

SUMMARY STATEMENT

ITEM NO.: DRPA-16-099

**SUBJECT: Renewal of DRPA/PATCO
Commercial Non-Bridge Property Policy**

COMMITTEE:

Finance

COMMITTEE MEETING DATE:

September 14, 2016

BOARD ACTION DATE:

September 21, 2016

PROPOSAL: That the Board authorizes staff to bind the renewal of the DRPA/PATCO Commercial Non-Bridge Property insurance policy. This policy is placed by our Broker/Consultant, Turner Surety and Insurance Brokerage Inc. (TSIB). TSIB does not represent Affiliated FM Global on a direct basis. Therefore, DRPA issued a Broker of Record letter for TSIB to access Affiliated FM Global via the wholesale broker, AmWins of Satellite Beach, FL.

Pursuant to DRPA-15-062, TSIB is paid a fixed annual service fee not-to-exceed \$141,000, payable in quarterly installments of \$35,250.

Pursuant to DRPA 15-036, the Board authorized TSIB to work with AmWins, a wholesaler, on behalf of the DRPA to renew the Affiliated FM Global policy. Consistent with the previous placement, AmWins will receive a commission from Affiliated FM Global, but will not pay TSIB any commission, or any contingent, supplemental or other forms of additional compensation. Therefore, the proposed policy premium is net of commission.

TSIB marketed the DRPA's Commercial Non-Bridge policy to the following carriers to secure the most competitive premium:

- Affiliated FM Global - quoted estimated two-year premium of \$857,812 including NJ PLIGA tax and TRIA (incumbent)
- AXIS - declined, did not fit their appetite
- ACE/Chubb - declined due to quoting more than 120 days in advance of expiration date
- CNA - declined due to quoting more than 120 days in advance of expiration date
- Firemen's Fund - declined cannot be competitive
- Great American - declined, did not fit their appetite
- Lexington - declined due to quoting more than 120 days in

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- advance of expiration date
- Liberty Mutual - declined, cannot compete against current rate
- National Fire - declined, did not fit their appetite
- Swiss Re - declined, required pre-inspections on all locations causing time constraints
- Travelers - declined due to flood hazard locations
- Velocity - declined, did not fit their appetite
- XL Catlin - declined, cannot compete against current rate
- Zurich - declined, required pre-inspections on all locations causing time constraints

The expiring policy has a 16-month term (8/1/2015-12/31/2016). For purposes of administration, TSIB recommends that staff consider the renewal option of a 24-month policy term 12/31/2016 to 12/31/2018. The purchase of a 24-month policy will lock-in the proposed annual rate of .054, which is a decrease from the expiring annual rate of .0584. The 24-month policy can be paid in two annual installments or pre-paid in one premium payment.

PURPOSE: To reduce the Authority's exposure to risk by insuring against physical damage to non-bridge property, economic loss, and business interruption.

BACKGROUND: The incumbent carrier is Affiliated FM Global. Pursuant to DRPA-15-036, the Board approved a 16-month policy term from 8/1/2015 to 12/31/2016 at the annual rate of .0584. The expiring premium for the 16-month policy is \$455,334, including Terrorism Risk Insurance Act (TRIA) and the NJ Property-Liability Insurance Guaranty Association (NJ PLIGA) tax.

The Commercial Non-Bridge Property policy provides insurance for non-bridge assets including One Port Center and the OPC Parking lot;

Bridge Administration buildings; paint storage facilities; salt storage buildings; vehicle maintenance buildings; ILA Hiring Hall; and the PATCO stations, yards, and facilities. The non-bridge property policy insures DRPA and PATCO's real and personal property (buildings, equipment, substations, computers, furniture, rental income, machinery and inventories, etc.) against direct physical loss in the event of, amongst other perils – fire, flood, explosion, collapse, interruption of utility service, theft or theft damage, and terrorism.

The policy carries a \$100,000 deductible (higher deductibles apply to losses resulting from Earth Movement and Flood).

For the existing 16-month policy term from 8/1/2015 to 12/31/2016, the former broker Aon, recommended trending the real property (buildings) by 2.9% and the personal property values by 1.6% or by \$12,268,639, increasing the total blanket loss limit to \$533,665,617.

For the policy term from 8/1/2015 to 12/31/2016, the policy premium was based on a blanket loss limit of \$533,665,617.

The last appraisal for non-bridge assets was performed in 2012 by HNTB. On March 15, 2016, HNTB submitted their new facility replacement cost estimate appraisal report. As a result of the 2016 report, non-bridge real property (buildings) values have increased by 49% over expiring values or by approximately \$795,000,000. Therefore, Affiliated FM Global has proposed a blanket loss limit of \$750,000,000.

Affiliated FM Global has the following subjectivity in order to purchase the 24-month policy:

The quality of risk prevention must not deteriorate during the policy period and the protection against physical loss must not be removed or diminished in its effectiveness; and

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DRPA's loss ratio must average less than 60% from the prior policy term.

The Affiliated FM Global policy did not include property insurance for the PATCO rail, tracks, rail beds (inside the tracks), trestles (mainline bridges) overhead bridges, tunnels or viaducts. In order to provide a quotation, FM Global requires an appraisal for the replacement cost of this property.

The 2016 HNTB facility replacement cost estimate appraisal report does include values for this excluded PATCO property. The report included the costs for PATCO rail property (total replacement cost, reconstruction costs, demolition-salvage costs *but excluding engineering costs*) as follows:

Track Structure	\$435,162,800
Rail Tunnels	\$249,187,000
Retaining Walls	\$134,496,000
Mainline bridges (2 based upon structural backfill & bridge removal),	
Overhead bridges	\$ 36,454,000
Viaducts	\$ 50,516,000
TOTAL	\$905,815,800

TSIB approached Affiliated FM Global to provide a quote for this PATCO property coverage. Although HNTB provided these replacement cost values, Affiliated FM Global also required onsite inspections in order to provide a formal quote. However, given the fact that it would take 90 days or more to conduct the inspections and process an underwriting report, FM Global was only able to provide a tentative rate of approximately .07 cents per hundred of value. This estimated rate would equate to roughly \$700,000-\$800,000 in premium plus TRIA and NJ PLIGA.

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Despite the overall increase in values, Affiliated FM Global has proposed a blanket loss limit of \$750,000,000 (up from \$ 533,665,617) at a lower annual renewal rate of 0.054 cents (or a reduction of 7.5%) for a 24-month policy term.

The total estimated premium for the 24-month renewal policy from 12/31/2016-12/31/2018 is estimated at \$865,532, including TRIA and the NJ PLIGA tax; payable in two annual installments of \$432,766 each (including TRIA and the NJ PLIGA tax). On an annualized basis, the proposed renewal premium represents an annual increase of \$101,637 or an increase of 30.7% over the annualized expiring premium of \$331,129.

TSIB recommends that staff accept the proposed renewal quote from incumbent, Affiliated FM Global, for the 24-month policy term from December 31, 2016 to December 31, 2018 at the estimated premium of \$865,532, including NJ PLIGA tax and TRIA; net of commission and payable in two annual installments of \$432,766 each. Staff agrees with TSIB's recommendation.

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SUMMARY:	Amount:	Estimated 24-month term premium \$865,532 (Including TRIA and the NJ PLIGA tax) net of commission, payable in two annual installments payable in two annual installments of \$432,766 each
	Source of Funds:	Revenue and General Funds
	Capital Project #:	N/A
	Operating Budget:	DRPA Risk Mgt. Commitment 7700000 (DRPA/OPC)
		PATCO Admins. Commitment 770000
	Master Plan Status:	N/A
	Other Fund Sources:	N/A
	Duration of Contract:	December 31, 2016-December 31, 2018
	Other Parties Involved:	Turner Surety & Insurance Brokerage Affiliated FM Global, and AmWins of Mid-Atlantic

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Finance Committee: September 14, 2016
Board Date: September 21, 2016

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RESOLUTION

- RESOLVED:** That the Board of Commissioners authorizes staff to accept the proposed 24-month renewal policy quote from incumbent, Affiliated FM Global Insurance Company, for the Commercial Non-Bridge Property Policy, for the policy term of December 31, 2016 – December 31, 2018, at an estimated premium of \$865,532 including NJ PLIGA tax and TRIA, payable in two annual installments of \$432,766 and net of commission; and be it further
- RESOLVED:** That the Board of Commissioners authorizes AmWins of Mid-Atlantic, 1127 South Patrick Drive, Suite 16, Satellite Beach, FL 32937 as our Wholesale Broker for the placement of this policy. AM Wins will receive commission from Affiliated FM Global, but will not pay TSIB any additional income, including commission, or any contingent, supplemental or other forms of additional compensation; and be it further
- RESOLVED:** That the Chairman, Vice Chairman 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 Chairman, Vice Chairman and Chief Executive Officer and if thereafter either the Chairman or Vice Chairman 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 Chairman and Vice Chairman 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:

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Source of Funds:	Revenue and General Funds
Capital Project #:	N/A
Operating Budget:	DRPA Risk Mgt. Commitment 770000 (DRPA/OPC)
	PATCO Admins. Commitment 770000
Master Plan Status:	N/A
Other Fund Sources:	N/A
Duration of Contract:	December 31, 2016 -December 31, 2018
Other Parties Involved:	Turner Surety & Insurance Brokerage Affiliated FM Global, and AmWins of Mid-Atlantic