

- **Board of Directors**
Audit, Budget and Finance Committee

May 15, 2001 Board Meeting

8-1

Subject

Approve Casualty and Property Insurance Program costs not to exceed \$633,500 for Fiscal Year 2001-02

Description

Insurance market conditions indicate that Metropolitan's casualty and property insurance coverage for Fiscal Year 2001-02 is expected to cost 15-20 percent more than last fiscal year. The Excess Liability insurance, which provides coverage of \$75 million in excess of Metropolitan's \$25 million self-insurance retention (SIR), is projected to cost up to \$500,000. This represents a 42 percent increase from last fiscal year's cost of \$352,000. The contract for Metropolitan's insurance broker, Driver Insurance Services, Inc. (Driver) will be amended to add \$500,000 for the Excess Liability insurance premium and to extend the contract period from July 1, to September 30, 2001. The Driver contract already contains funds to pay the \$115,000 for the other lines of insurance coverages and \$18,500 broker fees for the extension. The extension provides time to complete all the transactions and receive the insurance policies without disruption to Metropolitan's insurance program. A request for proposal for an insurance broker is in progress; and a new contract for insurance brokerage services will be executed during early Fiscal Year 2001-02.

Total insurance premiums for Fiscal Year 2001-02 are anticipated not to exceed \$615,000 compared to \$431,785 last fiscal year. Metropolitan minimized the premium increases for the past three years by negotiating multi-year policies in 1999. Increased premiums are a result of escalating industry's losses, diminishing investment yields due to declining stock markets and limited business capacity for risk.

The largest cost component of the casualty and property insurance program is the Excess Liability insurance coverage. During the past three months Driver has solicited proposals from a variety of insurance providers and expects at least two proposals (American International Group and Aegis), from eight providers contacted. Another provider (Gerling) is evaluating the risk. Lloyds of London and X.L. Europe are offering excess capacity for liability. Changes to the casualty and property insurance program include discontinuing the Kidnap and Ransom coverage, and renewing the Travel Accident policy for a three-year period. Negotiations continue and staff is working towards delivery of an insurance program below market indications.

Excess Liability coverage is required to meet bond covenants and makes good business sense even at higher premium levels. However, given the difficult insurance market, staff and Driver requested premium cost quotes for reduced coverage. The premium savings is estimated at \$75,000 if the Excess Liability coverage is reduced from \$75 million to \$50 million. Given the addition of Diamond Valley Lake, increasing population density and expanding business operations, staff recommends that Metropolitan maintain the \$75 million excess coverage.

The proposed action is not defined as a project under the California Environmental Quality Act (CEQA) because the proposed action involves continuing administrative activities (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

Attachment 1 shows that in 1995-96 Metropolitan experienced higher insurance premium costs of \$598,000 for this same coverage during a similarly difficult market cycle. **Attachment 2** depicts that the Workers' Compensation (WC) insurance premiums remained stable, although payroll increased. This year the WC premium is expected to increase to \$39,800. **Attachment 3** lists all lines of insurance coverage and insurance

market estimated premium costs. During Fiscal Year 2001-02 it is estimated that all lines of insurance and the broker fees can be acquired at a total payment not to exceed \$633,500.

Policy

Metropolitan Water District Administrative Code Section 6413: Insurance Program requires the General Manager to review any changes to the insurance program. Administrative Code Section 6266 (e): Insurance Pertaining to Employees, Blanket Employee Dishonesty Coverage, requires the purchase of a blanket dishonesty policy. Administrative Code Section 9101: Risk Retention and Procurements of Insurance, requires the procurement of insurance for losses in excess of reserves (\$25 million) as specified in Administrative Code Section 5202.

Bond covenants require Metropolitan to maintain financing for catastrophic losses.

Board Options/Fiscal Impacts

Option #1

Determine that the proposed Excess Liability insurance coverage is not subject to CEQA per Sections 15061(b)(3) and 15378(b)(2) of the State CEQA Guidelines.

- a. Approve the Excess Liability insurance premium not to exceed \$500,000, all other lines of insurance coverage not to exceed \$115,000 and \$18,500 in broker fees effective July 1, 2001 to June 30, 2002. Total payments not to exceed \$633,500. This option meets bond covenant requirements.
- b. Amend the Driver contracts adding \$500,000 for the Excess Liability insurance premium; contracts contain funds to pay the \$115,000 for other lines of insurance and the \$18,500 broker fees.
- c. Extend the contract period from July 1 to September 30, 2001.

Fiscal Impact: \$633,500 for the casualty and property insurance program. The Risk Management Budget contains funds for these expenditures.

Option #2

Determine that the proposed Excess Liability insurance coverage is not subject to CEQA per Sections 15061(b)(3) and 15378(b)(2) of the State CEQA Guidelines.

- a. Approve the Excess Liability insurance premium not to exceed \$425,000, which would reduce the limit of liability from \$75 million to \$50 million, all other lines of insurance coverage not to exceed \$115,000 and \$18,500 in broker fees effective July 1, 2001 to June 30, 2002. Total payments not to exceed \$558,500 (\$540,000 for premiums and \$18,500 for broker fees). This option meets bond covenant requirements.
- b. Amend the Driver contracts adding \$425,000 for the Excess Liability insurance premium; contracts contain funds to pay the \$115,000 for the other lines of insurance and the \$18,500 broker fees.
- c. Extend the contract period from July 1 to September 30, 2001.

Fiscal Impact: \$558,500 for the casualty and property insurance program.

Option #3


Determine that the proposed insurance coverage is not subject to CEQA per Sections 15061(b)(3) and 15378(b)(2) of the State CEQA Guidelines.

- a. Discontinue any Excess Liability insurance coverage. The option to discontinue Excess Liability insurance coverage will not meet bond covenant requirements.
- b. Maintain other lines of insurance as required by Metropolitan Water District Administrative Code for a not to exceed premium cost of \$115,000 effective July 1, 2001. Total payments not to exceed \$133,500. The contracts contain funds to pay the \$115,000 for the other lines of insurance and \$18,500 for broker fees.
- c. Amend the Driver contracts extending the contract period from July 1 to September 30, 2001.

Fiscal Impact: \$133,500 for the casualty and property insurance program.

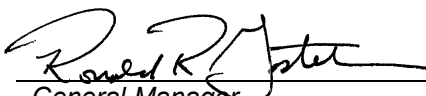
Staff Recommendation

Option #1



Brian G. Thomas
Chief Financial Officer

4/23/2001
Date



Ronald R. Jester
General Manager

4/23/2001
Date

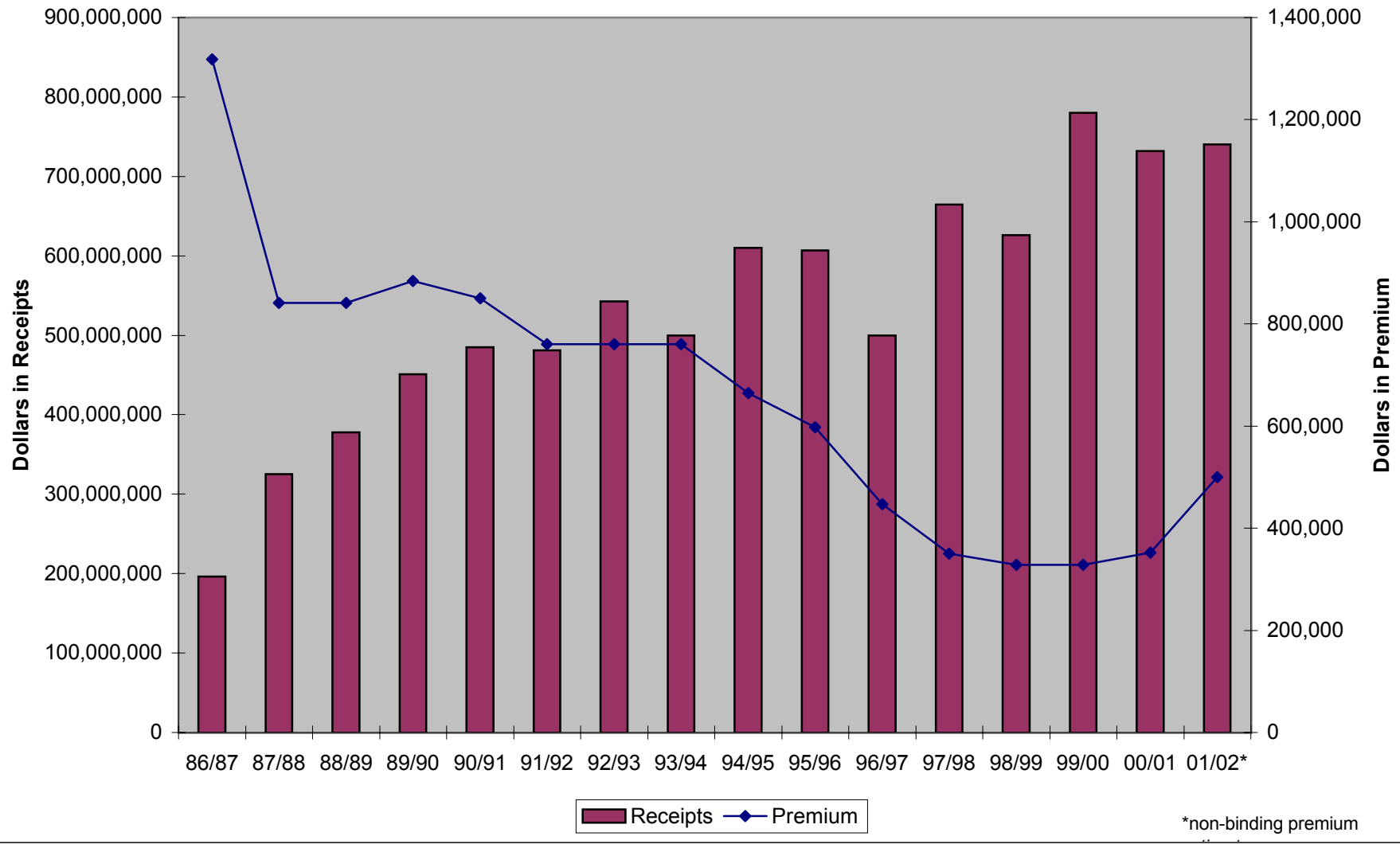
Attachment 1 - Excess Liability Insurance Premium History

Attachment 2 - Workers' Compensation Insurance Premium History

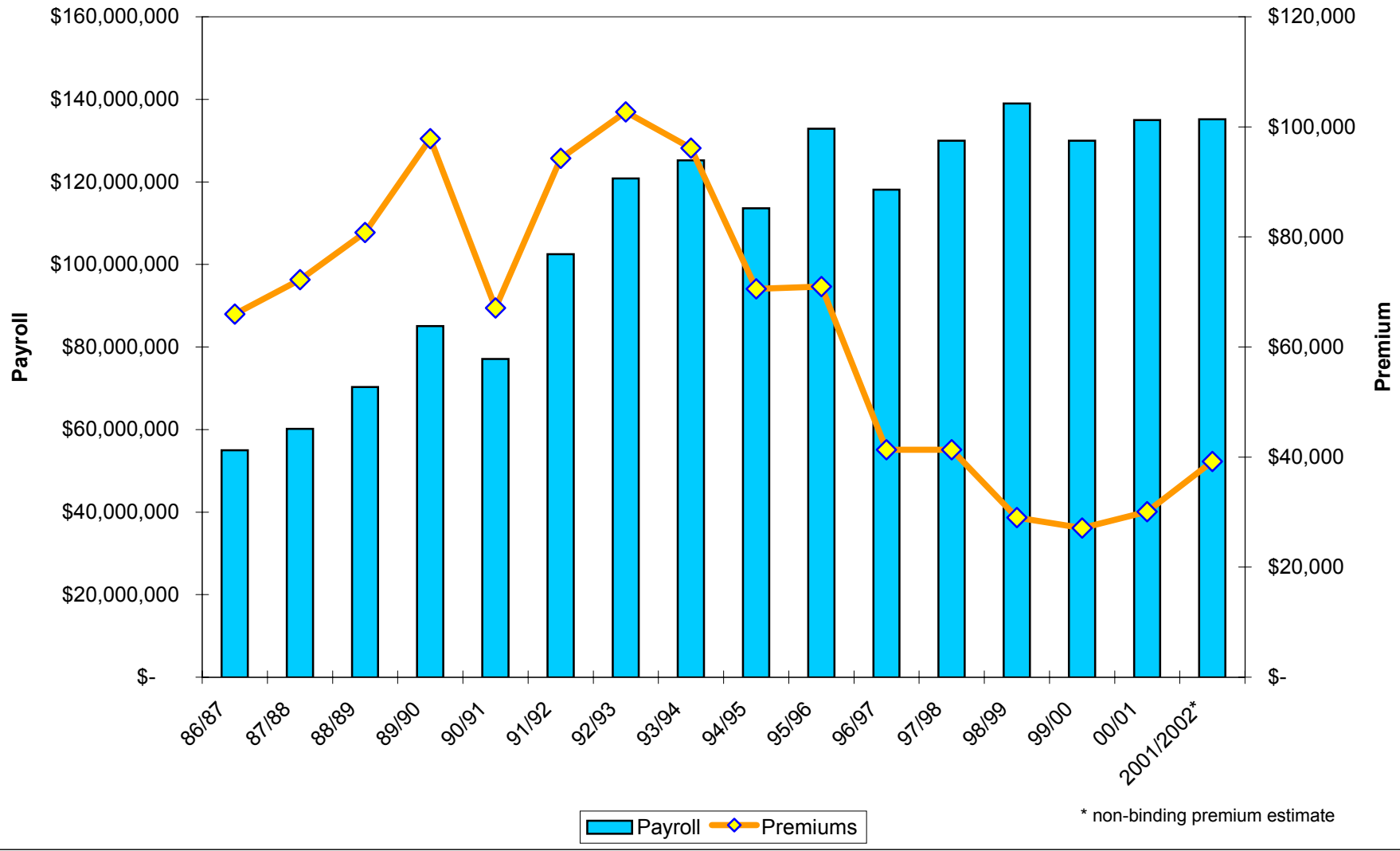
Attachment 3 - All Insurance Premium History and Proposed Cost

BLA #1034

Metropolitan Water District of Southern California Historical Premiums - Excess Liability



Metropolitan Water District of Southern California Historical Premiums - Workers' Compensation



Metropolitan Water District Insurance Payment Chart
 Lines of Insurance and Costs from 1998-2004
 As of April 23, 2001

		Premiums ¹			
		Actual			Estimated
Lines of Insurance	Limits	1998-1999	1999-2000	2000-2001	2001-2002
Excess Liability	\$75,000,000 ²	\$328,000	\$328,000	\$352,000	\$500,000
Excess Workers' Compensation	Statutory ³	\$ 29,000	\$ 27,778	\$ 30,083	\$ 39,800
Aircraft Liability	\$25,000,000	\$ 16,550	\$ 16,900	\$ 16,930	\$ 20,000
Fidelity Bond (Crime)	\$5,000,000	\$ 11,739	\$ 11,605	\$ 11,818	\$ 14,300
Group Travel Accident	\$ 250,000	\$ 37,830 ⁴	0 ⁴	0 ⁴	\$ 40,900 ⁵
Specialty Coverage	\$ 5,000,000	\$ 8,750 ⁶	0 ⁶	0 ⁶	N/A
Business Development Liability	\$10,000,000	\$ 56,093	\$ 52,000	N/A	N/A
Total Premium		\$487,962	\$436,283	\$431,785	\$615,000

¹ All premium payments cover a one-year policy period unless otherwise specified.
² 75,000,000 policy limit in excess of Metropolitan's \$25,000,000 self-insured retention.
³ Statutory policy limits in excess of Metropolitan's \$400,000 self-insured retention.
⁴ Premium payment covers a three-year policy period, July 1, 1998 – June 30, 2001.
⁵ Premium payment covers a three-year policy period, July 1, 2001 – June 30, 2004.
⁶ Premium payment covers a three-year policy period, July 1, 1998 – June 30, 2001.
^{N/A} Not Applicable