to pay for the CRA's costs of the PIP premium (whatever the actual costs of the PIP are, up to \$330,000).

II. RECOMMENDATION

1. APPROVE A PROPERTY INSURANCE POLICY WITH STARR TECHNICAL RISKS AGENCY, INC. WITH A LIMIT OF \$39,599,519 WITH A \$5,000,000 EARTHQUAKE SUBLIMIT AT A PREMIUM NOT TO EXCEED \$305,000 PROCURED AND PAYABLE 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.

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. Since then, the wrap program has expired, and with the return of CAM to the project, CAM is assumed to bear the responsibility for renewing the wrap program on Cell 2, as Carson Goose Owner, LLC (CGO), the developer of Cells 3, 4, and 5, will need to do on those cells.

In 2021, CRA Staff received a proposal from Starr Technical Risks Agency, Inc. through the broker, Marsh, 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 the year. There were also \$4,680 in engineering and inspection fees which were in addition to the premium.

Given the dramatic increase in premiums in 2021 from the previous 2020 BR policy renewal, Marsh USA, Inc., the CRA's Broker, started early this year soliciting renewal quotes from the current insurer and additional quotes from other insurance markets in, under similar terms as last year (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 is increasing premiums as a hedge against higher construction costs.

This year's renewal premium is expected to be \$304,678 for the PIP.

Given the increase over an already-high premium, staff asked the Broker to investigate how much savings could be realized by reducing the amount of limit by, for example, reducing the policy to \$20,000,000 or reducing the earthquake sublimit, and the answer is relatively little since almost all the risk (and premium) is in the lower layers of the policy. The lowest possible premium was about \$225,000 which would have required reducing the overall limit to \$20,000,000 and reducing the earthquake sublimit to \$1,000,000, which presented an unacceptable risk to the CRA in the event of a loss. A Property Insurance Renewal Summary showing the pricing for the various coverage options is attached as Exhibit 1.

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.

Under the terms of the Insurance Administration Agreement approved in form by the CRA and the City of Carson (City) (the form of which was attached to the Development Agreement, between the City and CGO), 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 \$304,678. However, under the Amendment to the Option Agreement with CGO (Amendment), CGO has agreed to pay 100% of the CRA's actual cost for the placement and procurement of the PIP (up to a maximum of \$330,000) as a condition to the effectiveness of the Amendment. Thus, there would be no fiscal impact upon the CRA and/or its finances.

VI. EXHIBITS

1. Property Insurance Renewal Summary from Starr Technical Risks Agency, Inc. (pgs. 4-7)

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