



FINANCE AND BUDGET COMMITTEE
MARCH 17, 2005

**SUBJECT: PROPERTY AND BOILER AND MACHINERY
INSURANCE PROGRAM FOR OPERATIONS**

**ACTION: PURCHASE ALL RISK PROPERTY AND
BOILER AND MACHINERY INSURANCE**

RECOMMENDATION

Authorize the Chief Executive Officer to negotiate and award All Risk Property insurance policy, excluding terrorism coverage, and Boiler and Machinery insurance policy for all Metro property for a cost not to exceed \$4,750,000 for a 12-month period effective May 10, 2005 to May 10, 2006.

RATIONALE

Metro's insurance broker, Aon Risk Services, is responsible for marketing the property program 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 below are based upon 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(s) 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 binding of coverage.

This coverage insures against losses to Metro structures and improvements, including bridges and tunnels used by Metrolink, valued in excess of \$6 billion. Without the property insurance program, Metro may lose eligibility for FEMA contributions for property loss disasters and be in violation of the contracts and agreements, such as sale/leaseback, requiring Metro to carry property insurance.

FINANCIAL IMPACT

Funding for two months of this \$4,750,000, procurement is incorporated into the FY05 budget. The remaining 10 months will be included in the FY06 budget cost center 0531, Risk Management – Non Departmental Costs, under projects 301001 Bus Operations – San Fernando Valley (SFV), 302001 – San Gabriel Valley (SGV), 303001 – Gateway, 304001 – South Bay (SB), 305001 – Westside Central (WC), 301012 – Metro Orange Line, 300022, Rail Operations – Blue Line, 300033, Rail Operations – Green Line, 300044, Rail Operations – Red Line, 300055, Rail Operations - Gold Line and 610061 – Owned Property. In FY05, \$4.9 million will be expended on this item.

ALTERNATIVES CONSIDERED

There are no viable alternatives to renewing the property insurance program because Metro is contractually obligated to maintain the coverage.

Due to changes in the property insurance market, including the September 11th losses (estimated at \$30 billion), coverage for acts of terrorism is excluded from the policy but available for an additional cost of approximately \$1,400,000 through December 2005. After December 2005, Federal Legislation regarding terrorism insurance expires, with an uncertain response to terrorism risk from the insurance industry. Terrorism is defined as the use or threatened use of force or violence against person, or property, or commission of an act dangerous to human life or property, undertaken by an organization, government, power, authority or military force, when the effect is to intimidate, harm or coerce a government, the civilian, population or any segment thereof, or to disrupt any segment of the economy. Terrorism shall also include any act that is verified or recognized by the United States Government as an act of Terrorism.

Staff considered various deductibles and limits of coverage options (see Attachment A below). Metro's property loss history in the last seven years includes: a February 1999 Green Line rail non-revenue vehicle damage costing \$26,224; the January 2001 fire at Gateway – estimated final cost of \$518,663; and a July 1998 water loss at Division 20, costing \$61,001. Based upon this favorable loss history, staff recommends the deductible and limits of coverage option proposed below.

The recommended Option A secures the All-Risk deductible at \$250,000; earthquake and flood deductible at 5% per location subject to a \$250,000 minimum. If a loss exceeds the deductible, All Risk coverage is provided up to \$300 million per occurrence and \$30 million for earthquakes and floods. Attachment A summarizes the preferred and alternative option as well as a premium history. Attachment B details the current program.

The recommended Option A fills in a coverage gap in the current program between \$30 million and \$65 million for an incremental cost of \$400,000. Properties at risk in this layer include the Gateway building, Red Line stations, RRC, commuter rail tunnels and others. Option A continues to exclude terrorism risks, which the Metro's insurance broker Aon, has indicated is consistent with most other large public agencies. Option A also contains only \$30 million in earthquake and flood coverage. Increasing limits for earthquake and flood to \$65 million would cost an additional \$1.5 million. Increasing limits for earthquake and flood to \$100 million would cost an additional \$2.4 million and \$300 million in limits would cost an additional \$3.9 million.

ATTACHMENTS

- A. Summary History
- B. Detail of the Current Program



Greg Kildare
Executive Officer, Risk Management



Roger Snoble
Chief Executive Officer

ATTACHMENT A

| | Current Policy | Option A | Option B | Option C | Option D |
|---|------------------|------------------|------------------|------------------------|------------------|
| Limits/Deductible | \$250,000 deduct | \$250,000 deduct | \$250,000 deduct | \$250,000 deduct | \$250,000 deduct |
| All Risk (Except EQ and Flood) | \$300 Mil | \$300 Mil | \$300 Mil | \$300 Mil | \$300 Mil |
| Earthquake and Flood | 30 Mil/5%* | 30 Mil/5%* | 65 Mil/5%* | 200 Mil XS 100 Mil/5%* | 30 Mil/5%* |
| Not to Exceed Premium for All-Risk Property Policy | \$4,800,000 | \$4,650,000 | \$6,050,000 | \$4,350,000 | \$4,250,000 |
| Not to Exceed Premium for Boiler & Machinery Policy | \$100,000 | \$100,000 | \$100,000 | \$100,000 | \$100,000 |
| Total Not to Exceed Premium | \$4,900,000 | \$4,750,000 | \$6,150,000 | \$4,450,000 | \$4,350,000 |
| Self-Insured Retention | \$30M - \$65M | NO | NO | NO | \$30M - \$65M |
| Terrorism Insurance | NO | NO | NO | NO | NO |

*250,000 minimum deductible for earthquake and flood

The recommended insurance program (Option A) is designed to:

- ✓ Purchase \$300 million in All Risk Property insurance to cover building structures and rolling stock
- ✓ Provide real property insurance coverage for Earthquake and Flood up to \$30 million
- ✓ Insure Boiler and Machinery assets to protect against financial loss

The chart below indicates our premium history for the last 5 years.

**Premium History for Property and Boiler and Machinery Policies
Ending in the Following Fiscal Years (millions)**

| | FY01 | FY02 | FY03 | FY04 | FY05 (current) | FY06 (proposed) |
|----------------------|---------------|---------------|---------------|---------------|-------------------|--------------------|
| Property | \$ 3.3 | \$ 4.7 | \$ 5.4 | \$ 5.5 | \$ 4.8 | \$ 4.7 |
| Boiler and Machinery | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total | \$ 3.4 | \$ 4.8 | \$ 5.5 | \$ 5.6 | \$ 4.9 | \$ 4.8 |

ATTACHMENT B

Current Program Structure

| Excess Limit | Layer(s) | LOB per Layer | Policy Limit | Part of ... | Carrier | Policy | Premium w/ Taxes | Carrier Status |
|--------------|------------------|---------------|---------------|-------------------------------|-----------------------|----------------|------------------|----------------|
| \$300M | | 6 of 6 | \$ 30,000,000 | \$200M xs \$100M | Arch | TBD | \$ 61,935.00 | Non Admitted |
| | | 5 of 6 | \$ 40,000,000 | \$200M xs \$100M | Montpelier | TBD | \$ 82,580.00 | Non Admitted |
| | \$200M xs \$100M | 4 of 6 | \$ 20,000,000 | \$200M xs \$100M | Commonwealth Ins. Co. | TBD | \$ 41,290.00 | Non Admitted |
| | | 3 of 6 | \$ 20,000,000 | \$200M xs \$100M | CNA | TBD | \$ 40,000.00 | Admitted |
| | | 2 of 6 | \$ 50,000,000 | \$200M xs \$100M | Axis | TBD | \$ 103,225.00 | Non Admitted |
| | | 1 of 6 | \$ 40,000,000 | \$200M xs \$100M | London (Lloyd's) | TBD | \$ 82,580.00 | Non Admitted |
| \$100M | | 3 of 3 | \$ 15,000,000 | \$35M xs \$65M | Hartford | TBD | \$ 116,128.13 | Non Admitted |
| | \$35M xs \$65M | 2 of 3 | \$ 5,000,000 | \$35M xs \$65M | CNA | TBD | \$ 37,500.00 | Admitted |
| | | 1 of 3 | \$ 15,000,000 | \$35M xs \$65M | Arch | TBD | \$ 116,128.13 | Non Admitted |
| \$65M | \$35M xs \$30M | | \$ 35,000,000 | LACMTA SELF INSURED RETENTION | | | | |
| \$30M | | 4 of 4 | \$ 2,500,000 | \$5M xs \$30M | AWAC | TBD | \$ 344,083.33 | Non Admitted |
| | \$5M xs \$25M | 3 of 4 | \$ 1,250,000 | \$5M xs \$30M | ACE | TBD | \$ 172,041.67 | Non Admitted |
| | | 2 of 4 | \$ 1,250,000 | \$5M xs \$30M | Hartford | TBD | \$ 166,666.67 | Admitted |
| | \$25M | 1 of 4 | \$ 25,000,000 | \$25M part of \$30M | Lexington Ins. Co | TBD | \$ 3,440,832.99 | Non Admitted |
| | | | | | | Total | \$ 4,804,990.91 | |
| | | | | | | B&M | \$ 93,559.00 | |
| | | | | | | Total inc. B&M | \$ 4,898,549.91 | |

