Los Angeles County
Metropolitan Transportation Authority

One Gateway Plaza
Los Angeles, CA 90012-2952

213.922.9200 Te
213.922.9201 Fa
metro.net

17

Metro

FINANCE AND BUDGET COMMITTEE
JUNE 20, 2007

SUBJECT: INSURANCE PROGRAM FOR OPERATIONS

ACTION: RATIFY PURCHASE OF ALL RISK PROPERTY AND BOILER AND MACHINERY INSURANCE

RECOMMENDATION

Ratify the Chief Executive Officer's purchase of All Risk Property insurance policies and a Boiler and Machinery insurance policy for all Metro property for a not to exceed combined cost of $3.2 million for the 12-month period effective May 10, 2007 through May 9, 2008.

RATIONALE

A quorum was not available at the April Board meeting to approve the property insurance renewal item on April's consent calendar. In order to maintain coverage continuity, the Chief Executive Officer bound coverage and authorized payment of premiums to the carriers shown on Attachment A.

A coverage lapse would have exposed nearly $7 billion in property values to unlimited losses. In addition, property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating facilities.

Metro's 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.

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. This has increased the cost of reinsurance and forced 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; $25 million in limits at a cost over $2 million. In just over 10 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 $850,000. 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 $100 million for floods. Attachment A includes a graphic representation of the various options, a premium history and an outline of the current program structure.

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 companies, including several Lloyds syndicates, to present Metro's property risks and supplemental data. During the discussions we gave an overview of our 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.

Globally, property insurance rates have softened with most renewals seeing 0% to 10% declines. Metro's extensive marketing effort, however, yielded a 20% decline in total premium, a far better result than the general market trends.

FINANCIAL IMPACT

Funding for two months of this $3.2 Million in premiums is incorporated into the FY07 budget. The remaining 10 months of premiums will be included in the FY08 budget, cost center 0531, Risk Management – Non Departmental Costs, under projects 100001 – General Overhead, 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 FY07, $4.0 million will be expensed on this item.

ALTERNATIVES CONSIDERED

The following table compares the current program, the recommended program with final pricing and terms, and the three preliminary options reported to the Board in March 2007.

	Current Program	**Recommended Program - Final Pricing**	**Recommended Program - Preliminary Pricing**	**Option B - Preliminary Pricing**	**Option C - Preliminary Pricing**
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 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	None	None	None	$30 Million	$50 Million after first $50 million of self-insured retention
Flood Limits	$65 Million	$100 Million	$65 Million	$65 Million	As Earthquake Limits
Total Not to Exceed Premium	**$4,027,228**	**$3,192,188**	**$4,027,228**	**$7,000,000**	**$6,000,000**

ATTACHMENTS

A. PREMIUM HISTORY AND FY08 FINAL PRICING

Prepared by: Greg Kildare, Executive Officer, Risk Management

Terry Matsumoto
Chief Financial Services Officer and Treasurer

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	$3.2 Mil
Boiler & Machinery	$135,000	$135,000	$100,000	$100,000	$100,000	$100,000	See Below
Total Premium	$4.8 Mil	$5.5 Mil	$5.6 Mil	$4.9 Mil	$4.7 Mil	$4.0 Mil*	$3.2 Mil*
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

Boiler and Machinery coverage for FY08 was bundled into the primary layer premium and not estimated separately.

* Excludes Earthquake Insurance

FY08 FINAL PRICING AND CARRIERS

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
PRIMARY/EXCESS PROPERTY
POLICY TERM: MAY 10, 2007 TO MAY 10, 2008

Excess Limit	Layer(s)		Participation	Carrier	Premium	Estimated Taxes	Total Cost	Best Rating
$300M	ALL RISK EXCLUDING EARTHQUAKE AND FLOOD	$200M XS $100M	$ 50,000,000	CNA	$ 150,000	$ -	$ 150,000	A XV
			50,000,000	Axis	150,000	4,688	154,688	A XV
			50,000,000	Commonwealth	150,000	4,688	154,688	A- IX
			50,000,000	Arch	150,000	4,688	154,688	A- XV
$100M	ALL RISK INCLUDING FLOOD & EXCLUDING EQ.	$25M Primary	$ 100,000,000	**LEXINGTON**	2,500,000	78,125	2,578,125	A+ XV
					$ 3,100,000	**$ 92,188**	**$ 3,192,188**	