Summary Statement

Item No.: DRPA-18-100
Subject: Renewal of DRPA/PATCO Commercial Non-Bridge Property Policy

Committee: Finance

Committee Meeting Date: October 3, 2018

Board Action Date: October 17, 2018

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).

Pursuant to DRPA-18-054, TSIB is paid a fixed annual service fee not-to-exceed $160,380, payable in quarterly installments of $40,095. In accordance with the terms of the Broker/Consultant Service Agreement, TSIB understands that no commissions shall be paid on any insurance policies placed on DRPA’s behalf.

Pursuant to DRPA 16-099, the Board authorized TSIB to work with AmWINS of Edison, New Jersey, as the Wholesale Broker, on behalf of the Authority 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 Authority’s Commercial Non-Bridge property policy to the following carriers to secure the most competitive premium:

- Affiliated FM Global - quoted, estimated one-year premium of $452,728 including NJ PLIGA tax, and TRIPRA (incumbent)
- ACE/Chubb - declined due to quoting more than 120 days in advance of expiration date
- Allianz - declined, could not provide adequate Flood limits or Terrorism coverage
- AXIS - declined, no risk appetite
- CNA - declined, no risk appetite
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- Great American - declined, couldn’t be competitive
- Liberty Mutual - declined, couldn’t be competitive
- Swiss Re - required pre-inspections/time constraints
- Travelers - declined, potential flood hazards
- Zurich - declined, pre-inspections/time constraints

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

BACKGROUND: Pursuant to DRPA-16-099, the Board approved a 24-month policy term from 12/31/2016 to 12/31/2018 with the incumbent, Affiliated FM Global. The purchase of a 24-month policy locked-in the annual rate of .0540. The 24-month policy was paid in two annual installments.

The expiring premium for the 24-month policy is $860,444, including Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) 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).

On March 15, 2016, HNTB submitted their Facility Replacement Cost Estimate Appraisal report. As a result of the 2016 report, non-bridge real property (building) values increased by 49% over the 2015 values or by approximately $795,000,000. Therefore, for the 12/31/2016 to 12/31/2018 policy term, Affiliated FM Global proposed a blanket loss limit of $750,000,000.

The trended Total Insured Values for the renewal policy term are $809,856,685. Affiliated FM Global’s maximum property limit for any one policy is $750,000,000. As such, the proposed blanket loss limit is the same as expiring at $750,000,000.

Over the prior six policy terms, Affiliated FM Global has overall, reduced the annual property rate by -9.50%. For the 2018 renewal term, Affiliated FM Global initially requested a 7.12% rate increase. TSIB was successful in negotiating a reduction in the carrier’s initial rate increase of 7.12%, down to 3.09%. The proposed property rate is .0557, an increase of 3.09% compared to the expiring rate of .0540.

As of January 1, 2017, Affiliated FM Global on a company-wide basis, will no longer offer multi-year policy terms to its policyholders.

Therefore, the renewal premium is for a 12-month policy term from 12/31/2018-12/31/2019, for the annual estimated premium of $452,728, including TRIPRA and the NJ PLIGA tax. On an annualized basis, the proposed renewal premium represents an annual increase of $22,506 or an increase of 5% over the annualized expiring premium of $430,222.
The Affiliated FM Global policy does not include property insurance for the PATCO rail, tracks, rail beds (inside the tracks), trestles (mainline bridges) overhead bridges, tunnels or viaducts. TSIB is currently marketing this property coverage.

Affiliated FM Global has the following subjectivities in order to bind the 12-month policy:

#1 There cannot be any increase in the reinsurance rates or any imposed restrictive terms on the reinsurance available to Affiliated FM Global between the date of the quote and the effective date of 12/3/2018;

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

#3 Any material change to the property of the insured and/or the financial conditions or the insured during the quote period and/or property protections against physical loss or damage installed or agreed to be installed by the insured during this quote period have been substantially changed and;

#4 DRPA’s loss ratio must average less than 60% from the prior three year policy term.

TSIB recommends that staff accept the proposed renewal quote from incumbent, Affiliated FM Global, for the 12-month policy term from December 31, 2018 to December 31, 2019 at the estimated premium of $452,728, including NJ PLIGA tax and TRIPRA; and net of commission. Staff agrees with TSIB’s recommendation.
### SUMMARY STATEMENT

**Finance 10/3/2018**

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

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<tr>
<th><strong>SUMMARY:</strong></th>
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RESOLUTION

RESOLVED: That the Board of Commissioners authorizes staff to accept the proposed 12-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, 2018 – December 31, 2019, at an estimated premium of $452,728 including NJ PLIGA tax and TRIPRA; net of commission; and be it further

RESOLVED: That the Board of Commissioners authorizes AmWINS of New Jersey, 105 Fieldcrest Avenue, Edison NJ 08837 as the Wholesale Broker for the placement of this policy. AmWINS 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.
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