

AGENDA REPORT

Resolution Authority to Renew Port of Oakland Insurance Policies Arranged and Paid Through Prime Insurance Brokers Described Herein in an Amount Not to Exceed \$4,150,000. **Finance & Administration**

MEETING DATE: 4/26/2018

AMOUNT: \$4,150,000 Operating Expense

PARTIES INVOLVED: See Attached List

SUBMITTED BY: Sara Lee, Chief Financial Officer

APPROVED BY: J. Christopher Lytle, Executive Director

ACTION TYPE: Resolution

EXECUTIVE SUMMARY

Port of Oakland ("Port") staff is requesting approval from the Board of Port Commissioners ("Board") to renew various property and liability insurance policies (as more specifically listed in the attached Exhibit A – Summary of Expiring Insurance and Proposed Insurance Renewals) that expire between May 20 and July 1 of 2018 at a cost expected to be approximately \$3.85 million but not to exceed \$4.15 million. The insurance coverage is materially the same as last year, as described more fully below. The total cost for the renewal policies listed in Exhibit A is expected to be about \$183,000 or 5% greater than the amount paid last year.

PARTIES INVOLVED:

Corporate Name/Principal	Location
Alliant Insurance Services (Prime Broker)	San Francisco, CA
Alliant Underwriting Services	Thousand Oaks, CA
Alliant Insurance Services (Prime Broker)	Seattle, WA
Marsh Risk & Insurance Services (Prime Broker)	San Francisco, CA
AIG - National Union Fire Insurance Company of Pittsburgh, PA	(New York, NY – Admin) Harrisburg, PA
XL Insurance – Greenwich Insurance Co. (XL Catlin)	(Stamford, CT – Admin) Wilmington, DE
California Association of Port Authorities ("CAPA") Umbrella Excess includes: (1) Liberty Mutual Ins. Co.; (2) Navigators Ins. Co.; (3) Starr Indemnity & Liability Co.; and (4) Lloyds of London	(1) (Chicago, IL - Admin) Boston, MA; (2) (Rye Brook, NY – Admin) New York, NY; (3) (New York, NY – Admin) Dallas, TX; and (4) London, United Kingdom
Crane Property Program includes: (1) Lloyd's of London; (2) Starr Surplus Lines Ins. Co.; (3) Arch Specialty Insurance Co.; (4) AXIS Surplus Lines Ins. Co.; (5) AGCS Marine Insurance Co. (Allianz Ins. Co.); (6) Sompo Japan Ins. Co. of America; (7) Aspen Specialty Insurance Co. and (8) BRIT - Certain Underwriters at Lloyd's London BRIT Syndicate 2987	(1) London, United Kingdom; 2) Los Angeles, CA; (3) San Francisco, CA; (4) (Alpharetta, GA – Admin) Chicago, IL; (5) San Francisco, CA; (6) (Charlotte, NC – Admin) New York, NY; (7) Pasadena, CA; and (8) (Napa, CA – Admin) London, United Kingdom
XL Insurance – Indian Harbor Insurance Company (XL Catlin)	Stamford, CT
XL Insurance – XL Specialty Co. (XL Catlin)	(Stamford, CT – Admin) Wilmington, DE
AIG Worldsource – The Insurance Company of the State of Pennsylvania	New York, NY
Ironshore Ins. Co.	Hamilton, Bermuda
ACE Ins. Co. - Illinois Union Insurance Co. (Chubb) and ACE American Insurance Co. (Chubb)	(Philadelphia, PA – Admin) Chicago, IL
Hiscox Insurance Co.	Chicago, IL
Beazley Insurance (Lloyd's of London)	London, United Kingdom
Liberty Mutual Fire Ins Corp.	(Chicago, IL - Admin) Boston, MA
AIG - National Union Fire Insurance Company of Pittsburgh, PA	(New York, NY – Admin) Harrisburg, PA

Corporate Name/Principal	Location
Great American Insurance Co.	Cincinnati, OH
Federal Insurance Co. (Chubb)	(Warren, NJ – Admin) Indianapolis, IN
Alliant Property Insurance Program (“APIP”) includes: (1) Lloyds of London (various syndicates); (2) Liberty Surplus Insurance Co; (3) Lexington Insurance Co.; (4) Ironshore Specialty Ins. Co; (5) Arch Specialty Ins. Co.; (6) Maxum Indemnity Co.; (7) Interstate Fire and Casualty Co.; (8) Essex Ins. Co.; (9) XL Insurance America Inc. (XL Catlin); (10) U.S. Fire Insurance Co.; (11) Homeland Insurance Company of NY; (12) Endurance Worldwide Insurance Ltd.; (13) Lancashire Insurance Co. (UK) Ltd.; (14) Westport Insurance Corporation; (15) PartnerRe Ireland Insurance Ltd.; and (16) International Insurance Company of Hannover Ltd. Stockholm	(1) London, England; (2) Boston, MA; (3) (Boston, MA – Admin) Wilmington, DE (4) (New York, NY-Admin) Phoenix, AZ; (5) (New York, NY-Admin) Omaha, NE; (6) (Alpharetta, GA – Admin) Wilmington, DE; (7) Chicago, IL; (8) Deerfield, IL; (9) (Stamford, CT – Admin) Wilmington, DE; (10) Morristown, NJ; (11) (Minnetonka, MN – Admin) Woodbury, NY; (12) London, United Kingdom; (13) London, United Kingdom; (14) Overland Park, KS; (15) Dublin, Ireland; and (16) Hannover, Germany
Beazley Insurance (Lloyd’s of London)	London, United Kingdom
AGCS Marine Ins. Co. (Allianz Ins. Co.)	Chicago, IL

BACKGROUND

The Port purchases commercial insurance policies to cover catastrophic and other losses that cannot prudently be assumed by the Port. In addition, under the terms of the Master Trust Indentures for the Senior Lien Bonds and Intermediate Lien Bonds, the Board is required to procure and maintain commercial insurance or provide qualified self-insurance with respect to Port facilities and operations, in such amounts and against such risks as are, in the judgment of the Board, prudent and reasonable and subject to the condition that insurance is obtainable at reasonable rates and upon reasonable terms and conditions. The insurance policies purchased by the Port cover airport liability, excess liability, general property including business interruption, automobile physical damage and liability, public officials’ errors and omissions including employment practices liability, fiduciary liability, fidelity bond, crane physical damage, war and terrorism, earthquake damage at the Port’s Administration Building at 530 Water Street, and excess workers’ compensation.

Most of the Port’s insurance policies are for a term of one year with a renewal date of May 20, June 1, or July 1. Some of the insurance policies purchased by the Port are under group programs with the California Association of Port Authorities (“CAPA”) and the Alliant Property Insurance Program (“APIP”), formerly known as the Public Entity Property Insurance Program (“PEPIP”). See Exhibit A for the list of proposed policies including

coverage, expiration date, and estimated renewal premium compared to the expiring insurance coverage terms, all of which are subject to relatively minor adjustments upon final placement.

The Port also has a Port-wide pollution insurance policy (expires December 2021), a pollution liability insurance policy for the Port-owned portion of the former Oakland Army Base (expires August 2018), a contractors' pollution legal liability policy (expires July 2020), an Owner Controlled Insurance Program ("OCIP", expires February 2020), an Owner Protective Professional Liability Insurance Program ("OPPI") for capital improvement construction projects (expires January 2022), and a Special Events general liability policy (expires January 2019). These policies are not the subject of this Agenda Report.

ANALYSIS

The insurance coverage recommended in this Agenda Report is materially the same as last year. The insurance coverage benchmarks well with other seaports and airports of comparable size to the Port. Through its insurance brokers, the Port obtained multiple competitive insurance quotes (typically 3 quotes per each type of insurance). The overall premiums quoted are approximately \$3.85 million, which is approximately \$183,000 or 5% greater than last year. The expected increase this year is partially due to current insurance market conditions, with many insurance carriers seeking to compensate for industrywide losses sustained during the 2017 hurricane season as well as losses from California wildfires. The expected premium increase the Port faces this year is also partially due to changes in exposures at the Port which drive insurance costs, such as increased payroll costs and increased values for Port owned structures due to increased construction costs over time.

The quoted premiums and terms leading up to the renewal dates are subject to change based on global and local events impacting the insurance market up until the insurance policies actually renew (May-July 2018). While no such events are currently known or expected, Board authorization is being requested in an amount not to exceed \$4.15 million.

Earthquake Coverage

Property insurance policies in California do not cover earthquake damage, unless specific coverage is purchased. Currently, the Port purchases the following earthquake coverage:

- About 1/4 of the total value of the cranes (coverage also includes business interruption).
- About 1/5 of the building and contents value and loss of rents at the Port's Administration Building at 530 Water Street.
- About 2/3 of the total value of electronic data processing equipment.

Port Insurance Brokers

As described below, the Port uses three prime brokers, as well as small/local sub-brokers, and participates in two group insurance programs: CAPA Umbrella Excess and the APIP.

Prime Insurance Brokers

Alliant Insurance Services, Inc., Seattle: California Association of Port Authorities (“CAPA”) Umbrella Excess

Alliant manages the umbrella program for the following CAPA participants: Port of Long Beach, Port of San Diego, Port of Oakland, Port of Sacramento, Port of Redwood City, Port of Stockton, Oxnard Harbor District-Port of Hueneme and Humboldt Bay & Harbor District. Participation in this group policy results in a lower premium (compared to each port purchasing coverage separately). The policy includes blended liability coverage for bodily injury and property damage arising out of shore-side and marine risks including ship collision.

Alliant Insurance Services, Inc., San Francisco: Alliant Property Insurance Program (“APIP”), formerly known as the Public Entity Property Insurance Program (“PEPIP”)

Alliant is the exclusive broker for the United States’ largest public agency property program. This group program was created by Alliant in the 1980s in California and currently has participation across the United States. Among the thousands of participants are the City and County of San Francisco (including the San Francisco Airport), John Wayne International Airport (Orange County), Port of Tacoma and the Pacific Northwest Port Association (8 medium sized ports in Washington State). This group program provides the Port a broad scope of property damage coverage at a low rate plan. APIP also provides the Port’s cyber liability coverage.

Marsh Risk and Insurance Services, San Francisco: All Other Insurance Policies

Marsh is the prime broker for all insurance policies listed in Exhibit A, except for CAPA Umbrella Excess and APIP coverage described above.

Participation by Small and Local Businesses

20% of the commission received by Marsh (or approximately \$72,576) is returned to the Port and allocated for insurance related services that can be provided by Port certified small/local firms. Beginning with Policy Year 2015¹, the Port contracts directly with Port certified small/local firms based on the Port’s highest insurance-related needs, and in compliance with the Port’s Purchasing Ordinance. For Policy Year 2018, anticipated needs include: (i) safety services and supplies; (ii) support services such as tracking insurance certificates received by tenants, vendors, and contractors to ensure compliance with the Port’s insurance requirements, and assisting the Port with maintaining claims and

¹ In prior years, the sub-brokers contracted with Marsh.

insurance documentation; and (iii) services and supplies in support of the Port's Wellness Program.

The Port's Risk Manager has informally surveyed the Port of Los Angeles, Los Angeles World Airport, Port of Long Beach, Port of San Diego, Port of Seattle, and Sacramento County (including the Sacramento area airports) with respect to their utilization of small/local brokers for their insurance and risk management needs and found that the Port of Oakland is a leader in this endeavor. With the exception of the Port of Seattle, these ports are not utilizing small/local brokers due to the unique and complex nature of their insurance needs as an airport and/or seaport. Participation of sub-brokers in the Port of Seattle's insurance program was modeled after the Port's program with the small/local firms working as sub-brokers to the prime broker, but with a lower 10% participation rate.

The following table is a summary of payments to the sub-brokers over the past three years:

	Policy Year 2016	Policy Year 2017	Policy Year 2018
Local Broker Commission	\$72,849	\$69,853	\$72,576
% of Marsh Gross Commission	20%	20%	20%

Insurance Broker Compensation

Marsh and Alliant are each compensated solely by commissions paid by the insurance companies. Commissions vary based on the insurance policy and insurance market conditions and typically ranges from 10% to 20% of the premium cost. The estimated insurance brokers' commission/fee can be found in Exhibit A. For comparison purposes, policy year 2017 commission/fees are also provided.

For policy year 2018 it is estimated that Marsh will receive approximately \$362,882 in commissions from the insurance companies (approximately 13% of the premium costs including taxes/fees) for renewal of the insurance policies it places. Of this amount, the small/local sub-brokers will receive approximately \$72,576 (20% of Marsh's gross commission). Alliant will receive approximately \$102,779 in commissions (12% of the premium cost including taxes/fees) for the APIP program.² Alliant will also receive a \$7,000 fee (about 3.5% of the premium cost) for the CAPA program.

² In addition, Alliant's subsidiary, Alliant Underwriting Services ("AUS"), will also receive additional compensation no greater than 16.6% from the APIP insurance carriers for providing underwriting services.

BUDGET & STAFFING

The insurance premiums are budgeted under the Port's Operating Budget, excluding amounts reimbursed by tenants to pay for a portion of the insurance associated with properties and cranes. Although insurance premiums are subject to change based on global and local events impacting the insurance market up until the insurance policies actually renew (May-July 2018), it is anticipated that the insurance premiums will cost approximately \$3.85 million, an increase of approximately 183,000 or 5% compared to policy year 2017 premium costs. Approximately \$570,111 is expected to be reimbursed by Port tenants for a net cost to the Port of about \$3.28 million³. There will be no impact on current staffing associated with this action.

MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

STRATEGIC PLAN

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Business Plan (2018-2022).

<https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

- Grow Net Revenues.
- Modernize and Maintain Infrastructure.

LIVING WAGE

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

³ For the insurance policies expiring in May-July 2018, \$486,064 was reimbursed by Port tenants for a net cost of approximately \$3.17 million.

SUSTAINABILITY

There are no sustainability opportunities related to this proposed action because it does not involve a development project, purchasing of equipment, or operations that present sustainability opportunities.

ENVIRONMENTAL

CEQA Determination: The proposal to renew Port insurance policies was reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA). The general rule in Section 15061(b)(3) of the CEQA Guidelines states that CEQA applies only to activities that have a potential for causing a significant effect on the environment. It can be seen with certainty that there is no possibility that renewal of the insurance policies will result in a physical change in the environment, and therefore they are not subject to CEQA and no further environmental review is required.

GENERAL PLAN

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)

This action is not subject to the Port's Owner Controlled Insurance Program (OCIP) as it is not a capital improvement construction project.

OPTIONS

- Authorize the renewal of the insurance policies listed in Exhibit A (subject to relatively minor adjustments upon placement) at a not to exceed amount of \$4,150,000 to be placed and paid through the prime brokers as further described herein. This is the recommended option.
- Authorize the renewal of the insurance policies listed in Exhibit A (subject to relatively minor adjustments upon placement) with modifications as the Board may suggest.

RECOMMENDATION

Port staff recommends that the Board authorize the renewal of the insurance policies listed in Exhibit A (subject to relatively minor adjustments upon placement) at a not to exceed amount of \$4,150,000 to be placed and paid through the prime brokers as further described herein. All insurance policies shall be subject to the Port Attorney's review as to form and legality.