



POLLUTION LIABILITY INSURANCE AGENCY

STRATEGIC PLAN

09-11 BIENNIUM

Working to improve the economic and environmental health of the State of Washington by providing insurance services to owners and operators of petroleum storage tanks.



Dear Stakeholders

The Pollution Liability Insurance Agency (PLIA) is pleased to present its strategic plan for the 09-11 biennium. This plan is intended to lead us into the next decade by outlining our goals and objectives and the strategies we'll use to achieve them. We're hoping this will build on the success this public/private partnership has experienced since 1989.

It has been nearly twenty years since Washington State decided that the best way to help "mom and pop" gas station owners survive new regulations was to establish this agency. Instead of creating a trust fund with a never ending tax, Washington created a program that helps owners find and pay for pollution liability insurance. The tax that funds our program is only on when needed and has only been collected twice in the last 18 years. While many other states have spent hundreds of millions of dollars (Florida has spent \$2.5 billion) on similar programs, Washington has only spent \$35 million on cleaning up nearly 1,500 petroleum contaminated sites since the early 1990's.

The photo on the cover is of Acme Service Group's headquarters in Olympia. Acme is a great example of what and who PLIA was created for. Acme is a locally owned small business that sells petroleum products at two cardlock service stations and delivers heating oil to homes and businesses. Acme is required to have a million dollars worth of financial responsibility for the stations in case one of their tanks leak. The easiest and most affordable way to do this is by getting a private pollution liability insurance policy.

Acme is insured by Colony Insurance Company. Colony has a reinsurance contract with PLIA where we pay for any losses over \$75,000. This enables Colony to charge Acme a lower, affordable premium. Acme's station is one of approximately 2,000 sites in the state that are covered by the program.

Acme is also one of approximately 200 businesses statewide that delivers heating oil to homes and businesses. Most homeowner's insurance policies do not cover cleanup of contamination if a heating oil tank leaks. For the majority of people, their home is their most valuable asset and contamination can have a serious financial impact. PLIA's Heating Oil Pollution Liability Insurance provides up to \$60,000 worth of coverage to cleanup contamination. PLIA insures more than 1,400 Acme customers and 60,000 others throughout the state.

PLIA is proud to be helping businesses like Acme and their customers and we look forward to a future of continued service.

Sincerely,

Lynn Gooding
Executive Director

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MISSION STATEMENT:

The Pollution Liability Insurance Agency works to improve the economic and environmental health of the State of Washington by providing insurance services to owners and operators of petroleum storage tanks.

STATUTORY AUTHORITY:

The Pollution Liability Insurance Agency was created in 1989 by the Washington State Legislature. The enabling legislation is contained in:

- **Chapter 70.148 RCW, Underground Petroleum Storage Tanks** – Creates a state financial responsibility (pollution liability insurance) program meeting EPA standards for owners and operators of underground storage tanks.
- **Chapter 70.149 RCW, Heating Oil Pollution Liability Protection Act** – Authorizes PLIA to develop a program that provides pollution liability insurance for home heating oil tanks.
- **Title 374 WAC, Pollution Liability Insurance Agency** – Agency’s rules and operating procedures.

STATEWIDE RESULTS:

PLIA’s activities promote two statewide result areas:

- **Improve the economic vitality of businesses and individuals**
 - Commercial Underground Storage Tank Program – Contracts between the state and private insurance companies enable those companies to offer affordable insurance premiums for federally mandated financial responsibility. Their customers are primarily small business owners who need this insurance coverage in order to operate their gas station. Their profit margins are extremely small and increases in insurance premiums of only a few hundred dollars could mean closure. PLIA reinsures approximately half of the 4,000 underground storage tank sites throughout the state.
 - Heating Oil Pollution Liability Insurance Program- There are approximately 200 heating oil dealers throughout the state. Many are family run small businesses. The pollution liability insurance offered free of cost, assures their customer’s biggest asset (their home) is protected. Most homeowner’s insurance companies do not provide this coverage.
- **Improve the quality of Washington’s natural resources**
 - Commercial Underground Storage Tank Program – Underground storage tank owners are required to show financial assurance for cleaning up contamination if their tank leaks. The only way the majority of tank owners can do this is by getting insurance. If PLIA did not make this insurance affordable, owners would not be able to afford to clean up their sites.
 - Heating Oil Pollution Liability Insurance Program- Most homeowner’s insurance policies will not cover the cost of cleaning up contamination if their heating oil tank leaks. The cost of cleaning up contamination can run into several thousands of dollars. PLIA provides up to \$60,000 dollars worth of coverage for over 62,000 heating oil tanks. This petroleum contamination would simply not be cleaned up without our coverage.

AGENCY GOAL: To reduce the number of tank owners without insurance coverage.

Objective: Decrease the number of new retroactive dates

Agency Activity: Pollution Liability Reinsurance

Measure: The number of sites with new retroactive dates

Target: Baseline measurements are now being made

Comment: The retroactive date is the date policy coverage begins. The date usually doesn't change while the owner remains with the same insurance company. However, if coverage changes, they switch to a different insurance company, or a new owner purchases the site, the retroactive date may be lost. Any leak that happened before the retroactive date would not be covered. The initial focus should be on current owners voluntarily forwarding their retroactive dates. PLIA has more control over insurance policies reinsured by the program, but education of all tank owners would be a benefit.

Strategies:

- Provide mandated UST operator training to PLIA reinsured policy owners.
- Provide education and outreach to UST owners and operators concerning the importance of retroactive dates.
- Require insurers to notify PLIA before changes occur.

Objective: Increase the number of PLIA reinsured sites

Agency Activity: Pollution Liability Reinsurance

Measure: Number of PLIA reinsured sites

Target: 2,300

Comments: The target represents an increase in the number of UST sites covered by a PLIA reinsured provider.

Strategies:

- Negotiate reinsurance contracts with additional insurance companies to increase market competition.
- Make UST compliance information easily accessible to insurance companies.
- Provide education and outreach to UST owners and operators concerning risk factors that influence insurance costs.

Objective: Decrease the number of uninsured heating oil tanks

Agency Activity: Administer the heating oil tank program

Measure: The number of sites identified through phone inquiries that are not registered

Target: 90% of tanks registered

Comments: Two months worth of data collected so far indicate 67% of tanks are registered. New owners not registering is a big factor. An emphasis on educating realtors, insurance brokers and title companies has already started. A mass mailing to all registrants in 2008 will identify many new owners. On-line registration will be implemented if privacy and security concerns can be met.

Strategies:

- Develop and implement an on-line consumer registration process.
- Develop and implement an ongoing public information campaign.

Objective: Contain heating oil claim costs

Agency Activity: Administer heating oil liability insurance

Measure: Average heating oil claim cost

Target: \$11,000 per cleanup

Comments: Increasing fuel costs could increase the cost of cleanups substantially.

Strategies:

- Work with Department of Ecology on changes to the Model Toxics Control Act which could streamline cleanups and reduce costs.
- Develop and distribute materials on tank leak prevention.

PERFORMANCE ANALYSIS:**Commercial Petroleum Underground Storage Tanks:**

Performance measure one: The end of the second quarter of FY08 showed an average insurance premium of \$1,297, well below the fourth quarter estimate of \$1,477. The estimate of a five percent increase per year has not yet occurred.

Performance measure two: While the number of UST sites is limited, our goal was to set an ambitious target and strive for it. The baseline was 2,023 with a target of 2,547. Our actual of 2,102 is well below the target. A number of factors influence these totals including competition from non-PLIA insurance providers. PLIA will continue to evaluate the numbers to ensure that insurance remains available.

Heating Oil Tanks:

Performance measure one: Increase the number of registered heating oil tanks: As of the end of the fourth quarter of FY08, PLIA has 63,369 heating oil tanks registered statewide. This almost meets the fourth quarter goal of 63,500. The lack of increase is understandable with the high cost of heating oil which increases the conversions to other heat sources.

Performance measure two: Contain increase in cleanup costs: PLIA has successfully maintained the reduction in average cleanup costs which saw a high of \$17,000 in 2003. The average cleanup cost at the end of the fourth quarter was \$10,953. This is a slight (3%) increase over the previous year. This could be attributed to the increase in fuel cost.

Strategic Plan Elements for Future Biennia: PLIA has striven to build consistency, predictability, and stability into all of its operations and relationships with stakeholders and partners. While this strategic plan specifically addresses the 09-11 Biennium, it may be assumed that many of its goals, objectives and strategies will be key elements in the 11-13 and 13-15 Biennia. A request for reauthorization of the agency will be made in 2011 and will be addressed in more detail in the next strategic plan.

EXTERNAL CHALLENGES AND OPPORTUNITIES:**Commercial Petroleum Underground Storage Tanks:**

All owners of commercial petroleum USTs in the United States are required to prove financial responsibility for any damage resulting from a UST leak. While most states rely on a state cleanup fund, supported by a continuously applied fuel tax, Washington is one of a small number of states that rely on private insurance to provide financial responsibility for most of the state's commercial USTs (schools, cities and some other public entities meet financial requirements through risk retention groups and/or self insurance). This type of pollution liability insurance is generally available throughout the state because PLIA administers a reinsurance program designed to back up private insurance companies. The system Washington uses promotes private enterprise and continues to save the state's taxpayers millions in fuel taxes.

The real challenge to PLIA is the fact that the insurance industry in general is faced with premium increases in virtually every sector of the industry. As fuel prices continue to increase, PLIA's constituency of small petroleum marketers and station owners will be under increasing pressure to reduce their expenses. They will likely shop around more for lower insurance premiums, putting their coverage at risk. The state does not have alternative cleanup resources for owners who do not have insurance coverage.

Heating Oil Tanks:

In addition to potential UST insurance cost increases identified above, there are external factors impacting PLIA's heating oil program. PLIA has over 63,000 homes, schools, and businesses insured from losses associated with the accidental release of heating oil. While these tanks are exempt from the Department of Ecology and EPA regulations, the owner of the tank is not exempt from the liability associated with contamination. Prevention of releases is a priority for PLIA and requires the coordination and cooperation of the oil heat industry. PLIA continues to work with this industry group through the mandated Heating Oil Technical Advisory committee.

Customer Characteristics:

PLIA's client base remains stable and largely unchanged. PLIA deals with two major customer bases (1) commercial USTs and (2) heating oil tanks. The first group of regulated commercial USTs total 9,800 tanks located at 3,600 sites across the state. Of the 3,600 sites, PLIA reinsurance covers 2,102 or 58%. The remainder is composed of 620 public utilities, schools, cities or similar facilities, with the balance being self insured or privately insured. One of the reasons that the number of private petroleum dealers remains stable in Washington State, is PLIA's reinsurance treaties with front line insurance companies continue to ensure that this type of coverage is both available and affordable.

PLIA's second customer base is the 63,000 heating oil tank owners and fuel oil dealers across the state. An important component of PLIA's workload during the 09-11 Biennium involves improved and increased communications with both customer bases, which promotes proactive and preventative tank maintenance designed to reduce or avoid tank failure and the resulting costly environmental cleanup.

Major Partners:

PLIA and the Department of Ecology maintain an effective and professional relationship. While PLIA focuses primarily on the insurance and financial responsibility components required of commercial UST sites, Ecology serves as the regulator of those sites. In most cases, owners of commercial and/or residential properties that have undergone remediation for petroleum contamination have to deal with their insurance provider, PLIA, and Ecology. Continued collaboration and cooperation between all parties remains a priority for PLIA.

PLIA supplies quarterly financial reports to the Department of Revenue and the Office of the Insurance Commissioner. While these reports are routine in nature, they continue to provide required information to all partners. PLIA maintains the same professional relationship with the Department of Licensing, which collects fees from fuel oil dealers.

PLIA also maintains close working relationships with the Washington Oil Marketers Association/Pacific Northwest Oil Heat Council and the Western States Petroleum Association. Each of those private sector associations are represented on the Heating Oil Technical Advisory Committee established to assist and advise the agency on its heating oil program. PLIA continues to maintain strong and effective ties with its private and public sector partners.

INTERNAL CAPACITY AND FINANCIAL HEALTH:

Workforce:

PLIA has six full time employees. The staff turnover rate has been relatively low with the last new hire in 2007. Because of the small staff, employees tend to have a wide variety of responsibilities. There has been an emphasis on cross-training to lessen the impact of any future vacancies.

Capital and Technology Needs:

The current building lease for PLIA's office will expire in fall of 2009. At that time PLIA will assess the value of co-location or moving to a state owned facility. PLIA will upgrade our computer system to connect to the State Government Network. This is in anticipation of needing added security for the proposed on-line registration for Heating Oil Pollution Liability Insurance.

Financial Health:

PLIA's commercial UST program is funded from the Pollution Liability Insurance Trust Account. The source of funding for commercial UST programs is the Petroleum Products Tax, an excise tax of 0.5 percent on the wholesale value of petroleum on the first introduction into the state. Given normal operating expenditure and claims costs, it is anticipated that this tax will not be re-imposed until approximately 2011. This is sooner than the previous estimate of 2013. This is in large part due to an increase in both commercial UST claims and heating oil claims. Taxpayers were also refunded \$1.2 million during the past twelve months.

PLIA's oil heat program is supported by the Oil Heat Insurance Trust Account, funded by a fee of 1.2 cents per gallon on heating oil. Excess costs not covered by this fee are paid from the Pollution Liability Insurance Trust Account. As heating oil usage declines due to increased prices, there will be a reduction in the revenue from the fee. This in turn will increase the spending from the Pollution Liability Insurance Trust Account to make up for lost revenue.

Neither PLIA nor any of its programs receive any State General Fund revenue. Since 1991, interest earned by the Pollution Liability Insurance Trust Account has been transferred to the State General Fund and has amounted to over \$22,000,000. The agency's financial condition is stable as long as the two trust accounts remain protected.