



To: Port Commission
From: Holland MacLaurie, Port Director
Date: May 6, 2024
Subject: Review of Liability Insurance Coverage

Recommendation: *Review options and costs for purchasing liability insurance coverage.*

BACKGROUND

The Port District purchases a variety of insurance coverage on an annual basis, including Marine General Liability¹ and Excess Liability Layers (including Bumbershoot)². Historically, the Port District has carried \$16 million in marine general and excess liability coverage. In FY24, maintaining the \$16 million coverage limit was not feasible due to significant increases in the annual premium costs. As a result, the Port District purchased \$10 million in coverage for approximately \$681,241 (an increase of 290% over FY23).

On March 8, 2024, the District was informed that its incumbent carrier for the \$1 million Marine General Liability policy issued a notice of non-renewal for FY25 due to the District's adverse claim history. To comply with legal noticing requirements (60-day advance notice of non-renewal is required), the incumbent carrier has extended coverage to the District through May 17, 2024.

While notices of non-renewal were not issued for the Port District's Bumbershoot or Excess Liability policies, the incumbent carriers for those policies have also extended coverage through May 17, 2024, to allow additional time for new marine general liability coverage to be secured.

The Port District's insurance broker has been working diligently to secure renewal options for the Marine General Liability, Bumbershoot, and Excess Liability policies ahead of the May 17, 2024, deadline. Preliminary indications show that FY25 renewal rates will be exponentially higher than anticipated and result in a significant cost overrun in the FY25 budget.

ANALYSIS

The FY25 budget currently includes \$1,552,821 for insurance premiums, which represents a 37% increase over the prior year. As of April 1, 2024, all insurance policies, with the exception of Marine General Liability, Bumbershoot, and Excess Liability coverage were bound for the FY25 term at a cost of approximately \$430,684³.

While various renewal options/configurations exist for the District's Marine General Liability and Excess Liability coverage, the two options presented below maintain coverage limits at \$10 million. To achieve a larger scale of cost savings, the Commission may elect to reduce coverage limits below \$10 million, but given the Port District's recent claims history, that option will need to be carefully deliberated.

¹ Covers bodily injury, personal injury, and property damage caused by the District's operation or injuries that occur on the District's premises.

² Additional limits to sit above coverages like the District's marine general liability policy.

³ The Port District declined Wet Property coverage in FY25, resulting in a cost savings of approximately \$300,000. The FY25 term costs includes approximately \$65,000 in Equipment coverage that will renew May 17, 2024.

OPTION 1: Purchase \$10 million in liability coverage for \$1,850,000.

Insurance Coverage	Est. Premium Cost for FY25
\$1 Million – Marine General Liability	\$500,000
\$4 Million – Bumpershoot	\$1,000,000
\$5 Million – Excess Layer	\$350,000
Total Est. Premium:	\$1,850,000

If Option 1 is selected, the total estimated insurance premium for FY25 will total approximately \$2,280,684, resulting in a budget overrun of \$727,863.

OPTION 2: Self-insure 25% (\$250,000) of the Marine General Liability policy and purchase \$9.75 million in remaining liability coverage for \$1,725,000.

Insurance Coverage	Est. Premium Cost for FY25
\$250,000 – Marine General Liability	Self-Insured
\$750,000 – Marine General Liability	\$375,000
\$4 Million – Bumpershoot	\$1,000,000
\$5 Million – Excess Layer	\$350,000
Total Est. Premium:	\$1,725,000

If Option 2 is selected, the total estimated insurance premium for FY25 will total approximately \$2,155,684, resulting in a budget overrun of \$602,863.

If the Port District opts to self-insure 25% of the Marine General Liability policy (maximum quota share allowed by carrier), \$250,000 will need to be self-restricted and designated for use in the event of a claim or unexpected loss. It is anticipated that the insurer filling the remaining 75% of the policy will provide the required claim services in the event of a claim (i.e., assignment of claims counsel, etc.).

Recognizing that the options presented above are cost prohibitive, staff has explored pooling insurance coverage through the Special District Risk Management Authority (SDRMA) to achieve cost savings. SDRMA is a leader of public agency risk pools for California special districts (and the Port District’s current workers’ compensation provider) and currently provides liability coverage for three other California ports and harbors, including San Mateo County Harbor District and Port San Luis. After thorough review of the Port District’s claims history, SDRMA provided notice that liability coverage could not be extended for FY25.

IMPACTS ON PORT DISTRICT RESOURCES

Selecting either of the proposed renewal options for the District’s Marine General Liability and Excess Liability coverage will result in a significant budget overrun. It is recommended that unrestricted cash be utilized to cover this unanticipated expense. The Port District’s available cash balance as of May 1, 2024, is approximately \$9.7 million (see Attachment A), which includes \$604,354 in unanticipated FY25 revenue from FEMA/CalOES for 2023 storm related damages. The recently received reimbursement from FEMA/CalOES currently pends Commission review and allocation.

ATTACHMENTS: A. Cash on Hand as of May 1, 2024

Cash Flow Projection

May 1, 2024

Estimated Cash on Hand

Cash On Hand	19,322,755
Monthly Revenues	873,000
Monthly Expenses	(724,000)
Debt Service	
Insurance Premiums	
Total	\$ 19,471,755

Designated Funds

Dredge Intermediate	305,000
Reserve Fund	1,836,776
Cap. Improv.	7,422,071
Election	75,000
PEMHCA	0
Total	\$ 9,638,847

Cash on Deposit

Comerica	575,313
LAIF + CLASS	18,747,442
Total	\$ 19,322,755

Cash

Unrestricted Cash	\$ 9,683,908
BBVA Reserve	1,054,855
Total	\$ 10,738,763
Cash Available (not held @ BBVA)	\$ 9,683,908