



**Metro**

Metropolitan Transportation Authority

One Gateway Plaza  
Los Angeles, CA 90012-2952

213.922.2  
metro.net

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**FINANCE AND BUDGET COMMITTEE  
APRIL 19, 2006**

**SUBJECT: INSURANCE PROGRAM FOR OPERATIONS**

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

**RECOMMENDATION**

Authorize the Chief Executive Officer to purchase All Risk Property insurance policies and a Boiler and Machinery insurance policy for all Metro property for a not to exceed combined cost of \$4.1 million for the 12-month period effective May 10, 2006 through May 9, 2007.

**RATIONALE**

Our insurance broker, Aon Risk Services, is responsible for marketing the property program to qualified insurance carriers. Final quotations have been received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims. After Board approval, the CEO or designee will execute the binding of 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 year, preliminary quotations from underwriters have indicated 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 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.

Our insurance broker, Aon Risk Services, is responsible for marketing the property program to qualified insurance carriers. Final quotes have been received for the property insurance program based on the recommendation made to the Board in March of 2006.

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 for Atlantic hurricanes in 2004 continue to add upward pressure on property insurance rates.

The final 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 \$75 million for floods. Attachment A includes a graphic representation of the various options, a premium history and an outline of the final insurance program premiums and participants.

Preliminary 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 in preliminary negotiations with the carriers 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.

**FINANCIAL IMPACT**

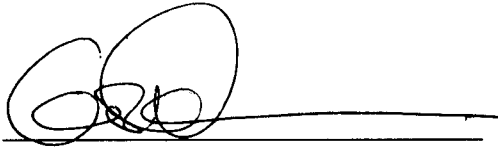
Funding for two months of this \$4.0 Million in premiums is incorporated into the FY06 budget. The remaining 10 months of premiums will be included in the FY07 budget cost center 0531, Risk Management – Non Departmental Costs, under projects 301001 Bus Operations – San Fernando Valley (SFV), 302001 – 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, and 300044, Rail Operations – Red Line, 300055, Rail Operations - Gold Line and 610061 – Owned Property. In FY06, \$4.6 million will be expensed on this item.

**ALTERNATIVES CONSIDERED**

The following table compares the current program, the final recommended program, the preliminary recommended program and two preliminary 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 below.

|                   | <b>Current Program (FY06)</b>                                     | <b>Recommended Program Final Pricing (FY07)</b>    | <b>Recommended Program Preliminary</b>             | <b>Option B Preliminary</b>                                       | <b>Option C Preliminary</b>                                       |
|-------------------|---|--|--|---|---|
| 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 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   | \$300 Million   |
| Earthquake Limits | \$30 Million  | None   | None   | \$30 Million  | \$50 Million after first \$50 million of self-insured retention   |
| Flood Limits      | \$65 Million  | \$75 Million                                       | \$65 Million                                       | \$65 Million  | As Earthquake Limits  |
| <b>Premium</b>    | <b>\$4,668,339</b>  | <b>\$4,027,228</b>                                 | <b>\$4,200,000</b>                                 | <b>\$7,000,000</b>  | <b>\$6,000,000</b>  |

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Greg Kildare  
Executive Officer, Risk Management

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Roger Snoble  
Chief Executive Officer

**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  | \$4.0 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

**FINAL PRICING AND CARRIERS**

| Excess Limit         | Layer(s)  | Policy Limit            | Carrier               | Line %   | Premium               | Premium w/ Taxes and Fees |                   |
|----------------------|---|-------------------------|-----------------------|--|-----------------------|---------------------------|-------------------|
| <b>\$300M</b>        | <b>ALL RISK EXCLUDING EARTHQUAKE AND FLOOD</b>      | <b>\$200M xs \$100M</b> | \$ 25,000,000         | CNA  | 12.50%                | \$ 75,000                 | \$ 75,000         |
|                      |   |                         | \$ 50,000,000         | Axis   | 25.00%                | \$ 150,000                | \$ 154,838        |
|                      |   |                         | \$ 12,000,000         | GEP  | 6.00%                 | \$ 36,000                 | \$ 37,161         |
|                      |   |                         | \$ 25,000,000         | Commonwealth   | 12.50%                | \$ 75,000                 | \$ 77,419         |
|                      |   |                         | \$ 45,000,000         | Arch   | 22.50%                | \$ 135,000                | \$ 139,354        |
|                      |   |                         | \$ 23,000,000         | OneBeacon (Swett)  | 11.50%                | \$ 69,000                 | \$ 71,225         |
|                      |   |                         | \$ 15,000,000         | RSUI (Swett)   | 7.50%                 | \$ 45,000                 | \$ 46,451         |
|                      |   |                         | \$ 5,000,000          | GMAC (Swett)   | 2.50%                 | \$ 15,000                 | \$ 15,484         |
|                      |   |                         | <b>\$ 200,000,000</b> | <b>Layer Total</b>   | <b>100.00%</b>        | <b>\$ 600,000</b>         | <b>\$ 616,931</b> |
|                      |   |                         | <b>\$100M</b>         | <b>ALL RISK INCLUDING \$50M FLOOD &amp; EXCLUDING QUAKE.</b> | <b>\$75M xs \$25M</b> | \$ 7,500,000              | CNA               |
| \$ 5,000,000         | GEP   | 6.67%                   |                       |  |                       | \$ 80,000                 | \$ 82,580         |
| \$ 15,000,000        | Commonwealth  | 20.00%                  |                       |  |                       | \$ 240,000                | \$ 247,740        |
| \$ 5,000,000         | Arch  | 6.67%                   |                       |  |                       | \$ 80,000                 | \$ 82,580         |
| \$ 5,000,000         | James River (Swett)                                 | 6.67%                   |                       |  |                       | \$ 80,000                 | \$ 82,580         |
| \$ 5,000,000         | Zurich  | 6.67%                   |                       |  |                       | \$ 80,000                 | \$ 82,580         |
| \$ 15,000,000        | GMAC (Swett)  | 20.00%                  |                       |  |                       | \$ 240,000                | \$ 247,740        |
| \$ 5,000,000         | OneBeacon (Swett)                                   | 6.67%                   |                       |  |                       | \$ 80,000                 | \$ 82,580         |
| \$ 5,000,000         | Ace/Westchester (Swett)                             | 6.67%                   |                       |  |                       | \$ 80,000                 | \$ 82,580         |
| \$ 7,500,000         | Endurance (Swett)                                   | 10.00%                  |                       |  |                       | \$ 120,000                | \$ 123,870        |
| <b>\$ 75,000,000</b> | <b>Layer Total</b>                                  | <b>100.00%</b>          | <b>\$ 1,200,000</b>   | <b>\$ 1,234,830</b>  |                       |                           |                   |
| <b>\$25M</b>         | <b>ALL RISK INCLUDING FLOOD &amp; EXCLUDING EQ.</b> | <b>\$25M Primary</b>    | \$ 25,000,000         | LEXINGTON  | 100.00%               | \$ 2,167,725              | \$ 2,167,725      |
|                      |   |                         |                       |  |                       |                           |                   |
|                      |   |                         |                       | 100.00%  | \$ 3,900,000          | \$ 4,019,486              |                   |
|                      |   | 75 xs 25                | B&M                   |  | \$ 7,500              | \$ 7,742                  |                   |
|                      |   |                         |                       |  | \$ 3,907,500          | \$ 4,027,228              |                   |

**Current Program Structure (FY06):** Metro fully insures up to \$300 Mil after a \$250,000 deductible. \$30 Mil EQ and \$65 Mil FL. No Self-Insured Retention

**Final Recommended Program (FY07):** Metro fully insures up to \$300 Mil after a \$250,000 deductible. \$75 Mil FL. No Self-Insured Retention

**Preliminary Recommended Program (FY07):** Metro fully insures up to \$300 Mil after a \$250,000 deductible. \$65 Mil FL. No Self-Insured Retention

**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

**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       | \$75M xs<br>\$225M |
| \$225M       | \$140M xs<br>\$85M |
| \$85M        | \$20M xs<br>\$65M  |
| \$65M        | \$35M xs<br>\$30M  |
| \$30M        | \$20M xs<br>\$10M  |
| \$10M        | \$10M              |

| Excess Limit | Layer(s)            |
|--------------|---------------------|
| \$300M       | \$200M xs<br>\$100M |
| \$100M       |                     |
| \$75M        | \$75M xs<br>\$25M   |
| \$25M        | \$25M               |

| Excess Limit | Layer(s)           |
|--------------|--------------------|
| \$300M       | \$75M xs<br>\$225M |
| \$225M       | \$140M xs<br>\$85M |
| \$85M        | \$20M xs<br>\$65M  |
| \$65M        | \$35M xs<br>\$30M  |
| \$30M        | \$20M xs<br>\$10M  |
| \$10M        | \$10M              |

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| \$85M        | \$20M xs<br>\$65M  |
| \$65M        | \$35M xs<br>\$30M  |
| \$30M        | \$20M xs<br>\$10M  |
| \$10M        | \$10M              |

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| \$85M        | \$20M xs<br>\$65M  |
| \$65M        | \$35M xs<br>\$30M  |
| \$30M        | \$20M xs<br>\$10M  |
| \$10M        | \$10M              |