



(For Board Meeting of March 23, 2007)

**SUMMARY OF RECOMMENDATIONS**  
**MEETING OF THE FINANCE-AUDITING COMMITTEE/**  
**COMMITTEE OF THE WHOLE**  
**THURSDAY, MARCH 22, 2007**  
**(CHAIR J. DIETRICH STROEH)**

**Item No. 1**

Approve actions relative to the filing of Federal Transit Administration grant applications and related agreements for federal transportation assistance.

**Action by the Board – Resolution**

**Item No. 2**

Approve the following actions relative to renewal of the Property Insurance Program:

- a. Authorize the General Manager to approve Buildings and Facilities Insurance Program with the existing terms and conditions, up to a premium of \$755,000, with the expectation that Marsh complete the Buildings and Facilities program prior to renewal of April 8, 2007.
- b. Renew Boiler & Machinery Insurance with Hartford Steam Boiler for \$2,663; and,
- c. Continue to fund Restricted Contingency Reserve for FY 07/08, in the amount of \$1.3 million, as self-insurance for costs associated with Bridge Physical Damage and Loss of Revenue.

**Action by the Board – Resolution**

**Item No. 3**

Receive the Independent Auditor's Engagement Letters as submitted by Macias Gini & O'Connell LLP for the FY 06/07 Financial Audit and the FY 05/06 Supplemental Retirement Plan.

**Action by the Board – Resolution**



Agenda Item No. 3.a.

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of March 22, 2007

From: Gayle S. Prior, Capital and Grant Programs Manager  
Joseph M. Wire, Auditor-Controller  
Celia G. Kupersmith, General Manager

Subject: **APPROVE ACTIONS RELATIVE TO FEDERAL TRANSIT  
ADMINISTRATION GRANT APPLICATIONS AND RELATED  
AGREEMENTS FOR FEDERAL TRANSPORTATION ASSISTANCE**

### **Recommendation**

The Finance-Auditing Committee recommends that the Board of Directors approve the following actions relative to Federal Transit Administration (FTA) grant applications and execution of related agreements for federal transportation assistance:

1. Authorize the General Manager or her designee to execute and file grant applications with FTA for federal assistance; and,
2. Authorize the President of the Board of Directors or his designee to execute grant and cooperative agreements with FTA; and,
3. Authorize the General Manager or her designee to execute and file annual certifications and assurances and other documents FTA requires before awarding a federal assistance grant or cooperative agreement.

### **Summary**

The District receives various types of federal grant funds authorized by 49 U.S.C. Chapter 53, Title 23 United States Code, and other federal statutes, through grant application and agreement with FTA, an operating administration of the United States Department of Transportation. Generally, these funds are programmed by the Metropolitan Transportation Commission, as the designated recipient of FTA funds in the San Francisco Bay Area, and are secured directly by the District through its annual FTA Urbanized Area Formula Program grant application.

FTA requires grantees to designate, by way of Board Resolution, the title of the officials authorized to execute and file applications and execute related grant and agreements for federal

assistance, and the official authorized to execute and file required annual certifications and assurances and other compliance documents.

On January 26, 2001, the Board of Directors adopted a one-time resolution that authorized the General Manager as the designated official to execute and file FTA grant applications and the Board President as the designated official to execute FTA grant and cooperative agreements. In addition, this resolution designated the General Manager as the official authorized to execute and file required FTA certifications and assurances and other grant-related compliance documents, as required by FTA. For FTA timing and compliance purposes, staff recommends that this resolution be superseded by a new resolution that would also authorize representatives designated by the General Manager and the Board President to execute documents on their behalf.

As a part of normal business process, staff will continue to bring forward an item identifying the District's annual FTA grant application and program of projects for Finance-Auditing Committee and Board of Directors' approval.

**Fiscal Impact**

There is no direct fiscal impact associated with this item.



Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of March 22, 2007

From: Joseph M. Wire, Auditor-Controller  
Celia G. Kupersmith, General Manager  
William L. Stafford, Director of Risk Management/Safety

Subject: **APPROVE RENEWAL OF THE PROPERTY INSURANCE PROGRAM**

**Recommendation**

The Finance-Auditing Committee recommends that the Board of Directors approve the following:

- A. Approve first and second excess layers of \$10 million of coverage with incumbent carriers for a renewal premium of \$407,303 and renew \$25 million excess of \$20 million layer (excluding earthquake and flood) with incumbent carrier for a renewal premium of \$25,794;
- B. Authorize the General Manager to approve the \$10 million excess of \$10 million of the District's Buildings & Facilities Insurance Program up to a premium of up to \$341,478 with the expectation that Marsh will continue its efforts to obtain a quote more in line with the base layer;
- C. Renew Boiler & Machinery Insurance with Hartford Steam Boiler for \$2,663; and,
- D. Continue to fund Restricted Contingency Reserve, for FY 07/08, in the amount of \$1.3 million, as self-insurance for costs associated with Bridge Physical Damage and Loss of Revenue.

If approved by the Finance-Auditing Committee, this matter will be presented to the Board of Directors at its March 23, 2007, meeting for appropriate action.

## Summary

### *District Buildings & Facilities Program*

The District Bridge & Facilities program is currently \$45 million for All Risks of Physical Loss or Damage coverage, excluding earthquake and flood. The flood and earthquake limits are currently \$25 million.

As of the date of this report, the District has not received competitive and final quotes for the \$10 million excess of \$10 million layer. The final quotes for this layer should be done by April 8, 2007, and may be finalized prior to the meeting of the Finance-Auditing Committee on March 22, 2007. If final quotes have been obtained prior to the meeting, this report will be modified and the revised report will be distributed at the March 22nd and March 23rd meetings.

The incumbents on the 1<sup>st</sup> and 2<sup>nd</sup> layers to \$10 million quoted an increase from \$358,512 to \$407,303, a 13% increase. The incumbent on the \$10 million excess of \$10 million 3<sup>rd</sup> layer quoted more than double the premium from \$154,914 to \$340,478 for FY 07/08. The premium for the 4<sup>th</sup> layer, which excludes flood and earthquake, remains the same at \$25,794.

The primary reason for the significant increases is due to a growing reluctance of insurance carriers to increase their exposure in earthquake zones. In addition, a new earthquake software modeling system currently used by carriers to determine price, was released in June 2006 after our last renewal.

Because the premium has more than doubled on the \$10 million excess of \$10 million layer, and the modest increase in the first two layers, Marsh feels a significant reduction in quoted premium from the current incumbent or other insurance markets is feasible. We have asked Marsh to continue brokering this layer.

### *District Building & Facilities Insurance Recommendation*

The renewal of the 1<sup>st</sup>, 2<sup>nd</sup> and 4<sup>th</sup> layers by the same panel of insurer with the same limits and deductibles (without terrorism coverage) is recommended.

### *Boiler & Machinery Insurance Recommendation*

The Boiler & Machinery Program covers losses from explosion of boilers, and other types of Bridge Program steam pressure vehicles, and accidental breakdown of boilers and other mechanical or electrical equipment. The expiring premium for the Boiler & Machinery policy is \$2,911. The renewal premium is \$2,663, a 8.5% decrease.

### *Bridge Property Damage/Loss of Revenue*

Effective April 8, 2006, the District decided to non-renew the insurance for the Bridge and authorize the establishment of a restricted Golden Gate Bridge self-insurance loss reserve in lieu of purchasing the Bridge Physical Damage and Use & Occupancy.

Marsh was requested to continue to check with the insurance markets to gauge carriers interest to write the Bridge and premium levels. The last incumbent quoted a premium of \$700,000. The deductibles are \$15 million for physical damage and 90 days for Use & Occupancy. The premium was lowered from \$1.3 million in 2006, but the waiting period increased the deductible from 30 to 90 days.

The continued cost and coverage of the Bridge Property Damage and Use & Occupancy policy continues to make transfer of these risks not a cost-effective option at this time.

*Restricted Bridge Self-Insurance Loss Reserve Recommendation*

The continued funding of a Restricted Bridge Self-Insurance Loss Reserve, to be used in case of catastrophic damage to the Bridge, continues to be a viable way to develop the capital over time to replace this coverage.

It is recommended to continue funding the reserve at the initial rate of \$1.3 million in order to meet the capital assumptions that were presented to the District's Finance-Auditing Committee and Board in March 2006.

**Fiscal Impact**

The cost of the completed layers of District Building and Facilities Program and Boiler and Machinery Program for a 12-month period between April 8, 2007, and April 7, 2008, is \$435,750, a 12% increase from the previous year. The cost of approval given the General Manager for the 3<sup>rd</sup> layer is \$340,478, an increase of 113% over the previous year. Requisite funds will be budgeted in the appropriate fiscal year operating budgets.

The District will continue the funding of the Restricted Bridge Self-Insurance Fund, with an investment of \$1.3 million. These funds are included in the FY 06/07 and will be included in the 07/08 budget. Annually, on recommendation of the staff along with Committee and Board approval, additional capital will be allocated to the Fund.

The FY 07/08 fiscal impact of the renewal of the District Building and Facilities Program is not known at this time, but is expected to increase upon completion of the renewal. The allocation of \$1.3 million to the restricted contingency reserve will not have a net fiscal impact to the District in FY 05/06. Investment of the \$1.3 million restricted contingency reserve will result in approximately a \$50,000 increase in District reserves.



**REVISED MARCH 21, 2007**

Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of March 22, 2007

From: William L. Stafford, Director of Risk Management/Safety  
Joseph M. Wire, Auditor-Controller  
Celia G. Kupersmith, General Manager

Subject: **APPROVE RENEWAL OF THE PROPERTY INSURANCE PROGRAM**

**Recommendation**

The Finance-Auditing Committee recommends that the Board of Directors approve the following actions relative to the District's Property Insurance Program:

- A. Authorize the General Manager to approve Buildings and Facilities Insurance Program with the existing terms and conditions, up to a premium of \$755,000, with the expectation that Marsh complete the Buildings and Facilities program prior to renewal of April 8, 2007. The expectation is that the final renewal premium will be less.
- B. Renew Boiler & Machinery Insurance with Hartford Steam Boiler for \$2,663; and,
- C. Continue to fund Restricted Contingency Reserve for FY 07/08, in the amount of \$1.3 million, as self-insurance for costs associated with Bridge Physical Damage and Loss of Revenue.

**Summary**

***District Buildings & Facilities Program***

The District Bridge & Facilities program is currently \$45 million for All Risks of Physical Loss or Damage coverage, excluding earthquake and flood. The flood and earthquake limits are currently \$20 million. The program renews on April 8, 2007. There are no scheduled District Finance-Auditing Committee or Board meetings after March 23<sup>rd</sup> and prior to April 8<sup>th</sup>.

Marsh has presented three incomplete options as of the date of this report. Marsh has not received competitive or final quotes for the earthquake and flood coverage limits of \$20 million, and, in particular the coverage between \$10 million and \$20 million. Marsh's current recommendation is to delay the decision to renew the program until they have fully explored all structure options and received quotes for the flood and earthquake coverage.

Of the three options presented by Marsh, the first option represents a worse case scenario and is the basis for the recommendation to authorize the General Manager to renew the existing program, with current terms and conditions, for a premium not to exceed \$755,000. The FY 07/08 premium of \$755,000 for the Buildings and Facilities Property Program would represent a 40 percent increase over the expiring FY 06 /07 premium of \$539,223.

The primary reason for the significant increases is due to a growing reluctance of insurance carriers to increase their exposure in earthquake zones. In addition, a new earthquake software modeling system, currently used by carriers to determine price, was released in June 2006 after our last renewal.

Marsh has indicated that the premium for this element of our property program, based on recent similar experiences with other clients, will settle in the range of \$600,000 to \$650,000 and be completed by April 2, 2007. However, they are not “guaranteeing” this result.

#### ***District Building & Facilities Insurance Recommendation***

Authorize the District’s General Manager to renew the Buildings and Facilities Program with existing terms and conditions at a premium not to exceed \$755,000 for the FY 07/08.

#### ***Boiler & Machinery Insurance Program and Recommendation***

The Boiler & Machinery Program covers losses from explosion of boilers, and other types of Bridge Program steam pressure vehicles, and accidental breakdown of boilers and other mechanical or electrical equipment. The expiring premium for the Boiler & Machinery policy is \$2,911. The renewal premium is \$2,663, a 8.5 percent decrease.

#### ***Bridge Property Damage/Loss of Revenue Program***

Effective April 8, 2006, the District decided to not renew the insurance for the Bridge and authorize the establishment of a restricted Golden Gate Bridge self-insurance loss reserve in lieu of purchasing the Bridge Physical Damage and Use & Occupancy. Marsh was requested to continue to check with the insurance markets to gauge carriers interest to write the Bridge and premium levels. The last incumbent quoted a premium of \$700,000. The deductibles are \$15 million for physical damage and 90 days for Use & Occupancy. The premium was lowered from \$1.3 million in 2006, but the waiting period increased the deductible from 30 to 90 days.

The continued cost and coverage of the Bridge Property Damage and Use & Occupancy policy still makes the transfer of these risks to a carrier not a cost-effective option at this time.

***Restricted Bridge Self-Insurance Loss Reserve Recommendation***

The continued funding of a Restricted Bridge Self-Insurance Loss Reserve, to be used in case of catastrophic damage to the Bridge, continues to be a viable way to develop the capital over time to replace this coverage.

It is recommended to continue funding the reserve at the initial rate of \$1.3 million in order to meet the capital assumptions that were presented to the District's Finance-Auditing Committee and Board in March 2006.

**Fiscal Impact**

The currently available District Building and Facilities Program and Boiler and Machinery Program for a 12-month period between April 8, 2007, and April 7, 2008, will cost \$758,000, an increase of 40 percent over the previous year. Requisite funds will be budgeted in the appropriate fiscal year operating budgets. It is expected that a lower-priced program will be available before the current program expires on April 8, 2007.

The District will continue the funding of the Restricted Bridge Self-Insurance Fund, with an investment of \$1.3 million. These funds will be included in the FY 07/08 budget. Annually, on recommendation of the staff along with Committee and Board approval, additional capital will be allocated to the Fund.

The allocation of \$1.3 million to the restricted contingency reserve will not have a net fiscal impact to the District in FY 07/08.



Agenda Item No. 5

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of March 22, 2007

From: Joseph M. Wire, Auditor-Controller  
Celia G. Kupersmith, General Manager

Subject: **RECEIVE THE INDEPENDENT AUDITOR'S ENGAGEMENT LETTERS  
BY MACIAS GINI & O'CONNELL LLP FOR THE ANNUAL FINANCIAL  
AUDIT**

**Recommendation**

The Finance-Auditing Committee recommends that the Board of Directors receive the independent auditor's Engagement Letters as submitted by Macias Gini & O'Connell LLP for the following audit services:

- a. FY 06/07 Financial Audit; and
- b. FY 05/06 Supplemental Retirement Plan.

**Summary**

Attached is the Engagement Letter for the FY 06/07 Financial Audit from the District's external auditors, Macias Gini & O'Connell LLP. As stated in the annual contract, the external auditors are reconfirming their understanding of services with the District to ensure compliance in accordance with *Government Auditing Standards*. Along with auditing the basic financial statements of the District for the Fiscal Year ending June 30, 2007, the external auditors will:

- Submit documentation that will include the Schedule of Expenditures of Federal Awards that will not be audited, but will be subject to "in-relation-to" procedures applied during the audit of financial statements;
- Audit the National Transit Database Report and the Transportation Development Act Compliance Report;
- Submit the Management Discussion and Analysis required by the Governmental Accounting Standards Board (GASB); and,
- Audit the District's Supplemental Retirement Plan. Note: A separate engagement letter is attached for FY 05/06 as this was not a part of the original contract. The contract has since been amended to incorporate this into the scope of the audit.

**Fiscal Impact**

There is no fiscal impact as this report is informational.

Attachments