

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

June 10, 2003 Board Meeting

8-3

Subject

Approve up to \$977,500 to purchase insurance coverages for 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 2003:

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: \$25 million

The policies providing the above coverage expire June 30, 2003 and must be renewed or similar coverage acquired. To obtain similar insurance coverage for fiscal year 2003/04, staff anticipates a cost of \$977,500 compared with the \$738,707 expended in fiscal 2002/03, an increase of 32%. **Attachment 1** compares the current coverages and premiums to those proposed for fiscal 2003/04. Premium increases are due to the difficult insurance market cycle worsened by the ramifications of the 9/11 terror event, the general economic condition, and the current terror threat.

The current Aircraft Hull and Liability policy premium is \$47,048. The anticipated cost to obtain similar coverage is estimated to be \$65,000. The premium cost for the current crime policy is \$17,015. The cost to obtain similar coverage in fiscal year 2003/04 is expected to be nearly \$22,500. Excess Workers' Compensation and Employers' Liability coverage is expected to increase to approximately \$160,000 from the current premium of \$117,270. The Excess General Liability premiums are anticipated to increase from the current total cost of \$557,374 to approximately \$730,000.

Policy

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

Metropolitan Water District 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 \$977,500 to renew or replace the expiring insurance coverages; and
- b. Direct staff to investigate risk finance alternatives during this difficult insurance market cycle.

Fiscal Impact: The anticipated \$977,500 to obtain coverage would be a \$238,793 increase (32%) over the premium costs required to purchase coverage for fiscal year 2002/03.

Option #2

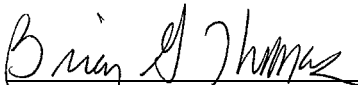
Adopt the CEQA determination and

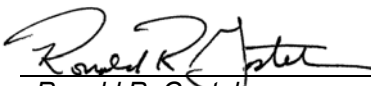
- a. Approve up to \$247,500 to obtain the following special and excess coverages; Aircraft Liability, Crime, and Excess Workers' Compensation and Employers' Liability policies. Defer purchasing Excess Liability coverage until the market for that line of coverage becomes more reasonable; and
- b. Investigate risk finance alternatives during this difficult insurance market cycle.

Fiscal Impact: The anticipated cost of the excess and special coverages would increase by up to \$238,793 compared to fiscal year 2002/03. 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 Liability coverage.

Staff Recommendation

Option #1

	5/16/2003
Brian G. Thomas Chief Financial Officer	Date

	5/20/2003
Ronald R. Gastelum Chief Executive Officer	Date

Attachment 1 – Insurance Premium Comparison

BLA #2318

Insurance Premium Comparison

Insurance Policy Type	Coverage Limits (In Millions)	2002/2003 Actual Premium	2003/2004 Proposed Insurance Premium (*estimated premium without quote)	2003/2004 Proposed Insurance Premium Increase
Excess Liability Insurance	\$35	\$295,727	\$327,000	11%
Following Form Excess General	\$40	\$200,000	\$275,000 *	38%
Fiduciary and Employee Benefit Liability Insurance	\$35	\$ 7,000	\$ 16,000 *	129%
Public Officials Liability Insurance	\$35	\$ 54,647	\$112,000	105%
Excess Workers' Compensation & Employers	\$25	\$117,270	\$160,000	36%
Crime	\$5	\$ 17,015	\$ 22,500	32%
Aircraft Insurance	\$25	\$ 47,048	\$ 65,000	38%
Total		\$738,707	\$977,500	