

April 15, 1999

To: Board of Directors (Legal and Claims Committee--Action)

From: General Manager _____

Submitted by: Lambertus H. Becker
Chief Financial Officer _____

Subject: Excess Liability Insurance Premiums for Fiscal Years 1999-2001

RECOMMENDATION(S)

It is recommended that the Board of Directors authorize the General Manager to:

1. Bind \$75 million of liability insurance, in excess of the \$25 million Self-Insurance Retention, with the Insurance Company of the State of Pennsylvania at a net premium of \$328,000 for fiscal year 1999-2000; and
2. Negotiate \$75 million of liability insurance, in excess of the \$25 million Self-Insurance Retention, with the Insurance Company of the State of Pennsylvania at a maximum net premium of \$328,000 for fiscal year 2000-2001.

DETAILED REPORT

Metropolitan currently carries liability insurance of \$75 million in excess of its \$25 million Self-Insurance Retention (SIR) with the Insurance Company of the State of Pennsylvania, a California admitted insurance carrier which is a subsidiary of American International Group (AIG). The premium for this coverage is \$328,000.

The current policy contains a drop down feature which provides that after the first \$25 million of loss, the SIR level is reduced to \$2 million for subsequent losses. It is proposed that Metropolitan renew its Excess Liability Insurance with the Insurance Company of the State of Pennsylvania at a net premium of \$328,000, unchanged from fiscal year 1998-1999. Driver Insurance Services (Driver), Metropolitan's insurance broker, contacted other insurance markets and were unable to improve the current insurance program or premium expense. Driver is currently exploring the possibility of obtaining a two-year policy term in an effort to guarantee stability in price and coverage. Negotiation with the Insurance Company of the State of Pennsylvania will continue through May 1999, and staff expects a maximum premium up to \$328,000 for fiscal year 2000-2001. The request to approve up to \$328,000 for fiscal year 2000-2001 premiums will strengthen Driver's negotiation position. Staff anticipates a slight reduction in the second-year premium expense as a result of securing a two-year policy with the Insurance Company of the State of Pennsylvania. Also, the approval for a two-year insurance program reduces the number of amendments to our insurance contracts and the number of required Board

actions. In other lines of insurance, multi-year policies are generally more economical and provide continuity in policy coverage. In August 1999, staff will present the annual Stewardship Report on the Operations and Maintenance Insurance Program along with the final negotiated coverage, policy terms and expenses.

Exhibit A is a graph that compares the Excess Liability Insurance premiums from fiscal year 1985-1986 through the proposed fiscal year 2000-2001, to water sales receipts (the exposure base). This exhibit shows that although water sales are increasing, the insurance premiums have declined and remained relatively stable in recent years. Metropolitan has benefited from the competitive liability market, strong loss mitigation programs and excellent claims experience. Over the same period of time, no claims were filed against the Excess Liability Insurance Program.

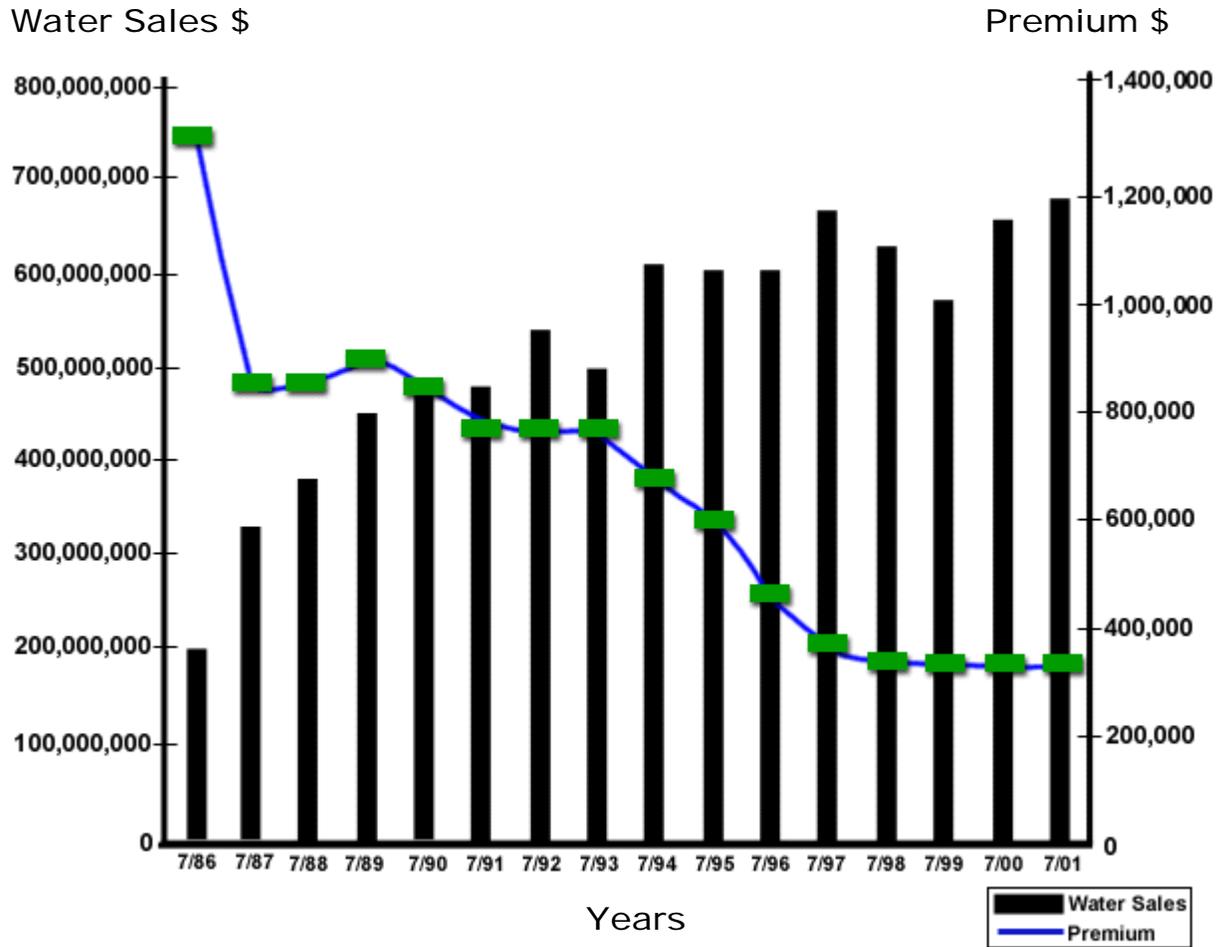
In November 1998, our insurance broker, the Public Entity Group of Sedgwick of California (Sedgwick), was purchased by the Robert Driver Insurance Agency. The Public Entity Group of the Robert Driver Insurance Agency is Driver Insurance Services. The agreement with Sedgwick was amended to indicate the new name of our insurance broker, Driver Insurance Services. The financial terms and conditions of the existing agreement are unchanged.

BYA/ner

Attachment 8-1A

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Exhibit A



Fiscal years 1999-2001 are projected.