

**Metro**Los Angeles County
Metropolitan Transportation AuthorityOne Gateway Plaza
Los Angeles, CA 90012-2952213.922.2000 Tel
metro.net**FINANCE, BUDGET AND AUDIT COMMITTEE
APRIL 15, 2015****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 the current policy limits at a not to exceed price of \$2.4 million for the 12-month period May 10, 2015 through May 10, 2016.

ISSUE

The All Risk Property and Boiler and Machinery insurance policies expire on May 10, 2015.

DISCUSSION

Property insurance protects against losses to our structures and improvements, which are valued at approximately \$10.9 billion up from last year's \$9.6 billion. The increase in total insured value is due primarily to the addition of the Exposition Phase II and Gold Line Foothill Extension Phase I light rail lines/maintenance facilities, new light rail vehicles and general replacement cost growth. Division 13 is already included in Metro's insurance program. Property insurance is required by many contracts and agreements, such as our lease/leaseback deals involving a number of our operating assets.

Our insurance broker, Wells Fargo Insurance Services ("Wells Fargo"), marketed the property program to qualified insurance carriers to obtain final property insurance pricing. In addition to our current coverage limits of \$350 million, we asked for quotes for an additional layer of \$50 million in limits. Coverage for the Expo and Gold Line extensions is included on a two month prorated basis. Quotations for both property insurance programs were 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 for flood related damages that are covered up to \$150 million. The program is the same as the prior year program. Attachment A is a premium history. Attachment B shows the outline of the recommended program structure.

The Enhanced Program All Risk coverage is provided up to \$400 million per occurrence for losses with no earthquake coverage and the same deductible and flood damage provisions. Attachment C shows the outline of the enhanced program structure.

Both programs quoted do not include earthquake coverage. We received quotes at \$4.5 million for \$50 million in limits. LACMTA has not purchased earthquake coverage in previous years. In the event of a major disaster, we believe funding would be available through Federal and State sources to restore public transportation in Southern California. The lack of earthquake coverage is consistent with decisions made by other large government agencies including most Los Angeles County and City locations, Department of Water and Power, Metropolitan Water District and San Francisco BART.

We evaluated terrorism coverage options this renewal cycle and have not opted to purchase the coverage. Terrorism coverage is available but does not appear to be cost effective at a quoted cost of around \$350,000. The Terrorism Risk Insurance Act (TRIA) which provides government support by providing mechanisms for spreading losses across policyholders was reauthorized by Congress in January after the program expired. In the past, we rejected this coverage because of the high likelihood of federal and state funding to restore transportation services as a result of a serious terrorism incident.

The current, recommended and enhanced programs of insurance are layered structures. Several insurance carriers participate in the program with each contributing a portion of coverage. Continual monitoring through internal methods, as well as updates provided by Wells Fargo, 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, fire protection, loss control and minimal risk of flood exposures. Wells Fargo provided information and statistics on system operations, assets and our excellent loss history over the past fifteen years with no fixed property insurable events (only one loss of rolling stock at \$750,000 and only one loss of a non-revenue vehicle at \$75,000).

The LACMTA property program is very well received by insurers due to our favorable loss history, the growth of the account from \$6.7 billion in values in 2007 and to \$10.9

billion for this renewal and that no earthquake insurance is purchased. As such, Wells Fargo presented the submission to several competing insurers in order to create additional competition in the insurance program. The marketing effort resulted in maintaining our incumbent carriers for the recommended program and adding three additional carriers for the enhanced program. Our collaborative marketing effort in addition to our noteworthy evidence of exceptional loss experience held our premium increase to 0.9% for the recommended program due to adding the new light rail line extensions on a prorated basis.

“The property insurance market is extremely well capitalized going into 2015 and rate reductions will be achievable in almost all risk classifications. Companies without recent or historical losses, and that have above average construction and acceptable fire protection features, will continue to receive the most favorable results”, according to the Wells Fargo Insurance 2015 Insurance Market Outlook.

This year’s minor increase reflects our favorable insurability and ability to take full advantage of market trends in spite of our increase in total insured value. Our rates per million dollars of insurable value continue to reflect historic lows (\$220 for the recommended program versus \$240 for last year's program).

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 \$400,000 for this action is included in the FY15 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, 300066 – Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 – Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). The remaining ten months of premiums will be included in the FY16 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, 320011 – Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage). In FY15, an estimated \$2.3 million will be expensed for property insurance.

Impact to Budget

There is no impact on the FY15 budget. No other sources of funds were considered for this activity because these are the funds that benefit from the insurance. This activity will result in a negligible change to operating costs from the prior fiscal year.

ALTERNATIVES CONSIDERED

The following table compares the current program, the recommended program and two 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 earthquake premium does not justify the benefit of the coverage. Option C is not recommended given the additional cost and benefit relative to our current program.

	Current Program	Recommended Program (Quota Share Primary)	Recommended Program – With Earthquake (Option B)	Enhanced Program (Option C)
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	\$250,00 All Risk / 5% of location value for Flood
All Risk Limits	\$350 Million	\$350 Million	\$350 Million	\$400 Million
Flood Limits	\$150 Million	\$150 Million	\$150 Million	\$150 Million
Earthquake Limits	None	None	\$50 Million after first 5% per location deductible	None
Terrorism	None	None	None	None
Total not to Exceed or Actual Premium	\$2,292,680	\$2,312,961	\$6,812,961	\$2,365,593

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, 2015.

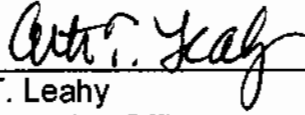
ATTACHMENTS

- A. PREMIUM HISTORY
- B. RECOMMENDED PRICING AND CARRIERS
- C. ENHANCED PROGRAM PRICING AND CARRIERS

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PREMIUM HISTORY

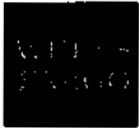
Premium History for Property and Boiler and Machinery Policies
For Property Insurance Policies in the Following Years

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
All Risk	\$2.1 Mil	\$2.1 Mil	\$2.0 Mil	\$2.0 Mil	\$2.2 Mil	\$2.2 Mil	\$2.2 Mil	\$2.3 Mil
Boiler & Machinery	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Premium	\$2.2 Mil*	\$2.2 Mil*	\$2.1 Mil*	\$2.1 Mil*	\$2.3 Mil*	\$2.3 Mil*	\$2.3 Mil*	\$2.4 Mil*
TIV = Total Ins. Val.	\$6.9 Bil	\$7.6 Bil	\$7.8 Bil	\$8.6 Bil	\$9.3 Bil	\$9.4 Bil	\$9.6 Bil	\$10.9 Bil
Rate per Mil Ins. Val.	\$319	\$289	\$271	\$245	\$246	\$245	\$240	\$220

* Excludes Earthquake and Terrorism Insurance

ATTACHMENT B

RECOMMENDED PROGRAM PRICING AND CARRIERS



Wells Fargo Insurance Services USA, Inc.
Proposed Property Insurance Summary 2015-2016
Los Angeles County Metropolitan Transportation Authority

Limit	Coverage	Carrier	Participation	Total
\$200MM	All Risk Excluding Flood & Earthquake	Hudson Specialty Ins. Co. - A XV	\$50,000,000	\$99,029
		Lloyd's of London - A XV	\$100,000,000	\$166,784
		Starr Specialty Insurance Agency**	\$50,000,000	\$99,550
			\$200,000,000	\$365,363
\$150MM	All Risk Excluding Earthquake	Lexington Insurance Co - A XV	\$100,000,000	\$1,302,092
		Liberty Mutual Fire Insurance Co- A XV	\$15,000,000	\$191,162
		Starr Specialty Insurance Agency**	\$25,000,000	\$328,999
		Ironshore Specialty Ins Co - A XIV	\$10,000,000	\$125,347
			\$150,000,000	\$1,947,600

Estimated Program Total \$2,312,963

**Starr Specialty Insurance Agency consists of:
 33.34% Starr Surplus Lines Insurance Company - A XV
 33.33% Chubb Custom Insurance Company - A++ XV
 33.33% General Security Indemnity Company of Arizona - A XV

Terrorism pricing is not included above
Earthquake pricing is not included above

ATTACHMENT C

ENHANCED PROGRAM PRICING AND CARRIERS



**Wells Fargo Insurance Services USA, Inc.
Proposed Property Insurance Summary 2015-2016
Los Angeles County Metropolitan Transportation Authority**

Limit	Coverage	Carrier	Participation	Total
\$50MM	All Risk Excluding Flood & Earthquake	Scottsdale Insurance Company - A+XV	\$25,000,000	\$26,316
		Hanover - A+XV	\$20,000,000	\$21,053
		Interstate - A XV	\$5,000,000	\$5,263
			\$50,000,000	\$52,832
\$200MM	All Risk Excluding Flood & Earthquake	Hudson Specialty Ins. Co. - A XV	\$50,000,000	\$99,029
		Lloyd's of London - A XV	\$100,000,000	\$166,784
		Starr Specialty Insurance Agency**	\$50,000,000	\$99,550
			\$200,000,000	\$365,363
\$150MM	All Risk Excluding Earthquake	Lexington Insurance Co - A XV	\$100,000,000	\$1,302,092
		Liberty Mutual Fire Insurance Co- A XV	\$15,000,000	\$191,162
		Starr Specialty Insurance Agency**	\$25,000,000	\$328,999
		Ironshore Specialty Ins Co - A- XIV	\$10,000,000	\$125,347
			\$150,000,000	\$1,947,600

Estimated Program Total \$2,365,595

**Starr Specialty Insurance Agency consists of:
33.34% Starr Surplus Lines Insurance Company - A XV
33.33% Chubb Custom Insurance Company - A++ XV
33.33% General Security Indemnity Company of Arizona - A XV

**Terrorism pricing is not included above
Earthquake pricing is not included above**