MWD
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

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

June 13, 2006 Board Meeting

7-3

Subject

Approve up to $1.125 million to purchase insurance coverage 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 in June 2006:

1. $25 million Aircraft liability; Aircraft Hull coverage for assessed value
2. $5 million Crime coverage in excess of $150,000 self-insured retention
3. $75 million General Liability coverage in excess of a $25 million self-insured retention
4. $60 million Fiduciary and Employee Benefits 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

Total premiums to renew and replace Metropolitan's casualty and property insurance policies for 2006/07 are expected to be about 3 to 4 percent higher than for the current fiscal year due to current insurance market conditions. **Attachment 1** compares the current coverages and premiums to those proposed for fiscal year 2006/07. Insurance market conditions have worsened slightly this year due to the effects of the devastating 2005 hurricane season. The insurance industry estimates it will pay out $75 billion for natural catastrophic losses that occurred in 2005, with $45 billion from Hurricane Katrina alone. While the majority of those losses occurred in the property insurance sector, there has been some impact on other insurance lines as reinsurers spread the effect of the losses across the entire industry. Fortunately, the impact on the premiums for excess general liability coverage is less than initially anticipated. The aggregate premiums to renew the excess general liability policies, which includes the Fiduciary and Employee Benefits and Public Officials, Directors and Officers liability coverages, are expected to rise about 4 percent from the current $886,000 to approximately $918,600 for fiscal year 2006/07.

The premium for excess workers' compensation coverage continues to level off after three consecutive years of dramatic increases. The dramatic increase had been due to rapidly escalating medical costs, investment income loss in the financial markets by insurance companies, and the significant under pricing of the coverage by carriers in the late 1990s and early 2000s. Additionally, underwriters had shown an increasing concern for the terrorism exposure associated with the relatively high employee count at the Metropolitan headquarters building and its proximity to Union Station.

Metropolitan's current workers' compensation insurance coverage is $25 million in excess of a $5 million self-insured retention. At this level, the policy is considered catastrophic coverage. Last year the self-insured retention level was increased from $2 million to $5 million. This change was made because it was cost-effective in light of Metropolitan's historical claims experience. While Metropolitan's workers' compensation exposure remains about the same as in past years when premiums rose dramatically, the premium for fiscal year

2006/07 will increase by about 4 percent. Because of this minimal premium cost increase, there is little incremental benefit gained compared with the additional risk exposure to further increasing the self-insured retention. The premium quoted to obtain excess workers' compensation with a $10 million retention is $54,536. The cost to purchase excess workers' compensation coverage with a $5 million retention is quoted at $106,382, a 4.2 percent increase over the current premium of $102,120. Because premium savings (about $48,000) does not justify increasing the self-insured retention to $10 million, staff recommends purchasing coverage and retaining the $5 million self-insured retention.

Premiums for Metropolitan's specialty coverages will decrease slightly. The premium to obtain aircraft coverage for fiscal year 2006/07 will remain at the $80,170 paid in fiscal year 2005/06. The cost for the current crime policy is $15,773. Similar coverage for fiscal year 2006/07 is quoted as $15,744. To complete the insurance renewal for fiscal year 2006/07 with similar limits and retentions the cost will be approximately $1.125 million compared with the $1.084 million expended in fiscal year 2005/06. If the Board decides to increase the self-insured retention level for workers' compensation coverage from the existing $5 million to $10 million, the total insurance premium cost is anticipated to be approximately $1.075 million.

Policy

Metropolitan Water District Administrative Code Section 6413: Insurance Program; requires the General Manager 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

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed actions are not defined as projects under CEQA (Section 15378(b) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed actions in question may have a significant effect on the environment, the proposed actions are not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed actions are not subject to CEQA pursuant to Sections 15378(b) and 15061(b)(3) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and approve up to $1.125 million to renew or replace the Aircraft Liability, Crime, Excess General Liability policies, and Excess Workers' Compensation policy and retain the $5 million self-insured retention for the excess Workers' Compensation coverage.

Fiscal Impact: The anticipated $1.125 million to obtain coverage would be an approximate $41,000 increase compared with the premium cost for fiscal year 2005/06.

Option #2

Adopt the CEQA determination and approve up to $1.075 million to renew or replace the expiring insurance coverage; and authorize an increase in the self-insured retention fund equal to the premium savings yielded by increasing the Workers' Compensation self-insured retention level from $5 million to $10 million in this and subsequent years.

Fiscal Impact: The anticipated $1.075 million to obtain coverage would be an approximate $9,000 decrease compared with the premium cost for fiscal year 2005/06.

Staff Recommendation

Option #1

	5/18/2006
Brian G. Thomas	*Date*
Chief Financial Officer	

	5/26/2006
Jeffrey Kightlinger	*Date*
General Manager	

Attachment 1 – Insurance Premium Comparison

BLA #4100

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

Insurance Policy Type	2005/2006 Actual Insurance Premium	2006/2007 Quoted Insurance Premium	Insurance Premium Cost Change	Insurance Premium % Change
Excess General Liability	385,030	396,792	11,762	3%
Crime	15,773	15,744	(29)	0%
Excess General Liability Following Form	343,299	352,460	9,161	3%
Fiduciary and Employee Benefits Liability	13,393	13,890	497	4%
Public Officials, Directors and Officers Liability	143,910	155,457	11,547	7%
Excess Workers' Compensation	102,120	106,382	4,262	4%
Special Contingency *	NA	NA	NA	NA
Travel Accident *	NA	NA	NA	NA
Aircraft Liability and Hull	80,170	80,170	0	0%
Total	**1,083,695**	**1,120,895**	**37,200**	**3%**

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