



Agenda Item No. 4

To: Finance-Auditing Committee/Committee of the Whole
Meeting of March 27, 2009

From: William L. Stafford, Director of Risk Management/Safety
Z. Wayne Johnson, Deputy General Manager, Administration & Development
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 \$125 million of All Risk coverage, which includes coverage for \$20 million earthquake subject to deductibles, with Lexington, Arch and Endurance Insurance Cos. for a renewal premium of \$747,033, for a fifteen-month term term, effective April 8, 2009, through June 30, 2010; with the understanding that requisite funds are available in the FY 08/09 Bridge, Bus, Ferry and District Division Operating Budgets and that requisite funds will be budgeted in the appropriate division operating budgets for FY 09/10;
2. Renew Boiler & Machinery Insurance with Hartford Steam Boiler for \$3,239, for a fifteen-month term, effective April 8, 2008, through June 30, 2009; with the understanding that requisite funds are available in the FY 08/09 Bridge, Bus, Ferry and District Division Operating Budgets and that requisite funds will be budgeted in the appropriate division operating budgets for FY 09/10; and,
3. Continue to allocate monies to the Restricted Contingency Reserve, for FY 09/10, 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 08/09 approved budget and will be budgeted for FY 09/10. The Restricted Contingency Reserve will be evaluated and funded in conjunction with the Property and Facilities Insurance Program new renewal date of July 1.

Summary

District Buildings & Facilities Program

The District's Bridge & Facilities program is currently \$45 million for All Risks of Physical Loss or Damage coverage including (All Risk), excluding earthquake and flood. The flood and earthquake limits are currently \$20 million. The District is recommending that All Risk be increased from \$45 million to \$125 million. The District's earthquake coverage limits will remain at \$20 million. The quoted annualized premium, for the policy term 2009/2010, for All Risk coverage with a limit of \$45 million is \$580,395. The quoted annualized premium for All Risk coverage with a limit of \$125 million is \$602,485, a difference of approximately \$22,000. Therefore, the District will benefit from significantly increased limits for this category of insurance for a relatively small increase in premium. The recommended fifteen-month premium, as opposed to twelve months, is \$747,033.

The 2009/2010 premium for the District's Building & Facilities Insurance Program represents a 12 percent annualized increase from 2008/2009 policy term. The primary reason for the significant increase is the increase in catastrophe rates in the property insurance markets. The District's property insurance premium is strongly driven by the District's earthquake catastrophe exposure. It is estimated that 80 percent of the District's Building & Facilities Insurance Program is based on covering the risk of a catastrophic earthquake.

The District has determined that a fifteen month renewal period, to July 1, 2010, is necessary in order to give the District the opportunity to take advantage of the Public Entity Property Insurance Program (PEPIP) insurance pool offered by our new insurance broker Alliant. This three month one-time change will move the District's yearly renewal date to July 1st. At that time, the District will have determined whether our participation in PEPIP is in the best interest of the District.

District Building & Facilities Insurance Recommendation

It is recommended that the District's Building & Facilities Insurance Program be renewed for approximately 15 months until July 1, 2010, with the increased limits of \$125 million for All Risk of Physical Damage Coverage and deductibles (without terrorism coverage).

Boiler & Machinery Insurance Recommendation

The Boiler & Machinery Program covers losses from explosion of boilers, other types of District-owned steam pressure vehicles, as well as accidental breakdown of boilers and other mechanical or electrical equipment. The expiring annualized premium for the Boiler & Machinery policy is \$2,556. The annualized renewal premium is \$2,634. The renewal amount for the extended 15 month period is \$3,239.

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.

Alliant was requested to continue to check with the insurance markets to gauge carriers interest to write the Bridge and premium levels. Indications are that premiums have increased, and terms and limits have remained 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 fifteen-month period between April 8, 2008, and June 30, 2010, is \$750,272, a 12 percent annualized increase from the 2008/2009 policy term. The funds of approximately \$150,054 for FY 08/09 are included in the budget. The funds for FY 09/10 of approximately \$600,218 will be included in the upcoming operating budget.

The District will continue funding the Restricted Bridge Self-Insurance Fund, with an investment of \$1,300,000. These funds are included in the FY 08/09 Budget and will be appropriately included in the FY 09/10 budget.

The allocation of \$1.3 million to the restricted contingency reserve will not have a net fiscal impact to the District in FY 09/10. The \$1.3 million will be transferred to the Restricted Bridge Self-Insurance Reserve Fund.