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FINANCE AND BUDGET COMMITTEE
MARCH 19, 2008

SUBJECT: PROPERTY INSURANCE PROGRAM FOR OPERATIONS

ACTION: RECEIVE AND FILE

RECOMMENDATION

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

ISSUE

The All Risk Property insurance policy and Boiler and Machinery insurance policy for all of our property will expire on May 10, 2008. 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 our 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 property insurance market, outside of catastrophic exposures such as hurricane, earthquake and flood coverage, will continue to stay soft. Despite a very mild hurricane season the past three years now, the very large losses from Hurricanes Katrina, Dennis, Rita and Wilma eliminated capacity in the catastrophic property market that may not be replaced as insurers have developed new catastrophic loss models that have increased the estimated costs for such events. Reinsurers have particularly raised rates, causing primary insurers 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.

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 $100 million for flood. 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 staff and Aon Risk Services met with multiple domestic and foreign insurance providers including several Lloyds syndicates to present our 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 eight years (only one fixed property insurable event, the January 2001 fire at Gateway, whose estimated final cost is $518,663), in order to demonstrate the high quality risk that we represent in the property insurance marketplace. This marketing along with some rate softening are indicating renewal rates at last year's premium for coverage as the expiring program even though insured values have gone up. Further, increasing interest from underwriters to participate could yield additional insurers as well as increased capacity in the primary layer.

ALTERNATIVES CONSIDERED

	Current Program	Recommended Program	Option B	Option C
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	$100 Million	$100 Million	$100 Million	As Earthquake Limits
Total Not to Exceed or Actual Premium	**$3,192,188**	**$3,200,000**	**$5,200,000**	**$4,200,000**

NEXT STEPS

We will return to the Board for approval in April 2008 for approval of final pricing and insurers for the recommended property insurance program.

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	FY09 est.
All Risk	$4.7 Mil	$5.4 Mil	$5.5 Mil	$4.8 Mil	$4.6 Mil	$3.9 Mil	$3.1 Mil	$3.1 Mil
Boiler & Machinery	$135,000	$135,000	$100,000	$100,000	$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*	$3.2 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	$7.0 Bil

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	Line %	Premium	Estimated Taxes	Total Cost	Carrier Status	Compan AmBes Rating
$300M	ALL RISK EXCLUDING EARTHQUA AND FLOOD	$200M xs $100M	$ 50,000,000	CNA	25.00%	$ 150,000	$ -	**$ 150,000.00**	Admitted	A XV
			$ 50,000,000	Axis Surplus Ins.	25.00%	$ 150,000	$ 4,687.50	**$ 154,687.50**	Non Admitted	A XV
			$ 50,000,000	Commonwealth Ins. Company	25.00%	$ 150,000	$ 4,687.50	**$ 154,687.50**	Non Admitted	A- IX
			$ 50,000,000	Arch Specialty Insurance	25.00%	$ 150,000	$ 4,687.50	**$ 154,687.50**	Non Admitted	A- XV
			$ 200,000,000	**Layer Total**	**100.00%**	**$ 600,000**	**$ 14,062.50**	**$ 614,062.50**		
$100M	ALL RISK INCLUDING FLOOD & EXCLUDING EQ.	$100M Primary	$ 100,000,000	**LEXINGTON**	100.00%	$ 2,500,000	$ 78,125.00	**$ 2,578,125**	Non Admitted	A+ XV
			$ 100,000,000	**Layer Total**	**100.00%**	**$ 2,500,000**	**$ 78,125.00**	$ 2,578,125.00		
					Total	$ 3,100,000.00	$ 92,187.50			
							Total Program Cost	**$3,192,187.50**		