Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

File #: 2025-0190, **File Type:** Program **Agenda Number:** 18.

FINANCE, BUDGET, AND AUDIT COMMITTEE
APRIL 17, 2025

SUBJECT: PROPERTY INSURANCE PROGRAM

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

AUTHORIZE the Chief Executive Officer to negotiate and purchase All Risk Property and Boiler and Machinery insurance policies for all Metro properties at a not-to-exceed premium of $11 million for the 12-month period of May 10, 2025, through May 10, 2026.

ISSUE

The All-Risk Property and Boiler and Machinery insurance policies expire on May 10, 2025.

BACKGROUND

Metro's insurance broker, USI Insurance Services ("USI"), is responsible for marketing the property insurance program to qualified insurance carriers. In this challenging hard market, quotes are currently being received from, and negotiations are ongoing with, carriers that have acceptable A.M. Best ratings that are indicative of acceptable financial soundness and ability to pay claims. Premium indications are based on current market expectations. Final pricing, however, is not yet available as USI continues to broker the most competitive pricing for Metro.

Metro established the Excess Commercial Property Insurance program to protect against insured losses. Each year, Risk Management collaborates with USI to prepare for the upcoming marketing process, secure the data required to approach underwriters, and obtain the most competitive coverage and premium available.

Initial discussions begin in the first quarter of the fiscal year through an evaluation of market conditions to determine the availability of coverage and what premium levels are indicated. Once established, an annual stewardship meeting is conducted in September to review what data will be required, including new infrastructure, such as rolling stock (bus, rail, and non-revenue vehicles), real property (buildings and facilities), business personal property (equipment, furniture), and newly completed projects. Risk Management obtains status data, including targeted completion dates of various projects, to provide an accurate account of the agency's present and future property exposures.

Risk Management compiles updated information, including projected revenues, payroll, property valuations, and property distribution, as needed. Once internal data is collected, it is forwarded to USI for presentation to the domestic insurance marketplace and international markets in London, Bermuda, and European markets. Due to timing requirements, USI approaches underwriters in January to ensure that data is current. Initial indications of interest and costs generally become apparent in late March.

USI provides a not-to-exceed number that serves two functions. First, it establishes an amount that Risk Management can use to approach the CEO and Board for approval to bind the new program, mitigating a potential gap in insurance coverage. Second, it allows our broker ample time to continue negotiating with underwriters to ensure Metro secures the most competitive pricing.

DISCUSSION

Property insurance protects against losses to structures, fleets, and improvements, which are valued at approximately $22 billion, up from last year's $19.6 billion. The increase in total insured value is primarily due to general replacement cost growth and the revaluation of both heavy and light rail vehicles. In addition, Metro will receive the D Line Subway Extension Project - Section 1, Rail to Rail Active Transportation Corridor Project - Segment A, Airport Metro Connector (AMC), and the Foothill Extension Phase 2B to Pomona scheduled to open this year. All projects have been fully incorporated into the overall statement of values for the agency. The inclusion ensures that no gaps in protection occur during the transition to revenue operations. Property insurance is also required through contractual obligation, including lease/leaseback agreements involving several of Metro's operating assets.

USI marketed the property program to qualified insurance carriers to obtain property insurance pricing with Probable Maximum Loss (PML) coverage limits at a minimum of $650 million. Property insurance program quotations are currently being received from carriers with acceptable A.M. Best ratings. Final pricing is pending, and the quotes, including contingencies for unanticipated adjustments, serve as a not-to-exceed cost before policy binding.

The current property program includes an All-Risk deductible of $1,000,000 with no earthquake coverage and a flood deductible of 5% per location, subject to a $1,000,000 minimum. USI continues negotiations with carriers regarding deductible limits and selected Metro assets, including rolling stock, non-revenue vehicles, and potential flooding in subway tunnels. Under the current program, if a loss exceeds the deductible, All-Risk coverage is provided up to $650 million per occurrence for losses except for flood related damages that are covered up to $150 million (tsunami and tunnels are covered up to $50 million with a $1,000,000 deductible). Therefore, authority for the upcoming property renewal program is requested to continue negotiations with carriers for a minimum of $650 million in coverage limits and a not-to-exceed deductible of $1 million. Attachment A shows the renewal program structure outline within the requested parameters. The not-to-exceed premium price includes a contingency for premium adjustments, taxes, and fees due to ongoing negotiations with insurance carriers. Attachment B further supports program selection through the removal of a 15% margin clause. Previous inclusion of the margin required Metro to participate monetarily in claims at certain thresholds. The margin removal ensures that the insurance carriers will be fully responsible to defend on behalf of the agency once the self-insurance retention (SIR) is met.

Metro has not purchased earthquake coverage in previous years. In the event of a major disaster, we believe funding would be available through federal and state sources to restore public transportation in Southern California. The lack of earthquake coverage is consistent with decisions made by other large local government agencies.

The Terrorism Risk Insurance Act (TRIA) provides government support by providing mechanisms for spreading losses across policyholders. In the past, we rejected this coverage because of the high likelihood of federal and state funding to restore transportation services due to a serious terrorism incident. We will continue to reject terrorism coverage at the present time.

The current and recommended renewal programs for insurance are layered structures. Several insurance carriers participate in the program, each contributing a portion of coverage that maintains a diversified portfolio of carriers. Continuous monitoring through internal methods and updates provided by USI ensures that all carriers maintain financial ratings indicated by financial reporting agencies and as determined by A.M. Best.

In January, February, and March 2025, USI contacted multiple domestic and international insurance providers to present Metro's property risks and supplemental data. USI provided an overview of the Metro transit system during discussions with the underwriters, including its extensive security infrastructure, fire protection, loss control, and minimal risk of flood exposures.

The Metro property program continues to be well received by insurers due to its favorable loss history, newer construction, and State of Good Repair programs. USI presented the submission to incumbent and new insurers to create competition in the insurance marketplace and for additional capacity. Incumbent carriers were maintained but at some reduced participation, requiring additional carriers to be added to the program because of Metro's large values. Due to the continuing hard market, Metro's estimated renewal rate and premium are expected to increase, but not as significantly as in past years.

The major factors driving the rate increase include major interruptions experienced by the market. Capital (and therefore capacity) has either been exhausted or withdrawn from the market with little new capital added.

Commercial property insurance rates continue to show significant growth over several quarters. The influence of climate change on natural catastrophes, supply chain challenges, and inflation are working concurrently to push rates higher. Programs historically written by a single insurer moved to shared and layered program structures in which multiple participants provide capacity. London and Bermuda insurers took on more prominent positions in programs where admitted markets vacated or reduced capacity. While recent fires have caused catastrophic losses in Southern California, these losses are not anticipated to adversely affect the current renewal cycle as the transportation sector was not adversely impacted.

Carriers are looking to return their portfolios to profit, which has led to continuing universal rate increases even for insureds that are claims-free. Insurers are instituting more restrictive terms along with premium increases and higher deductibles. Carriers are rating on the potential for loss (regardless of good loss history). With Metro's increased valuations on buildings, facilities, buses, and rail cars, insurance carriers are rating on the potential for total loss estimates. Although most of Metro's property is not in official flood zones, heavy rain activity over the past few years, including recent floods and mudslides, has shown Los Angeles prone to more flood and water damage than officially mapped, which is a growing concern to underwriters.

Metro has historically enjoyed some of the lowest rates among transit systems and remains an attractive client. Unfortunately, the sector is not held in the same regard it was just a few years ago, and carriers continue to reduce their appetite for transit risks. This year's renewal is again challenging, but Metro's favorable insurability, loss record, and ability to take full advantage of USI's marketing efforts in a demanding market environment places Metro at an advantage over other transit agencies in the country.

DETERMINATION OF SAFETY IMPACT

Approval of this procurement positively impacts the safety of Metro's patrons and employees. Property insurance carriers will perform certain facility inspections to mitigate potential risks or hazards and provide an overall risk assessment of Metro's assets as they underwrite the program. In addition, carriers may provide best-practice guidance to enhance Metro's risk profile.

FINANCIAL IMPACT

The funding for two months of $1,833,334 for this action is included in the FY25 Budget in cost center 0531, Risk Management - Non Departmental Costs, under projects 100001 - General Overhead, 300022 - Rail Operations - Blue Line, 300033 - Rail Operations - Green Line, 300044 - Rail Operations - Red Line, 300055 - Gold Line, 300066 - Expo Line, 301012 - Metro Orange Line, 306001 - Operations Transportation, 306002 - Operations Maintenance, 320011 - Union Station, and 610061 - Owned Property in account 50601 (Ins Prem For Phys Damage).

The remaining ten months of premiums of $9,166,667 are included in the FY26 Preliminary Budget under the same cost centers, projects and account listed above. Additional funds required to cover premium costs beyond FY26 budgeted amounts will be addressed by fund reallocations during the year.

Impact to Budget

The source of funding for this action will come from federal, state and local funding sources that are eligible for bus and rail operations.

EQUITY PLATFORM

The insurance policies cover all Metro-owned property, stations, tunnels, bridges, rolling stock fleet, right of ways, facilities, and buildings that provide transportation service and benefits to Metro riders. Metro's property insurance program ensures that its facilities, rolling stock fleet, and infrastructure, which serve all riders, are covered by insurance policies in the event of a major loss or damage. This action has no specific anticipated equity benefit or harm.

VEHICLE MILES TRAVELED OUTCOME

VMT and VMT per capita in Los Angeles County are lower than national averages, the lowest in the SCAG region, and on the lower end of VMT per capita statewide, with these declining VMT trends due in part to Metro's significant investment in rail and bus transit.* Metro's Board-adopted VMT reduction targets align with California's statewide climate goals, including achieving carbon neutrality by 2045. To ensure continued progress, all Board items are assessed for their potential impact on VMT.

While this item does not directly encourage taking transit, sharing a ride, or using active transportation, it is a vital part of Metro operations, as it provides property coverage for Metro's assets. Because the Metro Board has adopted an agency-wide VMT Reduction Target, and this item supports the agency's overall function, it is consistent with the goals of reducing VMT.

*Based on population estimates from the United States Census and VMT estimates from Caltrans' Highway Performance Monitoring System (HPMS) data between 2001-2019.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The recommendation supports strategic plan goal #5, which is to "Provide responsive, accountable, and trustworthy governance within the LA Metro organization." The responsible administration of Metro's risk management programs includes using insurance to mitigate large financial risks resulting from damage to or loss of Metro property.

ALTERNATIVES CONSIDERED

Attachment B summarizes the current program and the recommended renewal program. Based on the history of favorable renewal and losses, Risk Management recommends continuing the current insurance program as the most cost-effective and prudent one. A proposal for earthquake coverage was not included and is not recommended because the high cost of the earthquake premium does not justify the benefit of the coverage.

NEXT STEPS

Upon Board approval of this action, staff will advise USI to proceed with the placement

ATTACHMENTS

Attachment A - Recommended Program Pricing and Carriers
Attachment B - Alternatives Considered

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ATTACHMENT A

RECOMMENDED PROGRAM PRICING AND CARRIERS

USI Insurance Services
Proposed Property Insurance 2025 - 2026
Los Angeles County Metropolitan Transportation Authority

Limit	Excess of	Coverage	Carrier	Participation ($)	Participation (%)	Total Premium (incl taxes & fees)
$500M	**$150M**	**All Risk Excluding Flood & Earthquake**	Chubb Bermuda	$450,000,000	100%	$1,120,000
			Chubb Bermuda	$50,000,000	100%	$247,000
				$500,000,000	**100%**	**$1,367,000**

Limit	Excess of	Coverage	Carrier	Participation ($)	Participation (%)	Total Premium (incl taxes & fees)
$150M	**Underlying Deductibles**	**All Risk Excluding Earthquake**	Various Carriers	$150,000,000	100%	$9,623,380
				$150,000,000	**100%**	**$9,623,380**

Estimated Program Not-To-Exceed Total* **$11,000,000**

*Subject to finalization of on-going negotiations with carriers. Estimates shown are not to exceed premiums.

2025/2026 Total Insured Values: **$22,020,311,924**

Terrorism pricing is not included above.

Chubb Higher Limit Options:

- USD 100,000,000 xs USD 650,000,000 xs underlying deductibles/retentions @ USD 250,000

Non-TRIA Terrorism Quote:
TIV: $22,020,311,924
Loss Limit: $250M
Deductible: $250k deductible
Premium: $200,000

Option To Include NCBR - $50M Limit
Deductible: $250,000
Premium: $525,000

ATTACHMENT B

ALTERNATIVES CONSIDERED

	Current Program	Recommended Program
Total Insured Values	$19,672,735,643	$22,020,311,924
Deductibles	Up to $1,000,000 All Risk / 5% of location per unit value for Flood *	Up to $1,000,000 All Risk / 5% of location per unit value for Flood *
15% Margin Clause	Included	Removed
All Risk Limits	$650 Million	Min. $650 Million
Flood Limits	$150 Million	$150 Million
Earthquake Limits	None	None
Terrorism	None	None
Total not to Exceed or Actual Premium	$9,439,126**	$11,000,000**

***$50 million limit on tsunami/flood in tunnels with $1,000,000 deductibles.**
$25 million limit for flood in special flood hazard areas.

****Not to exceed amounts, subject to no losses until expiring.**

Chubb Higher Limit Options:

- USD 100,000,000 xs USD 650,000,000 xs underlying deductibles/retentions @ USD 250,000

Non-TRIA Terrorism Quote:
TIV: $22,020,311,924
Loss Limit: $250M
Deductible: $250k deductible
Premium: $200,000

Option To Include NCBR - $50M Limit
Deductible: $250,000
Premium: $525,000

Property Insurance Program Renewal

Finance, Budget, and Audit Committee
April 17, 2025
File ID #2025-0190

Metro

Property Insurance Program Renewal

Recommendation:

AUTHORIZE the Chief Executive Officer to negotiate and purchase All Risk Property and Boiler and Machinery insurance policies for all Metro properties at a not-to-exceed premium of $11 million for the 12-month period of May 10, 2025, through May 10, 2026.

Metro

Property Insurance Program Renewal

Background:

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Property Insurance Program Renewal

Discussion:

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- The Metro property program continues to be well received by insurers due to its favorable loss history, newer construction, and State of Good Repair programs.

- Metro has historically enjoyed some of the lowest rates among transit systems and remains an attractive client. This year's renewal is challenging due to continued rate increases, but Metro's favorable insurability, loss record, and ability to take full advantage of the marketing efforts of our broker in a demanding market environment places Metro at an advantage over other transit agencies in the country.

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Property Insurance Program Renewal

Proposed Coverage:

- USI marketed the property program to qualified insurance carriers to obtain property insurance pricing for the current total insured value of $22 billion with a Probable Maximum Loss (PML) coverage limits at a minimum of $650 million.

- Property insurance program quotations are currently being received from carriers with acceptable A.M. Best ratings. Final pricing is pending, and the quotes, including contingencies for unanticipated adjustments, serve to support the not-to-exceed cost before policy binding.

Metro

Thank you.

Metro