



Agenda Item No. 5

To: Finance-Auditing Committee/Committee of the Whole
Meeting of March 13, 2008

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 on March 27, 2008.

Summary

The District's Property Insurance Program, which renews on April 8, 2008, is comprised of:

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

Property Market Conditions

The premiums for property insurance have decreased substantially in the last twelve months. Because the District is located in an earthquake catastrophe zone our premiums remain relatively high because the District purchases \$20 million in earthquake coverage.

For the start of 2008, insurers are typically quoting renewal premiums with decreases of 15 percent to 25 percent for property accounts with the District's profile.

Boiler and Machinery decrease was expected to be minimal.

District Facilities Program

The District's 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 2007-2008 was \$672,791.

In 2007 the District explored increasing the deductible on the Property Program from \$250,000 to \$500,000. The marketing results showed minimal premium saving.

The District has also requested Marsh to obtain quotes for increased earthquake coverage limits from \$20 million to \$25 million for the April 8, 2008, renewal. This request was made to ensure that the District would be covered for rising construction costs.

Marketing Results

Results of Marsh's marketing efforts were received on March 11, 2008, for the District's Property Insurance Program.

For 2008 the District has received an overall 22 percent rate reduction on the Property Insurance Program. The total cost for the 2008 program is \$536,237, which is \$136,554 lower than the expiring premium. The 2008 program rate is the lowest rate since the 2000 renewal.

The District was also provided an option for a new layer of earthquake and flood coverage. The District was given the option of increasing the earthquake and flood limit from \$20 million to \$25 million, for an additional \$60,000. After careful consideration the District will not consider this option in 2008.

The 2008 Boiler and Machinery premium is \$2,556, down 4 percent from the expiring premium.

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 set up due to 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 Self-Insurance Loss Reserve is a District managed fund, which would fund 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 05/06 and FY 06/07, \$1,300,000, was allocated to the fund, with the understanding that funds in this approximate amount would be allocated to this account each year thereafter. A similar request for funding will be made for FY 07/08 Bridge Property and Loss of Use coverage.

To date approximately \$2.8 million has been accrued into the Bridge Self-Insurance Loss Reserve.

Fiscal Impact

There is no fiscal impact as this report is informational.