SUMMARY STATEMENT

ITEM NO.: PATCO-14-021                     SUBJECT: Proposed Placement of PATCO Rolling Stock Property Coverage for Rehabilitated Passenger Trains

COMMITTEE:                                Finance

COMMITTEE MEETING DATE:                   May 7, 2014

BOARD ACTION DATE:                        May 22, 2014

PROPOSAL:                                  That the Board authorizes staff to bind the coverage for the proposed new PATCO Rolling Stock Property policy. This new policy would cover the rehabilitated passenger transit cars. This policy would be placed by our Broker/Consultant, Aon Risk Services.

Pursuant to DRPA-12-066, Aon is paid a fixed annual service fee not-to-exceed $129,000 payable in quarterly installments. Therefore, the proposed policy premium is net of commission.

At the direction of then-CEO Matheussen, staff directed Aon to market the PATCO Rolling Stock Property coverage. Aon marketed the coverage to several insurance companies to secure the most competitive premium.

Aon received the following quotes:

- ACE: quoted $169,331 (auditable upon actual rail car delivery) including TRIA and NJ PLIGA tax
- Affiliated FM Global: declined, cannot provide stand-alone Rolling Stock Coverage
- Firemen’s Fund: declined to quote, could not offer competitive pricing
- Lexington: quoted $75,675 - $25mil limit and a 5% of the loss or a $1mil minimum deductible for all Flood zones
- Travelers: declined, not competitive.

Ace offered the following limits of insurance:

$100,000,000 - Rolling Stock (loss limit would re-set with each claim)
$ 10,000,000 – Flood Zone A
$ 25,000,000 – All Other Flood

Deductibles:
$100,000 except
$250,000 Flood (non-Zone A)
$500,000 Zone A Flood
$250,000 Earth movement
$250,000 Named Storm
PURPOSE: To reduce the Authority’s exposure to risk by insuring against property damage losses to the fleet of rehabilitated PATCO passenger transit cars.

BACKGROUND: Historically, the Authority never purchased any insurance policies to insure against any property/physical damage losses to the PATCO passenger transit cars. Therefore, any incurred property damage to the transit fleet would be fully-funded from dollar one by the Authority.

Pursuant to DRPA-10-154, the Board authorized a $194 million contract to Alstom Transportation Inc. of Hornell, N.Y., for the overhaul of the entire 120 Port Authority Transit Corporation transit fleet cars.

The Rolling Stock Property insurance proposal for the PATCO transit cars provides coverage against direct physical loss in the event of, amongst other perils – fire, flood, explosion, collapse, theft or theft damage, and terrorism.

The rehabilitated cars have many new special features and other enhancements, including, but not limited to the following:

- Wi-Fi
- High ceilings
- Slip resistant floors
- New seats
- Full width cabs
- Touch screen communication inputs and cockpit consoles providing real time operational information
- Thicker windows better weather stripping
- Brand new heating and air conditioning systems
- Wheelchair and bicycle parking area with flip-up seats
- Passenger alarm system including an intercom allowing passengers to communicate with the train operator
- Internal security cameras connected to an external accessible DVR
- Improved braking for quicker stopping and more stability
- Brakes conserve power by returning breaking energy to the cars’ power systems
- Public address system with automatic announcements, a noise-sensing microphone and better speakers, external speakers on the cars so announcements made from the train can be heard on the platform
- Scrolling exterior destination-and-route signs and a video advertising and infotainment system.
- Provisions to protect the trains/ground from lightning.
- Acts of theft/vandalism can now be caught on video.
Due to the enhancements, the overall price per vehicle at today’s values is $3M per car. Based on the increased value of the newly refurbished transit cars, staff recommends the placement of this new policy. The limit of insurance at $100,000,000 Rolling Stock was developed based on the maximum value of railcars in the yard at any one time (108 trains).

The rehabilitated cars have an anticipated delivery schedule which will change over time. In 2014, the stream of transit car deliveries is anticipated to be less than 50 cars. In order for the transit cars to be conditionally accepted, they must pass a defined series of tests, which is currently in progress. While we do not yet have a definite date on when the first car will be conditionally accepted, PATCO does not anticipate that any of the refurbished cars will be conditionally accepted before June 15, 2014.

Aon recommends that we accept the annual estimated quote offered by ACE, for a one-year term to be determined after the vehicles have been conditionally accepted by PATCO management. The estimated premium for this policy will be $169,331 including TRIA and the NJ PLIGA tax. The actual premium will be audited at expiration based on actual rail car delivery dates during the policy term.

SUMMARY:

Amount: Estimated annual premium $169,331. Including TRIA and the NJ PLIGA tax (auditable based on actual rail car delivery)
Source of Funds: General Funds
Capital Project #: N/A
Operating Budget: DRPA Risk Mgt. C/E #8
Master Plan Status: N/A
Other Fund Sources: N/A
Duration of Contract: TBD after the vehicles have been conditionally accepted by PATCO management
Other Parties Involved: Aon Risk Services and ACE
RESOLUTION

RESOLVED: That the Board of Commissioners authorizes staff, after PATCO management conditionally accepts the transit cars, to bind the proposed Rolling Stock Property quote with ACE Insurance Company for an annual policy term to be determined, at an estimated annual premium (auditable based on actual rail car delivery) of $169,331 (including TRIA and the NJ PLIGA tax); 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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