



TRIUNFO SANITATION DISTRICT

A PUBLIC AGENCY

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May 20, 2019

Board of Directors
Triunfo Sanitation District
Ventura County, California

TSD PROPERTY INSURANCE: ADDED COVERAGE FOR STANDARD POLICY AND OPTIONS FOR EARTHQUAKE COVERAGE

Summary

Triunfo Sanitation District (TSD) currently carries property insurance coverage solely for its automated meter reading system and the reclaimed water system purchased from Calleguas Municipal Water District. This insurance policy, through The Hanover Insurance Group, provides \$14,325,600 in coverage at a current annual premium of \$32,744. The policy renews on May 19, 2019, and TSD's property insurance broker (Tolman Wiker Insurance Services) secured renewal with no increase in premium for the new policy year. Obtaining "flat" pricing on this policy renewal is a very favorable result for The District due to the currently unstable insurance market conditions stemming from California's recent large fire losses.

At the direction of the TSD Board, staff has been researching options for additional insurance for property not covered under the existing policy. At its February 2019 meeting, the Board directed staff to obtain competitive quotes for coverage of additional above-ground infrastructure that staff identified through a review of TSD's fixed asset records. This consists of \$9,475,528 in water and wastewater system structures and equipment. Tolman Wiker administered that quote process and, after a thorough insurance market analysis, determined the most cost-effective option would be to bundle the new coverage under the existing Hanover policy. Doing so would raise the total coverage limit to \$23,801,128 and add \$19,940 to the annual premium for a total premium of \$52,684:

	Property Covered	Coverage Amount	Annual Premium
Current Policy	Automated Meter Reading System & Recycled Water System purchased from Calleguas	\$14,325,600	\$32,744
Proposed Addition	Above-ground water/wastewater equipment (structures, pumps, electronics, etc.)	\$9,475,528	\$19,940
Total		\$23,801,128	\$52,684

Earthquake Coverage

In addition to the above-described property coverage, The TSD Board directed staff to research alternatives for earthquake insurance that would include the District's below-ground infrastructure (i.e., water and wastewater pipelines). Using TSD's fixed asset records, staff identified approximately \$59.9 million in such infrastructure, and, for comparison purposes, staff used a hypothetical \$5 million loss limit.

Option 1 (Traditional Indemnity Policy)

Recent catastrophic fire claim activity in California has resulted in significantly higher premiums for traditionally structured indemnity insurance policies. For example, such a policy with the above coverage/loss limit for TSD would carry a deductible of 5% of the total insured value (\$2,950,000) and an estimated premium of \$125,000. The claims process would consist of the standard steps: damage assessment, claim submission, claim review, validation by adjuster, and claim payment, all of which could take several months.

Option 2 (Parametric Policy)

In the last two years, an alternative to traditional indemnity earthquake coverage has become available. Known as the "Parametric Option," it utilizes detailed seismic data from the U.S. Geological Survey to create pre-set parameters of anticipated earth movement within specific ZIP codes. This data is used to establish insurance policy premiums as well as specific "trigger points" of shaking intensity for prompt claim payment in the event of a quake. In contrast to traditional indemnity policies, the parametric option has no deductible, and payments are made within 30 days after a quake event. Using the above sample coverages for TSD, the parametric option would have a \$0 deductible and a premium of 2.7% of the \$5 million loss limit (\$135,000).

The following is a comparison of the key features of each option:

Option	Total Coverage	Loss Limit	Deductible	Premium
Indemnity	\$59.9 million	\$5 million	\$2,950,000	\$125,000
Parametric	\$59.9 million	\$5 million	\$ 0	\$135,000

Due to the relative newness and complexity of the parametric option, staff will be prepared to share additional details in a presentation format at the May 20 meeting, should the Board so desire.

At the Board's request, staff contacted four local water/sanitation districts to inquire whether they have opted for earthquake insurance. While all four maintain property insurance for standard perils, none carry earthquake coverage at this time. Staff also contacted Las Virgenes Municipal Water District and learned that, in addition to their standard property coverage, they have limited earthquake insurance coverage for above ground facilities and equipment. It is designed to supplement funds from other sources, such as FEMA or disaster loans. They carry no such insurance for below-ground infrastructure.

Recommendation

It is recommended that the Board:

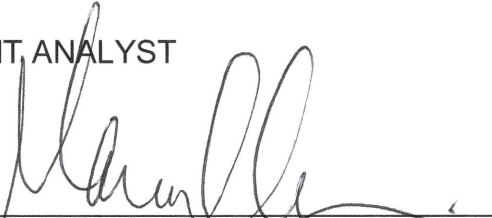
- A. Evaluate the option of adding \$9,475,528 in coverage for the District's above-ground infrastructure at an additional annual premium of \$19,940, and direct staff accordingly; and
- B. Evaluate the information and options presented above for obtaining earthquake insurance to include TSD's below-ground infrastructure, and direct staff accordingly.

If you have questions, please call me at (805) 658-4608 or email sandywarren@vrzd.com.



SANDY WARREN – MANAGEMENT ANALYST

REVIEWED AND APPROVED:


Mark Norris - General Manager

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