

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

May 11, 2004 Board Meeting

10-2

Subject

Renewal status of Metropolitan's Casualty and Property Insurance Program

Description

The existing Casualty and Property Insurance Program consists of the following lines of insurance and coverage amounts expiring June 2004:

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: \$35 million
 - Following Form Excess General Liability: \$40 million
4. Excess Workers' Compensation and Employers Liability: \$25 million
5. Special Contingency: \$5 million
6. Travel Accident: \$5 million

Metropolitan's Casualty and Property Insurance Policy renewals are generally expected to experience increases of 10 percent to 15 percent by line of insurance coverage due to a continuation of the difficult insurance market cycle driven by both economic conditions and the post 9/11 risk environment. Excess workers' compensation coverage, more affected by this condition than most types of insurance, is expected to rise by at least 20 percent. This premium has already risen dramatically over the last two years due to the overall risk environment and the specific exposures arising from Union Station's high occupancy and its proximity to the train station.

Metropolitan currently has Workers' Compensation insurance coverage of \$25 million with a \$1.5 million self-insured retention. Metropolitan has experienced only one Workers' Compensation claim with costs exceeding \$500,000 self-insured retention during the last 10 years. With this claims experience and an already high retention level, the excess workers' compensation policy is considered catastrophic coverage. In that light, a recent actuarial review indicates that Metropolitan may be able to increase the self-insured retention without incurring significant exposure. By increasing the retention to \$5 million, the expected premium cost may decline by up to 20 percent of last year's \$229,493, to approximately \$184,000. The cost to retain the \$1.5 million retention is estimated to be \$275,400, a 20 percent increase over last year. Based upon a projected \$90,000 - \$100,000 difference and the actuarial results staff is recommending raising the retention to \$5 million.

Metropolitan's other excess and special coverages will also experience cost increases. The current Aircraft Liability policy premium is \$64,632. The anticipated cost to obtain similar coverage is estimated to be approximately \$75,000. The cost for the current crime policy is \$21,315. Similar coverage for fiscal year 2004/05 is anticipated to be \$25,000. The Excess General Liability premiums are anticipated to increase from the current aggregate cost of \$781,210 to approximately \$900,000. The Travel Accident coverage with a three-year policy term was last purchased in 2001 for \$36,500. The expected renewal premium is \$42,000. Our Special Contingency policy was purchased in 2001 for a three-year term and purchased for \$7,625. The estimated cost for another three-year policy is \$8,800. To complete the renewal for fiscal year 2004/05 with similar limits and

retentions, staff anticipates costs of approximately \$1,300,000 compared with the \$1,096,650 expended in fiscal year 2003/04. If Metropolitan accepts workers' compensation coverage with a \$5 million retention level, the total insurance cost will be approximately \$1,210,000.

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 reserve (\$25 million) as specified in Administrative Code § 5202.

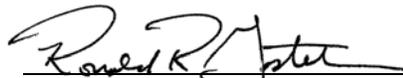
Fiscal Impact

The total insurance premium cost is expected to range from about \$1.2 million if Metropolitan elects to have \$5 million self-insured retention for workers' compensation and approximately \$1.3 million if the current \$1.5 million retention is continued.



Brian G. Thomas
Chief Financial Officer

4/19/2004
Date



Ronald R. Gastelum
Chief Executive Officer

4/22/2004
Date