ITEM NO. DRPA-11-048

SUBJECT: Renewal of DRPA Bridge Property Damage and Loss of Toll Revenue Insurance; Excess Bridge Property Damage and Loss of Toll Revenue Insurance; Additional Excess Bridge Property Damage and Loss of Toll Revenue Insurance Policies

COMMITTEE: Executive

COMMITTEE MEETING DATE: May 18, 2011

BOARD ACTION DATE: June 8, 2011

PROPOSAL: That the Board authorizes staff to bind the renewal of the primary layer of Bridge Property Damage & Loss of Toll Revenue insurance and the two excess layers of Property Damage & Loss of Toll Revenue insurance. The policies that make up both layers are placed by our Broker/Consultant, The Graham Company.

The Graham Company marketed the DRPA’s Bridge Property Damage & Loss of Toll Revenue Program to several domestic and international insurance companies to secure the most competitive pricing. The Graham Company provided its Marketing Summary to staff to review, and a copy of same is included herewith for the Board’s review.

PURPOSE: To renew required Bridge Property Damage & Loss of Toll Revenue insurances necessary to reduce the DRPA’s exposure to risk, physical damage, and economic loss.

BACKGROUND: The Bridge Property Damage & Loss of Toll Revenue Program consists of two distinct components.

The Bridge Property Damage portion of the program consists of a primary layer of bridge property damage insurance with a Loss Limit of $300 million, and two excess layers of bridge property damage insurance providing a $100 million Loss Limit each, for a total of a $200 million excess of the primary layer of $300 million. Together, the primary and excess property layers total $500 million in Bridge Property Damage coverage.

The Bridge Property Damage & Loss of Toll Revenue limits apply on a per occurrence basis. For each occurrence, the limits for the primary and two excess layers are reinstated.
Component 1: Bridge Property Damage Program
Under the Bridge Property Damage Program the covered properties and locations include:

- jurisdictional boundaries associated with the Ben Franklin, Betsy Ross, Commodore Barry and Walt Whitman Bridges (as noted in the survey maps on file);
- bridge decks, piers, anchorages, abutments supports, hangers, and approaches, including all related structures, substructures, lighting, equipment, foundations, roadways, pavement or barriers and any other property necessary or incidental to the bridges or bridge operations;
- surveillance equipment;
- underground wells, piping, mains, sewers and drains, including business property therein that is a part of the bridge.

The perils insured under the Bridge Property Damage Program include direct physical loss of, or damage to property insured. The policy provides coverage for damage caused by flood, earthquake, and both certified and non-certified acts of terrorism, and any resulting loss of toll revenue to the bridges.

Component 2: Loss of Toll Revenue Program
The Loss of Toll Revenue Program insures against loss of toll revenue on our four bridges. Loss of toll revenue coverage does not include any revenues derived from PATCO operations or the Ferry.

The policy will respond after a 14-day waiting period, when a covered loss results in an interruption of toll revenue. The loss of toll revenue limit is on a per occurrence basis during the policy period. The policy provides for a loss of toll revenue up to $269,564,045, per occurrence.

In the event of a claim from loss of toll revenue, the insurance companies will deduct 14 days worth of toll revenue (14-day waiting period).

Program Structure of the Bridge Property Damage & Loss of Toll Revenue Policies
The Loss Limit of the expiring primary layer of Bridge Property Damage & Loss of Toll Revenue insurance is $300 million; subject to
a $25 million deductible per occurrence (a $75 million Aggregate Deductible “Cap” has been established).

The primary layer of Bridge Property Damage & Loss of Toll Revenue insurance is written on a quota share basis. Three carriers participate in the Quota Share Program. They are:

- Arch Insurance Company – 21.6%;
- Travelers Property Casualty Company of America – 33.3%;
- Zurich American Insurance Company – 45%

In the event of a Bridge Property Damage or Loss of Toll Revenue claim, the three primary layer insurance carriers will share, on a pro rata basis, in the payment of any covered loss, up to the $300 million loss limit, subject to the $25 million property damage deductible, and also subject to the 14-day loss of toll revenue waiting period, per occurrence.

After the $300 million primary layer of Bridge Property Damage & Loss of Toll Revenue insurance is exhausted, the first excess layer of Bridge Property Damage insurance would respond up to $100 million, at 100% by Ace American Insurance Company.

The second excess layer of Bridge Property Damage & Loss of Toll Revenue insurance is provided under a quota sharing arrangement between Landmark American Insurance Company (at 50% - $50 million, excess of $400 million) and Axis Surplus Insurance (at 50% - $50 million, excess of $400 million). In the event of a covered loss, after the $400 million primary and excess layers of coverage are exhausted, then Landmark and Axis would share equally in the payment of the claim up to a total of $100 million.

**Terrorism Coverage**

The expiring Bridge Property & Loss of Toll Revenue Program includes terrorism coverage as provided through the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIA 2007). Under TRIA 2007, an “act of terrorism” is covered if certified as an “act of terrorism” by the Secretary of the Treasury of the United States. The definition of an “act of terrorism” has been expanded in the 2007 TRIA extension to include not only acts committed by individuals
acting on behalf of “foreign” persons or interests, but also “domestic” terrorism. Payment for insured losses covered by TRIA 2007 will be paid by insurance carriers with partial reimbursement by the US Government. However, insured losses covered by TRIA are not unlimited. Once “insured losses” reach an industry aggregate of $100 billion, losses exceeding this cap are not required to be paid by the insurance companies nor the US Government. TRIA 2007 requires insurance companies to offer terrorism coverage for Bridge Property Damage insurance. In the past, the Board has elected this terrorism coverage option. The expiring premium for TRIA 2007 coverage is $179,643. The premium for the same coverage for the policy term June 30, 2011 – June 30, 2012 will be $184,073 (an increase of $4,430).

Renewal Summary
The overall rate for the underlying primary and excess policies will remain flat. However, as a result of a projected increase in toll revenues, the renewal property values increased which resulted in a premium increase for the 2011-2012 policy term. The estimated premium for the Bridge Property Damage & Loss of Toll Revenue Program will be an estimated $1,821,509, which is an increase of $41,337.

Since the quotes for the Bridge Property Damage & Loss of Toll Revenue Program were released more than 90-days prior to policy inception, all premium quotes are contingent upon the insurance companies obtaining facultative reinsurance within 30 days prior to binding coverage effective June 30, 2011. Pricing or coverage terms may be subject to change during this 90 day period.

Staff Recommendations

1. Staff recommends that we bind the primary layer of Bridge Property Damage & Loss of Toll Revenue coverage with a loss limit of $300 million, subject to a $25 million deductible per occurrence (with a $75 million Aggregate Deductible cap and/or 14-day loss of toll revenue waiting period per occurrence) with the same primary carriers (Arch, Travelers, and Zurich), at an estimated premium of $1,554,999 (an increase of $35,379).
2. Staff recommends that we bind the first layer of excess layer of Bridge Property Damage & Loss of Toll Revenue coverage with a loss limit of $100 million excess of $300 million at 100% with Ace American Insurance Company, at an estimated premium of $153,960 (an increase of $3,458).

3. Staff recommends that we bind the second layer of excess Bridge Property Damage & Loss of Toll Revenue coverage with a loss limit of $100 million excess of $400 million under a quota sharing arrangement between Landmark American Insurance Company and Axis Surplus Insurance, on an equal basis for a total of $100 million, excess of $400 million. The estimated premium is $112,550 (an increase of $2,500).

SUMMARY:

<table>
<thead>
<tr>
<th>Amount:</th>
<th>Total: Estimated $1,821,509</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Layer:</td>
<td>estimated $1,554,999</td>
</tr>
<tr>
<td>1st Excess Layer:</td>
<td>estimated $153,960</td>
</tr>
<tr>
<td>2nd Excess Layer:</td>
<td>estimated $112,550</td>
</tr>
</tbody>
</table>

Source of Funds: Revenue Fund and General Fund
Capital Project #: N/A
Operating Budget: DRPA Risk Mgt. C/E #8, PATCO Admin. C/E Insurance & Claims
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: June 30, 2011 to June 30, 2012
Other Parties Involved: Arch Insurance Company; Travelers Property Casualty Company of America; Zurich American Insurance Company; ACE American Insurance Company, AXIS Surplus Insurance Company; Landmark American Insurance Company
RESOLUTION

RESOLVED: That the Board of Commissioners approves and authorizes staff to bind the existing primary layer of Bridge Property Damage & Loss of Toll Revenue coverage with a loss limit of $300 million, subject to a $25 million deductible per occurrence (with a $75 million Aggregate Deductible cap and/or 14-day loss of toll revenue waiting period per occurrence) with the existing carriers (Arch, Travelers, and Zurich), at an estimated premium of $1,554,999 (an increase of $35,379); and be it further

RESOLVED: That the Board of Commissioners approves and authorizes staff to bind the existing first layer of excess Bridge Property Damage & Loss of Toll Revenue coverage with a loss limit of $100 million, excess of $300 million at 100% with Ace American Insurance Company, at an estimated premium of $153,960 (an increase of $3,448); and be it further

RESOLVED: That the Board of Commissioners approves and authorizes staff to bind the existing second layer of excess Bridge Property Damage & Loss of Toll Revenue coverage with a loss limit of $100 million , excess of $400 million under a quota sharing arrangement between Landmark American Insurance Company and Axis Surplus Insurance, on an equal basis for a total of $100 million, excess of $400 million. The estimated premium is $112,550 (an increase of $2,500) and be it further.

RESOLVED: That the Board of Commissioners recognizes that all premiums are estimated and contingent upon the insurance companies obtaining facultative reinsurance within 30 days prior to binding coverage effective June 30, 2011. Pricing or coverage terms may be subject to change during this 90 day period; and be it further

RESOLVED: The Chair, Vice Chair and the Chief Executive Officer must approve and are hereby authorized to approve and execute all necessary agreements, contracts, or other documents on behalf of the DRPA. If such agreements, contracts, or other documents have been approved by the Chair, Vice Chair and Chief Executive Officer and if thereafter
either the Chair or Vice Chair is absent or unavailable, the remaining Officer may execute the said document(s) on behalf of DRPA along with the Chief Executive Officer. If both the Chair and Vice Chair are absent or unavailable, and if it is necessary to execute the said document(s) while they are absent or unavailable, then the Chief Executive Officer shall execute such documents on behalf of DRPA.

SUMMARY:

Amount:
- Total: Estimated $1,821,509
- Primary Layer: estimated $1,554,999
- 1st Excess Layer: estimated $153,960
- 2nd Excess Layer: estimated $112,550

Source of Funds: Revenue Fund and General Fund

Capital Project #: N/A

Operating Budget:
- DRPA Risk Mgt. C/E #8
- PATCO Admin. C/E Insurance & Claims

Master Plan Status: N/A

Other Fund Sources: N/A

Duration of Contract: June 30, 2011 to June 30, 2012

Other Parties Involved:
- Arch Insurance Company; Travelers
- Property Casualty Company of America;
- Zurich American Insurance Company; ACE
- American Insurance Company, AXIS
- Surplus Insurance Company; Landmark
- American Insurance Company