

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 \$4,450,000. **Finance & Administration**

MEETING DATE: 4/25/2019

AMOUNT: \$4,450,000 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 2019, at a cost expected to be approximately \$4,230,000 but not to exceed \$4,450,000. The insurance coverage is materially the same as last year, except for the addition of flood insurance for Federal Emergency Management Agency ("FEMA") flood Zones A and V, available under the Alliant Property Insurance Program ("APIP"), as described more fully below. The total cost for the renewal policies listed in Exhibit A, Summary of Expiring Insurance and Proposed Insurance Renewals, is expected to be approximately \$556,000 greater than the amount paid last year, which includes \$237,000 for supplemental flood insurance. Excluding the additional flood coverage, the premiums are projected to increase approximately 8.7% compared to 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
RT Specialty	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) Aspen American Insurance Co.; (4) Starr Indemnity & Liability Co.; (5) Endurance Risk Solutions Assurance Co.; and (6) Lloyds of London. CAPA program may also include: (1) Ascot Insurance U.S.; (2) Crum & Forster; and (3) Markel Insurance Co.	(1) (Chicago, IL - Admin) Boston, MA; (2) (Rye Brook, NY – Admin) New York, NY; (3) (San Francisco, CA – Admin) New York, NY; (4) (New York, NY – Admin) Dallas, TX; (5) (San Francisco, CA – Admin) New York, NY; and (6) London, United Kingdom. CAPA program insurer locations may also include: (1) (San Francisco, CA – Admin) Chicago, IL; (2) (San Francisco, CA – Admin) New York, NY and (3) (San Francisco, CA – Admin) Glen Allen, VA
Crane Property Program includes: (1) Lloyd's of London; (2) Starr Surplus Lines Ins. Co.; (3) Arch Specialty Insurance Co.; (4) AGCS Marine Insurance Co. (Allianz Ins. Co.); (5) Zurich American Insurance Company; (6) Aspen Specialty Insurance Co.; (7) Everest Indemnity Insurance Company; and (8) QBE Specialty Insurance Company. Crane Property Program may also include: (1) BRIT - Certain Underwriters at Lloyd's London BRIT Syndicate 2987; and (2) Lexington Insurance Co.	(1) London, United Kingdom; (2) Los Angeles, CA; (3) San Francisco, CA; (4) San Francisco, CA; (5) (Schaumburg, IL – Admin) New York, NY; (6) Pasadena, CA; (7) Los Angeles, CA; and (8) New York, NY. Crane Property Program insurer locations may also include: (1) (Napa, CA – Admin) London, United Kingdom; and (2) Boston, MA
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

Corporate Name/Principal	Location
Ironshore Ins. Co.	Hamilton, Bermuda
ACE Ins. Co. - Illinois Union Insurance Co. (Chubb) and ACE American Insurance Co. (Chubb)	(Philadelphia, PA – Admin) Chicago, IL
RSUI Indemnity Co.	Atlanta, GA
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
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.; (16) International Insurance Company of Hannover Ltd. Stockholm; (17) Aspen Insurance UK Limited; (18) Chubb European Group Limited; (19) Evanston Insurance Co.; (20) Hallmark Specialty Insurance Co.; (21) Illinois Union Insurance Co.; (22) Landmark American Insurance Co. (RSUI); (23) QBE Specialty Insurance Co.; and (24) Westchester Surplus Lines Insurance Co.	(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; (16) Hannover, Germany; (17) London, United Kingdom; (18) London, United Kingdom; (19) Deerfield, IL; (20) Fort Worth, TX; (21) Philadelphia, PA; (22) Atlanta, GA; (23) New York, NY; and (24) San Francisco, CA
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 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"). These group programs will continue to negotiate with insurers leading up to expiration, which may result in substitutions of insurance carriers to obtain the most favorable terms. Staff requests that the Board delegate approval of any such substitutions to the Port Risk Manager. Staff will report any variation from the insurers listed for these group programs in the agenda report for the following year's renewal. See Exhibit A for the list of proposed policies including insurance carriers, coverage, expiration dates, and estimated renewal premiums compared to the expiring insurance, 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 and related properties (expires August 2023), 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 2020). 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, except for flood insurance. 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 \$4,230,000, which is approximately \$556,000 greater than last year. \$237,000 of the approximate \$556,000 increase is for the addition of flood coverage for flood Zones A and V which will be addressed in more detail below. Excluding the additional flood coverage, the premiums are projected to increase approximately 8.7% compared to last year. The expected increase this year is partially due to real increases in Port exposures including increases in revenue, payroll, and property values, and also partially due to current insurance market conditions, with many insurance carriers still seeking to compensate for industrywide losses sustained during the 2017 hurricane season, for California wildfires, and for industrywide losses of

2018, which while not as great as 2017, was still the fourth greatest year of losses in the past 30 years.

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 2019). While no such events are currently known or expected, Board authorization is being requested in an amount not to exceed \$4,450,000.

Flood Coverage

In December of 2018, FEMA formally updated its flood mapping and identified certain Port areas as being in Zone A or V. Zones A and V refer to those regions expected to be subject to flooding once every 100 years. These areas are primarily along the waterfront and the North Field area of the Airport, and the current value of the structures located in these zones is estimated at \$316 million. In prior years, no area of the Port was identified as Zone A or V.

Under the Port's APIP program (property insurance), \$50 million in flood insurance coverage is provided, but excludes coverage for property located in Zone A or V. Alliant provided the following additional Zone A and V flood insurance options for the Port under the APIP program:

Zone A and V Supplemental Flood Insurance

Limit	Premium	Premium per \$1,000 Coverage
\$25 million	\$185,000	\$7.40
\$37.5 million	\$237,039	\$6.32
\$50 million	\$387,039	\$7.74
\$80 million	\$567,039	\$7.09
\$100 million	\$637,039	\$6.37

A supplemental flood insurance providing a limit of \$37.5 million yields the greatest amount of insurance per premium dollar; the alternatives for greater limits also become extremely expensive. Accordingly, Staff recommends participating in \$37.5 million of APIP Zone A and V flood insurance coverage; this is the option included in the attached Exhibit A.

Further, Staff solicited benchmarking feedback from the other ports participating in the CAPA program, as well as the airport members of the Airport Counsel International - North America. No consensus or prevalent trend for the level of flood insurance purchased for the 100-year flood zones was identified, as many airports and seaports are just beginning to address the issue of flood insurance for Zone A or V resulting from FEMA's updated flood maps.

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 23 insured Port-owned cranes including crane rail and 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; and
- 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 \$74,775) is returned to the Port and allocated for insurance related services that can be provided by Port certified small/local firms. 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 2019, 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 insurance documentation; and (iii) services and supplies in support of the Port's Wellness Program.

The Port's Risk Manager previously 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 had not been 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 these sub-broker amounts over the past three years:

	Policy Year 2017	Policy Year 2018	Policy Year 2019
Local Broker Commission	\$69,853	\$71,323	\$74,775
% 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 22% of the premium cost. The estimated insurance brokers' commission/fee can be found in Exhibit A. For comparison purposes, policy year 2018 commission/fees are also provided.

For policy year 2019, it is estimated that Marsh will receive approximately \$373,876 in commissions from the insurance companies (approximately 14% 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 \$74,775 (20% of Marsh's commission).

Alliant will receive approximately \$143,385 in commissions (11% of the premium cost including taxes/fees) for the APIP program¹. Alliant will also receive a \$7,000 fee (about 3.3% of the premium cost) for the CAPA program.

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 2019), it is anticipated that the insurance premiums will cost approximately \$4,230,000, an increase of approximately \$556,000 or 15% compared to policy year 2018 (FY 2019) premium costs. Approximately \$580,000 is expected to be reimbursed by Port tenants for a net cost to the Port of approximately \$3,650,000². 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.

¹ Alliant Underwriting Services, a subsidiary of Alliant, provides certain other services to the insurance carriers and receives compensation for those services from the insurance carriers.

² For the insurance policies expiring in May-July 2019, \$524,338 was reimbursed by Port tenants for a net cost of approximately \$3.15 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: This action was reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA). The CEQA Guidelines, Section 15061(b)(3) (“the general rule”) of the states that CEQA applies only to activities that have the potential for causing a significant effect on the environment. Renewing Port insurance policies will not have a significant effect on the environment and therefore is not a project under CEQA. 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 \$4,450,000 to be placed and paid through the prime brokers as further described herein and delegate authority to approve substitutions of insurers on the CAPA and APIP group programs to the Port Risk Manager. 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 \$4,450,000 to be placed and paid through the prime brokers as further described herein and delegate authority to approve reasonable substitutions of insurers on the CAPA and APIP group programs to the Port Risk Manager. All insurance policies shall be subject to the Port Attorney’s review as to form and legality.