MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

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

June 11, 2002 Board Meeting

8-2

Subject

Approve Metropolitan's Casualty and Property Insurance Program

Description

The existing Casualty and Property Insurance Program includes the following lines of insurance and coverage amounts expiring July 2002:

1. Aircraft Liability: $25 million
2. Crime Coverage: $5 million
3. Excess General Liability: $35 Million
   - Excess Fiduciary and Employer Benefits: $35 million
   - Public Officials Directors and Officers Liability (part of General Liability Policy): $35 million
   - Following Form Excess General Liability (part of General Liability Policy): $40 million
4. Excess Workers' Compensation and Employers' Liability: $2 million

Due to the current difficult insurance market condition brought on by the exacerbating effect of the 9/11 event on an already difficult market, Metropolitan's Casualty and Property Insurance policy renewals will experience significant premium increases. The above coverages are contained in four expiring policies which Metropolitan is looking to renew; Aircraft Liability, Crime Coverage, Excess General Liability and Excess Workers' Compensation and Employers' Liability.

The current Aircraft liability policy premium is $30,589. The anticipated cost to obtain similar coverage is estimated to be $60,000. The premium cost for the current crime policy is $13,665, while the premium cost to obtain similar coverage in fiscal year 2002/03 may be near $20,000. Excess Workers' Compensation and Employers' Liability coverage is expected to increase to approximately $70,000 from the current premium of $29,970. The Excess General Liability premium is anticipated to increase from the current cost of $406,222 to approximately $650,000. In total, to obtain similar coverage for the insurance program for fiscal year 2002/03, staff anticipates a cost increase up to $800,000 compared to the $480,446 expended for those same coverages in fiscal year 2001/02.

Policy

Metropolitan Water District Administrative Code § 6413: Insurance Program requires the Chief Executive Officer to review any changes to the insurance program. Administrative Code § 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 § 5202.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and

a. Approve up to $800,000 to obtain the expiring insurance coverages.
b. Direct staff to investigate risk finance alternatives during this difficult insurance market cycle.

Fiscal Impact: The anticipated $800,000 to obtain coverage would be a $320,000 increase over the premium costs required to purchase coverages for fiscal year 2001/02.

Option #2

Adopt the CEQA determination and

a. Approve up to $150,000 to obtain the following special and excess coverages; Aircraft Liability, Crime, and Excess Workers' Compensation and Employers' Liability policies. Defer purchasing Excess General Liability coverage until the market for that line of coverage becomes more reasonable.
b. Investigate risk finance alternatives during this difficult insurance market cycle.

Fiscal Impact: The anticipated cost of the special excess coverages would increase by up to $80,000 compared to fiscal year 2001/02. While there is a relatively low probability of a catastrophic liability event exceeding Metropolitan's self-insured retention of $25 million, there would be a potential financial risk incurred to Metropolitan by deferring the purchase of Excess General Liability coverage.

Staff Recommendation

Option #1

Brian G. Thomas 5/23/2002

Brian G. Thomas *Date*
Chief Financial Officer

Ronald R. Gastelum 5/28/2002

Ronald R. Gastelum *Date*
Chief Executive Officer

BLA #1352