MEMO

November 1, 2019

TO:	Rider Experience and Operations Committee Members
FROM:	Kimberly Farley, Deputy CEO
SUBJECT:	Follow-up information on Self Insurance

This memo follows up on Board discussion and requests at the October 3, 2019 Rider Experience and Operations Committee meeting. At that meeting, the committee reviewed the Proposed 2020 Budget, including budgeted amounts for insurance. Committee members asked whether Sound Transit had considered self-insurance rather than retaining insurance through a third-party provider. This memo provides a brief explanation about what the Risk Management group at Sound Transit does to determine risk financing.

First, Sound Transit's risks, exposures and contractual obligations must be identified.

For example:

- Heavy Rail Liability – Contractually, Sound Transit must maintain at least $295M in liability coverage to operate Sounder on BNSF owned track
- Light Rail Liability – Contractually, Sound Transit must maintain at least $100M in liability coverage to operate Light Rail below the University of Washington

Next, Risk Management determines the most cost effective way to pay for losses. Three primary methods to finance risk are:

- Insurance
- Self-insurance
- Combination of both

Insurance is the most commonly used risk financing method. Buying insurance transfers the financial responsibility for losses to an insurance carrier for a return of premium.

Self-insurance is chosen when it is determined that the combined cost of losses, expenses necessary to handle claims plus an allowance for contingencies is likely less than the cost of conventional insurance.

With Sound Transit's contractual obligations and the potential for "high dollar" losses, it has been determined that a combination of both self-insurance and traditional insurance coverage is the most cost effective. Self-insurance is realized through the deductibles and the self-insured retentions Sound Transit choses while placing insurance coverage.

Currently, the only self-insurance Sound Transit utilizes are the deductibles and self-insurance retentions (SIR's) in our current insurance programs. There are no Sound Transit exposures that we 100% self-insure. Some agreements Sound Transit enters into also cap the amount of self-insurance Sound Transit can retain. (For example, BNSF will not allow Sound Transit to maintain a self-insured retention higher than $8M).

Examples of the current deductibles or self-insurance Sound Transit utilizes when placing insurance coverage:

- Premises Liability: $1M insurance coverage ($50k deductible per occurrence)
- Pollution Liability: $50M insurance coverage ($100K deductible per claim)
- Crime & Fidelity: $5M insurance coverage ($25k deductible per claim)
- Professional Liability: $5M insurance coverage ($25k deductible per claim)
- Property Insurance: $400M property coverage/$150M Earthquake insurance coverage ($100k deductible per occurrence for Property claims / $2.5M per occurrence for Earthquake claims)
- Light Rail Liability: $100M insurance coverage ($1.5M self-insured retention per claim)
- Heavy Rail Liability: $295M insurance coverage ($2M self-insured retention per claim)

Rail Liability and Property Insurance accounts for 78% of Sound Transit's insurance premiums and drives overall insurance cost. From a financial perspective, the rail liability limits that Sound Transit must maintain, combined with increasing property values from expansion, makes a true self-insurance program unfeasible. (Self-insuring other lines of coverage does not provide a substantial savings to Sound Transit, but does create a significant increase in exposure).

In 2020, insurance market conditions and global losses have required Sound Transit to increase our Premises Liability deductible to $250k per occurrence and Rail Liability retention to $3M.