



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 23rd and prior to April 8th.

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.