

Date: April 8, 2008
Committee Meeting Date: April 17, 2008
Board Meeting Date: May 1, 2008
ACTION ITEM

BOARD MEMORANDUM

TO: Administration and Finance Committee
Santa Clara Valley Transportation Authority
Board of Directors

THROUGH: Michael T. Burns
General Manager

FROM: Joseph T. Smith
Chief Financial Officer

SUBJECT: 2008/2009 Annual Renewal of Operations Property and Casualty Insurance Coverage

Policy-Related Action: No Government Code Section 84308 Applies: No

RECOMMENDATION:

Authorize the General Manager to purchase insurance coverage for Excess Liability, General and Auto Liability, Public Officials' Errors and Omissions Liability, Property/ Boiler and Machinery, Inland Marine for Buses, Vans and Mobile Equipment, Inland Marine for Light Rail Vehicles, and Flood exposures for the annual Operations Program insurance renewal for an amount not to exceed \$1,831,000.

BACKGROUND:

VTA's Property and Casualty insurance coverage renews annually on July 1. Each Spring VTA's contract insurance broker, currently Alliant Insurance Services, markets VTA's insurance program by requesting competing premium indications from various carriers in the insurance marketplace. Carriers that are approached are chosen on the basis of premium cost, coverage criteria, and underwriting background. In addition, carriers are required to have experience with governmental agencies, adequate financial reserves and a minimum A.M. Best rating of Excellent.

VTA's net expense for last year's Operations insurance was \$1,548,209. This includes credit from the previous year for a returned dividend for good loss control performance of \$68,183. However, due to VTA losses incurred in 2006 and 2007, there may be no incentive credit in this renewal cycle.

As in past years, insurers will require VTA to review premium quotes and commit to the purchase of the policies during a two to three week period immediately prior to the July 1, 2008 renewal date. We are seeking Board authority now to purchase the insurance program to avoid placing VTA in the undesirable position of being uninsured for any period of time.

DISCUSSION:

As of this memo, firm premium indications are not available for the July 1, 2008 renewal. The \$1,831,000 authority requested represents our broker's estimate of potential premium cost, based on their knowledge of the current market, and recent experience with the completed renewals of other public entity clients.

The recommended program includes \$25 million in coverage for General Liability claims, including Public Officials' Errors and Omissions Liability claims, Auto Liability claims and Property loss coverage for all VTA buildings, equipment, bus, rail and non-revenue vehicle fleets.

The premium estimates for the property insurance for road vehicles anticipates no increase. The Light Rail Vehicle estimate includes a potential 25% increase in the premium rate as a result of recent losses. The Flood coverage premium for the exposed VTA sites at River Oaks and Cerone Division is expected to have a 10% increase. Property/ Boiler and Machinery coverage is expected to decrease by 1%. See Attachment A for detailed program premium estimates.

In addition, for the July 1, 2008-09 renewal term, VTA also directed the broker to develop estimates for premium cost information on Earthquake and Excess Workers' Compensation coverage. In July 2002, economies were implemented by eliminating the Workers' Compensation Excess, Earthquake and Crime policies. As a result of the past economies VTA is self-insured for all Workers Compensation claims and carries no earthquake insurance.

Our broker estimates that the premium for purchasing \$50M in excess coverage for catastrophic Workers Compensation events (defined as claims valued over \$1M) would be approximately \$718,600. The nature of VTA operations is such that there is a low probability that injuries of a catastrophic nature will occur. Currently our largest claim is reserved at \$600,000. The purchase of the Workers Compensation excess coverage is not recommended.

VTA briefly carried earthquake coverage during a period when premiums were more affordable. As the economy changed and premiums rose we did not renew the coverage. Most other California Public entities also do not purchase the coverage due to the cost factor. Our broker estimates the cost for purchasing this coverage is now estimated at \$465,000. The purchase of earthquake insurance coverage is not recommended.

The results of the insurance marketing and final purchase pricing will be reported to the Administration and Finance Committee as an Information Item at the September 2008 meeting.

ALTERNATIVES:

None recommended.

FISCAL IMPACT:

The expenses associated with these premiums have been included as part of the FY09 – VTA transit operating budget.

SMALL BUSINESS ENTERPRISE (SBE) PARTICIPATION:

No specific goal has been established for this contract due to the lack of SBE firms available to perform the scope of work. Contractor is encouraged to make reasonable efforts to utilize SBEs in its procurement of ancillary services and products associated with the performance of this contract.

Prepared by: _____
Nanci G. Eksterowicz, Enterprise Risk Manager

**VTA Operations Insurance
FY 2008-09 Cost Projections**

Coverage	2007-08	2008-09	
EXCESS LIABILITY	Premium	Premium	
\$2mm xs \$3mm	136,837		161,292
\$20mm xs \$5mm	768,262		905,565
Total	905,099		1,066,857
PROPERTY / BOILER & MACHINERY	Premium	Premium	
\$70,000,000 limit			
\$100,000 deductible			
Total	106,171		101,874
LIGHT RAIL VEHICLES	Premium	Premium	
\$20,000,000 limit			
\$250,000 deductible - KI cars	186,000		232,500
\$100k / \$25k deductible - Trolleys	2,500		2,500
\$25,000 deductible - spare parts	2,500		2,500
Total	191,000		237,500
ROAD VEHICLES	Premium	Premium	
\$20,000,000 limit			
\$100,000 deductible - buses			
\$25,000 deductible - mobile equipment			
Standard Buses: 420; \$315,000 ea.	327,789		319,662
Articulated Buses: 40; \$497,000 ea.	42,742		42,742
Mini Buses: 10; \$166,605 ea.	3,569		17,845
Paratransit Vans	0		0
Mobile Equipment	4,276		4,298
Total	378,376		384,547
FLOOD	Premium	Premium	
\$500,000 limit max.	35,746		39,321
TOTAL (FY 2006-07 coverage level)	\$1,616,392		\$1,830,099
Dividend (estimated)	-68,183		0
NET COST	\$1,548,209	11.2 % Increase	\$1,830,099