AGENDA ITEM 7

Earthquake Insurance Purchase for Administrative Office at 5050 El Camino Real

GENERAL MANAGER’S RECOMMENDATIONS

Authorize the General Manager to purchase Earthquake Insurance for Administrative Office at 5050 El Camino Real with an annual premium of $74,954.

SUMMARY

The Midpeninsula Regional Open Space District (District) holds insurance for properties located on District land through the California Joint Powers Insurance Authority, its pooled risk insurance provider. Existing property insurance does not cover earthquake damage. Due to the high value of the newly remodeled Administrative Office (AO) as a District asset, the General Manager recommends purchasing earthquake insurance to assist the District in repairing or replacing the AO building in the event that it sustains damage in an earthquake.

DISCUSSION

The District consulted with its existing property insurance carrier, Alliant Insurance Services, through the California Joint Powers Insurance Authority to obtain an earthquake insurance quote. Alliant Insurance Services only provided one deductible option, which had a considerably higher deductible and less flexibility than other policies available on the open market.

The District sought pricing from Pacific Diversified Insurance Services, which offers a wider variety of earthquake insurance policies and deductibles. Based on an estimated replacement value of approximately $31 million (which will be refined when the District binds coverage), Pacific Diversified Insurance Services provided a very competitive annual premium as described below. The policy also provides coverage for lost rent revenue for up to 2 years, in the event that the building was not usable by the District’s commercial tenants.

Deductible

The proposed deductible options quoted from Pacific Diversified Insurance Services are 5% or 10%. The premium for a 5% deductible is $74,954 and the premium for a 10% deductible is
$64,379. Higher deductibles are available, but premium savings are not significant. The District has the ability to cancel coverage at the end of any coverage year.

While the AO replacement value is currently estimated at $31 million, Pacific Diversified Insurance Services uses a “deductible determined at time of loss” model. The 5% deductible percentage applies against the total insurable values “at time of loss.” For damage to the AO, if the building was a total loss with a replacement cost of $30,000,000 “at time of loss,” a 5% deductible of $1,500,000 would be applied. Similarly, for loss of rents due to earthquake damage, the 5% deductible would be applied to the actual rental value, and rents could be covered for up to 2 years. By way of example, if the District is leasing commercial space worth $1,000,000 “at time of loss,” the 5% loss of rents deductible would be $50,000.

Insurance Carriers

The policy coverage would be split with two carriers - 78.12% with Transverse Specialty Insurance Company (Best’s rating: A-8) and 21.88% with Trisura Specialty Insurance Company (Best’s rating: A-9). Both are non-admitted carriers that are “A” rated and financially strong. Non-admitted carriers insure risks that are not typically insurable by admitted carriers, and can provide a friendlier premium cost.

Policy Term

The policy term is 12 months. For example, if policy coverage is bound on July 1, 2022, the policy term will be July 1, 2022 to July 1, 2023.

<table>
<thead>
<tr>
<th>Insurance Carrier</th>
<th>Coverage Amount</th>
<th>Deductible</th>
<th>Premium</th>
<th>Loss of Rent</th>
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<tr>
<td>Alliant Insurance Services</td>
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<td>Alliant Insurance Services</td>
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<td>5%</td>
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<td>$2,000,000</td>
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<tr>
<td>Pacific Diversified Insurance Services</td>
<td>$32,000,000 ($30,000,000 building value)</td>
<td>10%</td>
<td>$64,379</td>
<td>$2,000,000</td>
</tr>
</tbody>
</table>

FISCAL IMPACT

The District pays insurance premiums out of its general fund budget. Premium for the earthquake insurance is not included in the FY23 budget. However, this will be included in the First Quarter Budget review and adjustments.
BOARD AND COMMITTEE REVIEW

There was no prior Board or Committee review for this agenda item.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act. No additional notice is required.

CEQA COMPLIANCE

The purchase of insurance is not a project under the California Environmental Quality Act (CEQA).

NEXT STEPS

If approved by the Board, staff will prepare the application to bind coverage for earthquake insurance for the AO, and the District will pay the annual premium for the coverage.

The AO will be inspected by the insurance carrier within 30-60 days of binding or issuance of policy.

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