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Metropolitan
Transportation
Authority

One Gateway Plaza
Los Angeles, CA
90012-2952

OPERATIONS COMMITTEE
MARCH 14, 2001

SUBJECT: PROPERTY INSURANCE PROGRAM FOR OPERATIONS

ACTION: PURCHASE ALL RISK PROPERTY INSURANCE

RECOMMENDATION

Authorize the CEO to negotiate and award All Risk Property insurance policy and Boiler & Machinery insurance policy for all MTA property, other than construction sites, for a cost not to exceed \$5.5 million, for a 12 month period effective May 10, 2001 to May 10, 2002.

RATIONALE

Without the property insurance program MTA could:

- Lose eligibility for FEMA contributions for property loss disasters
- Be in violation of contracts/agreements requiring the MTA to carry insurance

FINANCIAL IMPACT

Funding for two months of this \$5,500,000 procurement is incorporated into the FY 01 budget. The remaining 10 months will be included in the FY 02 budget in cost center 0531, Risk Management - Non Departmental Costs, under projects 300011, Bus Operations, 300022 Rail Operations - Blue Line, 300033, Rail Operations - Green Line, and 300044, Rail Operations, Red Line. In FY00 \$3.4 million was expended on this item.

ALTERNATIVES CONSIDERED

There are no viable alternatives to renewing the property insurance program because the MTA is contractually obligated to maintain the coverage.

Due to adverse changes in the property insurance market, and the fact that MTA's property is located in a high-earthquake exposure zone, we are facing a significant increase in premium, as are all other insureds. Globally, the increase in property premiums is most dramatic in areas with high catastrophic exposures.

Staff considered various options on the level of deductibles and limits of coverage (see chart below). The option of maintaining the existing \$100 million earthquake limit ("As Expiring" option) was rejected because the additional premium would not justify exceeding FEMA requirement. The option of increasing earthquake deductible from 5% per unit to 10% per unit (option B) was rejected because the premium savings would not justify the increased risk in the event of a catastrophic event. The option of increasing the all-risk deductible (other than earthquake and flood) from \$100,000 to \$250,000 (Option C) was rejected because the corresponding premium saving was minimal.

The proposed option reduces earthquake and flood limits to a level required by FEMA, but maintains the same limits for all other exposures, at a premium that will not exceed \$5.5 million.

	"As Expiring"	Option B	Option C	Proposed
Limits/Deductibles:				
All Risk (Except EQ and Flood)	\$450 mil. / \$100,000*	\$450 mil. / \$100,000*	\$450 mil. / \$250,000*	\$450 mil. / \$100,000*
Earthquake and Flood	\$100 mil. / 5%	\$100 mil. / 10%	\$65 mil. / 5%	\$65 mil. / 5%
Not to Exceed Premium	\$6 mil.	\$5.75 mil.	\$5.4 mil.	\$5.5 mil.

* - \$250,000 deductible for rolling stock; \$5,000 for non-revenue vehicles

BACKGROUND

The MTA's non-construction 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 above are based on current market expectations. Staff will review all quotes received by the broker to ensure that the policy has been adequately marketed and identify the carrier offering the best terms and price. After analyzing options and the broker's recommendations, Staff will provide opinions and supporting analyses to the CEO prior to executing the policy.

The terms of the proposed coverage as compared to the expiring program are summarized in Attachment A. The recommended insurance program is designed to:

- Purchase \$450 million in All Risk Property insurance to cover building structures and rolling stock.
- Provide real property insurance coverage for Earthquake and Flood to \$65 million.
- Insure boiler and machinery assets to protect against financial loss.

Despite favorable loss history, due to changing market conditions, the premium rate has increased from \$0.07 to \$0.115 (not-to-exceed) per \$100 of value. The chart below indicates our premium history for the last four years.

PREMIUM HISTORY FOR PROPERTY AND BOILER AND MACHINERY POLICIES ENDING IN THE FOLLOWING FISCAL YEARS				
	FY98	FY99	FY00	FY 01 (Current)
All Risk Property	\$3.22 Mil	\$3.77 Mil	\$2.53 Mil	\$3.33 Mil
Boiler & Machinery	104,750	\$88,000	\$85,000	\$99,567
Total Premium	\$3.33 Mil	\$3.68 Mil	\$2.6 Mil	\$3.4 Mil
(TIV=Total Insurable Values)	(TIV\$2.95 Bil)	(TIV \$3.42 Bil)	(TIV \$3.97)	(TIV \$4.80 Bil)
Rate per \$100 of values	\$0.11	\$0.11	\$0.07	\$0.07

Note: TIV – Total Insurable Values


 Roobik Galoosian
 Managing Director
 Risk Management


 Richard D. Brumbaugh
 Chief Financial Officer



Los Angeles County Metropolitan Transportation Authority
May 10, 2001 to 2002
Property Premium Not To Exceed Proposal

	Present Program	Proposed Program
Type of Insurance:	Commercial Property Insurance	Commercial Property Insurance
Policy Period:	May 10, 2000 to May 10, 2001	May 10, 2001 to May 10, 2002
Covered Property:	All property, owned in whole or in part by the insured including bullion, manuscripts, scheduled bridges and tunnels, all rolling stock including motor coaches, commercial vehicles, passenger cars, non-revenue vehicles, rail cars, car movers, high rail PU, metro-rail light rail vehicles (red, blue and green lines), extra expense	All property, owned in whole or in part by the insured including bullion, manuscripts, scheduled bridges and tunnels, all rolling stock including motor coaches, commercial vehicles, passenger cars, non-revenue vehicles, rail cars, car movers, high rail PU, metro-rail light rail vehicles (red, blue and green lines), extra expense
Total Insurable Values:	\$4,792,041,482	\$4,797,464,495
Covered Perils:	MTA manuscript form. All Risks of Direct Physical Loss Including Earthquake and Flood except those specifically excluded	MTA manuscript form. All Risks of Direct Physical Loss Including Earthquake and Flood except those specifically excluded
Deductible:		
Per Occurrence all property excluding Rolling Stock	100,000	100,000
Earthquake - Replacement Value at the time of loss per unit of insurance including the value of foundations subject to \$250,000 minimum per occurrence	5%	5%
Rolling Stock - Per occurrence, all perils all rail cars	250,000	250,000
Rolling Stock - per occurrence, all perils, motor coaches	250,000	250,000
Rolling Stock - per occurrence, all perils, all other vehicles	5,000	5,000



Los Angeles County Metropolitan Transportation Authority
May 10, 2001 to 2002
Property Premium Not To Exceed Proposal

	Present Program	Proposed Program
Valuation Clause:	<u>Replacement Cost</u> Patterns & Dies (if actually replaced) Manuscripts, Mechanical Drawings, Patterns, Electronic Data Processing Media, Books of Accounting and other Valuable Papers (if actually replaced) Property of Other while in the care, custody or control of the named insured	<u>Replacement Cost</u> Patterns & Dies (if actually replaced) Manuscripts, Mechanical Drawings, Patterns, Electronic Data Processing Media, Books of Accounting and other Valuable Papers (if actually replaced) Property of Other while in the care, custody or control of the named insured
	<u>Actual Cash Value</u> Surplus Commercial Vehicles over 9 years old.	<u>Actual Cash Value</u> Surplus Commercial Vehicles over 9 years old.
Major Exclusions:	<input type="checkbox"/> Millennium Endorsement <input type="checkbox"/> Tunnel Operations known as MOS – 3 (Hollywood Hills Extension) <input type="checkbox"/> Light Rail Operations known as Pasadena Line Extension	<input type="checkbox"/> Millennium Endorsement <input type="checkbox"/> Tunnel Operations known as MOS – 3 (Hollywood Hills Extension) <input type="checkbox"/> Light Rail Operations known as Pasadena Line Extension
Policy Territory:	Property wherever located within the State of California	Property wherever located within the State of California
Notice of Cancellation:	Sixty days (60) days Notice of Cancellation except for non-payment of premium ten (10) days provided	Sixty days (60) days Notice of Cancellation except for non-payment of premium ten (10) days provided