



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.