



**Metro**

**FINANCE AND BUDGET COMMITTEE  
MARCH 14, 2007**

**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 All Risk Property insurance policy and Boiler and Machinery insurance policy for all Metro property will expire on May 10, 2007. This report summarizes the current insurance marketplace for property coverage and recommends a structure for the replacement policy.

**DISCUSSION**

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

Property insurance protects against losses to Metro's structures and improvements, which are valued at almost \$7 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.

The past several years have 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. Despite a very mild hurricane season in 2006, the very large losses from Hurricanes Katrina, Dennis, Rita and Wilma eliminated capacity in the catastrophic property market that has yet to be replaced, increasing the cost of reinsurance and forcing insurance carriers to dramatically reassess their pricing for all catastrophic coverage including earthquake.

This year, earthquake coverage is only available with low limits at high premiums; \$30 million in limits for approximately \$3 million. In just over ten years, premiums would total more than the coverage. Therefore, this year, as in last year's renewal, the recommended program does not include earthquake coverage. Elimination of earthquake coverage is consistent with decisions made by other large organizations such 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 hurricane related property losses in New Orleans, transit, along with municipal services and utilities received priority FEMA funding for disaster relief. Therefore as in last year's property program, earthquake coverage is not recommended.

Similarly, terrorism coverage is available for approximately \$2 million. However, consistent with last year and other public agencies, this alternative is not recommended because of FEMA priority funding for transit and its relatively high cost.

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. This is the same policy as last year's renewal.

In February, the Chief Financial Services Officer, the Executive Officer of Risk Management and the Deputy Executive Officer of Strategic Development Facilities/Operations met with multiple domestic and foreign insurance including several Lloyds syndicates to present Metro's property risks and supplemental data. During the discussions we gave an overview of the system, including its extensive security infrastructure and fire protection. We also provided information and statistics on system operations, assets, and our loss history over the past 8 years (only one insurable event, the January 2001 fire at Gateway, whose estimated final cost is \$518,663) in order to demonstrate the high quality risk Metro represents in the property insurance marketplace. This marketing along with some rate softening are yielding preliminary indications of renewal rates at last year's premium for coverage as the expiring program.

**ALTERNATIVES CONSIDERED**

	<b>Current Program</b>	<b>Recommended Program</b>	<b>Option B</b>	<b>Option C</b>
Deductibles	\$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
Earthquake Limits	None	None	\$30 Million	\$50 Million after first \$50 million of self-insured retention
Flood Limits	\$65 Million	\$65 Million	\$65 Million	As Earthquake Limits
<b>Total Not to Exceed Premium</b>	<b>\$4,027,228</b>	<b>\$4,027,228</b>	<b>\$7,000,000</b>	<b>\$6,000,000</b>

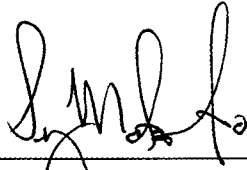
**NEXT STEPS**

We will return to the Board for approval in April 2007 for approval of final pricing and insurers for the recommended property insurance program.

**ATTACHMENTS**

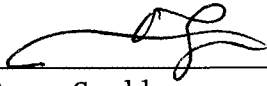
A. PREMIUM HISTORY AND FY07 FINAL PRICING

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Terry Matsumoto  
Chief Financial Services Officer and Treasurer



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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	FY07	FY08 Est
All Risk	\$4.7 Mil	\$5.4 Mil	\$5.5 Mil	\$4.8 Mil	\$4.6 Mil	\$3.9 Mil	\$3.9 Mil
Boiler & Machinery	\$135,000	\$135,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
<b>Total Premium</b>	<b>\$4.8 Mil</b>	<b>\$5.5 Mil</b>	<b>\$5.6 Mil</b>	<b>\$4.9 Mil</b>	<b>\$4.7 Mil</b>	<b>\$4.0 Mil*</b>	<b>\$4.0 Mil*</b>
TIV = Total Ins. Val.	\$5.0 Bil	\$5.2 Bil	\$5.8 Bil	\$6.0 Bil	\$6.5 Bil	\$6.7 Bil	\$6.7 Bil

\* Excludes Earthquake Insurance

**F07 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
			\$ 200,000,000	<b>Layer Total</b>	<b>100.00%</b>	\$ 600,000	\$ 616,931
			<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
\$ 75,000,000	<b>Layer Total</b>	<b>100.00%</b>	\$ 1,200,000	\$ 1,234,830			
<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	

