

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

June 8, 2004 Board Meeting

8-2

Subject

Approve up to \$1.42 million to purchase insurance coverages for 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 Liability: \$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

Attachment 1 shows the changes in premiums for the different coverages. As seen in **Attachment 1**, Metropolitan's Casualty and Property Insurance Policy renewals are generally expected to experience increases of 5 percent to 20 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, has been quoted with a 49 percent cost increase. This premium has already risen dramatically over the last two years due to the overall risk environment and the specific exposures arising from the headquarters building's high occupancy and its proximity to the train station.

Metropolitan currently has Workers' Compensation insurance coverage of \$25 million per occurrence 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. The cost to retain the \$1.5 million retention has been quoted by the incumbent carrier at \$342,101, a 49 percent increase over last year. By raising the retention to \$2 million, the proposed premium would be \$254,245, an \$87,856 reduction (26 percent) from the \$1.5 million retention. Raising the retention to \$2.5 million would reduce the premium to \$201,564. Based on a sizable \$87,856 premium reduction obtained without dramatically increasing the exposure, we recommend increasing the retention level to \$2 million. We expect additional quotes from competing insurance carriers prior to the Committee meeting of June 7, 2004, and will present any that are advantageous.

Metropolitan's other excess and special coverages will experience smaller cost increases. The Aircraft Liability and Hull policy premium for 2003/04 was \$64,632 and with the addition of a plane increased to \$87,874. The anticipated cost to obtain similar aircraft coverage on the Metropolitan planes is \$97,750. 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 renewal premium is \$33,510. Our Special Contingency policy was purchased in 2001 for a three-year term and purchased for \$7,625. The quoted cost for another three-year policy is \$7,800. To complete the renewal for fiscal year 2004/05 with similar limits and retentions, staff anticipates costs of approximately \$1.42 million compared with the \$1.09 million expended in fiscal year 2003/04. If Metropolitan accepts workers' compensation coverage with a \$2 million retention level, the total insurance cost will be approximately \$1.33 million. Accepting a \$2.5 million retention would lower the estimated total cost to \$1.28 million.

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.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2 and #3:

The proposed actions are not defined as a project under CEQA because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve 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 actions are 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 \$1.33 million to obtain the following special and excess coverage: Aircraft Liability and Hull, Crime, Special Contingency, Travel Accident, Excess General Liability policies, and Excess Workers' Compensation; and
- b. Direct staff to raise the Workers' Compensation self-insured retention from \$1.5 million to \$2 million.

Fiscal Impact: The anticipated \$1.33 million to obtain coverage would be a \$166,238 increase over the premium cost for fiscal year 2003/04.

Option #2

Adopt the CEQA determination and approve up to \$1.42 million to renew or replace the expiring insurance coverage and retain \$1.5 million self-insured retention for the Workers' Compensation coverage.

Fiscal Impact: The anticipated \$1.42 million to obtain coverage would be a \$256,238 increase over the premium cost for fiscal year 2003/04.

Option #3

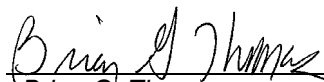
Adopt the CEQA determination and

- a. Approve up to \$1.28 million to obtain the following special excess coverage: Aircraft Liability and Hull, Crime, Special Contingency, Travel Accident, Excess General Liability policies and Excess Workers' Compensation; and
- b. Direct staff to raise the Workers' Compensation self-insured retention from \$1.5 million to \$2.5 million.

Fiscal Impact: The anticipated \$1.28 million to obtain coverage would be a \$116,238 increase over the premium cost for fiscal year 2003/04.

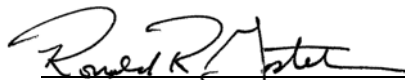
Staff Recommendation

Option #1



Brian G. Thomas
Chief Financial Officer

5/21/2004
Date



Ronald R. Gastelum
Chief Executive Officer

5/21/2004
Date

Attachment 1 – Metropolitan’s Casualty and Property Insurance Program Insurance Premium Comparison

BLA #2863

**Metropolitan's Casualty and Property Insurance Program
Insurance Premium Comparison
In Dollars**

Insurance Policy Type	2003/2004 Actual Insurance Premium	2004/2005 Estimated Insurance Premium	Insurance Premium Cost Increase/ Decrease	Insurance Premium % Increase/ Decrease
Excess General Liability	349,175	387,925	38,750	11%
Crime	21,315	24,500	3,185	15%
Excess General Liability Following Form	301,620	347,000	45,380	15%
Fiduciary and Employer Benefits Liability	12,905	12,200	(705)	(5%)
Public Officials Directors and Officers Liability	117,510	140,00	22,490	19%
Excess Workers' Compensation ¹	229,493	254,245	24,752	11%
Special Contingency ²	7,625	7,800	175	2%
Travel Accident ²	36,500	33,510	(2,990)	(8%)
Aircraft Liability and Hull	87,874	97,750	9,876	11%
Total	1,119,892	1,304,930	140,913	17%

¹ 2004/2005 Estimated Insurance Premium based on \$2 million self-insured retention level.

² Three-year polices prepaid in 2001. Special Contingency \$7,625 and Travel Accident \$36,500 are not reflected in the total 2003/2004.