



# **POLLUTION LIABILITY INSURANCE AGENCY**

## **STRATEGIC PLAN**

**15-17 BIENNIUM**



Dear Stakeholders:

The Pollution Liability Insurance Agency (PLIA) is pleased to present its strategic plan for the 15-17 biennium. This plan will be our guideline to enhance the services we make available to owners and operators of petroleum storage tanks throughout the state of Washington. The goals, objectives, and strategies we have outlined will allow us to build on prior successes in support of Governor Inslee's vision for a prosperous economy, accountability to the citizens of Washington, and providing opportunities for sustainable and clean energy and cleaning our environment.

Regulated petroleum storage tank owners and operators are required to demonstrate \$1 million worth of financial responsibility for their tanks in case of leaked fuel. The easiest and most affordable way to do this is by purchasing a private pollution liability insurance policy. PLIA has reinsurance treaties (contracts) with three primary insurance companies. Under the terms of the treaties, PLIA pays for any losses over \$75,000. This enables the primary insurers to charge tank owners and operators a lower, affordable premium. There are currently more than 2,000 sites in the state that are covered by the program.

The agency's Heating Oil Pollution Liability Insurance Program provides up to \$60,000 worth of coverage to cleanup contamination from leaking heating oil tanks owned by private citizens and small businesses. Most homeowners' insurance policies do not cover the cost of cleaning up contamination from heating oil tanks. For the majority of people, their home is their most valuable asset and contamination of that asset can have a significant financial impact. There are currently more than 57,000 heating oil tanks covered by PLIA's insurance program statewide.

PLIA will continue to help businesses and homeowners maintain the value of their assets by ensuring they are able to obtain affordable insurance coverage for underground storage tank and heating oil releases. PLIA's insurance programs will continue to provide a path for bringing petroleum contaminated sites to closure that meet the substantive cleanup standards outlined in the Model Toxics Control Act. We are proud to serve the citizens of Washington State and it is our goal to provide consistent, outstanding services through our programs.

Sincerely,

Russell E. Olsen  
Executive Director

**MISSION STATEMENT:**

The Pollution Liability Insurance Agency works to provide an effective and efficient government funding model to support owners and operators in meeting financial responsibility and environmental cleanup requirements for underground storage tanks.

**STATUTORY AUTHORITY:**

PLIA 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.

**AGENCY GOAL: Contribute to a prosperous and sustainable economy by ensuring underground storage tank owners and operators have access to available and affordable financial responsibility resources.**

**Objective: Continue the availability of PLIA reinsurance services.**

**Agency Activity:** Pollution Liability Reinsurance (A002)

**Measure:** Average pollution liability insurance policy premium per UST site

**Target:** \$1,200

**Comment:** There are currently three primary insurance companies PLIA reinsures that offer coverage to owners and operators of petroleum underground storage tanks that meets federally mandated financial responsibility requirements.

**Strategies:**

- Renegotiate existing reinsurance treaties with partners to increase savings and coverage for users.
- Make underground storage tank compliance and cleanup information easily accessible to insurance companies.
- Provide education and outreach to underground storage tank owners and operators concerning risk factors that influence insurance costs.

**AGENCY GOAL: Protect Washington’s environment by ensuring gas station owners and homeowners are motivated to choose cleanup.**

**Objective: Improve the efficiency and timeliness of underground storage tank cleanup actions.**

**Agency Activity:** Pollution Liability Reinsurance (A002)

**Measure:** Number of financial and technical audits of underground storage tank commercial reinsurance program claims completed

**Target:** 40 (five per quarter)

**Comment:** Occasional delays in claim payments have been caused by a lack of sufficient supporting documentation and cleanup action plan status reports from the primary insurance companies. Approved scopes of work and work plans are reviewed when quarterly billings are received to ensure appropriate costs are being submitted for payment.

**Strategies:**

- Conduct financial and technical audits of underground storage tank reinsurance claims.
- Enhance relationships with tank owner claim consultants to improve communications on cleanup actions.

**Objective: Decrease duration of open claims.**

**Agency Activity:** Pollution Liability Reinsurance (A002)

**Measure:** Claims closed within five years from date cleanup remedy is selected

**Target:** 20% per year

**Comment:** Since 2013, PLIA has worked to improve timely claims processing with primary insurance companies to obtain closure. These efforts have culminated with the successful pilot of a tri-party agreement between PLIA for financial review of these claims, the Department of Ecology for technical review, and Colony, the largest of PLIA's primary insurance companies that provides coverage to underground storage tank owners and operators. Cleanup actions for sites under review in this new process are progressing toward closure and the eventual removal from Ecology's contaminated sites listing. The agency anticipates being able to close 20% of all open claims during any given year to achieve the target of a five year closure.

**Strategies:**

- Finalize the agreement with Ecology and Colony to establish milestones and expand the program from its current pilot to all underground storage tank claims. Program activities include meeting with the parties to discuss paths moving forward to closure, submission of a scope of work, a formal review/comment process, and the issuance of an opinion letter to Colony and the insured's consultant. Opinion letters are sent out 30 days after receiving the scope of work.
- Prioritize sites based on environmental issues and remaining monies left on the policy.
- Educate underground storage tank owners about the tri-party agreement process.

**Objective: Submit agency-request legislation for approval to develop and implement a low-interest revolving loan program that will allow owners of underground storage tanks to cleanup existing contamination, upgrade aging equipment, and provide alternative fuels to their customers, which helps their local communities.**

**Agency Activity:** Pollution Liability Reinsurance (A002)

**Measure:** The number of low-interest loans granted within a tiered system

**Target:** \$10 million (\$5 million each fiscal year)

**Comment:** Many small and large businesses that own and operate underground storage tanks in the state of Washington are unable to purchase insurance for their out-of-date equipment, and many banks will not provide the financing business owners need to upgrade their equipment or cleanup existing contamination. Owners and operators of currently insured sites should benefit from lower premiums after cleanups and/or upgrades have been completed and Washington will have infrastructure in place to support the transportation systems of the future.

**Strategies:**

- Obtain legislative approval to develop and implement the program.
- Contract with a third-party financial institution to process loan applications/repayments.
- Build incentives into the program to encourage owners to install vehicle charging stations.
- Agency provides direct oversight of cleanup and infrastructure projects to obtain closure within two years from date loan contract is signed.

**Objective: Continue to provide insurance coverage and cleanup oversight so heating oil tank owners have access to the resources needed to conduct effective and efficient cleanups and prevent future releases.**

**Agency Activity:** Heating Oil Tank Liability Insurance (A001)

**Measure:** Days taken to respond to heating oil Scope of Work

**Target:** 30 days

**Comments:** There are more than 57,000 tanks registered in our insurance program eligible for up to \$60,000 coverage per cleanup. Without this insurance, many tank owners would not be able to pay for a cleanup if their registered tank fails. This could result in a catastrophic financial hardship for the tank owner and diminished property values. By cleaning up contamination from a leaking heating oil tank, tank owners can maintain their property values while protecting human health and the environment.

**Strategies:**

- Continue to evaluate and improve the review and approval process initiated as an agency Lean project.
- Fully implement the agency's authority to offer fiberglass tank upgrades for owners who continue using heating oil.

**Objective: Continue to provide insurance coverage and cleanup oversight so heating oil tank owners have access to the resources needed to conduct effective and efficient cleanups and prevent future releases.**

**Agency Activity:** Heating Oil Tank Liability Insurance (A001)

**Measure:** New Heating Oil Tank Pollution Liability Insurance claims closed within three years

**Target:** Close 33% of new heating oil claims each year

**Comments:** Improving the accountability requirements placed on service providers who conduct cleanups for the heating oil insurance program will improve the process for homeowners and the quality of the cleanup outcomes.

**Strategies:**

- Strengthen the performance accountability conditions in the agency's Service Provider Agreement to ensure cleanups are completed timely while meeting the substantive requirements of the Model Toxics Control Act.
- Require annual renewal of the Service Provider Agreement.

**Objective: Continue to provide efficient and timely technical assistance to uninsured and abandoned heating oil tank owners whose tanks have leaked.**

**Agency Activity:** Heating Oil Tank Liability Insurance (A001)

**Measure:** Days to approval of completed HOTAP applications

**Target:** 10 days

**Comments:** There are an unknown number of uninsured and abandoned heating oil tanks throughout the state. PLIA has no authority to provide financial assistance to these tank owners and those sites that are contaminated have diminished property values. Tank owners are responsible for cleaning up the contamination on their property.

**Strategies:**

- Develop and implement ongoing marketing efforts. This will include contacting realty companies, financial institutions, and other parties to be identified to encourage their cooperation in providing their customers with program availability information.

**Objective: Continue to provide efficient and timely technical assistance to uninsured and abandoned heating oil tank owners whose tanks have leaked.**

**Agency Activity:** Heating Oil Tank Liability Insurance (A001)

**Measure:** Provide written opinion from the date of acceptance into HOTAP

**Target:** 90 days

**Comments:** A written opinion from PLIA provides the tank owner with clarity about their cleanup, informing them what steps need to be taken to reach closure. After adequate cleanup measures have been taken, an opinion letter from PLIA stating the cleanup action taken by the tank owner has eliminated the threat to human health or the environment, if appropriate. This letter may be very beneficial to restoring property values for future real estate transactions.

**Strategies:**

- Evaluate and improve the report review process through the establishment of standard procedures.
- Allocate agencies resources to this growing program.

## **PERFORMANCE ANALYSIS:**

### **Commercial Petroleum USTs:**

Performance measure one: Average pollution liability insurance policy premium per UST site. The end of fiscal year 2014 showed an average insurance premium of \$1,228 - only slightly more than the amount for 2009. After a one year spike in 2010 to more than \$1,400 per premium, the average dropped and has consistently been around \$1,250 in each subsequent year.

Performance measure two: Complete a financial and technical audit of five claims per quarter. Since the first quarter of FY14, 128 audits have been completed. This is an average of 32 audits per quarter, well above the current target of five.

Performance measure three: Claims closed within five years from date of cleanup remedy is selected. Many of the petroleum underground storage tanks reinsured by PLIA have claims that are not progressing toward closure in a timely manner. In 2013, corrective actions have been implemented between PLIA, the Department of Ecology, and our largest primary insurance company (Colony) to address these issues to ensure selected cleanup action plans for sites are appropriate and performed timely to achieve closure. The agency anticipates being able to close 20% of all open claims during any given year to achieve the target of a five year closure.

Performance measure four (subject to legislative approval): Provide a low-interest revolving loan program for owners of underground storage tanks to upgrade aging equipment and grow their businesses. The availability of these loans will allow tank owners to cleanup historical and current contamination, as well as install alternative fuel sources for electric vehicles. We anticipate cleanup actions and/or upgrades to be completed for loan recipients within two years from the date their loan contract is signed.

### **Heating Oil Tanks:**

Performance measure one: Days taken to respond to heating oil Scope of Work. Thirty (30) new complete scopes of work have been received since January 2014. All but one of these were reviewed and approved within 30 days from date of receipt. The average number of days to approve these scopes was 10.5 days, well below our target.

Performance measure two: New Heating Oil Tank Pollution Liability Insurance claims closed within three years. Since June 2013, 355 heating oil pollution liability insurance claims have been opened. Of that number, 120 closures have been achieved. The closure rate of 33.8% as of July 2014 is on target of closing 33% of new heating oil claims each year.

Performance measure three: Days to approval of completed HOTAP applications. For the period of July 2013 through July 2014, 14 applications were submitted to PLIA requesting this service. The number of days needed to review and approve these applications has averaged 4.7, less than half the target of ten business days.

Performance measure four: Days taken to provide a written opinion from the date of acceptance into the Heating Oil Technical Assistance Program (HOTAP). Since tracking began of this reactivated program in July 2013, the average number of days taken to provide a written opinion for completed requests was 76.2, almost two weeks ahead of the 90 day target.

## **EXTERNAL CHALLENGES AND OPPORTUNITIES:**

**Commercial petroleum USTs:** All owners of commercial petroleum underground storage tanks in the United States are required to prove financial responsibility for any damage resulting from an underground storage tank 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 underground storage tanks (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. With the successful passage of legislation the agency is proposing this biennium for the implementation of a revolving loan account, the state would have an alternative cleanup resource for owners who do not have insurance coverage.

**Heating oil tanks:** In addition to potential underground storage tank insurance cost increases identified above, there are external factors impacting PLIA's heating oil program. PLIA has more than 57,000 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 heating oil industry. PLIA recently initiated an informal advisory committee made up of members from the Washington Oil Marketers Association, service providers, and environmental consultants to work on issues facing our heating oil program and gather recommendations for the agency's consideration of future actions.

**Customer Characteristics:**

PLIA's client base remains stable and largely unchanged. PLIA deals with two major customer bases (1) commercial underground storage tanks and (2) heating oil tanks. The first group of regulated commercial underground storage tanks total 9,800 tanks located at 3,600 sites across the state. Of the 3,600 sites, PLIA reinsurance covers more than 2,000. 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 the number of private petroleum dealers remains stable in Washington State is PLIA's reinsurance treaties with front line insurance companies that ensure this type of coverage is both available and affordable.

PLIA's second customer base is the more than 57,000 registered heating oil tank owners and fuel oil dealers across the state. An important component of PLIA's workload during the 15-17 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 underground storage tank sites, Ecology serves as the regulator of those sites. 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, and allows the Department of Revenue to determine when to trigger the Petroleum Products Tax.

PLIA also maintains close working relationships with the Washington Oil Marketers Association and the Western States Petroleum Association. The agency 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. Because of the small staff size, employees tend to have a wide variety of responsibilities. It has been our practice to provide cross-training within the programs as practicable to enhance the knowledge and skills of our employees, thereby lessening the impact to our service delivery caused by future vacancies.

**Capital and Technology Needs:**

PLIA is in the process of integrating into the State Government Network for information technology support services. Our computer infrastructure is relatively outdated and at risk for a substantial interruption to our service delivery capability in the event of a catastrophic failure. Our telephone system is very old and its functionality is slowly declining. The total replacement of our phone system will soon become a critical need due to the high call volume received - the vast majority of our customer interactions are by phone.

**Financial Health:**

PLIA's commercial underground storage tank program is funded from the Pollution Liability Insurance Trust Account. The source of funding for commercial underground storage tank programs is the Petroleum Products Tax, an excise tax of 0.3 percent on the wholesale value of petroleum when removed from the rack, unless the removal is to a licensed exporter for direct delivery outside of the state. For all other cases, the wholesale value is determined upon the first non-bulk possession in the state. Given normal operating expenditure and claims costs, it is anticipated that this tax will not be re-imposed until first quarter calendar year 2016. This is in large part due to an increase in both commercial underground storage tank claims and heating oil claims.

PLIA's heating oil program is supported by the Heating Oil Pollution Liability Trust Account, funded by a fee of 1.2 cents per gallon on heating oil. A major challenge to the agency has been the steady decline of revenue collected from this fee during recent years. This impacts the agency's ability to fully fund the heating oil pollution liability insurance program from this dedicated account, resulting in the shortfall being paid from the Pollution Liability Insurance Trust Account.

PLIA does not receive any State General Fund revenue. Since 1992, interest earned by both trust accounts has been transferred to the State General Fund and has amounted to more than \$28 million. The agency's financial condition is stable as long as the two trust accounts remain protected.