

**Metro**Los Angeles County
Metropolitan Transportation AuthorityOne Gateway Plaza
Los Angeles, CA 90012-2952213.922.200
metro.net**FINANCE, BUDGET AND AUDIT COMMITTEE
APRIL 18, 2012****SUBJECT: PROPERTY INSURANCE PROGRAM****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 \$2.33 million for the 12-month period May 10, 2012 through May 10, 2013.

ISSUE

The All Risk Property and Boiler and Machinery insurance policies expire on May 10, 2012.

DISCUSSION

Property insurance protects against losses to our structures and improvements, which are valued at approximately \$9.3 billion up from last year's \$8.6 billion. The increase in total insured value is due to the addition of the Orange Line Extension, revised replacement costs of two railroad bridges acquired with the purchase of Union Station last year, replacement cost growth on fixed facilities, technical changes in the calculation of rolling stock replacement costs, acceptance of an additional five light rail vehicles and general construction cost growth.

Last month, we presented a Receive and File report outlining preliminary insurance estimates while our insurance broker, Wells Fargo Insurance Services ("Wells Fargo"), marketed 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 \$350

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 recommended program structure.

The recommended program does not include earthquake coverage although we considered earthquake coverage. As in prior years, earthquake coverage is only available with low limits at high premiums. We received a stand alone earthquake premium indication from the domestic market for \$100 million in limits with a 5% per location deductible for a total premium amount of approximately \$10 million. In 10 years, premiums would equal the coverage afforded by the policies. MTA's declination 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. No coverage will mean greater reliance on federal and state assistance for recovery. Public transportation has received priority FEMA funding for disaster relief in recent natural disasters.

The current and recommended programs of insurance are layered structures in that several insurance carriers participate with each contributing a portion of coverage. 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.

In February and March, Wells Fargo contacted multiple domestic and foreign insurance providers to present our property risks and supplemental data. Wells Fargo provided an overview of the Metro transit system during discussions with the underwriters, including our extensive security infrastructure and fire protection. In order to demonstrate the high quality risk that we offer to the property insurance marketplace, we provided information and statistics on system operations, assets and our excellent loss history over the past nine years that shows no fixed property insurable events, only one loss of rolling stock at \$750,000 and only one loss of a non-revenue vehicle currently at \$75,000.

Our proactive approach of marketing directly to carriers continues to generate increased interest from underwriters. This year, an additional carrier is willing to participate in our primary layer of the program that has not previously participated. We are maintaining All Risk coverage at \$350 million per occurrence for losses while diversifying our carrier coverage in the primary layer. Accepting an additional carrier, Ironshore, into our property program diversifies our pool of carriers and will allow greater competition for our property risks in the event of future market hardening.

Prices for commercial property/casualty insurance lines rose for the fourth consecutive quarter in the fourth quarter of 2011, according to new data from New York-based Towers Watson & Co. Workers' compensation and commercial property lines saw the biggest bump in prices, each rising between 4% and 6% for the quarter. "While modest, aggregate increases in prices continued, more importantly, these increases accelerated in each quarter of 2011," said Thomas Hettinger, the property/casualty sales and

practice leader at Towers Watson. "We are now at a point where we can say the market has turned (toward higher premiums)".

Although not classified as a hard insurance market, signs of market correction are prevalent. This year's increase of 8.5% over last year's property program can be attributed in part to market rate pressures, increasing total insurable value from the addition of the Orange Line Extension and acceptance of five Breda Light Rail Vehicles. Despite the premium increase, our rates per million dollars of insurable value continue to be at historical lows.

DETERMINATION OF SAFETY IMPACT

Approval of this procurement will not impact the safety of Metro's patrons or employees.

FINANCIAL IMPACT

The funding for two months of \$388,333 for this action is included in the FY12 budget in cost center 0531, Risk Management – Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). The remaining ten months of premiums will be included in the FY13 budget, cost center 0531, Risk Management – Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 – Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 405557 – Union Station Operations, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). In FY12, an estimated \$2.1 million will be expensed on this item.

Impact to Budget

The current fiscal year funding for this action will come from Enterprise Fund for \$351,504, General Fund for \$18,896 and Internal Service Fund for \$17,933. No other sources of funds were considered for this activity because these are the funds that benefit from the insurance. This activity will slightly increase operating costs from the prior fiscal year.

ALTERNATIVES CONSIDERED

The following table compares the current program, the recommended program and three options, which are not recommended. Based upon our favorable renewal and loss histories, we recommend continuing the current program of insurance as the most cost effective and prudent program. Option B is not recommended because the high cost of the premium does not justify the benefit.

	Current Program	Recommended Program (Quota Share Primary)	Option B – With Earthquake
Deductibles	\$250,00 All Risk / 5% of location value for Flood	\$250,00 All Risk / 5% of location value for Flood	\$250,000 All Risk/5% of structure value for Earthquake and Flood
All Risk Limits	\$350 Million	\$350 Million	\$350 Million
Flood Limits	\$150 Million	\$150 Million	\$150 Million
Earthquake Limits	None	None	\$100 Million after first 5% per location deductible
Terrorism	None	None	None
Total not to Exceed or Actual Premium	\$2,101,759	\$2,286,471	\$12,286,471

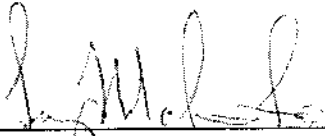
NEXT STEPS

Upon Board approval of this action, we will advise Wells Fargo to proceed with placement of the property insurance program outlined herein effective May 10, 2011.

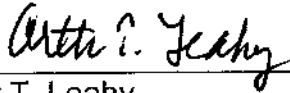
ATTACHMENTS

- A. Premium History
- B. Final Pricing and Carriers

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

Premium History for Property and Boiler and Machinery Policies
For Property Insurance Policies Ending in the Following Fiscal Years

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13 est.
All Risk	\$4.6 Mil	\$3.9 Mil	\$3.1 Mil	\$2.1 Mil	\$2.1 Mil	\$2.0 Mil	\$2.0 Mil	\$2.2 Mil
Boiler & Machinery	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Premium	\$4.7 Mil	\$4.0 Mil*	\$3.2 Mil*	\$2.2 Mil*	\$2.2 Mil*	\$2.1 Mil*	\$2.1 Mil*	\$2.3 Mil*
TIV = Total Ins. Value	\$6.5 Bil	\$6.7 Bil	\$6.7 Bil	\$6.9 Bil	\$7.6 Bil	\$7.8 Bil	\$8.6 Bil**	\$9.3 Bil***
Rate per Mil Ins. Value	\$723	\$597	\$478	\$319	\$289	\$271	\$245	\$247

* Excludes Earthquake Insurance

** Includes Expo Phase I and Los Angeles Union Station

*** Includes Metro Orange Line Extension

ATTACHMENT B

FINAL PRICING AND CARRIERS

Limit	Coverage	Carrier	Participation	Total
\$200MM	All Risk Excluding Flood & Earthquake	AXIS Insurance Company - A XV	\$50,000,000	\$108,000
		Hudson Specialty Insurance Co* - A XV	\$50,000,000	\$111,510
		Continental Casualty Company - A XV	\$50,000,000	\$108,000
		Starr Specialty Insurance Agency**	\$50,000,000	\$111,510
			\$200,000,000	\$439,020
\$150MM	All Risk Excluding Earthquake	Lexington Insurance Co - A XV	\$100,000,000	\$1,238,130
		Liberty Mutual Fire Insurance Co- A XV	\$25,000,000	\$299,789
		Starr Specialty Insurance Agency**	\$15,000,000	\$185,720
		Ironshore Specialty Ins Co - A- XIII	\$10,000,000	\$123,812
			\$150,000,000	\$1,847,451

Estimated Program Total \$2,286,471

Notes:

*Commonwealth is renewing their policy on Hudson Specialty Insurance Company paper.

**Star Specialty Insurance Agency consists of:

- 33.34% Starr Suplus Lines Insurance Company - A XV
- 33.33% Chubb Custom Insurance Company - A++ XV
- 33.33% General Security Indemnity Company of Arizona - A XV