



Date: _____ April 10, 2006
 Committee Meeting Date: _____ April 20, 2006
 Board Meeting Date: _____ May 4, 2006
 ACTION X DISCUSSION _____ INFO _____

BOARD MEMORANDUM

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

THROUGH: Michael T. Burns
 General Manager

FROM: Nanci G. Eksterowicz
 Risk Manager

SUBJECT: Annual Renewal of Property and Casualty Insurance Coverage

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 \$1,830,000, from the proposers offering the most advantageous terms to VTA.

BACKGROUND:

VTA's Property and Casualty insurance coverage renews annually on July 1. Each spring VTA's contract insurance broker, currently Driver Alliant Insurance Services, develops VTA's insurance program by requesting competing premium indicators from a broad range of carriers in the insurance marketplace. Carriers are selected on the basis of premium cost, coverage criteria, and underwriting background. In addition, carriers are required to have a proven track record with governmental agencies, adequate reserves, and a minimum A.M. Best rating of Excellent. VTA's expense for last year's operating insurance was \$1,512,695. This includes credit for a returned dividend for good loss control performance of \$74,813. If the performance continues, VTA will be eligible to receive a dividend of \$76,125 in policy year 06/07.

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, 2006 inception date. We are

seeking Board Authority now to purchase the insurance to avoid placing VTA in the undesirable position of being uninsured for any period of time.

DISCUSSION:

As of this writing, premium quotes are not available for the VTA's July 1, 2006 renewal. The \$1,830,000 authority requested represents the broker's best estimate of potential premium cost, based on his knowledge of the current market, and his experience with the completed renewals of other public agency clients.

For the July 1, 2006-7 renewal term, VTA has instructed the broker to obtain quotes for the same program structure as purchased last year. In the past, economies were implemented by eliminating the Workers Compensation Excess, Earthquake and Crime policies. The current program continues these strategies. Additional reductions in coverage are not recommended. The program includes \$25 million in coverage for General Liability, Auto Liability, and Public Officials' Errors and Omissions Liability claims, and Property coverage for all VTA buildings, bus, rail and non-revenue vehicle fleets.

The most significant activity impacting current rates involves the record 2005 hurricanes in the Gulf of Mexico, with substantial damage throughout the South, and most notably, the devastation of New Orleans. This combined with the last two years of continuing record property and liability losses from the 9/11 bombings will impact rates beyond normal inflation. The spread of losses over various insurers and reinsurers will not be even, so a significant degree of variability in rates charged by carriers by line of coverage, type of buyer, and geographic location is expected. As a result, the premium for the second Excess Layer of Liability coverage will continue to rise, with this year's total estimated premium of \$1,114,158 being an 8.2% increase over last year. The increase in FY 06 was 11.5% over the prior year.

The premium estimate for the property insurance for road vehicles (\$317,319) anticipates a 29.6% increase, and the Light Rail Vehicles premium (\$256,720) expects a 29.4% increase, both resulting from VTA's claims experience. Flood coverage premium (\$34,391) for exposed VTA sites (River Oaks and Cerone Division) is expected to have a 16.5% increase. Property/ Boiler and Machinery coverage is expected to increase by 16.5% to \$99,351. See Attachment 1 for details.

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 2006 meeting.

ALTERNATIVES:

There are no practical alternatives to the recommended action.

FISCAL IMPACT:

The expenses associated with these premiums have been included as part of the FY 06/07 proposed budget.

SMALL BUSINESS ENTERPRISE (SBE) PARTICIPATION:

No specific goal has been established for these contracts due to the lack of SBE firms available to perform the scope of work. Contractors will be 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, Risk Manager

**VTA Operations Insurance
FY 2006-07 Cost Projection**

Coverage	2005-06			2006-07			Change		
EXCESS LIABILITY	Farebox	Rate	Premium	Farebox	Rate	Premium	Exposure	Rate	Total
\$2mm xs \$3mm	32,374,000	7.0360	227,783	32,500,000	7.0360	228,670	0.4%	0.0%	0.4%
\$20mm xs \$5mm	32,374,000	24.7689	801,869	32,500,000	27.2458	885,489	0.4%	10.0%	10.4%
*includes \$25mm xs \$25mm Railroad Liability for Vasona Corridor	32,374,000	31.8049	1,029,652	32,500,000	34.2818	1,114,158	0.4%	7.8%	8.2%
PROPERTY / BOILER & MACHINERY	TIV	Rate	Premium	TIV	Rate	Premium	Exposure	Rate	Total
\$70,000,000 limit	Real Property			Real Property					
\$100,000 deductible									
TRIA	120,873,281	0.0706	85,287	128,004,805	0.0776	99,351	5.9%	10.0%	16.5%
LIGHT RAIL VEHICLES	TIV	Rate	Premium	TIV	Rate	Premium	Exposure	Rate	Total
\$20,000,000 limit									
\$250,000 deductible - KI cars	300,000,000	0.0648	194,400	300,000,000	0.0842	252,720	0.0%	30.0%	30.0%
\$100k / \$25k deductible - Trolleys	2,000,000	0.1250	2,500	2,000,000	0.1250	2,500	0.0%	0.0%	0.0%
\$25,000 deductible - spare parts	6,695,772	0.0224	1,500	7,000,000	0.0224	1,500	4.5%	0.0%	0.0%
TOTAL (Light Rail)	308,695,772	0.0643	198,400	309,000,000	0.0831	256,720	0.1%	29.3%	29.4%
ROAD VEHICLES	TIV	Rate	Premium	TIV	Rate	Premium	Exposure	Rate	Total
\$20,000,000 limit									
\$100,000 deductible - buses									
\$25,000 deductible - mobile equipment									
Buses	168,902,000	0.1430	241,530	168,902,000	0.1859	313,989	0.0%	30.0%	30.0%
Paratransit Vans	0	0	0	0	0	0	0.0%	0.0%	0.0%
Mobile Equipment	989,346	0.3150	3,116	1,000,000	0.3150	3,150	1.1%	0.0%	1.1%
Total (non-rail)	169,891,346	0.1440	244,646	169,902,000	0.1867	317,139	0.0%	29.6%	29.6%
FLOOD	TIV	Rate	Premium	TIV	Rate	Premium	Exposure	Rate	Total
\$500,000 limit max.			29,523			34,391			16.5%
TOTAL			\$1,587,508			\$1,821,759			234,251
Dividend (expected)			-74,813			-76,125			14.8%
NET COST			\$1,512,695			\$1,745,634			