

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	7b
Date of Meeting	June 28, 2016

DATE: June 10, 2016
TO: Ted Fick, Chief Executive Officer
FROM: Jeff Hollingsworth, Sr. Manager Risk Management
SUBJECT: Report on the Port Property Insurance Renewal for the Policy Year beginning on July 1, 2016

SYNOPSIS

This report is on the upcoming Port's property insurance renewal. The Port's current property insurance program expires on June 30, 2016. The Port is in the process of finalizing the purchase of this coverage for the policy year starting on July 1, 2016, and expiring on June 30, 2017. Under the current delegation of authority, the CEO has the authority to purchase the insurance.

BACKGROUND

The Port's property policy covers many hazards and perils that can cause direct physical damage to Port assets and create business interruption. It also includes coverage for direct physical loss caused by electrical and mechanical equipment (equipment breakdown coverage). The renewal process for this policy includes updating the Port's underwriter on current assets, revenue streams, and future capital projects. Claims and losses from the current policy year and prior policy years are reviewed as well. The Port uses an insurance broker, Hugh Wood Inc. to help collect and aggregate the renewal data and then submit the data to incumbent and prospective insurance carriers to obtain quotes for the renewal.

The basic elements of the property insurance program consist of a \$750 million per-occurrence limit at a \$500,000 per-occurrence deductible. Terrorism coverage is provided with a sub-limit of \$350 million per occurrence. Coverage for flood is capped at an annual aggregate of \$25 million above a flat \$500,000 deductible. Property insurance coverage extends to scheduled assets as well as new assets under construction (up to \$50 million in value), including renovations to existing assets. The insurance is purchased on a replacement cost basis.

The Port does not purchase earthquake insurance for its property or assets but reviews this coverage annually. Earthquake insurance is not currently offered at a reasonable cost nor with adequate limits for the Port to consider purchasing this coverage. In 2014, the Port reviewed the costs associated with purchasing a catastrophe bond with limits of \$100

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million. The pricing for the bond exceeded \$3 million in additional premium a year. The bond was deemed to be too costly for the limits offered.

The assets the Port will renew its property insurance on include assets that are currently under the management of the Northwest Seaport Alliance. The Port of Seattle as the current owner of these existing assets continues to purchase property insurance (i.e., continue to insure) on these assets. The Port of Seattle's cost for the property insurance on these assets is a reimbursable expense of the Northwest Seaport Alliance.

Risk Management is also working with the project teams on the property insurance for two Airport projects that exceed \$50 million, the North Satellite Renovation and Expansion, and the International Arrivals Facility. Due to the values associated with these projects, property insurance will be purchased for the value of these assets, while they are being built, through a separate policy, a builder's risk policy, one policy for each project. When these projects are completed in the future, they then will be insured under the Port's main property insurance policy. A builder's risk policy was bound on the North Satellite Renovation and Expansion project in May and covers both the Port and its contractors as insureds for the full project value. The cost of this builder risk policy is not included in the renewal cost of the Port's July 1, 2016, property insurance renewal. A similar policy will be purchased for the International Arrivals Facility prior to the start of construction in August of this year.

The current state of the insurance markets dictates in a large part the type of pricing that the Port will obtain on its renewal. Property coverage for the past year has been flat in terms of the rate per value of insured assets (insurable values). The property insurance industry as a whole has a lot of capacity to underwrite risks in 2016, in part due to a low number of natural catastrophes in 2015. The Port in the past year has had its insurable values adjusted upward to approximately \$4.95 billion since the renewal a year ago. The value of the Port's insurable assets are the largest cost driver of the Port's insurance costs. The chart at the end of this memo illustrates the increase of the Port's insurable values over the years relative to the cost of property insurance. The Port has been able to minimize the cost of its property insurance relative to the increase of its insurable values.

Risk Management will review the final quotes and coverage options that our broker provides and will then consider options to limit or enhance coverage. The goal is to minimize premium increases but at the same time not under-insure critical property. Risk Management will review options with division budget and finance to get their input prior to binding coverage on June 30.

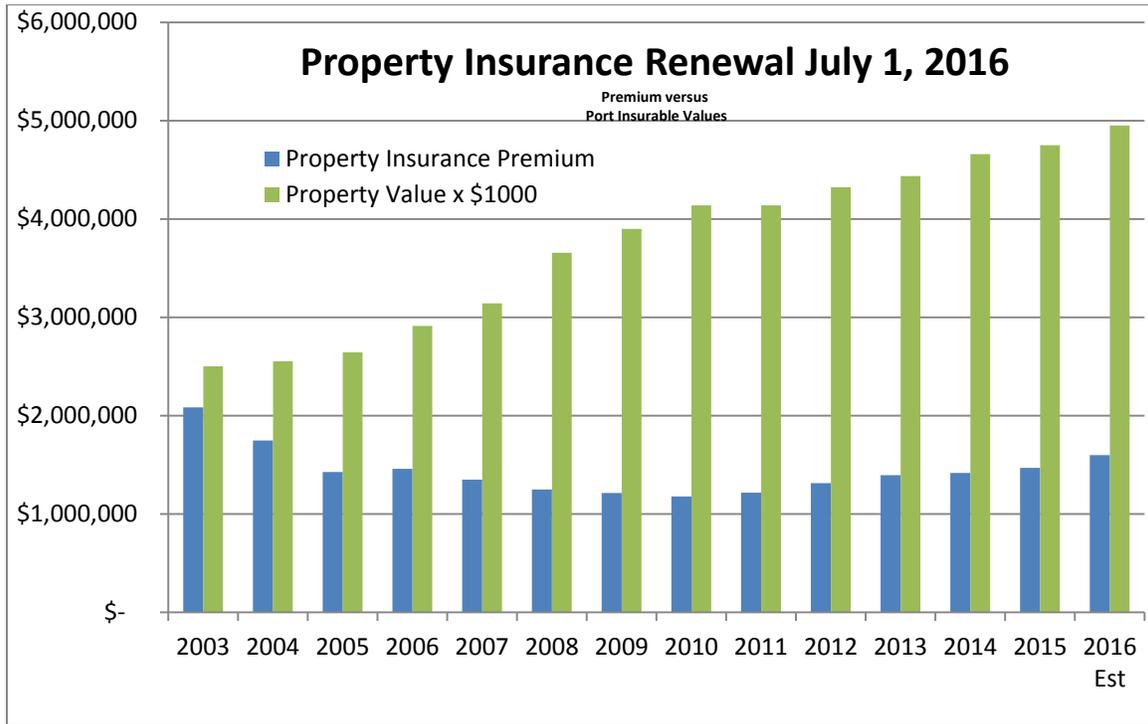
The insurance was renewed on June 30, 2015, at a cost of approximately \$1.51 million. The renewal cost for July 1, 2016, is anticipated to be between \$1.585 million and \$1.60 million.

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ATTACHMENTS TO THIS BRIEFING

- None.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- September 8, 2015 – Briefing on liability insurance renewal.
- June 9, 2015 – Briefing on property insurance renewal.