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FINANCE AND BUDGET COMMITTEE

APRIL 15, 2009

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 and Boiler and Machinery insurance policies for all property, at a not to exceed price of \$2.4 million for the 12-month period effective May 10, 2009 through May 9, 2010.

RATIONALE

The All Risk Property and Boiler and Machinery insurance policies expire on May 10, 2009. Property insurance protects against losses to our structures and improvements, which are valued at almost \$7.6 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.

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.

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 for losses except \$150 million for flood related damages. Attachment A is a premium history. Attachment B shows the outline of the current program structure. The Recommended Program is the same policy structure as last year's renewal. Attachment C outlines the carriers contacted with their associated A.M. Best rating.

The current program of insurance is a layered structure in that several insurance carriers participate with each contributing a portion of coverage. Carriers affiliated with the American International Group of insurance companies (AIG) are currently part of the program of insurance. Continual monitoring through internal methods as well as updates provided by our insurance broker ensure that all carriers maintain the required financial ratings indicated by financial reporting agencies and as determined by A.M Best. AIG meets the ratings requirement at this time.

In February, the staff and Aon Risk Services met with multiple domestic and foreign insurance providers, including several Lloyd's of London syndicates, to present our property risks and supplemental data. During the discussions we provided 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 the Gateway building, whose estimated final cost is \$518,663 and one loss of rolling stock currently estimated at \$750,000), in order to demonstrate the high quality risk that we offer to the property insurance marketplace.

FINANCIAL IMPACT

Funding for two months of this \$2.3 million in premiums is incorporated into the FY09 budget. The remaining 10 months of premiums will be included in the FY10 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 FY09, \$2.3 (est.) million will be expensed on this item.

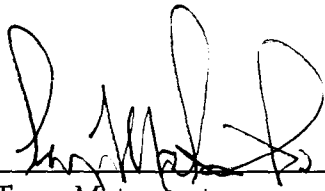
ALTERNATIVES CONSIDERED

	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	\$150 Million	\$150 Million	\$150 Million	As Earthquake Limits
Total Not to Exceed or Actual Premium	\$2,245,834	\$2,331,583	\$5,000,000	\$4,500,000

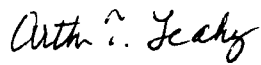
ATTACHMENTS

- A. PREMIUM HISTORY
- B. FY10 FINAL PRICING
- C. CARRIERS CONTACTED

Prepared by: Greg Kildare, Executive Officer Risk Management



Terry Matsumoto
Chief Financial Services Officer and Treasurer



Arthur T. Leahy
Chief Executive Officer

ATTACHMENT A

PREMIUM HISTORY

	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
All Risk	\$5.4 Mil	\$5.5 Mil	\$4.8 Mil	\$4.6 Mil	\$3.9 Mil	\$3.1 Mil	\$2.1 Mil	\$2.2 Mil
Boiler & Machinery	\$135,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Premium	\$5.5 Mil	\$5.6 Mil	\$4.9 Mil	\$4.7 Mil	\$4.0 Mil*	\$3.2 Mil*	\$2.2 Mil*	\$2.3 Mil*
TIV = Total Ins. Val.	\$5.2 Bil	\$5.8 Bil	\$6.0 Bil	\$6.5 Bil	\$6.7 Bil	\$6.7 Bil	\$6.9 Bil	\$7.6 Bil**

* Excludes Earthquake Insurance

** Includes approximately \$400 Mil for Eastside Extension improvements

ATTACHMENT B

FY10 FINAL PRICING AND CARRIERS

LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY
 PRIMARY/EXCESS PROPERTY
 POLICY TERM: MAY 10, 2009 TO MAY 9, 2010

Excess Limit	Layer(s)	Participation	Carrier	Line %	Premium	Estimated Taxes	Layer Price	Carrier Status	Company AmBest Rating		
\$150M	ALL RISK EXCLUDING EARTHQUAKE AND FLOOD	\$150M X \$150M (Quota Share)	\$ 50,000,000	Commonwealth Insurance Co.	33.33%	\$ 108,333	\$ 3,385	\$ 325,000	Non Admitted	A- IX	
			\$ 50,000,000	Continental Casualty (C.N.A.)	33.33%	\$ 108,333	\$ -	\$ 325,000	Admitted	A XV	
			\$ 50,000,000	Axis Surplus Insurance Co.	33.33%	\$ 108,333	\$ 3,385	\$ 325,000	Non Admitted	A- IX	
			\$ 150,000,000	Layer Total	100.00%	\$ 325,000					
\$150M	ALL RISKS INCLUDING FLOOD EXCLUDING EARTHQUAKE	\$150M Primary (Quota Share)	\$ 100,000,000	LEXINGTON INSURANCE	66.67%	\$ 1,306,000	\$ 40,813	\$ 1,959,000	Non Admitted	A+ XV	
			\$ 50,000,000	LIBERTY MUTUAL FIRE	33.33%	\$ 653,000	\$ -	\$ 1,959,000	Admitted	A+ XV	
			\$ 150,000,000	Layer Total	100.00%	\$ 1,959,000					
			Total		\$ 2,284,000	\$ 47,583					
			\$ 2,331,583								

ATTACHMENT C

CARRIERS CONTACTED

<u>Company</u>	<u>A. M. Best Rating</u>
ACE Bermuda Insurance Limited	A+ (XV)
Affiliated FM Insurance Company	A+ (XV)
Allianz Global Risks US Insurance Company	A+ (XV)
Allied World Assurance Company (U.S.) Inc.	A (XV)
Arch Specialty Insurance Company	A (XV)
Ariel Reinsurance Company Ltd.	A- (XII)
Axis Surplus Insurance Company	A (XV)
Chubb Custom Insurance Company	A++ (XV)
Commonwealth Insurance Company of America	A (IX)
Continental Casualty Company	A (XV)
Crum & Forster Insurance Company	A (XIV)
Endurance American Insurance Company	A (XV)
Fireman's Fund Insurance Company	A (XV)
Global Excess Partners	Bermuda
GMAC(formerly SRO)	A- (XV)
Great American Insurance Company	A (XIII)
Hartford Insurance Group	A (XV)
Hiscox Insurance Co Ltd	A (IX)
Illinois Union Insurance Company	A+ (XV)
Insurance Company of the West	A- (IX)
James River Insurance Company	A- (VIII)
Lancashire Insurance Co (UK) Ltd	A- (XII)
Lexington Insurance Company	A (XV)
Liberty Mutual Insurance Company	A (XV)
Lloyds Syndicate (AGM 2488)	London
Lloyds Syndicate (AML 2001)	London
Lloyds Syndicate (BRT)	London
Lloyds Syndicate (CSL 1084)	London
Lloyds Syndicate (HIS 33)	London
Lloyds Syndicate (LIB 4472)	London
Lloyds Syndicate (MAP 2791)	London
Lloyds Syndicate (MSP 318)	London
Lloyds Syndicate (SJC 2003)	London
Max Re Europe Limited	A- (XIV)
Montpelier Reinsurance Ltd.	A- (XIV)
Munich American Reassurance Company	A+ (XV)
OneBeacon Insurance Company	A (XIII)
Philadelphia Insurance Company	A+ (XIII)
RLI Insurance Company	A+ (X)
RSUI Indemnity Company/Landmark	A (XII)
SCOR Reinsurance Company	A- (X)
St. Paul Travelers	A+ (XV)
Swiss Reinsurance America Corporation	A (XV)
Westchester Surplus Lines Insurance Company	A+ (XI)
XL Insurance America, Inc.	A (XV)
Zurich American Insurance Company	A (XV)

