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Metro

FINANCE AND BUDGET COMMITTEE
MARCH 15, 2006

SUBJECT: PROPOSED PROPERTY INSURANCE PROGRAM FOR OPERATIONS

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file report on the proposed property insurance program for Operations.

ISSUE

Metro's current All Risk Property insurance policy and Boiler and Machinery insurance policy for all Metro property will expire on May 10, 2006. This report summarizes the current insurance marketplace for property coverage and recommends a structure for the replacement policy.

DISCUSSION

Our 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. Final pricing, however, is not available until approximately 30 days prior to binding coverage.

Property insurance protects against losses to structures and improvements, which are valued in excess of $6 billion. In addition, property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating facilities.

This past year has been difficult for the property insurance marketplace. Property insurance rates, particularly earthquake and flood, depend largely on recent worldwide catastrophic property losses such as those caused by earthquakes, terrorist attacks, floods, hurricanes, tsunamis and the like. Very large losses from Hurricanes Katrina, Dennis, Rita, and Wilma have dramatically increased the cost of reinsurance and have forced insurance carriers to dramatically reassess their pricing for all catastrophic coverage including earthquake. Additionally, the September 11th loss payouts and the second highest catastrophic loss year on record loss year for Atlantic hurricanes in 2004 continue to add upward pressure on property insurance rates.

This year, earthquake coverage is only available with low limits at high premiums; $30 million in limits for approximately $2.8 million. In just over ten years, premiums would total more than the coverage. Therefore, this year's recommended program does not include earthquake coverage. Elimination of earthquake coverage is consistent with decisions made by such organizations as BART, Los Angeles Department of Water and Power, Metropolitan Water District and most Los Angeles County and City locations. Elimination of this coverage will mean greater reliance on FEMA for recovery. As demonstrated by the recent property losses in New Orleans, transit, along with municipal services and utilities receives priority FEMA funding for disaster relief.

The table on the following page compares the current program, the recommended program and two options, which are not recommended.

Over the last seven years only three losses have been incurred: a July 1998 water loss at Division 20 costing $61,001; a February 1999 Green Line rail non-revenue vehicle damage costing $26,224; and the January 2001 fire at Gateway whose estimated final cost is $518,663. Based upon our favorable loss history, staff recommends the deductible and limits of coverage option shown on the following page.

The Recommended Program secures the All-Risk deductible at $250,000 with no earthquake coverage and a 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 $65 million for floods. Attachment A includes a graphic representation of the various options, a premium history and an outline of the current program structure.

Indications of premium for coverage identical to last year, Option B, were almost 50% higher, $2.3 million more. Last year, Metro purchased earthquake and flood insurance with $30 and $65 million in limits, respectively, for approximately $1.7 million. Similar coverage is estimated to cost $2.8 million this year. Therefore, this option is not recommended.

In order to reduce the premium expense, staff reviewed various earthquake options. Option C was priced with earthquake coverage of $50 million after Metro exhausts a $50 million self-insured retention. This option increases our exposure to earthquake risks and has a substantial increase in premium over the as expiring program. Therefore, this option is not recommended.

Terrorism coverage is available for approximately $2 million. However, consistent with last year and other public agencies, this alternative is not recommended.

ALTERNATIVES CONSIDERED

	Current Program	**Recommended Program**	**Option B**	**Option C**
Deductibles	$250,000 All Risk/5% of structure value for Earthquake and Flood	$250,000 All Risk/5% of structure value for Flood	$250,000 All Risk/5% of structure value for Earthquake and Flood	$250,000 All Risk/5% of structure value for Earthquake and Flood
All Risk Limits	$300 Million	$300 Million	$300 Million	$300 Million
Earthquake Limits	$30 Million	None	$30 Million	$50 Million after first $50 million of self-insured retention
Flood Limits	$65 Million	$65 Million	$65 Million	As Earthquake Limits
Not to Exceed Premium for All-Risk Property Policy	**$4,600,000**	**$4,100,000**	**$6,900,000**	**$5,900,000**
Not to Exceed Premium for Boiler & Machinery Policy	**$100,000**	**$100,000**	**$100,000**	**$100,000**
Total Not to Exceed Premium	**$4,700,000**	**$4,200,000**	**$7,000,000**	**$6,000,000**

NEXT STEPS

We will return to the Board for approval in April 2006 for approval of final pricing and insurers for the recommended property insurance program.

ATTACHMENT

A. Premium History, Options and Current Program Participation

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ATTACHMENT A

Premium History for Property and Boiler and Machinery Policies
Ending in the Following Fiscal Years

	FY02	FY03	FY04	FY05	FY06(curr)	FY07(proj)
All Risk	$4.7 Mil	$5.4 Mil	$5.5 Mil	$4.8 Mil	$4.6 Mil	$4.1 Mil
Boiler & Machinery	$135,000	$135,000	$100,000	$100,000	$100,000	$100,000
Total Premium	$4.8 Mil	$5.5 Mil	$5.6 Mil	$4.9 Mil	$4.7 Mil	$4.2 Mil*
TIV = Total Ins. Val.	$4.8 Bil	$5.2 Bil	$5.8 Bil	$6.0 Bil	$6.6 Bil	$6.8 Bil

* Excludes Earthquake Insurance

Current Program Structure

Excess Limit		Layer(s)	LOB per Layer	Policy Limit	Part of....	Carrier	Premium	Taxes and Fee	Total Premium Inc. Taxes and Fees
$300M	ALL RISK EXCLUDING EARTHQUAKE AND FLOOD	$200M xs $100M	5 of 5	$55,000,000	$200M xs $100M	Arch	$ 99,000	$ 3,193	$ 102,193
			4 of 5	$20,000,000	$200M xs $100M	Commonwealth Ins. Co.	36,000	1,161	37,161
			3 of 5	$20,000,000	$200M xs $100M	CNA	36,000	-	36,000
			2 of 5	$65,000,000	$200M xs $100M	Axis	117,000	3,773	120,773
			1 of 5	$40,000,000	$200M xs $100M	London (Lloyd's)	72,000	2,322	74,322
						Layer Total	**360,000**	**10,449**	**370,449**
$100M		$36M xs $65 M	5 of 5	$12,250,000	$35M xs $65M	Hartford	82,688		82,688
			4 of 5	$7,000,000	$35M xs $65M	Commonwealth Ins. Co.	47,250	1,524	48,774
			3 of 5	$5,000,000	$35M xs $65M	CNA	33,750	-	33,750
			2 of 5	$3,750,000	$35M xs $65M	Axis	25,313	816	26,129
			1 of 5	$7,000,000	$35M xs $65M	Arch	47,250	1,524	48,774
						Layer Total	**236,250**	**3,864**	**240,115**
$65M	ALL RISK INCLUDING FLOOD AND EXCLUDING EQ	$35M xs $30M	6 of 6	$8,750,000	$35 M xs $30M	Hartford	118,125	-	118,125
			5 of 6	$5,000,000	$35 M xs $30M	Arch	67,500	2,177	69,677
			4 of 6	$7,750,000	$35 M xs $30M	Commonwealth Ins. Co.	104,625	3,374	107,999
			3 of 6	$5,000,000	$35 M xs $30M	Zurich	67,500	2,177	69,677
			2 of 6	$3,500,000	$35 M xs $30M	AWAC (Bermuda)	47,250	1,890	49,140
			1 of 6	$5,000,000	$35 M xs $30M	Global Excess Partners	67,500	2,177	69,677
						Layer Total	**472,500**	**11,795**	**483,929**
$30M	ALL RISK INCLUDING FLOOD & EQ	$30M Primary	3 of 3	$3,000,000	$3M part of $30M	AWAC (Bermuda)	338,400	13,536	351,936
			2 of 3	$2,000,000	$2M part of $30M	Hartford	225,600	-	225,600
			1 of 3	$25,000,000	$25M part of $30M	Lexington Ins. Co Includes $100m B&M	2,902,359	93,508	22,995,857
						Layer Total	**3,466,259**	**107,134**	**23,573,393**
						Total Inc. B&M	$ 4,535,010	$ 133,242	$ 4,668,251

Current Program Structure:
Metro fully insures up to $300 Mil after a $250,000 deductible. $30 Mil EQ and $65 Mil FL. No Self-Insured Retention

Excess Limit		Layer(s)
$300M	ALL RISK ONLY	$75M xs $225M
$225M		$140Mxs $85M
$85M		$20M xs $65M
$65M	ALL RISK AND FLOOD	$35M xs $30M
$30M	ALL RISK INCLUDING FLOOD AND EQ	$20M xs $10M
$10M		$10M

Recommended Program:
Metro fully insures up to $300 Mil after a $250,000 deductible. $65 Mil FL. No Self-Insured Retention

Excess Limit		Layer(s)
$300M	ALL RISK ONLY	$75M xs $225M
$225M		$140Mxs $85M
$85M		$20M xs $65M
$65M		$35M xs $30M
$30M	ALL RISK INCLUDING FLOOD AND EXCLUDING EQ	$20M xs $10M
$10M		$10M

Option B:
Metro fully insures up to $300 Mil after a $250,000 deductible. $30 Mil EQ and $65 Mil FL. No Self-Insured Retention

Excess Limit		Layer(s)
$300M	ALL RISK ONLY	$75M xs $225M
$225M		$140Mxs $85M
$85M		$20M xs $65M
$65M	ALL RISK AND FLOOD	$35M xs $30M
$30M	ALL RISK INCLUDING FLOOD AND EQ	$20M xs $10M
$10M		$10M

Option C:
Metro fully insures up to $300 Mil after a $250,000 deductible. $50 mil excess of $50 Mil EQ and FL. No Self-Insured Retention

Excess Limit		Layer(s)
$300M	ALL RISK ONLY	$75M xs $225M
$225M		$140Mxs $85M
$85M	ALL RISK INCLUDING FLOOD & EQ	$20M xs $65M
$65M		$35M xs $30M
$30M	ALL RISK ONLY	$20M xs $10M
$10M		$10M