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**FINANCE AND BUDGET COMMITTEE  
APRIL 16, 2008**

**SUBJECT: PROPERTY 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 our property for a not to exceed combined cost of \$2.3 million for the 12-month period effective May 10, 2008 through May 9, 2009.

**RATIONALE**

**Discussion**

Last month, we presented a Receive and file Board report outlining preliminary insurance quotations while our insurance broker, Aon Risk Services, continued marketing the property program to qualified insurance carriers to obtain final property insurance pricing. Final quotations for the property insurance program recommended last month have now been received from carriers with A.M. Best ratings indicative of acceptable financial soundness and ability to pay claims.

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, 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, in particular, have raised rates, causing primary insurers to dramatically reassess their pricing for all catastrophic coverage including earthquakes.

This year, earthquake coverage is only available with low limits at high premiums; \$30 million in limits for approximately \$2 million. 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 Bay Area Rapid Transit, 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.

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 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 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 have yielded pricing and insurance limits at least as favorable as last year even though insured values have increased. Globally, property insurance rates have softened with most renewals seeing 0% to 10% declines. Our extensive marketing effort, however, yielded almost a 30% decline in total premium, a far better result than the general market trends.

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 \$150 million for flood (an increase of \$50 million in limits). Attachment A includes a graphic representation of the premium history, final pricing and carriers for this year's property insurance renewal.

**FINANCIAL IMPACT**

Funding for two months of this \$2.2 million in premiums is incorporated into the FY08 budget. The remaining 10 months of premiums will be included in the FY09 budget, cost center 0531, Risk Management – Non Departmental Costs, under projects 100090 – Gateway Building Costs, 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 FY08, \$3.0 million will be expensed on this item.

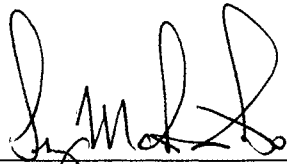
**ALTERNATIVES CONSIDERED**

	<b>Current Program</b>	<b>Current Program - Final Pricing</b>	<b>Recommended Program - Preliminary Pricing</b>	<b>Option B - Preliminary Pricing</b>	<b>Option C - Preliminary Pricing</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 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	\$100 Million	\$150 Million	\$100 Million	\$100 Million	As Earthquake Limits
<b>Total Not to Exceed or Actual Premium</b>	<b>\$3,192,188</b>	<b>\$2,245,833</b>	<b>\$3,200,000</b>	<b>\$5,200,000</b>	<b>\$4,200,000</b>

**ATTACHMENT**

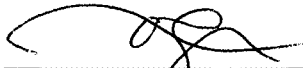
A. PREMIUM HISTORY AND FY09 FINAL PRICING

Prepared by: Greg Kildare, Executive Officer Risk Management



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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	FY09
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*	\$2.2 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

\* Excludes Earthquake Insurance

**FY09 FINAL PRICING AND CARRIERS**

Excess Limit	Layer(s)	Participation	Carrier	Premium	Estimated Taxes	Carrier Status	Company AmBest Rating	
\$150M	ALL RISK EXCLUDING EARTHQUAKE AND FLOOD	\$150M x's \$150M	\$ 50,000,000	Commonwealth Insurance Co.	\$ 100,000	\$ 3,125	Non Admitted	A- IX
			\$ 50,000,000	Continental Casualty (C.N.A.)	\$ 100,000	\$ -	Admitted	A XV
			\$ 50,000,000	Axis Surplus Insurance Co.	\$ 100,000	\$ 3,125	Non Admitted	A- IX
			\$ 150,000,000	Layer Total	\$ 300,000	\$ 6,250		
\$150M	ALL RISKS INCLUDING FLOOD EXCLUDING EARTHQUAKE	\$150M Primary	\$ 100,000,000	LEXINGTON	\$ 1,266,667	\$ 39,583	Non Admitted	A+ XV
			\$ 50,000,000	LIBERTY MUTUAL	\$ 633,333	\$ -	Admitted	A+ XV
			\$ 100,000,000	Layer Total	\$ 1,900,000	\$ 39,583		
				\$ 2,200,000	\$ 45,833			
					\$ 2,245,833			