MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

INFORMATION

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

May 16, 2006 Board Meeting

9-2

Subject

Renewal status of Metropolitan's Casualty and Property Insurance Program

Description

Pursuant to Metropolitan's Administrative Code, this letter reviews the current status of Metropolitan's insurance coverages and anticipated changes for next fiscal year. The existing Casualty and Property Insurance Program consists of the following lines of insurance and coverage amounts expiring June 2006:

1. $25 million Aircraft liability; Aircraft Hull coverage for assessed value
2. $5 million Crime coverage
3. $75 million General Liability coverage in excess of a $25 million self-insured retention
4. $60 million Fiduciary and Employee Benefits Liability coverage in excess of a $25 million self-insured retention
5. $65 million Public Officials, Directors and Officers liability coverage in excess of a $25 million self-insured retention
6. $25 million Workers' Compensation and Employers Liability coverage in excess of a $5 million self-insured retention

Metropolitan's casualty and property insurance policy renewal premiums are generally expected to experience increases of approximately 10 to 15 percent for this fiscal year. **Attachment 1** compares the current coverages and premiums to those anticipated for fiscal year 2006/07. Insurance market conditions, which had recovered somewhat over the last couple of years from the effect of terrorist events, have again deteriorated due to the effects of the devastating 2005 hurricane season. The insurance industry estimates that it will pay out $75 billion for natural catastrophic losses occurring in 2005, with $45 billion resulting from Hurricane Katrina alone. While the majority of those losses are occurring in the property insurance sector, there will be some impact on other insurance lines as reinsurers spread the effect of the losses across the entire industry.

Premiums for excess liability coverage, the largest portion of Metropolitan's casualty insurance budget, are expected to increase by 10 to 15 percent. This is due to our excess liability insurer, AEGIS and other possible carriers, having to pay a higher cost for their reinsurance protection. While new inflows of investment into the insurance market are dampening the upward price pressure, the excess liability marketplace has long suffered from a relative lack of financial capacity and underwriting interest in the governmental entity risk sector.

The premium for excess workers' compensation coverage is also expected to rise 10 to 15 percent. While there have been significant benefits to employers from workers' compensation reform in California, the excess workers' compensation premium market has not seen a favorable change due to the fact that the insurers' pricing models are based on catastrophic exposure, which were not addressed by the reform measures. In addition, the effect of re-insurers spreading their hurricane losses is causing added pressure on premium prices.

Staff is evaluating options such as increasing the self-insured retention to offset the expected cost increase. Because of favorable conditions, Metropolitan has already raised the self-insured level for workers' compensation from $1 million in fiscal year 2002/03 to $5 million in fiscal year 2005/06. There has only been one workers' compensation claim exceeding any self-insured retention during the last 10 years. This fact, coupled with an overall favorable claims experience and the high retention level, allows Metropolitan to investigate increasing the self-insured retention to limit premium increases. At the current $5 million self-insured retention level, the excess workers' compensation policy is appropriately considered to be catastrophic coverage. In that light, last year's annual actuarial review indicated that Metropolitan could increase the self-insured retention without incurring significant additional exposure. The calculation uses a best practices model, and last year concluded that by purchasing the coverage at the higher retention of $5 million, instead of the previous year's $2 million level, the premium saved over 10 years would offset the risk that a claim would have costs between $2 million and $5 million. By increasing the retention to $5 million, Metropolitan saved $125,564, or 56 percent compared with the premium on a policy with a $2 million self-insured retention. This year Metropolitan may be able to use this strategy to limit or reduce premiums.

Premiums for Metropolitan's other excess and special coverages are also expected to increase 10 to 15 percent. The current aircraft liability and hull policy premium is about $80,000. The high end of the range to obtain similar coverage is estimated to be approximately $92,000. The cost for the current crime policy is approximately $16,000. Similar coverage for fiscal year 2006/07 is anticipated to be slightly above $18,000. The excess general liability premiums are anticipated to increase from the current aggregate cost of $885,632 to approximately $1.02 million.

To complete the entire renewal for fiscal year 2006/07 with similar limits and retentions, staff anticipates costs of approximately $1.25 million compared with the $1.084 million expended in fiscal year 2005/06. If Metropolitan increases the self-insured retention level for workers' compensation coverage from the existing $5 million to a higher level, the total insurance premium cost is expected to range from 0 to 10 percent less than for fiscal year 2005/06. If self-insured retention levels are increased for any lines of coverage, Metropolitan may consider increasing the limits of those coverages. Finally, in order to conduct a cost/benefit analysis, staff received an "all risk" property insurance quote, including Terrorism coverage, for the building at Union Station. Prior to the hurricane events, $100 million coverage for the building at Union Station with a $100,000 deductible would have been about $50,000. It is estimated that similar coverage would cost $55,000 to $60,000 this year.

Policy

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

Metropolitan Water District Administrative Code Section 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 Section 5202.

Fiscal Impact

The total insurance premium cost is expected to range from about $1.13 to 1.25 million if Metropolitan elects to increase the self-insured retention for workers' compensation, and approximately $1.25 million if the current $5 million retention is continued.

4/12/2006
Brian G. Thomas — *Date*
Chief Financial Officer

4/21/2006
Jeffrey Kightlinger — *Date*
General Manager

Attachment 1 – Insurance Premium Comparison

BLA #4096

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

Insurance Policy Type	2005/2006 Actual Insurance Premium	2006/2007 Estimated Insurance Premium	Estimated Insurance Premium Cost Change	Estimated Insurance Premium % Change
Excess General Liability	385,030	442,785	57,755	15%
Crime	15,773	18,139	2,366	15%
Excess General Liability Following Form	343,299	394,794	51,495	15%
Fiduciary and Employee Benefits Liability	13,393	15,402	2,009	15%
Public Officials Directors and Officers Liability	143,910	165,497	21,587	15%
Excess Workers' Compensation	102,120	117,438	15,318	15%
Special Contingency *	NA	NA	NA	NA
Travel Accident *	NA	NA	NA	NA
Aircraft Liability and Hull	80,170	92,196	12,026	15%
Total	1,083,695	1,246,251	162,556	15%

* Insurance Premium covers a three-year period; July 1, 2004 – June 30, 2007