



FINANCE AND BUDGET COMMITTEE
JUNE 17, 2004

SUBJECT: EXCESS LIABILITY PROGRAM FOR OPERATIONS

ACTION: PURCHASE EXCESS LIABILITY INSURANCE

RECOMMENDATION

Authorize the Chief Executive Officer to negotiate and award an Excess Liability Insurance program for METRO liability exposures, other than Major construction projects, at a cost estimated not to exceed \$5,640,000 million for a 12-month period beginning August 1, 2004 through July 31, 2005.

RATIONALE

Aon Risk Services, Metro's non-construction insurance broker, is responsible for marketing the excess liability coverage to qualified insurance carriers. Quotes are currently being received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. The premium indications are based on current market expectations. Staff will review all quotes received by the broker to ensure that the policy has been adequately marketed and identify the carrier offering the best terms and price. After analyzing options and the broker's recommendations, staff will provide opinions and supporting analyses to the CEO prior to executing the policy.

Without the excess liability insurance program, Metro would be exposed to unlimited operations liability and be in violations of contracts/agreements requiring Metro to carry insurance.

FINANCIAL IMPACT

Funding for 11 months of this \$5,640,000 procurement is incorporated into the FY05 budget in cost center 0531, Risk Management - Non Departmental Costs, under projects 301001 - San Fernando Valley Sector, 302001 - San Gabriel Valley Sector, 303001 - Gateway Sector, 304001 - South Bay Sector, 305001 - Westside Central Sector, 300022 - Blue Line, 300033 - Green Line, 300044 - Red Line, 300055 - Gold Line, and 100001 - General Overhead. The remaining 1-month will be included in the FY06 Budget. In FY04, \$5.215 million was expended on this item.

ALTERNATIVES CONSIDERED

There are no viable alternatives to purchasing excess liability insurance because Metro is contractually obligated to maintain the coverage and the recommended policy is the least expensive and broadest coverage available.

The option of increasing the coverage limit was rejected because Metro is contractually obligated to maintain \$100 million in limits, and the small likelihood of an occurrence resulting in losses in excess of \$100 million does not justify the additional premium. Staff considered various options on the level of self-insured retention (SIR). The option of increasing the SIR (see table below) was rejected because the associated premium savings would not justify the added exposure to Metro. Specifically, any single loss reaching the SIR in any of the listed options eliminates all potential premium savings.

The proposed option limits the SIR to \$4.5 million per occurrence and maintains \$100 million in coverage limits for a premium that will not exceed \$5.64 million.

	“Current Program”	Option A	Option B	Option C	Option D
Self-Insured Retention	\$4.5 mil.	\$4.5 mil.	\$6 mil.	\$8 mil.	\$10 mil.
Limit of Coverage	\$100 mil.	\$100 mil.	\$100 mil.	\$100 mil.	\$100 mil.
Not to Exceed Premium	\$5.37 mil.	\$5.64 mil.	\$5.73 mil.	\$4.57 mil.	\$4.05 mil.

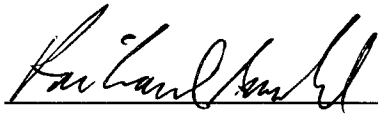
The chart below shows the premium history for the excess liability insurance program.

PREMIUM HISTORY FOR EXCESS LIABILITY INSURANCE POLICIES ENDING IN THE FOLLOWING FISCAL YEARS						
	FY 00	FY 01	FY 02	FY 03	FY 04 (Current)	FY05 (Projected)
Premium (Millions)	\$1.32	\$1.39	\$2.76	\$4.06	\$5.37	\$5.64 (est.)


ATTACHMENTS

A: Potential Markets for Excess Liability Insurance

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LOS ANGELES COUNTY METROPOLITAN
 TRANSPORTATION AUTHORITY
 EXCESS LIABILITY PROGRAM
 POTENTIAL MARKETS
 August 1, 2004 to July 31, 2005

<u>COMPANY</u>	<u>BEST RATING</u>
CV Starr	A++ XV
Lexington	A++ XV
Munich Am Re	A+ XV
Coregis	A- VIII
ACE	A XII
Admiral	A+ IX
Chubb	A++ XV
Scottsdale	A+ XV
XL	A+ XV
Arch RE	A- XII
Winterthur	A- XV
RLI	A IX
Starr Excess	A++ XV
London Markets	Various
Genesis	A++ XV
Clarendon	A- X
Lancer	A- VI
Progressive	A+ XV
ICW	A- IX
E&S Markets	Various
Zurich	A XV
RLI	A IX
Axa Re	A- XIII
Newmarket Underwriters	A+ XIV
Steadfast	A XV