



Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole
Meeting of March 27, 2008

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

Subject: **APPROVE ACTIONS RELATIVE TO THE RENEWAL OF THE
PROPERTY INSURANCE PROGRAM**

Recommendation

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

1. Approve the District's Building & Facilities Insurance Program with \$45 million of coverage, including \$20 million coverage for earthquake and flood subject to deductibles, with Lexington, Arch Specialty, Essex, Integon, and Homeland Insurance Cos. for a renewal premium of \$536,237, for a one-year term, effective April 8, 2008, through April 7, 2009 with the understanding that requisite funds are available in the FY 07/08 Bridge, Bus, Ferry and District Division Operating Budgets and that requisite funds will be budgeted in the appropriate division operating budgets for FY 08/09;
2. Renew Boiler & Machinery Insurance with Hartford Steam Boiler for \$2,556, for a one-year term, effective April 8, 2008, through April 7, 2009 with the understanding that requisite funds are available in the FY 07/08 Bridge, Bus, Ferry and District Division Operating Budgets and that requisite funds will be budgeted in the appropriate division operating budgets for FY 08/09; and,
3. Continue to allocate monies to the Restricted Contingency Reserve, for FY 08/09, in the amount of \$1,300,000, as self-insurance for costs associated with Bridge Physical Damage and Loss of Revenue, with the understanding that requisite funds are available in the FY 07/08 approved budget and will be budgeted for FY 08/09.

Summary

District Buildings & Facilities Program

The District's 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 2008-2009 premium for the District's Building & Facilities Insurance Program represents a 22 percent decrease from 2007-2008. The primary reason for the significant decrease is the increased competition in the property insurance markets. The District's property insurance premium however is strongly driven by earthquake catastrophe exposure. For the 2009-2010 property insurance renewal, based on a property appraisal that will be conducted in 2008, the District may elect to increase earthquake coverage from the current \$20 million. It is estimated that 70 percent of the District's Building & Facilities Insurance Program is based on covering the risk of a catastrophic earthquake.

District Building & Facilities Insurance Recommendation

The renewal of the District's Building & Facilities Insurance Program 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, accidental breakdown of boilers and other mechanical or electrical equipment. The expiring premium for the Boiler & Machinery policy is \$2,663. The renewal premium is \$2,556, a 4 percent 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. Indications are that although premiums have decreased, terms and limits have become less favorable. The 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 \$1,300,000 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 District's Building and Facilities Program and Boiler and Machinery Program for a 12-month period between April 8, 2008, and April 7, 2009, is \$538,793, a 22 percent decrease from the previous year. Requisite funds will be budgeted in the appropriate fiscal year operating budgets.

The District will continue funding the Restricted Bridge Self-Insurance Fund, with an investment of \$1,300,000 million. These funds are included in the FY 07/08 Budget and will be appropriately included in the FY 08/09 budget. Annually, on recommendation of the staff along with Committee and Board approval, the District will allocate additional capital 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 08/09. The \$1.3 million will be transferred to the Restricted Bridge Self-Insurance Fund.

Attachment