



Agenda Item No. 3

To: Finance-Auditing Committee/Committee of the Whole  
Meeting of March 8, 2007

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

Subject: **STATUS REPORT ON THE RENEWAL OF PROPERTY INSURANCE PROGRAM**

### **Recommendation**

No recommendations are being made at this time. Recommendations for renewal of the Property Insurance Program will be made at the Finance-Auditing Committee meeting of March 22, 2007.

### **Summary**

The District's Property Insurance Program, which renews on April 8, 2007, is comprised of:

- District Facilities Insurance
- Boiler & Machinery Insurance
- Bridge Self-Insurance Loss Reserve

### ***Property Market Conditions***

The premiums for property insurance have increased substantially during the last two years due to catastrophes, primarily hurricanes in 2005/2006. The District is located in an earthquake catastrophe zone; therefore, our premiums increased in FY 06/07, due to catastrophe modeling changes.

For the start of 2007, insurers are typically requesting renewal premium increases of 15 percent to 30 percent for property accounts with the District's profile. The Bridge Property and Loss of Use coverages have followed a similar pattern, according to the District's insurance broker, Marsh Risk and Insurance Services (Marsh).

Boiler and Machinery increases are expected to be minimal. The premium for FY 06/07 was \$2,911.

In order for the District to respond to anticipated premium increases, the District has requested Marsh to obtain insurance quotes for a higher deductible during the marketing phase of the District's property renewal.

### ***District Facilities Program***

The District Facilities program is \$45 million for all risks of physical loss or damage coverage, including flood. The District, in order to minimize premium increases in FY 06/07, reduced earthquake limits from \$45 million to \$20 million, based on an independent earthquake risk analysis. Currently the District has a \$250,000 deductible on the Facilities Program. The premium for the District's Facilities Program in 2006-2007 was \$549,536.

The District has requested Marsh to obtain premium quotations for a \$500,000 deductible for the 2007-2008 renewal. The District feels the deductibles in the Property Program need to be more in-line with the self-insured retention of the District's other insurance programs, i.e. Casualty and Workers' Compensation. This is also a way to minimize premium increases.

The District has also requested Marsh to obtain quotes for increased earthquake coverage limits from \$20 million to \$25 million for the April 8<sup>th</sup> renewal. This request was made to ensure that the District would be covered for rising construction costs.

### ***Bridge Self-Insurance Loss Reserve***

The Bridge Self-Insurance Loss Reserve was approved by the District's Board of Directors in 2006. The Self-Insurance Loss Reserve was established due to the high cost of the insurance and the lack of coverage and limits afforded by the policy. The policy covered Bridge physical damage and loss of use, the policy excluded losses caused by earthquake and terrorism.

The Bridge Self-Insurance Loss Reserve is a District-managed fund, which would pay for a loss due to Bridge physical damage and/or loss of revenue. The Bridge Self-Insurance Loss Reserve was set up with strict rules of governance and would be available in losses exceeding \$10 million.

In FY 06/07, \$1.3 million was allocated to the fund, with the understanding that funds in this approximate amount would be allocated to this account each year thereafter. It is anticipated that a similar request for funding will be made for FY 07/08 due to possible premium increases for Bridge Property and Loss of Use coverage.

The District has requested Marsh to obtain quotes, if markets are available for this coverage, to help the District determine what should be the appropriate level of funding of the Bridge Self-Insurance Loss Reserve.

### **Fiscal Impact**

There is no fiscal impact as this report is informational. Formal action and related financial information will be presented at the Finance-Auditing Committee meeting of March 22, 2007.